Beyond THE Numbers

Issue Six

HIGHLIGHTS

A wealth of changes

We highlight the major legislative developments for 2018 that individuals, businesses and charities should be aware of.

The ins and outs of planning for VAT after Brexit

A guide to the current landscape and the key scenarios that businesses trading into Europe may face.

Buzzacott

Buzzacott LLP
130 Wood Street
London
EC2V 6DL
www.buzzacott.co.uk

ISSUE SIX

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This document is prepared to keep readers abreast of current developments, but is not intended to be a comprehensive statement of law or current practice. Professional advice should be taken in light of your personal circumstances before any action is taken or refrained from. No liability is accepted for the opinions it contains, or for any errors or omissions.

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Welcome to the sixth issue of Beyond the Numbers

Change is inevitable. Transformation is optional. At Buzzacott, we have worked with our clients for almost a century and over that time we've witnessed a great deal of change. As a firm, we embrace transformation. It's our mission to continually evolve and adapt to ensure that we're on top of industry changes and that we stay ahead of the curve for our clients.

Many of our clients will be impacted by the upcoming changes explored in this edition of Beyond the Numbers. These changes include the VAT implications of Brexit, the cleansing of mixed funds and the Senior Managers and Certification Regime – all of which will inevitably transform the way we and our clients undertake business. While these changes have been on the horizon for a while now, it is frustrating that many of the precise details are still not known. This is why we always aim to keep you updated through our communications, drawing on our expertise and our understanding of the landscape.

I hope you enjoy this issue of Beyond the Numbers and look forward to continuing to work with you.

Amanda Francis

Amanda Francis
Managing Partner

A wealth of changes

2018 has seen major changes to the legislative landscape for individuals, businesses and charities alike. Here, Buzzacott's specialist teams share some of the main developments that our clients should be aware of.

GET IN TOUCH

DARREN ALDRICH
Partner, VAT Services
T | +44 (0)20 7556 1301 E | aldrichd@buzzacott.co.uk

JAMES WALKER
Partner, Head of Private Clients
T | +44 (0)20 7556 1322 E | walkerj@buzzacott.co.uk

TONY HOPSON
Partner, Head of Expatriate Tax Services
T | +44 (0)20 7556 1422 E | hopsont@buzzacott.co.uk

MARK TAYLOR
Partner, Head of Tax Investigations
T | +44 (0)20 7556 1243 E | taylorm@buzzacott.co.uk

MARTIN SCULLION
Director, Expatriate Tax Services
T | +44 (0)20 7556 1207 E | scullionm@buzzacott.co.uk

Tax and redundancy

You may be aware of the UK tax rules surrounding payments made as a result of a redundancy. Simply put, up to £30,000 of the termination payment may be exempt from Income Tax for both you and your employer. At a distressing time, this can help soften the blow.

However, since April 2018, if you leave without working your entire notice period, any amount you receive up to what you would have been paid had you worked that full period remains subject to Income Tax and Employee National Insurance. Employers must also pay Employer's National Insurance. Individuals who are taxed subject to a foreign service relief will not benefit from the relief on these payments.

The balance of any termination payment may then qualify for the £30,000 Income Tax exemption – subject to the usual complexities – with the rest being taxable, while the full amount remains exempt from Employee National Insurance.

Another sting in the tail is that from April 2019, employers will become liable to pay Employer's National Insurance on any amount over £30,000, which could reduce what the employer is able to offer.

If you've recently been made redundant or have any questions about tax and redundancy, contact James Walker.

Offshore trusts and non-UK domiciliaries

Most of us are still catching our breath from keeping up with all the changes relating to offshore trusts and non-UK domiciled individuals over the past few years. Here's a quick round-up:

1) The Remittance Basis of taxation remains very beneficial for those who come to the UK for the short to medium term – generally, up to seven years, but for those of more substantial wealth, up to 15 years.
2) A non-UK resident trust remains a very tax-efficient option for such individuals, particularly for any wealth that won't be required during their stay in the UK.
3) Many non-UK domiciliaries who have claimed the Remittance Basis are able to "cleanse" their offshore accounts (up to 5 April 2019) to allow them to use the funds in the UK in the most tax-efficient way.
4) If you were caught by the new deemed UK domiciled rule changes on 6 April 2017, your overseas assets were "uplifted" for tax purposes. This is expected to be beneficial in most cases, but it can be just the opposite, so make sure you have reviewed your position.
5) If you receive a distribution from an offshore trust on which you are not taxed but later use those funds to help anyone in the UK, the person you are helping could have a tax charge based on your original distribution from the trust.

This appears to be a real mixed bag of winners and losers, but there is more to understand in the detail.

We are always available to offer tailored advice, helping you maximise your chance of being one of the winners. Get in touch with James Walker to learn how we can help.

Deemed UK domiciled – cash flow planning

If you are a 'non-dom' and previously claimed the Remittance Basis but were caught by the new deemed UK domiciled rules on 6 April 2017 (or will be in the future), you could be in for a very big surprise.

The fact you claimed the Remittance Basis means that you have a material amount of overseas income and/or capital gains that you do not bring to the UK, and so you have rightly made the decision to not be taxed on it.

However, changes to the rules have taken that decision out of your hands, and could result in a material increase in the cash you are required to pay HM Revenue & Customs (HMRC) by 31 January 2019 for two reasons:

1) Everything you receive is being taxed; and
2) Your first Payment on Account for the next tax year will be 50% of your new, higher Income Tax liability, compounding the increase.

This article continues ►

We suggest an early review of your cash flow plan. We can help you combine it with an exercise to cleanse any mixed funds to make tax-efficient cash available to fund future liabilities without adding to the problem. Contact James Walker for more information.

The US Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act has brought about one of the most significant reforms of the US tax code in recent decades. Most of the provisions affecting individuals, including gift and estate tax, are effective from the 2018 fiscal year onwards and will sunset in 2025. Here are some updates you should be aware of:

- US individuals who have set up a UK Limited Company – or any non-US corporation – will now face a one-time "transition tax" on accumulated earnings and profits at the end of the 2017 tax year.
- The Federal Estate tax gift tax exclusion has doubled to $11.2m per US person in 2018 and $22.4m for married couples. This could help with planning that involves gifts to non-resident alien spouses (such as the family home).
- The top Federal tax rate for individuals has decreased to 37% for income above $500,000 for single filers and $600,000 for joint filers. However, the long-term capital gains tax and qualified dividend tax rates remain the same at 0%, 15% and 20%.
- There are changes to the taxation of trusts with US beneficiaries, whereby trustees may want to be updated on both foreign non-grantor trusts' Distributable Net Income calculations and on foreign grantor trusts with an underlying company.

