INVESTMENT

Incorporating What Pension

THE PRACTICAL GUIDE FOR THE PRIVATE INVESTOR

ISSUE 269 AUGUST 2005 £3.50

Blue chips

Which ones should you put your money on?

Money clinic

A panel of independent experts answer readers' financial planning and investment queries

AGM anarchist

Can you give me some idea of how an individual investor might achieve the seemingly impossible – apply pressure to an underperforming fund, for instance Foreign & Colonial's flagship investment trust? Perhaps you can tell me where I might find like-minded unhappy investors on the internet who might be thinking of setting up a pressure group.

Martin Currie Portfolio Investment Trust came up with the excellent idea of allowing investors to redeem their shares at net asset value. So how might one persuade a chronic under-performer such as F&C to reward some of its long-standing, long-suffering investors? Ideally I would like to see major investors force the closure of the trust so that assets could be redeemed at NAV which would add about 20 per cent to the value of the investment.

I'm sure F&C would respond with platitudes about how the share price has fallen and risen with markets in general since the millennium and that they have put changes in place to turn things around such as bringing in a multi-manager style. However, like many investors, I resent directors and managers making money off me when I cannot make money out of them.

Jeffrey Simon (via e-mail)

Georgina Mitchell replies: *The internet is awash with bulletin boards and chat rooms where you may find like-minded investors, but the best way to apply pressure to the fund manager is to attend the AGM. As a shareholder you are entitled to attend and ask questions. By asking the fund manager a couple of carefully chosen questions directly, you should be able to make him aware of your concerns, other investors will be able to put forward their views and you may find that there are several other people – including the larger shareholders who do have the ability to apply pressure – who agree with you. In essence you should be able to raise the points you would have raised on the Internet, but with the fund manager present.*

Nicely ISA

I have recently received a leaflet from the Nationwide Building Society, entitled *Important Information about your Mini-cash ISA*. It contains a flow diagram that would suggest that, as from 6 April 2005, it's possible to invest £3,000 in a cash mini-ISA *and* a further £4,000 in an equity ISA.

Is this correct? And would the equity ISA have to be necessarily with the Nationwide?

G A Kinnear,
Locks Heath, Southampton

Kevin Pattison replies: *The information provided by the Nationwide regarding ISAs for the tax year commencing 6 April 2005 is correct. When ISAs were originally established, an annual allowance of £7,000 was permitted which could be split between three mini-ISAs investing in cash, equities and life assurance products. Due to poor demand for investment into life assurance products this category has now been dropped and the allowance into equity ISAs has been increased from £3,000 to £4,000.*

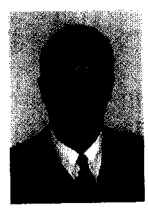
The choice of the provider for either the equity or cash element is down to you. I recommend that you take independent advice, as equity ISA providers can vary immensely with regard to fund selection and charging structure. Only one provider per financial year can be used for each element of investment into an ISA, so you could use the Nationwide for the cash ISA and an alternative company for the equity ISA.

A taxing question

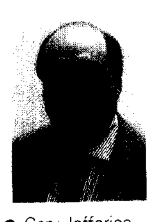
Back in 1990, before I was aware of PEPs and the like, I took out an open-ended 'Savings Plan' through a

IFA panel

● Jonathan Davis, financial planner at Helm Godfrey, London



● Kevin Pattison, adviser at IFA P&P Invest



● Gary Jefferies, financial adviser at Park Row

● Georgina Mitchell, head of investor support, Redmayne Bentley company called Merchant Investors, which the booklet describes as "a whole-of-life plan linked to units in the fund of your choice" – in my case Fidelity European. The idea was that it could be used to pay of some off my mortgage when the time came, or some other such expense, albeit I was only paying in £30 a month.

I have kept up my monthly contributions to the plan and am not yet thinking of cashing up, but I am concerned that as a higher-rate taxpayer now, I will be top-sliced on my savings as and when I do, as the booklet states that such taxation "may be payable". Is there any way to avoid this, maybe by sheltering the money in an ISA, or some other method? Would transferring the account into the name of someone who is not a higher-rate taxpayer avoid this taxation, which I would feel extremely aggrieved at having to pay?

