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# Oil pressure

The panel consider if the capital gains tax rise will spark VCT and EIS demand and the effect of BP axing its dividend

### The panel:

**Amanda Davidson** - Director, Baigrie Davies  
**Fiona Sharp** - Senior adviser, Almary Green  
**Mark Dampier** - Head of research, Hargreaves Lansdown



Case for debate: Differing views from our panel on the knock-on effects on investment from the capital gains tax rise set out by Chancellor George Osborne in the emergency Budget

**Following last month's Budget and the increase in capital gains tax, do you expect to see a significant increase in demand for venture capital trusts and enterprise investment schemes?**

**Davidson:** Not necessarily. If it had gone up to 40 per cent, my answer would be different. I think that 28 per cent is not unreasonable, given that you have an annual allowance, although I appreciate that has not gone up in the last year. If you are

paying income tax at 40 per cent, capital gains at 28 per cent still makes it attractive.

Yes, EIS and VCTs will come into their own if a client wants that sort of adventurous type of investment or if they have run out of other tax-efficient options. Before the Budget, when I thought everything was going up to 40 per cent, I thought I would be using them a lot more. Now I am not so sure. It will depend on the client's circumstances.

**Sharp:** I do not think there will be because my view is that although capital gains is going up to 28 per cent for high-rate taxpayers, even two or three years ago, it was still at 40 per cent, so it is still an improvement on the situation.

The other thing is that although these tax savings vehicles are available, they are not always suitable for all taxpayers. I do not like to let the taxpayer wag the investment dog if, for example, the client's attitude to risk is not suitable or they do not like complex investments or what they perceive to be complex investments.

**Dampier:** Yes, but I thought that beforehand. Politicians are the best sales team you could ask for, all of them. Tax is going up and there are all the other tax changes from previous Budgets.

What I would have a go at is all those idiots who kept on telling me a few years ago that Isas were not worth doing. That includes a few IFAs who said they were not worth it as basic-rate taxpayers, blah, blah, blah.

In 2005, I said that Brown was an emperor without any clothes and would be found out. He has been found out in a spectacular way and taxes are going up.

I have continually said that if people have got the money, whether they are basic-rate or higher-rate taxpayers, they should use Isas. VCTs, EISs, all tax-free things, will go up in popularity. In October last year, when they increased the limit for us old gits, we had one of our biggest Isa days after that and it has continued since. IVCTs will increase but less so than if the previous Government's tax changes had been brought in.

**How serious a blow is the decision by BP to scrap its dividend? Do you expect the performance of UK equity income funds to suffer as a result?**

**Davidson:** BP should not have got themselves into this state in the first place but investors have to realise, and they do in the main, that investment is not a gravy train - you have to take the bad times along with the good.

The company is in trouble and not paying a dividend is what companies do when they get in trouble.

Even a high-conviction fund is not going to have much more than 5 per cent in any particular company and the whole point of funds is that you are not going to be overexposed in any particular area.

Income funds are surely going to be looking at the holdings they have and seeing where they can create the dividend for investors.

**Sharp:** A lot of funds obviously hold BP but is their dividend cut going to have an impact? Possibly not, however, if other companies see them and think they can follow suit, for various reasons, that would be a concern. But the circumstances surrounding BP are rather extraordinary. I

do not think it will have a significant impact on funds in the short term, even though they do hold BP.

**Dampier:** It is very unhelpful. Just when UK equity income funds were looking like they might be getting over the worst, you get BP.

It is very unhelpful to a sector where one of the key objectives is to grow the income. It has been made even worse because it is a political decision. I object to my pension policy and Isa policy being made by the president of the United States. He should keep out of it. I think it is rather sad that someone elected on new politics has turned out to be a small town politician who did not act like a statesman at all. I have no problem with him having a go at BP initially. He had every right to do that but it has got progressively worse and it is just electioneering, grandstanding of the worst kind.

Other than Neil Woodford, virtually every income manager will have between 4 and 7 per cent in BP. Whether it can be made up from others I do not know but on top of that the price has fallen as well.

**New York's state pension fund is reportedly set to sue BP to recover losses from its drop in stock value, citing that the oil giant "misled investors about its safety procedures and its ability to respond to events". Is it right for shareholders to try to sue a company or is this just an example of the inherent risks that come with any equity investment?**

**Davidson:** If you think back about 10 or 15 years ago, investors would never have thought of doing anything like this. Now shareholders are much more active and they clearly feel very strongly about it. Should they be doing it? They should always have an option to, you can't close off people's right to sue people. But they would need to have a very sound case because

otherwise what is going to happen is that their lawyers and BP's lawyers are going to get together and more money is going to go out of the system.

