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The Newsletter of Lubbock Fine Summer 2011

Announcing our new managing partner



Mark Turner

Lubbock Fine is pleased to announce the appointment of a new managing partner. Mark Turner now takes over from Geoff Goodyear, who is relinquishing his day-to-day practice management responsibilities after 10 years at the helm.

By way of background

"By and large, we've had a pretty good run during the last 10 years," says Mark, "and the firm's developed enormously through good, vigorous management. In my view, the two main changes in the way we run our firm have been that first, we've moved from 'partner led' teams to 'resource groups' meaning that we now have the capacity of matching the right people to the right jobs – in effect, a free sharing of expertise within the firm. This means that if the contact partner doesn't happen to be around, there will always be another partner or team member there and ready to assist clients. This has had the added benefit of career progression transparency

so that our staff have a clear view of where they're heading. Secondly, we now manage ourselves on a far more corporate basis rather than as a traditional partnership, with decision making delegated to a smaller number of people.

"One of our biggest advantages is that we have a great, well-established brand. We're very well known, well structured internally and have a great team of staff, all of which contributes to an exceptionally high quality of service delivery. It's really all about the depth of our ever growing knowledge and expertise which allows us to service clients of all shapes and sizes and at all the various stages of their business life cycle."

Recent changes

"The firm continues to expand through the growth of our existing clients and by acquiring increasing numbers of good quality clients both in the UK and overseas, the overseas development being aided by our international network Russell Bedford International (RBI). We now have an excellent platform, in terms of staff and structure, to continue to build our client base, to support existing clients and to maximise and create opportunities wherever they exist.

"A significant change is the way new technology now affects everything we do. Today, much of our new business comes directly through the website and whilst all the traditional new business routes still have their place, rather like most retailers out there, our biggest 'shop window' is now the internet. Fully embracing changes in technology and the significance of social media are amongst the challenges that lie ahead. We're moving very rapidly with the times because we're mindful that our next generation of clients and staff will have grown up with all this technology, so we need to adapt the way we work to suit them. As an example, the

next phase of our new document management system allows for a client portal, which we're working towards rolling out sometime next year. Due to data protection we have to be careful with what we email out to clients, however, the portal will allow clients to log in and, for instance, take a look at their tax return and other confidential material. But fear not, for the foreseeable future, if you prefer to receive letters in the traditional mail, we'll still be doing that too!"

The business outlook

"2011 continues to be challenging for most with uncertain economic predictions. Despite interest rates being at an all time low, and the banks and major financiers claiming to be open for business, they're still being very cautious about lending. It's vital that clients who foresee a need to borrow money talk to us as soon as possible to ensure that they present a solid case to their financiers with credibility of data, a water-tight business plan and our involvement. We're finding that the demand for this sort of support from clients has very much increased during the last few years.

"In the future, we see our business continuing to expand through our international network, RBI. The network, of which we were founder members back in 1983, has now grown to over 100 firms in more than 80 countries and the flow of business between member firms has never been better. It's an invaluable resource to us and our clients, enabling clients to expand their businesses overseas. The UK remains an attractive business centre for overseas companies and we're currently working closely with our associates in numerous countries."

Here at home

"We continue to look to increase the number of quality UK clients who are predominantly SMEs. One of my particular areas of speciality is acting for

start-ups. This involves providing a lot of support in the early days, especially for those without previous business experience. In the first few years of a new business, in addition to the compliance matters associated with accounts and tax, I often act as a mentor and sounding board.

"My other particular speciality is property, with a good percentage of my own clients involved in this sector. And it's been a bit of a roller coaster ride over the last few years! Even in the current climate, due to good management, all of our clients are managing well.

"Looking to the future, we expect the compliance burden to increase, adding more and more to what we are obliged to do for clients. I won't try to predict with any certainty what might happen during the next five to 10 years because I'm not sure that anyone can. I would, however, say that technology will undoubtedly play a major part and we'll all have to make the requisite leap to accommodate this. In 10 years' time I feel sure that certain aspects of what we do and the way in which we do it will be wholly different."

