Buzzacott
CHARTERED ACCOUNTANTS

Shared experience.

Buzzacott's Professional Practices Group

Winter 2018 Newsletter

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DOES THE DEATH KNELL TOLL FOR THE PENSION?

The Lifetime ISA landed in April 2016. Following its introduction, a survey conducted by MetLife indicated that approximately 1.7m of Britain's youngsters would ditch pensions in favour of a Lifetime ISA. This article briefly explores the risk that the perpetually changing landscape of modern pension legislation has endangered its future.

Successive governments have viewed private pension savings as a golden goose for a beleaguered Treasury. This is a consequence of the estimated £35bn provided in annual tax relief for pension savers. To date, the Treasury has utilised two weapons to try and reduce this figure – both of which have undoubtedly made the pension a less attractive option for many.

SUCCESSIVE GOVERNMENTS HAVE VIEWED PRIVATE PENSION SAVINGS AS A GOLDEN GOOSE FOR A BELEAGUERED TREASURY.

1. The lifetime allowance

The 'lifetime allowance' is the total that a person can amass within a pension during their life without incurring a tax penalty. Labour introduced the concept in the 2006-07 tax year with the cap set at £1.5m, which eventually increased to £1.8m by

2010. However, this currently stands at £1m due to regular reductions to the allowance. Based on current annuity rates, a pension of £1m would provide an income to a healthy 65 year old of approximately £20,000[1] per annum. Questionably, this amount is insufficient at a time when retirement costs are spiralling.

2. The annual allowance

There have also been successive restrictions on an individual's "annual allowance", which is broadly the amount that an individual can contribute to or accrue within a pension in any given tax year and receive tax relief. The 2015 Budget introduced a tapering allowance. This saw many 'high earners' restricted to contributions of £10,000 in the most severe circumstances. As such, many are now caught in the "tapering trap". This is the point where although an individual has the means to make larger pension contributions, they are restricted by the tapered annual allowance.

What does this mean for the pension?

However, not all changes to the pension have been disadvantageous. The fundamental changes introduced in 2014 in how individuals can take a pension income have made controlling retirement income more effective. This has assisted many in managing their income tax position. The change to pension death benefits also seems advantageous when viewed through the kaleidoscope of estate planning.

The unabated rise in life expectancy continues to highlight the importance of retirement planning. A pension still offers tax relief on both the way in and out, while a coherent investment strategy will allow a pension to grow in a tax free environment. This tax privileged status ensures the pension is still an arrow in the retirement planning quiver for many.

In conclusion, there is no doubting the attractiveness of pensions has decreased over the last decade. For many, gone are the halcyon days where individuals can rely on only their pension to provide security in retirement. However, perhaps a death knell remains premature.

A pension savings vehicle is likely to remain as a foundation stone of one's financial planning and its interaction with other financial assets will dictate financial security in retirement.

Got some questions?

For further information or advice tailored to your situation, contact:
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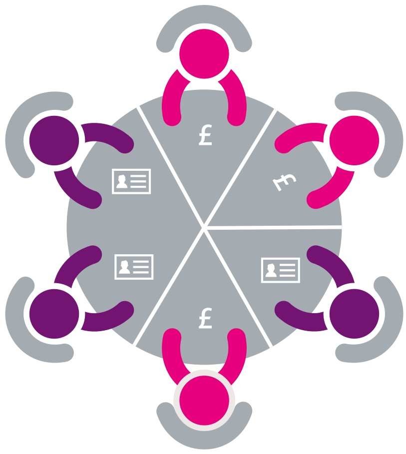
ABOUT TO BECOME AN EQUITY PARTNER? FIND OUT WHAT YOU NEED TO DO NEXT.

Congratulations, great news! But what does this actually mean?



Firstly, what type of partner will you be?

- A salaried partner is a partner in name only. You will continue to be an employee and therefore maintain your employment rights.
- An equity partner is an owner of the business. You could be either a fixed or priority share equity partner or full equity partner.

This article will explore some of the financial issues potential new equity partners should think about before signing on the dotted line.

One question you should definitely ask is whether you will have to sign the LLP agreement (or partnership agreement).

The LLP agreement should clarify some financial queries you may have such as:

- Will I have to pay in a cash contribution (capital)?
- When will I be paid my profit share (drawings)?
- Will the LLP make tax payments on my behalf (tax reserving)?

[1] Based on joint annuity, increased with inflation for a married couple in good health (moneyadviceservice.org.uk)

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It is important to understand the firm's finances before signing up to partnership.

