

gaining efficiency



September 2008

Colin Jelley highlights the importance of quality taxation advice for clients looking to rebalance their portfolios in volatile markets.

Rudyard Kipling's poem 'If' can be read as an interesting perspective on volatile investment markets and what can happen when clients decide that they are now a risk rating 3 instead of the 8 they previously indicated!

*If you can make one heap of all your winnings
And risk it on one turn of pitch-and-toss,
And lose, and start again at your beginnings
And never breathe a word about your loss;
If you can force your heart and nerve and sinew
To serve your turn long after they are gone,
And so hold on when there is nothing in you
Except the Will which says to them: 'Hold on!'*

If only real life investment planning were that simple. When markets are seemingly in turmoil it is very easy to forget the basics. The art of portfolio management in the current climate is to utilise all of the opportunities that change presents. Tax planning is a key part of this approach and advisers who not only invest in

acquiring the relevant knowledge but also work with investment platforms that are able to support them, can add significant value to their clients' investments.

positive outcomes

Clients who have consistently invested over previous years may now find that they are holding both funds with gains and also some funds with losses. Much has been written about the new flat rate of capital gains tax but most clients would still rather pay no tax than some tax. In these market conditions, clients may well wish to reconsider some of their fund holdings – but with advice this can be turned into a positive exercise.

Consider an investor who five years ago invested in a commodities fund and two years ago invested a further amount in a property fund. Over this period, it is possible that the commodity fund could

be up by as much as 250% and that the property fund could have fallen in value by as much as 20%. The dilemma the investor now faces is that he wants to realign the portfolio, but selling out of property at a loss is emotionally difficult and, while realising gains from the commodity fund is acceptable, the thought of paying tax on it is slightly disheartening. Clearly, while most investors will not have gained or suffered these extremes of performance, they are indicative of the opportunities and threats that might be faced.

creating opportunities

How often might a client sell a holding without consulting their adviser? Opportunities will often be missed as the client thinks there is little reason to engage, because they believe either that nothing can be done or that they know what's best. This is a classic area where

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advice not only adds value for the client, but is also likely to result in re-investment opportunities as well.

Let's consider John, who on 31 March disposes of his holding in the property fund and realises a loss of £10,000. A few days later, on 5 April, he also sells a holding in the commodity fund and realises a £10,000 gain. John is quite happy with his work as when he completes his tax return later that year he finds that the gain was offset against the loss resulting in no tax payable on the gain. However, John has additional unrealised gains still subsisting in the commodity fund holding. John asks his adviser whether he can use his annual exemption (as it appears not to have been used), only to find out that in this case the exemption would be lost.

With advice, what could John have done differently? He could still sell a holding in the commodity fund and realise a gain to utilise his annual exemption of £9,600 on the 5 April. He could then dispose of his property and commodity fund holdings, creating a £10,000 loss and £400 gain respectively, on or after 6 April in the new tax year. This would mean that the £10,000 loss would be matched to the remaining £400 gain realised, leaving John with a £9,600 loss to carry forward indefinitely into future tax years to set against any future chargeable gains as they arise.

This example clearly demonstrates the need for advice throughout the whole investment lifecycle, as well as why ongoing reviews are important not just to reassess the investment but also to underpin the need for continued advice. ●●

This document is based on Skandia's interpretation of the law and HM Revenue and Customs practice as at 29 August 2008. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

Capital gains tax (CGT) – practical application following the 2008 Budget

Phil Carroll, Skandia UK Tax and Estate Planning Manager, is currently hosting a short audio webcast to explain the impact of advising on CGT following the 2008 Budget.

To view the presentation visit www.informerlive.co.uk/node/634

– a short technical document is also available to download on the webpage.



www.skandia.co.uk

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