MOORE STEPHENS

Quarter 1 2018

Wealth Wise

High net worth & family offices

PRECISE. PROVEN. PERFORMANCE.

Information exchange in the post-truth age

The media coverage of the 'Paradise Papers' raised questions for both clients and their advisers.

Public attitudes towards wealth and privacy, international tax avoidance, and the 'leakiness of the internet' ensured global media attention. February's announcement that the EU is to launch a tax inquiry in the wake of the leak demonstates that this interest shows no sign of going away. The EU inquiry will cover tax fraud, but also non-dom rules (such as those operated by the UK and Italy) as well as tax citizenship schemes.

Information exchange has been the tax authorities answer to revenue loss for some time now, starting with US programs such as FATCA and moving on to the global Common Reporting Standard. CRS will cover most countries by the end of 2018, and HMRC is already receiving information about overseas accounts, insurance products and other investments, including those held through overseas structures such as companies and trusts.

Global information flows heighten both tax investigation and reputational risks for HNWIs. These risks are simply a fact of the 'data age' and should therefore be anticipated so that transparency can always be managed. Those with international interests still, of course, have many reasons to use international financial centres. Likewise, the realities of modern business and international travel make tax compliance challenging for families who can have interests in a number of countries. Well advised international families should ensure their tax strategies are both compliant and responsive to change.

In the last year the UK introduced changes to the non-dom regime, as well as the new 'Failure to Correct' regime. Both measures necessitated reconsideration of offshore structures so as to avoid error and penalty risk. HMRC themselves acknowledge that not everyone who has failed to declare the right amount of offshore tax is an 'evader' or an 'avoider'. A person's tax affairs can be complex, so they may be unaware that they have not paid the correct tax on their offshore income, gains or transfers. While inadvertent errors might, in the past, sufficed to avoid any tax penalty, the new regime will bring harsher penalties. The well advised are therefore ensuring that their tax structures are compliant before the new Failure to Correct penalties are introduced in September 2018.

Where there is complexity, is essential to obtain objective expert advice. Likewise islands often have marvellous viewpoints - sometimes it is best to consider them all.

Inside

craig.thomson@moorestephens.com
dominic.arnold@moorestephens.com

MiFID II: Loss of VAT exemption for research?

MiFID II went live on 3 January 2018. In scope firms will have considered the impact of the regulatory changes being introduced, but may not be aware of the VAT implications of MiFID II on the provision of research.

Firms have now unbundled (or are in the process of unbundling) research and execution fees separately. Whilst in most cases the provision of execution services remains VAT exempt, the provision of research services is likely to be subject to VAT.

MiFID II does not itself change the VAT treatment and liability of research services. They have always been subject to VAT at the standard rate, but the unbundling of research and execution fees means that there will now be a separate 'supply' of research which cannot be considered to be part of an exempt supply of financial intermediary services.

As a consequence of the changes, research providers need to review contracts to ensure they are VAT-compliant going forward. Amongst other things, they need to consider whether their fees may be exclusive or inclusive of VAT i.e. are they able to charge VAT in addition to the agreed fees or do they need to extract the VAT due from their charges.

andrew.jacobs@moorestephens.com

Protect yourself against fraud – from the inside out

With so much media attention given to external cyber attacks, it's easy for family offices to overlook the risks of fraud and data hacking from internal sources. Your people may be your greatest asset, but they can sometimes prove to be your weakest point. Even though you may trust your staff whole heartedly, extreme pressures can push otherwise honest individuals to behave dishonestly. Remember, too, that stolen data can be as valuable as money.

For all family offices of all size, the best defence lies in segregation of duties – even if it means thinking 'outside the box' in terms of how you achieve that segregation. Are there directors or third parties outside the family office who could provide that approval check and balance? Don't assume you can't achieve a 'four eyes' review or two-person approval process just because of a limited office headcount.

Also, remember the basics of sound internal controls for minimising the risk of fraud and data theft:

- only allow access (to data, files, bank accounts etc) as appropriate for individual roles and responsibilities;
- review access levels regularly;
- establish procedures for removing access immediately when individuals cease to work for the office (or if workplace disputes arise);
- develop strong passwords and change them regularly;
- turn on any software settings designed to reduce the risk of fraud and unauthorised access;
- consider using outsourced or third party service providers for certain functions to reduce dependence on internal resources.

Simple actions can make a big difference to your risk exposure.

andrew.gallagher@moorestephens-mc.com

A timely fraud warning

News of an alleged $1.8 billion fraud at the Punjab National Bank (PNB), India's second largest state-backed lender, serves as yet another reminder of the importance of basic systems and controls

The alleged fraud is understood to involve companies owned by Nirav Modi, who founded his own eponymous luxury brand, and a business owned by Modi's uncle.

In a notification to stock exchanges in February, the PNB said that "fraudulent and unauthorised transactions" had been made at one of its branches in Mumbai "for the benefit of a select few account holders with their apparent connivance". It seems that bank staff fraudulently issued bank guarantees, which then enabled the account holders to obtain overseas cash advances (supposedly for trade finance) from other Indian lenders.

