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Schmidt *Tax* Report

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NEWS

Rush to liquidate

Over 2000 solvent companies were placed in liquidation in March as directors rushed to cash in on lower tax rates before changes to the tax rules in April. Since then, HMRC has clamped down on business owners winding up companies to access entrepreneurs' relief at the 10% rate on any capital gains. Now the 10% rate is only available to company owners who are liquidating for practical reasons, such as retiring or switching industries. Company owners who want to carry on in the same business during the two years after they liquidate their companies can no longer claim the relief. As the *Financial Times* has pointed out: "Self-employed people often argue they should not have to pay as much tax as PAYE employees, because they take more risk setting up a business, and their pensions and private healthcare schemes can be more expensive. So the government has tolerated small company owners paying themselves in dividends, which incur lower rates of tax than salaries." The tax on dividends was also changed from April, so that the highest earners now pay 38.1%. Anyone who pays themselves more than £21,667 a year in dividends is now worse off.

More higher-rate taxpayers

The number of UK taxpayers paying income tax at the higher or additional rate has reached a record 5m people. However, a million fewer people will pay income tax this year than they did when the Coalition Government came to power, although low-paid workers are still caught in the net of National Insurance contributions. Income tax revenues of £182bn are expected to be collected in 2016/17, meaning that each taxpayer will pay an average of just over £6,000. The payments are far from evenly distributed. The top 10% of taxpayers (people with annual incomes in excess of £54,300) receive a third of the total income but pay almost three-fifths of the tax. There has been a growth in the number of people aged 65 and over who pay income tax, rising from 4.9m in 2010/11 to 5.9m in 2016/17.

SMEs suffer more

Over half of the £737m raised last year by HMRC from investigations into companies over tax avoidance and employer compliance errors comes from small to medium-sized enterprises (SMEs), despite SMEs being responsible for only 11% (£96bn) of the total UK payroll. This is believed to be because smaller businesses do not have the finances and resources available to pay for proper advice.

Transfer pricing consultation

HMRC has asked for advice on whether a secondary adjustment rule should be introduced into the UK's transfer pricing legislation. It believes that some multinationals are not incorporating the arm's-length principle on intergroup transactions, although the existing rules incorporate the internationally recognised standards.

HMRC taskforce achievements

HMRC taskforces have recovered more than £500m since they were launched five years ago with nearly £250m raised in 2015/16 alone (almost double the previous year's yield). The taxman has launched more than 140 taskforces targeting sectors that are at the highest risk of tax fraud, including the adult entertainment, retail and tobacco industries. Last year, nearly 50 new taskforces were launched, including ones targeted at property, partnerships and hidden wealth. The 2015 taskforce focused on income tax led

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to 45 arrests for tax evasion and fraud.

Country-by-country reporting

Multinationals operating in Europe that have a total consolidated group revenue of at least €750m (£570m) will be forced to report information on revenues, profits, taxes paid, capital, earnings, tangible assets and the number of employees on a country-by-country basis from 2016 onwards. Tax authorities will then be required to exchange reports automatically, so that tax-avoidance risks related to transfer pricing can be assessed.

French taxman raids Google

French tax authorities raided Google's Paris headquarters in the early hours of 24th May over allegations of money laundering and "acts of aggravated financial fraud". Over 100 tax officers are believed to have been involved.

HMRC arrests were publicity stunt

Four former partners of KMCG were arrested as part of a publicity stunt, according to evidence given to the High Court. In November 2015, officials from HMRC visited the Big Four firm's Belfast city centre office and detained Eamonn Donaghy, Jon D'Arcy, Paul Hollway and Arthur O'Brien on suspicion of evading taxes. However, since then, no charges have been made. The four have now made an application to the High Court for a judicial review into how HMRC obtained the warrants to search their homes and offices, with their legal team claiming that HMRC's actions in obtaining the warrants was unlawful. Their lawyers also contended that the government department failed to note the four men's cooperation in the matter before the warrants were granted, arguing that the judges who granted the warrants did not have all the significant information they needed at the time. The court heard that HMRC wrote to the men thanking them for their cooperation. HMRC has declined to comment on the High Court case.

HMRC under fire

The latest National Audit Office report on HMRC has been deeply critical. The NAO said that the quality of service for personal taxpayers was severely damaged in 2014/15 and the first seven months of 2015/16 after HMRC reduced staff numbers by a third. Some taxpayers were left waiting for more than an hour for advice and for every £1 reduction in HMRC's annual telephone transaction costs there has been approximately a £4 increase in the time and money spent by customers. Moreover, HMRC met its target to handle 80% of calls in only 10 weeks of the year.

Elmbridge pays more

At £17,800, the residents of Elmbridge in Surrey (which includes the wealthy towns of Esher, Walton-on-Thames, Cobham and Weybridge) paid, on average, the highest levels of income tax in the UK. The mean income of residents was £64,500, more than double the UK average of £29,600. On average, UK residents pay around £6,000 a year to the Treasury in income tax.

Freud settles up

Lucian Freud's executors are doing their best to settle the estate's inheritance tax liabilities by making donations to the nation. Most recently a previously unseen self-portrait is to go on display at the National Portrait Gallery, settling some £559,773 of tax. Freud died in 2011, aged 88. The self-portrait is the latest in a number of objects given by his estate. The artist's collection of Frank Auerbach paintings alone settled some £16m of tax.

Editor's Notes

Business or pleasure

Over the years, I've managed to claim sideways expenses and loss relief in relation to horses, classic cars, a yacht and even a small plane. In each and every case I was able to satisfy the Inland Revenue – and later HMRC – that the asset in question was needed as part of a proper, commercial business. To satisfy the taxman I always made sure that:

- I had a viable, well-prepared business plan.
- I promoted the business using advertising, public relations and other marketing efforts.
- There were records of all contact with customers and potential customers.
- I could show that my prices were competitive.
- Full and detailed accounts were kept for each financial year.

As it happens, none of my businesses was hugely profitable, but that wasn't for want of trying. In the case of the horses, I'd hoped to make my money through breeding. In the case of the car, yacht and plane such income as I earned was from renting and leasing deals with third parties. The fact is, providing that you can show you were engaged in a feasible, commercial activity, it is very difficult for HMRC to deny you (a) all the costs associated with the asset and (b) loss relief.

Recently, the media has reported on three First-Tier Tribunal cases where loss relief was denied to taxpayers attempting to claim they were engaged in equine-related businesses. The cases failed, in my opinion, because the taxpayers were unable to prove a sufficient degree of commerciality. HMRC, quite understandably, felt that the loss relief was being claimed erroneously by taxpayers who were actually engaged in pursuing a hobby. As one tax commentator pointed out: "Sideways loss relief claimed from activities that might be classed as hobbies are likely to come under scrutiny from HMRC."

Incidentally, it was interesting to note that in the case of *R Murray* the taxpayer's claim was that his breeding and training activities would have been sustainable if the tax relief losses were allowable. The First-Tier Tribunal described this as flawed logic. Interestingly, in this case, the judge considered that although there may have been a reasonable expectation of profit at the start of the taxpayer's

business after several years the economic downturn, together with the high running costs and consistent losses, led to no hope of profit. One wonders whether had the taxpayer given up earlier he might not have got away with his claim.

Finally, I just want to remind readers of something called the Lennartz mechanism. Basically, the European Court of Justice ruled, in 1995, that a taxable person is entitled to recover input tax incurred on the purchase of goods, regardless of how little they were used in the business, provided they were of some business use. This means that with the help of an experienced professional adviser it may be possible to reclaim VAT on such items as yachts through the use of what is often referred to as Lennartz VAT accounting.

The benefits of volatility

A quick reminder that, from the beginning of April this year, farmers have had the option of averaging their profits out over any rolling five-year period. This replaces the previous rules, which only allowed farmers to average profits over two years. The benefits of the new approach is that where a farmer has, say, two or three good years followed by a couple of bad years it will be possible to average the profits and, potentially, reduce the resulting income tax bill. Are there any snags? Well, the new rule does not apply to limited companies and if you wish to average over five years you must pass a volatility test, which should demonstrate a sufficiently wide difference between actual profits and average profits. To give you a feel for the benefit of the new approach, a farmer making an average annual profit of around £40,000 should be able to save around £5,000. Farming, and I speak here from personal experience, is not unlike gambling. So many things can go wrong – market prices can tumble, weather can reduce yields, prices for such things as fertiliser and feed can unexpectedly rise. These new rules should make things much easier for many agricultural businesses.

Life after Hansard

Hansard was, until 2005, the procedure used to underpin the Board of Inland Revenue's selective prosecution policy and offered tax evaders the opportunity to avoid a possible prison sentence in return for a full confession and payment of tax, interest and penalties. The arrangement enabled the Revenue to collect a substantial amount of tax while having to carry out relatively few detailed investigations. Why was Hansard so successful? To begin with, there was no need for the taxman to disclose any of the reasons why he suspected a serious tax fraud had occurred. Then there was the fact that the threat of prosecution was such that it would take a very brave taxpayer indeed not to decide to come clean.

When Hansard was retired (and it is worth noting that it was used for 82 years), it was replaced by something called the Civil Investigation of Fraud Procedure (CIPF). This, in turn, had a Code of Practice (COP). Nowadays, if HMRC inspectors suspect tax fraud, they have the option of pursuing a criminal investigation with a view to prosecution or a civil investigation using COP. The procedures that make up COP investigations have changed over time. In particular, taxpayers may now be offered something called the Contractual Disclosure Facility (CDF). Basically, under COP the taxpayer is given a one-off opportunity to disclose the conduct that has led to irregularities in their tax affairs through the CDF. This is a contractual arrangement whereby tax irregularities disclosed on the CDF Outline Disclosure Form are in effect immune from criminal investigation because HMRC undertakes to not proceed criminally when full disclosure of irregularities is made. A disclosure under the CDF is an admission of fraud.

HMRC always retains the right to start a criminal investigation with a view to prosecution if it feels the taxpayer has not made a full disclosure or has in some other way refused to cooperate. However, COP does pose a severe problem to taxpayers who may accept they owe tax but do not accept that any tax fraud was intended or carried out. For example, there is no option (as there used to be) to deny fraud but to agree to cooperate.

Finally, I would like to remind taxpayers that it is vital, should you ever find yourself subject to a COP inquiry, to get experienced, professional advice.

