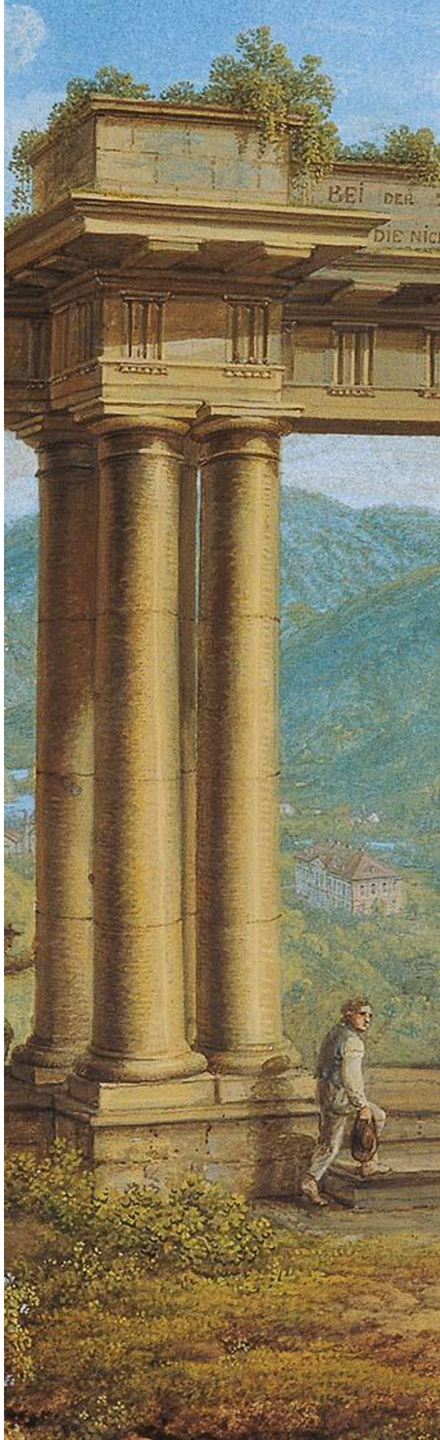
2021… A defining year for tax reform?

David Lane

Partner and Technical Director

December 2020



LGT – VALUES WORTH SHARING

David Lane, Technical Director & Partner, LGT Vestra
David Brown, Business Development Director, LGT Vestra

Monday 14th December

Learning Objectives

- To understand the fiscal affect Covid-19 has had
- To discuss the potential tax changes
- To understand the tax planning opportunities.

Introducing LGT Vestra

Global access with a boutique approach

The LGT Group is the largest family-owned Private Banking and Asset Management group in the world offering wealth management services to a range of clients.

LGT Group

Offices: 22 worldwide

Employees: 3000+ staff

Assets: GBP 198 billion (as at 31.12.19)

LGT Vestra LLP

Offices: London, Jersey, Bristol

Employees: ~360

Assets: GBP 13.6 billion (as at 03.03.20)