There have also been alterations to deductions, namely a doubling of the standard deduction and the removal of many itemised deductions and personal exemptions. This will impact Americans who have large state and local taxes, which are now capped at $10,000.

We are working closely with our US private clients to optimise their tax obligations. If you'd like to learn more about how we can help, contact Martin Scullion.

Requirement to Correct

The UK introduced legislation in late 2017 called Requirement to Correct. In summary, if you do not correct an historic UK tax error (as at 6 April 2017) before 30 September 2018 and the UK tax authorities (HM Revenue & Customs) later discover the mistake (for example, through information received under the Common Reporting Standards sharing regime), you could face a penalty of 200% of the tax plus 10% of the value of the underlying assets. HMRC may also publish your details on its website, which is watched by the media.

The UK's tax system has far-reaching tentacles. We're advising all our clients with a connection to the UK to check their position carefully and soon, to make sure that nothing has been missed. If it turns out that there has been a mistake, we can help you limit your exposure to just the tax missed plus any interest – in other words, without penalties. For more information about the technicalities, please contact James Walker or Tony Hopson. Or, if you have any questions about disclosure facilities, please speak to Mark Taylor.

Major Goods and Services Tax change in Australia

On 1 July 2018, the Australian Taxation Office will introduce a change to its Goods and Services Tax (GST) to apply to the sale of low-value goods imported by consumers into Australia. It marks an attempt to level the playing field for Australian businesses trying to compete with non-resident sellers.

GST does not apply to goods imported into Australia with a consignment value of less than AU$1,000. However, from 1 July 2018, non-resident businesses trading over a certain threshold will have to charge 10% GST on any goods sold to consumers with a consignment value of less than AU$1,000. Where the consignment value is over this amount, no GST is charged. If the customer is a business rather than a consumer, no GST is charged. The GST collected from consumers must be remitted to the Australian tax authorities by the seller.

If you'd like further detail and advice on how changes to Australian GST affect your business, get in touch with your usual Buzzacott contact or Darren Aldrich.

APPRENTICESHIP LEVY:

A LEARNING CURVEBALL FOR EMPLOYERS

The Apprenticeship Levy, which is paid by businesses to fund the training of apprentices in the UK, came into effect in April 2017. However, recent analysis found that, so far, only £108m out of £1.39bn available has been used by English businesses. Why is this? Here, we look at the levy in more detail and outline our top solutions for the main challenges our clients have come across.

GET IN TOUCH

LUKE SAVVAS
Tax Partner
T | +44 (0)20 7556 1460 E | savvasl@buzzacott.co.uk

DOUG FARROW
HR Director, HR Consultancy
T | +44 (0)20 7556 1453 E | farrowd@buzzacott.co.uk

The Apprenticeship Levy was announced at the 2015 Budget as part of the government's objective to increase the number of apprenticeships in the UK, based on the stated principle that "the most successful and productive economies in the world are committed to developing vocational skills". The Levy is paid through the Pay As You Earn system by employers with an annual pay bill greater than £3m. These employers are then able to set up a digital account from which they can access up to £15,000 annually to pay the costs of using government-approved apprenticeship training providers. Employers that don't pay the levy can also make use of a cost-sharing arrangement with the government for apprenticeship training.

But employers must use their funds within 24 months. If the funds are not used, the levy is effectively nothing more than a payroll tax.

A year on from the Levy's introduction, statistics suggest it is not yet achieving its intended results. Recent analysis by the Open University found that, so far, only £108m out of £1.39bn available has been used by employers. Moreover, official government figures show the number of people starting apprenticeships fell by 24 per cent in the first half of the 2017/18 academic year.

Many of our clients have told us they found the scheme too inflexible to meet differing organisational needs, as it has a "one-size-fits-all" approach. Furthermore, finding suitable training courses and providers and, in turn, educating managers on how to manage apprentices, have thrown many organisations a curveball. The government seems unwilling to amend or scrap the scheme, despite calls to do so from many business groups. Employers will need to work through the bureaucracy underpinning it, otherwise levy funds will be lost to the government – our clients will be pleased to learn that this is something Buzzacott can assist with, enabling you to take full advantage of the benefits. Here are some of the key steps in overcoming the challenges to take full advantage of the apprenticeship levy:

Choose the best framework

Many organisations are simply finding it difficult to introduce apprenticeships into their workforce in a manageable and cost-effective way, even with the benefit of the available funding. We can help you choose the right framework for your business and identify what type of apprentice you need. Once you have this foundation in place, you'll have a better understanding of what needs to be done and what funding is available.

For England, use the handy search tool on the gov.uk website to find the right framework for you and play around with the different options. They'll also summarise each framework for you, pull out helpful documents taking you through the standard for your role and an assessment plan, and provide a direct link to local training providers.

