HWM

Hawsons Wealth Management Limited

Specialist Wealth Management Services

Newsletter
Summer 2017

www.hawsons.co.uk

Introduction

Welcome to our Summer 2017 HWM newsletter.

It is hard to believe that we are already half way through 2017. With the snap General Election firmly behind us attention now turns back to the Brexit negotiations. It has been a turbulent period for the UK economy and this looks set to continue as we enter the back half of the year. It will be interesting to see how the business communities react and whether the resurgence in confidence witnessed in the first quarter of 2017 can be maintained.

In this issue, we look at:

- The EIS Scheme and the tax benefits
- Rates system and appeals from April 2017
- Inheritance Tax: The things you need to know
- The Election result: What are the tax implications?
- CEO Fraud
- Tony Nickson joins Hawsons as VAT Consultant

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.

Nigel Smith
Director of Hawsons Wealth Management Ltd

E: npas@hawsons.co.uk
T: 0114 229 6557
Twitter: @HawsonsWealth

Hawsons are specialist Wealth Management Providers

Hawsons Wealth Management Limited provides a complete range of financial services for individuals and businesses, including private pension scheme advice, inheritance tax planning, investments advice, help with workplace pensions and auto enrolment and independent financial advice.

For more information on our wealth management services, including the services we offer and our experience, please visit: www.hawsons.co.uk/wealth-management/

HLB International

The EIS Scheme and the tax benefits

EIS: A brief background

In 1994, the Government launched a scheme called 'The Enterprise Investment Scheme' or EIS for short, and this scheme was created in order to encourage individuals to invest in companies that were in the early stage of their lifespan. It was regarded as an alternative source of funding to more customary sources of capital.

Investing in any company comes with its risks, but it could be said that there are more risks associated with investing in a company that has only just been set up. This is why tax breaks are available in order to balance that risk, while also rewarding the investment. Since its introduction, over 24,000 companies have received investment and as a result of the scheme, over £14.2bn has been raised. Over £1.8bn was raised under the EIS in 2016 alone, according to the HRMC & National Statistics Report back in October.

What are the tax benefits to EIS investors?

EIS offer a number of favourable tax incentives due to the extra risk that comes with investing in smaller businesses, and these are:

- 30% upfront income tax relief – increased from 20% in April 2011 to a maximum £1m investment in any tax year and shares are held for a minimum of three years. This means you could have a maximum tax reduction of £300,000 in any one tax year (providing you had the tax liability to cover this amount). The tax relief is set against the year the shares are purchased.
- After two years you can claim 100% inheritance tax relief;
- 100% capital gains deferral for the life of the investment;
- Tax-free growth and;
- Loss relief

How can I access EIS companies?

Prospective investors can either invest in an EIS 'fund' or in single companies. An EIS fund is actually a Portfolio Service usually via a discretionary fund manager. It consists of a manager, who has expertise in EIS or unquoted companies, using their knowledge to select a portfolio of EIS qualifying companies. There are multiple different investment strategies available covering multiple sectors.

Natasha Fathers, Independent Financial Adviser at Hawsons, had this to say: "With the introduction of the tapered annual allowance on pension funding for clients who are high earners; alternative investments such as EIS are definitely forming a greater part of our discussions around financial planning."

Rates system and appeals from April 2017

The Valuation office Agency has completed the revaluation of rateable values on all properties to reflect the changes in the property market since 2008. Local Councils will use this value to calculate business rates bills from 1 April 2017. If your rateable value is below £12,000 you may be eligible for small business rate relief of 100%. In addition, there is a new appeals system. The Government is trying to reduce the number of appeals whilst streamlining the system.

There is a new three stage appeal system: Check, Challenge, Appeal.

