BLACKTOWER *magazine*

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Group Managing Director

Dear Reader,

Welcome to our 11th edition of the Blacktower Magazine. We have taken time and care in putting this latest edition together. There are so many subjects we could talk about but have chosen those that we believe you, the reader, will get most benefit from.

That said it could well be the case that matters have progressed between the time we go to print to the time you read this…in particular on the ever-evolving subject of BREXIT.

The world is definitely a very different place today than it was in our last edition; not just with the 'Will of the UK people' to leave the EU but also over the Pond in the US where Mr Donald Trump is now President. Who would have seen any of this coming…not even the Betting Companies got this right.
At Blacktower we continue to seek opportunity from constant changes to our marketplace. We are very much as to these changes and the possible impact on the cross-border expatriate. So a helping hand is not too far away!

I truly hope that you find some particular value within this edition and look forward to being able to assist you continue to plan and meet your financial objectives.

John Westwood

The Netherlands

Take a closer look!

by Luke Hunt - Regional Manager - The Hague

Many people when thinking of The Netherlands (or Holland as is more commonly known to expatriates) associate it with being flat, lots of windmills, push bikes galore and tobacco substances that you can't buy at any shop in England.

Whilst the above stereotypes are quite accurate to be fair, there is so much more to this country than what first meets the eye and after living here for over 5 years now, I would like to think I am in a position to say this.

One of the first things that jumped out to me immediately was how well the Dutch could speak English. I can remember when I first arrived here, it was about 21.00PM, suitcase in hand and I was completely lost. A lady in her mid seventies walked past and I thought I'd try my luck asking for some directions. Surprisingly she answered in fluent English without even giving it a second thought! At the time I was amazed but after you've been here a while you realize that pretty much everyone can speak English (and I don't mind confessing that it can be clearer than some of the accents I hear back home in Barnsley!)

With the majority of residents, both local and expatriate having a good grasp of the English language, you can see how this may encourage many international businesses to base themselves here.

The three largest cities in the Netherlands are Amsterdam, Rotterdam and The Hague and with just these three cities you can get an indication of the diverse nature of work available to expatriates in this country.

Amsterdam as the capital city for example, is home to a large number of European Head Offices for BlueChips, Fashion, Marketing and the list goes on. Also with Brexit now around the corner, Amsterdam is looking to further increase its International community by encouraging UK companies from London, specifically in the Financial Services sector.

Rotterdam is home to the worlds largest port outside East Asia and is by far the largest port in Europe. Oil and Gas is obviously a key industry in the city with transport and logistics not far behind. Nearly all of the international oil companies are represented here with Royal Dutch Shell leading the way by being the fifth largest company in the world, measured by 2015/16 revenues. (Quick Fact: In 2013, Royal Dutch Shell revenues were equivalent to 84% of the Netherlands 556 Billion USD GDP)

The Hague being the political and parliamentary capital also has much to offer. Most foreign embassies are based here along with 150 international organisations including the International Court of Justice and the International Criminal Court. It is also a host city for the United Nations and is home to Europol, the EU's criminal intelligence agency.

A lot of people also don't know this about Holland:

The Netherlands borders both Germany and Belgium but what many people don't realise is that they also have three island territories in the Caribbean called Bonaire, Sint Eustatius and Seba.

"Netherlands" can be literally translated to "lower countries" influenced by the fact that only 50% of its land exceeds one meter above sea level.

The Netherlands is a founding member of the EU, Eurozone, G-10, NATO, WTO and is also part of the Schengen Area and the trilateral Benelux Union.

The Netherlands also has a King and Queen! King Willem-Alexander and Queen Maxima work from the Noordeinde Palace in the center of The Hague and live close by in the Royal Palaces, Huis ten Bosch.

Maybe the most surprising fact is that we have fantastic beaches (and yes you read that correctly). The closest to our office is Scheveningen and Kijkduin which are both very popular and attract visitors from all over Europe during the sunny, summer period (although I do use the words "sunny, summer" loosely).

Our Netherlands team:

The Netherlands office is located in Rijswijk just outside The Hague and is undoubtedly the flagship branch throughout the Blacktower Group.

Due to its size and available facilities, we hold our internal corporate training days here as well as informative seminars to the general public.

Our teams of resident, qualified financial advisers are based throughout the county and can therefore give professional, independent advice no matter where a potential client is located.

We have ongoing relationships with many of the expatriate institutions here as well partnerships with specialised firms to ensure no matter what the subject, we have the tools, experience and knowledge to give thorough recommendations to our clients.

I'm delighted to manage a successful, dynamic, helpful yet knowledgeable team and know that whomever a client engages with, they will be in the best possible hands.

Common Reporting Standards (CRS)

by Christina Brady - Regional Manager, Costa Blanca

What is CRS?

Endorsed by the Organization for Economic Cooperation and Development (OECD), CRS is a global reporting standard for the automatic exchange of information (AEOI). The goal of CRS is to allow tax authorities to obtain a clearer understanding of financial assets held abroad by their residents, for tax purposes, aimed at preventing tax evasion.

More than 100 countries have currently agreed to share information on residents' assets and incomes in conformation with reporting standards. FATCA (see section on FACTA) and CRS have similar characteristics on the surface, but underneath there are major differences. CRS legislation is far-reaching and requires financial institutions, investment entities, Insurance, Trusts, National banks, Companies and other financial organisations to report details on account/policy holders.

It's objective

As the world becomes increasingly globalised and cross-border activities become the norm, tax administrations need to work together to ensure that taxpayers pay the right amount of tax to the right jurisdiction. A key aspect for making tax administrations ready for the challenges of the 21st century is equipping them with the necessary legal, administrative and IT tools for verifying compliance of their taxpayers. Against that background, the enhanced co-operation between tax authorities through AEOI is crucial in bringing national tax administration in line with the globalised economy.

Who is affected?

CRS ignores nationality with reporting being dependent upon whether or not the client's country of residence has adopted CRS. It affects Individuals, shareholders, people who have made loans to trusts or companies, businesses and companies who hold accounts/policies in any of the counties that have signed up to CRS (See countries list).

When and what will be reported:

The type of information to be reported annually includes:

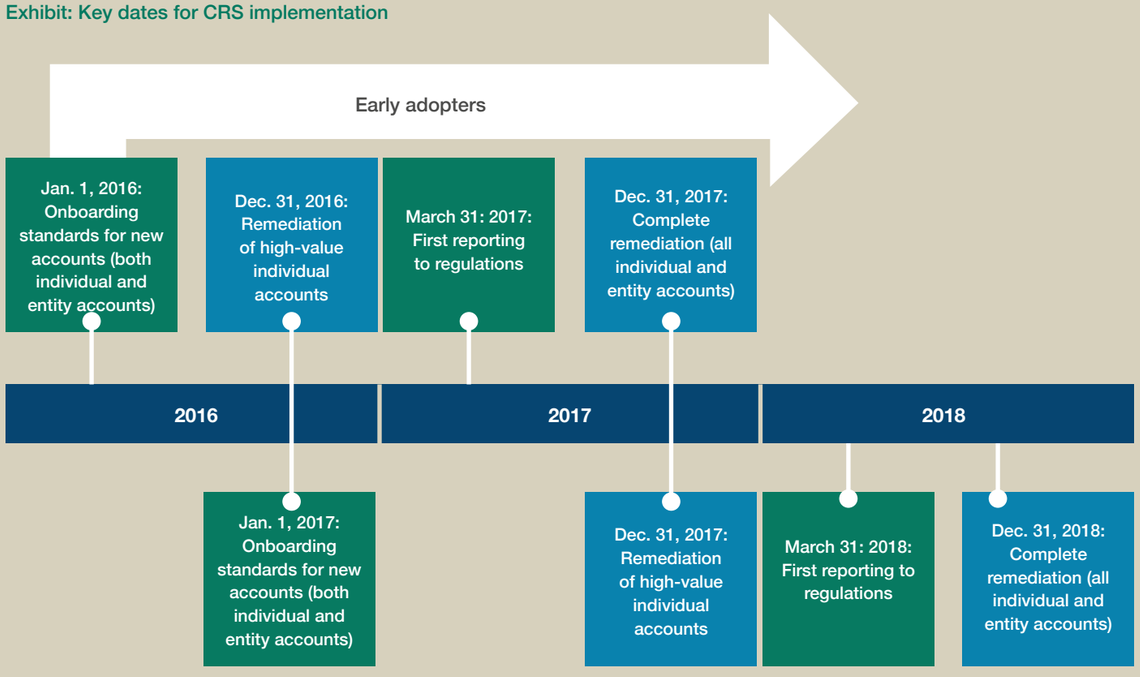
1. Account holders name or Policyholders Name or the person to whom a payment is made e.g. Beneficiary.
2. Account numbers and/or policy numbers.
3. Residential address
4. Date of birth and place of birth.
5. Country of Tax residence.
6. Tax or social security number
7. Calendar Year bank/policy account value and the amount of withdrawals taken in that calendar year. If the account was closed during that calendar year, details of the closed account.

