For professional advisers only.
Not to be relied upon by retail investors.

Partners in business

October 2019

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Todays agenda

1. Options for corporate cash
2. Octopus Choice in detail
3. Working with accountants & solicitors
4. What can Octopus do to help

Cash on the balance sheet

Companies with excess cash – problems

- Poor returns
- Loss of Business Property Relief
- Threat to Entrepreneurial relief
- Tax consequences of extracting cash from a business
- Targeted anti-avoidance rules

Possible solutions

Pension contributions

Dividend extraction funding VCT

Octopus Trading Partnership

Octopus Choice

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1. Profit extraction = VCT

Modernisation of dividend tax rules

Introduction of a £2,000 tax-free dividend rule

Removal of notional 10% tax credit on all dividends

Rates of dividend taxation increased:

- 7.5% basic rate
- 32.5% higher rate
- 38.1% additional rate

What does this mean?

A small business owner who pays themselves a dividend of £65,000 and a £30,000 salary will pay £3,786 more in dividend tax this year.[1]

[1]As at August 2016.

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Tax benefits of VCTs

Up to 30%
income tax relief

Tax-free dividends

Tax-free growth

Introduced by the government in 1995 to encourage investments into smaller companies.

Tax reliefs are available on investments of up to £200,000 per year

- Note: VCTs are high risk and should be considered as long-term investments. Tax treatment depends on individual circumstances and can change in the future. Tax reliefs also depend on the VCT maintaining its qualifying status.

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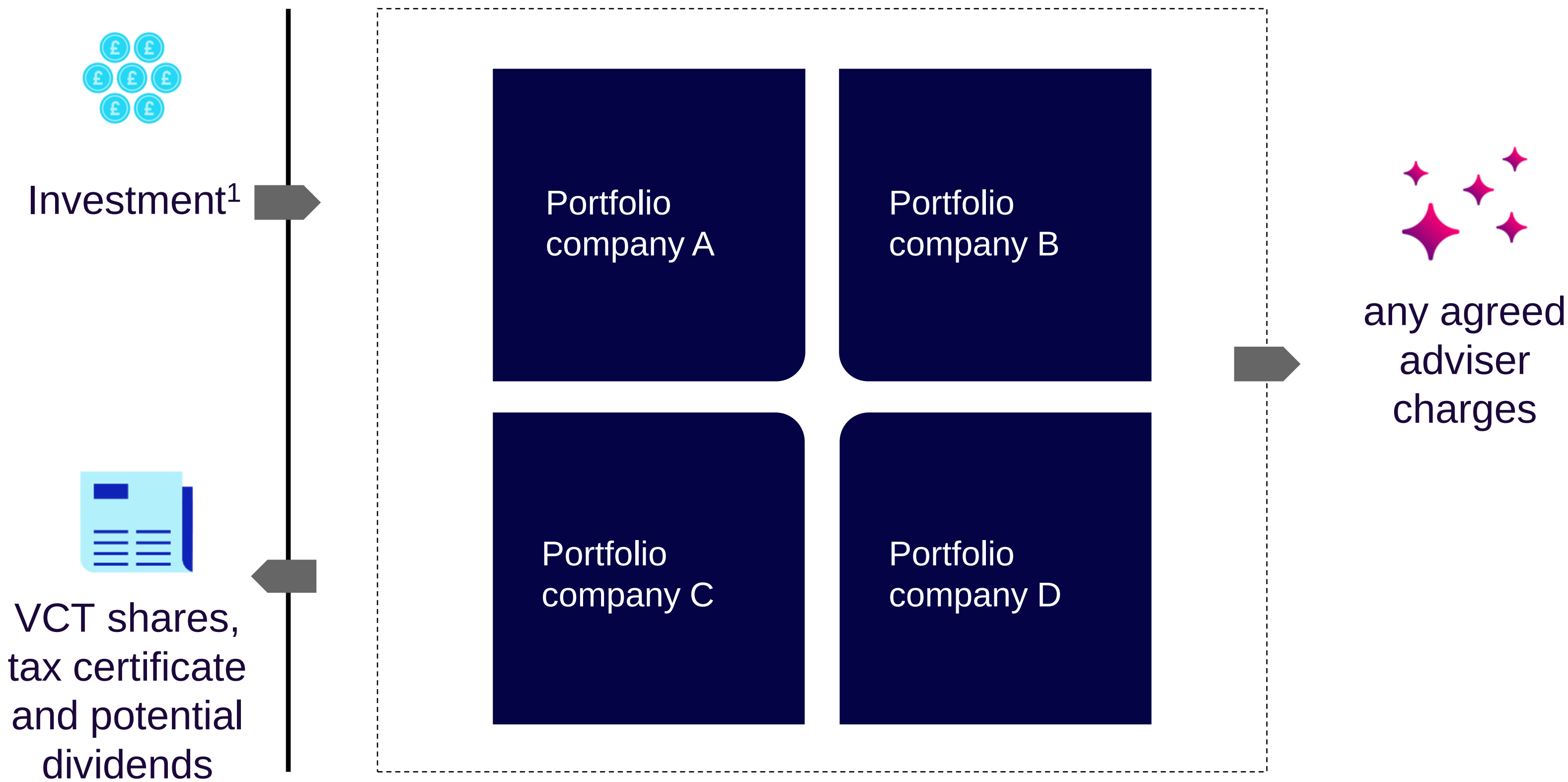
Venture Capital Trust (VCT): Structure



- Note: For illustration purposes only. [1]The investment will be subject to an initial fee and annual management charges. Octopus can facilitate adviser charges and ongoing fees.