<u>**Check**</u>:

- Factual information is confirmed by the rate payer e.g. floor area.
- The VO (Valuation Office) has three months to respond to the provision of information
- The rate payer then has four months to move to the challenge stage and the VO has 18 months to respond

<u>**Challenge**</u>

- The rate payer submits their opinion of rateable value based on the rental value of the property at 1 April 2015
- This is a crucial stage as evidence cannot be submitted after this

If these two stages do not result in agreement, the rate payer can make a formal appeal to the Valuation Tribunal. It is worth considering the use of professional help to avoid losing out because of technical issues including the timing of the presentation of evidence. Challenges can be made on the grounds of physical change to properties or disturbances as well as rental values. In England, there will be transitional arrangements to phase in large increases in liability. Many professional surveyors do this work on the basis of a percentage of the saving achieved.

Inheritance Tax: The things you need to know

Inheritance tax is a tax on the estate of someone who has died, and with property prices continuing to rise along with the recent introduction of the residence nil rate band (RNRB), the number of people that will become liable for inheritance tax will only increase. In this article, we look at a few key things that you need to know regarding inheritance tax.

Reviewing your Will

It is often thought that having a will in place can reduce your inheritance tax liability. In actual fact, the main function of a will is to state who will inherit your assets. With legislation continuously changing, it is recommended that you check your will frequently, maybe even as regularly as every four to five years. This reduces the chance of something in the legislation changing and having to pay unnecessary tax.

Joint tenancies

Joint tenancies are very common nowadays, and both tenants have equal rights to the property. But what happens if one of the tenants dies? Everything is passed on to the surviving tenant with zero inheritance tax and, for this instance, the nil rate band (NRB) and residence nil rate band (RNRB) are also passed over. This means that the new tapering rules will apply if the estate is worth more than £2m following the death of the second tenant and if it is worth more than £2.2m (as of 2017) the full RNRB allowance will be lost.

Frozen nil rate band

If the value of an estate is below the current NRB of £325,000, there's usually no tax to pay. Married couples and civil partners can have a joint allowance of £650,000, but any assets above these two figures come with a tax of 40%. HMRC has frozen the NRB, which was set in 2009, until April 2021 and therefore as assets continue to rise between now and 2021, people will continue to own estates that are worth more than the £325,000 limit. This means that they will be held liable for inheritance tax.

There can be exemptions for example, on the first death when the estate passes to a spouse/civil partner, there would usually be no tax to pay. Gifts to charity do not incur inheritance tax and if they exceed 10% of the value of your estate, it could reduce your inheritance tax rate from 40% to 36%.

The NRB and RNRB are transferable

As the heading says, both the NRB and the RNRB are transferable between married couples and civil partners. This means that the unused percentage of the RNRB or the NRB can be transferred from the estate of one spouse to the other and then claimed back upon the second death.

Multiple homes don't qualify

In order to qualify for the RNRB relief, you can only elect one residential property. The only people who can elect the appropriate estate are the personal representatives of the estate. Buy-to-let properties, as well as any other properties that have never been their main home are excluded.

Property will be treated individually

Property is an area that will eat into the NRB, or in some cases, exceed it. However, families are aware of this and causes them to give or 'gift' the property to their children. This could reduce their liability to inheritance tax but, as a consequence, remove security and control of owning a home and could be considered as a gift with reservation. As a result of this, the new RNRB has been be introduced by the government and will be phased in over a four-year period, starting from the 2017/18 tax year. This will be available to everyone. Regardless of whether the child is step, foster, adopted or linear descendants upon death, the RNRB is only available when the main residence is passed over to children.

Nigel Smith, Director of Hawsons Wealth Management Limited, had this to say: "Inheritance Tax is a voluntary tax. You can plan to effectively reduce your inheritance tax payable upon death."

The Election result: What are the tax implications?

The general election has ended in a hung parliament – the Conservative party have the most seats but do not have an overall majority. Theresa May has announced that she will form a government with the support of the Democratic Unionist Party (DUP).

What does this potentially mean for tax? How will the election result affect you and your business?

Tax expert Craig Walker provides a recap of the key tax pledges made by the Conservatives and looks at how a hung parliament could hinder the Conservatives' ability to deliver on these pledges.