Ask the Experts

Q. In 2005, my wife and I bought a small 48-acre farm in Somerset with the intention of moving there with our nursery business. We planted some nursery stock down there, but the ground and growing conditions are not as good as here in Surrey so we stopped planting about 5 years ago, and have dug up and sold the plants which have survived. The nature of our nursery business has also changed in that most of our customers are now around the M25, and transport from Somerset is too costly.

From the time that we bought the farm in 2005, we have let out the farmhouse and about 10.25 acres of land to tenants with horses. We are currently on the second set of tenants. Last year these tenants asked if they could settle at the farm and buy from us the farmhouse and land which we are renting to them. We settled on a price of £535k and have agreed to sell to them. The sale should take place in the next few months.

We bought the farm as a unit for £635k, so I need to get a valuer to apportion the values of what we are selling in relation to what we are keeping. I have roughly worked out that the capital gain on what we are selling will be between £180k and £220k. In this current tax year my wife and I will also together make a capital gain of about £18k on some land which we inherited. We cannot delay either of these sales into another tax year.

Do you have any advice to give us for minimising capital gains tax, and will the farmhouse and land be treated as a second home and thus be liable to the higher rate of capital gains tax?

We are intending to split most of the sale proceeds after capital gains tax between our children.

R. B., via email

A. With effect from 6th April, the main rate of CGT has been reduced to 20%. However, the rate for residential properties will remain at 28%. Therefore, you will need to compute separately the gain on the land and the gain on the farmhouse, as different rates will apply to each. Obviously, therefore, you want more of the overall gain to be allocated to the land and less to the farmhouse. Having separate sale agreements for the land and the house specifying the consideration will assist.

You then need your valuer to apportion the original purchase price between the farmhouse, the land being sold and the land being retained so that you know how to allocate the base costs. Again, in an ideal world, the base costs of the house will be as high as possible to reduce the gain.

When one gifts a business asset, this can have the effect of passing inherent gain on to the recipient of the asset. If the recipients have their CGT annual exemption available or pay tax at a lower rate than you, this can be a way of reducing the tax charge on the ultimate sale. In your case the land you are selling (and would therefore be gifting) is not a business asset as it has been used to generate rental income rather than for the nursery business. However, if the necessary conditions are fulfilled (and you would need to take professional advice to be certain of this), the relief for gifts of business assets is extended to gifts of agricultural property even if it has not been used in a business. You could therefore consider gifting the land to your children prior to the sale and making a 'holdover election'. The children, rather than you, would then sell the land so they and not you would be taxed on the gain. Whether this would be worthwhile depends on how many children you have and at what rates they pay tax. If they are only basic-rate taxpayers then, as well as the CGT exemption, there will be a benefit (in that part of the gain could be taxed at 10 instead of 20%).

Q. On 30th October last I purchased a property in the Republic of Ireland and agreed with my fiancée that she could let it to her daughter and also agreed that following our marriage in July next I would gift the property to my fiancée who in the meantime could enjoy and receive the rental income. My fiancée agreed with her daughter to have the property re-decorated and partly furnished before her daughter moved in, which I paid for. A formal tenancy was granted by my fiancée to her daughter on 14th November last after she had moved in.

Is it necessary for me to fill in the 'Foreign' pages of my 2016 Tax Return as if I had enjoyed the rental income and, if so, can I offset the cost of insurance, redecoration etc. and claim 10% of the rent for wear and tear? This will result in a loss. Can I offset this loss against other rental income I receive?

G. A., via email

A. We think that, as you own the property, the rental income legally belongs to you, even though you have agreed with your fiancée that she can have it. We are not sure how your fiancée can grant a formal tenancy, given that she currently has no interest in the property. On the understanding that she has no legal interest in the property and there is no formal agreement between the two of you to this effect, we think the rental income and the associated expenses, including the 10% wear-and-tear allowance if the property is let furnished, should be shown on the Foreign pages of your tax return. If there is a loss on the property, this can be offset against profits on other non-UK properties but it cannot be offset against profits on UK properties.

The Benefit Is Intangible

Fourteen years on, Gordon Brown's much-trumpeted intangible assets corporation tax regime is still arguably underused.

With the exception of goodwill, which HMRC obviously thinks has been massively overexploited for tax-planning purposes, the benefit of being able to claim tax relief in a company for acquiring intangible assets is one which is still little known about or understood.

So we thought it would help to introduce a couple of case studies to show precisely how powerful these assets can be as material for tax planning.

Case Study I: Incorporating a Business

Rocket Science LLP was set up by two individuals to provide a specialist service to the defence industry. You don't get very far in the hyper-regulated world of defence these days without some fairly heavyweight accreditations, which have been registered in the LLP name but are transferable, subject to a process of scrutiny, to another entity under the same control. As the stock in trade, so to speak, of the business is specialist computer software, the combination of these hard-won accreditations and the actual unique value of the software itself contribute effectively to the whole of the business's value, as far as the partners are concerned.

Acting on advice from their accountant, the partners incorporate the business into a limited company, and commission a formal valuation of both the software rights and the accreditations for this purpose. The sale of the assets

to the company forms part of the sale of the 'business', and hence entrepreneurs' relief applies for capital gains tax (CGT) purposes. Assuming the business value is £1 million, then, we are looking at tax of about £100,000 (ignoring details like CGT annual exemptions). The company, although it is connected with the partners, can claim corporation tax relief for the £1 million acquisition cost of these intangible assets, by writing off a proportion each year in accordance with generally accepted accounting principles.

So, ultimately, the company gets tax relief worth £200,000, being the write-off of the £1 million cost at its tax rate of 20%. A by-product of the transaction under which the business was incorporated is that the company owes the former partners £1 million – which can therefore be paid out to them as a drawdown on the directors' loan account with no further tax. The result is that £1 million of profits have been made and distributed to the individuals, ultimately at what has been described as a 'negative tax rate', that is overall HMRC is paying the business a net amount of £100,000, which is the difference between the CGT paid by the partners of £100,000 and the corporation tax relief awarded to the company of £200,000.

Case Study II: Sale of Separate Assets

Adrian Brainstorm has developed a clever piece of software which helps wind turbines go round faster. Tapping into the Government's keenness for all things green, he's obtained a lucrative contract in the name of a limited company which he has formed for the purpose. The company makes a large profit, but the software is still legally owned by Adrian.

Acting on advice from his accountant, Adrian commissions a professional valuation of the software rights that he owns, and the valuation comes out at £1 million. So he sells the rights formally to the company, evidencing this sale properly in rigorously drawn-up legal documentation.

From the tax point of view, the position isn't quite as favourable, here, as it is with Rocket Science LLP. This is because Adrian isn't selling a business to the company, and therefore doesn't qualify for entrepreneurs' relief. However, following the 2016 Budget changes, the top rate of CGT, which will apply to this particular sale, is 20%.

So Adrian pays £200,000 CGT as a result of the gain he makes on selling the software rights to his company. The company claims tax relief, in the same way as in the first study, by writing off the software rights over their expected useful life. The £200,000 that Adrian pays is matched and balanced by corporation tax relief at £200,000 in the company (this assumes that the 20% rate of tax applies over the whole of the period in the company).

Again, there is a by-product of the sale in the form of a £1 million directors' loan account in the books of the company in favour of Adrian. So profits made by the company, resulting in cash, can be paid out to Adrian with no further tax charge.

The overall result is that Adrian has received £1 million of profits from the business at an overall tax rate of 20%. If he had taken the same amount as remuneration of dividends, the rate would instead have been getting on for 50%.

Food for thought

So anyone who thinks that the benefits of holding intangible assets outside a company, and then selling those assets to the company, have been abolished following the recent HMRC attack on goodwill could be very wide of the mark. The tax-planning moral is: where possible, keep intangible assets outside the company's ownership because, if you allow them to fall into the possession of the company, which can happen by default, there's no way to tap into the tax-planning advantages we've illustrated in our two case studies. Interestingly, this is a situation where the Government has now made this sort of planning easier (whether intentionally or not) by reducing the top rate of CGT to 20%, from the previous top rate of 28%.

There's No Place Like Home: Except A Second Home

And of course, the same applies to a third home, fourth home, etc. You may feel that the current Government is waging an all-out war against people who own property other than a single main residence, but, whether by accident or design (more likely the former), there are still a lot of tax breaks out there associated with second homes. The ideas that follow represent just some of them.

When is a main residence not a main residence?

As most people know, you don't pay capital gains tax (CGT) when you sell your home. You might think this an unaccustomed and unwarranted piece of generosity by the Government: think of the billions of pounds they would rake in if they taxed gains in our still relentlessly climbing residential property market.

But there's a very good reason why the founding fathers of CGT built exemption for main residences into the rules of the tax right from the beginning. This is that rising property prices are actually nothing but a specialised form of inflation. If you sell your house and move to another, you need to have kept up with the upwards march of property values, and the paper 'gain' you have made is not a real gain at all, because you still have to live somewhere. A tax on main residence gains would hit particularly hard those who have to move for their jobs. If the Government creamed off a proportion of what is, in real terms, not a gain at all, the individuals would have to borrow money or scale down to a smaller house: and that doesn't

make any sense at all. So for this reason a sale of your home is exempt.

For the same reason, of course, the rules are very specific about the fact that it has to be your 'main' residence. The rationale for the relief doesn't extend to properties held as investments, and it doesn't extend to second homes.

A tricky problem

Much has – rightly – been made of the point that the Finance Act 1965, which introduced two new major taxes, CGT and corporation tax, is a fraction of the length of any one of today's finance acts. It's beyond the scope of what we're writing here to explore the reasons for this mind-boggling increase in the amount and the complexity of tax legislation, but one thing is for certain: the greater length of today's finance acts doesn't spring from greater thought given to how the new legislation should work. Back in 1965, they foresaw tricky issues arising as to which of two or more residences was an individual's 'main' residence. They only wanted to give relief for the main residence, but where a family spreads itself amongst a number of homes, how do you decide which is the tax-exempt one?

We suspect that a modern legislator, faced with this problem, would leave it up in the air, thus providing tax tribunals with gainful employment – as if they needed any more.

In the 1960s, our legislators were much more pragmatic. Even at the utterly disastrous cost of one or two well-off people managing to save a few quid, they came up with an excellent common-sense solution: leave it to the taxpayer him- or herself to decide.