Notes:

- There are no individual de minimis thresholds under CRS, meaning all financial accounts of individuals resident in every reportable jurisdiction will need to be reported. — The threshold for not reviewing or reporting pre-existing entity accounts is the same at commencement, the difference is when the account needs to reviewed, as the value increases after the commencement date.

- There is no de minimis threshold for the cash value of insurance policies under CRS: this was US$50,000 currency equivalent under FATCA and consequently this brings more products (and policies) into scope.

Exhibit: Key dates for CRS implementation



Implementation and Reporting deadlines:

The first reporting will occur in 2017, HMRC´s deadline is the 31st May 2017and will cover the year 2016. The second wave of reporting will commence in 2018.

Enforcement

Enforcement of the CRS will be implemented by way of a penalty system. Different jurisdictions may operate different penalty systems for non-compliance with the CRS.

In the UK, there are a series of penalties that may apply to non-compliant financial Institutions. There is an automatic penalty of £300 for failing to comply with the CRS, as well as an additional £60 daily rate penalty if the failure to comply continues after a warning is received from HMRC. There is also an additional flat rate penalty of £3,000 if HMRC determines that there are errors on the CRS return itself.

In addition to these specific CRS related penalties, HMRC may also levy tax-related penalties under the existing tax penalty regimes. There is a specific penalty regime for offshore tax evasion, which has recently been strengthened.

UK taxpayers who may be liable to tax-related penalties under the CRS should be aware that the percentage penalty can be increased, depending on the territory and the severity of the offence, to up to twice the original tax cost where there is an offshore element involved.

Tax advisers, accountants and certain trust company service providers also need to be aware that HMRC may impose a penalty on advisers who fail to advise their clients of CRS when they ought to have done so.

Full List of Countries that have currently signed up to CRS

Jurisdictions undertaking first exchanges by 2017

Anguilla, Argentina, Barbados, Belgium, Bermuda, British Virgin Islands, Bulgaria, Cayman Islands, Colombia, Croatia, Curaçao, Cyprus, Czech Republic, Denmark, Estonia, Faroe Islands, Finland, France, Germany, Gibraltar, Greece, Greenland, Guernsey, Hungary, Iceland, India, Ireland, Isle of Man, Italy, Jersey, Korea, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Mexico, Montserrat, Netherlands, Niue, Norway, Poland, Portugal, Romania, San Marino, Seychelles, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Trinidad and Tobago, Turks and Caicos Islands, United Kingdom.

Notes:

The CRS has been implemented at European Union level through the Directive on Administrative Cooperation (Directive 2014/107/UE), known as "DAC 2". Relationship with non-EU countries are ruled by means of multilateral agreements called "Competent Authority Agreement".

Jurisdictions undertaking first exchanges by 2018

Albania, Andorra, Antigua and Barbuda, Aruba, Australia, Austria, The Bahamas, Bahrain, Belize, Brazil, Brunei, Darussalam, Canada, Chile, China, Cook Islands, Costa Rica, Dominica, Ghana, Grenada, Hong Kong (China), Indonesia, Israel, Japan, Kuwait, Lebanon, Marshall Islands, Macao (China), Malaysia, Mauritius, Monaco, Nauru, New Zealand, Panama, Qatar, Russia, Saint Kitts and Nevis, Samoa, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Singapore, Saint Maarten, Switzerland, Turkey, United Arab Emirates, Uruguay, Vanuatu.

*As published by the OECD on 26th July 2016

What is FATCA

FATCA (Foreign Account Tax Compliance Act), is a US law whose objective is to fight against tax evasion schemes that use foreign accounts or entities held by US taxpayers, became effective as of 1 July, 2014.

Non-American financial intermediaries are required to identify US taxpayers in their client data bases in order to report to the American tax authorities the income of direct or indirect beneficiaries who are US taxpayers concerned by the legislation, thereby allowing an automated cross check with their individual tax returns. The refusal (by non-American financial intermediaries or by clients) to respect these obligations could be penalised by the application of a punitive withholding tax of 30% on certain payments.

IHT

Good news for residents in Andalucia!

by Tim Govaerts, Regional Manager Costa del Sol

Benjamin Franklin once said there were only two things certain in life: death and taxes. Combine them and we are talking about Inheritance Tax.

Where we live in the south of Spain, Inheritance Tax (IHT) or ISD has always been a buzzword amongst the expatriate community. Most people did not understand it very well as it is quite complicated, but also because it can be quite a punitive and, to many, unfair tax. Think of the lack of exemption between spouses for example, or the very low allowances.

Often it would be a key issue in the decision of living on a more permanent basis in Spain or not, or in buying in Spain or not.

That has now changed.

The IHT rules are issued by the central Government. However, the autonomous regions can provide local allowances. For example, Madrid, Catalunya or Comunidad de Valencia could give you a reduction in IHT of up to 99% providing you have been fiscally resident for the past 3 years. Andalucia however, along with e.g. Murcia, had historically a strong socialist local Government which resulted in very few allowances.

Over the past 6 months, two major changes have been introduced to bring Andalucia more into line with the other regions. The first step considers your main residence. Until last year, a personal allowance of only €122,606 was provided on the share that you inherit of the property you have lived in yourself (main residence), which could still result in a very expensive IHT liability if you own a large property. With the change, the IHT on the main residence (providing you are a fiscal resident!) is virtually brought down to zero as only a very small portion of maximum 5% of any inherited value over €242,000 of the main residence will be taken into account for the purpose of IHT calculation.

The second change considers the "small inheritance rule". Relatives up to the second grade could inherit up to €175,000 without paying IHT. This cap has been lifted to €250,000. In case you inherit a value between €250,000 and €350,000 you would still receive an allowance of €200,000.

Further use of compliant tax efficient structures that are available in Spain can bring the potential Inheritance Tax liability down further, which means that with decent planning and by talking to the experts, IHT should not be an argument against living and residing in Spain anymore.

As Benjamin Franklin once said in another famous quote:- "If you fail to plan, you plan to fail".

The Dangers of Domicile

by David Denton FPFS TEP IMC, Chartered Financial Planner - Head of International Technical Sales Old Mutual Wealth

Upon leaving the UK, most expatriates will understand the importance of knowing when they will lose their UK tax residency, from an income tax and capital gains tax point of view. Though the rules can look complex, since 2013, the UK Government has attempted to simplify the matter through the 'Statutory Residence Test' (SRT 2013).

However, with no statutory test for domicile, the concept is more difficult to determine, and maintaining a UK domicile can have unintended consequences. Unlike residency, which looks at where an individual is actually living, domicile is broadly based on where their permanent or habitual home is and where they intend to live indefinitely, and this comes with a very high burden of proof. This is important because those retaining a UK domicile are liable to UK inheritance tax (IHT) at 40% on all their worldwide assets upon their death (with an exemption of the £325,000 nil rate band, and potentially the main residence nil rate band).

So, can an individual moving overseas change their UK domicile of 'origin' to a different one (a 'domicile of choice') and thus avoid IHT?

There are four considerations involved here; two of which are largely subjective and not laid down in legislation but instead take a 'common law' approach. The UK's tax authority, HMRC, will look at the four considerations as a whole and decide whether they offer valid and compelling evidence – not just about a client's actions but also their intentions.

1. Acquiring a domicile overseas

Acquiring a domicile of choice in the client's new home country, through whatever formal process, may be available and should first be considered. Unfortunately, this can be as elusive and ill-defined a process as losing UK domicile. Some countries, such as Spain, have a 'day-count' test. Some don't allow their domicile to be acquired. And even if someone is successful in losing their UK domicile status, it revives immediately when they permanently leave the country in which they have acquired the new domicile.

2. Establishing overseas residency

This involves spending a minimum period outside the UK. This is currently three tax years (becoming five tax years from April 2017). However, time spent outside the UK is not indicative in isolation. Residing overseas, even for many decades, will be futile if the remaining considerations are not met.

3. Severing all links with the UK

Whilst there is no formal or comprehensive list of links for a client to sever, they should include disposing of property and investments, sale of chattels, ceasing subscription to clubs and societies, educating children overseas and minimizing business interests. And on the flip side, it is important in their new home country to have local business interests, maintain local bank accounts and investments, be able to speak and read the local language and be involved with social, political or religious organisations as well as making a local will, even organising a burial plot there.

4. Having no intention of returning to the UK

Intent is a state of mind, which if expressed inappropriately can be damning as well as helpful, and even emotional connections with the UK can be brought into play should HMRC choose. It cost the estate of the actor Richard Burton £2.4 million in taxes when he was judged to have failed the 'intent test'. Although he lived in the USA for 27 years before dying and being buried in Switzerland, he was known to have bought burial plots in Wales for himself and Elizabeth Taylor, and maintained strong emotional connection there, even though he was ultimately buried in Switzerland.

So, how are the odds stacked? It used to be possible, until 2009, to seek a provisional ruling from HMRC, effectively asking them to confirm whether – at the time of the request – enough had been done to satisfy their tests. This reassurance is no longer possible, so for many, planning as if a UK domicile has been maintained will be the safest course of action should they wish to pass on as much of their wealth as possible to loved ones.