Career highlights (and lowlights)

"Well obviously I was delighted that my partners had the belief to appoint me as managing partner. Taking on this role at a younger than expected age has been very exciting. I joined the firm as an audit manager in 1996 and became a partner in 1999. When this new opportunity arose, I grasped it with both hands. Having worked closely with, and learned a lot from, Geoff Goodyear over the last 10 years, I felt I had the confidence to tackle it. That said, there's always lots to learn when taking on a new role.

"There are plenty of other highlights and they've all been client led. Working with innovative and entrepreneurial clients who gush with ideas and

Announcing our new managing partner

(continued)

energy has always been a real buzz and seeing them grow into highly successful businesses has been very rewarding. I'm really looking forward to continuing to work with my existing clients, they're very important to me - they've got me to where I am today!

"The low points in my career have been to have to break bad news to enthusiastic start-ups, such as not to bother to proceed! Sadly, sometimes it's just apparent that their concept isn't going to work and it's far less painful all around to tell them at the very start than to watch them fail. Still, it's never a pleasant job.

"In short, I'd still recommend accountancy as a profession for people with aptitude. I've thoroughly enjoyed the variety of my work which continues to give me a window into lots of different, fascinating businesses and allows me to meet the most interesting and dynamic people."

Away from the office

"I've been married to Mary for seven years and we have two children, Max (5) and Grace (3) who keep me busy and boss me around a little bit too much for my liking! I also find time to play squash, golf and ski, as well as having run three London marathons. I like to think I'm aware of environmental issues and so cycle to work as my small contribution to the cause.

"And finally, I was recently asked what I'd be doing if I wasn't an accountant. I think I'd be a serial entrepreneur with the ability to travel and work my way around all of the world's top golf courses."

We feel sure that all of our clients and contacts will join everyone at Lubbock Fine in wishing Mark much success in his new role. ●



Client Profile Enercon

From an initial start up of five people in 1984, Lubbock Fine client Enercon now employs a staggering 13,000 people worldwide. With its main base in Aurich, north-west Germany, it also has production facilities in Sweden, Portugal, Turkey and Brazil.

The company was originally established by graduate engineer Aloys Wobben, who, with his small team, initially developed the first E-15 wind turbine with a rated power of 55kW. The early gearbox system has now matured and evolved to gearless technology providing friction-free energy flow and outstanding performance and reliability.

"We've been acting for Enercon in the UK for almost a decade now," explained Lubbock Fine partner, Naresh Shah. "It's a fascinating business which has grown and developed immeasurably during our association. Having put in place an outsourced operation to cover their financial control, VAT and other tax compliance requirements, we additionally handle VAT and construction industry compliance for the German company in the UK together with providing quarterly and monthly reporting. Working with Johannes Coordes, a qualified accountant, means that we speak the same language which helps move things along very smoothly."



Head of Enercon's Tax department, Johannes Coordes added, "We came to Lubbock Fine via their international network, Russell Bedford International. In my previous life, I had been a partner in Russell Bedford's German affiliate firm so I knew it was a great operation. We now work with RBI member firms in Turkey, Spain and Costa Rica and find that the communication and synergy between the various firms really work in our favour. In London, Lubbock Fine, and in particular Naresh Shah, have been very supportive of our business and over time have developed a unique understanding of how we operate. That knowledge is invaluable and would be impossible to replace."

Wind power can be explained as the conversion of wind into a form of energy useful for mankind. Uses include wind turbines to make electricity, wind pumps for water pumping or drainage or, at its simplest, sails to propel ships. Humans have been using wind power since time immemorial with windmills having been used for irrigation and milling grain since the 7th century. Amazingly, small wind turbines for lighting of isolated rural buildings were widespread in the first part of the 20th century whilst experimental larger units were tried as early as the 1930s and 1940s.



The modern wind power industry began in 1979 and these early turbines were small by comparison with today's versions. They have steadily increased in size and wind energy production is now firmly established in many countries.

The construction of modern day wind farms is sometimes controversial due to their visual impact but research shows that any effects on the environment from wind power are generally less problematic than those of any other power source. Wind power consumes no fuel and emits no air pollution and, unlike fossil fuel power sources, energy produced in the first few months outstrips the energy consumed in manufacture and transport. It could be argued that the impact on the environment is very little when compared to what is gained. Despite some vocal detractors, wind energy is now firmly established as a mature, clean worldwide energy source and in the UK, became the country's largest renewable generation source in 2007.