So, as a result, we have the main residence election. A person can nominate any one of their residences and ask for it to be treated for CGT purposes as their main residence. The integrity of the system is maintained by the fact that, if you nominate your flat in London as your main residence even though you spend less time there, for the corresponding period your house in the country is not enjoying tax exemption.

How and when to make the decision

So how should you decide which of two or more residences you want to nominate for tax exemption?

First, bear in mind that an election isn't irrevocable, and different elections can be made at different times as and when your circumstances change. Generally, though, it's common sense to nominate the residence of yours that you are more likely to sell in the foreseeable future, and which is likely to give rise to a more substantial gain.

In the instance of the house in the country and the flat in London, there is likely to be a presumption in favour of nominating the London property, because of the fact that prices in town seem to increase much more rapidly than elsewhere. Also, as one gets older, the lure of the bright lights may reduce, and you will therefore be more likely to divest yourself of this asset, given that it is a hassle even if it is valuable.

In considering the question of when to elect, things do get a bit technical. Basically, you have a two-year window to make an election, and this two-year period dates from any point at which you have a change in your total combination of residences.

The implications of this time limit, and the way it is determined, can be quite complex. But here's a little story to illustrate the sort of planning you can do.

Lord Peter lives most of the year round at Arlecdon Hall, an agreeable house in the wilds of Cumbria. He also owns Number 1 Berkeley Court, a flat in London. Both of these have been in his ownership for many years, and he's made no main residence election for CGT. The flat at Berkeley Court, indeed, has been let out for some fairly substantial periods of his ownership.

The time comes when he decides to sell the London flat. He's decided that his trips to town are now so infrequent that it would be much less hassle, and cheaper, simply to stay in a hotel when he's there. Also, he wants the proceeds to invest in Cudham Cottage, a delightful property in an unspoilt part of south Devon.

So what Lord Peter does is change the order of things a little. Instead of selling Berkeley Court and then going on to buy Cudham Cottage, he buys Cudham first, on a bridging loan. He now has a different combination of residences, and this triggers the ability to make a new main residence election. The election doesn't have to relate to the new property at all, and in this case, indeed, it doesn't: he puts in an election for Berkeley Court to be treated as his main residence.

The effect: the last 18 months' worth of gain on the London flat is exempt, and there is also an element of letting relief relating to the periods when Berkeley Court was tenanted. So Lord Peter enjoys a worthwhile reduction in the tax on selling the London flat.

The wages of sin

We now come on to an area where the tax system unquestionably favours cohabiting – what used to be called living in sin – over marriage.

Bob and Sally live together but are not married. They have a property in the country and a flat in town. By arranging things such that the country cottage belongs to Bob, and is nominated by him as his main residence; and the pad in town belongs to Sally as her main residence, the couple have two entirely exempt properties.

If Bob and Sally were married, they would be affected by the special rule which says that a married couple can only have one main residence between them.

Holding structures for second homes

Up until now, it's been very fashionable, particularly for non-UK residents, to hold their second homes through some

vehicle such as a limited company (often offshore) or an LLP with a company as one of the members. If the property is in the UK, this practice has been made significantly less attractive by the introduction of the annual tax on enveloped dwellings (ATED). This is a bit like an extra rates bill, and can mount up to a reasonably substantial figure every year if the property is worth a lot of money. Any property which is not let out, or part of a property development trade, and is held through such a vehicle is now subject to the tax if it is worth more than £500,000.

It's not clear whether this is merely a piece of unprovoked malice on the part of the Government, aimed at those who invest their money in UK property or whether there is some idea that levying this extra tax could in any way be fair. But, in any event, ATED is with us and is bound to influence the way individuals structure purchases of their second homes from now on.

Whether or not this was in the minds of the legislators, there's no doubt that ATED cramps one's tax-planning style in some circumstances. For example, it was in principle possible (indeed still is) for money which is in a limited company to be used to buy a second home by introducing that company as a partner in an LLP. The company's 'surplus' cash is then invested in the LLP, which buys the property. There always was an issue, in fact, as to whether this straightforward situation constituted the provision of a valuable benefit by the company, even with the LLP being put in the middle. However, the additional problem of ATED now makes this a less attractive way of funding the purchase of second homes in any event.

Holiday accommodation

Now for just a little bit of lateral thinking. The tax breaks which apply to furnished holiday accommodation, while they have been reduced significantly recently, still apply in certain areas, particularly those relating to CGT; and the lateral thinking we're talking about relates to the possible benefits of this in the case of properties which have hitherto been merely second homes, fully subject, potentially, to CGT on future sale.

Again, it's probably easiest to illustrate the tax-planning opportunity by a simple little story.

Kim owns a cottage in Cornwall that acts as an occasional weekend bolthole. The property cost her £80,000 to buy and another £20,000 to do up. That was twenty years ago.

As is the way of these things, the cottage has risen steeply in value, and the latest estate agent's value that Kim has been given puts it at about £500,000. So the tax on sale (which Kim is planning imminently) is estimated by her accountant as being significantly over £100,000, because of the 28% rate of CGT that will apply. There's no possibility, in this case, of a main residence election, and in any event this wouldn't save a lot of tax because of the length of time for which Kim has owned the property.

From purely commercial motives (tax planning doesn't enter into it – honest), Kim decides she should be making the Cornish property work harder for her, so to speak. So she and a builder friend go down there for a number of weekends in a row and bring the property up to the standard where it can be let out as holiday accommodation, with an accreditation at the local tourist board, a website, etc.

It just so happens that the letting qualifies under the rules for favourable tax treatment, that is it's available for short-term lettings for at least 210 days a year and is actually let as holiday accommodation for at least 105 of those days.

After 12 months of qualifying under these rules, the sale of the property becomes eligible for CGT entrepreneurs' relief, as Kim finds out to her surprise and delight when she sells the property and sends the information through to her accountant to prepare the annual tax return.

The £400,000 gain is now chargeable at 10% instead of 28%, thus saving her over £60,000 CGT on the ultimate sale of the Cornish property.

Gold At The Bottom Of The Garden?

As we write this, the EU referendum is still in the future. If, as currently seems likely, the Remain party wins, we can certainly brace ourselves for significant levels of immigration, particularly when, as also seems likely, Turkey becomes a Member State. One estimate is that about 1.3 million Turks will take advantage of the new freedom to make their homes here and the plus side of this is that the quality of kebabs will greatly increase!

Another plus side, if you have some spare garden you would like to get planning permission to develop, is the tremendous increase in pressure on councils to allow land to be developed.

So we thought we'd have a look in this piece at the tax dos and don'ts for those fencing off part of their back gardens and building on them.

First, consider whether there's anything you can do to maximise the tax exemption that applies to both your house and its garden. If your garden and grounds are no more than half a hectare (just over an acre), the disposal of this part of your garden should be covered by the same main residence exemption as a sale of your house would be. The one trap to avoid here is, if you are selling the house at around about the same time, making sure that the sale of land happens *before* the house, not after – on pain of losing the capital gains tax (CGT) exemption.

If you have more extensive grounds than that, though, only the half-hectare will qualify, unless you have something in the nature of a stately home where a greater area is sometimes allowed.

So there can be a difficult question to answer as to whether the development site is part of your allowable area. Sometimes this can be affected, in your favour, by positive action that you take. For example, including the future development site as part of your garden explicitly, by including it within the fence (but excluding other land that you own near the house), can determine the matter. A paddock for horses is not generally regarded as part of the garden, and so careful planning of the layout of the garden and grounds at an early stage can pay huge tax dividends, potentially even bringing a taxable piece of land wholly within CGT exemption.

Second, there is the timing of the rather nebulous action known as 'appropriating the land to trading stock'. If you are planning to develop the site yourself, rather than simply selling it to a developer, the tax considerations are in favour of your transferring the land to stock at as high a value as possible. This is because the re-categorisation of the bit of garden is treated as if it were a disposal of that asset for CGT purposes. If it is part of your exempt garden, therefore, a high value will not give you any tax. Even if it is partly taxable, the tax rate may be less than the future development profits. And the other side of the coin, of course, is that the value on appropriation to stock is then treated as the cost of the stock when working out your trading (development) profit. So pile as much of the profit as you can into the pre-appropriation stage. One way to do this, of course, if planning permission is required, is to wait until permission is definitely granted before making the move.

So how, exactly, do you do this 'appropriation'?

Strictly, it's a matter of intention and therefore is very difficult to pin down. But you can give the facts of the case a nudge in the direction you want to in various ways. For example, when you fence off the part of land which is the development site from the rest of your garden, this is a declaration of intent at this point. Also, the way you or your accountant prepares accounts of the ultimate development can be influential.

Third, and bearing in mind that development profits are chargeable to income tax, and not CGT, consider ways of structuring things so that those development profits accrue to a limited company rather than to you personally. You could at least halve the effective tax by doing this. Consider setting up your own limited company to act as the developer. It is this company which then contracts with the builders and /or builder's merchants, and invoices you for its services.

So you have a twofold structure. You as the property owner are developing the portion of the garden by way of a trade, which has the value on appropriation as the cost of its stock. Alongside this, so to speak, there is the company you own 100%, which is purely a service provider – and taking a reasonable profit in return for its services. It's probably easiest to imagine some actual numbers.

Let's say, first, that the portion of garden with planning permission is worth £300,000, and it is at this point that you formally commence your property development venture. The limited company is formed on the same date, and starts working on the site. Let's say that the construction costs (without any element of profit for your company at this stage) are £150,000, and the resultant house is worth £700,000. Overall, then, the development is likely to yield a trading profit of £700,000 minus the construction costs of £150,000 and the initial stock value of £300,000. That is, the overall trading profit is likely to be £250,000. Your company charges not just for the basic input of labour and materials but also for the whole service of organising the development. Since property development is a high-risk activity, profit margins are comparably high, and it may be that we can justify a charge from the company to you of as much as £300,000, giving the company a profit of £150,000. So when you as an individual sell the house, you have overall costs of £600,000, being your start-up stock value and the £300,000 your company has invoiced you. You therefore realise a profit, chargeable to income tax, of £100,000. The company, however, has effectively taken a share of £150,000, which, instead of paying tax and National Insurance at 47%, is likely to bear tax at no more than 20%. On these numbers, then, the company arrangement has brought about an immediate tax saving of about £40,000.