Malta

The growth of the financial services industry

by Mark Hollingsworth, Regional Manager Malta

Since being established in 2002, Malta's financial services regulator, the MFSA has seen unprecedented growth with the country now firmly on the map as one of the top places to do business in Europe.

Its' enviable position of being geographically situated in the middle of the Mediterranean Sea, allows Malta to act as a springboard for working with neighboring economies. Historically the island relied mainly on tourism. The economy is now however thriving in other areas thanks to the surge in international banks, investment funds, pension scheme trustees and related financial services firms doing business in Malta. International firms such as HSBC with its international call centre are one of the largest employers on the island. Investment fund administrators and Trustees are now typically employing 30-50 staff compared to single figures just a few years ago, to cope with the ever increasing demand in these thriving sectors. As the UK leaves the EU, there is a queue of British firms looking at Malta as their new base to passport their services across the Union.

Pensions Legislation

Over the past few years, Malta has established itself as a centre for the management and administration of personal pension schemes. While it has primarily been catering to the UK market, other European cross-border schemes are currently being established and rapid growth in the pensions in Malta market is expected. Pension Trustees are regulated by the MFSA; this, combined with Malta's full membership of the European Union, gives further comfort that your pension is in a well-regulated, stable jurisdiction. The closure of many QROPS (Qualified Recognised Overseas Pension Schemes) over the last few years in other jurisdictions means that Malta is now in the enviable position to attract clients wishing to move their accumulated pensions abroad. At a local level, we have teamed up with investment fund and pension services specialists Praxis to offer Retirement Scheme Plans to employees of large international employers on the island such as many IGaming companies. We also plan to roll this out to employers abroad to allow them to offer retirement planning to their employees.

Investment Funds

Malta has also firmly emerged as one of Europe's top domiciles for investment funds and asset management, hosting more than 600 investment funds, running into several billions of assets under management. Our own Nexus range of funds are domiciled in Malta, confirming our commitment to the island. All our funds have a UCITS IV status, allowing us to passport cross-border to the rest of Europe. The fund industry is backed up by many fund administrators and Trustee companies. These combinations mean that Malta is quickly becoming a one-stop shop for all elements of financial services.

Favorable tax regime

But is not just financial services that is thriving. Malta has rapidly evolved into a global gaming hub, being the first EU Member State to introduce comprehensive legislation on remote gaming back in 2004. Malta is now widely regarded by the industry as the most prestigious European Tier-1 jurisdiction for gaming operations. Currently there are 270 operators based in Malta, offering casino style games, sports betting and lotteries.

Why are so many companies moving to Malta? One main reason is down to the very favorable tax refunds system on distributed profits which have suffered tax in Malta. In order to qualify for a refund, the profits must be distributed either to non-resident shareholders or to a Maltese holding company wholly owned by non-residents. The rates of the tax refund are 6/7 of the Maltese tax paid on the distributed profits. This is equivalent to only 5%. This tax refund system is unique in Europe and is extremely attractive for international business people who want to minimise the corporate tax leakage in a central location close to Europe, Africa and the Middle East.

The Expat living in Malta

With over 60 double taxation treaties and income tax only charged on a remittance basis for foreigners, Malta offers one of the lowest personal income tax rates for expatriates. Schemes aimed at attracting high networth individuals also exist with worldwide income taxed at a fixed rate of 15%. There's no inheritance tax, gift tax, wealth tax or income tax on foreign sourced capital gains, which are serious additional advantages. There's only stamp duty to be paid on transfers of Maltese real estate at a rate of 5%.

And finally

As a side, the island has now been named as the superyacht capital of Europe with more than 600 luxury yachts now registered under the Maltese flag. Billionaires, royalty and other VIPs from around the world regularly visit Grand Harbour in their floating palaces. For everyone else, the 3,000+ hours of sunshine a year, the fact that it is deemed one of the safest countries in the world and the affordable, yet relaxed lifestyle make it the perfect location to not only do business but live also.

Background Noise, Real Numbers and Long Term Responsibilities

by David Miller - Executive Director - Quilter Cheviot Investment Management

In April of 2013, the three Rome-based UN agencies - the Food and Agriculture Organisation of the United Nations (FAO), the International Fund for Agricultural Development (IFAD) and WFP - were made honorary citizens of Rome during a ceremony to commemorate the 2,766th anniversary of the "eternal city's" founding.

Setting aside the background noise, several themes seemed likely to dominate the investment agenda this year. In particular, whether economic growth will break out on the upside after several years in the doldrums. We should know more about this by mid-year. The other is inflation which is now on an upward trend just a few months since deflation scare stories populated the headlines. It is, however, important to look beyond the published inflation index when deciding what to do. In the supply chain from raw materials to the consumer there will be companies that have pricing power and those that don't. The implications for stock selection are clear.

One of the features of the last year has been the low volatility of equity markets. The last time we had a run like this was in 2006, which was just before the subprime crisis kicked off. This could be taken as an unsettling message from the past, but against this we need to remember that the first baby boomers are now 70 and that for the next 15 years, 1.5 million Americans a year will reach three score years and ten. This cohort has the money whether it's well-paid jobs, pensions, houses or savings. What the boomers want will have a significant influence on markets for years to come. Now that bonds no longer provide reasonable income at low risk, companies that treat shareholders well by delivering stable profits growth and rising dividends are in demand. Add in the benefits of investing in a wide range of companies it can be argued that this is a reasonable option for savers even if they are lower risk retirees. Company management teams know this and are striving to join the 'safe and steady' club, previously the preserve of utilities. The latest results season highlighted the positive impact of dividend increases on share prices. For the moment, at least it seems that investors are content to tune out hyper-active politicians and focus instead on the numbers.

There could, of course, be other reasons for an absence of volatility. Complacency is at a high level after eight years of stability and many investment strategies include mean reversion programs which automatically suppress volatility. Rebalancing by exchange traded funds at the end of each day and robo-advisers, on a monthly or quarterly basis, reinforce stability as they trade without thought. The list goes on, but to highlight quite how the stabilisers are influencing markets it is evident that if there is a dip in the morning, then day traders are buying at lunchtime to take advantage of the afternoon rally. At times like this it is important to address what might go right as well as what might go wrong. In other words, risk on the upside and downside. Focussing on the US we are getting to the stage where President Trump bluff and positioning about trade will need to be followed up by proper negotiations. This will take time suggesting that tariffs are unlikely to be put in place this year. Maybe never. Similarly, tax and infrastructure announcements may be dressed up to sound grand, but Congress will slow the progress and so it is likely that any changes this year will be modest. In Europe the main economies are doing well as global reflation takes hold. Purely on investment grounds an increase in exposure to makes sense. However, the French election has the potential to be a global event. Even a one in five chance that Le Pen will get elected is too high a risk to go in to polling day completely unprotected.

So where does this leave savers? Well, over the last 20 years responsibility for financial security has been transferred from institutions to individuals. Beneficiaries of final salary pensions are increasingly rare as companies distance themselves from liabilities related to the increase in life expectancy. Government policies are following a similar path. Tax breaks to encourage savings are matched by the transfer of care costs for the elderly to the elderly. This trend accelerated after the credit crunch in 2008 when depositors were protected from the problems of the banking industry. Since then bank balance sheets have been strengthened and lending standards tightened to prevent a repeat. The knock on effect is that companies in search of funding are coming straight to investors, issuing securities, with associated credit risk of course, designed to be attractive to savers. On top of that those who had previously relied on interest from bank and building society accounts, insulated from risk by the safety net of deposit protection schemes, have suffered from 'emergency' low interest rates which have now been with us for over eight years. All of this means that we have been handed responsibility for our personal financial security at a time when it has become increasingly difficult to make any sort of reasonable return without risk. The importance of obtaining sound financial planning advice and good investment management is more important than ever if a secure retirement is to be as much a part of the 21st Century as it was during the second half of the 20th.

Investors should remember that the value of investments, and the income from them, can go down as well as up. Investors may not recover what they invest. Past performance is no guarantee of future results.

The Latest News on BREXIT

by Manuela Robinson, Joint Country Manager Portugal

Teresa May stated that "Brexit means Brexit" and that she would trigger Article 50 by the end of March 2017, which would then be followed by a two year period of negotiations with their European counterparts to agree what Brexit will mean for both sides.

She has made clear that the UK would not be seeking a deal to stay within the single market, which would be accompanied by many European obligations. Instead she has adopted the line that the UK is leaving the EU, but she would be seeking a completely new agreement to govern their future relationship with the EU including co-operation across a range of areas and importantly a favourable trade deal.

At the time of writing this article, Teresa May has successfully moved the Notification of Withdrawal Bill through the House of Commons and after 20 hours debate by the Lords the Bill has passed to Committee stage where the lawmakers will no doubt seek to rewrite some of the terms of the Bill. Regardless of this process, the Government will have triggered Article 50 in March 2017 and the two year clock will begin.

To understand the key areas of negotiation, Theresa May unveiled her 12-point plan for Brexit in a speech in January:

1. A vote in Parliament

The PM stated that the government will put the final deal negotiated to a vote in both Houses of Parliament before it comes into force.

