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The Lubbock Fine Magazine ● ISSUE 64 ● Summer 2015

IN THIS ISSUE:

THE BUDGET – PACKED FULL OF CHANGE

By Clare Munro

According to the press, the Chancellor used the phrase 'lower tax society' six times in his Budget speech. Now that the dust has settled, it's hard to see how our clients are going to see much evidence of lower tax. In fact, our analysis indicates that the reverse is likely, particularly for high-earners, owner-managed companies and non-doms.

Owner-managed companies

The current tax regime gives businesses incentives to operate through a company rather than as a self employed individual or partnership. Efficient extraction of profits has meant paying a small salary and taking the balance as a dividend. The result has been no tax or NICs on the salary, and income tax at 0%, 25% or 30.6% on the dividend. For example, a shareholder using this technique could extract up to £42,385 in 2015/16 without any personal tax or NIC charges; the only tax charge is on the company's profits at 20%.

The new regime, taking effect from April 2016, fundamentally changes the structure of tax on dividends. The tax credit, which currently reduces the tax from the headline rates, is to be abolished and all the effective rates increased by 7.5%. A shareholder currently paying no further tax on salary and dividends of £42,385, will pay £1,700 in tax on the same income using the same structure for 2016/17. An additional rate taxpayer will pay 38.1% income tax, or a combined effective rate of 50.5% including the 20% corporation tax suffered by the company (compared to a marginal rate of 47% for a sole trader or partner).

So is this Budget a signal to wind up the company? It's clear that incorporation is not the obvious solution it once was, but each situation will need to be examined on its own merits. Those who are likely to benefit from using a company include anyone who doesn't need: (a) personal access to all of the company's profits or (b) the protection of limited liability. The corporation tax rate is being reduced to 19% from 1 April 2017 and to 18% from 1 April 2020, so, for anyone who can leave profits in the company, there is an opportunity to defer the expense of personal tax and roll profits up in the company at low rates.

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Additionally, there remains the opportunity to exploit the differential in personal tax rates on capital gains and income taxes; gains are taxed at 10%, 18% or 28% depending on the asset and vendor's income level, whereas the top marginal rate on income can be over 60%. So, for proprietors able to leave their profits in the company for the long term, the gap in rates provides an incentive to accumulate corporate funds and extract them as a gain on winding the company up or disposal. The new regime for dividends is only going to increase this pressure to structure transactions for gains rather than income wherever possible.

Andy Noton's article on page 3 examines the Budget changes on the buy-to-let market.

Finally, for those clients with significant reserves, there is a window of opportunity prior to 6 April 2016 to accelerate dividend payments and get the benefit of the current tax regime. We will be considering with our clients whether it is appropriate for them to pay additional dividends in the current tax year.

Non-domiciles

With non-doms being the subject of much discussion prior to the election, the government now proposes to abolish the tax benefits for non-UK domiciles who have been resident in the UK for 15 of the last 20 years. Affected individuals will lose both income tax and inheritance tax benefits from April 2017. In addition, for all non-doms, overseas companies will be brought into the inheritance tax net to the extent that their value relates to UK residential property (so-called 'enveloped' properties).

This is a radical change to the tax system for those with strong links to a home territory elsewhere. The remittance basis for income tax currently permits non-doms to leave their non-UK income outside the UK tax net; for inheritance tax purposes, non-doms holding offshore assets have been able to set up their estates so as to exempt those offshore assets. We wait to see exactly how the new rules will affect existing structures and will be contacting clients as the detail and draft legislation emerges.

While this can be seen as a politically driven Conservative theft of a Labour idea, the non-dom regime has become increasingly complex as successive Chancellors have tried to limit its benefits. It seems, though, that what we are getting is not so much simplification as more rules to limit the scope of non-dom status and, inevitably, the changes will bring disruption to those who thought their affairs were properly managed to optimise their tax position within the law.

Inheritance Tax (IHT)

Following the recent changes to pensions, the approved SIPP or SSAS is now, arguably, one of the best available inheritance tax planning schemes. This Budget has made it harder for high earners to access that benefit and Lubbock Fine Wealth Managment examines the issues for pensions in detail on page 4.