Highlights

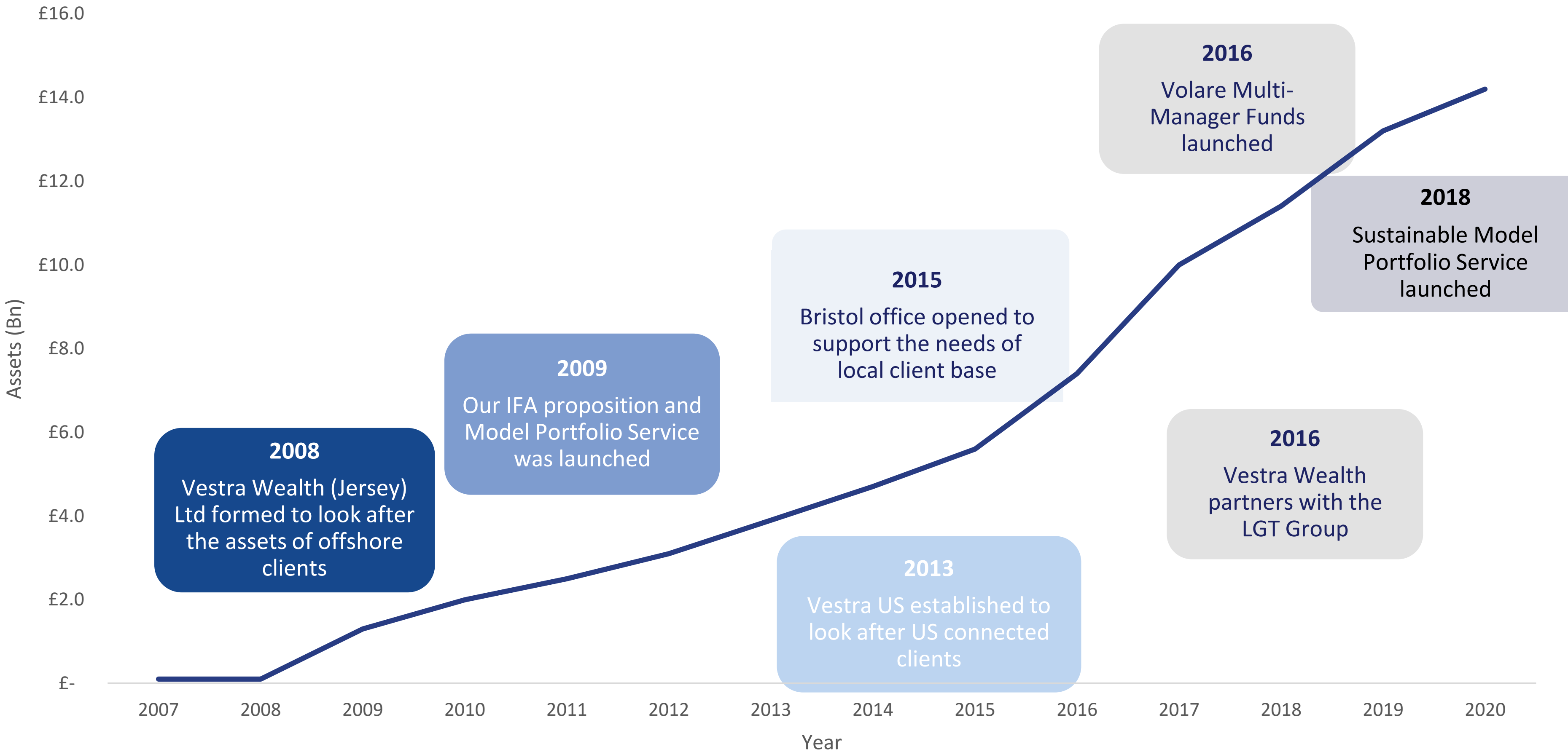
- Strong financial stability
- Long-term perspective
- Conservative balance sheet
- Independent ownership

Highlights

- Fresh approach to Wealth Management
- Partnership culture
- Entrepreneurial spirit
- Transparency

Growth, whilst retaining our entrepreneurial culture and ethos

- Our business was born out of the global financial crisis; resilience and adaptability are part of what we know.

