



Unlocking opportunity

DELIVERING PERSONAL FINANCIAL PLANNING
THROUGH COLLABORATION

Introduction

Welcome to *Unlocking opportunity*, a guide produced alongside relevant sponsors and content partners to introduce opportunities for accountants to expand their offering in the space of personal financial planning



Personal financial planning has been identified by the ICAEW Tomorrow's Practice project as a key growth area for ICAEW Chartered Accountants. In this increasingly complex and important market sector, clients need high-quality advice from professionals. As their trusted financial expert, clients look to their ICAEW Chartered Accountant to help them and their families on a broad range of personal financial planning issues. This typically includes saving for retirement, how to access or consolidate pension pots, structuring and managing investments, tax and estate planning, or helping family members with house purchase, long-term care, wills and probate.

In the area of retirement planning, around 400,000 individuals with money purchase pensions are expected to reach the age of 65 over the next few years. It is estimated 14.7m people in the UK are over 60 years of age, and 22.7m are over 50. Furthermore the introduction of Freedom and Choice in Pensions means your clients are now faced with a complex set of decisions around what to do with their pension savings. They will expect you - as their trusted accountant - to be able to help them at this pivotal moment.

Unlocking opportunity is intended to help members better understand how to develop a personal financial planning business by focusing on assisting clients to achieve their goals. It draws on the example of a retiring small business owner, Peter Pickle, and his family. Real-life financial planning scenarios are used to illustrate how the trusted accountant can position themselves as the family's personal finance director, working with specialist advisers, so the family can organise its financial affairs efficiently.

A key theme that runs through our case study is that to deliver better client outcomes and build a better business, advisers from different disciplines need to work collaboratively. To help readers get to grips with some of regulatory aspects of this, the guide refers to how accountants can use their ICAEW Designated Professional Body (Investment Business) Licence (DPB licence) to work more closely with financial advisers who have permissions from the Financial Conduct Authority (FCA) to deliver investment business advice. Details of ICAEW's *Traffic Light Guide to Regulation* can be found at (tinyurl.com/ybxaw4dy).

Unlocking opportunity is one aspect of ICAEW's work to help members identify opportunities for unlocking more value from their trusted adviser status, building a connected community with other personal financial planning and investment sector professionals. To support members and others, ICAEW has launched its Personal Financial Planning (PFP) Community, which provides content and insights in the areas of regulation, pensions, investments, tax and estate planning, probate and business development. Join the community free of charge at icaew.com/pfp

JOHN GASKELL

Head of Personal Financial Planning, ICAEW

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A digital copy of *Unlocking opportunity* can be downloaded from the Community website (tinyurl.com/y9nua2r2). The PFP Community is open to both members of ICAEW and others free of charge.

Goal-based personal financial planning

As accountants we are well used to thinking about the best possible outcomes for our clients. We are hard-wired to deliver solutions based on efficiency and effectiveness. But, increasingly, the future professional needs to embrace a shift in thinking – away from results-based outcomes to one of goals-based planning

Goal-based financial planning is an investment methodology in which performance is measured by the success in meeting an individual's personal and lifestyle goals. This seems simple enough, but it represents a significant shift from traditional wealth-planning approaches, in which the success of financial performance is based on an investment return.

Why does this distinction matter? Quite simply because accountants can change people's lives for the better, easily and quickly, through very basic personal financial planning. Advanced, goal-based planning allows you to take it to an even higher level.

NO REGRETS

To prove it, let me tell you a true story about Margaret and Ken. Now in their late 70s, in early 2017 they had some devastating news. Margaret was diagnosed with motor neurone disease, a seriously life-limiting condition. The shock caused a lot of sadness and crying. But they had no regrets. In fact they were really grateful. Not for the illness, of course. But for the very simple way an accountant had helped them 20 years earlier.

Back then Ken was a very unhappy 59-year-old. He worked in an industry that was being revolutionised by computers, which he simply didn't understand. So, he was struggling to keep up, and it was causing him huge amounts of stress. When an accountant asked 'Why don't you retire', his answer was, 'I would love to, but I can't afford it because I won't get a pension for six years'.

Undeterred, the accountant did something very simple that transformed Ken and Margaret's life. Driven by Ken's "impossible" goal of retirement. He produced a basic two-page spreadsheet. The first page set out their personal balance sheet. And the second page rolled their balance sheet forward for 35 years, adding in their likely income and deducting their likely expenses.

Rudimentary as it was, it showed very emphatically that Ken could afford to retire immediately. So he did. And, as a result, they have enjoyed almost 20 very happy years of retirement together. Without any of the stresses or sleepless nights they used to suffer. And because of those 20 years of happiness, they were able to accept the news of Margaret's illness without any regret.

How do I know all of this? Well, Ken and Margaret are my parents. And I was the accountant who created the spreadsheet. It was one of the most important things I have done in my 30 years as an ICAEW member.

It certainly wasn't rocket science. Far from it. In fact, it was the incredibly simple kind of thing that every single accountant can – and I believe, should – do for every one of their clients.

It won't always result in the client retiring immediately, of course. But when you sit down with clients, help them to articulate their life goals, work out what that implies for their family financial goals, then create a personal balance sheet and personal financial projections to reflect all of that, everything changes.

MAKING LIFE BETTER FOR YOU

The benefits to you include: having more important conversations with clients that lead to deeper relationships and improved loyalty; gaining a better understanding of how you can help them in the areas that really matter to them; and a greater likelihood that they will buy additional services and pay you higher fees.

What's more, you can achieve all of that without doing anything overly difficult. Clearly, therefore, it is one of the easiest and best ways of remaining relevant, being more valuable and making a bigger difference. And it is also one of the easiest and best ways to make your practice more successful and profitable.



Steve Pipe, FCA
Researcher, author
and practice
strategist

Embracing the change.

As the pension freedoms become a reality for an increasing number of clients, DPB (Investment Business) authorisation allows accountants to broaden their offering and integrate their core skills with those of other professions. This can improve client outcomes and enhance an accountant's own business proposition, as Eric Clapton explains

As an ICAEW Chartered Accountant, you occupy a position of trust with your clients. Clients are with you and talking to you because you have their trust and they think you can help them with your expertise. The challenge is to change their perception of you as tax advisers - or advisers to their business - and to be seen as a conduit to all their financial affairs, business and personal.

Throughout your clients' business journey, you will have been seen as a problem-solver. Someone who takes care of the numbers, who helps deal with one of the headaches of a life hectic with growing the business, paying the mortgage and managing family life. But with a few judicious questions, a structured client meeting and a focus on listening you can offer much more.

You need to get into a frame of mind that enables you to ask a different set of questions to those you might be used to asking. To begin with, though, there's no use asking a question that you had no right to ask. So, the first thing you need to think about is framing the meeting. If someone comes in and says, like in the Peter Pickle case study example, 'I'm changing my life, I'm making a big change', the fact that he's talking to you before the event is a buy signal. If he's talking to you after the event, then quite frankly, you can take yourself in hand, because you've probably not been listening to what has been said.

But the buy signal is the starting gun, it's a conversational set-piece. What you've got to do, is show that you're interested. If you want more buy-signals, you've got to engage, because it's probably the biggest thing your client's ever done - you've got to ask the questions. One very good consultant said to me that most accountants are too quick to jump to the conclusion. They hear, 'I want to sell the business' and the accountant is there with a solution. They are already there saying, 'don't sell the assets, sell the shares'. The client has offered up one piece of information, one

sentence, and the accountant has ended the questioning there. He's not asked where they are going to spend the money, how they are going to deal with it long-term, what their objectives are, how are they going to live the rest of their life and so on.

Instead, he's just jumped straight to the end and that is cold water on the buy-signal. Instead of saying 'this is really interesting! Go on then, tell me more', they've closed the door. Open questions will lead to opened doors, particularly around your client's lifestyle and lifetime plans. You need to find out what's floating their boat.

'Throughout your client's business journey, you will have been seen as a problem-solver. But with a few judicious questions you can offer much more'

Accountants are used to putting together the cash-flow planning for a business, and that methodology can be transposed to the individual and family's personal finances. The accountant has been a virtual finance director of the business - managing the finances efficiently and being smart with numbers. A shift in mind-set can unlock a whole new opportunity and you can become the finance director for the personal finances too.

There are certain junctures in the life of every individual or business when financial planning will be required. Accountants have the opportunity to become the first point of reference at each of those stages. With the right skills, mentality and network accountants can become the circuit-board on which a series of specialist financial components can be overlaid to take care of the wider financial issues your clients face in both a business and personal capacity.



Eric Clapton,
Clapton Consultants





**IT PAYS TO COLLABORATE.
ERIC'S FIVE STEPS TO
BROADENING YOUR
CLIENT OFFERING.**

1. BE PREPARED

If you want to make the transition to a broader base of services, it will take time and resource. The benefits are obvious, but the transition should not be underestimated and it will involve an attitudinal and practical commitment to the change.