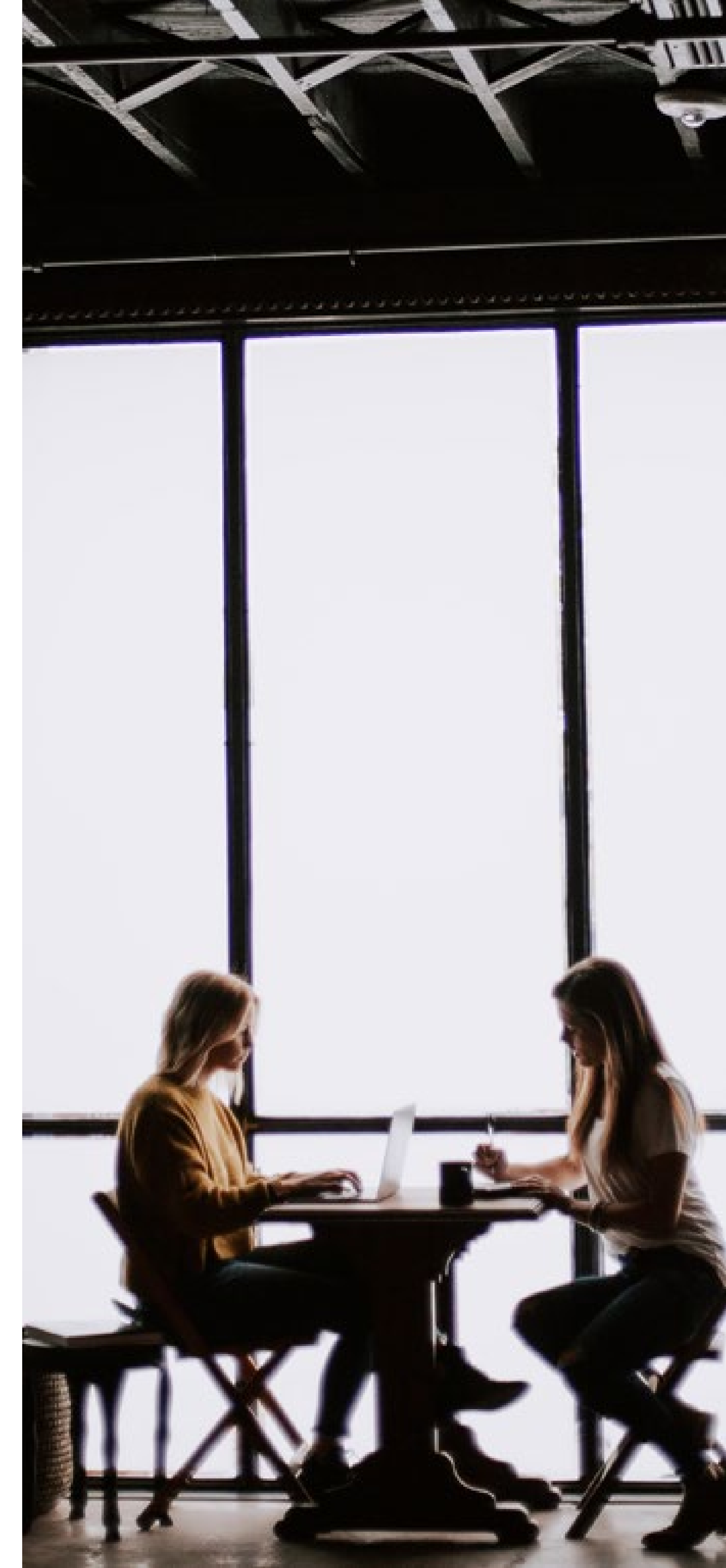
Find the right training provider for you

Having chosen a framework, contact an organisation or provider that offers the training you need. It is important to choose a provider that shares your vision, and we can offer guidance on finding the right fit. Don't pick one based on a single role – find a provider that is willing to work with you to map out short, medium and long-term learning and development strategies. The bigger and longer-term picture is important here: embed apprenticeships into your overarching training and talent strategy. Think about how they can help you work towards your future business needs and goals.

Provide clear guidance

Make sure you talk staff through exactly what the benefits and expectations of having an apprenticeship programme are. Work with your managers to clarify what is expected and what support will be needed. Many employers have been put off by the 20% off-the-job training as part of the apprenticeship programme, but it doesn't have to be a scary task to manage. For example, off-the-job training can take place at an employer's workplace or at home. Work with your training provider and staff to identify the best course of action to ensure your apprentices and your business make the most of the scheme.

Buzzacott can assist with maximising the value of apprenticeship funding for your organisation, and we'll leverage the expertise of our various teams to offer comprehensive advice on setting up and operating the apprenticeship service accounts.



SMCR: Are you ready to be held personally accountable?

It's a good idea to understand and act on the requirements of the new SMCR in the financial services sector – and soon.

GET IN TOUCH

PRIYA MEHTA
Director, Financial Services
T | +44 (0)20 7556 1372 E | mehtap@buzzacott.co.uk

KIMBERLY BRADSHAW
Managing Director, HR Consultancy
T | +44 (0)20 7556 1224 E | bradshawk@buzzacott.co.uk

Public confidence in the financial services sector fell dramatically following the financial crisis and several highly public failings in behaviour or decision-making. With a lack of accountability potentially the cause, in March 2016 the Financial Conduct Authority (FCA) introduced the Senior Managers and Certification Regime (SMCR) to replace the Approved Persons Regime (APR) for the banking sector. SMCR involves assigning a named senior manager personally responsible for each of a firm's business functions and activities. The FCA will soon extend the regime to all firms authorised under the Financial Services and Markets Act. This includes asset managers, investment firms, insurers and consumer credit firms.

We talked about the issues and the priorities facing these firms with Priya Mehta of our Financial Services team and Kimberly Bradshaw of our Human Resources (HR) Consultancy. Priya and Kimberly are our clients' primary contacts for helping them to navigate the requirements of the new regime.

Why wasn't the APR working and how will SMCR address these issues?

PM: APR wasn't adequately holding people accountable if anything went wrong – responsibilities fell to the board and collective management. But SMCR requires you to allocate a named individual to each role and responsibility, so if something goes wrong, that person is held liable and accountable.

KB: In effect, it means the FCA is now tackling company culture to build public trust in the UK's financial services. It's all about people's behaviour, individually and collectively, to adhere to a common set of beliefs and values, so each firm is well-controlled and knows what everybody is doing.

How do you see Buzzacott helping firms that need to comply?

PM: While all the information to do with SMCR is quite easily available, there is a lot of it. We are offering our clients help on the practical points of what they need to do. It's about overseeing, ensuring and certifying people's awareness of their roles and responsibilities.

KB: There are several HR aspects that fall out of that, because these businesses are very people-orientated and the people present the biggest risk to their business. The HR Consultancy team is working closely with the Financial Services team to make sure people have the right skills, knowledge and behaviour to fulfil their roles. Not just technical skills, but personal skills, such as leadership.

Lots of roles and functions are exempted – cleaners, drivers and such like. But anyone outside of this could be covered by the certification regime. We'll be helping our clients understand exactly who.

We are offering our clients help on the practical points of what they need to do. It's about overseeing, ensuring and certifying people's awareness of their roles and responsibilities.

How are all those people going to be certified?

PM: All the roles covered need an annual assessment to ensure they comply. Then, within the normal reporting hierarchy of a firm, the most senior manager is the one accountable to SMCR and would be responsible for any error a junior made. The senior management must have the need and desire to ensure everyone is doing the right thing.

KB: Because of that, our clients need to ensure they have an appropriate performance management and appraisal processes, including job descriptions and a clearly defined organisational structure, which is where the HR element comes in. The goal of the FCA is "performance management with no surprises".