In other IHT news the introduction of an IHT equivalent of the main residence relief for capital gains tax will be welcome. A married couple, or civil partners, will now be able to leave a home to the value of £1m to their children free of IHT, although the catch is that this benefit is denied to those with joint estates over £2.7m.

Overall this was a radical and reforming Budget although not one which offers much in the way of simplification. The Chancellor claims to be tackling 'imbalances' within the system and his measures to reform dividend taxation may stem the tide of tax-incentivised incorporations. However, the reality for many earning £100k+ is that restrictions on pensions and other reliefs mean that it is becoming much harder to plan to reduce one's tax rate below the statutory rate. LF

TEN FINANCIAL PLANNING POINTS TO CONSIDER THIS YEAR AND NEXT

Before 31 December 2015

1. For businesses looking to incur significant capital expenditure, bring it forward to 2015, as the limit for the annual investment allowance goes down from £500k to £200k from 1 January 2016.
2. Register any previously undisclosed offshore income under the Liechtenstein Disclosure Facility before it closes on 31 December 2015.

Before April 2016

3. Take dividends out of your company before the new regime starts on 6 April 2016.
4. Higher earners should consider making pension contributions while relief is still available at higher and additional rates.
5. Consider the need for fixed protection for your pension funds approaching £1m - £1.25m.
6. Use additional pension contribution allowance arising from alignment of pension input periods with tax years.
7. Claim 10% wear and tear allowance on furnished letting income before it is abolished.

Before April 2017

8. Consider restructuring investment property before restriction of interest relief starts in April 2017 (particularly for new acquisitions).
9. Long-term non-doms should consider accelerating any non UK income or gains to use the remittance basis for the last time.
10. For non-doms, consider unwinding trust or corporate structures holding UK residential property that were established for inheritance tax purposes.

It is important to seek professional advice before making any changes to your financial affairs. For further information on changes arising from the Budget, please speak to your contact partner or to tax partners Clare Munro or Phil Moss.

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philmoss@lubbockfine.co.uk

SUMMER BUDGET CLOUDS THE BUY-TO-LET PROPERTY MARKET

By Andy Noton

The Summer Budget 2015 contained a number of measures targeted at the buy-to-let sector and generally, these were not good news.

The headline announcement was a restriction on the tax relief for finance costs to be phased in over a 4 year period from 2017-18. From 2017-18 a proportion of finance costs (25% rising to 100% by 2020-21) incurred by an individual landlord or partnership will only be available for relief at the basic rate of income tax, which is currently 20%. For higher rate and additional rate taxpayers with rental income this could equate to a significant increase in personal tax liabilities.

Hints were dropped about a reduction of tax relief on finance costs by other parties in the run up to the election but this was not included in the Conservative manifesto, nor was it widely trailed before the Budget.

The Chancellor stated this would create a "level playing field" with owner occupiers, wiping out "Landlords' huge advantage" in the buy-to-let market. Some coverage suggested additional costs will be passed on to tenants as higher rents but I'm not so sure. Landlords generally charge tenants market rent for properties and have little scope to pass on costs. Housing associations, corporate landlords and private landlords without debt will not be affected and will now have an advantage over their indebted private competitors.

The Chancellor seems to be trying to level the playing field with some of the property market while making it distinctly un-level with other landlords.

Potential planning opportunities for certain private landlords remain as the costs of refinancing (arrangement fees, valuation fees and legal fees) are generally allowable in the year incurred. Private landlords with debt should now look to refinance their portfolios in 2016-17 onto mortgages with super low rates but very large arrangement fees. For other landlords, incorporation of their property portfolios could be a planning opportunity (subject to various considerations), especially as the corporate rates of tax will fall to 18% and companies enjoy other benefits such as indexation on capital gains.