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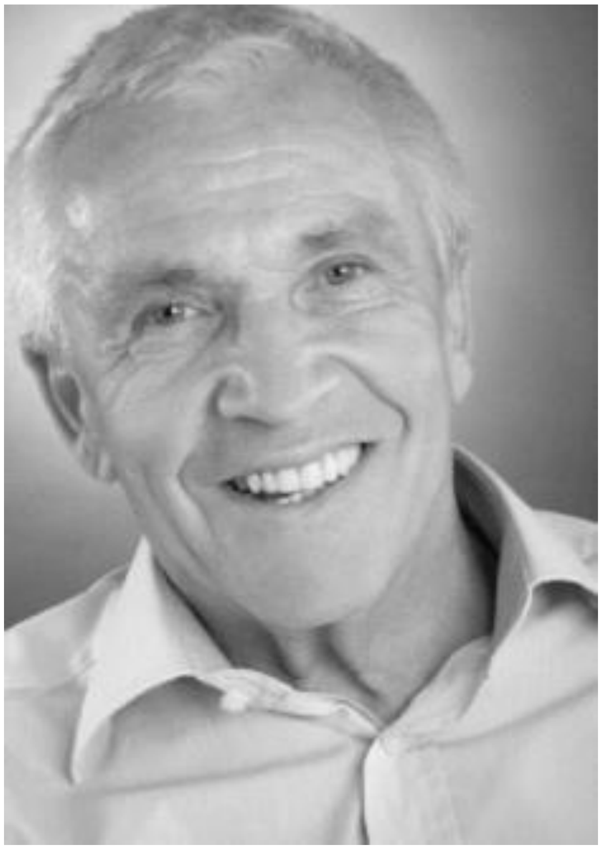
Business owner: Tax-efficient profit extraction



Company Director currently receiving income of £50,000 per year (40% tax payer)

Additional profit in company of £50,000 that he would like to extract

Requires a tax-efficient method of extraction

For illustrative purposes only and assumes no gains or losses on investments. Assumes 40% tax payer.

Business owner: Tax-efficient profit extraction

Company profits → £50,000 Dividend paid → £50,000 VCT

£50,000 Dividend paid ↓ £16,250 income tax liability ↓ £33,750 Net

£50,000 VCT ↓ £15,000 income tax relief ↓ £50,000 invested in VCT - £1,250 additional tax = £48,750 net

For illustrative purposes only and assumes no gains or losses on investments. Assumes 40% tax payer.

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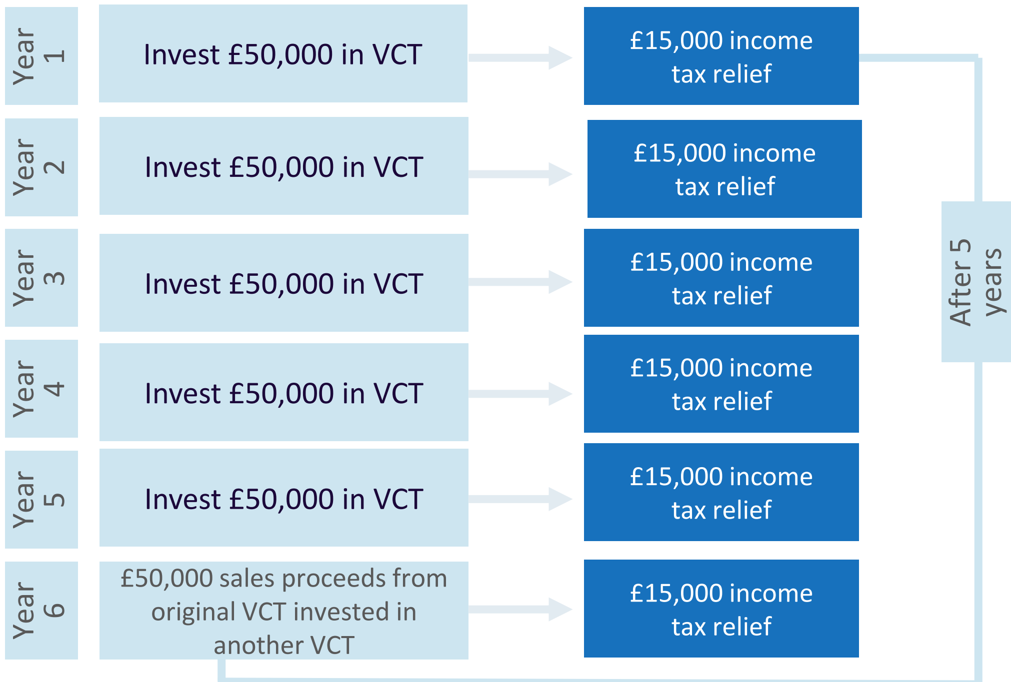

Dividends cannot be guaranteed.

- £2.5k tax-free dividends per VCT per year
- After 5 yrs, net income has increased to **£12,500**
- from year 6 self funding *

2. Loss of BPR = OTP

Impact of a cash surplus

An **"excepted asset"** is one that:

- has not been used in the business during the last two years; or
- which is **not required** for future use in the business.