Critics of wind turbines argue that they destroy the landscape, are inefficient and can be noisy whilst supporters maintain that human beings have constantly changed the landscape, solid figures back up the efficiency argument and that from a distance of 500 metres, any noise generated will hardly be heard.

Wind power has negligible fuel costs but a considerable capital cost and conditions and strength of wind vary from region to region. As an example, the UK is the windiest country in Europe with relatively stable nationwide wind conditions, whereas in Germany conditions vary widely throughout the country. The UK geography means that we could power our country several times over using this free energy source. A modern wind turbine at a reasonable site will generate 6.5 million units of electricity each year, enough to meet the annual needs of over 1,400 households, make 230 million cups of tea or run a computer for 2,250 years. Wind is of course free of charge and a local resource. It doesn't need mining like coal or to be drilled for like oil or gas.

"Wind energy is far cheaper to produce than other sustainable energy sources such as solar," explained Johannes Coordes. "A wind energy turbine generates electricity directly where the resource wind appears. The energy and the related CO2 emissions needed in the transportation of raw materials for most energy sources are not required with renewables. Additionally, the raw materials needed in mining are usually wasted. With wind, there's no waste."

Wind has been the world's fastest growing renewable energy source for the last seven years and this trend is expected to continue with falling costs of wind energy, energy security threats and the urgent international need to tackle CO2 emissions to help mitigate and prevent climate change. The UK Government has set an ambitious target, meaning that in the future up to 45% of electricity will have to come from green sources, the lion's share of which will be from wind.

Naresh Shah believes that Enercon is well placed for future expansion and development. "The company is very well run with excellent systems in place. It has a real service culture, innovative design and a true belief in what it's doing. It's also worth comparing wind energy to nuclear energy in the light of Chernobyl and, more recently, Fukushima. There are close to one million people suffering radiation after-effects from Chernobyl and there may be similar risks in the wake of Japan's disaster. Wind is clean, safe and free. I feel more than confident about the company's long-term future."



Lubbock Fine partner, Naresh Shah

Enercon provides a long-term contractual relationship with its customers in regard to the operation and maintenance of the wind energy converters covering all maintenance, transportation and component replacement costs. The company has now been setting new standards in technological design for over 25 years. With more than 17,500 wind turbines installed in over 30 countries, Enercon is very much recognised as a leader in its field. Research and development as well as production and construction are constantly evolving and, as a market leader, Enercon is poised to gradually increase its share over the years to come. ●

Are you getting the best out of your mortgage?

By Richard Major, Professional Mortgage Services



Richard Major

In today's uncertain interest rate environment, many homeowners are concerned about interest rates. The big question is: when will interest rates rise? If we could answer that with any degree of certainty, we'd be straight down to the bookies to place a large bet on the date!

Having said that, a large part of our business is to keep a keen eye on interest rates and all the analysis surrounding it. When discussing a client's requirements, we always include a commentary on the trends, so our clients are abreast of the current thinking around any likely interest rate rise. This could affect whether they opt for a fixed interest or tracker rate mortgage.

The Monetary Policy Committee (MPC) has now held the Bank of England base rate at 0.5% for the last 27 months, even though most economic pundits have been predicting a rate rise at various points throughout that time. The MPC's problem is that its remit is to keep inflation in line with the Government's target of 2% and, traditionally, it has used a rise in interest rates to curb customer spending, therefore keeping inflation in check.

There are a significant number of factors that have contributed to the rise in inflation. These include VAT increases and the increased cost of fuel, food, travel and utilities, all of which are beyond the control of the MPC. Given the effects of the credit crunch on the economy, raising interest rates with all of the attendant costs to industry would have severely dented any hopes of a sustained economic recovery, only adding to the overall burden.

So where does this leave mortgage holders? Many people who were fortunate enough to have taken out products that tracked the Bank of England base rate are now enjoying the benefits of very low payments. Other clients are benefiting from lenders' variable rates as low as 2.5%. As long as rates remain at or around their current level, these borrowers are happy to continue with their current products.

