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The Newsletter of Lubbock Fine Summer 2005

The New World of SIPPS and the A-day Challenge

Staying ahead of the game by taking the right advice

By David Cartwright Head of Product Development and Research, Destini Group



Self Invested Personal Pensions (SIPPs) were the success story of the pensions movement in the 1990s. The uncertainties surrounding companies such as Equitable Life have contributed to the popularity of SIPPs. In fact, since their advent in 1989 as a niche product for high net worth individuals, SIPPs have rapidly become a mainstream product. In simple form, they provide the investor with the flexibility to invest in a variety of collective investment funds and securities not normally available through the mainstream insured packaged products.

Clearly, another reason for the growth in SIPPs has been flexibility. With the proposed removal of the compulsory purchase of annuities as part of the pension simplification document, then SIPPs, again, will provide a viable alternative to those who want to enjoy more flexible retirement income beyond age 75.

On A-day (6th April 2006), the proposed relaxation of permissible assets into pension creates considerable opportunity for property investment into SIPPs and other asset classes. In addition, the SIPP market is already evolving as the lateral thinkers start to take advantage of some of the new opportunities. At Destini, we have already started the remedial pre A-day work and are providing advice to put clients in position to maximise the 6th April 2006 opportunity. Don't leave it too much longer before talking to us about what you can and can't do.

Pension contribution and fund limits

The new contribution limits post A-Day will look remarkably like the current personal pension legislation for control of contribution levels. The maximum annual contribution will be £215,000 per annum subject to the level of net relevant earnings. Altogether, a very flexible regime which will lend itself to remuneration and corporate planning.

There will be a new lifetime allowance on the total amount of tax-privileged pension benefits. The lifetime allowance will initially be set at £1.5 million increasing to £1.8 million at 6 April 2010.

A Growing Market

Activity in the market place is illustrated by Standard Life and Skandia who recently re-vamped their SIPP products. Independent research company Defaqto, has said that it expects to see further SIPP developments from other insurance companies. In fact one wonders how many of the conventional groups can continue their 'head in the sand' approach whilst some of the independents identify the major new market opportunities.

The Countdown to A-day

With only 9 months to go before the pensions watershed, the greatest area of client interest is probably in relation to the new-found investment freedom that the proposed post A-day environment offers.

This creates both threats and opportunities to SIPP providers and financial advisers alike. Some advisers will expect SIPP providers to be flexible and broad minded with regard to certain assets. As an example, I am told that one is already in the throes of recruiting fine wine specialists!!

The Property Story

Many independent financial advisors (IFAs) are tending to focus on clients who have existing buy to let residential properties in the UK but of course, the proposed new rules allow for purchase of new buy to lets in the UK plus new and existing overseas properties in specific locations. Indeed, to take full advantage of the new proposed rules allowing for SIPP investment into residential property and/or connected properties, good planning and preparation

will be required. Either existing funds must be of sufficient size to purchase new or existing properties, or clients need sufficient levels of earnings to justify "in specie" transfers of property into pension funds as a contribution. We must not overlook the potential Capital Gains Tax and Stamp Duty Land Tax issues relating to disposals of existing properties into SIPPs or the taxation issues around holding and trading of new properties within the pension fund environment.

One way of taking advantage of the new rules prior to A-day is to buy residential properties 'off plan' from developers or, indeed, purchasing land on a 'do it yourself' basis now and then employing a developer to construct the property, legally finalising matters post 6th April 2006.

What are the SIPP providers doing?

It is quite clear to see that some SIPP providers themselves will be left behind if they cannot accommodate investment into residential properties and buy to lets from 6th April 2006. Only a very few SIPP providers at present are gearing up for holding overseas properties in their flexible pension wrappers, chiefly from European locations. There is clearly an appetite out there from the high net worth community to purchase or transfer UK and overseas new or existing properties into pension funds and the winners in the Trustee and IFA market are going to be those that keep ahead of the game.

Who would have thought that the purchase of a buy to let property off plan would qualify for pension tax relief at the maximum rate of 40%? Times have certainly changed and although a number of clients will be better served by buying shares/units in a collective investment providing exposure either to commercial and/or residential property, there is clearly going to be a demand for UK and overseas buy to let/holiday homes.