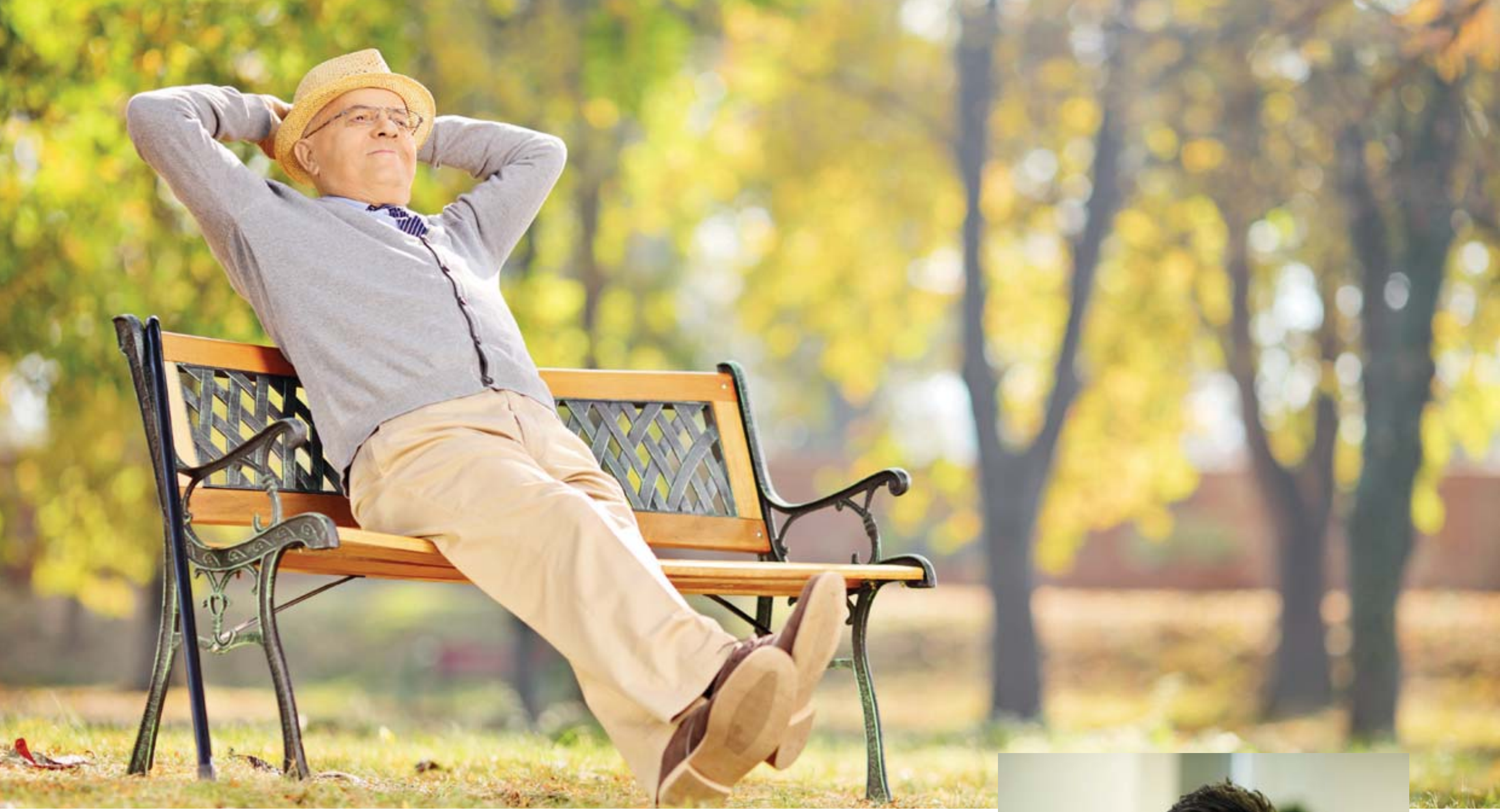
Another Budget measure was the scrapping of the wear and tear allowances from April 2016 that gives most landlords a 10% deduction of their profit for the cost of renewing and replacing furniture on furnished lets. In most cases this deduction was far more beneficial than claiming the actual cost of replacements and where it wasn't, the landlord could elect to claim the actual cost. It is hard to

Andy Noton

argue against the fairness of this change.