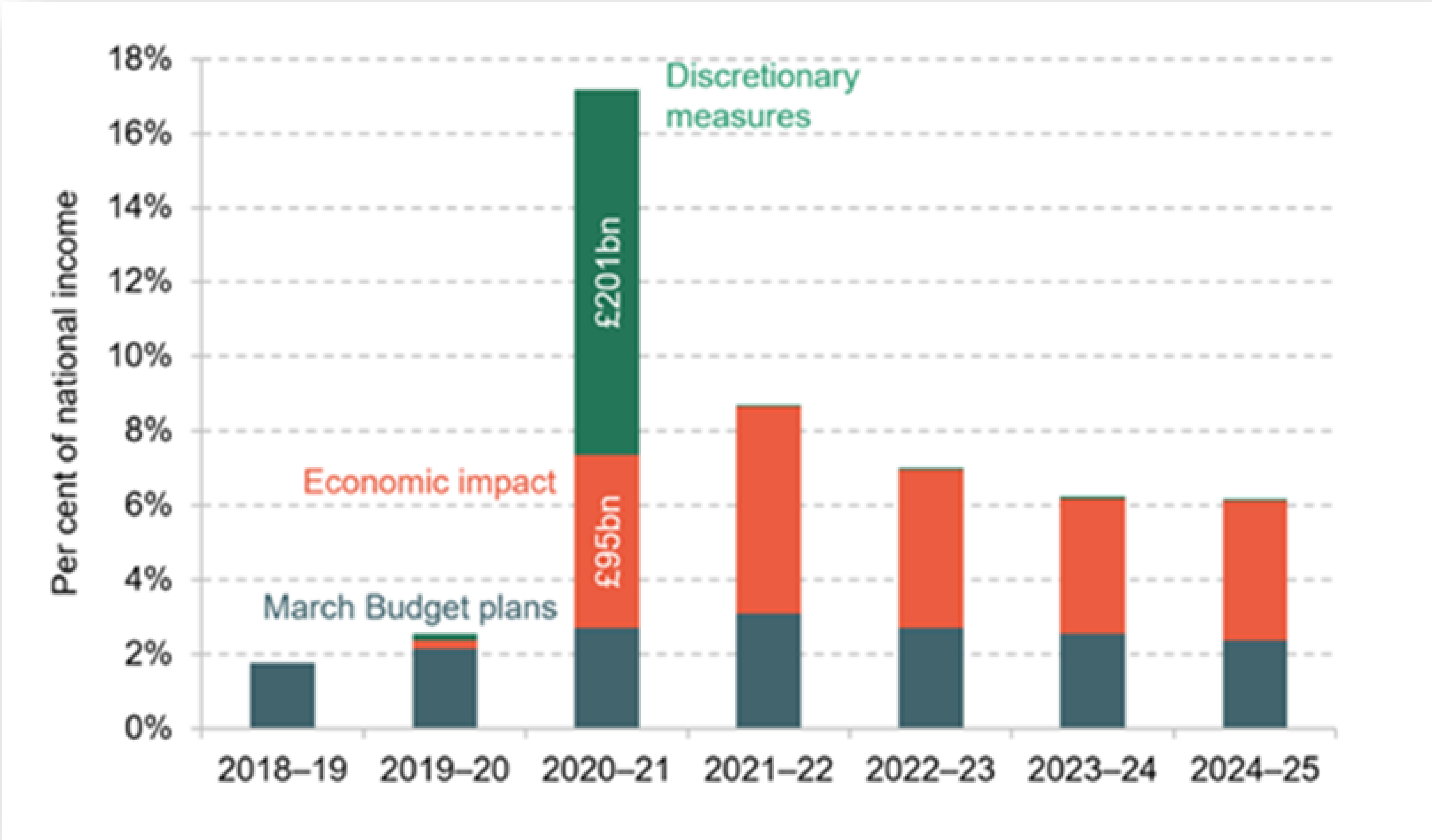


***2007** Vestra Wealth was formed as an LLP

LGT Vestra Service Offering

Core Investment Solutions			Tailored Investment Solutions	Additional Solutions				
Model Portfolio Service (MPS)	Sustainable MPS	Volare/Verus	Bespoke Investment Management	LGT Vestra US Limited	LGT Vestra (Jersey)	Institutional Offering	Lombard Lending	Private Debt & Equity
Six risk rated portfolios available for your clients within a range of tax wrappers	Five risk rated portfolios utilising a responsible, sustainable and impactful approach to portfolio construction	An OEIC structure for our MPS and Sustainable MPS Portfolios Designed for tax restrained wrappers	Dedicated investment manager responsible for the ongoing management of a bespoke investment portfolio	Discretionary investment management services for US connected individuals	Offshore discretionary management	Specialist advice to pension trustees, charity trustees & advisers	Lending facility on assets in LGT Vestra through LGT	Specialist team focused on EIS, VCT and private debt opportunities
Model Portfolio Service AUM >£4.5bn Actively managed multi-asset portfolios with a blend of strategic and tactical asset allocation, rebalanced on a monthly basis Managed to volatility targets and not to a benchmark Available for financial advisers and their clients only Volare is a mirrored version of the MPS, packaged as an OEIC MPS, Volare and SMPS all follow the same 'Matrix'			Dedicated Investment Managers Truly bespoke Management Fee 0.50% (Subject to VAT and LGT Vestra custody fee at 0.25%, no VAT)	UK & US tax reporting Model portfolio and bespoke investment Holdings suitable for US clients	A mirrored investment approach for offshore investment Assets custodied in Jersey	Support and guidance for trustees in portfolio management Managing pension scheme's funding objectives and liabilities	No utilisation or early repayment charges Competitive rates Typical LTV up to 70-75% of portfolio value	No in-house products used Opportunities are sourced via external product providers Discretionary or Advisory EIS

Fiscal shock:



Source: ONS

Fiscal shock:

- Government debt: 101.9%, and around 80% pre-pandemic.
- If the Government wanted to stabilise debt at around 100% of GDP – which would be its highest level since 1960 – the IFS calculates the Chancellor would need to raise extra revenue of 2.1% of GDP – £43bn in current terms.
- That is roughly the equivalent of adding 2% to basic rate income tax, VAT, employer's national insurance contributions (NICs) ***and*** corporation tax.
- At present, the pandemic-induced dip in already low interest rates means that debt interest as a share of total government revenue has never been lower in the last 320 years.
- However, the corollary is the gearing effect of a small increase in interest rates – even just back to the start of 2020 – on government interest costs.