2. COMMUNICATION IS KEY

I've heard of several accountants saying they had lost business not because they'd lost client trust or confidence but because their clients weren't aware of what they offered. If your clients come in to see you, they haven't lost confidence - in fact you've spent years with them building confidence - the trouble is that they are confident that you can take a piece of tree and make a bow. What they don't know is that you now can string the bow and shoot the arrow. Make sure your clients know the full range of your services before they walk elsewhere.

3. LISTEN

Making the transition to personal financial planning and cash-flow modelling may seem like a big change if your clients have historically seen you as principally a business adviser. If a client comes to you saying he or she is thinking of selling their business, many accountants are hard-wired to immediately jump to a solution based purely on the sale of that business. A few prudent questions about retirement plans, lifestyle goals and familial structure and you can begin to build a more holistic view of the financial needs of the client.

4. BUILD THE NETWORK

The DPB licence gives you an opportunity to offer a more comprehensive client-based service, but you need a network to deliver it. And don't assume that the network is purely there for incoming referrals. Initially, it will principally be a knowledge network, building confidence that you can advise and refer your clients in more ways. But by introducing relevant experts at the right time, you begin to translate your existing trust into new domains.

5. CEMENT YOUR EXPERTISE

Within your network, you need to develop and cement your expertise. One of the ways of doing it is building on your store of tax knowledge. What I often say to the accountants I talk to is 'Find a hole in the network and fill it'. If you've got an adviser that you want to build a relationship with and the adviser doesn't know tax, help them. Advisers aren't trying to pinch your tax business - in fact they are more likely to refer business to you because you've helped them. But you don't have to think binary, this isn't necessarily *quid pro quo*. It's about developing a group of people who say 'I know stuff and you different know stuff and ultimately it's to the benefit of all of us, especially our clients'.



The story of Peter Pickle

Peter Pickle is an SME owner aged 58, married to Katherine who is 60. Peter and Katherine have a 29-year-old daughter, Suzy, who is planning to get married and start a family. Peter's father has recently died, leaving his estate to Peter's mother, aged 84

Peter owns Widget, a profitable engineering business, which he started in his early thirties. Katherine is employed by the business as a part-time accounts manager.

Peter has a long-standing relationship with ICAEW Chartered Accountants, Limited Horizons, since he established his business and who provide traditional accountancy and tax services to the business and Peter. Peter's father recently died, leaving his estate to Peter's mother, aged 84. Peter is an only child and has a close relationship with his independently-minded mother. Peter does not think his late father's affairs are in the best of order.

Peter had thought he would retire at age 65. However the recent death of Peter's father led him to reassess his priorities and this - when added to his concerns about the economic uncertainty around Brexit - means he is considering selling the business to retire early. Peter also wants to help his daughter buy a

house and ensure his mother is properly provided for. Peter and his wife have also been considering buying a holiday home in France, or Portugal.

PETER AND KATHERINE'S KEY GOALS AND OBJECTIVES

- For Peter to retire at or around aged 60
- To sell the business within the next two years and minimise taxes
- To structure their personal financial, pension, investment and tax affairs to deliver a secure retirement
- To have access to trusted professional advisers so the family's financial affairs are well managed both during and after Peter's lifetime
- To buy a holiday home in France or Portugal
- To help with the administration of the estate of Peter's recently deceased father
- To ensure that Peter's mother has sufficient income and that the investment portfolio is properly managed and structured to meet her needs
- To provide some financial assistance to their daughter to help buy a house in anticipation of starting a family

The Pickles' new priorities mean professional advice is needed to assess whether it is feasible to sell the business in the next year so Peter can retire at 60, with access to someone they can trust to help manage the family's financial affairs moving forward.

LIMITED HORIZONS

Peter and his wife met their accountant to discuss the proposition of selling the business so Peter could retire within the next two years. Peter naturally looked to his longstanding trusted accountant to help him and his family at this pivotal moment in their life.

Limited Horizons told Peter it would provide a business valuation and could help find a buyer for the business at a sensible price, and would of course help minimise tax liabilities. Peter had pretty much taken this for granted as he had been very happy with the services his accountant had historically provided.

However, Peter and his wife were very surprised to be told that Limited Horizons did not get involved in retirement planning as it does not have the DPB licence that is required for some of these activities, but that it could provide business cards of three independent financial advisers who may be able to help.

The Pickles left the meeting disappointed and none the wiser as to whether Peter could retire at 60. This was not what they expected from their long-standing trusted accountant. Peter

remembered that he had heard a business colleague at the golf club talking positively about a firm of ICAEW Chartered Accountants - Progressive Planning - who had set-up shop locally. Peter suggested they should book an appointment.

A NEW WAY OF THINKING

Peter and Katherine arranged to meet Progressive Planning to see if Progressive, as ICAEW Chartered Accountants, could deliver a broader range of services than currently available from Peter's long-standing accountant.

In advance of this initial meeting Progressive Planning asked Peter and Katherine to provide a summary of their key goals and objectives; details of personal and family circumstances, estimated value of the business, and list of their personal financial assets and liabilities. They were also asked to forward details of what sort of retirement lifestyle they want, how much income they would need, and other aspects of their family's affairs.

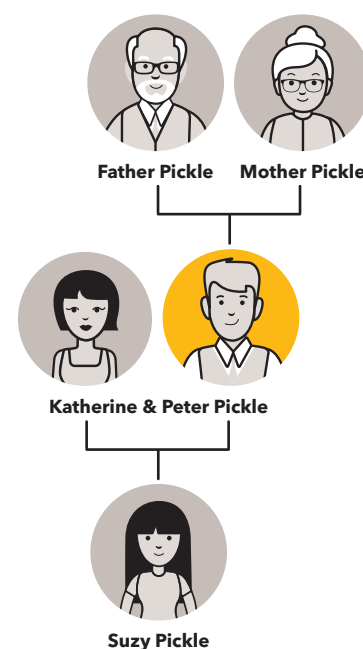
At the initial meeting with Progressive Planning, Kevin, the founding partner, presented a snapshot of Peter and Katherine's assets and liabilities in the format of a personal financial balance sheet. By inputting details of their desired retirement income through his software, Kevin ran a life-time cash flow analysis to assess whether it seemed feasible for Peter to sell the business and retire at 60.

Kevin explained that Progressive worked with a network of trusted independent financial advisers and investment managers, so that they could help clients such as Peter and Katherine. He also explained Progressive can help administer the estate and have a probate licence to obtain probate. The matter of an overseas property was discussed. Kevin explained that this is complicated and specialist area of advice, requiring detailed knowledge of overseas legal and taxation issues. He said he could make arrangements for referral to a specialist adviser.

BECOMING THE FAMILY FINANCE DIRECTOR

The Pickles were delighted with the approach that Kevin had described. Peter said that he envisaged Progressive occupying the role of a family personal financial planning director, which is exactly what he thought was needed at this watershed moment in his family's affairs.

Kevin explained that should Peter switch to Progressive he would prepare a detailed



personal financial plan, and identify areas where specialist financial and investment advisers would need to be involved. He explained that because Progressive has a DPB licence it can work closely with specialist financial and investment advisers. Kevin said that he could facilitate joint meetings and help translate recommendations into plain English and pass general comment on advice provided.

Kevin had outlined how the Financial Conduct Authority (FCA) regulated the financial and investment advice sector. The Pickles said they found this information and referral network was extremely useful because they really had no idea about how to find a good financial adviser they could trust.

Kevin explained Progressive would typically involve clients in two collaboratively structured meetings with external experts before moving to the implementation stage. Thereafter it made sense to have annual meetings to ensure plans were on track, and tweak or amend plans accordingly.

Kevin also recommended that Peter's mother became a client and that a specialist investment manager was needed to review the investment portfolio. Peter was relieved that Progressive was able to deal with the estate and that someone trustworthy would be available to help manage his mother's financial and investment affairs. It was agreed that once it became clearer whether Peter and Katherine could afford to gift some capital to their daughter, Kevin could involve an independent mortgage broker to help with house purchase.

MOVING ACCOUNTANTS

Peter and Katherine were impressed with how Progressive structured their business around helping small business owners and their families meet their lifestyle priorities, and particularly liked how an accountant could work collaboratively with other advisers using the DPB licence. The Pickles appointed Progressive as their new accountants.

REPORT AND RECOMMENDATIONS

Progressive Planning submitted their report to Peter and Katherine which covered a range of key issues including:

LIFETIME CASH-FLOW MODELLING

Drawing on the personal financial statements and using a range of reasonable assumptions, Kevin created a lifetime cash flow model which suggested that if Peter sold his business there should be sufficient wealth for him to retire at 60 and enjoy the retirement lifestyle he and his wife wanted.