**Sharp:** It has got to be part of the overall risk of investing in that company. Every company has an inherent risk of something going wrong somewhere down the line.

If that were successful, that could open the floodgates to all sorts of actions and that would be a disaster.

**From what I have read, it is not necessarily BP that is responsible for the whole situation, there are other companies involved, so who do you sue and where do you draw the line?**

**Dampier:** It seems a bit strange to me. As an investor, I suppose you could argue that they have been unbelievably negligent but I do not know the answer to that and I do not think anyone else does.

I presume there is an inquiry and that BP are looking into it but whose fault is it? I don't know. How do you know it was BP's fault? It was not their rig. They have accepted responsibility but where do you stop the buck? I could say you stop the buck with the US, they authorised it after all. You don't have to have offshore drilling. If the US say we are not going to have it, then that is the end of it, there is no pollution at all.

Litigious things are not helpful to companies. They do not foster any longterm relationship of any kind and, without knowing the results of genuinely whose fault it is, it seems to be ridiculously early to be talking about things like that.

**The most recent Investment Management Association statistics show that net retail sales fell by more than 50 per cent from April to May and that funds inflows are at their lowest levels in 18**

**months. Is this just a temporary blip or is this a sign that the rapid increase in individual savings is starting to tail off?**

**Davidson:** Or are they worried about the state of the markets? One would expect an end-of-tax-year flurry so maybe it is reflecting the downturn from what was a healthy Isa season. There has been political uncertainty and people tend not to invest in uncertain times. When the market grows and it is at its height, we will see lots of people pile in. There are a number of factors there.

**Sharp:** A lot of people were waiting to see what would happen with the emergency Budget and the election. I have had quite a few clients who have held off for that very reason. There is more of a certainty of the rules and regulations that will govern investments and so people will come back into the market.

Also, I read that people are concentrating more on paying of their debts and their mortgages more than investing, so I suspect that has had an impact on the figures.

**Dampier:** It is two things - markets, certainly from May, started to tumble but also the CGT thing had a lot to do with it as well. Once people realised that CGT was going up, and initially they were talking about 40 or 50 per cent, then people just do not make the investment unless you are going to do it in an Isa or a pension.

If you sit down and look at and realise that 40 or 50 per cent gets taken away if you make a decent gain but if you lose some of the money, you do not get anything for it, the risk reward parameters have totally reversed themselves.

**The FSA's recent review of with-profits found serious concerns with the way that some firms communicate with customers and the way that policyholder interests are represented. Should the**

## **FSA name companies that it has concerns with?**

**Davidson:** If they are going to go through the enforcement process, we will know who they are. If they are only at the stage of considering whether enforcement is going to take place or not, it would be very wrong to name those firms.

They have gone a bit far as it is but I think they are making the point to with-profits providers. If you are to name a company now and say we are investigating so and so and the FSA carries out many investigations on many different companies, as that is its job as a regulator, not all of those end up in enforcement.

Can you imagine what that would do to a company's share price if it was known that they were being investigated by the FSA? That would be enough to commercially damage them.

If the FSA then said, no, we do not think we are going to take it further, how fair is that to the company? The answer is it is not, so it has to be kept under wraps until there is further action.

**Sharp:** They should be given the chance to rectify the situation first and within a relatively short timescale. If that does not happen, yes, they should be named.

The general public are fed up with bad news at the moment and it is a good thing to try to give companies the opportunity to sort things out.

Having said that, people have a right to know if their money is being mismanaged but it is just another factor that creates uncertainty and disquiet for investors.

**Dampier:** Isn't that a regulator's job? You could say, why weren't they doing it 20 years ago, 15 years ago or 10 years ago? The problem with most regulation is it is shutting the stable door not only after the

horse has bolted but is over the horizon. You can see it in the banking regulation going on at the moment. It is trying to stop a problem that has already happened and is unlikely to happen again in the same way.

With-profits have never been transparent. Twenty-five years ago, we taking it all on trust but then the previous 25 years before that, with-profits investment had been pretty good and there were no unit trust investment plans, all you had was with-profits.

I would have said that the communication you get generally from with-profits companies is absolute gobbledegook, although in the last few years, with-profits have made an effort to explain some of the gobbledegook.

Maybe it is like buying a car and having to be told we are going to take an hour to explain the workings of the internal combustion engine. I don't know how far you go with it.