HMRC technical guidance confirms that holding funds as a buffer is not a sufficient reason for cash not to be treated as an excepted asset[1].

"Excepted assets" are subject to inheritance tax, even if the shares in the company that owns them qualify for business property relief.

Unless cash is held for an **identifiable future purpose**, it is likely to be treated as an excepted asset and will be subject to inheritance tax on a chargeable transfer of the company's shares.

[1]HMRC technical release to the Institute of Chartered Accountants in England and Wales (ICAEW), Chartered Institute of Taxation (CIOT) and The Society of Trust and Estate Practitioners (STEP), ICAEW Tax Guide 1/14.

Corporate BPR – how it works

1

The client company becomes a member of a trading partnership.

2

The partnership carries on a BPR-qualifying business into which the company's capital will be put to work alongside that of other partners.

3

The company will be entitled to a profit share pro rata to its interest in the partnership.

Provided the shareholder has owned shares in their company for more than 2 years, and that company itself qualifies for BPR, then the cash contributed should immediately cease to be an "excepted asset" = **an immediate inheritance tax benefit**

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An overview of the Octopus Trading Partnership

Opportunity for UK companies.

Targets capital preservation and investor profits of 5% p/a.

Members can request liquidity at any time.

Can restore Business Property Relief, which can be lost if a company holds cash or investments as a major part of its business.

Managed by same investment team as Octopus Inheritance Tax Service (£1.9b assets under management, 11-year track record).

Performance targets are not a guarantee of what the investment will achieve. There is no market for capital subscribed into an unlisted limited liability partnership, you should expect it to take longer to be returned on request than selling listed shares.

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Octopus trading partnership – corporate BPR

1. Trades as an LLP within the Octopus IHT service

2. Targets a 5% pa return , profits distributed annually
.

3. UCIS status

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3. Poor returns – possible solution
Octopus Choice

Octopus Choice: in a nutshell

Target a gross interest rate of around 4%, with less of the ups and downs of the stock market.

For those with money to invest, but nowhere to invest it, this could be the choice they've been waiting for.

How does it work?

A managed portfolio of property loans.

- **Automatically diversified:** no need to pick and choose. Our system spreads money across multiple loans.
- **Investments are spread across 10 loans at a minimum:** If there aren't enough available, we'll hold the money in a queue until there are.
- **£10 minimum:** we won't invest less than £10 in a single loan.
- **Variable rate:** the interest paid on each loan blends to create a gross interest rate of around 4%, paid monthly.

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Who could it be good for?

Companies with excess cash on balance sheet

- Corporate investors who might need the money in the next couple of years – making the short-term volatility of equity investments potentially unpalatable…

- But who don’t want to let it languish in a low-interest deposit account…


Professional connections
What are the rules of engagement?

Why have relationships with professional connections sometimes failed?

Unrealistic expectations	Lack of clarity	Silo mentality	Partner buy-in
Trust	Culture	Existing relationships	Reactive rather than pro-active
Reputational risk	Poor targeting	Poor follow-up	Takes time

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Why now is the time to be working with professional connections?

1. Alternative business structures
2. Financial Advice Markets Review
3. Intergenerational wealth transfer
4. Commercial challenges
5. Pension arrangements
6. Residence nil-rate band
7. Law firms taking a firm-wide approach to referral relationships

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Draft SRA Code

- What's changing?
- What does this mean for solicitors?
- What's the opportunity for advisers?

How are advisers preparing for this?

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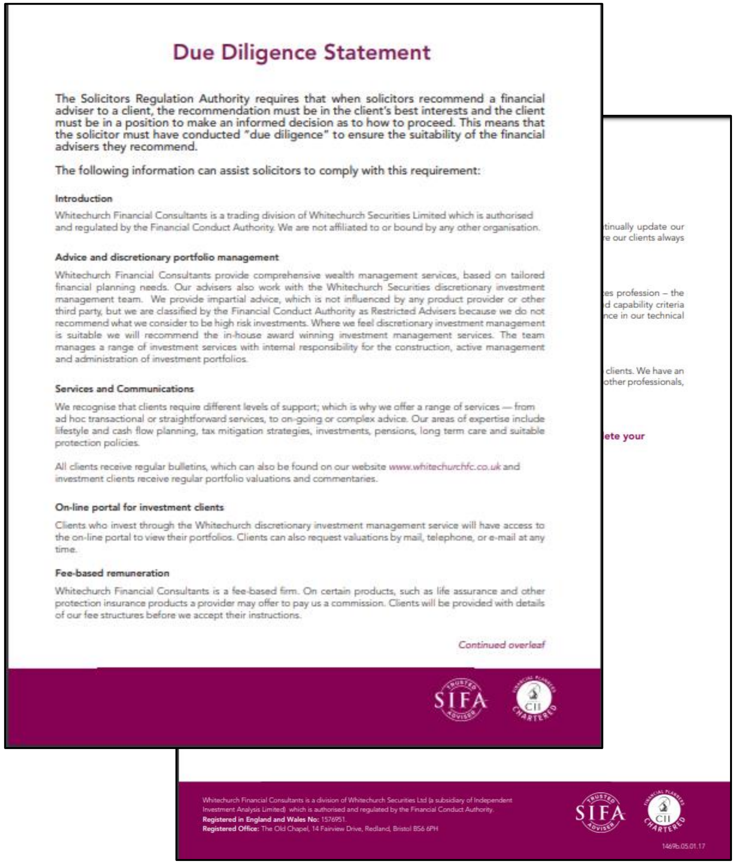
Due diligence statement



Due Diligence Statement

The Solicitors Regulation Authority requires that when solicitors recommend a financial adviser to a client, the recommendation must be in the client's best interests and the client must be in a position to make an informed decision as to how to proceed. This means that the solicitor must have conducted "due diligence" to ensure the suitability of the financial advisers they recommend.