TAX PLANNING

Progressive identified a range of key taxation issues that needed addressing in anticipation of the sale of Peter's business and in connection with pensions, investments, inheritance tax and estate planning. Peter was particularly impressed that the financial plan took into account current and future mitigation of taxes, suggesting consideration be given to such matters as:

- Division of investment assets between spouses to maximise the use of income tax allowances and CGT exemptions so creating higher net cash inflows to fund lifestyle
- The availability of Business Property Replacement Relief (BPRR) to allow immediate exemption of newly acquired business assets from Peter's IHT estate
- The ability to gift business property as part of efficient estate planning to allow full use of IHT Nil Rate Band and Residence Nil Rate Band

- Redrafting Wills to include current tax legislation with regular reviews to future-proof the estate planning

Peter was impressed that Progressive not only flagged the issues but had stated clearly where specialist advice is required from an expert regulated financial adviser to allow the financial plan. Progressive also made clear that its ICAEW-granted DPB status helps to build a network of such specialist professionals and to remain closely involved at all stages of the strategy.

In the view of Peter and Katherine the ability of Progressive to provide independent oversight of the implementation of the plan using their accounting and tax expertise was key to giving them the confidence with which to implement the strategy and commit their funds.

PENSIONS AND INVESTMENTS

With the Pickles' authority Kevin contacted product providers to obtain up-to-date valuations of Peter and Katherine's pension policies, details of the funds, and copies of pension death benefit nominations and pension trust arrangements. A similar exercise was undertaken for the investments and insurance policies. The report noted Peter had a deferred benefit pension scheme. Kevin had also obtained details of state pensions.

Progressive's report included a summary of the key changes introduced by Freedom and Choice in Pensions, with a factual explanation of how annuities and income drawdown plans worked, and an outline of the key differences between defined benefit and defined contribution pension schemes. Details of Peter and Katherine's position in connection with Annual and Lifetime Pension Allowances were highlighted.

Kevin arranged for Peter and Katherine to meet a specialist pension and retirement planning independent financial adviser (IFA), who had permissions from the Financial Conduct Authority (FCA) to advise on pension transfers. Kevin would be chairing the meeting at Progressive's offices, with a copy of the report sent to the IFA ahead of the session.

As Progressive has a DPB licence Kevin can comment on the IFA's recommendations, ask questions, and discuss any detailed tax matters arising. Progressive and the IFA use the same financial modelling software which means details can be compiled and shared to help minimise costs.

'Peter was particularly impressed that the financial plan took into account current and future mitigation of taxes'



HOLIDAY HOME

Progressive explained that purchasing an overseas property is a complicated business, particularly in connection with overseas succession laws, taxation and estate planning, so a meeting with a specialist had been arranged. The meeting will be facilitated by Kevin who will be on-hand to feed relevant information into the meeting, pass comment on what is proposed and help the Pickles reflect on the context and implications of what will be discussed.

THE ADMINISTRATION OF PETER'S FATHER'S ESTATE

Progressive will help Peter in the administration of his father's estate and, because it has a probate licence, can deal with the probate. Kevin's report also highlighted a number of areas in connection with inheritance tax planning that need more detailed consideration and flagged the issues of updating wills, with the suggestion that Peter needed to discuss the rationale for a power of attorney with this mother. Kevin raised the possibility that consideration could be given to utilising a deed of variation to divert some inherited wealth to Peter's daughter to help with a house purchase, subject to detailed consideration of Peter's mother's financial position.

Peter confirmed he had already begun to discuss these issues with his family and that his mother had agreed to become a client of Progressive Planning and was looking forward to meeting Kevin.

THE INVESTMENT PORTFOLIO

The report explained that as Mrs Pickle has suffered a significant drop in income following the death of her husband, the inherited investment portfolio needed to be reviewed by an investment expert. Kevin was therefore arranging for Peter and his mother to meet a specialist investment manager at Progressive's offices. Kevin would help collate relevant information and manage the meeting, ask questions and advise on the taxation implications.

Breaking free

The introduction of freedom and choice in pensions means individuals will have to shoulder more responsibility for managing the financial implications of longevity in the new savings regime, says says ICAEW corporate partner Prudential PLC

To help professional advisers keep up-to-date in this increasingly important area so they can meet the needs of clients such as Peter Pickle, ICAEW, in conjunction with Corporate Partner Prudential PLC, has produced a *Technical Guide to Freedom and Choice in Pensions* (tinyurl.com/ICAEW-freechoicepensions)

The main areas of the pension reforms;

- Introduction of flexi-access drawdown - drawdown without limits for all
- Introduction of more flexibility for annuities
- Introduction of uncrystallised funds pension lump sum (UFPLS) - a new mechanism to withdraw lump sums from a pension
- Introduction of the money purchase annual allowance (MPAA) - a restriction on the annual allowance for people who access their pension flexibly
- Changes to pension commencement lump sum recycling rules
- Changes to death benefits - including improvements in the tax position and the potential to cascade wealth down the generations

Since freedoms were introduced, there has been subsequent legislation that introduced;

- Alignment of pension input periods to tax years, which had transitional provisions
- Tapered reduction in annual allowance for higher earners from April 2016
- A reduction in the lifetime allowance (LTA) from April 2016

In this updated guide we have given you detail on four of the key areas:

- death benefits;
- pension transfer advice requirements;
- lifetime allowance;
- annual allowance.

FLEXI-ACCESS PENSIONS

What are flexi-access pensions?

- Flexi-access drawdown is the only drawdown option since 6 April 2015 unless the individual was in capped drawdown before that date
- For those that were in flexible drawdown as at 5 April 2015, they automatically became

flexi-access drawdown on 6 April 2015

- Flexi-access drawdown operates in the same way as flexible drawdown did before 6 April 2015 (ie there is no limit on income withdrawals), but without the minimum income requirement of £12,000 of other secure pension income in a tax year to access

‘The individual may decide how much or how little of their fund they wish to take as income, and when they want to take it’

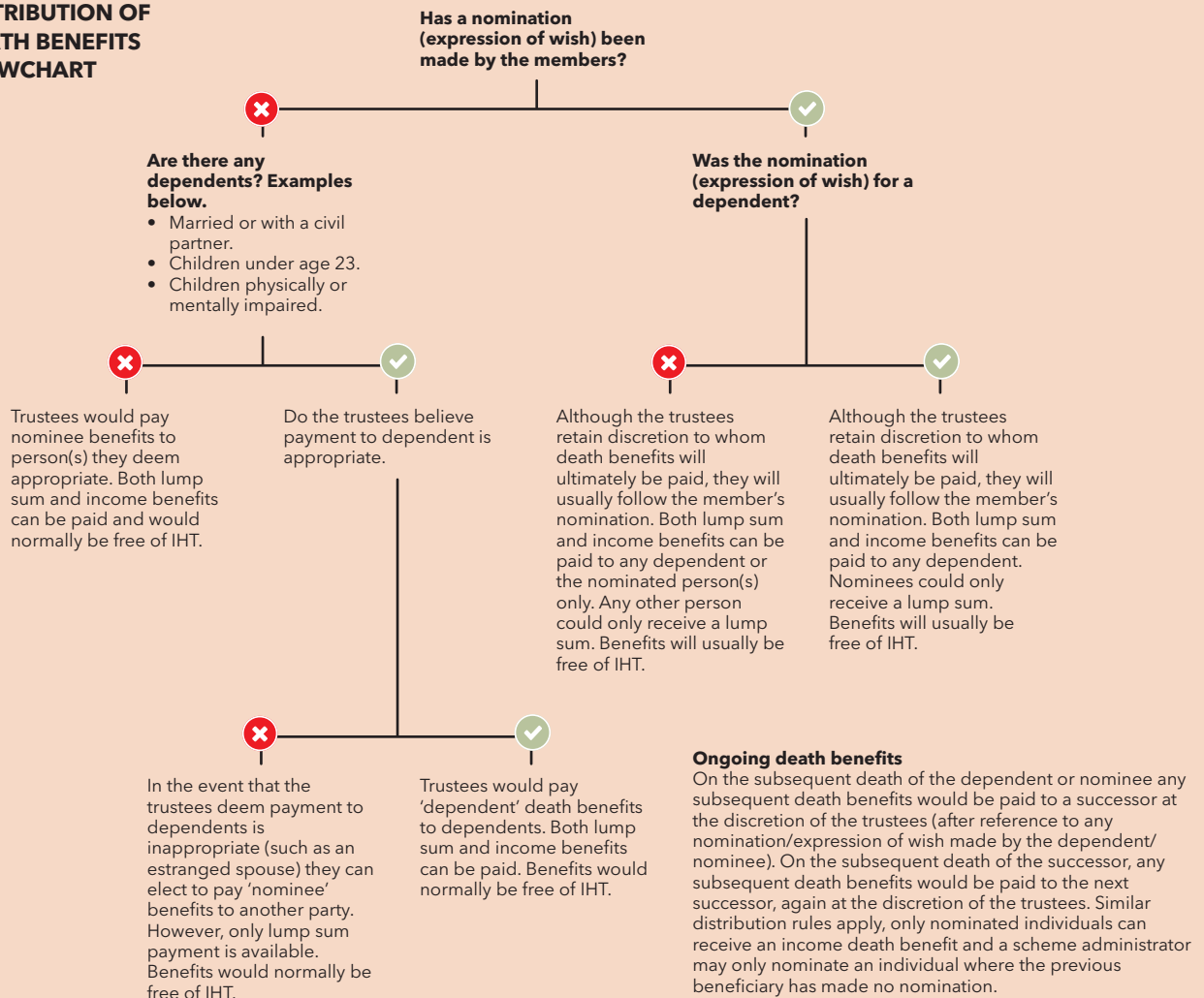


it. The individual may decide how much or how little of their fund they wish to take as income, and when they want to take it. They may also take a 25% pension commencement lump sum (PCLS) and designate the rest of the fund into flexi-access drawdown. Any withdrawals taken above the 25% PCLS will be taxed at the individual’s marginal rate and are counted as a trigger event for MPAA purposes. See below for more details on MPAA