Source: IFS and Technical Connection

Autumn Statement…….that never was

> UK's Sunak considers sweeping tax hikes to plug COVID-19 hole, newspapers say

Source: Reuters

- But we do have a spending review announced for the 25th November.
- This will cover spending plans for TY 2021/22.

Behind the scenes

- What has also appeared on the radar is a Treasury Select Committee to look at the broad issue of taxation post-COVID-19 under the title of "Tax after the coronavirus"

https://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/news-parliament-2017/tax-after-coronavirus-inquiry-launch-19-21/

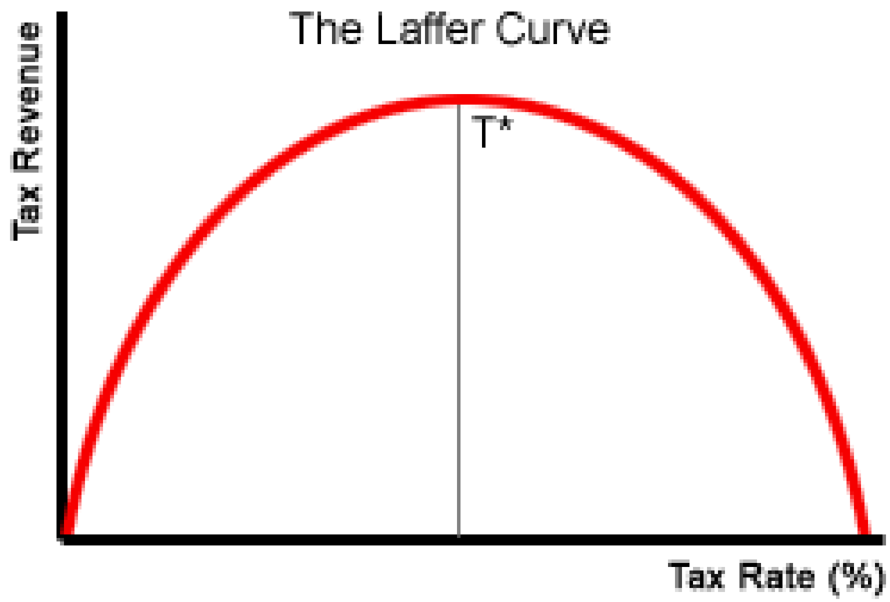
- The remit of this Committee includes areas such as "what is the right balance between taxation of work, savings/pensions and wealth?"

- There is a further parliamentary committee, this time the Public Accounts Committee which has produced a report on the "Management of Tax Reliefs".

- It is critical of the Treasury and HMRC who are "insufficiently curious about the impact of some key tax reliefs on different groups"

https://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news/reports-taxation/

The Laffer Curve



Source: Investopedia

- One implication of the Laffer curve is that reducing or increasing tax rates beyond a certain point is counter-productive for raising further tax revenue

Tax Reform

- Increase in NICs for self-employed
- Dividend Allowance
- Capital Gains Tax reform
- Inheritance Tax reform
- Exemptions.
- Continuing freezing the NRB
- Corporation tax rates
- Reduce AA?

- Pensions Tax Relief
- Carry Forward of unused AA
- Personal Savings Allowance for HRTs
- Loss of Personal Allowance < £80,000?
- Freezing of Personal Allowance
- Salary Sacrifice for Pensions
- RNRB
- Dividend tax rates
- Increase ART from 45% to 50%
- State Pension Triple Lock
- Trust Taxation

- Retain Personal Allowance
- Retain the PCLS
- Employee/er NICs
- Income Tax Rates (BRT/HRT)
- Tapering of AA rules

Income Tax

Some options

- *"All bets are off with things like manifesto pledges and triple locks. The world has changed to such a degree"* (Mike Hodges: Saffrey Champness)

- According to HMRC a single percentage point rise in the basic rate of income tax from 20%-21% would raise £4.7bn in 2020-21.*

- Increasing the higher rate of tax from 40%-41% would raise circa £1bn of tax reflecting the smaller number of taxpayers in this band of earnings.**

- Increasing the additional rate of tax from 45%-46% would raise £105m***

- Possibility that the Chancellor could scale increases in tax rates, for example
  - 1%:BRT
  - 3% HRT
  - 5% ART

- Reduce or remove the personal allowance

- Drop the level at which the personal allowance starts to be restricted to < £100,000.