2. Control of our own laws

"We will take back control of our laws and bring an end to the jurisdiction of the European Court of Justice in Britain, because we will not have truly left the European Union if we are not in control of our own laws."

3. Strengthen the union

The PM vowed to build a Britain that highlights the bonds of the Union and ensures our laws are made in the four nations. She said "we will put the preservation of our precious Union at the heart of everything we do". She has made clear that the devolved governments would be fully engaged in the process.

4. Prevent a hard border with Ireland

The PM stated "We will work to deliver a practical solution that allows the maintenance of the Common Travel Area with the Republic, while protecting the integrity of the United Kingdom's immigration system." This implies no hard border with Northern Ireland.

5. Controlling migration

The PM said. "Britain is an open and tolerant country and I will always welcome individual migrants as friends but the message from the public before and during the referendum was clear".
She said immigration must be controlled with priority for the "best and brightest". This could mean a visa system for skilled workers, but it's worth noting that 22000 EU workers are employed in UK agriculture, so a visa system matching employers' needs would be the ideal solution.

6. Guaranteeing people who've already moved

At the moment, there are more than 2million EU citizens in Britain and over 1million expats living in the EU. Teresa May said: "Fairness means guaranteeing the rights of EU citizens already in Britain as early as we can. I have told other EU leaders that we could give people the certainty they want straight away, and reach such a deal now".

7. Protect workers' rights

The PM said. "We will ensure workers' rights are fully protected and maintained. We will build on EU labour laws to ensure they keep pace, and workers' voices are represented on company boards".

8. Quit EU single market membership

Mrs May said: "Britain will chase a bold and ambitious trade agreement with the EU. I want to be clear - what I am proposing cannot mean membership of the single market. Doing so would mean complying with the EU's four freedoms and complying with the European Court of Justice. It would, to all intents and purposes, mean not leaving the EU at all. Instead we seek the greatest possible access to it through a new, comprehensive, bold and ambitious Free Trade Agreement."

9. Quit full customs union membership

"Full Customs Union membership prevents us from negotiating our own comprehensive trade deals. I do not want Britain to be part of the Common Commercial Policy and I do not want us to be bound by the Common External Tariff. I do want us to have a customs agreement with the EU. Whether that means we must reach a completely new customs agreement, become an associate member of the Customs Union in some way, or remain a signatory to some elements of it, I hold no preconceived position. I have an open mind on how we do it. It is not the means that matter, but the ends."

10. Science and technology

The PM said "One of our great strengths as a nation is the breadth and depth of our academic and scientific communities, backed up by some of the world's best universities. We have a proud history of leading and supporting cutting-edge research and innovation. We will also welcome agreement to continue to collaborate with our European partners on major science, research, and technology initiatives."

11. Co-operation on fighting crime

"A global Britain will continue to co-operate on crime, terrorism and foreign affairs. All of us face the dangerous terrorist threat of cross-border crime. I want our future relationship with the EU to include practical arrangements on matters of law enforcement and the sharing of intelligence with our EU allies."

12. A 'phased' agreement beyond March 2019

The PM stated "I want us to have reached an agreement about our future partnership by the time the two-year Article 50 process has concluded. From that point onwards, we believe a phased process of implementation, in which both Britain and the EU institutions and member states prepare for the new arrangements that will exist between us, will be in our mutual self-interest. This will give businesses enough time to plan and prepare."

Summary

The EU has wanted to avoid any form of discussions until after the UK has triggered Article 50, so the UK would be left negotiating against the clock. However, the UK has been having informal talks with each of the 27 member states to determine their views and what they fear most. It is apparent that the most feared is the UK becoming a low tax zone with lighter regulations, attracting businesses from across Europe to re-locate to the UK. May and Hammond have been keen to point out that this would happen if a favourable deal were not reached with the EU.

In addition to the above, Central and Eastern Europe are living under the shadow of Russian aggression and Britain's military power is still viewed as a vital protection to such countries. Coupled to this is the security and intelligence contribution made by the Government Communication Headquarters (GCHQ) and shared with Europe, to help combat terrorism. The Eurozone also needs to avoid cutting itself off from its de-facto banking and financial capital, London, which would adversely harm major EU businesses.

Teresa May has ensured that she is not dependent on the EU for securing vital parts of her strategy (control of borders, law and trading with the rest of the world) and thus unlike Cameron should have a much firmer hand to play in forthcoming negotiations. She has also made clear that no deal is better than a bad deal and thus has removed some of the pressure from the two year time clock. What she wants is to negotiate a free trade deal and customs arrangement coupled with continued UK involvement in various EU programmes and of course continued security and intelligence support to Europe if an amicable deal can be agreed.

Thus far she has played an intelligent strategy, in two years we will know if she has been successful.

In 2016 the UK economy was the fastest growing economy in the developed world and economic growth is forecast to remain strong. For those of us enjoying the expat life external to the UK it may be quite a long time before we know what rules may, or may not, apply to us in the post Brexit world. From an investment perspective our clients enjoy liquid and diverse investments in major markets, managed by award winning discretionary managers. We remain confident in their ability to continue producing efficient risk adjusted returns for our clients regardless of what political headlines occur over the coming months and years.

Saving for Education Fees

{ new factors to consider }

Today's long term savers face many challenges. One major savings goal that many parents wish to work towards is having enough money to send their children on to higher education. This goal became harder to attain when university tuition fees were increased back in 2012, some by as much as three times. Now, a new proposal may further shake things up in terms of how much money parents will need to save.

The government recently announced plans to give students more options in how they study, proposing the introduction of two-year degrees. The two years will provide students with a more intense learning experience, with reduced holidays and a heavier workload.

Unfortunately, the idea of the two-year degree doesn't do much for the problem of costly fees. Under the plans, the current fees (up to £9,250 a year for a three year course from 2017) will still need to be paid, only the full amount will be split over two years. This means, if the plans are to be implemented, annual fees could rise to more than £14,000 a year. While this may not sound swingeing, there is a significant upside to the proposed change: with one year less to spend living away from home, the amount needed to support your children with their accommodation and living expenses will be greatly reduced.

"Students are crying out for more flexible courses, modes of study which they can fit around work and life, shorter courses that enable them to get into and back into work more quickly, and courses that equip them with the skills that the modern workplace needs" the Universities Minister Jo Johnson has said. He added that the traditional three-year course "must not be the only option".

The savings challenge for parents

Giving students increased flexibility in how their courses are structured could be an effective change to the education system, and most parents will want to be able to financially support their children whatever the future brings them. But recent economic changes have meant that saving a substantial amount is an increasingly difficult task .

In February 2017, news emerged that inflation, measured by the Consumer Price Index, was at its highest level since June 2014, running at 1.8 per cent. February saw the fourth monthly increase.

The culprit behind the rise in inflation is thought to be the weaker pound, which is making imported goods more expensive. And the Bank of England has predicted that inflation will rise to 2.8 per cent in the first half of 2018. While some economists think it will rise even higher to 3 per cent.

Uphill inflation is coupled with the other predicament of low interest rates. Both these factors mean savers will find it difficult to grow their money in the coming years.

It may be tough to make long-term savings plans so that you can put your children through university, but it's certainly not impossible. And one key ingredient essential to making the most of your money is a financial adviser you can trust.

The State Will Provide?

by Chris Pickering - International Financial Adviser

In the Western World, welfare systems are often used as the measure by which to gauge the progressiveness of a country. As residents of Spain and expatriates of the UK we can consider ourselves very lucky to have access to such provisions as healthcare and public services all provided by the state. The entitlement to benefits and other forms of aid provided by the welfare system have been and continue to be an imperative lifeline to many people whom otherwise would be in desperate if not hopeless situations.

However, there are certain welfare provisions that are on the whole massively misunderstood and possibly greatly over estimated. When it comes to the issue of state pensions there is often a misconception both in Spain and the UK with regards to the viability of this particular benefit to provide a comfortable retirement. As a financial advisor, an important part of my job is to help my clients prepare (from a financial perspective) for retirement. This involves establishing their desired level of income in retirement and then identifying the provisions the client already has in place to provide that income. Any shortfall is then addressed, and the sooner the better. During this process, the entitlement to state pensions is discussed.

Spain operates an obligatory state pension system as is the case for the majority of other European countries. The scheme is funded by each working individuals' social security contributions. Similarly to the UK state pension, the principles of the Spanish equivalent are quite complex and constantly under review. According to an article in the 'Financial Times' published in December 2013

"Comparative data shows that the Spanish state pension system is one of the most generous in the western world, at least when set against salaries and earnings during working age."

This fact ultimately led to an overhaul of the system which prompted analysts in the same article to express concerns that

"Spain's new pension regime risks going too far in the other direction, by reducing pension payments to a level where they no longer allow retirees to cover their cost of living."

This problem is only going to be exacerbated by the ever ageing demographic which is prevalent across most if not all western countries. With every passing year the average life expectancy in the west increases. This alone is a problem for the welfare state but when considered in conjunction with the fact that the number of young workers joining the workforce and replacing the older retirees continues to dwindle then the negative effects on the welfare budget are compounded.