The following information can assist solicitors to comply with this requirement:

Introduction

Whitechurch Financial Consultants is a trading division of Whitechurch Securities Limited which is authorised and regulated by the Financial Conduct Authority. We are not affiliated to or bound by any other organisation.

Advice and discretionary portfolio management

Whitechurch Financial Consultants provide comprehensive wealth management services, based on tailored financial planning needs. Our advisers also work with the Whitechurch Securities discretionary investment management team. We provide impartial advice, which is not influenced by any product provider or other third party, but we are classified by the Financial Conduct Authority as Restricted Advisers because we do not recommend what we consider to be high risk investments. Where we feel discretionary investment management is suitable we will recommend the in-house award winning investment management services. The team manages a range of investment services with internal responsibility for the construction, active management and administration of investment portfolios.

Services and Communications

We recognise that clients require different levels of support; which is why we offer a range of services — from ad hoc transactional or straightforward services, to on-going or complex advice. Our areas of expertise include lifestyle and cash flow planning, tax mitigation strategies, investments, pensions, long term care and suitable protection policies.

All clients receive regular bulletins, which can also be found on our website www.whitechurchfc.co.uk and investment clients receive regular portfolio valuations and commentaries.

On-line portal for investment clients

Clients who invest through the Whitechurch discretionary investment management service will have access to the on-line portal to view their portfolios. Clients can also request valuations by mail, telephone, or e-mail at any time.

Fee-based remuneration

Whitechurch Financial Consultants is a fee-based firm. On certain products, such as life assurance and other protection insurance products a provider may offer to pay us a commission. Clients will be provided with details of our fee structures before we accept their instructions.

Continued overleaf

Whitechurch Financial Consultants is a division of Whitechurch Securities Ltd (a subsidiary of Independent Investment Analysis Limited) which is authorised and regulated by the Financial Conduct Authority.
Registered in England and Wales No: 1576951.
Registered Office: The Old Chapel, 14 Fairview Drive, Redland, Bristol BS6 6PH

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Status – explanation of independent / restricted