* ** *** Source: FT 16/5/2020

National Insurance Contributions

- NICs are complex and the government may take this opportunity to introduce some radical reform to "simplify" and also raise additional tax revenue.

Some options

- Remove the Upper Earnings Limit
- Introduce a flat rate
- Harmonise the lower earnings limit with the personal allowance which will help lower earners but as above remove the upper earnings limit
- Introduce NICs for people who are working and over the state pension age.
- Increase NICs for self-employed clients and a quid pro quo for the Self-Employed Income Support scheme
- Self-Employed clients earning over £9,501 pay NICs at 9%. Employed individuals pay NICs at 12%

Capital Gains Tax (OTS)

Key Headines:

- Consider simplifying CGT by aligning up to Income tax rates with some measure for indexation.

A retrospective of CGT in the UK since 1980-81

	Annual Exempt Amount		Rate of tax[1] chargeable on excess of gains over Annual Exempt Amount:		
	Individuals	Trusts	Individuals	Discretionary and accumulation trusts	Interest in possession trusts and personal representatives
1980-81	3,000	1,500	30%	30%	30%
1981-82	3,000	1,500	30%	30%	30%
1982-83	5,000	2,500	30%	30%	30%
1983-84	5,300	2,650	30%	30%	30%
1984-85	5,600	2,800	30%	30%	30%
1985-86	5,900	2,950	30%	30%	30%
1986-87	6,300	3,150	30%	30%	30%
1987-88	6,600	3,300	30%	30%	30%
1988-89	5,000	2,500	Income tax rates	Trust rate	Basic rate of income tax
1989-90	5,000	2,500	Income tax rates	Trust rate	Basic rate of income tax
1990-91	5,000	2,500	Income tax rates	Trust rate	Basic rate of income tax
1991-92	5,500	2,750	Income tax rates	Trust rate	Basic rate of income tax
1992-93	5,800	2,900	Income tax rates	Trust rate	Basic rate of income tax
1993-94	5,800	2,900	Income tax rates	Trust rate	Basic rate of income tax
1994-95	5,800	2,900	Income tax rates	Trust rate	Basic rate of income tax
1995-96	6,000	3,000	Income tax rates	Trust rate	Basic rate of income tax
1996-97	6,300	3,150	Income tax rates	Trust rate	Basic rate of income tax
1997-98	6,500	3,250	Income tax rates	Trust rate	Basic rate of income tax
1998-99 [2]	6,800	3,400	Income tax rates	Trust rate	Trust rate
1999-00 [2]	7,100	3,550	Income tax rates[3]	Trust rate	Trust rate
2000-01 [2]	7,200	3,600	Income tax rates[4]	Trust rate	Trust rate
2001-02 [2]	7,500	3,750	Income tax rates[4]	Trust rate	Trust rate
2002-03 [2]	7,700	3,850	Income tax rates[4]	Trust rate	Trust rate
2003-04 [2]	7,900	3,950	Income tax rates[4]	Trust rate	Trust rate
2004-05 [2]	8,200	4,100	Income tax rates[4]	Trust rate	Trust rate
2005-06 [2]	8,500	4,250	Income tax rates[4]	Trust rate	Trust rate
2006-07 [2]	8,800	4,400	Income tax rates[4]	Trust rate	Trust rate
2007-08 [2]	9,200	4,600	Income tax rates[4]	Trust rate	Trust rate
2008-09 [5]	9,600	4,800	18%	18%	18%
2009-10 [5]	10,100	5,050	18%	18%	18%
2010-11 [6]	10,100	5,050	10% or 18/28%	10% or 28%	10% or 28%
2011-12 [6]	10,600	5,300	10% or 18/28%	10% or 28%	10% or 28%
2012-13 [6]	10,600	5,300	10% or 18/28%	10% or 28%	10% or 28%
2013-14 [6]	10,900	5,400	10% or 18/28%	10% or 28%	10% or 28%
2014-15 [6]	11,000	5,500	10% or 18/28%	10% or 28%	10% or 28%
2015-16 [6]	11,100	5,550	10% or 18/28%	10% or 28%	10% or 28%
2016-17 [7]	11,100	5,550	10% or 10/20% or 18/28%	10% or 20% or 28%	10% or 20% or 28%
2017-18 [7]	11,300	5,650	10% or 10/20% or 18/28%	10% or 20% or 28%	10% or 20% or 28%
2018-19 [7]	11,700	5,850	10% or 10/20% or 18/28%	10% or 20% or 28%	10% or 20% or 28%
2019-20 [7,8]	12,000	6,000	10% or 10/20% or 18/28%	10% or 20% or 28%	10% or 20% or 28%
2020-21 [7,8]	12,300	6,150	10% or 10/20% or 18/28%	10% or 20% or 28%	10% or 20% or 28%