Hung parliament

If, as expected, the Conservative government remain in office, their loss of seats is likely to weaken their ability to implement the tax pledges made in their manifesto.

Passing law may need support from other parties, and this could require the Conservatives to amend or moderate a number of their proposed tax changes. We could even see some manifesto pledges dropped completely.

You may recall that a significant chunk of the 2017 Finance Bill had to be dropped due to the early general election, but there was an expectation that many of these changes would be introduced in a post-election Finance Bill. The election result puts into doubt whether some of these changes will in fact be passed.

Democratic Unionist Party (DUP)

The DUP and Conservatives appear to have similar views on tax. The DUP indicated in their manifesto that they would support Conservative proposals to increase the personal allowance. The parties also share a desire to reduce the rate of Corporation Tax – with the DUP proposing to reduce the rate to as low as 12.5%.

The DUP manifesto included a call to reduce VAT for businesses in the tourism sector. Northern Ireland has long argued that the UK tourism rate of 20% is extremely uncompetitive compared to Ireland's reduced rate of 9%. Currently Westminster controls UK-wide VAT policy but following Brexit it is thought that Northern Ireland will be free to claim a reduced tourism rate.

Below is a recap of the key tax pledges made by the Conservatives:

Income tax

- To increase the personal allowance to £12,500.
- To increase the threshold for the higher rate tax band to £50,000.

National insurance

- Remained silent on the issue of rises in national insurance but issued a statement of intent to lower tax/NIC.
- This followed the removal of the controversial proposal to raise self-employed national insurance contributions from the Spring Budget.

Corporation tax

- To reduce the current corporate tax rate of 19% to 17% by 2020.

Inheritance tax

- The current Conservative policy allows up to £850,000 in family property to be inherited by children without inheritance tax.

VAT

- Do not intend to raise the level of VAT.
- To introduce further measures to reduce online fraud in VAT.

Continued overleaf.

The Election result: What are the tax implications?

Other taxes

- No plans to reduce the rates of Stamp Duty Land Tax (SDLT).
- No assurances that Capital Gains Tax reliefs for entrepreneurs will remain in place.
- To introduce further incentives under the Enterprise Investment Scheme and Seed Enterprise Investment Scheme to help start-up businesses.
- To build upon existing tax arrangements for creative industries, including a creative industries tax credits scheme.

Making Tax Digital

- There is no evidence to indicate the Conservative party intend to abandon their plans for the controversial "Making Tax Digital" project.

Business rates

- A promise to review and reform the business rates system, such as by increasing the frequency of revaluations, exploring the possibility of self-assessment valuations and updating the system to appropriately deal with online shopping businesses.

Tax compliance

- To introduce tougher regulation of tax advisory firms.
- To take a more proactive approach to transparency and misuse of trusts.

In summary

It will be interesting to see to what extent the Conservative's tax proposals are implemented and how the UK tax system evolves. The economic consequences of Brexit are also likely to give the Chancellor much to think about and significantly influence UK tax policy.

In addition, we should remember that politicians do not always follow manifesto pledges (and have even been known to borrow ideas from the opposition!).

We will keep you updated.

CEO Fraud

CEO Fraud is on the increase and it can hit both businesses and careers. More than 22,000 organisations across the world have been victims of CEO Fraud with losses estimated at more than £3 billion. In this article, we look at what CEO Fraud is and the techniques that can be used to help prevent your charity becoming a victim.

What is CEO fraud?

CEO Fraud involves convincing somebody in your business to make what they believe are legitimate payments but which are actually paid to fraudsters. The scam is often carried out by compromising business email accounts through the use of techniques such as social engineering or computer intrusion.

It's not just email accounts that can be compromised, the criminals are also known to tap into phone numbers. This process involves the criminals obtaining the phone number of a CEO, and sending a text message to, for example, the CFO (Chief Financial Officer) which appears to come from the CEO. The message asks the CFO to make a bank transfer. To make it more realistic, these cyber-criminals often wait until the CEO is away on business and the unlucky recipient of the text message is oblivious to the fact it's not a legitimate request. In addition, the criminals will often ask the recipient not to contact them as they "are in an important meeting" and/or "it needs paying promptly".