What can be concluded from all of the above information is that whilst being entitled to a state pension is a very welcome benefit, it shouldn't be relied upon as ones only source of income in retirement. Stae provision for pensioners isn't as substantial as it once was for residents of both Spain and the UK. A similar demographic trend in both these countries (an ageing population) ultimately means that further reductions and restrictions to the current level of provisions are inevitable. As the percentage of the population in retirement continues to increase, the available resources to fund state pensions will be stretched even more. In conclusion, state pensions at their current levels are unsustainable and we can no longer depend on them. This means that more emphasis needs to be placed on our other sources of retirement income. For the vast majority of people this alternative source of retirement income will be provided by their occupational pension scheme. This finally brings us to the major problem facing the working expatriate community based in Spain. For the vast majority of working expatriates there are no accessible occupational pension schemes available to them. Even within a very large and established industry such as the International Schools there are no occupational pension schemes which the employees of this industry are able to contribute to. This means that there is a very large gap in the financial planning of the expatriate community that unfortunately is often overlooked by the individuals themselves. With this being the case it means that seeking the right financial advice and taking the appropriate steps towards a financially secure future are incredibly important and should be taken sooner rather than later.

Putting money into a 'regular savings plan' is essential financial planning for the vast majority of people but even more so for those without any other source of income in retirement other than the state pension . Regular savings plans are a great way to create your own personal pension fund to be utilised according to your own preferences in retirement. They also grant savers the opportunity to gain positive returns on their contributions to help keep their fund ahead of inflation.

The Taxation of Life Assurance Contracts in France

by David Vacani, Sales Director for France

The taxation of life assurance contracts in France is a key determinant of the right investments in France and clients need approved EU French approved structures – either out of Dublin, Luxembourg, Isle of Man or the Channel Islands. UK products like ISAs do not work in France.

We have set out below some key points on the benefits of Assurance Vie:

1. Inheritance tax

The benefits are free from French inheritance rules and are inheritance tax free up to €152,500 per beneficiary, if subscribed before your 70th birthday. Over this limit, taxation is limited to 20% for benefits between €152,500 and €852,500 and 31.25% for benefits in excess of €852,500.

Over age 70, the benefit is limited to investments of €30,500 maximum.

2. Income tax

There is no income tax on growth within your insurance contract.

Amounts taken out will be subject to tax on the **capital gain element only**, either at your marginal rate of tax (i.e. you declare the capital gain on your tax return), or, as with a French contract, you also have the option of paying income tax at the following set tax rates:

Years 1 - 4: 35%
Years 5 - 8: 15%
Year 9 on: 7.5% after a tax-free allowance for gain withdrawn, in any tax year, of €4,600 for an individual and €9,200 for a couple.

The company will provide you with the calculations of the taxable element of your withdrawal.

3. Social Taxes (the "contributions sociales")

The capital gain within your investment is now subject to 15.5% social security contributions.

At present, for gains on any unit-linked investment funds, this charge will only become payable when you take money out or on death.

However, the interest earned on any investment in the "Fonds en Euros" will be subject to social security contributions at source.

4. Declaration of Foreign Life Assurance Policies

In the same way as all French residents are obliged to declare annually all foreign bank accounts held on their Income Tax returns, all life assurance investments outside France must also be declared. This can be included in your tax return on form 2042 section 8TT.

A summary of some key points below:

A UK portfolio in France has:

- No inheritance advantages
- No complete allowances for capital gains
- All profit subject to income tax and social charges
- The current portfolio adviser cannot provide the correct advice for taxation in France and are making switches in funds without due consideration to the tax consequences

As a comparison an **Assurance Vie** can:

- Grow tax free
- No tax liability when fund changes are made
- Offer inheritance advantages (€152,500 per beneficiary)
- Have a choice of currency
- Work both in the UK (if the client returns to the UK it would be an offshore bond) and France for tax purposes
- Very efficient for tax purposes upon withdrawal

Comparison:

€5,000 of profit on €100,000 invested in the UK portfolio would be subject to a 45.5% tax charge or €2,250.

A €5,000 withdrawal from an Assurance Vie on €100,000 invested would equate to €476 maximum tax and social charges. (Remember only the profit on the withdrawal is taxed, the rest is considered return of capital).

The Magic of Compounding

by Dave Diggle, C.A.T., DipFA, International Financial Adviser

Compounding is the term used for taking a monetary figure and applying a growth rate over fixed periods and is a process that adds growth to growth and not just the principal sum.
Whereas most people would consider that if they invested £10,000 at a 5% return they would receive £500 per year, therefore, over a 20 year period they might imagine that they would receive 20 X £500 = £10,000. This is not so.

Compounding is really not as complicated as it sounds, so let's take a look at the effect of compounded growth of your capital at what we at Blacktower would consider a basic return.

		Principle Sum 1st January	Interest 5.00%	Principle Sum 31st December
Year	1	10,000	500	10,500
Year	2	10,500	525	11,025
Year	3	11,025	551	11,576
Year	4	11,576	579	12,155
Year	5	12,155	608	12,763
Year	6	12,763	638	13,401
Year	7	13,401	670	14,071
Year	8	14,071	704	14,775
Year	9	14,775	739	15,513
Year	10	15,513	776	16,289
Year	11	16,289	814	17,103
Year	12	17,103	855	17,959
Year	13	17,959	898	18,856
Year	14	18,856	943	19,799
Year	15	19,799	990	20,789
Year	16	20,789	1,039	21,829
Year	17	21,829	1,091	22,920
Year	18	22,920	1,146	24,066
Year	19	24,066	1,203	25,270
Year	20	25,270	1,263	26,533

In the case shown we can see that you are receiving interest on interest and by doing this monetary test we can really start to see the huge effect of the compounding on the interest received, particularly in the latter years i.e. the longer you leave your money the greater the effect. In the case shown, the total interest received is £16,533 (total at the end of 20 years £26,533 less the original investment amount £10,000). This is vastly different from the perceived interest return of £10,000 as mentioned earlier and of course the compounding effect applies to any currency that you invest.

The effects of Inflation

Let's now have a look at the effects of inflation and in this example we will look at the actual historical UK inflation rates. Let's assume we had £10,000 in 1997 (20 years ago) and we had not invested it but left it in a non-interest bearing account at our local bank.

What would that be worth, in real terms, today?

		Value 1st January £	Actual UK Inflation rate	Erosion effect £	Value 31st December £
Year	1997	10,000	3.1%	310	9,690
Year	1998	9,690	3.4%	329	9,361
Year	1999	9,361	1.5%	140	9,220
Year	2000	9,220	3.0%	277	8,944
Year	2001	8,944	1.8%	161	8,783
Year	2002	8,783	1.7%	149	8,633
Year	2003	8,633	2.9%	250	8,383
Year	2004	8,383	3.0%	251	8,131
Year	2005	8,131	2.8%	228	7,904
Year	2006	7,904	3.2%	253	7,651
Year	2007	7,651	4.3%	329	7,322
Year	2008	7,322	4.0%	293	7,029
Year	2009	7,029	-.5%	-35	7,064
Year	2010	7,064	4.6%	325	6,739
Year	2011	6,739	5.2%	350	6,389
Year	2012	6,389	3.2%	204	6,184
Year	2013	6,184	3.0%	186	5,999
Year	2014	5,999	2.4%	144	5,855
Year	2015	5,855	1.0%	59	5,796
Year	2016	5,796	1.8%	104	5,692

As you can see, the result of not putting your original £10,000 to work over a 20 year period has a devastating effect on the value of that original value. In today's terms it would only be worth £5,692.

If you have ever wondered why some people appear to be affluent, it could be because they took action to increase their savings rather than living with the effects of taking no action at all. Most people would think that choosing not to invest means taking no risk, but this is simple not true. If you take no action then your money WILL lose value as shown in the above table.

If you are one of those people that took little or no action, it is never too late.

"Procrastination is opportunity's natural assassin " - Victor Kiam

So, the next time you get an opportunity to grow your money safely, take it. If not for you then for your children's sake or any other heirs that you have in mind. Bearing in mind that the FTSE 250 index (the UK's best guide to general stock market performance) finished 2016 304% higher than 1st January 1997, this means you could have at least trebled your money. But if you add the compounding effect of all the dividends you would have received during the course of each year, you'd be a very happy person indeed. Here's to the next 20 years !

‘Offshore’ is no longer a taboo word in Portugal

by Antonio Rosa, ACSI, Joint Country Manager Portugal

Portugal removes 15 countries from the offshore ‘Blacklist’ – are offshore Trusts and Foundations back on the agenda?

Not so long ago a high percentage of UK expats, amongst other nationals, would hold assets utilising a financial structure domiciled in the UK’s offshore centres. However, things have changed of late and if you are Tax resident in Portugal, there are punitive tax consequences of holding assets in a ‘tax haven’.

Portugal is continually endeavouring to safeguard its domestic interests from tax havens. It publishes an official Ministerial Order listing countries, territories and regions with more favourable tax regimes.

