Personal Equity Plans (PEPs)

Personal equity plans (PEPs) were tax-efficient investments available in the 1980s and 1990s. Many people invested in PEPs and many still have investments in PEPs now. The tax rules have changed since PEPs were withdrawn but there are still investment options you can explore without losing your PEP's tax advantages.

Personal Equity Plans (PEPs) were available for investment between 1987 and 1999, allowing you to enjoy the profits from stockmarket related investment free of income tax and capital gains tax. Since then the rules have changed and the tax-shelter umbrella offered by PEPs is now similar to that offered by Individual Savings Accounts (ISAs).

You may no longer invest fresh funds via PEPs. The PEPs scheme was withdrawn with effect from April 6th, 1999, the start of the 1999/2000 tax year. However, any savings already invested or sheltered in PEPs at that point are allowed to remain in PEPs.

Many of us are likely to have built up our PEPs portfolios on a piece-meal basis and it may be time we reviewed our holdings. Had you invested the maximum allowable each year into PEPs you would have been able to shelter a total of £88,200 from the taxman - a sum which could by now have grown considerably.

Rules

You may not take out any new PEPs or invest more money in those PEPs you already have. However, any savings invested in PEPs before 6 April 1999 still benefit from the same tax breaks as ISAs. That is to say, your PEPs are still free from capital gains tax and free of any further income tax. After 5 April 1999, you still have no tax to pay on income or capital gains from investments in PEPs.

Prior to 6 April 1999, dividends paid by UK companies carried a 20% tax credit and investors with PEPs received payment of these credits. From 6 April 1999 the value of this tax credit fell to 10% and it was payable to investors in PEPs until 5 April 2004. This tax credit is no longer available and basic rate tax paid on dividends may not be reclaimed. Thus PEPs (and ISAs) are no longer strictly 'tax free' but are 'tax advantaged'. Higher rate taxpayers holding PEPs benefit from the fact that they have no further tax to pay on the dividends received in their PEPs.

On 6 April 2001 the distinction between the two types, general PEPs and single company PEPs was removed, ending the rule that limited investments in the latter to shares of a single quoted company.

Transfers

PEP investments not 'frozen'

You may still move your investments around - with discretionary PEPs, the Plan Manager will decide to buy or sell investments on your behalf. With non-discretionary PEPs, you can tell the plan manager which investments to buy or sell. Remember that your PEPs manager is likely to make a small charge to switch investments between funds under management.

You have the right to transfer your PEPs from one manager to another at any time, although your existing PEPs manager may make a charge for doing so and a new PEPs manager may charge an initial fee as well. You must make arrangements through your plan manager - if you simply encash your investment you will not be allowed to reinvest under a PEP umbrella. You may not transfer the ownership of your PEPs to someone else. Many people assume that, because they bought a PEP in a certain tax year, they cannot touch it until they want to cash in their investment. This is not the case. You are perfectly at liberty to transfer a PEP allowance from a past tax year to a new provider. Your independent financial adviser or the PEPs providers concerned will show you how to proceed.

Do be aware that some PEPs managers have bundled together all their clients' investments even though they were made in separate years. This means that instead of having a handful of separate PEPs you will have just one big one. However, you may be able to transfer part of your PEP investment to another manager if your existing manager has the facility to allow partial transfers.

Costs

The costs of running PEPs vary enormously according to whether you hold shares, unit trusts or investment trusts. With shares held directly, there'll be a stockbroker commission every time a trade is made; managed funds, such as unit or investment trusts will have charged you an initial fee as well as an annual management charge. These are set as a percentage of the amount you invest. e.g. usually between 0% and 6% for an initial charge and up to 2% for an annual management charge.

You may still face initial charges if you are transferring funds in PEPs to a new plan manager. Most of them treat PEPs transfers as new business although some discount initial fees for transfers or make cut-price offers for investments over certain amounts.

Your existing PEPs manager may also make a charge for the withdrawal of funds. Such transfer penalties vary from 0% up to 5% in some cases for transfers within one year. There is also likely to be a small fee for leaving the PEPs scheme which is likely to be between £25 and £50 plus VAT.

Always remember, low charges are attractive, but cheapest is not always best. Just like star footballers, PEPs fund managers can be worth the money they are paid (but not always!). It's always as well to watch out for those PEPs managers who charge heavily but who fail to deliver the investment performance to compensate. Moving abroad will not affect your investments in PEPs. The income and the capital gains will continue to be exempt from UK tax. However, PEPs are not transferable between people. On the death of an investor who holds PEPs, the tax efficient status of the PEPs cease. PEPs themselves cannot be transferred or passed on to a surviving spouse or any other beneficiary. However, the assets sheltered within the PEPs may, of course, be bequeathed in the normal way.