This article continues ►

How has the banking sector taken to SMCR?

PM: Quite well. Bankers have acknowledged it was necessary and it's become a standard part of risk management. We've seen many examples of them having drawn "responsibility maps", so every cost or revenue centre has an appropriate individual as a head and a clearly defined team. There have been changes in people's contracts.

KB: It can be complicated, though. FCA-regulated firms often struggle to transform culture. It's something that evolves over time and it's different for every firm. It's not a box-ticking exercise.

PM: It can be a more complex process wherever internal structures are complicated. If decision makers are in overseas offices, firms will have to bring those people within the scope of the regime. It requires everyone working together.

Firms really need to act in the next six months or so. When a date has been set, companies will need to be compliant by then.

What happens if people fail to get things right?

PM: Penalties are issued quite regularly. One bank was fined more than £3m for a breach and could take no deposits from new customers for 168 days. Penalties can include fines for individuals, who may also be banned from taking certain compliance roles, as happened in this case.

KB: Some firms don't like it. They see it at as something they don't need, but people could go to jail or be banned from their careers or fined, quite aside from the reputational and financial damage to their firm. So it's in our clients' interests to get it sorted out as it's not going away. Those that do sort it out are going to be the ones that win new business.

So how is planning going with the new set of firms to be covered?

KB: Nobody wants to have to deal with regulations retrospectively, but at the same time, it's not the most exciting or simple thing to deal with. Some firms are sticking their head in the sand.

PM: From conversations I've had with clients, it's on most of their radars, but I sometimes have to encourage them to prioritise it. Firms really need to act in the next six months or so. When a date has been set, firms will need to be compliant by then – it's likely to be mid- to late-2019.

KB: We're trying to give our existing and prospective clients as much warning as we can, because a lot of the work, especially on the HR side, isn't quick-fix implementation. It involves people, so it can be emotional. But because of the close relationships we maintain with our clients, we can offer tailored guidance and work together to meet the deadline.

In short, we're prepared, so our clients can be.

Event invitation: SMCR – Are you ready?
10 July 2018 | 08:00-10:00

In this breakfast briefing, Buzzacott's specialists will take you through the ins and outs of SMCR and provide practical guidance on how to navigate the new regime and prepare your staff. For more information, please follow this link: **http://www.buzzacott.co.uk/events/smcr-are-you-ready**

CARING FOR OUR COMMUNITY

At Buzzacott, we have always thought it important to consider the world beyond our office walls. Through our corporate social responsibility (CSR) programme, we aim to play a meaningful part in supporting our local community.

We focus many of our activities in areas local to the City of London, including most of our volunteering activity.

GET IN TOUCH

ELLIE SEAWARD
Head of CSR
T | +44 (0)20 7556 1385 E | csr@bzzacott.co.uk

JAMES ROSS
CSR Assistant
T | +44 (0)20 7556 1385 E | csr@bzzacott.co.uk

Since the last issue of Beyond the Numbers, our CSR team has been busy supporting children and young people through volunteering, education and philanthropy, and we've also been considering our wider environmental impacts. Here we outline a range of exciting new projects we are working on:

Setting up our own food bank collection

Alongside our support for projects that promote social mobility and safety, we can't ignore the fact that there is a more fundamental poverty crisis within mere miles of our office. Food bank use is on the increase in the UK, especially in the London boroughs that adjoin the City, where rates of child poverty are some of the highest in the UK. For one week in May, we supported local food banks by creating our own collection. All teams contributed and we managed to collect 287 items. This simple but effective campaign gave everyone the opportunity to involve themselves in our CSR scheme and had a genuine impact in our local community.

Developing a Breakfast Club programme

As part of our focus on children and young people, we are working to establish a Breakfast Club programme in a nearby borough. Many children from socially deprived backgrounds often go without breakfast, which is shown to have a negative effect on their concentration and attainment in school. Our CSR team is working with a charity partner to develop a programme that will provide more than 3,000 free breakfasts, as well as additional social and educational benefits. While this initiative is still in its infancy, we hope to see genuine impacts over the coming year.

Doing our bit for the environment

Our recycling rate has steadily increased over the past two years, reaching 80% or more in some months in 2017. While we're very proud of this upward trend, it's our mission to ensure that we're continually reviewing and innovating. We recently launched a campaign educating Buzzacott staff on recycling and also simplified how they can recycle by providing two types of bins in our office – one for food waste only and one for everything else. Our partnership with waste operator First Mile has ensured that we have sent zero waste to landfill since 2011. Its innovative sorting and recycling facilities mean that we can recycle many more materials than many people can at home. With the support of everyone in our office, it is our target to reach an average recycling rate of 90% over the coming year. It's early days yet, but we'll let you know how we get on.

Introducing Buzzacott's own KeepCups

More than 2.5 billion single-use coffee cups are used every year in the UK, and they are predominantly non-recyclable. We want to help reduce this figure and so will be providing every one of our 300-plus Buzzacott employees with a reusable cup to use instead of throwaway ones. The cups come with the added benefit of up to a 50p discount on drinks from local cafés.

Getting everyone involved in volunteering

Everyone at Buzzacott receives 14 hours of work time per year to volunteer. Teams can use this time to volunteer together or take part in firm-wide volunteering days, but we also encourage individuals to seek their own opportunities. This offers everyone the chance to be flexible in their approach to volunteering, while also enabling people from across the firm to work together outside of the office environment.

Volunteering is integral to the Buzzacott CSR programme, as it allows us to make a material impact by working directly with charitable causes. A popular volunteering opportunity among our teams this year has been The Posh Club, a social hub that seeks to prevent social isolation in Hackney's elderly community. Buzzacott's volunteers have said of their experience:

- **"It has changed my view on volunteering in general. TPC is evidence that giving up just a few hours of your time is invaluable to others."**
- **"The event is clearly valued and enjoyed by the guests. It is clearly quite a special occasion for them."**
- **"I'm more aware of the happiness that these kinds of events can bring."**
- **"It was amazing to see how much effort goes into the event and how much care is shown for the guests."**

It is our ambition to further build upon each of these activities, increasing our positive impacts across all our CSR streams.

The ins and outs of planning for VAT after Brexit

Buzzacott's VAT team supports many businesses that trade all around the world, helping to make sure they are up-to-date with the latest VAT rules and rates. Many of our clients trade in Europe from outside the EU and from the UK, so, with Brexit on the horizon, they are planning ahead for the new trading environment and working with us to identify their key challenges.