Also, in this new-build scenario, there's a potential VAT benefit of doing things this way. If you would have incurred VAT, for example on buying materials, putting the contracting company, as it were, in between the builder's merchant and yourself means that the contracting company can reclaim this VAT as input. Because the materials are then absorbed in the overall service of building a new house, all of the company's invoices to you are zero-rated for VAT purposes.

This is neither here nor there if you go on to sell the property immediately it has been completed, because this would be a zero-rated sale anyway for VAT. But if, as sometimes happens, you find it expedient to rent out the property for a period before ultimately selling it, the contracting company arrangement has avoided a potentially substantial VAT problem. This arises from the fact that, where you let out a residential property, this is a VAT-exempt activity.

Unlike other taxes, VAT is a tax that it is bad to be 'exempt' from, because the corollary is that input tax incurred on your expenses can't be reclaimed if it is attributable to an onward exempt supply. So the effect of building a new house, incurring VAT on its construction and then renting out the property could be that your input VAT is clawed back by HMRC.

Having the limited company in between eliminates this problem because it will have zero-rated its services of building the house, and therefore there would be no input VAT for you, as the

property owner, to have clawed back.

So, in our hypothetical case, we've saved £40,000 on the development profits. What happens next? Obviously, it would be counterproductive for the company then to pay out its profits to you as a dividend. The dividend would be likely to incur the higher-rate income tax that we thought we had saved by having the company in the first place.

Instead of mucking things up like this, there are various alternative approaches you could take, for example:

- If this is very much in the nature of a 'one off' for you, you can simply wind up the company when the development is finished. Assuming you have met the criteria for CGT entrepreneurs' relief – which include that the company must have been trading for at least a year – the money taken out of the company on winding up will be taxed at no more than 10%: still a substantial saving over having paid income tax on the whole development profits.

- Alternatively, you could retain the company and dribble out its reserves by way of dividends over a period of years. If you are a basic-rate taxpayer, these dividends will give rise to no more than the dividend tax of 7.5%, and thus potentially this could be even more tax-efficient than winding the company up.

- Depending on what you want to use the money for, you could retain the company long term. One example might be that you would look to invest the development profits in another property, or a paper investment, in order to produce an income for you in the future. While this isn't an entirely straightforward tax-planning decision, it may well make sense, overall, for this investment of the proceeds to take place within the company, and only the resultant income to be paid out to you as dividends. In this way the tax you have deferred by storing the profits in the company could turn out to be deferred for a very long time: or even permanently saved in the final analysis.

Silver Bullet 1: Top Hatting

Forming a holding company, and placing it 'above' your trading company, has never been easier. It even comes with HMRC's explicit blessing! The way it's done is as follows: first, you form your holding company, and then you get HMRC clearance for what is to follow. This comprises a transfer of your current shares in the trading company so that it becomes a subsidiary of the new holding company, and in return the new holding company issues shares to you. So you now have a 'vertical' group. Finally, you hive off valuable assets from the trading company to the holding company by way of an intragroup dividend.

This isn't so much a tax-planning exercise as an asset protection exercise. In future years, if the trading company runs into difficulties and goes bust, the valuable assets which you have hived off it are not affected by the general conflagration. And HMRC can and will give clearance to the transactions in advance, so that you can be confident they won't in themselves trigger tax charges.

Silver Bullet II: Sidestepping The 'Trusts For Minors' Rules

It's generally fairly well known that parents can't use their under 18 children's personal allowances and lower rate bands simply by transferring income to them. Under some very old rules, any such diversion of income to under-age children is ignored for tax purposes, and the income taxed on the parents.

But none of this applies to other relations, for example uncles and aunts, and grandparents. They can quite freely transfer sources of income to children of any age and thereby bring about the tax-advantageous position that the income from those sources is taxed on the children and no one else. This is particularly popular as a device where grandparents want to benefit the next two generations. One way they can do this very effectively is by transferring income down two generations, which then relieves the pressure on the middle generation.

Silver Bullet III: The Old Ones Are The Best

A longstanding, and still perfectly effective, inheritance tax planning device is setting up endowment policies which are written in trust. You take out a policy and make regular contributions to it. At the same time as taking out the policy, you sign some (usually standard) documentation stating that the benefits on ultimate pay out belong not to you but to a specified class of beneficiaries. The premiums, being made regularly and (presumably) being affordable by you on the basis of your income, are not treated as taxable gifts. Instead, they are covered by a specific exemption known as the 'normal expenditure out of income' exemption. But the value that builds up (hopefully) in the endowment policy is nevertheless building up outside your own estate. The result is that, when ultimately you are called to judgment, the value can pass tax-free to your beneficiaries.

The Business Column

LLPs: The story so far

It's a commonly held view – commonly held even amongst accountants – that LLPs (limited-liability partnerships)

have been killed stone dead. Gone are all the past glories, much vaunted in these columns, of the old situation where HMRC's ideas of 'fairness' (different from many people's) were consistently flouted by those in business: merely by reason of their having adopted a perfectly valid business structure.

A horrible history

It seems to have been four or five years ago that the anti-avoidance police within the Revenue first turned their attention seriously to the use of partnerships and LLPs for tax planning. LLPs, for the benefit of those who haven't come across these before, are a sort of cross between a company and a partnership but with the tax treatment being that of a partnership.

The beady-eyed scrutiny of the taxman concentrated – no doubt rightly, according to his lights – on two particular aspects of LLPs and the way they were being used:

- the introduction of limited companies as partners; and
- the introduction of individuals as self-employed LLP members.

What seems to have incensed HMRC particularly about the first idea was that business people could enjoy the benefits of the lower rate of corporation tax (broadly half the rate that would apply to the income if it were chargeable on the individuals to income tax) at the same time as getting the benefits of a partnership, which include the more favourable company car and other benefit rules and the much more favourable rates of National Insurance that apply to the self-employed.

We could just pause, for a moment, here, and ask why in the name of ten thousand devils they simply couldn't introduce some common sense into the benefit-in-kind and National Insurance systems; but no, that isn't HMRC's way. Instead, it directed its big cannonry at the structures concerned, and introduced a whole load of new rules which – surprise, surprise – are very complicated and involve difficult areas of judgement in deciding how much tax a business should pay.

The three hammer blows

There have therefore been, so far, three waves of anti-LLP legislation.

In 2013, the first shot was fired across the bows. This introduced a 25% tax charge where a company loaned money to an LLP where its shareholders were the other members. Another, rather obscure, provision brought in at the same time charged tax on the situation (amongst others) where a company and its shareholders are in partnership, and the individual members are 'overdrawn', that is they have taken more capital out of the LLP than they had in there in the first place. Amazingly, it seems that HMRC accepted that this situation didn't give rise to any kind of tax charge under the old rules.

This is amazing, because it seems much too easy. You go into partnership with your own company, you enjoy the benefit of lower tax on your profits by crediting the profits to the company and you then draw all of the profits out yourself, leaving you overdrawn and the company massively in credit. How could this ever have worked? In any event, since 2014 it hasn't, but even here the new rules only apply to situations brought about since Budget Day 2013.

The main onslaught came in the following year's Finance Act, 2014. The Revenue here attacked both the allocation of profits to company members to reduce tax and the wholesale extension of the 'franchise' by admitting all and sundry in the business to membership of the LLP.

HMRC attacked the allocation of profits to the company member by requiring a 'commercial' justification: the company cannot tax-efficiently receive a profit share, after 2014, which exceeds the value of its actual input into the LLP's business. So if it has capital, it can receive a fair return on this capital (this is one of the difficult areas of judgement), and if it works in the LLP business (excluding, here, the work deemed to be done by the company but actually done by the other individuals who are members of the LLP), it can receive a fair profit share from the LLP in return for that work.

If you give the company too much profit, though, the excess is treated as if it were the income of the individuals, who are then stung for high rates of income tax, etc.

The 2014 rules then attacked the practice of admitting all and sundry to membership by stating that LLP members would be treated as being subject to PAYE from 6th April 2014 – unless they met any one of three criteria which led to their being treated as 'real' business partners. Very briefly, these criteria were that the individual concerned should have substantial capital invested in the LLP or should exert significant influence over the LLP or should have a variable element of profit share based on the profits of the overall business.

It's fair to say that the effect of the 2014 changes was exactly as HMRC had intended: a widespread panic amongst accountants led to LLPs being shut down right, left and centre, and replaced by the much less favourably taxed limited company structure. But more was to come.

In 2015, as a bolt from the blue, a further assault on LLPs with corporate partners was successfully carried through by storm, so to speak. The announcements, accompanied by frankly misleading notes, were put forward in the Budget in March of last year, and a mere eight days later, with no parliamentary scrutiny at all, these became law. (The hurry was the impending general election.) What the change consisted of was basically denying entrepreneurs' relief for company partners in LLPs. Unless they had substantial activities of their own, outside the LLP, the LLP membership would be treated as an investment activity and so any sale or winding up of the company in the future was set

to suffer a 28% tax charge, as against the previously applying 10% (where entrepreneurs' relief was available).

And now the good news…

For those who are easily discouraged, then, the position looked absolutely black and white in March 2015. Anyone who dared to continue to use an LLP, especially one with a corporate partner, would probably wake up one morning to find bulldozers demolishing their house, and their private lives exposed in the Sunday papers. But now the dust is beginning to settle (even if only temporarily), we can, I think, make a more balanced assessment.

The first piece of good news is that the 2015 changes, hitting companies in their entrepreneurs' relief character, have effectively been completely reversed – and with retroactive effect – in the 2016 Budget. Quite right too: the rules were misleadingly introduced and hit a lot of situations where there was no tax planning being done at all, and in an entirely arbitrary fashion. This may be partly because of the current armistice between the Government and business in the run-up to the EU referendum. It may be that they will return to the attack again later. However, let's just take a tally of where we are now. As the dust begins to settle, we can, in fact, see clearly that the LLP city has not been razed to the ground, but still stands, albeit rather battered in places following the HMRC bombardment. Let's look at a few ways in which LLPs can still enjoy major tax benefits.