Source: HMRC

Capital Gains Tax (OTS)

Key Headines:

- Consider simplifying CGT by aligning up to Income tax rates (although they recognise there are practical issues with this) with some measure for indexation.

- Reducing the capital gains annual exemption to less than £4,000 – this would cost a higher/additional rate tax payer up to an additional £2,300 in CGT (based on current rates) as well as bring more individuals into the scope of CGT and the associated reporting.

Reducing the Annual Exempt Amount

- The OTS believes the relatively high level of the annual exempt amount (currently £12,300) distorts investment decisions.
- In tax year 2017-18, around 50,000 people reported net gains close to the threshold, so used up the exemption.
- As it cannot be carried forward, planning to use it each year (subject to avoiding the “bed and breakfast” anti-avoidance provisions) is standard practice.
- The number of taxpayers required to pay CGT in 2021-22 would double if the annual exempt amount were reduced to around £5,000 and almost triple at around £1,000.*
- The report goes on to say that if the government does reduce the annual exempt amount, it should do so alongside considering reforming the current chattels exemption.
- Look at requiring investment managers, among others, to report CGT information to taxpayers and HM Revenue and Customs to make compliance easier for individuals.

* Source: Money Marketing 27/11/2020

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- Business Asset Disposal Relief would be abolished and replaced with a relief applying on business retirement.

Removal of BADR

Re-introduction of a version of "Retirement Relief"

- Increasing the minimum shareholding to perhaps 25 per cent, so the relief goes to owner-managers rather than to a broader class of employees.

- Increasing the qualifying holding period to perhaps 10 years, to ensure the relief only goes to people who have built up their businesses over time.

- Re-introducing an age limit, perhaps linked to the age limits in pension freedoms, to reflect the intention that it mainly benefit those who are retiring.

Removal of "Death Uplift"

- The OTS has already reviewed and made recommendations in relation to IHT reform in July 2019
- Recommended a taxpayer should not get both an IHT exemption and a CGT death uplift.
- OTS now appears to be considering a “no gains, no loss” approach on death for all assets, not just those that pass on death free of IHT.
- An administrative challenge in calculating historic base costs.
- One possibility would be to consider a general rebasing from 1982 to a later year for all assets.
- The OTS recognises valuations of land and property become much easier from the late-1990s due to increasing registration with the land registry and widespread digitalisation.
- Possibility that say 2000 is used as the year for re-basing?

Removal of "Death Uplift"

- Impact on planning with AIM Portfolios?
- Death Bed Planning
  - Where assets are left to a surviving husband/wife/civil partner by will, not only does the survivor inherit those assets free of IHT but there's an uplift in base value to the date of death.
  - On a sale by the survivor, the gain chargeable to CGT is calculated by reference to the date of death, not the date their spouse originally acquired them. Any gains up to that date aren't chargeable.

Checklist: Planning Opportunities

Capital Gains Tax (CGT)

- Consider ownership: If asset is jointly owned with another person can utilise both AEAs.
- Re-alignment of rates: Impact on "income investors" using total return strategies
- Tax wrappers: Investment Bond v GIA
- Lombard lending
- Bed and…….strategies
- Use of losses and loss relief
- Make Gifts
- Gifts into trust (Hold-Over Relief?)
- Family Investment Companies? *" A rate increase would also increase incentive for taxpayers to hold assets through companies as corporation tax is charged at a lower rate than the higher and additional rates of income tax" (OTS CGT Report)*

Bed and………

Background

- “Bed and breakfasting” involves an individual selling shares and buying them back shortly afterwards in order to crystallise gains and reduce CGT bills.

- Since 17 March 1998, any shares sold and repurchased within a 30-day-period will be matched, so that the gain or loss which would otherwise have arisen by reference to shares already held will not be realised.

- These rules apply to taxpayers who dispose of shares and then acquire shares of the same class in the same company within the 30 days following the disposal.