In this article, Darren Aldrich outlines the current landscape and delves into various scenarios that businesses trading into Europe may face.

GET IN TOUCH

DARREN ALDRICH
Partner, VAT Services
T | +44 (0)20 7556 1301 E | aldrichd@buzzacott.co.uk

If you are looking to plan for new customs arrangements after Brexit, as things stand, it's a bit like the hokey-cokey – in, out, in, out, shake it all about. But while nothing is certain yet, our team of VAT experts can help make the impact manageable.

What we do know is that things will change and businesses will have to do something rather than nothing. And the later they leave it, the trickier things could get. There may be bottlenecks as everybody tries to do the same thing at the same time, so we're recommending our clients get ahead of the game. For example, for our non-UK clients that want to continue to sell to the UK but are currently using a central base in Europe to bring goods in from, we are suggesting that they apply for a UK VAT number now. We can help to make this a relatively efficient and straightforward procedure.

Depending on individual company circumstances, there may be other simple administrative plans we can suggest putting into action soon – even if it turns out they're not eventually needed. Having said that, we tend to advise our clients against making any major investments or changes until we know what is happening with the laws and the VAT situation.

To provide a better idea of what you might face, we've put together an outline of the key trading scenarios we and our clients have encountered so far – and our best prediction at present as to how the future might look.

Scenario A – companies trading goods throughout the EU, including the UK

These companies will be affected more than most, because they may not have the UK covered after Brexit. At the moment, they'll typically enter their goods through a single gateway – a major city or port in mainland Europe – for distribution around the EU, which is efficient in terms of VAT and logistics. Our current view of the most sensible and efficient way of doing it after Brexit is to set up to import into the UK as well, with two different shipments. This could mean altering logistics or warehousing arrangements, and require additional accounting plus double VAT registration. Buzzacott can offer support with setting up these arrangements efficiently.

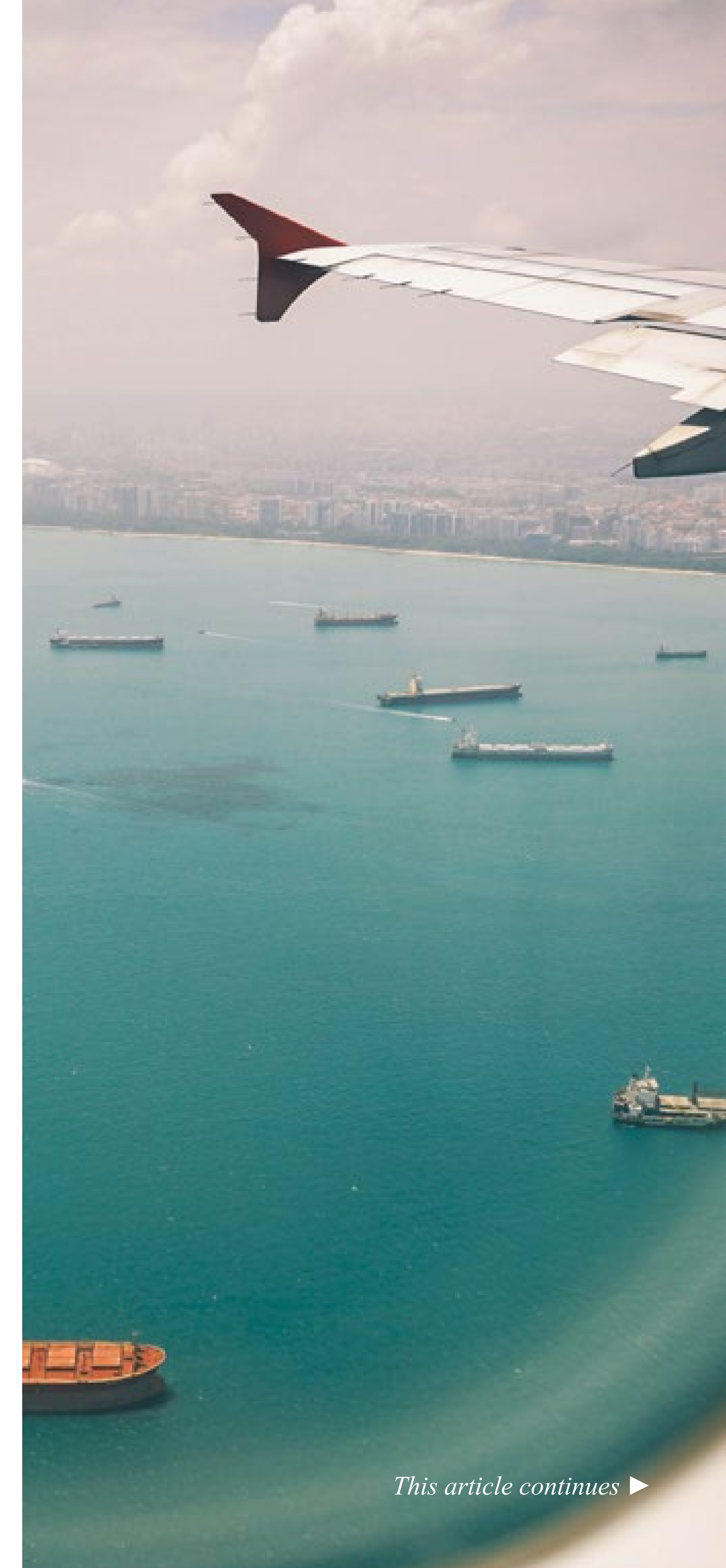
Otherwise, these companies may face paying double import duties. Let us take clothes for example, where duties on some items will be 12% to get them into the EU and then (if not in the same customs union) another 12% to get them into the UK. Add 20% UK import VAT and a similar EU import VAT and a lot of cash could be tied up for a few months. Our hope is that the UK brings in a way of deferring the import VAT through something like an import licence. France, the Netherlands and Belgium, among others, already do this. We'll be working closely with clients to determine how best to manage these duties.

Scenario B – companies trading to the EU through a UK base

Just before the Brexit vote, one of our clients, an international clothing company, set up its new European distribution centre in the UK, which of course won't be in the EU for much longer. Until we know the precise rules, we cannot advise on its full range of options. There are many of these European distribution centres in the UK. Some of the warehouses, known as 3PLs (third-party logistics warehouses), are not company-owned, so it will be easier to move, while others are company-owned or leased. In the worst-case scenario, they will have to pay UK VAT and duties to get their goods into the UK, and then pay all over again to get them into the EU.