As interest rates must increase at some point (and the latest prediction is that the rise will come in 2012), there are two significant factors that should be taken into account. If left too long, both of these might potentially cause problems to those clients chasing better mortgage rates.

Firstly, most surveyors are predicting a fall in house prices next year. Secondly, the conditions under which lenders are willing to offer mortgages on an interest only basis are becoming more stringent.

As an illustration of how this could become a problem, let's look at the case of the Taylor family.

- Mr Taylor has a mortgage of £300,000 secured against his home which is valued at £405,000.
- The mortgage represents 74% of the value of his property. It is arranged on an interest only basis, as he was expecting to use bonuses or dividends to reduce the balance, but, due to the downturn in the economy, he has not managed to achieve this.
- If he were to remortgage now, he should still be able to access a competitive range of products, as he owes less than 75% of the value of this property.
- If, however, he waits a year and during that time house prices drop by as little as 5% and interest rates rise by 0.5%, the situation would be completely different.

In those circumstances, the property would be worth £385,000, his mortgage would represent 78% of the value of his property and his monthly payments would rise by £125. The chances of being able to

secure a more competitive mortgage would have been significantly reduced due to the increased loan-to-value. Even if he were able to access a product with an alternative lender, he would need to change to the capital and interest repayment method. This would reduce his mortgage balance over time (which is never a bad thing) but his monthly costs would increase significantly.

Although we can never predict with any certainty what will happen to interest rates, it is never too early to review your mortgage arrangements. Through discussing your current situation, future aspirations and your thoughts on interest rates, we will be in a position to advise on the optimum strategy to ensure that your mortgage matches your requirements in the short and long term.

All advice from Professional Mortgage Services is produced in a report which is free and without obligation. It will outline your current circumstances and examine the factors influencing your choice of mortgage product. If we feel it is appropriate to change lenders or products, we will provide a full Key Facts Illustration outlining the features and benefits of the new, recommended product. If, however, we feel it is in your best interests to remain with your existing lender, we will let you know and agree a future date to keep matters under review.

Mortgage payments form a large part of most people's income. Checking whether your mortgage is still the most suitable for you can only be time well spent. ●

Professional Mortgage Services and Richard Major have been providing mortgage advice to the clients and partners of Lubbock Fine for over 10 years. If you would like to contact Richard to discuss your requirements, please call him on 0870 900 9494, email brm@pms-uk.org or speak to your contact partner for further information. There will be a fee if PMS arranges a mortgage on your behalf. The fee will depend on the size of the loan but we estimate on a mortgage of £300,000 the fee will be in the region of £500.

Your home may be repossessed if you do not keep up repayments on your mortgage.

Government consults on UK Statutory Residence Test

On the 17 June 2011 the UK Government issued a consultation document on the introduction of a new Statutory Residence Test (SRT) which is scheduled to come into force from 6 April 2012.