On the 1st of January 2017, the Portuguese Government surprised the Expat Community by declaring the immediate removal of 15 Tax Jurisdictions from their offshore blacklist. This is the second such update since 2004. The fundamental reason for such a move was the signing of bilateral Tax Information Exchange Agreements (TIEA).

Portugal have now signed TIEA agreements with the following countries : Andorra, Antigua and Barbuda, Belize, Bermuda, British Virgin Islands, Dominica, States of Guernsey, Gibraltar, Cayman Islands, Isle of Man, Jersey, Liberia, Santa Lucia, St. Kitts and Nevis, Turks and Caicos Islands. The above jurisdictions are now regarded by the OECD as largely compliant and in the case of Isle of Man it is deemed compliant.

The referred bilateral agreements, legally known as TIEAs, are an integral part of a more comprehensive international partnership to assist in the collection of sovereign taxes. The agreements follow an international standard set by the Organisation for Economic Co-operation and Development (OECD) for fiscal transparency and the Automatic Exchange of information (AEoI). These agreements include sharing of information about citizens’ income, ownership of foundations/trusts, movements of capital, investment funds and other entities. These standards have now been adopted by nearly half of the worlds Tax Jurisdictions in order to promote international co-operation in tax matters and to mitigate tax evasion.

AEoI

Incidentally for those who are not aware, offshore centres like the Channel Islands, Isle of Man and Gibraltar have signed up to the Organisation for Economic Co-operation and Development’s (OECD) Common Reporting Standard, which provides AEoI on your overseas financial assets for tax purposes. The first data exchange takes place next year, with information on assets owned in 2016. You should have always been reporting your worldwide income in Portugal and it is now more pertinent than ever before to ensure you are disclosing such income in the future, assuming you have not done so in the past.

Are Trusts and other offshore structures a viable option in Portugal once more?

If the above was not sufficient bad news, the Portuguese Government implemented, without consultation, for the fiscal year of 2015 and with immediate effect, punitive changes to the personal tax regime in the treatment of investment income to Portuguese residents emanating from their international holdings. The government termed these investments ‘Fiduciary Structures’, which do not have a permanent representation in Portugal and are domiciled in a blacklisted jurisdiction.

Thereafter if you had investments, for example normal high-street bank accounts, financial instruments held in insurance bonds, etc. which are held or domiciled in one of the listed jurisdictions noted above, the income and gains would be taxed at a rate of 35% irrespective of its distribution. This compares to the 28% fixed rate that normally applies to investment income.

My understanding of these changes is that whilst it is worthy news getting delisted from the blacklist, it does not change either the taxable events or the tax transparency nature of fiduciary structures/trust entities.

The major tax effects are:

a) Capital gains paid by or to entities located in such jurisdictions, or derived from the extinction of trust entities, will not be subject to the increased tax rate of 35%;
b) Cease to apply the need to prove that the payments made to a company located therein are real and arm’s length,
c) Removal of restrictions to consider as a deductible cost the losses on the selling of shares of entities domiciled in such jurisdictions.

Non-Habitual Residence Scheme (NHR)

Subject to attaining the eligible prerequisites, the NHR scheme provides unquestionable tax advantages for the first 10 years of tax residence, with specific tax exemptions attributed to private pension’s income and investment income, but not limited to, on the proviso certain conditions are met (a comprehensive explanation of the terms & conditions of the NHR scheme can be found in our company website www.blacktowerfm.com)

With regards to overseas investment income, under the scheme dividends and interest are exempt from tax in Portugal, provided the income:

1. Is able to be taxed in the state of source under a double tax treaty, or indeed
2. Be taxed under the terms of the Organisation for Economic Cooperation and Development (OECD) Model Tax Convention and is not regarded as arising from a Portugal source.

In general, interest and dividends may be taxed by the state where the income is sourced; meaning that the NHTR tax benefits may be applicable. However regarding capital gains that are not related to real estate located therein or assets owned by entities or permanent establishments located therein, there may be no benefit because the power to tax is given to the residency state.

I must stress and it is important to note, however, that this excludes income generated in one of the blacklisted tax havens. Those applying for the Non-Habitual Residents scheme may need to review their investment holdings if they wish to receive the full tax benefits.

What can you do and how to invest?

There are a myriad of considerations when contemplating an investment strategy. You need to consider how such international investments will incorporate with the rest of your overall financial portfolio. This obviously goes hand in glove when you assess how appropriate it is when you consider your objectives and risk tolerance.

Notwithstanding the above, you need to consider the regulation of the jurisdiction the chosen investment structure is domiciled in, and evaluate if you are satisfied with the level of regulation it provides.

Other interesting tax issues, when considering Portugal as your destination, is the Stamp Tax on high end properties.

Residential properties valued at €1 million or more are subject to a stamp duty tax of 1%.

Should you to intend to hold the property in one of the blacklisted jurisdictions, then stamp duty rate raises dramatically to 7.5%. This also applied to property owned by a company based in one of the listed tax havens.

As such one must weigh up the advantages in owning assets in a ‘tax haven’ and whether it should still be synonymous with ‘tax efficient’.

My advice is, before you do anything, seek professional help, it’s a jungle out there.

Life in Sweden Post-Brexit

by Shaun Armstrong, Regional Manager Sweden

Since "Brexit" the number of applications for Swedish citizenship by UK citizens has tripled.

This is quite understandable – Sweden is close to the UK, has a sophisticated economy and labour market, English is widely spoken, has free childcare and I would argue better weather.

Changing your tax residency and citizenship however, does not change your tax domicile, which means most British citizens will still be liable for IHT while living in Sweden.

However, Sweden does not have an inheritance tax, which provides for some interesting IHT planning possibilities.

Although the Swedish welfare state provides generous benefits, the pension system is a constant subject of the media and political debate. It is widely accepted that the state pension system is grossly inadequate and favours life time residents.

Therefore, anyone considering moving to Sweden needs to make the most of employer sponsored schemes and private savings, in order to maintain their standard of living in Sweden during retirement.

For those with UK pensions utilising QROPS, provisions can be a vitally important component for supplementing Swedish pensions or funding an early retirement.

Although personal income taxation is very high in Sweden, capital and investments have some very generous and efficient provisions that make saving and investing in Sweden rewarding and convenient.

Sweden is built on close cooperation between capital, labour unions and the state. This means that saving and investing, working and living in Sweden provides for a very rewarding and high standard of life.

The key to making the most of Sweden as an expat is to understand how the various pieces of the welfare and financial systems fit together to improve your "wealthfare".

As a long term resident and expatriate myself I am dedicated to helping you through this process.

Why Do Financial Advisers Still Exist?

by Edward Mainwaring-Burton, International Financial Adviser

It's 2017.

By now, we were told that we would all have flying cars, teleporters and robot servants.

A lot of the technological predictions of the last century have failed to materialise, but automation of many industries has pushed many traditional occupations to the brink of extinction – however, professional financial advisers are still here.

With the rise of online financial tools, robo-advice and algorithm-driven portfolios and as other services such as mortgage or personal insurance advice become less personal and more automated, why do people still need (and seek) face-to-face financial consultancy?

The simple answer is the personal touch. The same reason that people still like to go to the theatre, a century after cinema was supposed to have killed off the West End and Broadway.

The truth is more subtle though. At present, effective, long-term financial advice is simply too complicated to be given by a machine.

A myth exists of a financial supermarket with shelves stacked full of home-grown solutions that anyone can just pick up and plug in to their lives. The fact is that the individual needs of a client can vary hugely when factoring in their age, nationality, residence, family circumstances, employment, income, personal targets and other aspects that define their own financial landscape and goals.

In an hour or so of financial consultation, the responsibility of the adviser is to boil down the various aspects of your current situation and plans for the future to create the perfect recipe to achieve the desired results. Whilst a machine could, theoretically do the same, the amount of information input and gathering would be vast. As smart as computers are right now, the world still needs experts.

For example, a machine could very easily know that South Africans' are taxed by SARS and subject to currency controls, Americans are taxed by the IRS and subject to FATCA regulations worldwide and that British pension payments to a resident of Thailand fall under the 1981 double taxation treaty. However, tell the digital system that you are a South African, born in the USA, who worked for twenty years in the UK before retiring in Thailand and the calculations will start to strain the processor.

When I started my career in this industry, I was surprised to learn that far more of my time with clients was taken up by educating and explaining than by mathematics and research. The one great advantage that a human adviser has over any automatic system is that we, the trained and qualified, flesh-and-blood people there at the table with you can not only learn from you and about you in order to find the right solution to your individual needs. We are here to give back to you a better understanding of your own situation.

Comfort in financial advice does not come from huge returns or complex, flashy structures. Comfort comes from understanding. A good financial adviser will not just chew up the data that you input and then spit out a relevant conclusion. A good adviser will continually gather information from you and help you to learn which factors are affecting you and how to deal with changes over time. A good adviser is not a salesman or a number-cruncher. A good adviser is a companion and a confidant.

My friends, clients and colleagues have often heard me use the analogy that financial advisers are like dentists (another profession that can't be replaced by robots for a good while yet). Surgery should only be carried out by a qualified professional and after a full examination. To prevent future discomfort, regular checkups are essential and you should learn best practices for yourself. Furthermore, your teeth, like your financial situation, are unique. The individual parts that make up your financial profile shouldn't be approximated to a one-size-fits-all solution.