Overall the changes are likely to increase the cost of being a private landlord. Large falls in the value of shares in listed house builders immediately after the announcements, suggested that the market expects a slow down in price increases. As the pension industry has been squeezed to the point where many see buy-to-let as a better source of retirement income, are these announcements the start of a general tax led attack on the UK housing market? After all, property is a sitting "tax revenue" duck and ripe for generating treasury funds.

To discuss this issue in more detail, please speak to your contact partner or to Andy Noton andrewnoton@lubbockfine.co.uk. LF



ALL CHANGE – THE BUDGET PACKS A PENSION PUNCH!

By Sam Whybrow, Lubbock Fine Wealth Management LLP

It has become customary of late that the Chancellor's Budget includes changes to pension legislation, and this Budget didn't fail to disappoint. Here are the main changes, which in our opinion are aimed at bringing forward the pension 'tax take' for the treasury but in the long term could lead to greater pension freedoms. Clients should consider reviewing their pension arrangements now before fundamental changes are made.

Pension contributions to be significantly restricted for high earners from 2016 – get it while you can

Currently the maximum tax relievable pension contribution an individual can pay is £40,000 pa. From the 2016/17 tax year the maximum £40,000 pa will be reduced by £1 for every £2 of 'adjusted income' an individual earns over £150,000 in a tax year. Adjusted income is defined as gross income plus the value of any employer pension contributions. This table shows how it will work in practice:

Adjusted income	2015/16 Maximum contribution	2016/17 Maximum contribution
£150,000 or below	£40,000	£40,000
£160,000	£40,000	£35,000
£170,000	£40,000	£30,000
£180,000	£40,000	£25,000
£190,000	£40,000	£20,000
£200,000	£40,000	£15,000
£210,000 or above	£40,000	£10,000

This creates a 'get it while you can' pension funding window in the current tax year, especially as an individual can still carry forward unused relief from previous years. Currently an individual could pay up to £180,000 into their pension and obtain tax relief at their highest marginal rate on the whole amount. No wonder the Government is changing the rules.

Pension Input Periods (PIPs) effectively removed from 2016 creating an opportunity to pay in an extra £40,000 this tax year

It is little known that pension contributions are aligned to pension input periods (PIPs), not tax years, to determine whether the £40,000 maximum tax relievable pension contribution threshold has been breached. A PIP could be different from a tax year.

From 6 April 2016 all pension periods (PIPs) will be fixed to the tax year and not changeable. This is a welcome simplification of pension rules but has served to limit an element of pension tax planning. A quirk in the rules creates the potential for an extra £40,000 maximum contribution for the 2015/16 tax year if an individual has contributed to a pension between 6 April and 8 July 2015. Importantly, this allows some savers to contribute up to £80,000 for this year if they meet certain criteria.

Pension tax framework under review

Over the past decade the Government has overseen radical 'pension simplification' legislation which has been, frankly, anything but simple. This is likely to be the reason that it has been content with continual budgetary changes to pension legislation and why the Government has now undertaken a fundamental evaluation of the pension tax framework. Pensions need to remain fit for purpose and sustainable, for an aging population. HMRC will seek views on what changes (if any) would:

- reduce complexity and increase transparency;
- make best use of available tax reliefs;
- increase engagement and aid retirement planning.

This welcome consultation increases the likelihood that pensions will remain a constant 'hot topic' and that radical reform is to be expected in order to restore trust in the retirement saving framework. The consultation closes on 30 September 2015, so watch this space. As always, keep a close eye as to how these changes could affect you and an open mind to adjusting your financial plan.