What we do know is that things will change and businesses will have to do something rather than nothing. And the later they leave it, the trickier things could get.

Alternatively, they could make their warehouses bonded – that is, where goods can be stored in the UK without them entering the UK market – but these normally cost more to run. This would resolve the duty issue, though not the cash flow with the VAT. Either way, it reduces their competitiveness. The recent trend, mostly based on costs, is to look to Eastern Europe rather than the UK for a distribution centre, and this logic seems unlikely to change now. Whatever happens, we can offer our clients guidance on making the most of their options and assisting with the VAT issues in any country they move to.



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Scenario C – online sales

At present, there are simplified ways of accounting for VAT on digital downloads supplied to EU consumers. A UK business can declare VAT through the HM Revenue & Customs website and the UK would distribute the VAT collected to the tax office of the country where the product was downloaded. Companies doing this after Brexit are likely to have to register and pay that tax via another EU country. In 2021, the EU is bringing in a similar simplification for companies that sell goods online to consumers. Once the UK is outside the EU, we may not be able to use that, so the process could be very disruptive. Our team will be monitoring the changes to offer the best advice to our clients affected.

Some of the other potential issues

In many EU countries, a non-EU business that is liable to be VAT registered has to appoint a local representative to take responsibility for its VAT compliance. It is standard practice for a fiscal representative to ask its client for a bank guarantee or cash deposit. After Brexit, a UK business may have to provide these, whereas in the past it did not.

Did you know that Royal Mail charges an £8 "international handling fee" to release goods on the doorstep when goods are purchased and imported from outside the EU when VAT is due? Not only will the relevant EU purchases sent by post become £8 more expensive, the burden on Royal Mail to charge, collect and handle the rejected goods will be immense. Fear not though – we have a great solution for EU shippers that will remove this potential problem (let us know if you'd like to hear it).

We will be keeping our eye on matters

Our team has expertise in UK VAT and international VAT as well, so we're well positioned to help. We've already set up clients in 35 tax jurisdictions, including all of the EU, and regularly meet with tax authorities and the European Commission to discuss current issues and their interpretation of changes. So, while we know a lot of questions remain, we will be among the first to know the answers as soon as things become clearer. In the meantime, we will do our best to help you plan for them.

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A simple move for happy hospitality staff

Appointing an independent troncmaster allows for the fair and transparent pooling and distribution of tips.

GET IN TOUCH

MARK TAYLOR
Partner, Head of Troncmaster Services
T | +44 (0)20 7556 1243 E | taylorm@buzzacott.co.uk

The various solutions used by employers in the hospitality industry for distribution of tips can be anything but transparent. When employers do pass gratuities on to their staff, they commonly do so in such a way that the extra is treated and taxed as salary, meaning employees receive it net of Income Tax and National Insurance Contributions (NICs). Enter an alternative option that benefits everyone: troncmaster schemes.

What is a tronc?
It's a special pay arrangement used to distribute tips, gratuities and discretionary service charges given by customers to staff.

What does tronc mean?
It derives from the French "tronc des pauvres", or poor box. These were once used to accept donations for those in need.

What is a troncmaster?
A person responsible for arrangements to share tips, gratuities and discretionary service charges between staff.

How do troncmaster schemes work?
By assigning a troncmaster, employers and employees stand to benefit. For example, the need to pay NICs on tips is completely removed.

Although it is possible to assign an employee as a troncmaster, it is not a simple process, so an independent one is often appointed to manage the tronc.

In 2017, the Association of Licensed Multiple Retailers and the Unite union formally agreed a code to promote good tipping practices. Since then, the media have featured an alarming number of reports over the treatment of gratuities by well-known restaurant chains.

Thankfully, however, it is not all doom and gloom. As independent troncmasters, we have witnessed an increase in businesses actively looking for a solution that allows for the fair and transparent pooling and distribution of tips, service charges and gratuities.

This article continues ►

Businesses in the hospitality industry approach us with myriad challenges. Most commonly, they fall in to one of the following three scenarios:

1. They already operate a tronc scheme, but find it too much of an administrative burden.
2. For peace of mind, they need a health check on their practices to confirm that they are unbiased and compliant with the rules.
3. Yet-to-be-launched restaurants, pubs and bars, hotels and conference venues want to start off on the right foot, with a tronc scheme already in place.

Whatever the situation, businesses choose Buzzacott's Troncmaster team because we guarantee industry standards. Here's how we helped Obia, a bustling restaurant in South London, to set up its tronc scheme and how it benefited its staff.

When Nikul, the owner of Obia, approached us in 2017, the restaurant had recently opened. During this time, they had been receiving tips but were unsure how best to fairly and ethically distribute them to staff because, put simply, they were not sure of the best way to do it.

There are rules around the correct operation and distribution of tips. If a tipping scheme is set up incorrectly, not only could you lose your best staff due to lack of motivation, but you could fall foul of HM Revenue & Customs and face a potential NIC liability of up to six years. Some restaurants place the responsibility of a tronc on their general manager, but Nikul knew of the administrative burdens that this would carry and so wanted someone independent to take on the responsibility. That's when we stepped in.

As with any case, it is our mission to ensure that all our tronc schemes are equal and beneficial for all involved. We tailor our schemes to the business and staff, so to gain a better understanding of what was needed, we met Obia's management and employees to create an arrangement that was mutually beneficial. We designed a bespoke tronc scheme that was genuinely independent, free from employer interference or influence, and run for the benefit of the Obia staff. We always tell our clients that giving as much as possible back to staff goes a long way, not only in keeping staff happy but also in building a trusted business.

Angelika, a waitress at Obia, said: "As a working mum, I depend on tips to help support my family. With more customers paying tips through service charge and on cards, I rely on those then being passed on to me." Understanding the worth of tips for businesses and staff is important to the work we do – we try to get businesses to understand that there is more to tronc schemes than saving money on NICs.

Prior to joining the Obia team, I have seen troncs operated by internal management rather than an external and independent troncmaster. Having worked with Buzzacott for some time now, I believe that having someone independent acting as the troncmaster adds value. For example, it has removed any concerns that I have seen in past that some staff members are unfairly favoured more than others.