What about the tax benefits?

Not only will income tax relief be available for the purchase of any property but also any growth in the asset will be free from CGT within an approved pension fund and rental income (if applicable) will accumulate free of income tax.

Whole property versus collective investment

It will not be advisable or indeed possible for a number of individuals to hold a single property in their pension fund but they may clearly benefit from exposure to the residential and/or commercial property market through a collective investment vehicle. Indeed, one or two unique investment vehicles exist now for access into residential property in the UK for SIPPs and we are bound to see some similar structures emerge shortly as the herd instinct takes a grip.

Fly-to-let and International Funds

With any diversified portfolio, one would normally expect to see exposure to an asset class both in the UK and overseas. This is certainly the case in the equity market where SIPP portfolios contain either collective and/or direct equities linked to both the UK stock market and international stock markets. No doubt this is also true for property.

Additionally, there appears to be an increasing demand for easy access to foreign properties with an 'end to end' advisory and support structure regarding their inclusion in SIPPs built in. For many, the name of the game is going to be spreading the risk and accessing overseas markets through a collective investment (which can include Europe and International property in the commercial and residential sector) rather than concentrating risk into one property in one location.

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Staying ahead of the game by taking the right advice ...continued

Strategic Partnerships are Essential

Many IFAs must now be building strategic relationships with all the right partners such as overseas property and land agents who will source pension assets. Furthermore, jurisdictions such as France and Spain don't even recognise UK trust law. A complex web must be mastered in order to optimise this opportunity.

The only real way to positively and proactively approach this new liberal investment regime is to strategically align with specialist partners securing support in areas such as property management, sourcing and legals. This is precisely what we are doing at Destini. We have also been working for some time with an International property group to source developments and land and the end-to-end service we are creating will in due course, be available to other IFAs.

Summary

In the coming months, solutions and structures will appear for those that are serious about this market and about "keeping ahead of the game". Destini's joined-up approach in working with the specialist asset managers and advisers is probably the only way to optimise the A-day challenge and avoid the potential pitfalls. Personal advice is needed in all cases since there are many issues to take into account.

For further information on any aspect of the above, please speak to your contact partner. ●

You're fired!

If you're a business owner/manager, we counsel against using Alan Sugar's now famous phrase, you're fired. Whilst it may make great TV, a lot has changed since Sir Alan's day. The law now makes it hard for companies to sack workers at the drop of a hat and managers need to be aware of today's employment laws before dealing with any type of staff problems. Not only that, it is crucial to seek professional advice at the merest sniff of an employee related problem.

According to a recent survey by industry specialists ELAS, the issues most likely to cause problems remain the perennial problems of absenteeism, sickness and poor timekeeping. Just 3% admit to being most concerned by issues of discrimination or harassment.

More than half of the companies surveyed admit to having no set procedures in place to deal with employees falling pregnant whilst three quarters had no provisions to deal with employees' religious beliefs. Even more shocking perhaps is that a fifth of companies taking part in the survey admit to monitoring staff emails. ●

Corporate identity theft

Identity theft is no longer only a growing problem for the individual, corporate identity theft is on the rise. So much so that business advisers and police authorities have joined forces to help companies combat identity hijack by criminals.

Criminals currently dupe UK companies out of around £50 million annually by stealing their identities. They do this by trading under the legitimate firm's name to illegally obtain finance, goods and services.

As an attempt to crack down on economic crime, the Metropolitan Police has teamed up with Companies House and Experian to prevent more companies from falling victim.

Experian provides consumers, businesses and the public sector with information and analysis to help them make important decisions. As one of the UK's leading credit reference agency they assist with the understanding and management of credit information.

The "Sterling" initiative offers a four-step advice programme to assist companies in protecting their identity. It recommends the following actions:

- Check company details are registered correctly at Companies House ensuring they have not been fraudulently changed.
- File documents online at Companies House. The "Proof" scheme offers further protection by allowing legitimate firms to alter their details electronically using a password protected database – this is at additional cost.
- Sign up to an email alert system which warns password holders when company details are updated.
- Don't rely solely on Companies House in determining whether to lend goods or offer services on credit. It is a public record registry, not a credit reference agency or crime prevention service. Other methods of verifying customer legitimacy should be used.