Other pension news and potential actions

- **Lifetime allowance (LA):** The maximum pension fund value that an individual can accumulate (LA) before suffering a tax charge, will still reduce from £1.25m to £1m from the 2016/17 tax year. It will be indexed in line with the consumer price index from 2018/19. It is likely that those individuals with existing pension savings already over £1m could still protect their fund value at £1.25m. Clients should review their pension position and potentially lock into a £1.25m lifetime allowance or face a reduction to £1m after 6 April 2016 and a potential retrospective tax hit.

- **Death tax:** Pension funds are free from inheritance tax. However, all pension lump sum death benefits paid after 5 April 2016 in relation to a death at age 75 or above will be taxed as the recipient's income (removing the flat 45% tax that applies in the current tax year). In the main this means a tax reduction.

- **Salary sacrifice:** There are no changes to salary sacrifice rules and it is likely that existing schemes will still be allowable. The Government intends to prevent individuals entering into a salary sacrifice or flexible remuneration package on or after 9 July 2015 to reduce their income.

- **Pension freedom:** Not all pensions can facilitate the new pension freedoms where pensions can be accessed like a bank account, albeit taxed at an individual's highest marginal rate. Clients should review their options.

- **Annuities:** After all the fuss and publicity, the ability for pensioners to sell their annuities will be delayed until 2017. This allows more time to ensure the related consumer safeguards are in place. More details will be announced in the autumn.

- **State Pensions:** The Government is committed to retaining the 'triple lock' State Pension increase promise, giving more security to older people.

As ever, the devil is in the detail. If you would like to discuss your position please contact Sam Whybrow (samwhybrow@lfwm.co.uk) or Neville Pereira (nevillepereira@lfwm.co.uk) on 020 7490 7766. LF

This article is for information only and professional advice should be taken in advance of any changes to your financial affairs. HM Revenue & Customs' practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen. Tax advice and National Savings & Investments are not regulated by the Financial Conduct Authority. Lubbock Fine Wealth Management LLP is an appointed representative of Financial Ltd, which is authorised and regulated by the Financial Conduct Authority.

We are grateful to Standard Life technical department for some of this information.

OBITUARY – DAVID LEVY

It is with great regret and much sadness that we announce the death of David Levy on 22 May 2015. His fine manner, analytical brain, wise counsel and sense of humour will be much missed by the partners and all of his friends and colleagues at Lubbock Fine.

Tragically, we must also announce the subsequent and unexpected death of Della and David Levy's son, Mark, who died from a brain haemorrhage at the age of 47 on 5 July 2015.

David joined us way back in 1957 as a trainee, following which he qualified, was admitted as a partner and later on, became managing partner. An 'old school' practitioner and trusted advisor to a portfolio of businesses – and the families involved in those businesses – his many clients feel his loss very keenly. Although he retired as a partner in 2003, David never really slowed down and continued to be a regular presence in our offices up until just a few days before he died. He loved his work. As a testament to how much he will be missed by clients, colleagues and business associates, we have been inundated with emails and telephone calls from far and wide expressing how much David meant to them and their families. A selection of the comments we have received is shown below.

"David was a really good man. He had a quiet manner but a great brain, and thinking things through strategically was his strength. Clients adored (and respected) him. I met him first when Phil Fine introduced us in about 1974, so we went back a long way."
– Robert Craig, partner, Howard Kennedy

"It has been a terrible shock to hear of David Levy's passing. I am so very grateful to him for all he has done for our family."
– Jemma Alizade

"When I was growing up at SMAB in the late 80s and early 90s, David was ever present before he passed the baton on, and I remember him as a towering figure."
– Simon Goldberg, partner, Simons Muirhead & Burton

"David was a professional of the old school whom I respected hugely and enjoyed working with immensely and I much mourn his passing. In these situations it is not only family who are bereft – to you and all his close colleagues of so many years at LF I send my condolences."
– Arnold Israel, partner, ISC Lawyers

