

UKSA

The United Kingdom Shareholders' Association
The independent voice of the private shareholder

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Mr Olaniyi Palmer
HM Customs and Excise
VAT Commercial Division
4W New King's Beam House
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Dear Mr Palmer

VAT EXEMPTION FOR MANAGEMENT FEES OF INVESTMENT TRUSTS

I am writing in relation to the recommendation by the Sandler Review of Medium and Long-Term Retail Savings that investment trust management charges should be exempt from VAT, in common with unit trusts and OEICS.

The UK Shareholders' Association is the leading organisation representing private shareholders in the UK. As such, we represent the consumers who would benefit from this proposal, as compared to the trade associations addressed by the recent consultation document "Consultation on the VAT Treatment of Pension Fund Management", which covered this issue.

I regret the late stage at which we are responding, but I hope that our response will be of value in providing a consumer perspective that might otherwise be lacking.

We strongly support the Sandler Review proposal that investment trust management charges should be exempt from VAT, in common with unit trusts and OEICS.

Investment trusts were originally developed as a collective investment vehicle for private investors, and have been returning to that role over the past decade. We believe investment trusts are extremely valuable for private investors because they are actually owned by their investors and are governed by boards of directors who are in principle directly answerable to those investors, rather than to the fund manager. This contrasts with unit trusts, which are investment products owned by and answerable to their fund manager.

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The benefits of the investment trust ownership structure for private investors are reflected most clearly in the average level of fees charged by investment trusts, which are far lower than those charged by other retail collective investment vehicles.

Although the ownership structure of investment trusts is different from that of unit trusts, they are clearly collective investment vehicles and should in principle be taxed in the same way as unit trusts and OEICS.

It is clearly detrimental to the consumer that the investment vehicle providing the lowest-cost service (in terms of average management fees) should be subject to a high level of taxation on top of its fees, while investment vehicles charging much higher average fees are free of this tax.

It also clearly works against a competitive market that unit trusts and OEICS do not need to compete against investment trusts on equal terms, because of the extra tax costs imposed on investment trusts.

We look forward to the early implementation of this very valuable proposal.

I shall be very happy to discuss any questions you may have about this submission, or about the Association.

Yours sincerely