However, the initiative in this form has many detractors. They feel that the effect of the campaign may be merely to encourage bona fide companies to protect their own identities by subscribing, for extra cost, to supplementary security services whilst in reality, nothing is being done to tackle the root of the problem. In fact, the coverage being given to this form of fraud could exacerbate the problem by publicising its potential to criminals who are not currently aware of the technique. For more information, please visit www.met.police.uk/fraudalert ●

Business Opportunities India



Naresh Shah.

As a follow up to his highly successful overseas British Trade missions of last year, Naresh Shah was part of another official UK trade delegation to Delhi and Mumbai earlier this year.

Organised by the London Chamber of Commerce and supported by UK Trade and Investment, these missions bring business people and professionals together to form visiting delegations with the aim of boosting UK export and inward business, along with establishing business contacts for organisations based here.

Once again, Naresh was able to meet or re-establish links with lots of prospective clients, many new business and professional contacts, as well as meeting with a number of Indian based banking organisations.

On this particular trip Naresh was asked to make a presentation to the All India Federation of Tax Practitioners on UK VAT and transfer pricing issues, a hot topic, especially as VAT was introduced into India in April 2005. The presentation was held at the Income Tax Appellate Tribunal Bar Association and was extremely well attended.

"Mumbai is really buzzing these days" reported Naresh. "As India's business capital, it's a very exciting place. Just being there generated lots of requests from all sorts of people keen to make contact with

me and establish links with a UK firm of chartered accountants. We now have lots of contacts and huge potential for new business brewing in the region but as with all of these things, bringing potential to the table is a matter of patience and perseverance. It tends to happen over time" he said. "For example, I've been asked by the All India Federation of Tax Practitioners if we would write a regular article for its members journal which presents a great opportunity for getting our name out there. I only wish I had ten more hours in the day!"

Naresh also visited a Lubbock Fine client based in Delhi, running a business process outsourcing operation. They act for a number of UK corporates and within a fairly short space of time have grown to an organisation with over over 4,000 employees in India.

As well as exploring new business potential in India, Naresh also visited *Sharp and Tannan Associates Chartered Accountants*, a firm with representation throughout India. They had approached Russell Bedford with a view to joining the network as its Indian representative, which has now been ratified. In fact, as one of our clients happened to be in India at the time, Naresh took the opportunity of introducing that client to Sharp and Tannan with a view to seeking specific regional advice. In addition, there is much talk in the marketplace about trying to help Indian listed companies to seek UK or European stock exchange or AIM listings and Lubbock Fine will be working with the newly appointed Indian partners to develop business on that front.

Additionally, Naresh fielded a number of enquiries whilst he was there including meeting an Indian investment house wanting to establish a UK base in the future.

With the renewal of old contacts, development of new ones and the general sense of business growth and development in India, Naresh believes that there are excellent opportunities for growth in the Indian market-place. The Government of India has also recently been taking active steps to ease foreign investment to the country. ●



Client Profile - J. Robert Scott

Since its launch more than thirty years ago, Lubbock Fine client, J. Robert Scott has become a national and international influence in the design world. Founded by President and designer Sally Sirkin Lewis, the company has been credited with creating "California Design" and now attracts an enthusiastic and loyal global following. Using the highest quality materials, the company also offers designers the exceptional capability to modify any standard furniture in the collection or to create an entirely new piece. This versatility allows designers to provide unique furnishings to their clients.

Sophistication and attention to detail does not translate into predictability though. Represented in every major market in the US and in many other countries, new ranges of furniture, lighting, accessories, textiles and wall coverings are introduced each year. Manufacturing from its own factory in Los Angeles, absolute quality control during every phase of production is maintained. It is their "touch of the exquisite" that has earned J. Robert Scott its international reputation for "home couture".



The company's Chief Executive Officer, Andrew Frumovitz, takes up the story.