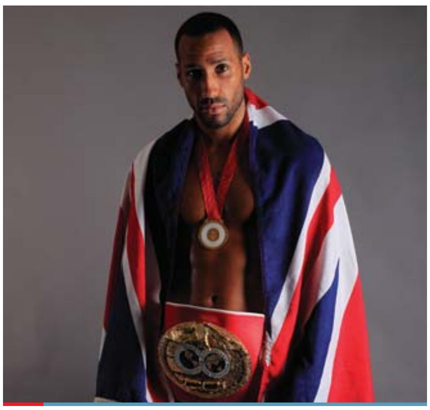
"It is indeed very sad news. I have known David all of my 25+ years at Lubbock Fine, man and boy, and David was always a person to be looked up to and admired."
– Duncan Bolton, senior manager, Lubbock Fine

"It was a privilege to have had David as my firm's accountant for the best part of a decade. Indeed it was a privilege to have known him. His advice was always clear, pragmatic and to the point but he came across as a man of wisdom and patience. You did not have to know him that well to see that he possessed great decency and humanity. I am not at all surprised that he remained a mentor to so many of his former clients. He was – as the saying is – a 'mensch'. He must also have been a wonderful asset to his fellow partners and colleagues."
– Kevin Bichard, Partner, GSC Solicitors LLP

"That's the end of an era at Amphonic. David and my father were together while David was at Lubbock Fine for around 50 years I reckon, that's a long time to share a business relationship, which more often felt like a trusted friendship, being a great testimony to what a wonderful pragmatic yet loving soul David was. David shared all of our important family matters both in joy and in sadness for the past 50 years, that right now is a lot for me to digest, and my sense of loss and grief is immense. When my father passed away David attended his funeral, he came up to me and told me that he loved him. I would like now to thank David for all his help and support and tell him that I loved him too, he will be greatly missed."
– Ian Dale, managing director, Amphonic Music

David leaves his wife Della to whom he was married for 57 years, children Rochelle, Mandy and Karen, sons-in-law and grandchildren. We are sure that all of our clients and contacts join us in sending heartfelt condolences to David's family on the loss of both David and his son, Mark. LF

CONGRATULATIONS TO OUR CLIENTS



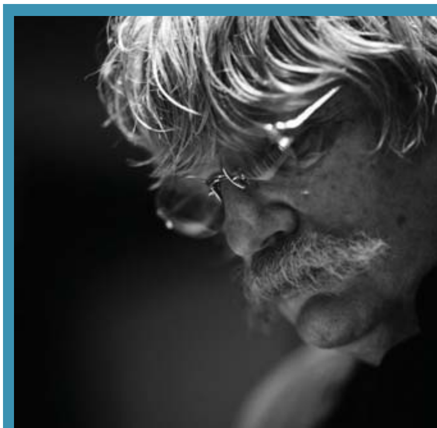
JAMES DEGALE MBE

We are delighted to congratulate our client, newly crowned IBF world super-middleweight champion, James DeGale MBE. This makes him the first ever British boxer to have won an Olympic Gold medal and a world title. We're all looking forward to following James's exciting career as it develops.

Dan Statham (MD) accepting award from Joss Croft (Marketing director, VisitBritian) and Laura Botton (Head of travel, Exterion Media).

ORCHESTRA

Big congratulations go to our client, marketing agency Orchestra, who won two top awards at the Travel Marketing Awards 2015. This is one of the most prestigious travel industry events which not only recognizes marketing excellence but also helps the industry to raise standards. Founded in 2007, Orchestra won the award for the advertising campaign of the year (up to £250k media spend) for their campaign "See Australia … The Explorer's Way", promoting South Australia tourism and the Northern Territory. They also collected the award for Best Online Advertising for "Digital Dubai", an online campaign promoting Dubai as a family holiday destination.



KARL JENKINS RECEIVES A KNIGHTHOOD

Our firm's esteemed client, musician Sir Karl Jenkins, is the first Welsh writer of any kind of music to receive a knighthood.

The Adiemus composer already has an OBE and CBE and is thrilled with his latest accolade.