Here are some questions to consider:

- How will becoming an equity partner affect what I earn?
- Will I be paid gross or net of tax? Do I have the choice?
- If I'm paid net, on what basis does the firm reserve for tax? Am I able to see the tax reserving forecasts?
- Will I see the statutory accounts? Are they audited?
- What management accounts information will I see?
- Is the firm funded by the capital contributions from the partners or is there external bank financing? What is the average capital per partner and is this the same for each partner?
- How financially stable is the firm? Have the overdraft or bank loan covenants been breached in the past?
- Has the firm been in any trouble with its regulator? (E.g. the SRA, ARB, RICS etc.)

THE LLP AGREEMENT SHOULD CLARIFY SOME FINANCIAL QUERIES YOU MAY HAVE.

There are two key differences to note once you become an equity partner:

1. You are now self-employed and therefore lose your employment rights. Things like pension contributions will become your own personal responsibility.
2. Tax will be paid in January and July each year rather than monthly through PAYE. You are taxed on your profit share whether you have drawn it or not. The extent to which you can draw your profit share will be determined by the cash flow requirements of the business.

If you have been invited or expect to be invited to become an equity partner and need some help to understand the financial implications, please let us know.

MEDIATE OR MESS IT UP?

Workplace conflict is common and can have far-ranging impacts for the whole organisation and not just the individuals involved. The latest and fastest growing trend in conflict resolution is mediation, with the CIPD finding that its use has risen from one in ten (2014-2015) to one in three (2015-16). But, what is it and how could it benefit you?

What is mediation?

Its goal is resolving the situation for the future rather than looking at the past. It is impartial, fair and acknowledges differences in viewpoints without making anyone 'wrong'.

Why is it important?

Used in grievance and argument situations mediation can help avoid issues going to an employment tribunal and reduces the possibility of formal procedures becoming necessary.

Some recent examples

Our HR Consultancy team helped resolve a personality clash at senior level within a team. An allegation of bullying and harassment could have led to a tribunal claim however our mediator helped by identifying that this wasn't the case and that an individual's 'normal style' was being misunderstood.

Another example is a performance appraisal 'gone wrong'. Here there was disagreement between the content of the narrative and the grading which the direct report strongly disagreed with. Helping each side understand why they were taking the view they were helped dispel the issue and create a strong working relationship.

What to do now?

- Create an established organisational framework for mediation within your grievance procedure
- Encourage management participation
- Take a proactive approach to address disputes
- Decide on a mediator – to establish trust most businesses employ 'objective outsider' experts

If you would like help setting up an internal mediation process or are looking for skilled and highly qualified mediators, contact:

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WHAT ARE YOUR FIRM'S NEW YEAR RESOLUTIONS? HAVE YOU CONSIDERED THESE?

Law firms: client account housekeeping

If your New Year resolutions have already failed and you've missed several gym sessions in favour of a croissant and mocha-latte at your desk, there is still time to do something for the greater good of your firm. If your new year starts on 1 April or 1 May, don't forget to do some basic client account housekeeping over the next few months and clear down old balances by returning monies to clients. As Reporting Accountants we regularly see law firms with a huge number of often small – but sometimes very large – balances still in the client account long after the underlying transaction has been completed. Sometimes it might be the only reportable breach a firm has and in many cases it could be avoided if a more concerted effort is made to return old funds. For many firms there is just about enough time to do a sweeping-up exercise and hopefully avoid another reportable breach.

Employee ownership

More and more architects, surveyors and other project-based practices seem to be thinking about – or actually making the move to – an employee ownership model. It's often the larger practices which make the headlines but smaller ones are following suit, attracted by tax incentives and a culture focusing on collaborative long-term success.

Buzzacott are members of the Employee Ownership Association to better service our clients making the change. The demand from our client base is broadly two-fold: millennial entrepreneurs who want to do good for the staff that work for them, and Professional Practice firms, like architects, where the service provided is all about their people. Let us know if you need further advice on what this change looks like in practice.

Events

Investigating Partner Misconduct 01.02.18

Join us and a panel of legal, accountancy and HR experts to find out about the process of investigating partner misconduct.

Topics will include:

- The investigation process including key steps and top tips to help get it right
- Parameters and sanctions
- Legal privilege and natural justice
- Access to evidence and use of forensic IT
- Typical investigation mistakes
- Partnership law and worker rights
- The LLP agreement and partner policies

For more information on the events or to sign up, please contact enquiries@buzzacott.co.uk

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About us

We are specialists in supporting small to mid-tier partnerships, advising partners in firms of solicitors, patent attorneys, architects, chartered surveyors, chartered accountants and other sectors.

We have a detailed understanding of what it takes to start and grow a practice, and appreciate the burden of tax and reporting requirements. Our aim is to relieve this burden by providing tailored advice on tax structuring, planning and compliance. We can manage outsourced adminstrative functions such as management accounting, payroll and VAT.

We can inform the difficult decisions that come with change: financial planning, choosing between a Limited Company or LLP structure, succession planning — and the crucial task of managing growth in good times and preserving stability in bad.