"In 1997, J. Robert Scott opened its flagship London showroom in Chelsea Harbour and since then we've been selectively opening showrooms with partners in other European countries. Last year, we added

representatives in Spain, Russia and Australia. This year sees further expansion into Europe with Switzerland and Cyprus in the pipeline as well as into the Middle East, with negotiations progressing in Israel and Egypt, and the Far East, namely Taiwan and Hong Kong. Broadly speaking, the company aims to add three to four countries per year to its roster and is centring the whole European operation in London."

Andrew Frumovitz went on to explain that the company had historically used a 'Big Four' firm for its tax and accounting needs. When he joined the company eighteen months ago, he tried hard to work with the incumbent but found them very unresponsive, extremely expensive, not very personal or imaginative. Simply put, he never felt that the 'Big Four' firm took any real interest in the business. After carefully looking at all of their options, J. Robert Scott changed its US accountants, appointing the firm of NSBN in Los Angeles. When a like-minded London firm was needed, NSBN recommended its long time London associate, Lubbock Fine. The two firms are associated through their membership of Russell Bedford, a worldwide network of accountancy firms.

"Lubbock Fine was appointed for many of the same reasons that we appointed NSBN" explained Frumovitz. "They are a local firm, they know their own market, they give us the attention we need at a fair and reasonable cost and they're interested in what we do, our aims and ambitions and in our future success. They are the perfect firm to help us solidify our foundation for our European and international expansion.

At the time they were appointed, we needed immediate assistance filing our current return with the Inland Revenue. Lubbock Fine took up the filing and completed the process quickly and efficiently, even securing a considerable tax rebate for us! They then set about helping us to get organised by advising on setting up the right corporate structures to cope with our future growth.

Quite aside from all the technical expertise and tax advice, we've found everyone at Lubbock Fine to be extremely personal and personable. Even taking into account the eight hour time difference, I have absolute confidence that if I call them at the start of our working day, they care enough to get back to me the same day – even though it's often after 5.00pm in London when I call!" he concluded.



Lubbock Fine Managing Partner Geoff Goodyear added, "It's always rewarding to work with an interesting client in a creative business, especially when that organisation has come to us through our international organisation, Russell Bedford. Working with a client which has a unique culture, a distinctly different style of management and business practice and a real competitive edge is one of the key rewards of being in professional practice."

Many of J. Robert Scott's furniture designs are considered interior design classics. Simple elegance coupled with comfort, together with its commitment to the integrity of furnishings designed as art forms, establish J. Robert Scott as the standard bearer in the luxury interior design world.

"And if you're passing London's Chelsea Harbour Exhibition Centre" said Geoff Goodyear, "why not treat yourself to a visit to their showroom – and mention Lubbock Fine!" ●



Tax relief for mortgages against investment properties

Do you own an investment property that produces rental income?

Is the mortgage on the property lower than the value of the property when you purchased it?

If so, are you aware that you could obtain tax relief on the interest on additional borrowings secured against the property, up to the original purchase price of the property regardless of what you use the additional money borrowed for.

For example, Dennis purchased a buy-to-let property in 2000 for £200,000 which included a £150,000 mortgage. Since then, Dennis has repaid £25,000 of the mortgage leaving a balance owing of £125,000.

Dennis could borrow a further £75,000 on the mortgage for any purpose and get tax relief on the interest at his marginal rate of tax (i.e. up to 40%) against his rental income.

If Dennis were to borrow more than £200,000 then the funds in excess of £200,000 would have to be used for improvements to the rental property for him to receive tax relief on that part of the interest. ●



Sally Sirkin Lewis – founder and part owner of J. Robert Scott

"If I hadn't been a designer, I would have pursued a career in fashion" says Sally Sirkin Lewis. "I'm a great admirer of Coco Chanel and Balenciaga who chose the most exquisite fabrics and imbued their clothing with uncompromising detail and quality. "

Currently juggling a number of highly creative careers from designing the interiors of private homes, businesses

and the occasional corporate jet to designing furniture and textiles, through J. Robert Scott, Sally Sirkin Lewis supplies the trade with her own signature designs across a wide range of products.