Regulation

Advice process

Services

Fees & remuneration

Qualifications & accreditations

Awards

Experience

Client review process

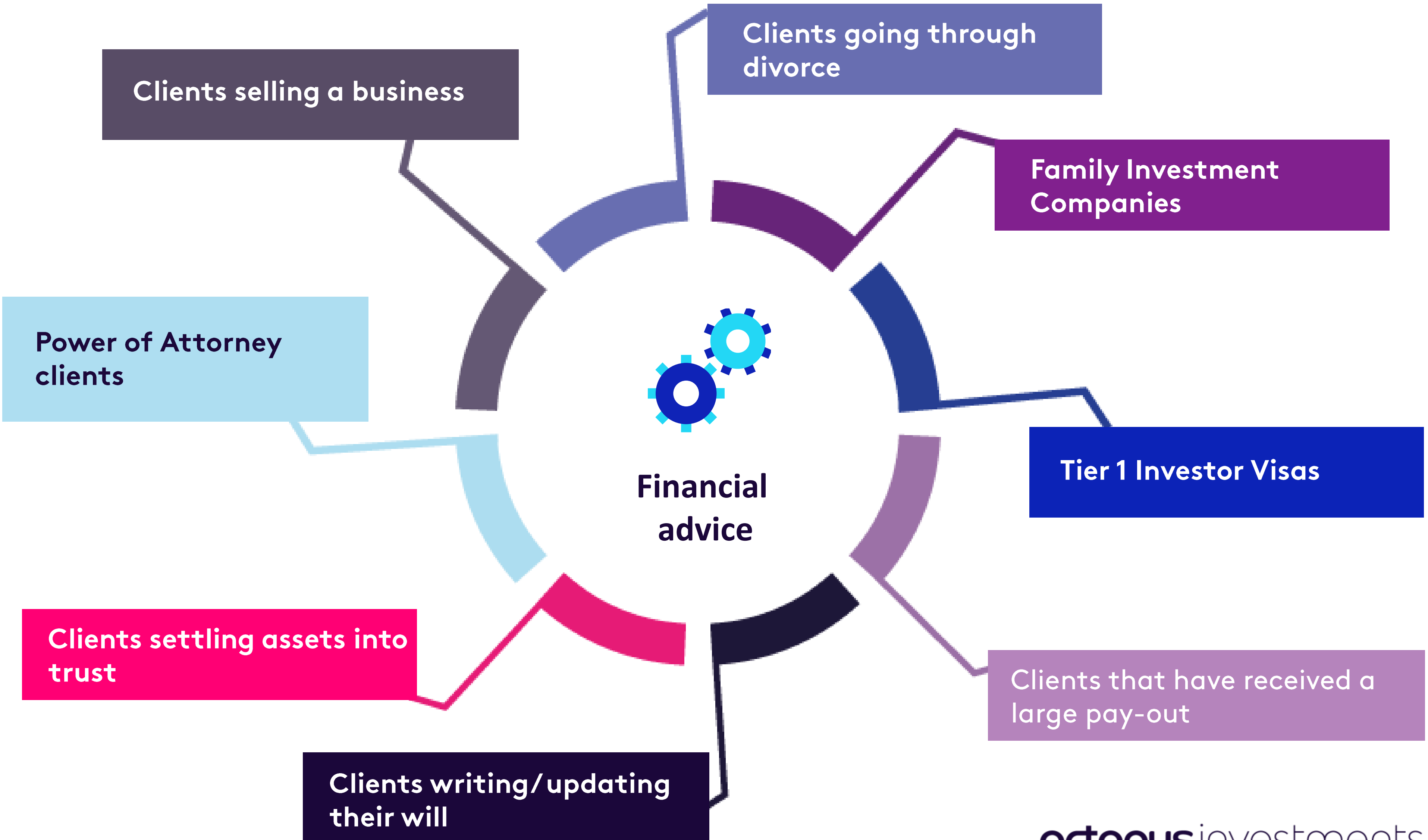
Quality standards

Disciplinary record

Online portal

Working with other professionals

Collaborating with solicitors



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Clients looking to settle assets into trust

- There is no Chargeable Lifetime Transfer (CLT) when settling a BPR-qualifying investment into trust.
- There are no periodic charges where a trust holds only BPR-qualifying investments.[1]
- There are no exit charges for BPR-qualifying investments.[1]

[1]Providing trust holds solely BPR-qualifying investments. Other charges may apply.

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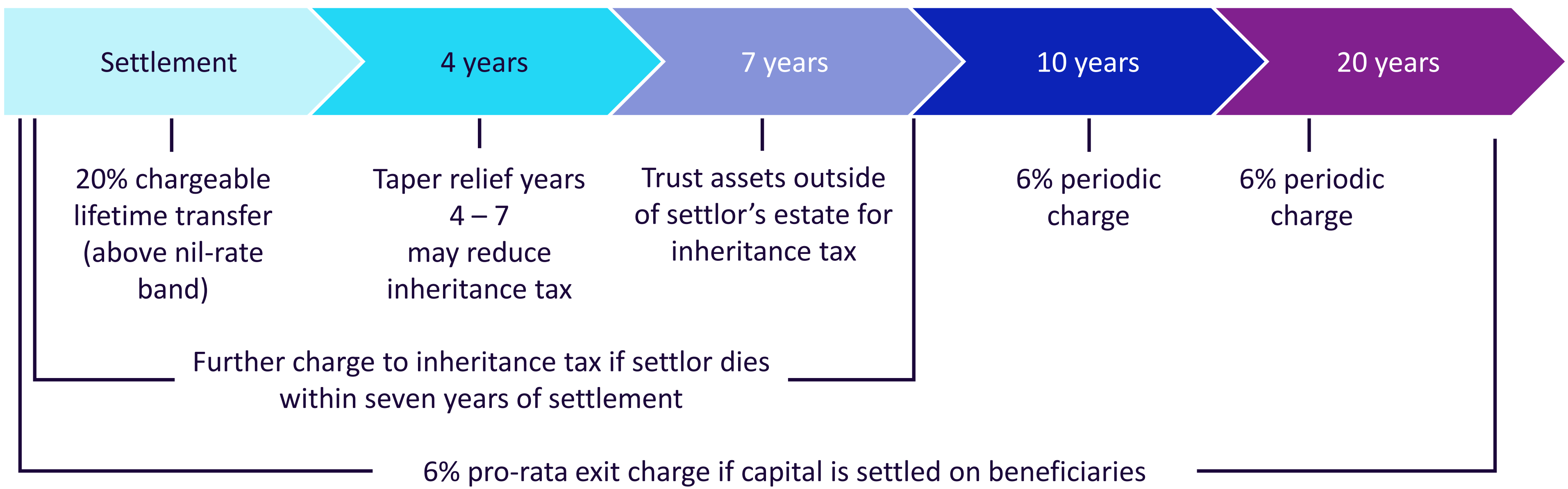
Clients looking to settle assets into discretionary trusts

Typical discretionary trust



BPR-qualifying investment into trust

No chargeable lifetime transfer

If investment is still BPR-qualifying, no periodic or exit charges[1]

[1]Any fees and charges related to the BPR-qualifying investment will still apply.

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How BPR-qualifying investments can interact with trusts

BPR and discretionary trusts

After two years, a BPR-qualifying investment can be settled into trust with no CLT, regardless of how high its value is. There is also no periodic charge or exit charge.*

BPR and loan trusts

Original capital is subject to inheritance tax. If repaid loan capital is invested into BPR, once the BPR-qualifying investment has been held for two years, shares can be left free from inheritance tax upon death.

BPR and IPDI trusts

Making a BPR-qualifying investment can help balance the demand for income during a spouse's lifetime, with the beneficiaries' desire to maximise or preserve their inheritance.

*While the trust continues to own only BPR-qualifying assets.