Some parts of the financial services industry require a lack of emotion. Humans tend to react to financial ups and downs with rash decisions. Computers are certainly good at being objective and this could be an advantage for robo-advice in the future.

One day, I am quite sure that a program or system will be created that can not only tailor to your specific background and needs before examining the whole of the market to find the perfect solution, but also adapt constantly to the changes and movements in your personal circumstances as time goes by. Perhaps I will be the one to create it and retire, content that my work in this industry is finally done. Who knows?

As technology advances and people increasingly turn to self-service equivalents of traditional interactions, it is surely only a matter of time.

However, for now at least, the best solution to keep your financial smile gleaming is to embrace your individuality and build a relationship with a good, old-fashioned human.

Common Sense Prevails

following long legal battle

by Robert Mancera, General Manager and Director

It is unfortunate in this day and age that in order to seek a 'common sense' decision you have to argue your case in a Court of Law.

This has been just the case for a Mr Lobler Vs HMRC.

Efficient Tax Planning

Mr Lobler was advised in 2006 to invest in an Isle of Man based 'Life Wrapper' or 'Life Assurance Bond' to take advantage of 'Gross Role Up'.

This is where you invest a lump sum of money where you have the ability to draw up to 5% of your initial capital back per year with no income or capital gains to pay; in the event that you do not take a 5% withdrawal in any one year, this can be 'rolled-up' and drawn at a later stage.

Taking more than the 5% allowance would incur what is known as a 'Chargeable Event' – basically requiring you to pay tax, at your highest rate and/or top-sliced (where it crosses tax tiers), on the mount taken above the permissible.

In effect, you could take back your entire capital over a 20 year period, and pay no Income/Capital Gains on it – tax would be payable on any gain when you finally encash the Bond. Depending on when this takes place (age) this could have a very favourable outcome.

This type of investment planning has been used for years.

Error of Judgement

Whilst Mr Lobler sought advice when he took out the investment plan, he did not seek advice when it came to drawing funds from the Bond. He withdrew two large amounts in 2007 and 2008 creating a 'Chargeable Event' as they were far in excess of the 5% permissible.

Mr Lobler should have declared these amounts on his tax returns but failed to do so. The Life Company is obliged to calculate and report 'Chargeable Events' to the Tax Authorities. HMRC with this information opened an investigation on Mr Lobler and noted that these withdrawals had not been declared and as such sought to recoup tax from him. The calculation of tax due in this instance was in the region of USD1.3m.

It is interesting to note that the excess withdrawals have nothing to do with the gains within the Life Assurance Bond. This means in certain circumstances, as in the case of Mr Lobler, it is possible for disproportionate gains to occur under existing chargeable event legislation.

Off to Court

Mr Lobler decided to contest this arguing the unfairness of the tax charges. He took his case to the First-Tier Tribunal who, "With heavy hearts", dismissed his case.

It would appear Mr Lobler took some encouragement from these words and decided to appeal the decision to the Upper Tribunal.

The points considered as part of the appeal process were as follows:

- private law grounds, including doctrine of mistake at common law;
- the doctrine of mistake in equity and the remedy of rectification;
- human rights grounds in private law;
- public law grounds, including jurisdiction of the First-Tier Tribunal and alleged ultra vires acts by HMRC

The appeal took place in March 2015 but on the grounds of rectification alone – all other arguments listed above were in fact dismissed.

One particular comment from the Upper Tribunal nails the argument on its head, "There is no doubt that Mr Lobler would not have instructed [the insurer] in terms of a partial withdrawal had he known about the devastating tax consequences of his choice of withdrawal method". Makes sense – who would?!

They continued, "It is common sense that nobody would willingly contract to pay an amount of tax that would effectively lead to his own bankruptcy if there were a choice not to do so and achieve the same goal. It is therefore clear to me that the mistake made by Mr Lobler is of a sufficiently serious nature."

Hurrah for Common Sense

At the time of the Lobler Vs HMRC case, the media was rife with news about the unfairness of the UK tax-system.

The outcome demonstrated that 'Common Sense' prevails but also further highlights the risks of making decisions on your 'Life Assurance Bond' without first seeking professional advice.

Next Steps

HMRC, made the decision in April 2016 to issue a consultation paper. They wanted to concentrate on a number of 'potential' solutions to this issue and potential re-invent how to tax 'chargeable events'. All initial proposals would have required a radical change to legislation, something HMRC wanted to avoid. The industry was also concerned that radical changes would provide even more uncertainty to an industry still dealing with the impact of Retail Distribution Review – RDR.

HMRC were also informed by the Association of British Insurers that they had already produced a 'Best Practive' paper on the subject of partial surrenders and that they industry had adopted these.

A Pragmatic HMRC

In November of the same year, HMRC in fact threw out all the proposals it had consulted on and decided on a totally different approach.

The made the decision that where a 'disproportionate' gain is created by the act of a client taking a partial surrender, the policyholder (client) would be able to approach HMRC for them to decide whether to tax them on an alternative basis.

As of today's date we have yet to see the actual details of how this will work; draft Finance Bill 2017 legislation provides some clarity in principle:-

- First, if the policyholder creates a disproportionate gain they can write to HMRC within two years of the chargeable event (or a longer period agreed by HMRC)
- If HMRC agrees the gain is disproportionate, it will recalculate it on a 'just and reasonable basis'
- HMRC will advise the policyholder of the recalculated gain and this figure will be used for all future chargeable event purposes

What will be of interest to all will be to ascertain what HMRC believe to be 'disproportionate' – time will tell.

Further Fallout

It is now expected that, following the Lobler vs HMRC case, and more recent pragmatic communications that more people will come forward and challenge past disproportionate tax charges.

Let us hope that 'Common Sense' continues to prevail.

Guide to
Investment Portfolio Diversification

By Brian Hult, International Financial Adviser

Diversification is one of the most important tools available to medium and long-term investors. Diversification allows an investor to reduce investment risks while potentially improving investment returns. The benefits of diversification have been well documented and widely explained by 65 years of academic research. Investment diversification is a portfolio strategy mixing a variety of assets to produce more consistent returns over time and reduce the overall risk of an investment portfolio. Most investment professionals agree that, although it does not guarantee against loss, diversification is a vital component of reaching long-term financial goals.

If we had a crystal ball and were able to predict the future, concentrating your investments would make sense. But the future performance of shares and other investments relies heavily on future events that no one has any reliable way of predicting. And that is why we must diversify.

Advantages

The advantages of investment diversification are risk management and portfolio optimisation. Risk management is one of the keys to successful investing. If you lose 33% of your portfolio, it takes a 50% gain to get back to break-even. If you lose 10% of your portfolio, it only takes an 11% gain to get back to break-even.

Portfolio optimisation is the determination of weights of securities in a portfolio such that it best suits a given objective, e.g. maximise return for a given risk. This is achieved by placing a relatively larger percentage of high return investments in a diversified portfolio. Because proper diversification lowers the overall risk of a portfolio, a portfolio manager can place more aggressive assets in the portfolio. In other words, with a given level of risk, you can invest more aggressively with a properly diversified portfolio as opposed to a non-diversified portfolio.

Mitigating Systematic Risk

Investors confront two main types of risk when investing: systematic risk and unsystematic risk. Systematic risk or market risk is the risk associated with market returns. Sources of systematic risk would be macroeconomic factors such as political instability, interest rates, inflation rates, exchange rates, war, etc. that affect the entire market. This type of risk is not specific to a particular company or industry, and is both unpredictable and impossible to completely avoid. It cannot be mitigated through diversification, only through hedging or by using the right asset allocation strategy. Asset allocation involves dividing specific percentages of an investment portfolio among different markets and classes. Asset categories such as equities (shares), property, cash, fixed-interest securities including bonds and alternative investments may not move in the same direction at the same time.

Mitigating Unsystematic Risk

Unsystematic risk is specific to a company, industry, market, economy or country; and can be reduced through diversification. The most common sources of unsystematic risk are business risk and financial risk.

You never know when something negative might happen even to the best companies or industries. But not all industries or shares move together and unsystematic risk can nearly be eliminated by holding a variety of non-correlated assets. In other words, if an investor owns many non-correlated investments, the harm done by one company or industry having an unwelcome experience will be minimised.

Designing a diversified portfolio

Once you choose to target a level of risk based on your goals, time horizon, and tolerance for volatility, diversification will provide the potential to improve returns for that level of risk.

When designing a diversified portfolio, you should look for assets, whose returns haven't historically moved in the same direction or to the same degree, and, ideally, assets whose returns typically move in opposite directions. This way, even if a portion of your portfolio is declining, the rest of your portfolio, hopefully, is growing and thus offsetting some of the impact of a poorly performing asset class on your overall portfolio.

The crucial next step is that you try to stay well diversified within each asset class.