John Baillie, Essex

Jonathan Davis replies: *Your savings plan would not appear to be designed to pay off your mortgage, but to provide a fund payable on your eventual death – hence 'whole of life'. You should consider if it is appropriate to continue with this arrangement given that other more tax-efficient savings vehicles are available, such as ISAs and pensions. A cost/benefit analysis should help you decide.*

Regarding taxation, the plan could be 'qualifying' – i.e. not liable to higher-rate income tax on surrender – or a 'non-qualifying' insurance savings policy which means that income tax would be chargeable on gains made over the holding period. You will need to check with the insurer if it has retained its qualifying status and so would have no further tax to pay on surrender. Thus, if non-qualifying, as you say, the gain will be top-sliced if you surrender the policy. This means that the gain will be divided by the number of years held and the result added to your income in the tax year of the chargeable event – the surrender. Tax is then due on the difference between basic rate tax on the gain, which you are deemed to have paid already within the plan, and higher-rate tax due on the annualised gain multiplied by the number of years held.

I cannot comment on the growth history of the fund as Fidelity has many funds with 'European' in the name. However, if an annualised gain has been achieved (and this is likely given the period 1990 to 2005) then tax is potentially payable on surrender. Of course the amount of tax will be relatively small, as the amount invested over 15 years is just some £5,400.

Making a pension payment will allow you 40 per cent income tax relief, so this is one way of receiving the tax due back but by an alternative route. An investment into a venture capital trust will, this year, also entitle you to 40 per cent tax relief. Be sure however not to let the tax tail wag the investment dog.

I recommend you speak to a qualified financial planner, which you may find via www.thepfs.org.uk, *the website of the Personal Finance Society.*

Nice problem to have

I have never before had any need to think about the 40 per cent tax bracket (undervalued and underpaid as I have hitherto been) but, by some mistake of the management of the company I work for, I will have to think about it soon.

I have always believed that once you breach the £31,400.01 threshold, you pay 40 per cent on all of your earnings over £4,745. A colleague of my wife says that you only pay 40 per cent from £31,400.01. I would be grateful if you could clarify this for me.

Andrew McLean, Walderslade, Kent

Gary Jefferies replies: *A salary increase, as with any change in life, brings other considerations. The overriding effect is that, despite becoming a higher-rate taxpayer, your overall net income will increase. The UK principle for taxation operates in taxing your income in layers. Fortunately, you will not pay income tax on all income at the higher rate when your income enters the 40 per cent threshold.*

To calculate your net salary it is divided into the appropriate layers and taxed accordingly. Provided you have no other earnings or benefits in kind from your employer, you will need to earn over £37,295 before you are liable for higher-rate tax. I will assume that your salary is £40,000, as this attracts some higher-rate tax.

To compute your overall tax position, the starting point is your personal allowance, which for 2005/06 is £4,895. This is the amount that you can earn before any tax is payable. Thereafter, the next level of income up to £2,090 is taxable at 10 per cent. Between £2,090 and £30,310 for earned income the rate is 22 per cent. Only after these combined figures have been reached, i.e. £32,400, is the excess above this figure subject to higher-rate taxation.

Using the figure of £40,000, the net income from your salary for the tax year 2005/06 would be £32,041. You would also be subject to National Insurance contributions.

If you wished to reduce your taxation bill, a tax-effective method would be to make a gross pension contribution of £2,705. This would ensure you were to maximise tax relief on the entire premium at 40 per cent and provide pension benefits.

Your letters

We welcome all letters seeking general guidance about any aspect of investment strategy or financial planning. These will be passed on to our panel of experts, who will address your queries on this page.

Answers will, of necessity, be of a general nature. We recommend that you seek professional advice if you require a detailed assessment of your financial circumstances. We regret that it is not possible to answer readers' enquiries by telephone.

The views expressed on these pages do not necessarily reflect those of *What Investment* or Charterhouse Communications.

Letters should be sent to:
Readers' Enquiries
What Investment
Arnold House
36–41 Holywell Lane
London EC2A 3SF
or **mfagan@ccplcemail.co.uk**

We've joined forces with Cash Questions so you can also have your letters answered online. Visit our website **www.whatinvestment.co.uk** and click on Cash Questions.