

**Congregational  
Federation in  
Scotland**

**Investing for Income**

For any organisation which has money, whether in large amounts or small, it is imperative that the value of this money is not eroded by inflation. The organisation's assets must be put to work in such a way as to avoid taking too much of a risk with the capital, but at the same time, keeping sufficient funds available to meet the ongoing costs of the organisation.

This requires a knowledge of how the investment world operates. It may be that not all of what we are going to look at will be suitable for Churches and you would be well advised to seek help from the professionals before entering into any investment.

**Offshore accounts** are simply accounts which are held outside the UK and which may offer a better rate of return than a UK based account, but, they are likely to be of little advantage to Churches since, as non tax payers, the more favourable rates of taxation in some overseas countries will not apply and the charges involved may well remove any advantage from a higher rate of interest.

**Gilt Edged Securities** are a means by which the Government can borrow money. A fairly safe investment, they fall into several categories depending on their redemption date. Short dated gilts with less than five years to run till their redemption date, Medium dated gilts with between 5 and 15 years to run until redemption, Long dated gilts with more than 15 years to run until redemption, Undated gilts which have no redemption date and may never be redeemed and Index Linked gilts where the return is set at an amount slightly above inflation. The interest is paid gross of tax and is usually paid half yearly, but they are not easy to predict as the value of gilts fluctuates with market interest rates and the length of time to the redemption date.

**Local Authority Bonds** are the way in which Councils are allowed to raise money. However, fewer Councils are now using this method since the introduction of the Private Finance Initiative. They are usually advertised in the press or can be had through a broker. Minimum entry levels are usually between £ 500 and £ 1,000 with interest paid half yearly net of tax.

**Stock Market Income Bonds** provide a fixed income during a set term, but the income is dependent on the performance of either the FTSE or a group of shares. In recent years, such bonds have failed to meet their targets and as the stock markets have fallen, so have the value of these bonds.

**Loan Capital** is a means by which companies can raise money. Here, you are asked to lend the money over extended periods with no possibility of getting at the capital. You then become a creditor and have prior rights in the event of the company going into receivership, but the holding of loan stock or debentures does not entitle you to a voice at company meetings.

**Permanent Interest Bearing Shares** are the way in which Building Societies are allowed to raise capital. They are similar to other shares in that they pay a fixed rate of interest twice a year and are traded on the Stock Exchange.

**Share Capital** or equities are traded daily on the Stock Exchange and reflect the value of individual companies and their effectiveness at any given time. It is not just the performance of a company which can determine whether shares rise or fall and you need to be very careful when dealing in equities. Shares pay a dividend which gets applied to each share held and which usually reflects the company's performance during the last period of trading.

**Unit Trusts** are an investment vehicle which allows the risk to be spread over various types of investment thereby ironing out any large market fluctuations which might occur. Units are purchased and the Trust Manager invests the money in a range of investments which are held centrally in a Trust Fund. A dividend from the total investment is paid to each investor according to the number of units held. The fund management make the decisions about the investment to another and for this service, a fee is deducted from untaxed investment income. With larger transactions dealing costs are proportionately lower than would otherwise be the case, and the investor has only one investment to worry about.

Unit Trusts are liable for Corporation Tax. However, they are exempt from Capital Gains Tax on gains made within the Fund. The taxation of dividends and the disposal of units are treated in the same way as for equities. While Churches and Charities are not liable for tax, the fact that tax credits are issued with dividends could be a disadvantage. On the plus side, you will always be able to sell units as Trust Managers are obliged to buy them back from any holder who wishes to sell. The only fly in the ointment might be that the price which you will get for them will be less than the price at which they can be bought at the time you sell.

**Investment Trusts** are companies in their own right, but they invest their share capital in the equity of other companies. On the face of it this would appear to offer a good deal since management costs are low and are borne by the trust company with the investor only paying the dealing costs. However, nothing is ever that simple, and trusts can borrow money to fund their investments thereby providing greater opportunities for growth. This also provides greater exposure when the markets fall.

Because of the difficulties involved in charities being stockholders in Investment Trusts, there are trusts which have been specifically set up for charities.

One such is Charifund, which has been designed to provide an income whilst at the same time protect the capital from the worst effects of inflation. Its policy is to invest in equities and convertible stocks and it trades as a trust under English law. It is possible to have as little as 25 units and unlike most trusts, the units can be held in the name of the Church rather than in the name of an individual. Also the dividends are paid gross of tax in recognition of the fact that charities are not liable for tax on their investments.

Always use recognised financial bodies when investing and make sure that you understand what is involved before you sign up to anything. Get

everything in writing. It is very rare to get anything for nothing, so don't put your entire capital into one project - spread the risk. Take time to consider what it is that you are getting into.