While you may think it's just the larger businesses which are targeted, smaller businesses are just as likely to be hit – the criminals don't discriminate, everyone is a target.

While it is probably impossible to predict which business will be attacked and when, it is useful and interesting to understand some of the methods they often use.

The methods

- **Phishing**: These are emails sent in large numbers to numerous accounts simultaneously in order to "phish" sensitive information by posing as legitimate sources. These emails are getting much more sophisticated – gone are the days of poorly worded emails that were obviously fake. These emails often have logos, are well-written and look like they could be from a bank, credit card provider, law enforcement or government agencies, delivery companies etc. While many people won't use the bank or service provider the email is claiming to be from, due to the sheer numbers that they send them out to, it has a certain percentage of hit rate. The criminals are smart and may change the spelling of words which can easily catch you out. For example, an email from webfiling@companieshousewebfilling.co.uk seems legitimate, doesn't it? Unfortunately, this is NOT from Companies House. Notice the spelling of webfiling at the start of the address and webfilling at the end.

- **Spear Phishing**: These attacks are emails which usually only go to one person or a small group of people at the most. They are much more focused and the cyber-criminals have often done their homework on the target by gathering data from social media sites in order to fool the unfortunate target. Usually some form of personalisation is included such as the person's name or client's name.

- **Executive "Whaling"**: This one can be very sophisticated. The criminals have detailed knowledge of who they are targeting and the business they are attacking. They target the top executives and administrators to draw money from accounts or to steal confidential information.

- **Social Engineering**: This is the psychological manipulation to trick people into giving away sensitive information or providing access to funds. All of the previous methods are aspects of social engineering. The act of social engineering might include mining social media sites such as Facebook and LinkedIn. These sites provide a wealth of information about a company and individuals, such as names of staff, contact numbers and emails addresses.

Unfortunately, these scams have a fairly high success rate. The Verizon 2016 Data Breach Investigations Report revealed that 30% of recipients open these phishing emails and thus provide an open gateway for malware to infect their systems and the possibility of CEO Fraud.

Continued overleaf.

CEO Fraud continued...

Prevention

The majority of the following steps must link together to form part of an effective prevention plan forming 'layers of defence'.

- **Training**: While all the steps below will help, if a member of staff isn't properly trained a breach could be inevitable. Make sure all staff are aware of the things to look out for when opening emails and provide general security awareness training. Is the email sender legitimate? Always be sceptical and hover over links to see if they're going where they say they are going. Beware slight changes in company names (r and n together to imitate an m). Another tell-tale sign are emails requiring urgent action.

- **Technical controls**: Email filtering is an example of this. If you don't have a filter you need one. If you do have one you need to make sure you understand its features to get the most out of them and also accept that mail filtering won't always prevent phishing emails coming through. Two factor authentication is a good way of making it harder for the criminals to steal sensitive information, such as sending a code to your mobile phone.

- **Simulated Phishing**: This should be accompanied with the training. It is the process wherein staff are sent emails purposefully to see which staff are at risk and who needs more training.

- **Identifying high-risk job roles**: High-risk roles include accounting, payroll / HR and IT staff. It is recommended to impose more safeguards in these areas such as having layers of authorisation before, for example, a payment to an account can be completed. It is important to assess all high-risk staff to see how exposed they are.

- **Security policy**: While every company should have a security policy, it does sometimes slip under the radar when there are more important things to deal with. But in this day and age when cyber-attacks are frequent, it should be on your to-do list. It should be reviewed regularly for gaps and should be published somewhere that all staff can find. It should include things such as staff not opening attachments or clicking on links from unknown sources, password management policy (not reusing work passwords on other sites or machines), don't use USB sticks on office computers as well as much more security diligence.