1. Corporate tax rates

Having a limited company as a partner is, believe it or not, still possible and potentially very advantageous. While the 2014 changes introduced strict criteria to stop you giving too much of the business profits to the company and hence saving tax, you still can allocate substantial profit shares there if you meet the criteria. Consider the position, for example, where the original trading entity is the limited company, which subsequently has set up an LLP and hived down the trade into that LLP. The result is likely to be that the company will have a substantial capital account with the LLP, and this is one of the specific criteria which allow you to allocate profit to the company.

Quite what rate of profit allocation is allowable is something which has been left supremely vague, of course. Broadly speaking, it's the rate of interest which an unconnected person would charge on a loan made to the business in similar circumstances. Let's imagine an example. Widgets Limited hives down its trade into Widgets (UK) LLP. The value of the assets it introduces is £1 million. So you can justify a profit share to the company, thus enjoying the 20% tax rate on those profits, of whatever a fair return on a hypothetical £1 million investment would be. The only example the Revenue has given, in its guidance, is of a company which has borrowing from its bank on which it is paying 2% interest: the Revenue seems to think this means 2% is a fair return on the company's capital too. But imagine the situation where you are approaching an unconnected lender, and asking them to put down £1 million, comprising the whole capitalisation of the business, and entirely unsecured. Even in these days of low interest rates, will anyone other than a lunatic invest at an interest rate of much less 10%? In fact, will anyone actually lend a penny in these circumstances? Welcome to Fantasy Island. However, many commentators feel that 10% is a reasonable rule of thumb to apply. So, in our example of Widgets Limited, it can justify, in all probability, at least £100,000 a year profit share from its involvement in Widgets (UK) LLP, and still be within the new rules.

2. Self-employed LLP members

The benefit of introducing individuals who would otherwise have been employees is potentially substantial. If nothing else, self-employed status brings with it freedom from the swingeing 'payroll tax' that masquerades under the title of employer's National Insurance. And here, again, the 2014 changes haven't outlawed these benefits, but merely set some criteria to be met. Possibly the most frequent criterion found in practice is the 'significant influence' test. If you can show that an individual, even if, say, he has no equity interest in the business, can exert such an influence over the way the LLP is run, it's quite legitimate to treat him as a self-employed LLP member. Obviously, the more senior staff who are likely to pass this test are also likely to be the highest paid: hence making the benefit of losing National Insurance on their earnings all the greater. Remember, in this context, that the rules only require them to exert an 'influence'. They don't have to control the LLP, either on their own or with others.

3. Cars and other benefits

And the more favourable treatment of benefits in kind, particularly cars, still applies in its ancient rigour. The highly restrictive, even punitive, rules taxing employees of companies on the provision of cars simply don't apply in the LLP context. Instead, much to HMRC's distaste, the rules within an LLP are actually 'fair'. The cost of running the car (including insurance and depreciation etc.) are charged in the LLP's profit and loss account, and an element representing the private use of the car is then disallowed as a tax deduction, i.e. added to the taxable profits. This can make car provision cheaper to the tune of thousands of pounds per car per year as compared with the fairly arbitrary tax charges imposed on company cars.

4. Sale on advantageous terms

Another benefit of running a business through an LLP, which remains as valid now as it ever was, is the ability to sell assets to a purchaser rather than the shares in a company. Except for goodwill, the benefit of this is that the purchaser can claim corporation tax relief (assuming it's a company) on the intangible assets purchased: whereas there is no tax relief for the purchase of shares in a company. So if you are running your business through an LLP, it can and should be a negotiating term, when discussing a potential sale, that

the intangible element of the purchase (which may be most or all of the value) will get tax relief, and effectively therefore cost the purchaser 20% less (on current corporation tax rates). While, as I say, goodwill is no longer eligible for a tax write-down for purchasers in this situation, there are many other intangible assets, which are, for example the benefit of licences and accreditations in a particular industry, software used in the trade, patents, trademarks etc., etc. Cocooning your business in a limited company effectively rules out this negotiating benefit, because your tax as the vendor of the business will be very much higher if you own all these assets in a company and the company then sells them to the purchaser. Instead, your only CGT-efficient option is to sell them shares, which can cost the purchaser 20% more, effectively, than assets.

5. Properties and stamp duty land tax (SDLT)

There are often good reasons, relating both to security for bank lending and to inheritance tax efficiency, why you may want to hold the business premises (if you own rather than rent them) within the business structure. Putting a property into a limited company, whether it is a holding company or a trading company, gives rise to SDLT based on the market value of the property, in almost all circumstances. By contrast, property can be introduced into an LLP, even one with a corporate partner with care, in a way which doesn't give any charge to SDLT.

6. Property-investment LLPs

This doesn't exhaust the benefits of LLPs, which, as I've tried to demonstrate, have continued largely unabated despite what some people think of as the 'abolition' of LLPs. But I would just like to mention one more situation, which is interesting because it is a new benefit presented by LLPs that results from recent tax rule changes. The following little scenario illustrates what I'm talking about here.

Trump Properties Limited has a diverse portfolio of properties that it holds as investments for rent. One hundred per cent of the shares are held by Mr Trump, who takes most of the net profit out each year as a dividend. Up until 5th April 2016, as a top-rate taxpayer, he suffered an effective 30.1% personal income tax charge on those dividends.

Following the introduction of the new 'dividend tax', though, Mr Trump is now looking down the barrel of a 38%+ income tax charge, because of the new rules.

So Mr Trump and Trump Properties Limited form an LLP, into which the company introduces its property portfolio. Mr Trump takes a profit share from the LLP as member – justifiably, because he spends a significant proportion of his waking life running and looking after the portfolio.

In other words, he has effectively bypassed the company for income tax purposes. Instead of the company paying corporation tax on the net rents and then him paying income tax (complete with the 'dividend tax') on dividends paid out to him by the company, Mr Trump is paying just the income tax on rents… no dividend tax element, and no National Insurance either because what he is receiving is a share of unearned income. Rumours of the death of LLPs have been greatly exaggerated!

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The Offshore Column

Wyoming: A very secret state

America has come under attack for being one of the largest tax havens in the world, an accusation I will come on to in a moment, and it has reminded me what a useful location it is for any business planning to carry on its trade or to hold assets outside the US.

There are three US states offering a combination of zero tax and confidentiality: Delaware, Nevada and Wyoming. Of these, Wyoming (once upon a time referred to by some as the Switzerland of America) probably has the most liberal and business-friendly environment. For example, you can form a company in Wyoming without being present in the state or even the country. All the state demands is your contact information, the name you want to use for your company, who is going to be the director of the company along with a scan of that person's passport and payment. Most company formation agents are happy to provide nominee services. There is no legal requirement, incidentally, for the formation agents to request proof of identity.

Other advantages offered by Wyoming include:

- no state corporate income tax
- no public listing of the names of members or managers in an LLC
- no franchise tax
- minimal annual fees
- one-person corporations are allowed
- stockholders are not revealed to the state
- no annual report is required until the anniversary of the incorporation date
- no automatic information-sharing agreements.

What if you need a bank account and you aren't a US resident or citizen? A

quick online search found several Wyoming agents that offered to provide a new US company complete with a local bank account opened remotely. One, Mountain Business Center LLC, offers the complete service for only $1,300, which includes your state filing fee ($100) and initial bank deposit ($100). Moreover, if you want to run a remote business, there are plenty of companies offering virtual office and other services you will need at remarkably low prices.

Wyoming makes much of the fact that the state does not impose any corporate tax, but one must not forget that the federal government does. Therefore, it is important to take professional advice before incorporating any American company. It is certainly possible to set up a structure that will avoid federal taxation but it is not something to undertake online.

Which brings me back to the criticism being levelled at the US by a number of other countries. Last month, there was an international summit on corruption hosted by David Cameron in London. Two attendees had nothing nice to say about America. First, Allan Bell, chief minister of the Isle of Man, called the US "a major secrecy jurisdiction and tax haven", pointing out that roughly 10 times more companies were registered in a single building in the low-regulation state of Delaware than in the Isle of Man. Later, in a newspaper interview, he stated: "Where I get angry is the hypocrisy of the US in particular, which has been preaching to the world about the importance of access to information relevant to the US, when they themselves have not been moving at the same pace." Later, Alden Mclaughlin, premier of the Cayman Islands, pointed out that the US and other nations should not be exempt from any requirement on standards of transparency.

The US Treasury Secretary, Jack Lew, announced that: "To combat the misuse of companies, we are finalising a rulemaking that would require financial institutions to identify the beneficial owners of new customers that are companies. In addition, we are about to propose a regulation that would require the beneficial owners of single-member limited liability companies to identify themselves to the Internal Revenue Service, thus closing a loophole that some have been able to exploit. We fully support the call for all countries to automatically exchange financial account information." Many observers feel that it will be difficult to get any such change in legislation passed by Congress. Indeed, the Obama administration has submitted draft legislation to Congress requiring companies to disclose their real ownership to the US Treasury. But legislative approval will be difficult and any information would not be publicly accessible.

Offshore news roundup

Call for openness

Thomas Piketty and over 300 other economists have published an open letter arguing that there is no economic benefit to tax havens and calling for the secrecy that surrounds them to be wholly removed.

Cayman Island developments

The Cayman Islands Ministry of Financial Services has announced a series of changes, which will begin to be enacted in June this year, to strengthen Cayman's legislative and regulatory framework. New measures include provisions relating to beneficial ownership and the elimination of bearer shares (which have been 'frozen' since 2001). A confidential information disclosure law is to be passed that will better clarify the mechanisms through which confidential information may be shared with the appropriate authorities.

Blacklist to be published in July

G20 finance ministers have announced that they will be working in conjunction with the Organization for Economic Cooperation and Development (OECD) to work out a new system for blacklisting jurisdictions that do not meet their standards of transparency. A G20 communique stated that they called "on all relevant countries including all financial centres and jurisdictions which have not committed to implement the standard on automatic exchange of information by 2017 or 2018 to do so without delay and to sign the Multilateral Convention".

Defensive measures will be considered by G20 members against non-cooperative jurisdictions if progress, as assessed by the Global Forum, is not made. The G20 also reiterated that it is essential all countries and jurisdictions fully implement the FATF standards on transparency and beneficial ownership of legal persons and legal arrangements. They particularly stressed the importance of countries and jurisdictions improving the availability of beneficial ownership information to, and its international exchange between, competent authorities for the purposes of tackling tax evasion, terrorist financing and money laundering.