Clients with a power of attorney in place

- Trusts and gifts deprive clients of access to their wealth.
- Court of Protection is unlikely to agree to these types of solutions.
- BPR-qualifying investments remain in client’s name so do not require Court of Protection approval.

Designated Professional Body (DPB) licence

- What is it?
- What's the benefit?
- How can you get one?

How are advisers developing relationships with accountants?

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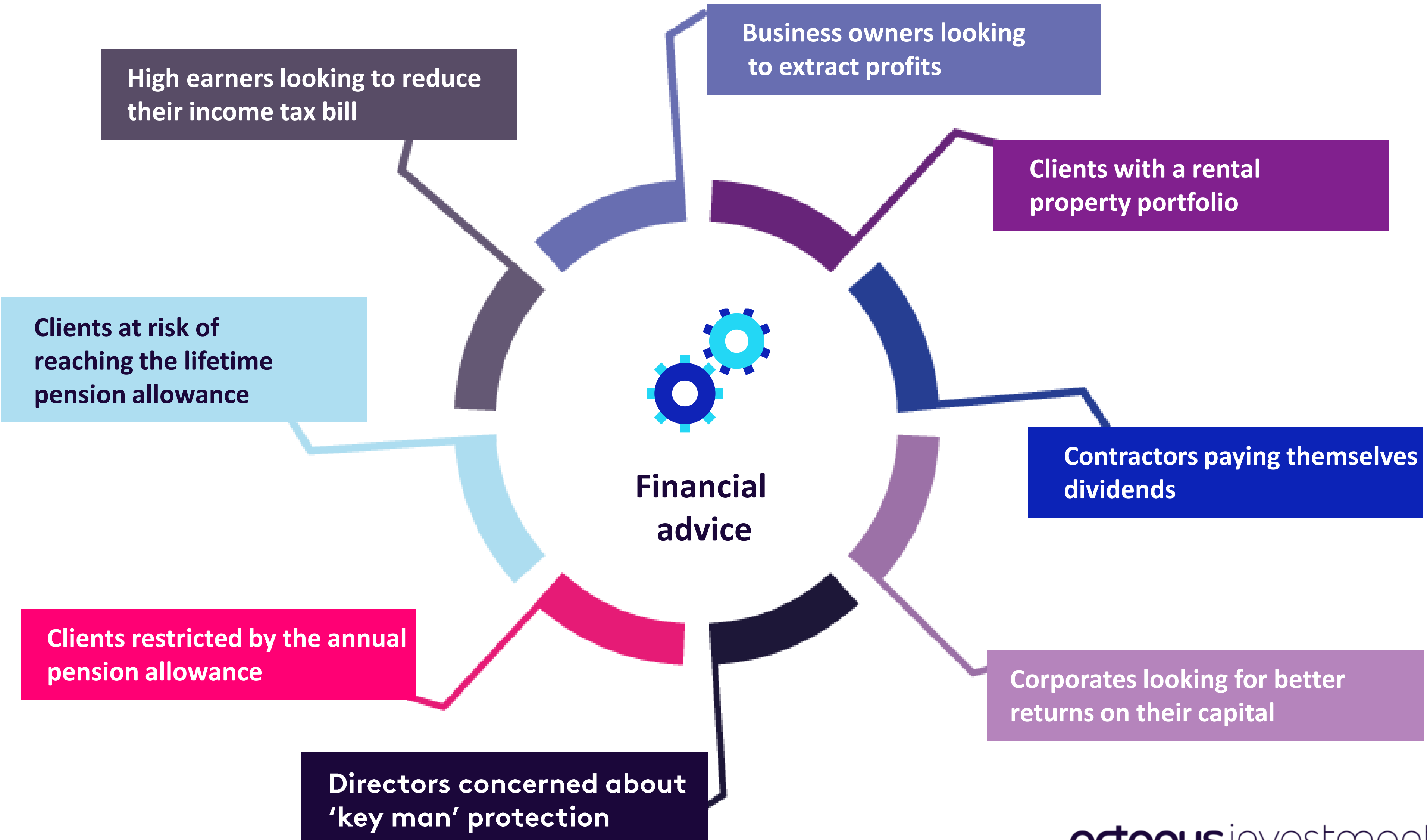
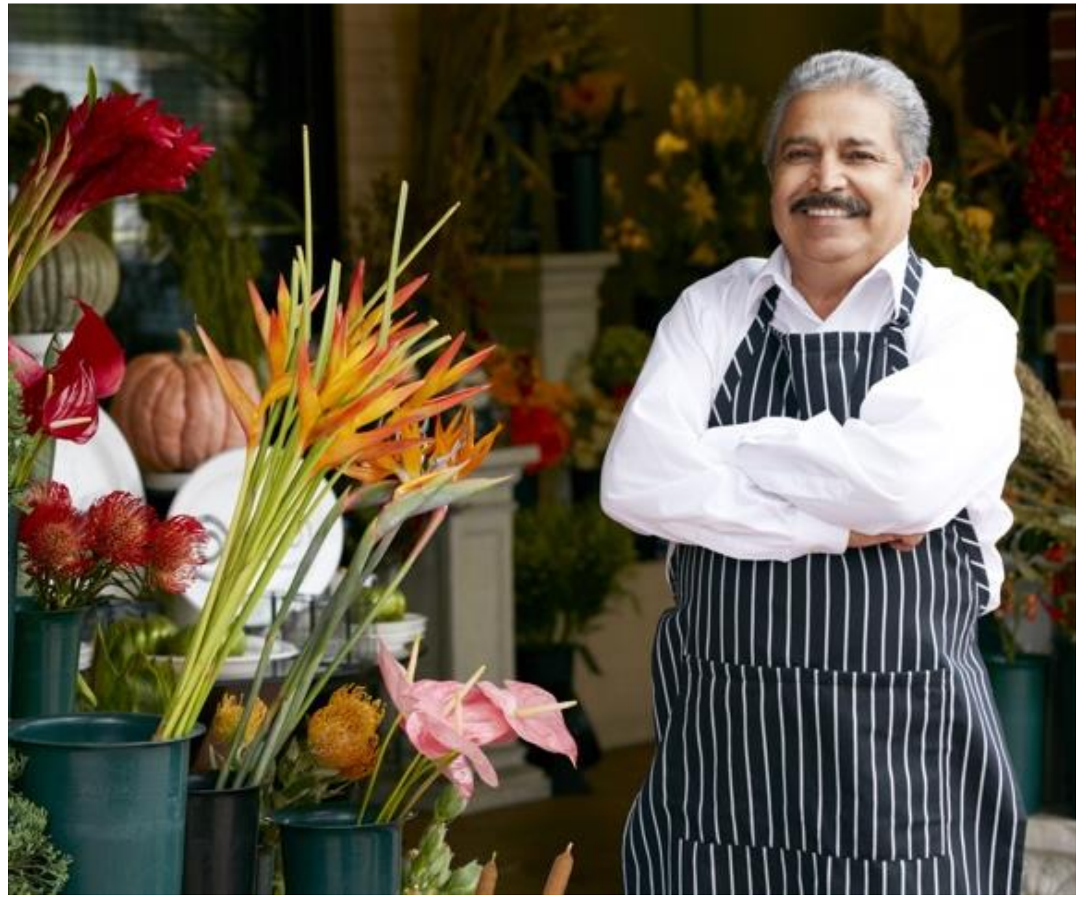
Collaborating with accountants