CAPPED DRAWDOWN

- Capped drawdown is no longer available for new arrangements
- However, capped drawdown arrangements (drawdown with income restrictions already in place on 5 April 2015) may continue under the existing rules. Subject to the scheme allowing, future designations to the same arrangement may continue. The MPAA will not be triggered if the income drawn remains within the maximum capped drawdown amount

DISTRIBUTION OF DEATH BENEFITS FLOWCHART



RECYCLING

Although recycling of income within the limits is fine, caution is required around recycling of any PCLS, with the limit being £7,500. All other rules/criteria remain the same and can be viewed at hmrc.gov.uk/manuals/ptmanual/ptm133810.htm.

ANNUITY FLEXIBILITY

In 6 April 2015, three important changes were made to the annuity rules.

- A lifetime annuity may continue after the member's death for any period that is set out in the annuity contract (previously limited to a 10-year guarantee)
- A lifetime annuity can go down as well as up by any amounts (historically, this was possible only in limited circumstances). Although as this is a lifetime annuity there must still be an annual payment made to the member
- The annuitant can name someone other than a dependant as a beneficiary, if the annuity provider allows this

- There are many schemes with many different rules on what benefits can be paid and to whom. For example, some schemes will exercise discretion as regards who receives funds, some will not. Some schemes may be bound to pay a certain type of benefit, but not who they will pay it to
- One of the most common structures would be a wide class of beneficiaries where the scheme has absolute discretion on what type of benefit they will pay and to whom. The flowchart above outlines who may be paid and what under this structure

To access your copy of the *Technician Guide to Freedom and Choice in Pensions* join the PFP Community at icaew.com/pfp

For more information on pensions options, please visit pruadvisor.co.uk



The art of financial planning

Financial modelling can be a powerful tool in helping clients understand whether they are on track to meet their life goals.

Nigel Hutchinson, private client partner at Mazars UK, explains how



The art of financial planning for clients is about understanding an individual's lifestyle goals, establishing how much wealth is needed to achieve those goals, and helping clients to structure their affairs efficiently to give them the best chance of meeting them. It is a process that provides clients with a snapshot of the future and a financial plan to help keep them on the right path.

Most of our clients come to us at the point at which they have accumulated a reasonable amount of wealth. Careers are established, children have left home and the mortgage is paid off, or there's equity in the house. Some feel confident that their savings are on course but are looking for reassurance or validation. Many others, though, need a root and branch review of their finances and a plan to help them into retirement and older age.

This begins with a process of financial modelling, where we look at a client's existing wealth position, discuss their current and future lifestyle objectives, and then see whether they are on track to meet them.

A LOOK INTO THE FUTURE

In order to do this, we ask our clients to send us a statement of their assets and liabilities, their pensions and other investments, and details of current income and expenditure. It is often the last piece - the expenditure - that clients find the most difficult. People tend to know their assets and their income, but many are vague on the idea of expenditure. They also tend to want to maintain the standard of living they have enjoyed before retirement.

This information is fed into our software which incorporates assumptions about inflation, investment returns, longevity and tax. The software helps clients to assess the financial impact of any changes that are made to their plan. It's like looking into a financial planning crystal ball.

THE EFFICIENT FRONTIER

From here we can work with clients to establish their efficient frontier - the set of optimal tax structures and investment portfolios that offers the highest expected return for a defined level of risk, or the lowest level of risk for a given expected return. Existing tax wrappers and portfolios may then need to be reshaped to improve their efficiency by reducing costs and optimising potential performance. Most clients will find that their arrangements can be more tax efficient and more investment efficient. Pensions Freedoms have opened up a greater degree of flexibility but the complexity of pensions mean clients increasingly need professional help to explain the options and help them organise their pensions in the most efficient way.

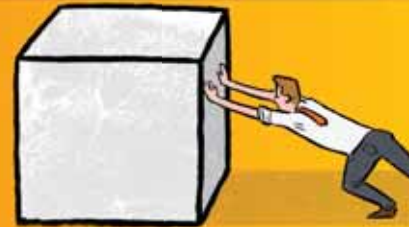
The changes need not be radical to deliver significant benefits. The nature of compound interest, means that even a modest 1% improvement in efficiency has a significant effect on the viability of a client's financial position.

THE NEXT STEPS

A good client meeting identifies what actions need to be taken to make lifestyle goals more achievable. We want to say to clients: "Yes, you can retire, but based on taking certain actions." It's about building a financial strategy to realise those goals in the format of a comprehensible personal financial plan. In some circumstances - when the financial planning process has established a client has considerably more than they need in retirement - thoughts may turn to advice on passing wealth to the next generation.

Financial modelling is key to helping our clients achieve their lifestyle goals. Nobody wants to be the richest person in the graveyard having had a miserable life. We are there to help our clients assess the financial viability of those big life choices and to work with our clients to maximise their return on life. It is the essential step that enables clients, such as Peter Pickle, decide if they are able to make those big life decisions.

Deliver Wills with ease



Arken is a comprehensive document generation solution from DPL Professional. It's been specifically created for the estate planning and Will writing sector to provide high quality documents, and help you build revenue while mitigating risks.

Grow your probate business

Will writing is a key activity that supports and feeds the growth of your probate business. Efficiently creating accurate Wills that reflect your clients' wishes, is crucial to this function.



Please visit our site for a tour

arken.legal



Tax-efficient investments

Several months after Progressive helped Peter organise his personal finances, Kevin receives a call from Peter explaining that, on the advice of an IFA that Kevin referred him to, Peter has arranged to meet the IFA and recommended product provider to discuss making an investment into a Venture Capital Trust



Peter would like Kevin to attend the meeting at the IFA's offices. Kevin emails Peter to explain he is happy to attend the meeting to advise on the tax issues but makes it clear to Peter that Progressive cannot advise on the suitability of the particular investment, which is the responsibility of the IFA. Peter sends a note to Kevin confirming that he has understood.

At the meeting, the IFA explains that they are recommending a Venture Capital Trust (VCT) to help Peter with some of his income tax and retirement planning issues. They have invited Octopus Investments along to explain more about this and to help answer any questions raised by Peter or Progressive on how VCTs work.

As part of the presentation, Octopus explains Peter can invest up to £200,000 in any one year, and must hold the VCT for a minimum period of five years in order to benefit from up to 30% income tax relief on his investment. If the investment grows in value and pays dividends, then he can enjoy these tax-free.

Peter seems impressed with the investment and planning opportunities, and asks Kevin if he has any questions. Kevin asks the IFA to briefly run through the potential risks of the investment when compared to other options, and why they selected Octopus Investments as the suitable provider.

Kevin then explains to Peter that if he is happy for the IFA to share information, Progressive can liaise directly with the IFA to obtain the relevant information for the tax return. Kevin runs through the tax implications again, highlighting the tax reliefs available, and reiterates that Peter needs to be comfortable with holding this investment for a minimum of five years. He tells Peter that as a tax planning tool, VCTs are a well-established, government-backed incentive to encourage investment into early stage unquoted or AIM listed companies.

PROFESSIONAL CONDUCT RULES

ICAEW members who advise on tax or prepare tax returns are subject to professional conduct rules. These are found in ICAEW's Professional Conduct in Relation to Taxation (PCRT). The PCRT was first published in 1995 jointly by ICAEW and the Chartered Institute of Taxation (CIOT).

The seventh edition, effective from 1 March 2017, was published by seven leading UK accountancy and tax bodies including ICAEW and CIOT and as such is now seen as setting the standard for good practice in tax, including expected standards of behaviour in relation to the facilitation and promotion of tax avoidance. It supports the key role members play in helping clients and businesses comply with their tax obligations and their broader responsibilities to society. For a copy of the PCRT, with supporting materials, see icaew.com/en/technical/tax/pcrt.