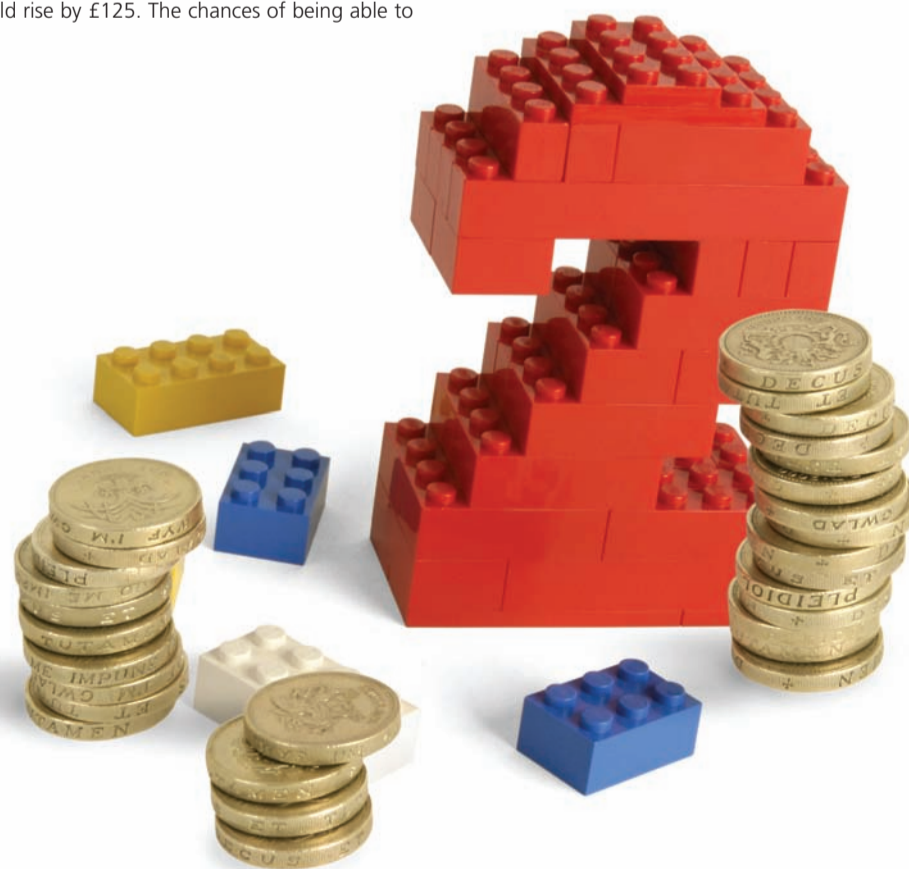
Anyone familiar with UK tax residency issues will be keenly aware that this is an area that has been crying out for clarification for years. Until now, there has been very little actual tax legislation to help a taxpayer determine if they are resident in the UK and therefore it has been left to the courts to decide. Although there have been some very recent residency cases, famously that of Mr Gaines-Cooper, much of the other relevant case law stems from a period long before the globalisation of businesses and the transitory nature of workforces and their families. For example, it can be very difficult to give definitive advice to taxpayers who are currently UK resident and who are spending more and more time overseas and who want to know, quite reasonably, what their tax residency status is. And if they get it wrong, there can be dire consequences in terms of unpaid taxes, interest and even penalties for a taxpayer over many years. It is therefore a great relief that the Government has taken the first steps in seeking to eliminate these inherent uncertainties.

The proposals

The consultation is suggesting a three-pronged approach to the new test. The first looks for factors that will conclusively determine when someone is not resident for UK tax purposes. The second will look at factors that will conclusively determine when someone is resident for UK tax purposes. The final test will apply only to those who cannot conclusively determine their status under the first and second tests, using various potential connections with the UK to measure the position. These "connecting factors" are then compared against the amount of time spent in the UK to determine whether UK tax residence exists.

It is clear that the Government does not want to abandon the principles established in case law on residency. The three tests, and in particular the connecting factors for the third test, are largely derived from the existing body of case law and previous HMRC practice. The principles underpinning the new SRT will therefore be well known to tax advisers and taxpayers, so the challenge will be to get a firm understanding of the interplay between the tests, connecting factors and day counting thresholds.

In summary, whilst the application of the SRT will still retain some complexity, it is clear that the current proposals will introduce certainty to taxpayers who under the current regime have no such certainty when self assessing their tax position. The consultation period is open until 9 September 2011, and it is hoped that this process will diminish much of the uncertainty that is due to come into effect from 6 April 2012. ●



Further changes to the taxation of non-domiciled individuals (non-doms)

On the same date that HMRC's Statutory Residence Test consultation was launched, a separate consultation was launched on the proposed changes to the taxation of non-doms.

The main objective of the changes is to encourage non-doms to invest and carry on business in the UK, whilst increasing the personal tax contribution of non-doms who have been UK resident for many years.

Encouraging business investment

Under existing rules any overseas income or capital gains remitted to the UK by resident non-doms paying the £30,000 Remittance Basis Charge (RBC) are liable to UK tax, regardless of either the type of remittance or the purpose of the remittance.

To encourage further investment in the UK, the Government proposes to introduce a Business Investment Incentive to allow tax-free remittances for investment in a very wide class of qualifying businesses. At this stage, the only stipulation appears to be that the business carries out a commercial trading activity in the UK, including the development or letting of commercial property.

Taking an example, let's look at Mr Thompson who's domiciled in South Africa and has been UK resident for many years. He wants to invest £500,000 in a new UK manufacturing company. Under this new proposal, he will be able to use funds from any offshore source (either held personally or in an offshore company or trust) without incurring any UK tax liability and without having to disclose the source of the funds.