Inheritance tax planning: Sale of a business

- If the business is sold, the business owner loses their BPR inheritance tax exemption

- Window of 3 years to reinvest proceeds of sale and retain immediate inheritance tax exemption, through replacement property relief



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FAME reports

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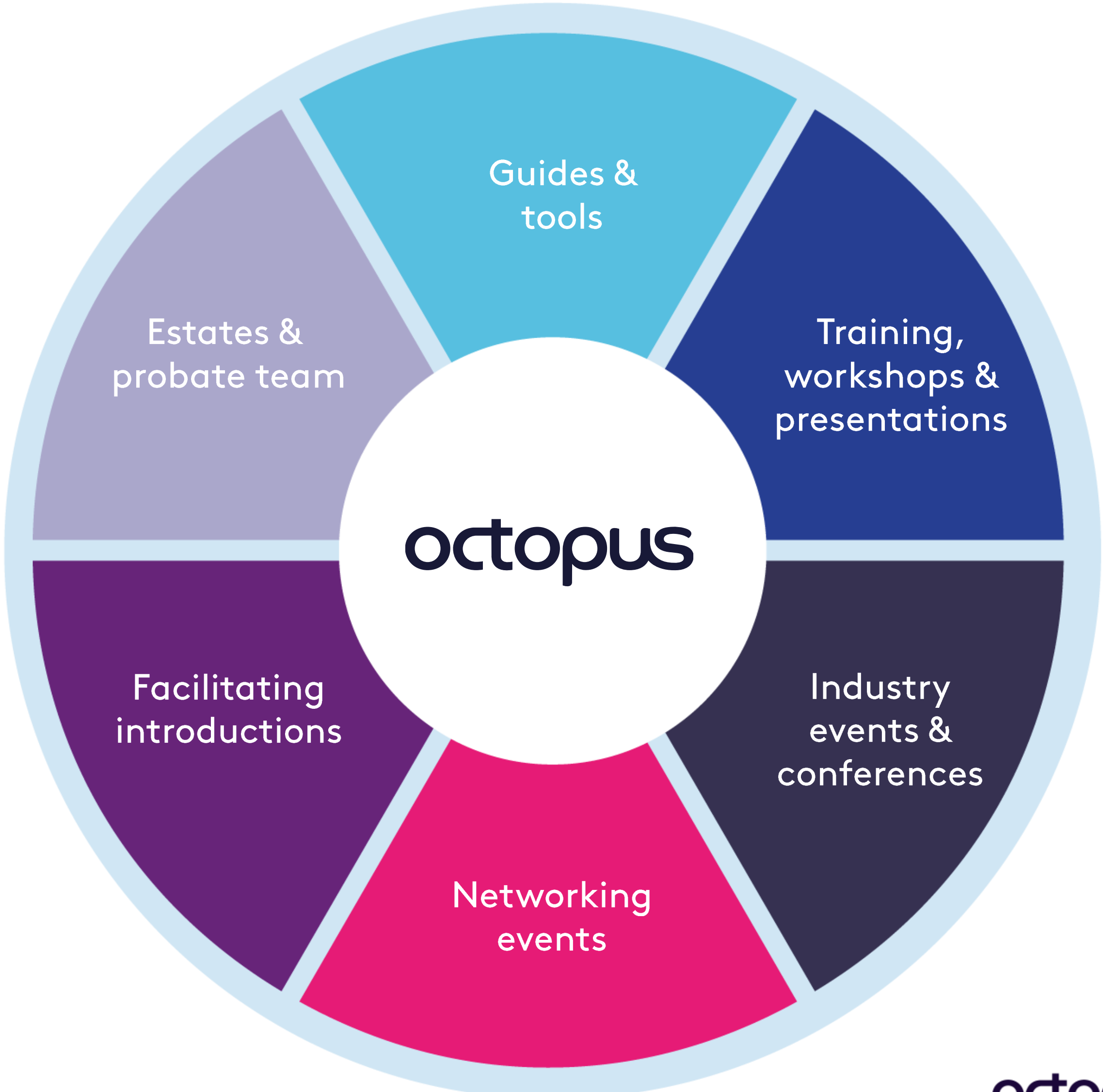
How Octopus can be a valuable partner



