Scottish Independence Referendum

Wednesday 10 September, 2014

HL data - No discernible differences in trading - selling or buying - from Scottish investors over the last week

Cost of hasty action? Potentially £1,844: It's going to be 1 or 2 years before the situation resolves itself. Average Scottish ISA value is £15,370 and at an average market growth of 6% the potential cost of encashing your ISA and sitting in cash for 2 years is 12% times or £1,844.

Tom McPhail, Head of Pensions Research, Hargreaves Lansdown

“The best approach for long term investors is to ignore the 'noise' and stick with their plan. Invest with the right managers and they should deliver good returns for you regardless of the short term issues. It is more likely that you lose if you act in haste than you gain.”

For those investors living in Scotland and for investors with assets held in Scottish companies it is not clear at present what if any, the long term consequences of a 'Yes' vote would be. We know the additional regulator, dual tax regimes etc. will all add costs and the key debate on currency is creating some uncertainty in the markets.

In the event of a 'Yes' vote:

UK savers and investors will be unaffected in the long term. In the short term there is likely to be continued stockmarket and currency volatility.

While individual companies may find they have challenges to overcome in the event of a 'Yes' vote, the UK stockmarket itself is well diversified, particularly the FTSE 100 where around three quarters of earnings come from overseas. Investors in UK funds typically benefit from a diversified portfolio of stocks, whose fortunes depend on a broad source of revenues from various geographical regions. While a 'Yes' vote may cause short term volatility in UK stocks, this is likely to eventually succumb to a more sober assessment of company fundamentals.

Scottish residents

Savings accounts – The key question here is of currency and this is unlikely to change (if at all) for many months. In the short term savers should not be unduly concerned about their cash – the FSCS has confirmed statutory protections will remain during a transition. In the longer term, should a new currency be adopted, an exchange may be required.

ISA - The situation for Scottish resident with tax advantaged savings products is likely to be the same as when any UK resident emigrates. The ISA savings held by 1.9 million Scottish residents should be unaffected. The UK tax advantages of ISA will remain.

There will come a point where Scottish residents will no longer be able to save into ISA, and the Scottish tax rules could be different. However this is unlikely to happen for some months. In the meantime, Scottish residents should continue to save into ISA to build up their tax advantaged pot.

We would expect a Scottish version of the ISA to be launched at some stage and it follows there could be some form of grandfathering of UK ISA savings into any Scottish version.

Pensions – the same principles applies to pension savings. Existing savings are highly unlikely to be affected in the short term. Scottish residents should continue to save into pension, particularly where their employer is also contributing. Scottish residents will, at some stage, have their own private pension system and at that point it is expected that savings in the UK pension system could be transferred to the Scottish system in a similar way to those emigrating today can transfer their pensions to overseas pension schemes.

State pensions – it is expected that Scottish residents will have their own tax and benefits system eventually and at retirement, will receive state pensions, part from the UK and part from Scottish systems based upon the length of service in each.

Life insurance – life insurance policies should remain unaffected. If there is a change of currency this

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may present exchange rate complications with premium collection, however insurers could choose to continue to run these policies in sterling.

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