	VCT	EIS	BPR
STRUCTURE	A listed company that invests in a portfolio of other companies.	A single unlisted trading company.	A trading business.
WHAT DOES IT DO?	Invests in a portfolio of small and medium sized companies not listed on the main market of the London Stock Exchange.	Undertakes a trade in a qualifying sector. Often EIS-qualifying companies are in the very early stages of their lifecycle.	BPR will typically be available for: shares in a qualifying company (unlisted or Alternative Investment Market (AIM) listed); an unincorporated qualifying trading business.
MINIMUM HOLDING PERIOD	Shares must be held for at least five years in order to retain income tax relief.	Shares must be held for at least three years in order to retain income tax relief.	Shares must be held for two years and at time of death in order to be passed on free from inheritance tax.
INCOME TAX RELIEF ON THE AMOUNT INVESTED	Up to 30% income tax relief on investments, of up to £200,000 in the tax year the investment is made. Tax relief cannot exceed the amount of income tax due.	Up to 30% income tax relief on investments, of up to £1 million in the tax year the investment is made. This is also available on an investment backdated to the previous tax year. Tax relief cannot exceed the amount of income tax due.	No.
TAX-FREE DIVIDENDS	Yes, and VCT dividends are not included in an individual's £5,000 dividend allowance. Dividends are not guaranteed.	No.	No.
TAX-FREE CAPITAL GAINS	Yes, if the value of shares held has increased, the investor will not be liable for capital gains tax when they choose to sell them.	Yes, provided income tax relief has been given and not withdrawn.	No. But gains on shares held until death will not be taxable.
INHERITANCE TAX RELIEF	No.	Yes, provided investment held for two years and at time of death.	Yes, provided investment held for two years and at time of death.
CAPITAL GAINS TAX DEFERRAL	No.	Yes, investors can shelter 100% of a capital gain in an EIS for the lifetime of the EIS investment.	No.
KEY BENEFITS	Tax incentives on investments up to £200,000 each year: <ul style="list-style-type: none"> • Up to 30% income tax relief on the amount invested, provided the investment is held for a minimum of five years. • Tax-free capital gains. • Tax-free dividends. 	<ul style="list-style-type: none"> • Up to 30% income tax relief on the amount invested, provided the investment is held for a minimum of three years. • Potential for 100% relief on inheritance tax, available after holding the investment for two years and provided shares are still held at time of death. • Opportunity to defer a capital gain and eliminate it entirely if EIS shares are held at death. 	<ul style="list-style-type: none"> • Speed. An investment in a BPR-qualifying company can be passed down to beneficiaries free of inheritance tax, provided the investment is held for a minimum of two years and at time of death. • Access and control. BPR-qualifying investments allow a client to plan for their estate whilst retaining ownership of their wealth. • BPR-qualifying investments do not use the nil-rate band.
KEY RISKS	<ul style="list-style-type: none"> • The value of an investment, and any income from it, can fall as well as rise. Investors may not get back the full amount they invest. • Tax treatment depends on individual circumstances and may change in the future. • Tax reliefs depend on the portfolio companies maintaining their qualifying status. • The shares of smaller companies and VCT shares could fall or rise in value more than other shares listed on the main market of the London Stock Exchange. They may also be harder to sell. 		

Please remember that we cannot give financial advice. These are considered high-risk investments. We always recommend investors talk to a professional financial adviser before making any investment decisions.
octopusinvestments.com

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Important information for UK investors only

This information is based on our understanding of tax rules at September 2017. Personal opinions may change and should not be seen as advice or a recommendation. Issued by Octopus Investments Limited, which is authorised and regulated by the Financial Conduct Authority. Registered office: 33 Holborn, London, EC1N 2HT. Registered in England and Wales No. 03942880. We record telephone calls. Issued: October 2017. CAM05884.

Squaring the circle

Peter Pickle's father has recently died, leaving an investment portfolio to Peter's 84-year-old mother outright. However, the income from her late husband's defined benefit pension (DB) scheme has now been halved to a 50% widow's pension. Rathbones has some advice

Mrs Pickle wishes to remain in the home she and her husband shared. Her overriding financial concern is that her money may run out, particularly as her health is failing and she may eventually need more care. In addition to covering the costs of keeping the home and everyday living, her income will also need to meet the costs of any additional support she may now need.

Changes to the investment portfolio, which includes direct holdings in equities and gilts, will need to be made to give it more of an income-generating focus given the change in her circumstances.

After explaining the situation to Progressive Planning Ltd, Mrs Pickle has been referred to Rathbones, one of the UK's leading providers of investment management services. It has been arranged for Rathbones to meet Mrs Pickle and her son at Progressive's offices for a meeting the family's accountant Kevin will chair. Here is a summary of the considerations:

As a starting point in considering Mrs Pickle's financial needs, some cash should be put aside in a bank account that could be easily accessed, particularly in order to pay carers or ensure any medical needs are taken care of. A sensible amount of cash to set aside would be the equivalent of 12-18 months' expenditure. This has the added advantage of allowing her to postpone depleting her investment portfolio in the event of market downturns.

How much income will Mrs Pickle need to maintain her lifestyle? The following points should be taken into consideration:

- fixed costs;
- discretionary spending;
- life expectancy;
- tax situation;
- impact of inflation on expenditure;
- financial implications of declining health;
- potential for giving.

When determining her income requirements, fixed costs need to be determined first, and these also tend to be the highest proportion. This is followed by discretionary spending, and any additional income left over can be used for giving (eg helping out with her grandchildren's education or helping to fund the purchase of a first home).

After clarifying these points, Mrs Pickle's expenditure requirement is determined to be £40,000 per year in order to maintain her home and current lifestyle with some additional income to provide a cushion against rising costs. A cash sum of £60,000 should also be set aside from the £750,000 portfolio, equivalent to 18 months of expenditure.

At the moment there is a real practical difficulty, in that cash is yielding less than 0.25% per annum while inflation is running at close to 3%. Cash equals capital security but, with yields at historically low levels, there is no longer the option of holding safe assets that can also generate a respectable income. With a typical UK 10-year gilt (government bonds - perceived as the next safest investment after cash) currently yielding a little over 1%, there is a high risk that anyone holding gilts could suffer capital erosion.

Having assessed Mrs Pickle's assets and liabilities, and the extent to which she can afford to lose any capital, temporarily or permanently, it is determined it would be appropriate to re-engineer her portfolio, which has a wealth-preservation objective, to be more income-focused. This will require an increased level of exposure to equities. The meeting establishes that Mrs Pickle fully understands the rationale behind the recommendation, that she understands and accepts the risks associated with equity-based investments, and confirms that she is comfortable with incurring capital drawdowns.

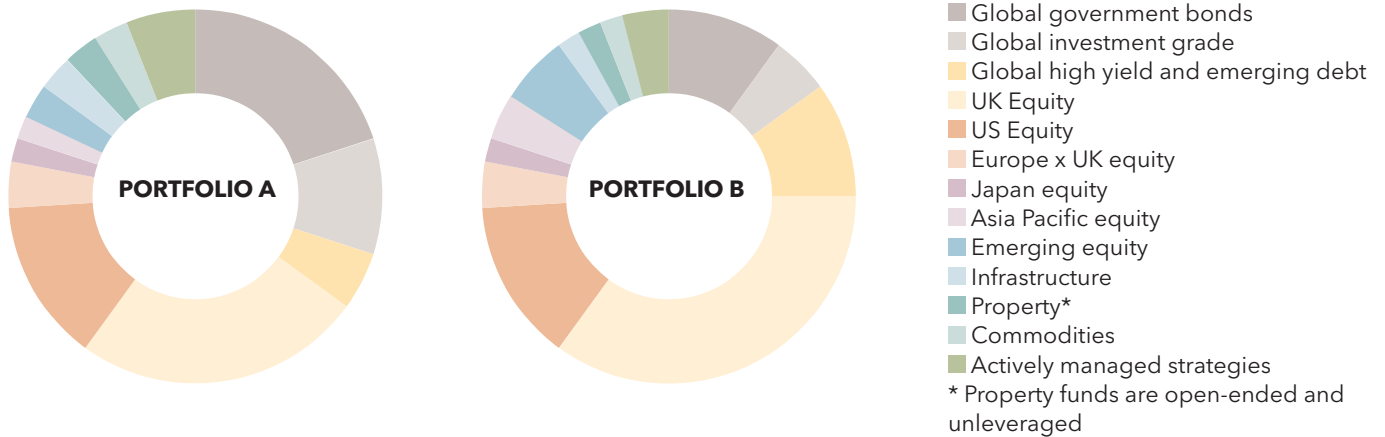
With this agreed, an increase in her equity exposure is deemed to be suitable. This is likely to improve income-generation, since the average dividend for UK equities in the FTSE 100 index, for example, is around 3.8%, well above the historically low yields from gilts and cash.

The main focus in the re-engineering of the portfolio is to reduce the weighting of low-yielding, so-called safe-haven assets such as government bonds and high-quality corporate bonds, which are both currently yielding less than inflation. Proceeds from the reduction of these assets would then be used to add to existing holdings of higher-yielding (though lower credit quality) bonds and equities, where dividend yields are currently higher than many bond yields. The illustration above shows the changes that would need to be made to Mrs Pickle's investments to move from her previous wealth-preservation portfolio (A) into one with more of an income focus (B).