Bed and………

Planning Strategies

Option 1

- The immediate acquisition (after the disposal) of shares in the same sector of the market (but not the same shares).

- Looks to provide some insurance against unwanted rises in price with the hope that the "alternative" shares acquired would also rise in the same way as those to be repurchased.

Option 2

- Married couples, or civil partnerships, it may be possible for one to sell shares in the market and the other to acquire the shares in the market ("Bed and Spousing").

- After 30 days, the acquirer can sell shares in the market and the shares can be reacquired by the original disposer.

- The new acquisition could not then be identified with the original disposal.

Bed and………

Planning Strategies

Option 3

- Bed and SIPP" and "Bed and ISA" strategies involve the investor selling the shares/investments in question so as to trigger the required gain, or loss.

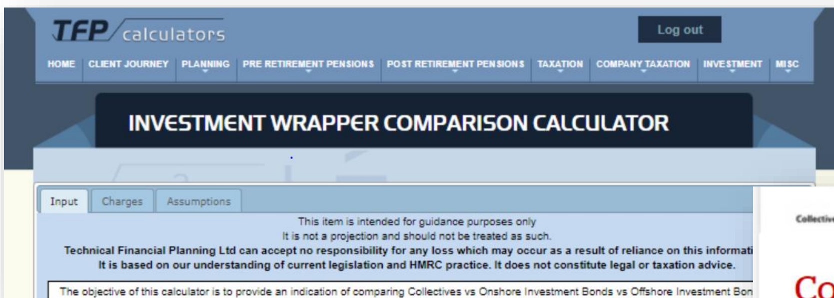
- In effect, continue to retain ownership of the investment inside a tax effective structure (SIPP/ISA)

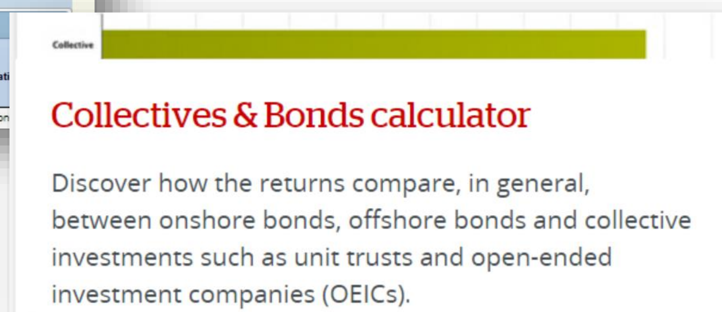
- Use the proceeds to top up or open a SIPP/ISA (depending on a person's earned income and subject to the pensions annual allowance or subject to the annual ISA investment limit, as appropriate) and where possible, select the same investments under the SIPP/ISA wrapper.

Tax Wrappers

"Tax planning does not compromise the client's choice of investment, it merely ensures that, having made that choice, the ultimate return can be maximised……legislation dictates the 'alpha'."

- Paul Kennedy Source: https://www.investmentweek.co.uk/investment-week/news/1369427/poor-wrapper-choice-hit-fund-returns





Sources TFP Calculators and Prudential

Template for reform?

appg The all-party parliamentary group
Inheritance &
Intergenerational Fairness

Reform of inheritance tax

January 2020

Policy paper

OTS Inheritance Tax review: Simplifying the design of the tax

This second report makes recommendations to make substantive aspects of the design of Inheritance Tax simpler, more intuitive and easier to operate.

Sources: Office of Tax Simplification and the All-Parliamentary Group on Inheritance and Inter-generational fairness, January 2020

Inheritance Tax (IHT)

Some options

- Remove the flat rate of IHT of 40% and align the tax rate(s) to rates of income tax
- Introduce a form of Capital Transfer Tax which taxes assets whenever they are transferred (during lifetime or on death)
- Reform Business Relief and Agricultural Property Relief
- Reform gifting (consider introducing a lifetime limit?)
- Remove the residence nil rate band (RNRB)
- Retain Nil Rate Band at current level
- Reform exemptions such as the "normal expenditure out of income"
- Take another look at trust taxation

Key allowances and exemptions: Tax tips

Inheritance Tax

- Inter-spouse gifts
- Gifts within the annual exemption (£3,000 per tax year)
- Small gifts of up to £250 to any person in any one tax year – to as many people as client wishes.
- **‘Normal expenditure out of income’**
- Gifts made in contemplation of marriage
- Gifts for family maintenance
- Business and Agricultural property Relief