PAOLO SABA – HEAD CHEF

Since we began working with Obia, the management have received positive feedback from staff on the transparency of the scheme and how it is run. In turn, Nikul and the management have seen an improvement in staff motivation and retention. They have since opened another restaurant, and we're proud to say we've designed a tronc scheme for it, too.

It is easy to assume that the gratuities you are giving are going to the right people, but unfortunately that is not always the case. With Buzzacott's Troncmaster team distributing the gratuities, you can be sure that we are acting fairly and ethically, free of bias, favouritism and personal friendships or motivations.

FIVE GOLDEN RULES FOR FUNDRAISING

Fundraising by start-ups hit a new record in 2017. But often, companies rush in to the process without weighing up all the options. We highlight some of the most important things to consider.

GET IN TOUCH

MATT KATZ
Partner, Corporate Finance
T | +44 (0)20 7556 1306 E | katzm@buzzacott.co.uk

ANDY HODGETTS
Senior Manager, Corporate Finance
T | +44 (0)20 7710 2622 E | hodgettsa@buzzacott.co.uk

The UK is currently a hotbed for early-stage businesses looking to raise funds. 2017 was a record year for venture capital funding in the UK, with nearly £3bn invested – double the amount raised in 2016. This year has also started well, and with the extension of the Enterprise Investment Scheme and Venture Capital Trust scheme for "knowledge intensive" companies, there are more and more opportunities for companies looking to raise funds.

However, with opportunity comes risk, and we often find companies that jump into fundraising without fully assessing their options and what it will mean for the business. While fundraising is individual to each company, below we highlight five of the most critical aspects to consider during the process.

1. Know how much money to raise

There is always a cost to raising money, so knowing how much you should aim for is critical. Too often, businesses pluck a number out of the air and run with it, and in some circumstances it is difficult to do anything else. However, much of the time, a business should have a growth plan and therefore an idea of what investment is needed to implement it. Raise too little and you risk running out of cash and having to raise more capital, often at a higher cost. Worse, you could run out of cash and either have to compromise on the plan or even end up with cash flow problems.

The rule when raising finance is that things always take longer and cost more than planned, so it is worth adding a sensible contingency onto the amount you need to raise. However, at the other end of the scale, there is no point in raising so much capital that it cannot be deployed. It will not drive value, yet still comes with a cost.

2. Examine the funding options

When thinking of raising money for an early-stage business, most people immediately think of equity. However, there are many options for funding, with funders whose behaviour varies from very conservative to high risk/high return. Debt is often overlooked, with many people thinking it is not available to early-stage businesses. However, debt options that might be available range from venture debt through to invoice financing. The risk profile of the business, how it operates and several other factors will make a business more suited to one type of funder than another.

3. Be realistic on timeframes

To reiterate from point one, things cost more and take longer than expected. Nearly every business you speak to that has raised finance will say it underestimated the time it takes to get the money in the bank. As a rule of thumb, the process from start (first thought) to end (cash in the bank) is likely to take three to six months. It can easily take twice as long, but it is hard to make the process much quicker when raising institutional money.

4. Set the right valuation

If raising equity, be realistic with the valuation. If it is too high, you may price yourself out of the market. If it is too low, you will dilute the company too much. Ultimately, valuations are just methods to work out the percentage of the company that is being given away for a given sum. The judgement should always be based on whether the money will generate more value than what is being given away and whether there is another funder that will dilute the existing shareholders by less.

5. Do not neglect your business

Any fundraising process is time-consuming and can distract management away from growing the business. However, if you are selling a vision of growth, it is critical that the business keeps growing during this time. You can alleviate pressure by ensuring your forecasts for the period up to the close are realistic and achievable, which in turn will mean that funders will have more confidence in your future projections. It is easy to think that raising money is a simple job, but having advisors that can alleviate the strain can help founders concentrate on growing the business.

A WINDOW FOR CLEANING NON-DOM FUNDS

If you want to bring your clean capital to the UK tax-free, the time to act is now.

GET IN TOUCH

MARTIN SCULLION
Director, Expatriate Tax Services
T | +44 (0)20 7556 1207 E | scullionm@buzzacott.co.uk

Do you have UK resident but non-UK domiciled status? If so, you may be aware of the opportunity to rearrange your tax affairs so you can remit your "clean" capital to the UK tax-free. We are currently in a two-year tax window for doing this, but it closes on 5 April 2019. With the paperwork and analysis likely to be involved – and the potential need to liquidise appropriate assets – this summer will probably be the latest you can move on this. So it's worth acting fast if you want to move some funds to the UK on a favourable tax basis.

It can be a challenge to understand the jargon, so first, let's examine it. What is clean capital and what is a mixed fund? Clean capital is money you earned before becoming a UK resident, as well as money you've already paid tax on in the UK.
A mixed fund is an account that includes income that hasn't been taxed in the UK but would have been if you'd been taxed on the arising basis rather than the remittance basis.

The solution is available if you've been taxed on the remittance basis in the past ten years, possibly longer, and have mixed fund accounts offshore with substantial holdings – and would like to bring some to the UK. Potentially, your mixed fund may be a mix of clean capital, untaxed interest and other income, untaxed dividends and untaxed capital gains. So, essentially, the task is to segregate your mixed funds into their constituent parts.

It means you'll need to set up a bank account structure with different accounts for clean capital, income and capital gains. We can provide our clients guidance on how this should look. But even if your mixed fund account is complicated and you can't easily identify each separate part, you'll be able to transfer your original clean capital, as long as you can identify it. HM Revenue & Customs will assume any unidentifiable funds are income.

At this stage, it's worth noting that the opportunity to cleanse funds applies to cash only, and not assets. So you need to cash out of any investments you want to remit to the UK before the window closes.