New Zealand to overhaul trust law

New Zealand is holding an independent inquiry to review whether New Zealand's foreign trust disclosure rules are fit for purpose. It will report back by 30th June. New Zealand was concerned to find that the country was mentioned more than 60,000 times in the so-called Panama Papers and that Mossack Fonseca has an office in the country. The terms of reference include reviewing foreign trust disclosure rules on record keeping, enforcement and the exchange of information with other tax jurisdictions. The country's strong tax confidentiality laws are under scrutiny in a separate review of tax legislation.

Panama signs up to FATCA

Panama and the United States have signed an intergovernmental agreement to improve international

tax compliance under the US Foreign Account Tax Compliance Act (FATCA). Under FATCA, which went into full effect last year, US taxpayers must self-report more than $50,000 in foreign assets, and foreign financial institutions (FFIs) must disclose information on US taxpayer accounts to the Inland Revenue Service.

FATCA challenge fails

A challenge by US Senator Rand Paul and a number of other plaintiffs seeking relief against enforcement of FATCA has failed because the court held that the plaintiffs lacked standing to sue because they had failed to establish the concrete, particular harm that was a prerequisite to standing. As a result, the court granted the defendants' motion to dismiss the case.

More UK information to be exchanged

The UK, Germany, France, Italy and Spain have announced a test scheme to exchange information on company beneficial ownership registers and planned new registers of trusts on an automatic basis. During the pilot, the participants will explore the best way to exchange information in light of the desire to create a "truly global common standard". Ultimately, it is believed, the system could develop into one of "interlinked registries", each containing full beneficial ownership information. The OECD has already developed the Common Reporting and Due Diligence Standard (CRS), through which more than 90 countries will automatically exchange financial account information with other jurisdictions on an annual basis. UK businesses have been obliged, since 6th April, to keep a register of "people with significant control" (PSCs) – individuals who hold more than 25% of a company's shares or voting rights, have the right to appoint a majority of directors or have the right to exercise, or actually exercise, significant influence or control over the company.

More sharing

Bahrain, Lebanon, Nauru, Panama and Vanuatu will now share financial account information automatically with other countries. The OECD and the Global Forum on Transparency and Exchange of Information for Tax Purposes announced that 101 jurisdictions are implementing information sharing in accordance with the CRS developed by OECD and G20 countries.

Good news for international couples

The EC has introduced new property rules for international married couples or registered partnerships that will establish clear rules in cases of divorce or death and bring an end to parallel and possibly conflicting proceedings in various Member States on property or bank accounts. In particular, it is now much clearer which national legal system takes precedence when it comes to managing and distributing property in the case of divorce, separation or death. It will also be of great assistance where there is a need to recognise and enforce a judgment in one Member State on property matters given in another Member State. There are currently around 16 million international couples in the EU.

LLPs available in Gibraltar

New legislation now allows the formation of limited-liability partnerships (LLPs) in Gibraltar. An LLP is a corporate body with a continuing legal existence independent of its member that is designed with professional service providers in mind, whose partners may potentially be at risk from the careless or accidental negligence of a colleague.

Fifty-four new Maltese citizens

There were 578 applications for Maltese citizenship in 2015 under the Citizenship-by-Investment programme, of which 147 had been approved, 54 had completed procedures and been granted citizenship and 102 applicants still needed to submit documents or had been refused.

Life (And Wealth) Begins At 50

I was interested to read that Warren Buffett only owned 1% of his current fortune when he was 50 years old. Moreover, he now claims that he invests in a dramatically different way from the way he did before he reached his half-century. His reputation as a 'value investor' is, apparently, out of date. True, he claims, he was a value investor early in his career but a very bad value investment cost him billions and as a result he substantially changed his strategy. So much has been written about Warren Buffett and his approach over the years that I won't waste any space on it here. There are a couple of things he's said, however, that have really struck home with me. To begin with, I agree with his comment that: "There seems to be some perverse human characteristic that likes to make easy things difficult." He has a 'keep it simple stupid' approach to investing in businesses with straightforward, easy-to-understand, business models, i.e. insurance, banking or big branded product sellers like Coca Cola or Kraft Heinz. Another thing Buffett said that I think is very true is: "You only have to do a very few things right in your life so long as you don't do too many things wrong." This echoes something the former professional tennis player, coach and best-selling author Brad Gilbert pointed out, i.e. that the most successful recreational tennis players are the ones who make the least mistakes on the court. The thing is you don't have to reinvent the wheel or be the smartest chap in the room. Just avoid stupid mistakes. Buffett also believes: "The difference between successful people and very successful people is that the very successful people say 'no' to almost everything." The most valuable asset any of us can have, apart from good

health, is time. If you have a goal, such as to see good returns on your investments, the crucial thing is to not waste your time or money on distractions.

A Place For Everything

Much is written about ensuring you have the correct asset allocation within your investment portfolio, and investors should of course know the asset allocation strategy they are following (and why) and the implications of that on their investment returns. Less, however, is written on the subject of asset location and the role that should play.

Interest income in pension funds

We are all aware that investments within a pension wrapper benefit from a number of tax breaks, the main ones being:

- no capital gains tax (CGT) on realised gains; and
- no income tax on income, unless the pension scheme is deemed to be conducting a trade.

There are a number of options available to those investing in pensions, depending on the type of pension wrapper in which they invest. For example, an employer-sponsored money purchase pension scheme, or a personal pension plan with an insurance company, will normally only offer a selection of investment funds chosen by the scheme provider. A self-invested personal pension (SIPP), on the other hand, will provide a much wider choice of investment funds, along with individual shares, bonds and commercial property.

When looking at which investments to hold within a SIPP, one important consideration is how the underlying investment pays out income.
In the case of a dividend payment, it is not possible to reclaim any UK income tax; therefore, there is nothing for the UK pension scheme to reclaim, nor is there any tax liability on the income received.

In the case of a bond fund, where the income paid is classified as interest, if this is a UK-listed fund, it will generally have its income paid after the deduction of 20% income tax. On receipt of this, the pension scheme administrator will reclaim the 20% income tax deducted by means of the pension scheme return. The tax deducted at source will then be rebated to the pension scheme, although of course there is a delay before the scheme administrator completes and submits the return and HMRC processes it and pays the rebate.

It should, however, be noted that there are additional options available when selecting funds which pay interest income, which serve to make the ongoing scheme administration less complex:

- Some platforms offer a gross investment account, which will permit eligible account holders to invest in gross-paying funds.
- Many funds offer gross share classes for eligible investors (such as pension funds) and, while many of these are based offshore (often in Dublin), some will be UK-based.

Investing via either of these two options will mean the pension scheme administrator no longer has to reclaim the income tax via the pension scheme return while the investor benefits from having the gross income reinvested from the date each payment is received.

All change

However, in *HMRC's Budget 2016: Overview of tax legislation and rates (OOTLAR)*, paragraph 2.11 states that "legislation will be introduced in Finance Bill 2017 to remove the requirement to deduct income tax at source from interest distributions from open-ended investment companies, authorised unit trusts and investment trust companies and from interest on peer to peer loans. These changes will have effect from 6th April 2017."

If the legislation is introduced as outlined, and depending upon the small print, it seems likely that from 6th April 2017 it will be possible for any UK fund not to have to deduct income tax from interest payments, unless they choose to continue to do so. This will make it easier for pension funds to invest in funds that do not deduct income tax from interest distributions.

Asset location considerations prior to vesting benefits

In the past, it was not uncommon for a large proportion of the growth element (i.e. equity-based investments) of a client's portfolio to be held in the pension scheme, owing to the CGT-free environment provided by the pension wrapper. Since the introduction of the lifetime allowance (LTA), however, and particularly as we have seen the value of the LTA repeatedly reduced year on year, we find ourselves more often trying to dampen growth within our clients' pension wrappers to minimise their tax liability when benefits are taken.

Therefore, when we are considering asset location for our clients, it is not unusual for us to allocate the bulk of the defensive element (i.e. the fixed-interest investments) of the portfolio to the pension wrapper. Given that CGT is (a) not paid by many people and (b) still has one of the lowest tax rates payable for basic-rate taxpayers, holding growth assets in a taxable environment does not necessarily mean a higher tax bill. With the introduction of the £5,000 dividend allowance, the ability to hold growth assets tax-efficiently even within a taxable wrapper has increased significantly.

Added to which, of course, growth assets can also be held tax-free within an ISA.

Asset location considerations when pensions are vested

Tax is tax, regardless of whether it is income tax, CGT or inheritance tax (IHT). Once you move into the decumulation phase, it is important to give consideration to (a) how you access sufficient cash flow to meet expenditure requirements in the most tax-efficient manner and (b) how you

arrange asset location for this phase.

Many investors will have their investment portfolio split between several different tax wrappers. It is important to ensure, as far as possible, that the right asset classes are held in the most appropriate tax wrapper to optimise the tax efficiency of any withdrawals.

First, it is important to remember it is possible for an individual to receive withdrawals in income and capital of up to £33,100 in 2016/17 without suffering any personal taxation if the withdrawals are made in the optimum manner, for example:

	£
Earned/pension income	11,000
Dividend income	5,000
Savings income	6,000
Realised capital gains	11,100
Total	**33,100**

Where additional inflows are required, care needs to be taken as to from where capital is drawn down, taking into account the tax payable both now and in the future.

With the changes to pensions legislation that came into effect on 6th April, meaning that pensions can now be seen as an extremely tax-efficient inter-generational planning wrapper, it can often be argued that withdrawals from the pension wrapper should be avoided as much as possible, owing to the benign tax environment for vested funds which have not yet been drawn and the IHT benefits available from leaving those funds within the pension wrapper. It may also be appropriate to switch from a 'defensive heavy' asset allocation within the pension wrapper to a 'growth heavy' allocation, if maximising long-term growth opportunities for your heirs is a primary consideration.

There is no absolute right or wrong answer that will apply to everyone. However, there are a number of factors which need to be considered when looking at the provision of income when being drawn down from pensions, ISAs and taxable accounts, and these factors will ultimately serve to determine the optimum asset location.

Working with a good financial planner will help you to define your expenditure needs via a lifetime cash flow, and then determine the optimum method of meeting those requirements, taking into account not only your personal tax situation today but also your future potential tax liabilities, while balancing the need for financial security for you and any desire you may have to maximise what you leave to the next generation.