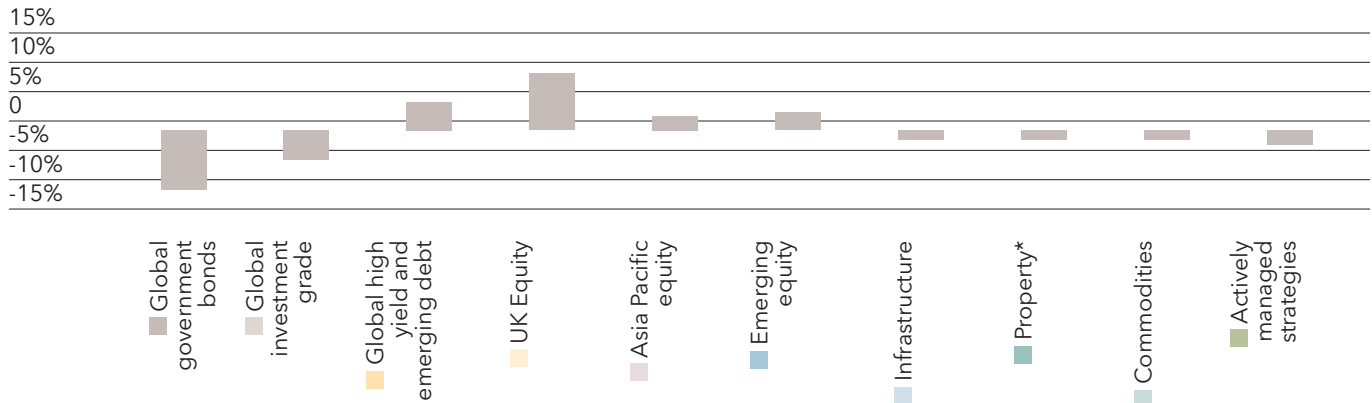
While the bulk of the increase in equities goes into UK shares, Asia Pacific and emerging market equity holdings are also increased. At the same time, exposure to alternative investments such as property and infrastructure funds,

PORTFOLIOS COMPARED

The pie charts illustrate the asset allocation in a typical portfolio with a wealth preservation focus, such as Peter’s father might have had during his lifetime, and a typical income-focused portfolio that would now be more appropriate to his wife’s new circumstances. The changes that would need to be made to the asset allocation are highlighted in the bar chart at the bottom.



PORTFOLIO CHANGES (FROM A TO B)



commodities and actively managed strategies such as hedge funds has been reduced.

While the actual yield of the new portfolio is likely to vary from year to year, a range of yields between 2.5% and 3.5% on the £690,000 invested is likely to generate incomes in the range £17,250 to £24,150. When combined with the £15,000 widow’s pension and her £12,000 state pension, this would generate gross income of £44,250 to £51,150 per annum.

Clearly, with her current investment portfolio of £750,000, Mrs Pickle has a capital base that should see her remain comfortable for the rest of her days. By re-engineering the portfolio, this could enable Mrs Pickle to maintain her current expenditure, with a sufficient cushion should her cost of care rise, and potentially have money left over for giving.

INHERITANCE TAX PLANNING

Finally, in terms of inheritance tax planning (IHT) in collaboration with Mrs Pickle’s accountant, there may be scope for better managing IHT liabilities for future generations.

‘At the moment there is a real practical difficulty in that cash is yielding less than 0.25% per annum while inflation is running a close to 3%’



Mrs Pickle has also raised the issue of wanting to gift some money to her granddaughter to help her buy a house.

Rathbones and Progressive Planning both stress Mrs Pickle’s financial security must take precedence, but that there may be scope to make some adjustments to factor in these points.

It is therefore agreed that more consideration is needed in this area before any final decision is made to implement the investment recommendation, and that a further meeting is required to consider the issues in detail and to assess the options.

The overseas property conversation

Peter and his wife Katherine have long contemplated buying a holiday home in France, or Portugal, to gain a greater quality of life in retirement. After explaining some of these life goals to Progressive Planning Ltd, Peter and his wife were referred to leading international tax and wealth management advisers, Blevins Franks

What are the differences between buying real estate in France and Portugal?

- Buying real estate in either country could expose Peter and his wife to capital gains tax (CGT), inheritance taxes (IHT) and local succession laws
- Britons remain liable to UK IHT and succession law while they are UK domiciled
- Britons can use EU regulation 'Brussels IV'* to override foreign succession laws by electing the law of their nationality to apply in their Will
- CGT and IHT paid in either country can be offset against the relevant UK liability

PORTUGAL

Peter would be taxed on the gain from the sale his Portuguese property in one of two ways. He can either pay a fixed rate of 28% or choose to declare all income and pay the relevant rate of Portuguese income tax (up to 48%) on half of the gain. There is relief for inflation on the cost of the property after two years of ownership.

If his share of the property is worth over €600,000, Portugal's new annual wealth tax would apply, even if Peter remains UK resident. Rates are 0.7% for individuals, 0.4% for properties owned through a company, and 1% if the value exceeds €1m. As there is a €600,000 individual allowance, if Peter jointly owned a Portuguese home with his wife, wealth tax would only be payable on the value over €1.2m.

Portuguese inheritance tax - or stamp duty as it is known - is fixed at 10% and only applies to Portuguese assets. As spouses and direct ascendants/descendants are exempt, in Peter's case, stamp duty might only be payable if he outlives his wife and Portuguese assets pass to his wife's first child.



Portugal



France

FRANCE

French CGT is 19% plus additional social charges of 15.5%. Another 2%-6% is due on property gains exceeding €50,000. However, reliefs kick in after six years of ownership to reduce both the CGT and social charges payable.

Properties or assets located in France are also subject to French succession law and taxes, regardless of residency.

While there are major differences between UK and French succession law, Brussels IV* makes it possible for Peter to apply UK inheritance law to the French property, even after Brexit.

Otherwise, normal French rules automatically allocate fixed shares of the estate to direct family, excluding stepchildren. Where there is one child, they are entitled to 50%, with 25% for the spouse and the remaining 25% freely disposable under the Will. If Peter legally adopted his stepchild, 66.7% of the French estate would be divided between their two children and 25% would go to his wife, leaving only 8.3% free to pass on as he chooses.

For more flexibility, Peter and his wife could consider inserting a 'tontine' clause in the French property purchase to protect the surviving spouse's share, or take advice about the suitability of Brussels IV*.

French succession tax is payable by the recipient, with allowances and rates depending on their relationship with the deceased. Peter and his wife would have no succession tax liability between them and their biological/adopted children would receive a €100,000 exemption on the French estate. However, stepchildren and other heirs have no reserved share of the estate, and could face rates of up to 60%, with minimal allowances.

What are the differences if Peter and Kathryn moved to Portugal or France?

- Once tax resident in either Portugal or France, Peter and his wife will attract local income and capital gains taxes on their worldwide assets
- They should consider encashing their ISAs before leaving the UK as these have no tax benefits overseas
- The double tax treaties the UK has in place with Portugal and France determine where tax liabilities arise and how to offset tax paid twice
- They need to be aware of new taxes, such as wealth tax and potential exit taxes on returning to the UK
- They should consider the potential impact of Brexit in their decision-making in areas such as residency and healthcare

PORTUGAL

As new arrivals who have not been Portuguese resident in the last five years, Peter and his wife could take advantage of the 'non-habitual residency' (NHR) scheme - offering 10-years' worth of preferential tax treatment.

Britons can particularly benefit in relation to UK pension income (and lump sums), dividends and interest from UK shares and bank accounts, and capital gains on UK real estate. In each case, under current rules, there should not be any tax payable in the UK or Portugal for those with NHR status. So potentially Peter and his wife could, for example, access their entire UK pension funds tax-free. However, this may only apply if they register for NHR status before 1 January 2018, as the Portuguese government has signalled a potential 5%-10% tax charge on foreign pension income for 'new' non-habitual residents from this date.

Portugal also has beneficial rules for its equivalent of offshore life assurance policies, including tax deferral on underlying investments and a reduced rate of tax on profits withdrawn after 4 and then 8 years of ownership. Peter and his wife could benefit from reinvesting their ISA savings, pension lump sums and other investments in this way.

There are also attractive CGT planning opportunities in Portugal, which if they remained non-UK resident for 5 years, could entirely eliminate the Widget shares gain from taxation.

FRANCE

The top rate of income tax in France is no higher than the UK at 45%, but the additional layers of taxation can make it daunting. These include social charges on pensions (7.4%), earnings (8%), savings and investments (15.5%), an additional 2%-6% on property gains over €50,000, an annual wealth tax of up to 1.5%, and exit taxes on investment gains if you permanently leave France.

However, with careful planning, Peter and his family could find France to be a *fiscal paradis*.