For example when it comes to your share holdings, it is prudent to diversify across shares by market capitalisation (small, mid, and large caps), sectors, and geography. Typical sectors include consumer goods, health care, resources, financials, telecommunications, energy and technology. You may also want to consider a mix of styles, too, such as growth and value. Different markets will also peak at different times, Asian or US markets might be up when European markets are down.

Not all caps, sectors, and regions have prospered at the same time, or to the same degree, so you will be able to reduce portfolio risk by spreading your assets across different parts of the share market. Similarly, when it comes to your bond investments, consider varying maturities, credit qualities and durations, which measure sensitivity to interest-rate changes.

Managed Funds

Investing through a managed fund or exchange-traded fund is often the easiest way to access a broad range of investments. Funds will usually offer a range of investment options, managed by various investment managers.

Different investment fund managers have different styles of investing. Rather than relying on one investment manager, funds may employ a number of investment fund managers to manage specific parts of a given portfolio. This allows you to benefit from the expertise of a number of managers within one product.

Investments may include single sector options such as cash, shares or property, as well as pre-mixed options offering a mix of investments from different asset classes.

If your means are limited or you simply prefer an uncomplicated investment solution, you can choose a single pre-mixed fund and invest all of your assets in this fund, and achieve diversification across the basic asset classes. Most investors however, require investment strategies designed to address more complex needs, such as tax efficient growth, generating reliable income streams or estate planning.

Obviously there is no generic diversification model that will meet the needs of every investor. Your personal time horizon, risk tolerance, investment goals, financial means and level of investment experience will play a large role when designing your investment portfolio.

Even if you are financially aware, finding the right solutions can be time consuming. Blacktower provides independent wealth management advice and a bespoke service for both individual and corporate clients - with our knowledge and expertise we can save you time, money and bring you peace of mind.

Review your portfolio regularly

Review your portfolio regularly, at least annually, or whenever your financial circumstances change, and rebalance your portfolio to correct for significant drift away from the chosen mix, to ensure the portfolio is kept diversified within each asset class. Achieving your long-term goals requires balancing risk and reward. Choosing the right mix of investments and then periodically rebalancing and monitoring your choices can make a big difference in your outcome.

UK Budget 2017

Overseas Pension Transfer Charge

by Luke Hunt, Regional Manager The Netherlands

There has been a lot in the press over the past 12 months with regard to how the UK FCA will be addressing pension transfer advice relating to QROPS.

It is no secret that many clients around the world have been given bad advice on whether a pension transfer is suitable, but also poor direction on the underlying investment choice which is obviously just as important.

High proportions of Structured Notes and Experienced Investor Funds (EIF's) will typically take a clients portfolio out of their defined risk profile and this is where we have seen a lot of problems occur on policies that are now under our management that were initially sold by other intermediaries.

From our perspective, all the proposed changes that are currently being discussed are not only beneficial to the end consumer, but also for brokerages such as Blacktower Financial Management (International) Ltd (BFMI) who have long sought to ensure clients interests come first. These changes will help weed out the unregulated brokers and advisers who have not only tarnished our industry, but also a very important and practical part of financial planning and pension advice.

This has been just the case for a Mr Lobler Vs HMRC.

So if I am considering a transfer, what does the new 25% tax charge mean for me?

Well, if you are based in the European Economic Area or EEA then not a lot. Below is the more technical breakdown of how this charge would be applied.

The Overseas Transfer Charge will not apply where at least one of the following five exemptions applies:-

1. Both the member and the QROPS are in the same country after the transfer
2. The QROPS is based in the EEA (an EU Member State, Norway, Iceland or Liechtenstein) and the member is resident in another EEA country after the transfer (Gibraltar and Malta are both in the EEA)
3. The QROPS is an occupational pension scheme sponsored by the member's employer
4. The QROPS is an overseas public service pension scheme and the member is employed by one of the employers participating in the scheme
5. The QROPS is a pension scheme established by an international organisation to provide benefits in respect of past service and the member is employed by that international organisation.

The proposals also state that:

- The tax charge will apply to a tax-free transfer if, within five tax years, an individual becomes resident in another country so that the exemptions would not have applied to the transfer.
- If already paid, the overseas transfer charge will be refunded if the individual made a taxable transfer and within five tax years one of the exemptions applies to the transfer.

Payments out of funds transferred to a QROPS on or after 6 April 2017 will be within the scope of the new tax charge for five tax years after the date of transfer, regardless of where the individual is resident.

Basically, if you reside outside of the EEA then this charge will more than likely apply to you and will therefore, have a major impact on any advice you have received regarding a transfer to an alternative scheme. If you are unsure, this is something you should check with a fully licensed and regulated brokerage in Europe, such as Blacktower.

I live in the EEA so what does this mean for me?

Blacktower's main concern is that there will now be an influx of overseas advisers looking to source new clients in the EEA region while not actually being based there, typically starting the contact via telephone marketing then "tripping in" to see potential clients.

Whilst the advice you receive from some of these "outside" advisors may be appropriate, two questions you need to be asking yourself are "am I protected should anything go wrong with my investment?" and "how long will the adviser still be there for me once a transfer has taken place?"

The truthful answer is that you are unlikely to be covered by professional indemnity insurance when advised by a non-EU advisory firm and we hear many stories of clients being allocated various different advisers from the same firm due to the high staff turnover of many of the unregulated overseas advisory firms.

By comparison, Blacktower has always been a European-focused business and as such we have always remained up to speed with all the latest regulatory changes in the markets where we operate. This gives our clients the assurance that we are a long-term business and will remain available to support them on their financial journey, whatever changes take place in the future. This peace of mind is something our clients find very valuable.

We strongly recommend that if you are seeking advice in this area (or already have), that you consult a company like Blacktower to ensure you are receiving the best possible guidance on arguably one of the biggest and most important decisions you will make financially.

Spanish Asset Declaration

Modelo 720

By Costa Blanca Team

In November 2012 the Spanish authorities approved a new law that obliged any person, permanent establishment or company who is resident of Spain (regardless of nationality) to declare all assets they hold outside Spain worth more than €50,000 (per Asset Class). These Assets have to be reported on the Modelo 720.

The assets are divided into 3 Groups:

1. Property
2. Cash, Deposits, ISA´s.
3. Financial assets (bonds, investments, pensions, insurances)

The main issue of contention with this reporting requirement is the draconian fines that are currently being imposed.

Should the Spanish Tax authorities discover that you have assets of cumulative value of over €50,000 in any of the above groups and deem that you have wilfully non-disclosed this information the penalties imposed are a minimum of €10,000 per asset group with a further €5,000 per piece of missing information. In some cases the fines issued are as high as 150% of the value of the undeclared assets. Also with regards to the Modelo 720 there is no statute of limitations on how many years they can go back.

Complaints about the unfairness of the fines were forwarded to the EU, who decided to look into this issue. As a result of this review on 15 February 2017, the European Commission gave the Spanish government a two-month ultimatum to make Modelo 720 penalties fairer. While accepting that Spain has the right to require taxpayers to declare overseas assets, the Commission disagrees with the severity of punishments for late or inaccurate submissions. The requirement to submit the Modelo 720 form, however, is not under challenge.

If the Spanish tax authority, known as the Hacienda fails to meet the deadline set by the European Commission, the Commission has vowed to take the case to the European Court of Justice.
The Spanish government insists that it will go all the way to defending the model 720 sanctions regime and that it is prepared to defend its arguments before the Court of Justice of the European Union. The Hacienda believes that thanks to this measure it has obtained a database that will help it combat tax fraud, especially with regards to wealthy taxpayers with more facilities to avoid tax.

They have however hinted that they may potentially soften some sanctions, such as capping the fine for errors in completing the form. They also suggested a possible reduction in penalties for failing to declare assets based in EU countries or in states that have signed automatic exchange of information agreements with Spain.

Offices:

Blacktower Financial Management (International) Ltd

Gibraltar Head Office

UK Head Office

Algarve

Lisbon

Costa del Sol

Costa Blanca

Barcelona

Canary Islands

Mallorca

France

Italy

Germany

Malta

The Netherlands

Norway

Grand Cayman

Sweden

BLACKTOWER
FINANCIAL MANAGEMENT GROUP

What our clients say…

"I found Blacktower on the expat website and had the great luck to get Luke as my account manager. I was constantly being cold called at the time but wanted a company that had some references from other expats so I contacted them. First of all he listens, then he explains in terms that one can understand, and then he gets things done. All great assets. Further he goes out of his way to help in other areas such as inheritance. He has made the reorganisation of my pension relatively easy and stress free. Thanks Luke."

Mr. C. Tubbs

"Peter is highly service oriented and dedicated to delivering results. He is perceptive and was able to structure tailored solutions that met my personal requirements. I have no hesitation in endorsing Peter in his capacity as financial advisor."

Mr. N.Martin

"Patrick has been providing advice with regard to Spanish compliant bonds and my QROPS transfer and investment for a number of years and he is extraordinarily helpful and always available. What also impresses us is that he acknowledges when he does not have an immediate answer to a technical question but will then research the question and provide an answer as soon as practicable. He also manages to explain things in a language even I can understand."

Mr. Fisher

www.blacktowerfm.com