To avoid potential abuse of the system, investment in residential property is to be restricted to "trading activity", for example, investing in a business that builds and develops residential property. Similarly, investment in nursing homes and hospitals, providing a commercial trade is carried out, will be permissible.

The Government is also considering whether the new incentives should apply to investment in companies listed on a recognised stock exchange or similarly regulated markets, such as AIM and PLUS Quoted.

There are no proposed financial limits, either upper or lower, of what can be remitted tax free under these rules, nor any restriction in cases where the individual is connected to the business, which in practice is likely to apply to most investments.

The proposals do suggest, however, that where the investment is subsequently sold, the proceeds of the sale must be taken out of the UK within two weeks of the individual receiving the funds. Furthermore, individuals who choose to be taxed on their worldwide income as opposed to paying the RBC will, by definition, not benefit from the business investment incentive.

Increasing the Remittance Basis Charge (RBC) in line with the Budget proposal

As announced in the 2011 Budget, the RBC will be increased to £50,000 with effect from 6 April 2012, for those non-doms who have been UK resident for at least 12 of the previous 14 years prior to the year of claim.

The £30,000 RBC remains for those UK non-doms who have been resident for at least seven of the nine years prior to the year of claim but fewer than 12 years.

Simplifying the existing Remittance Basis Rules

The Government has recognised that the current remittance basis rules introduced in 2008 can be very complex to apply in practice, and we have therefore summarised the following areas that have been identified to simplify the rules:

• Nominated income

It is proposed that individuals should be able to remit the first £10 of their nominated foreign income or capital gains for the purposes of the RBC without becoming subject to the adverse identification rules.

• Foreign currency bank accounts

The Government proposes that all sums within an individual's foreign currency bank accounts will be removed from the scope of CGT, and this will apply to both non-doms and UK domiciled individuals alike. This proposal may be of real benefit to some taxpayers, especially those with US\$ accounts obtained at a time when the GBP/\$ exchange rate was far more favourable.

• Taxation of assets remitted and sold in the UK

Under existing rules, assets purchased using foreign income or gains and then remitted to the UK are normally taxable, with limited exemptions for certain assets. However, these exemptions are currently not available when the asset in question is sold in the UK.

The Government therefore proposes to build on existing exemptions and introduce a new provision that will remove the tax charge of remitting an asset to the UK, which is subsequently sold, providing any proceeds from the sale are subsequently taken out of the UK within two weeks of the funds being received. •



In the Cayman Islands and Bermuda

Lubbock Fine has entered into a joint venture with a local Cayman Islands firm, meaning that we can now undertake the audits of Cayman Island Monetary Authority Regulated Funds (CIMAR funds).

This is a client driven development, as we have a number of fund manager clients who manage CIMAR funds and who wanted us to undertake the audit work.

The new firm is called Russell Bedford (Cayman). Any clients or contacts interested in exploring how we can help you in the Cayman Islands should speak to their contact partner or to Lubbock Fine partner Stephen Banks on 020 7490 7766 or email him at stephenbanks@lubbockfine.co.uk.

... and in Bermuda

We've also recently been licensed by the Bermuda Monetary Authority (BMA) to undertake fund administration work. This work might be classified as all the 'back office' stuff, including accounting, calculating net asset values etc. We can now undertake fund administration services for any fund regulated by the BMA. •

Lubbock Fine News

We've won the league!

Our gallant football team has won the coveted Powerleague, London City Division 2. This is a seven-a-side tournament with six teams in each league. Richard O'Driscoll takes up the story.

"There were 10 games run over 10 weeks in each season. After having lost our first two games, we got our act together and went on to an eight game winning streak to take the title of Division 2 Winners which meant promotion to the top division. So far, we've had two games in the top division, winning one and losing one. We have high hopes for this season!"

Team members are Andrew Noton, Daniel Corlett, David Twanbley, Ken Bryant (captain), Martin Bailey, Matthew Lancaster, Matthew Wintour, James Darvill, Neil-Mark Williams, Phil Moss, Sumit Jain, Tony Rooke, Matthew Green and Richard O'Driscoll (player/manager). •

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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