Pensions

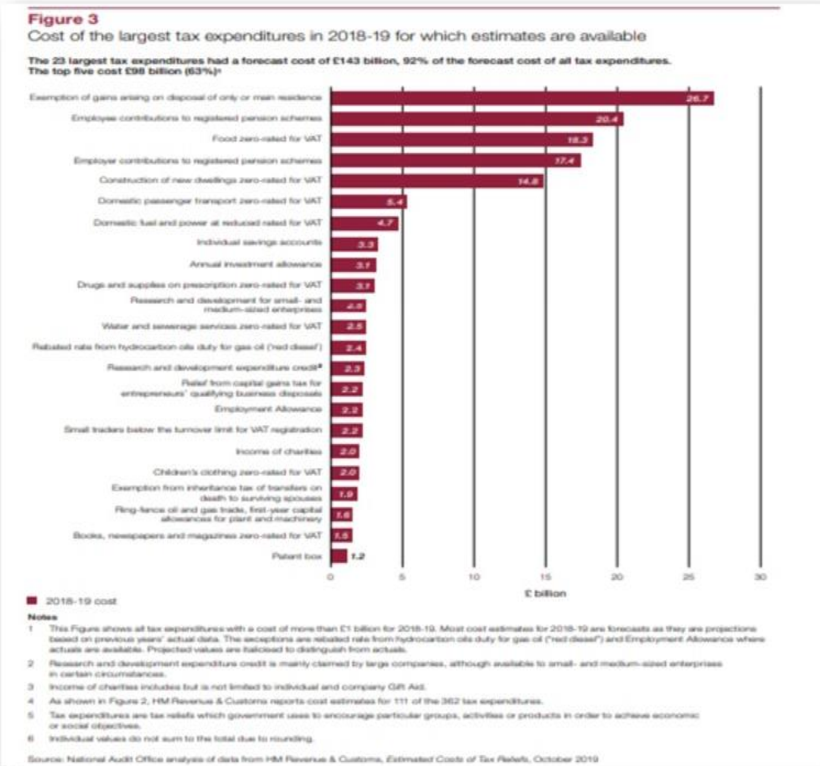


Chart showing the breakdown of largest government expenditures in 2018-19

Source: https://www.nao.org.uk/wp-content/uploads/2020/02/The-management-of-tax-expenditure.pdf

- **According to the National Audit Office (NAO) the cost of pensions tax relief cost the UK exchequer £38bn in 2018-19.**

Options

- Cut higher and additional rate relief on individual pension contributions
- Merge the pension and ISA regimes into **ONE** single savings regime with a flat rate of tax relief (25%?)
- Remove the Triple Lock on the annual increases to the State Pension?
- Increases to the State pension are guaranteed to be the higher of inflation, earnings growth or 2.5% (this last element could be reduced)
- The State Pension increased by 3.9% in April 2020. The largest annual increase since 2012

EPP conversions?

- Possible solution for clients who cannot transfer away. E.g. Protected Tax-Free Cash

- Change the scheme rules by a power of amendment to provide wider investment powers

Advantages

- There is no need to move the scheme or its investments
- No time 'out of the market'
- The scheme can continue, without the costs and time required to establish a new one
- Existing benefits can remain unaffected, such as protected PCLS entitlement
- It could save in-specie transfer / re-registration costs
- It could mean that underlying policies, with market value adjustments / penalties / guaranteed annuity options can be retained, their value will be included when calculating borrowing limits

Care

- Master Trust Schemes
- Require sponsoring employer consent

Source: https//professionalparaplanner.co.uk/technical-turning-an –epp-into-a-ssas/

LGT Vestra – Supporting you

Contact: david.brown@lgtvestra.com or elliott.kibble@lgtvestra.com

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Picture description

"The Colonnade at Adamsthal", 1815

FERDINAND RUNK 1764-1834

Prince Johann I von Liechtenstein commissioned Ferdinand Runk to paint the Liechtenstein estates between 1813 and 1824. In addition to their artistic qualities, the numerous paintings in the series – many of which were created using the gouache technique – also have important documentary qualities. For example, some capture the appearance of buildings that no longer exist today, such as the colonnade high above the Adamsthal estate in Moravia, north of Brno. The picturesque landscape prompted Prince Johann I to build a hunting lodge here, which was designed by the architect Joseph Hardtmuth. A small zoo and pavilions were also located on the grounds of the lodge and offered places to rest during a walk in the countryside or to entertain a group of people.