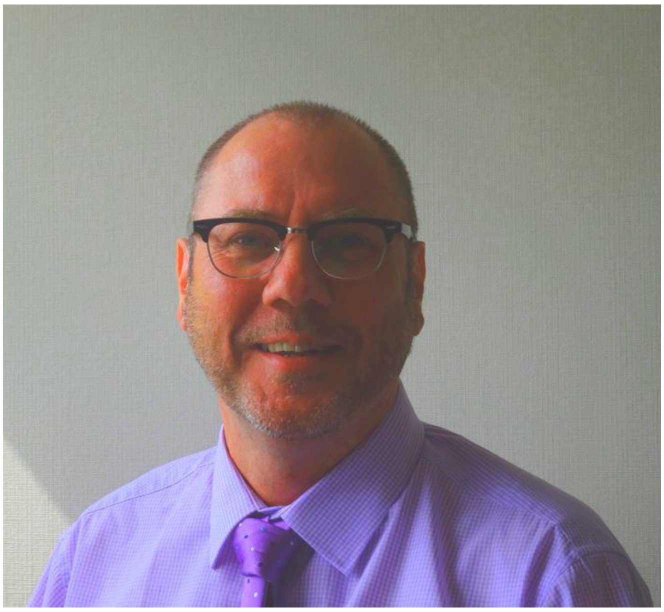
- **Procedures**: IT should have security measures in place to block sites known for their spread of ransomware. All software security patches and virus signature files should be kept up-to-date, conduct penetration tests on Wi-Fi to determine how easy it is to gain entry, ensuring backups are actually working as well as much more.

- **Cyber-risk planning**: This is no longer just a technical problem or just an IT problem. This should be managed from the very top (the CEO) so they are aware of the company's cyber risks and how they can manage those risks. CEO Fraud should certainly be included in the risk management assessment.

CEO Fraud and cyber-attacks in general are more frequent now than they ever were. It is wise to review your procedures and put the appropriate controls in place to stop it from happening to you. It could save you a lot of money.

If you would like to discuss any of this further, please get in touch.

Tony Nickson joins Hawsons as VAT Consultant



Hawsons are pleased to announce that Tony Nickson has joined the firm as a VAT Consultant.

Tony was formerly a VAT Officer in Customs and Excise and then Higher Officer in HMRC.

After 20 years of working in the VAT office, Tony has gained a wealth of knowledge of VAT processes, including VAT visits to customers, client education, VAT repayments and error corrections.

Tony can provide practical VAT advice to a wide range of clients in numerous business sectors and can advise on matters relating to sole proprietors, partnerships and corporate bodies on all VAT issues including exporting, importing or providing goods/services within the UK. European Union dispatches and acquisitions can also be advised upon. He also has a good knowledge of HMRC's penalty system.

Tony said: "I'm really excited to have joined Hawsons and I'm looking forward to advising clients on many aspects of VAT."

Stephen Charles, Tax Partner at Hawsons added: "I'm delighted to be able to welcome Tony to the firm. Tony has a wealth of experience in the VAT sector and will no doubt prove to be a valuable member of our team."

www.hawsons.co.uk

Wealth Management Limited

Summer 2017

Hawsons Wealth Management Limited is authorised and regulated by the Financial Conduct Authority.

Your local specialist:

Sheffield, Doncaster and Northampton

Nigel Smith
Director of HWM Ltd
0114 229 6557
npas@hawsons.co.uk

Sheffield
0114 266 7141

Pegasus House, 463a Glossop Road, Sheffield, S10 2QD

Doncaster
01302 367 262

5 Sidings Court, White Rose Way, Doncaster, DN4 5NU

Northampton
01604 645 600

Jubilee House, 32 Duncan Close, Moulton Park, Northampton, NN3 6WL

HLB International

Find out more about our Wealth Management services.

Please call your local office or visit:

www.hawsons.co.uk/wealth-management/

Register to receive this edition quarterly:

www.hawsons.co.uk/newsletter