Ms Lewis started her first interior design practice in the early 1960's before she and her husband, Bernard Lewis, opened J. Robert Scott in 1972. ●

Inland Revenue Hoax calls

We have it on good authority that some taxpayers have received calls purporting to come from the Inland Revenue. In one instance, a message with a return telephone number, extension number and reference was left – asking the caller to quote these when they called back. Upon calling back, the caller was asked to confirm his home address and then told that the original call had been due to his 2004 tax return not having been received but that it had now been. The call then ended but by then, whoever took the call was in possession of some of the caller's personal information.

Unaware that it was a hoax call, the caller's accountant followed up the call to be told that his firm was not listed as the individual's agents but instead they had the details of another (probably hoax) firm. Smelling a rat, this accountant then decided to investigate further and called a number that he knew was correct for the Revenue. It was then that he established that his client had been the subject of a hoax call.

The Revenue is aware of this, having received numerous calls reporting attempted fraud, including taxpayers receiving hoax letters on Revenue headed paper.

The point is, do be careful! In this instance the caller was not asked for bank account details etc but it may have only been the first step in the process.

If you receive a call from the Revenue when you are not expecting one, play it safe and speak to your usual Lubbock Fine contact before you do anything. ●



How do you rate your premises?

The VOA (Valuation Office Agency, an executive agency of HM Revenue & Customs) is encouraging anyone who disagrees with their rateable value to contact their local valuation office. In many cases, queries can be resolved without the need to formally appeal against your rateable value.

After raising your query with the VOA, if you are not satisfied with the outcome and still feel your rateable value is incorrect, you can make a formal appeal. This is known as making a proposal to change the rating list. You can appeal directly to the VOA, which costs nothing.

Alternatively, you could instruct a professional advisor or contact your local valuation officer who, in most cases, will be able to sort things out. Professional rating advice is available from various bodies including members of the Royal Institution of Chartered Surveyors, the Institute of Revenues, Rating and Valuation and the Rating Surveyors Association. These bodies operate under a joint code of practice for rating advice which they publish on their websites. Be careful if you decide to appoint a rating consultant as there are fraudsters operating out there.

www.mybusinessrates.gov.uk is a website which presents information the ratepayer might want to know about business rates. Aimed primarily at the smaller, independent business ratepayer, the site provides information on key topic areas such as how rates are assessed and how rates bills are calculated. It also contains legislative information such as advice on eligibility for rate relief, but this applies only to ratepayers in England. There are other organisations covering Welsh, Scottish and Northern Irish ratepayers. ●



By the year 2026, 50% of all UK adults will be aged 50+ Are employers prepared?

In 2006, legislation outlawing age discrimination comes into force. Covering both employment and vocational training, the private and public sectors and every other organisation is affected. It will affect everyone you employ whether that's one, 100 or 1,000.

Employers need to adopt age positive practices meaning that they will no longer be able to recruit, train, promote or retire people on the basis of age - unless this can be objectively justified.

Currently only 70% of people aged between 50 and State Pension Age are in work compared to 81% of those aged between 25 and 49. Many over 50's are denied the opportunity of working due to 'ageist' practices.

Skills, experience and the ability to do the job are what's important, not someone's age. This will require major cultural changes in business and it won't take long for the consequences of not complying to bite. In the Republic of Ireland, allegations of ageism now make up 19% of formal discrimination claims with the consequent costly legal defence.

Employers may think that there's no discrimination within their own organisation but there are a number of areas to consider. For example, any of the following may be open to question from 2006:

- Offering medicals to the over 50's
- Advertising for someone to join a "young, dynamic team"
- Advertising for someone with at least five years' experience or a specific qualification, unless it is a requirement of the job
- Requesting an individual's age during an interview rather than as part of your equal opportunity monitoring
- Moving those over 60 off heavy manual duties or shifts
- Offering training just to younger members of staff or refusing training to older employees
- Believing that younger people do not have the competence for management and overlooking them for promotion

If in doubt about your own business practices, please seek appropriate professional advice. ●



We're always delighted to feature good news about our clients. If you have something special that you'd like to shout about, please email marketing@lubbockfine.co.uk and we'll try to get your story into our next issue.

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