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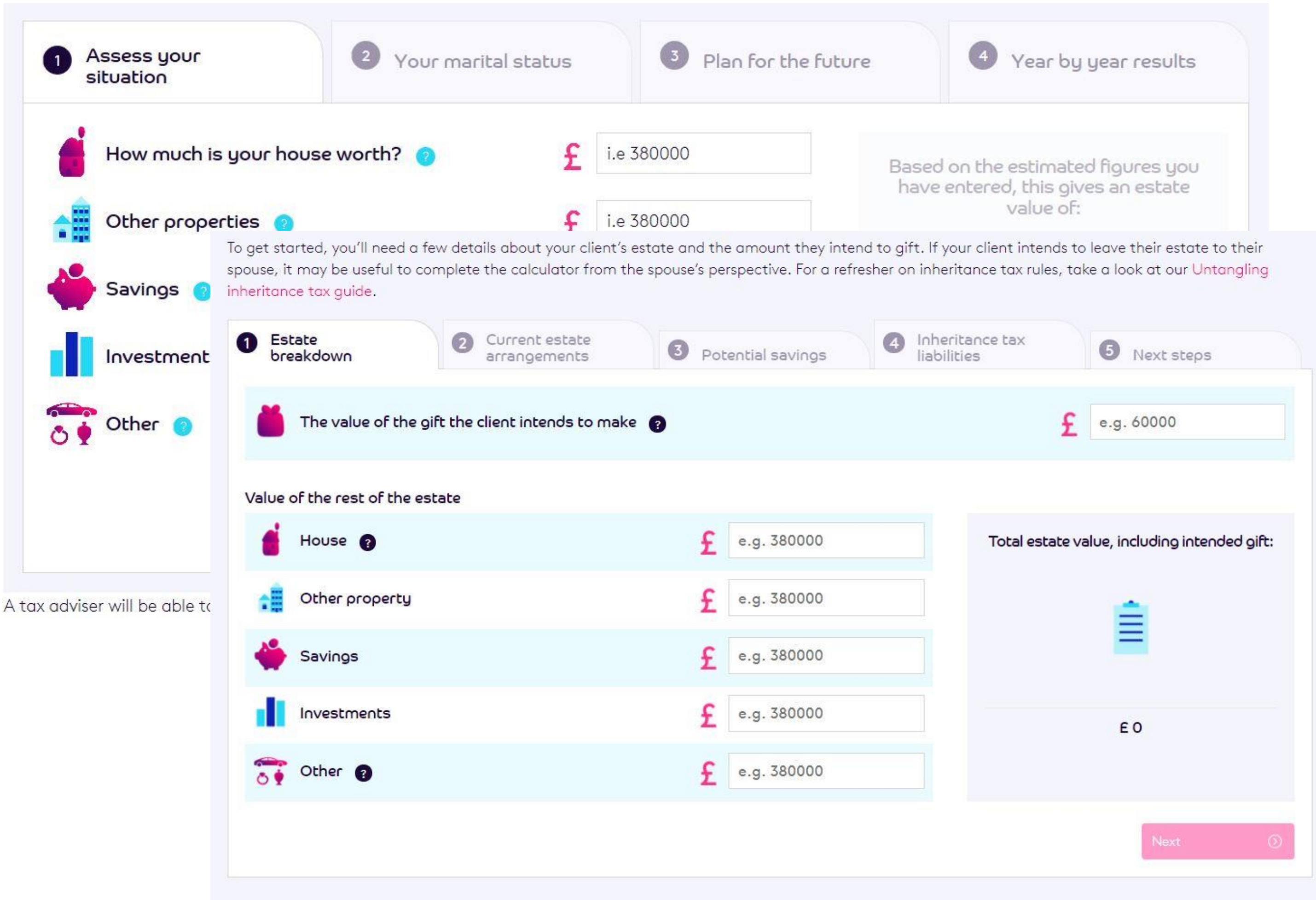
Tools and guides

Residence nil-rate band & gifting calculators



Guide to untangling inheritance tax

Guide to VCTs

Go to octopusinvestments.com.

Thank you

Please get in touch with your local Octopus business development manager with any further questions on **0800 316 2067** or by visiting **octopusinvestments.com.**

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