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The Alternative Investor

There is lots of lovely (from an investor's perspective) uncertainty floating about. Will Britain leave the EU? Will Donald Trump become the next US president? Will oil prices rise or fall? Will interest rates rise or fall? What is happening to the Chinese economy? Will the war in the Middle East spread? I could go on and on. The key point I want to make is that uncertainty means falling asset prices, and falling asset prices means opportunities to profit.

Markets, of course, tend to price in change. So, although we can expect a leap up after the announcement of the Brexit referendum on 23rd June and again after the US presidential election on 8th November, the reality is that markets will probably start to rise a little before either event. This suggests to me that now may be a good time to buy.

Buy what? A little of whatever you fancy: currencies, gold, oil, stocks and shares, property, probably not bonds but maybe, just maybe, tangible alternative assets and, in particular, what I always think of as collectibles. Which collectibles? Below are details of a few different areas worth considering.

A case for gain

About six or seven years ago, my son (who is a rather trendy architect) suggested I start collecting antique leather briefcases. He had noticed that a few of his colleagues had started to eschew modern briefcases in favour of vintage and antique examples. Affluent, fashion-conscious men would, he argued, soon be buying older briefcases in the same way they bought old watches or old pens. The idea appealed to me and so I began to build, if you will excuse the pun, a portfolio of briefcases.

Since I became interested in this rather niche area, prices have grown steadily. It is hard to work out exactly what I have made but I bought the first seven or eight cases in 2008/9 after the financial crash. These included a Louis Vuitton leather attaché case from the 1930s for £900, a Swaine Adeney attaché case for £1,800 and a 1990s Gucci black crocodile briefcase for £620. Looking at comparable items on upmarket online antique/vintage sites (such as 1stdibs) and on offer by specialist dealers, I would say that I have more or less trebled my money.

Ah-ha, you are probably saying to yourself, while the percentage gains may be attractive enough, one would have to buy an enormous number of briefcases in order to make anything like a serious profit. It is a good point, but not entirely true. The best examples are commanding surprisingly high prices. Last year, for instance, Sotheby's sold Winston Churchill's red despatch box – one of those hard-sided cases produced in ram skin that were used by ministers of state – for an extraordinary £158,500.

In general, the most-sought-after brands are Louis Vuitton, Goyard and Moynat. But, according to the Financial Times, British producers such as Asprey and Swaine Adeney offer excellent value and a more discrete sentiment. The

newspaper's correspondent advises buyers to look for vegetable-tanned leather and solid, cast brass fittings. It should also be remembered that, while well-known brands may command greater interest, stylish, well-made cases won't automatically come with a prestigious name.

Where should you buy? Try Bentleys (www.bentleyslondon.com), Fine & Vintage (www.fineandvintage.co.uk), Kerry Taylor Auctions (www.kerrytaylorauctions.com) and Sotheby's (www.sothebys.com).

Classic returns

Donald Healey was something of a hero. In 1916, aged 16, he volunteered for the Royal Flying Corps and earned his wings as a pilot. He went on night bombing raids and served on anti-Zeppelin patrols and as a flying instructor. After the Armistice, he taught himself automobile engineering, opened a garage in Cornwall and took up motor racing. In 1929, he entered the Monte Carlo Rally driving a Triumph 7 and, in 1931, won the race driving a 4.5-litre Invicta. During the Second World War, he helped to make aircraft engine carburettors for the Ministry of Supply and worked with Humber on armoured cars. In 1945, he formed the Donald Healey Motor Company to make luxury cars, but in 1953 started selling a comparatively inexpensive sports car with a 100-mile-per-hour performance called the Austin-Healey 100, which used an Austin 2.7-litre 4-cylinder engine. Over the next three years, almost 15,000 100s were built. Unable to keep up with demand, he came to a licensing arrangement with the British Motor Corporation whereby it produced the car at its Longbridge works. A further 60,000 or so were built this way. In 1970, Healey went to work for Jensen Motors, where he became chairman and the company changed its name to Jensen Healey.

Last month, I wrote about the huge potential for profit offered by classic car investment. Although I mentioned several examples in that article, I didn't really single out any marques as being particularly collectible. I would like to make amends for this now by suggesting you consider an Austin-Healey. One of the best things about investing in Austin-Healeys is that there is a model for every pocket. As little as £15,000 will buy you an Austin-Healey Sprite in excellent condition, and even the most expensive models (special test cars built racing and record breaking) only make c.£800,000 at auction, which is nothing next to, say, a comparable Aston Martin.

Perhaps one of the greatest benefits of investing in a Healey is that they are remarkably usable. All the cars are excellent for long-distance touring, especially if you make a few simple upgrades. Dealers say that even relatively ordinary standard models have trebled in value over the last 5–10 years. Note, incidentally, that the more recent the car the more luxurious it is.

If you are searching for a dealer, try Bill Rawles (www.rawlesclassiccars.co.uk), Bonhams (www.bonhams.com), Car and Classic (www.carandclassic.co.uk), Denis Welsh Motor Sport (www.bighealey.co.uk) and Murray Scott-Nelson (www.murrayscott-nelson.com). There is also an Austin-Healey club (www.austinhealeyclub.com) and various fantastic books about both the cars and Donald Healey.

Pin-up profits

In 1956, Pablo Picasso decided to create a poster for his latest exhibition. Initially, he drew a reverse image on a linoleum block before working with knives and other cutting tools to create the final image. A signed example of this poster, which promoted his latest ceramics show in the Côte d'Azur town of Vallauris, recently sold for £5,625. It highlights, to my mind, the desirability and collectability of early artists' posters.

For any alternative investment, scarcity value is key. Artists' posters tended to be produced in very low numbers – generally a few hundred – and of the original editions, few ever survive. Prices can vary dramatically from a few hundred pounds to a hundred thousand pounds or more. At the top end of the market, one of Bonnard's posters for the Salon des Cent went for £100,000 and an Egon Schiele for the 49th exhibition of the Vienna Secession in 1918 made £150,000.

Although prices dipped after 2008, over the last five years they have been growing steadily. Being works on paper, it is important to invest in only pristine examples and you should avoid anything that is showing signs of water damage or mould. The big auction houses and dealers are the places to look.

Fashion books

Visiting my cousin, Eric, who is something of a dandy, I noticed that his study contained several shelves of books about clothes and clothes designers, such as Elsa Schiaparelli, Coco Chanel, Christian Dior, Louis Vuitton, Rei Kawakubo, Grace Coddington, Vivienne Westwood, Malcolm McLaren and dozens of others. Moreover, I noticed that some of his fashion books were extremely old. He had a set of something called *La Guirland: Album de art et de literature* dating from 1919/1920 and another French book called *La Mode En Mil Neuf Cent Douze* (1912) and even books that seemed to date back to the 17th, 18th and 19th centuries. Apparently, monographs on leading designers, as well as visual celebrations of fashion photographers and stylists, biographies and other books about fashion and design have become hot. Eric estimates that prices have grown about threefold over the last 10 years as more collectors have got into the market. He buys at auction and from dealers but his biggest bargains are found in second-hand bookshops, charity shops and eBay. "Although it is a highly collectable area, most people, even those in the trade, don't recognise valuable books when they come across them. I have found several books for a few quid each in Hay-on-Wye that turned out to be worth thousands of pounds."

Here Be Dragons

Nicholas Adams, a seasoned property investor based in the UK, offers some tax-saving tips

I am not really a J. R. R. Tolkien fan but there is a quotation from *The Hobbit* that often comes to mind when I am considering different ways in which to reduce the cost of property tax: "It does not do to leave a dragon out of your calculations, if you live near him." It is the fiery breath, sharpened claws and general scaly-ness of HMRC that we all seek to avoid, of course, and the best place to begin is by understanding the many different ways in which one may be caught. In short, to bring a successful property tax mitigation plan to fruition the first step must be to quantify the various taxes to which one may be prey.

Some taxes are only applicable to property holdings, being (in alphabetical order):
• The annual tax on enveloped dwellings. This is applicable to residential property owned by companies and other 'non-natural persons'. It results in a higher 15% rate of SDLT – see below – on the acquisition of high-value UK residential property and up to 28% capital gains tax (CGT) on disposal.

• Business rates (for commercial property) which are determined by the rateable value. Harrods, for example, pays £12m a year in business rates.
• Council tax (for residential property), which are charged in bands. A 'Band D' (valued between £68,000 and £88,000 for council tax purposes) property owner in, say, Weymouth would pay c.£1,800 a year, whereas in Westminster they would pay just £674.

• Land and Buildings Transaction Tax (for property purchases in Scotland), which varies between 0% (properties worth under £145,000) and 12% (properties worth over £750,000).

• Stamp Duty Land Tax (for property purchases in England, Wales or Northern Ireland), which varies between 0% (properties worth under £125,000) and 12% (properties worth over £1.5m).

In addition to whichever of the above taxes are applicable, one must also allow for a number of other, much more expensive, taxes, including:

• CGT (28%)
• corporation tax on investments held through a company (20%)
• income tax on annual profits, which can include gains on sales (up to 45%)
• inheritance tax (IHT; 40%)
• National Insurance (NI; up to 12%)
• VAT (up to 20%).

Not to mention PAYE and NI for anyone you employ, insurance premium tax, road tax and a number of other minor duties and charges.
Little wonder, then, that the amount of tax levied on property is such an important consideration for investors and entrepreneurs. Rental income is taxed at a little less than other forms of income (self-employment or partnership trading income, employment income and so forth) but there is also less wriggle room when it comes to expenses. In the area of capital gains, however, the situation is worse than it is with other types of business. There are ways of reducing liability to CGT but the most popular forms of property investment fail to attract many important reliefs, including entrepreneurs' relief and rollover relief. It must also be remembered that if you are deemed to be a property dealer or developer the profits arising on the sale of your properties will be taxed as income, rather than capital gains. This is the real point I want to make in this article and I will come back to it in a moment.

First, I want to make a more general point. Tax is such a heavy cost for any property investor it is worth avoiding it whenever one can. Let me give you a few examples. Throughout my life, I have seen my home as an investment. This has meant choosing properties that I can buy, improve and sell for a gain and/or where I can sell off part of the garden – two classic ways of making 100% tax-free profits. I have also purchased farm properties to live in as my main home (where the gain can be tax-free or taxed at 10% if structured correctly), taken full advantage of the main residence election rules, invested in furnished holiday lettings and also focused on commercial property.