While UK pension income is taxable at French scale rates, if Peter or his wife become French resident and take their entire fund as a lump sum, it could attract just 7.5% French tax, with nothing payable in the UK. They would only attract the extra 7.4% social charges if they are subject to the French social security system. They could then benefit from reinvesting their pension funds into a French-compliant version of an offshore life assurance contract - an 'assurance-vie' - as well as their ISA savings and other investment monies.

*WHAT IS BRUSSELS IV?

In August 2015, an EU law known as Brussels IV or the European Succession Regulation came into force. It affects anyone resident and/or owning assets in an EU member state other than the UK, Ireland or Denmark (the only countries to have opted out).

Unless stated otherwise in a Will (or similar legal document), Brussels IV will apply the succession law of an individual's country of residence to their estate on death. For residents of countries like Portugal and France, this means the local 'forced heirship' rules may automatically pass on a portion of their estate to direct family members, regardless of what the deceased intended.

However, Brussels IV offers the option to nominate the law of country of nationality to apply instead. This enables British nationals to override forced heirship by distributing their legacy according to their written wishes under the law of the 'home' country - England and Wales, Scotland or Northern Ireland.

Although it is an EU regulation, Brussels IV applies to anyone who is resident and/or owns assets within participating countries in the bloc. Brexit will therefore have no effect on the ability of Britons to apply Brussels IV.

A suitable assurance-vie could offer significant tax deferral benefits, enhanced French IHT exemptions for children, wealth tax savings in the first 5 years, and help them avoid exit tax if they return to the UK.

As French residents, their worldwide assets (excluding non-French real estate) will be subject to French succession law. While the biological children would have a protected share of their parents' estate, they could circumvent the law through Brussels IV*, an assurance-vie policy or a change in their marriage regime.

While both countries offer potential tax and financial benefits, ultimately the most suitable course of action for Peter and his wife will depend on many factors. Taking specialist advice early can help establish the best option for their unique circumstances and goals and prepare them accordingly for their new life ahead.

Tax rates, scope and reliefs may change. Any statements concerning taxation are based upon our understanding of current taxation laws and practices which are subject to change. Tax information has been summarised; an individual is advised to seek personalised advice.

Specialists in overseas tax and financial planning

Blevins Franks specialises in advising UK nationals living in France, Portugal, Spain, Cyprus and Malta. With our tax, pension and investment expertise, as well as advisers living locally, we can provide comprehensive tax and wealth management advice for clients moving or buying property overseas. We can guide your clients through the income, capital gains, succession and wealth tax implications of owning property, receiving pensions and owning investments and other assets abroad, and advise on the potential solutions.

Talk to the people who know

+44 (0)207 389 8149
jason.porter@blevinsfranks.com

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The regulatory world of a financial planner

Financial planning is a complex regulatory area. However, this should not stop you from getting involved to give the best advice to your clients. As an ICAEW member, what you do and how you do it will dictate whether you simply need a practising certificate, a Designated Professional Body (DPB) licence or require FCA authorisation

GENERIC ADVICE AND TAX PLANNING

As an ICAEW member with a practising certificate, there is no further regulation of factual discussions about different forms of investment, comparison of tax treatment and production of cash flow forecasts. This means that you can explain the differences between unit trusts and ISAs, or highlight the tax advantages of maximising pension contributions. You can discuss the different ways that a client might choose to access their pension, or pass this on to someone else as part of inheritance tax planning.

You can also refer clients to an appropriate FCA authorised firm for more detailed advice. However, unless you always restrict yourself to providing your client with the name and contact details of the authorised firm, and leave it to the client to decide whether to make contact, you may need a DPB licence. Refer to *Making Introductions to Financial Advisers* for more information. tinyurl.com/ycevrkq5

SERVICES THAT YOU CANNOT PROVIDE WITHOUT A DPB LICENCE

A DPB licence enables ICAEW members to work closely with an FCA authorised firm and provide important financial planning services to clients as their trusted adviser.

Firstly, you can pass a client's details to an adviser to arrange a meeting to discuss pensions and other insurance advice. Further, you can advise on and arrange a specific pure protection contract such as tax fee protection or key man insurance.

A particularly important aspect is your ability to support your client through both accumulation and decumulation of investment products such as ISAs, bonds and unit trusts.

You can:

- Explain and evaluate advice given by an appropriately authorised firm and identify whether it is suitable or not (although you cannot provide alternative advice on specific products yourself)
- On instruction from your client, arrange under the guidance of an authorised firm the implementation of an investment plan, including buying and selling investments
- Provide a client with advice that leads to the disposal of an investment, for example selection of investments with unrealised capital gains to make use of available tax allowances via a 'bed and breakfast' type arrangement

You can also offer insurance mediation activities, including helping a client to complete a claim form and negotiating with an insurer on behalf of the client.

SERVICES WHERE YOU NEED FCA AUTHORISATION

FCA authorisation provides the greatest opportunities for a firm to provide a full personal financial planning service 'in house' but also results in the greatest burden of regulation. In addition to the services noted in the previous sections, an FCA authorised firm can advise clients on the selection of a specific pension contract, provide a discretionary management service for investments and recommend purchase of specific investments.

There are different levels of FCA authorisation and advisors in an FCA authorised firm need to be suitably qualified. Many, if not all, ICAEW firms that take this route employ specialists as these are not the core skills of most ICAEW members.

ICAEW CODE OF ETHICS

The last, but very important, feature in the world of financial planning is ICAEW's Code of Ethics. ICAEW members are in a privileged position as trusted advisers to their clients. In this position it is important that you consider duty of care and the need to act in the best interests of clients, to assess the fitness for purpose of any third party to address their needs.

This applies to referrals across all categories of regulated activity and requires due diligence on your chosen adviser. Refer to Section 241 of the Code of Ethics and some more detailed guidance on selection of financial advisers in *Making Introductions to Financial Advisers*.

Professional Indemnity: Insurance that evolves with your practice

It's clear from the case study that an accountancy practice can be confronted by a complex set of challenges from clients of all shapes and sizes. As a practice looks to the future and seeks to expand the services it offers, it is essential that your Professional Indemnity Insurance (PII) evolves and remains fit for purpose, says Bluefin

When you arrange PII you need to ensure that the limit of indemnity and breadth of cover is adequate for the value of your contracts and contractual obligations, which can change as time goes by.

With appropriate licences, ICAEW accountancy firms are able to offer a broad range of services and advice, from financial planning to probate. While this is becoming more commonplace, insurers will have an attitude to the risk based on previous claims experience across the accountancy industry.

Good governance, training and qualifications all have a bearing on the insurer's attitude to risk when your broker presents your risk information, so it's good to be mindful of this when dealing with your PII.

WHEN SHOULD YOU LOOK TO REVIEW YOUR PII INSURANCE?

There are a number of scenarios which could trigger a review of your PII, giving you and your broker a chance to assess whether your cover is still fit for purpose.

BROADENING YOUR RANGE OF SERVICES

In the case study we saw how an accountancy firm can be called upon to offer advice on a wide variety of subjects. If you're considering broadening the range of services you offer, it is essential to have the right licence in place, and also to ensure your PII broker is informed.



The premium for your PII policy is calculated on your fee revenue and how this is split between your various work streams, for example tax and audit, probate or financial advice. Certain types of work are more prone to negligence claims and therefore carry a higher level of risk for insurers. This is particularly the case for probate work where we see a high volume of claim notifications. Probate work often involves handling client money which brings its own risks, so if this is a new area of work for your practice, speak to your broker to ensure you're adequately covered.

Remember, if you fail to update your policy the insurer may be unable to indemnify you in the event of a claim.

YOUR PRACTICE GROWS, FEE REVENUE INCREASES AND ACTIVITIES DIVERSIFY

As your practice grows and revenue increases, it's important to ensure your PII policy keeps pace. If you start a partnership or take on new partners, your insurer will need to be comfortable with the changes and what this means for your risk profile.

If your business grows following an acquisition or merger with another firm, it's important to consider the retroactive date of the acquired firm's PII to ensure cover is continuous and based on the activities they conduct. The merger or acquisition may enable you to offer a wider range of complimentary services to your clients but, once again, you will need to ensure your PII policy can respond in the event of a future circumstance that gives rise to a claim.

If in doubt, pick up the phone and speak to your PII broker who is there to advise you.

Bluefin Professions is the ICAEW's member rewards partner for Professional Indemnity Insurance. If you have any questions about your PII cover, Bluefin will be happy to advise. Visit bluefinprofessions.co.uk/icaew, call 0345 894 4684 or email icaew@bluefingroup.co.uk

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Probate - support your clients and generate new business

The introduction of probate as a regulated activity for accountants opens up new opportunities for the profession – to provide additional support to your clients, to save them money and generate more business for your firm, says SWAT

The role of a Chartered Accountant has evolved and Chartered Accountants are increasingly seen as trusted advisers to clients, their businesses and their families. With traditional work declining in the area of audit and threats and opportunities presented by digitisation, the introduction of the Legal Services Act 2007 presents an ideal opportunity for accountants to branch out into offering reserved legal services that complement their existing businesses.