The next step would be an analysis of your funds. We tend to advise our clients on three approaches:

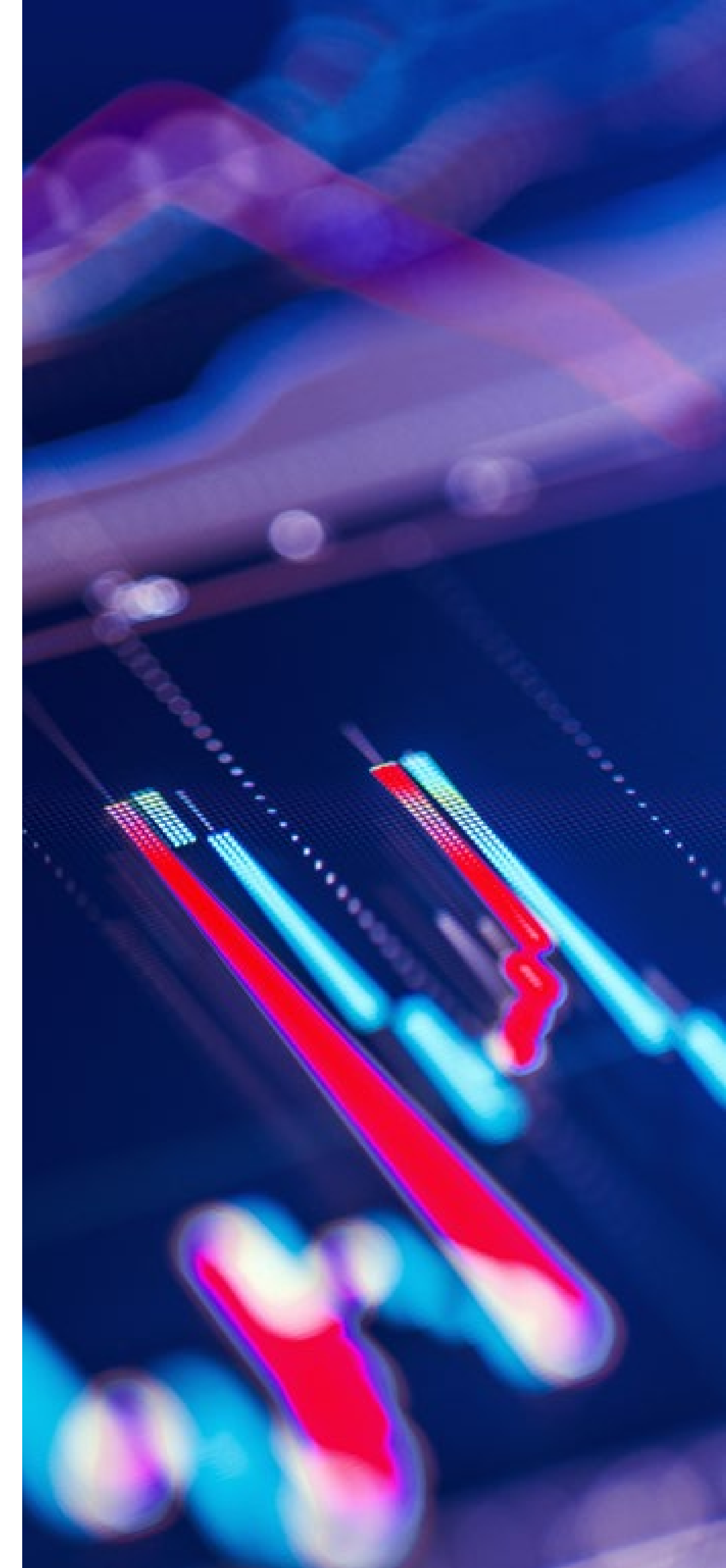
- The first option involves a strict analysis, which covers every transaction in your mixed fund accounts. This is a detailed and more expensive route, with potentially a vast amount of data, but it could maximise the amount of clean capital you can remit to the UK.
- Possibly better is the more pragmatic analysis. Here, we would look for what clean capital we can identify without having to go into great depth. This could uncover easy or small wins, such as the clean capital connected to a single asset, such as a property.
- Third, with complicated accounts and multiple assets, we can identify the maximum amount of income that you could have been taxed on, but weren't, during periods of remittance. The remainder of the money in those accounts or assets would be clean capital. It would be an under-nomination of clean capital, and so would not maximise your allowance, but the process is easier.

It is worth acting fast if you want to move some funds to the UK on a favourable tax basis.

Once your money has been segregated, you make a self-nomination of what has been segregated. As long as that remains clean and doesn't become a mixed fund account in the future, you can bring it into the UK tax-free. You should also keep the non-clean capital segregated into income and gains, as gains are taxed at a lower rate if you want to bring them to the UK. Then there is also the potential to plan for remitting from those accounts in future – for example, giving to adult children or investing in Enterprise Investment Schemes that receive business investment relief.

All in all, there are many opportunities for tax efficiency, and Buzzacott's Expatriate Tax team of experts can help you with the task, or support your lawyers, private bankers or wealth managers. We would begin with a feasibility study to work out the extent of the task – simple matters, such as whether you have clean capital to claim, whether it's worth going ahead and whether there are any alternatives.

But it must be stressed: for the chance to remit your clean capital to the UK without paying tax, the time to act is now.



DIRECTORY

About us
People trust Buzzacott. We blend pragmatism with the insightful knowledge of an industry leader, driven by attention to detail. We're big enough to display deep knowledge over a broad range of specialisms and small enough to understand the power of personal connections.

The values we identify with, the consistency of our advice and our ability to tailor-make solutions mean Buzzacott can be trusted to do the right thing.

Contact details
www.buzzacott.co.uk
Email enquiries@buzzacott.co.uk
Phone +44 (0)20 7556 1200

LinkedIn: www.linkedin.com/company/buzzacott

Twitter: @BuzzacottLLP

Office address
Buzzacott LLP
130 Wood Street
London
EC2V 6DL

For further information or if you would like to speak to us about anything outlined in this magazine, contact us via the details below.

Buzzacott Financial Planning
BuzzacottFinancialPlanning@buzzacott.co.uk

Buzzacott Giving Solutions
BuzzacottGivingSolutions@buzzacott.co.uk

Charity & Not-for-Profit
Charities@buzzacott.co.uk

Corporate & Business Services
Corporate@buzzacott.co.uk

Expatriate Tax Services
ExpatriateTaxServices@buzzacott.co.uk

FCA Regulated Firms
FCARegulatedFirms@buzzacott.co.uk

Fiscal Solutions
FiscalSolutions@buzzacott.co.uk

HR Consultancy
HRC@buzzacott.co.uk

Private Clients
PrivateClients@buzzacott.co.uk

Professional Practices
ProfessionalPractices@buzzacott.co.uk

Tax Investigations
TaxInvestigations@buzzacott.co.uk

Technology & Media
Technology&Media@buzzacott.co.uk

Troncmaster
Troncmaster@buzzacott.co.uk

VAT Services
VATServices@buzzacott.co.uk