With regard to the last, my best ever deal was when I had a recruitment agency in the 1980s. I located it (illegally) in light industrial space in the East End of London and took a 30-year lease at a cost of something like £3 a square foot for 10,000 square feet. Thanks to a change in the law, I was able to get the space re-zoned as offices, which meant I was saving c.£27 a square foot or – more or less – £270,000 a year! I sold the recruitment agency for millions more than it was worth as a business because of the property lease. Indeed, the buyers sold it on immediately, keeping the property, which is what they had really wanted. Of course, I had to pay CGT at 40% if memory serves. Nowadays, however, the same sale would have allowed me to take advantage of entrepreneurs' relief at 10% because, with careful attention to paperwork, what I would have been selling was the recruitment agency and not the lease.

A moment ago, I mentioned that if you are deemed to be a property dealer or developer the profits arising on the sale of your properties will be taxed as income, rather than as capital gains. If I had one tip to offer those involved in property investment it would be to decide early on whether you were trading or investing. There are advantages and disadvantages to each, but given that CGT is so much lower than the combined effect of income tax and NI (which can result in a top rate of as much as 62% if you are unlucky), my general advice would be to aim to invest and not to trade – although there are exceptions to this, as I will explain.

What would make you a trader rather than an investor? Here are some of the badges of trade:

• You buy and sell frequently – only

holding properties for a short period.

- You don't usually rent out your properties. You make your money from trading not from rental income.
- You don't improve the properties, i.e. there is no development work.
- You carry on a trade, i.e. it isn't simply casual buying and selling but a real business.

The first and most important advantage of being an investor is that any profit arising on property sales will be treated as a capital gain. In other words, your top rate of tax would currently be 28% and you would be able to claim all the usual exemptions and reliefs. Moreover, you wouldn't have to pay NI on either your rental income or your capital gains and you could choose whether to register for VAT. Of course, IHT could be an issue, you will have trouble claiming expenses on abortive property purchases and if you have no rental income you won't be able to treat interest and finances costs as tax deductible. There is also limited opportunity to claim loss relief.

Are there any conceivable advantages to becoming a property trader? There can be in that you can claim a much wider range of expenses (not least interest and other finance costs) and you may be eligible for entrepreneurs' relief or rollover relief for CGT purposes. You can also claim losses against income arising in the same or previous tax year and should be able to exempt the business from IHT. Still, these benefits come at a high price, as explained above.

Housing Supply And Housing Demand

Fathom Consulting has recently published a report on the relationship between property prices and average annual income. Basically, after the housing market's peak in 2008, the price-to-income ratio for residential property in the UK fell from its all-time high of 6.2 times to, by 2013, 5.2 times. Since then, it has rebounded and is now back, more or less, to its earlier high. This high is, however, extremely unusual. For the price-to-income ratio to come back to its long-term average, property prices would have to fall 40% or household income would have to grow at 10 times its current pace for the next 10 years.

It is statistics like these, of course, that cause everyone from property investors to politicians to claim there is a shortage of supply. As the Chancellor of the Exchequer recently said, "The way you get affordable homes is to build more homes." There is, however, a contrary view and it may affect the way you invest in property going forward. Maybe there isn't actually a shortage? Maybe demand isn't as high as everyone says?

The first bit of evidence to suggest that supply is more than adequate comes in the guise of rental statistics. If there were actually a shortage of property then surely rents would be rising as fast as house prices and rental yields would be increasing, not falling? House price inflation has trumped rental inflation by 2.3% a year since 2006. Indeed, the latest figures from the Office for National Statistics state that private rental prices across the UK rose by only 2.6% in the last 12 months, which is only slightly more than our GDP. In London, rents on newly refurbished properties are rising at a rate of roughly 1.2% per year but rent on older properties are actually falling by the same amount. What other statistic can we look at? It appears that the number of households in the UK has risen by 7% since 2005, but that the number of people living in each of those household hasn't. Our current average of 2.4 people per household is the same as the European average and is the same as it was in 2003. It would appear that there are 600,000 empty properties in England alone. One more relevant figure: interest rates are currently at the lowest they have been in the last 300 years. Borrowing money to buy property has never been cheaper and yet still prices are falling and not rising.

Where am I going with all of this? My feeling is that much of the UK's property is overvalued, that supply is actually probably quite sufficient and that demand may, actually, be falling.

Time To Look At Self-Build?

Although television programmes such as *Grand Designs* are as popular as ever, the number of people undertaking self-build has fallen in recent years. There are two reasons for this: extremely tight planning rules and a shortage of lenders willing to finance such projects.

People become involved in the building of their own homes for all sorts of reasons, but mainly because they want to create something tailored to their family's unique requirements or because they want to live in a home that they may not be able to afford on the open market. There is something uniquely rewarding about building a home for you and your family. It harks back to the most basic of human instincts. Nowadays, however, self-build homes are not just about shelter and security: they are about expressing yourself and changing your lifestyle. For many, self-build is a chance to create the lifestyle that they have always dreamed of.

Self-builders create their homes through a variety of methods – and very few actually build it entirely themselves. The majority employ an architect to come up with the design of the new home and contract a builder to construct it; others use so-called package companies to provide a one-stop solution. Many others find themselves managing building sites and dealing directly with planners, tradespeople and materials suppliers.

In the UK a number of companies and individuals with the common aim of promoting self-build and custom-build as a form of housing delivery that could make a significant contribution to home building in the UK got together and formed something called the National Custom and Self-Build Association (NaCSBA). The NaCSBA brings together developers, architects, planners, financial and warranty providers, manufacturers, self-builders, community groups and local authorities to develop, share and promote best practice in self- and custom-build.

The UK has a much lower rate of self-building than other European countries. The sector currently accounts for between 7 and 10% of completions, while in, say, Austria it accounts for around 80%. There is some evidence to suggest there may be significant unmet demand for self-build in the UK. A survey commissioned by the Building Societies Association suggested that 53% of people in the UK would consider building their own home given the opportunity. One of the main plot-finding websites has over 100,000 subscribers. In March 2015, the Self-Build and Custom Housebuilding Act was given royal assent. This requires local planning authorities to establish local registers of custom builders who wish to acquire suitable land to build their own home. It also requires local authorities to have regard to the demand on their local registrar when exercising planning and other relevant functions. The Government has said it will introduce a Right to Build, under which local authorities would be required to bring forward plots of land for registered custom builders in a reasonable time.
Interest in self-build is, then, almost certainly on the rise and only being held back by, as I say, a lack of land supply and access to finance. Of course, the complexities of the planning process and the huge amount of red tape involved must also be putting people off.

So, where could you come in?

I think the first thing to remember is that there are many different types of self-build builders. On one end of the scale are people who actually build the house themselves and at the other there are developers who build one-off homes or lead group projects. Really, the words self-build refer to much greater involvement by the end purchaser in the building process. If you are interested in investing in this sector, therefore, there are a number of different opportunities. You could, for instance, look for suitable land and simply make your return by finding sites and obtaining suitable planning permission. On the other hand, you could also act as a developer and even, through the provision of kit homes, as a builder.

What about financing? If you are entering this as a business proposition, almost any bank is likely to be interested. Otherwise, I would suggest you look at smaller, niche market building societies – everyone from the Ecology Building Society to the Penrith Building Society. If you look online at the Wikipedia entry for building societies, you will see a complete list.

Anyway, if you find this whole area of interest I recommend visiting such sites as the Self-Build Portal, Plot Browser and Plot Search.

The Knight Frank Global House Index

Knight Frank has published its latest figures for the 55 property markets included in its Global House Price Index. To set the scene, the index has grown by some 3% over the last year, up from 2.3% in the previous year. Some 43 of the 55 housing markets tracked in the Global House Price Index saw prices rise, up from 10 countries in the aftermath of Lehman's collapse in 2008. Turkey leads the rankings with prices rising by some 18% during 2015. This was because Turkey is viewed as a safe haven for Middle Eastern investors and is also seeing strong population growth. Knight Frank expects the index's overall rate of growth to be weaker in 2016 than 2015. The global economy is experiencing a potentially dangerous cocktail of low oil prices, a strong dollar and a continued slowdown in China. The worst-performing market, incidentally, was Ukraine, where prices dropped by 12% during 2015. Of course, the index does not take into account currency fluctuations.

Obviously, when it comes to considering where to invest, it makes sense to take the currency exchange rate into account. Indeed, if one does so, the top five Knight Frank markets become:

- Iceland (+9%)
- Hong Kong (+7.1%)
- Israel (+6.7%)
- Sweden (+12.3%)
- USA (+5.4%).

Once one takes the strengthening of sterling into account over the period, Iceland becomes 20%, Hong Kong 17.4%, Israel 16.8%, Sweden 16.2% and the USA 15.6%. Personally, if I were picking any of these areas to invest in, I think I would probably choose Iceland, because the Landsbankinn has forecast that property prices in Reykjavik are likely to rise some 24% between this year and the end of 2018, or the USA, because it is so stable and its economy is so strong.

The worst losses in the world, according to Knight Frank, were experienced in Ukraine, where the property market fell by 12% or, if you priced it in sterling, by some 60%. I have to say I may be strongly tempted to invest in Ukraine at some point in the near future. Of course, Russia's war against the Ukraine is still very much continuing. Fighting in south-eastern Ukraine has carried on throughout the winter and early spring with Ukrainian officials reporting up to 70 attacks a day. Of course, if Russia ends up taking over all of the Ukraine it will be bad news for investors. When it took over the Crimea, it immediately seized around 400 businesses, including 200 health centres, all ports, airports, water and power facilities, railways, wineries and agricultural enterprises. It should also be remembered that inflation in the Crimea is running at nearly 30% a year. Still, now could be the time to buy, say, a farm in the region.

Brazilian property is very much up and down at the moment. Those that hope the World Cup and the Olympics would push the property market upwards have found otherwise. Last year, it fell by around 1%, and if you price the property in sterling, it fell close to 30%. At the beginning of 2016, there was a commodity rally but, nevertheless, the fluctuation of the real and other factors such as corruption and health scares will make many investors shy away from buying into Brazil. I think it is less of a punt than Ukraine, but it is still a punt.

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