WHY CONSIDER OFFERING PROBATE SERVICES?

The most complementary of the reserved legal services is non-contentious probate. Many will already be providing tax planning and estate accounts services to clients.

Facilitating non-contentious probate work for clients is therefore a very natural extension of

your existing service offering as you will already have details of their financial assets.

From a client's point of view, it is far less risky and more beneficial for them to use their trusted accountant, who they see regularly to carry out the probate work, than it is to enlist the services of someone they may have never met before. In this instance, the process of probate is also likely to be quicker, easier and less stressful for the client.

Accountants are good at dealing with financial information and used to carrying out assignments in an organised and structured way. Non-contentious probate and estate administration is essentially a process-driven service, which is much more suited to accountants than it is to solicitors or banks. Probate accreditation brings the added benefit

of being able to claim legal professional privilege for probate and estate administration. Firms can gain accreditation by either becoming an authorised firm that requires all principals and owners to be individually authorised to conduct probate work or a licenced firm (an Alternative Business Structure) which requires a minimum of one principal to be authorised.

HOW DO I BECOME ACCREDITED FOR PROBATE?

To become accredited for probate, you will first need to undertake relevant training and pass an assessment (unless exempt) before submitting an application form to ICAEW. The application process will be dependent on the type of accreditation your firm is seeking (authorisation or licence); the number of principals, authorised individuals and affiliates; and the number of offices registered.

ICAEW members who hold the STEP Diploma for Accountants and Tax Practitioners (Trusts and Estates) or the STEP Diploma in Trusts and Estates (England & Wales), or those with legal training, may be exempt.

The ICAEW website (icaew.com/probate) has a wealth of information for firms considering applying for accreditation, including full details of the application process, qualifications criteria (including exemptions), and fees. The two day probate training course plus the assessment is run by SWAT, details of which can be found at swat.co.uk/probate.

Once accredited for probate, firms will need to comply with the ICAEW Probate Regulations and diversity monitoring requirements.

You will also need to carry out an annual probate compliance review. You may conduct this yourself or you may find it easier to use an independent reviewer such as SWAT.

PROMOTING YOUR NEW PROBATE SERVICES

Once you have been accredited, you will need to consider how to promote this new service to your client base.

Unlike the recurring work you may be used to receiving year-on-year, probate is something you will need to promote to your clients on a regular basis. Clients will have a need for probate services at different times and the aim is to ensure that when that need arises, you are their first port of call. Here are some initial marketing suggestions you may wish to consider to help promote your probate services:

- Write articles about probate and publish on your website, social media and in local press
- Include information about probate in your client newsletter

‘Non-contentious probate and estate administration is essentially a process-driven service, which is very suited to accountants’



- Write to all your existing clients to notify them about this new service you are able to offer
- Commission adverts in the local press and other relevant media
- Consider setting up alliances with local organisations who could act as a source of referrals for you (such as funeral directors or local firms of solicitors with whom you can establish strategic partnerships to extend your network of expertise)

Ultimately, how you decide to promote this new service is up to you, but the key is to do something. Your clients won't know you can offer this new service unless you tell them about it.

FINAL THOUGHT

ICAEW Chartered Accountants are established experts in providing advice and support for their clients' financial affairs. Providing probate services is simply another way you can achieve this, to the benefit of both the client and your business.



KRESTON REEVES BECAME ONE OF THE FIRST FIRMS TO BE LICENSED FOR PROBATE

Kreston Reeves became licensed by ICAEW to undertake non-contentious probate work in November 2014. Within three months of becoming licensed, the firm was dealing with 35 active probate cases.

One of these cases relates to a client who died with an estate valued at just under £1 million. His family preferred Kreston Reeves to undertake the probate work on behalf of the executors, as the firm were already trusted advisers. This enabled the family to complete the probate process more quickly and cheaply than might otherwise have been the case because a lot of the detailed information about the client's assets, insurance and pensions was already held by the firm.

Kreston Reeves is seeking to grow its probate service to be able to manage 75-100 cases per year. This could result in up to £800,000 of additional fee revenue for the business.

Read the case study in full at ICAEW.com/probate.

Good Will writing

Choosing to provide Will-writing services could be a cost-effective way of growing your practice, says DPL

The traditional accountancy practice is facing a period of unprecedented change. Automation and digitisation are squeezing fees practices can generate from audit – a task that was formerly the mainstay of the high street business accountant's work.

As the case study that runs through this publication shows, many accountancy firms are diversifying their services to meet this change. Will writing is one such service being embraced.

In recent years there has been a steady increase in the number of accountancy firms offering Will-writing services. Accountants can use their status as trusted adviser to build on their traditional base of expertise in tax advice. It is often an advantage to have expert tax and accountancy guidance when drawing up a Will, especially if large sums are involved.

Providing Will-writing services can also help firms grow their network by engaging (with the consent of your client) with the individuals named in the document, such as executors, guardians, family and beneficiaries, any of whom could turn into a client for the firm.

But it's not just the writing of the Will that can be beneficial to your practice. Carrying out the terms of a Will may also need professional input and it is for this reason that ICAEW Chartered Accountants are often appointed as executors.

Acting as executor of a Will often leads to probate work, and because accountants are familiar with their clients' financial history, their businesses, as well as any plans for succession, they are often well placed to carry out this work.

Drafting Wills and dealing with probate on death is a natural extension of the existing estate and tax planning service. For many accountants, the underlying information about a clients' financial affairs is already known, allowing them to translate client wishes into action, with ease, efficiency, and at a lower cost than the competition.

According to a YouGov study, the Will-writing market in Britain has a value of between £750m and £900m. With around 250,000 families going through probate court each year, the opportunities for accountants are clear.

In a sample quality assessment carried out by the Solicitors Regulation Authority (SRA) and Legal Services Board in 2011 it was found that 25% of Wills drafted by solicitors and Will-writing firms failed to achieve the desired quality. The key reasons for failure include: inadequacy (where the content did not fully account for an estate or make adequate provisions); requirements (where the client's requests had not been met through omission of conflicting information); and legality (in relation to the provisions in or execution of the Will).

That's just the tip of the iceberg. The ICAEW can help you get up to speed, and there are dividends to reap.

The bulk of Will-writing rules and regulation stem from the Wills Act 1837 but the Law Commission hopes to catapult the existing rules

According to a YouGov study, the Will-writing market in Britain has a value of between £750m and £900m

into the 21st century by exploring new areas, such as electronic Wills and so-called "dispensing powers".

New areas opened up by technology raise the prospect of replacing traditional methods. Cloud-based Will writing enables accountants to draft documents in real-time, working through an interactive, intelligent questionnaire.

Aside from the security benefits afforded by cloud systems, expert Will-writing software can help firms in several ways, from avoiding drafting errors to creating an audit trail and increasing productivity without compromising professional quality. Further cost-efficiencies can be achieved in preparing mirror Wills and Lasting Powers of Attorney.

For more information on how Will-writing software can help you business, please contact Beverley Freestone, commercial director, on +44 (0) 1732 867792 or baf@dplprofessionalsolutions.com



Get Authorised for Probate

With SWAT's Certificate in Probate and Estate Administration

Probate represents one of the biggest new business opportunities to the accountancy profession in a generation, enabling you to create an additional revenue stream from new and existing clients.



We have already helped hundreds of firms acquire the training needed to obtain accreditation, enabling them to apply for a probate licence and offer probate services to their clients; and we can do the same for you.

Courses are running in **London**, **Birmingham** and also available **online** (as a live webinar or on-demand)

Note - you will also need to attend (and pass) an assessment if you wish to obtain the certificate. You must attend an assessment centre in person. You cannot take the assessment online.

Find out more and book online

www.swat.co.uk/Probate or call us on **0845 450 5555***

“Very timely course. Great value. Will be of enormous benefit to my practice.”

Rob McCulloch- Aries Chartered Accountants



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The Personal Financial Planning (PFP) Community is a free resource open to ICAEW Chartered Accountants and other professionals with an interest in personal financial planning and investment advice. It provides a range of content to help professionals keep up to date and find ways to build business in this increasingly important market sector.

The PFP Community is open to members of ICAEW and others with an interest in the personal financial planning and investment sector. Join free of charge at icaew.com/pfp

ICAEW connects over 147,000 chartered accountants worldwide, providing this community of professionals with the power to build and sustain strong economies. Training, developing and supporting accountants throughout their career, we ensure that they have the expertise and values to meet the needs of tomorrow's businesses.

Our profession is right at the heart of the decisions that will define the future, and we contribute by sharing our knowledge, insight and capabilities with others. That way, we can be sure that we are building robust, accountable and fair economies across the globe.

ICAEW is a member of Chartered Accountants Worldwide (CAW), which brings together 11 chartered accountancy bodies, representing over 1.6m members and students globally.

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ICAEW

Chartered Accountants' Hall
Moorgate Place
London
EC2R 6EA
UK

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