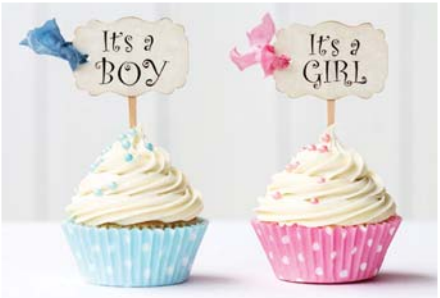
"We're delighted for Karl," said Lubbock Fine partner, Russell Rich. "Receiving this well deserved honour is a testament to his ability to write accessible music with global appeal."

THE DEATH PENALTY PROJECT

Our long standing client, The Death Penalty Project, was recently featured as the cover story in The Economist magazine, *Intelligent Life* (March/April 2015 issue). This is the first time that lawyers were featured on the front cover and the first time that two people were featured.

The Death Penalty Project is run by Parvais Jabbar and Saul Lehrfreund who both grew up in Britain, which had abolished the death penalty before they were born. They could have avoided ever having to step onto the minefield – moral, legal, emotional, bureaucratic – that is Death Row. Instead, using law to change the law, they have devoted their careers to dismantling the death penalty wherever it still exists. The nine page feature explains how and where they work, how it all began and covers some of their cases and latest work in Belize.

Intelligent Life is the bi-monthly, award-winning magazine of life, culture, style and places from *The Economist*. It mixes long-form reporting from around the world with lively regular features and spectacular photography. The online version of the article is available by using this link: http://bit.ly/LF-DPP.



There must be something in the water here. Congratulations are in order for a number of partners and staff who have become parents during the last year. So here goes:

James Ewens – twin girls, Emily and Georgia *(July 2014)*
Matt Lancaster – baby boy, Oliver *(July 2014)*
Lee Facey – baby girl, Hannah *(December 2014)*
Ben Sier – baby girl, Lucy, *(March 2015)*
Andy Noton – baby boy, Thomas *(April 2015)*
Sarah Tappin – baby girl, Emma *(April 2015)*
Michelle Anderson – baby boy, Ethan *(May 2015)*

CHARITY BAKE-OFF

After last year's delicious charity bake-off, we're running another one commencing September 2015. As a fundraiser for our nominated charity, Hopes & Dreams, this year's competition is open firm-wide and if last year is anything to go by, we'll all be a bit fatter by the time the competition is over! More news as to how much we raise this year will follow in a future issue.

WALKING FOR HOPES AND DREAMS

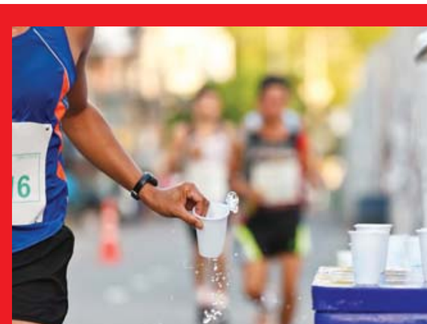
On Saturday 20th June, a team of determined walkers from Lubbock Fine put their endurance skills to the test as they walked the 40 miles from the Thames Barrier to Hampton Court Palace – all in a day.

The team set out from the Thames Barrier, en route to Hampton Court Palace some 40 miles further up river. They finally reached Hampton Court Palace over 14 hours later, knowing that they had raised over £1,000 for Hopes and Dreams, Lubbock Fine's chosen charity.

Despite the rain and the many blisters, the money raised for such a great cause made it all worthwhile. Congratulations go to the team members who walked all or part of the distance: Rebecca Lindsay, Charlotte Holt, Leandros Sideris, Jess Gomm, Stephanie Gaudin, Sam Snelson, Laura Wright, Alesha Rudling, Owen Watts (To Putney), Mark Turner (To Tower Bridge), Phil Moss (From Kew Gardens to the end) and Phan Dang (To Battersea Park).

RUN FOR YOUR LIFE

We also had three intrepid members of our team who ran this year's London Marathon in April. Martin Hinman from LFWM was our champion in a time of 3h26m, Geoff Cavanagh achieved a more than respectable 3h59m and Mark Turner completed in 5h48m. These were super-human efforts which raised a significant amount for various charities including over £8,000 for Hopes and Dreams.



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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.