Details of the fraud and how it was able to occur are emerging gradually. However, there seem to have been a number of internal control weaknesses, including the bank management's failure to carry out proper assessments of client risk. Another weakness lay in PNB's outdated software, which was not integrated with Swift, the international financial messaging system. PNB rogue employees failed to record the bank guarantees in PNB's central information system, so the bank had no central record of the mounting obligations.

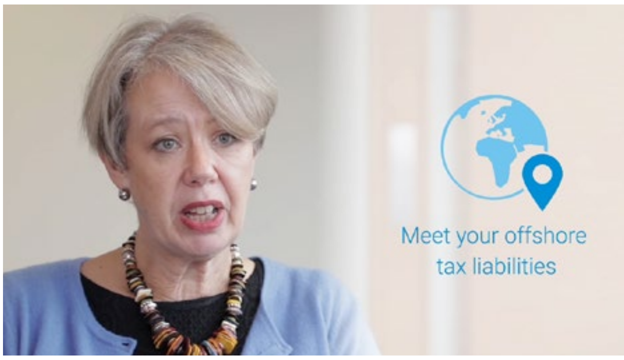
What lessons can we all learn from this scandal? Firstly, don't overlook the importance of client risk assessments. Secondly, keep IT systems up-to-date and integrated where possible. Thirdly, try to make oversight controls such as segregation of duties as effective as possible.

alex.traill@moorestephens.com

Family Office Academy update

In the months since starting the Family Office Academy, we have received positive feedback from members, especially on the first non dom tax video. Upcoming topics include further videos in the non-dom tax series, compliance updates including CRS, FATCA and GDPR, cyber security issues and tax, covering resident domicile and real estate.

If you are not yet a member but would like to benefit from these and upcoming insights, please ***sign up*** now to benefit.



louise.elmgren@moorestephens.com

People profile: Linus Östberg

Linus Östberg, a senior manager leading Moore Stephens US Tax Services Limited in London, is excited about the challenges of developing a new client offering.

Linus, who grew up in Sweden, gained a degree in economics from University College London and holds both UK and US tax qualifications. He trained in tax in the UK and has Big 4 experience in London, Sweden and the US. He worked for two years in Los Angeles before returning to the UK to join Moore Stephens in November 2017, where he now heads up Moore Stephens US Tax Services Limited.

"I was excited by the interesting challenges involved in setting up a new service offering," Linus says. "I can build it the way I would like it to be built and focus on the clients I would like to have." He anticipates recruiting two additional staff members this year and potentially doubling the team's size by the end of next year. The new service has been well received by his Moore Stephens colleagues and by contacts in legal, banking and investment.

Linus enjoys advising clients on US tax matters. "US tax is very complicated and you work with some interesting clients," he says. "There are a lot of wealthy Americans in London, with complex tax issues."

He also enjoyed his experience working in the US, where he was based in Los Angeles. "Everything you hear about the US is true," Linus says. "They work long hours and it can be stressful. But California is relatively relaxed, the weather is amazing and the food is great. I thoroughly enjoyed my time there."

Linus now has a young son, who was born in the US. "All my other hobbies have been paused for the moment," he says. "I don't have time for anything else – but I don't want to do anything else now."

Ostberg@msustax.com

New London-based services for US taxpayers

High net worth US citizens based in the UK and Europe can now benefit from Moore Stephens US Tax Services Limited, gaining tailored tax advice and compliance support with their US tax affairs.

The new service, a joint venture with US firm Moore Stephens Doeren Mayhew, is an exciting development for Moore Stephens LLP. "We are offering this new London-based service to high net worth US individuals, working alongside the Private Client Services group," explains Senior Manager Linus Östberg (profiled above). "We make sure their corporate structures and any trusts are US-friendly, and help with US tax returns and reporting. We also support British and European citizens moving to the US."

Östberg works closely with staff based in the Detroit office of Moore Stephens Doeren Mayhew. "It's good to be able to tap into the specialist expertise they have in personal, corporate and estate taxes," he says. The US firm also has a strong US tax team in Switzerland, who offer additional European-based support.

Demand for the service is strong and contacts in the legal and investment sectors have already referred clients. "There are a lot of wealthy Americans in London who we feel could benefit from this service," Östberg says.

Ostberg@msustax.com

For more information please go to:
www.moorestephens.co.uk
Follow us on Twitter: **@MooreStephensUK**

We believe the information in Insured Interest Summer 2014 be correct at the time of going to press, but we cannot accept any responsibility for any loss occasioned to any person as a result of action or refraining from action as a result of any item herein. Printed and published by © Moore Stephens LLP, a member firm of Moore Stephens International Limited, a worldwide network of independent firms. Moore Stephens LLP is registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Authorised and regulated by the Financial Conduct Authority for investment business. DPS39701 March 2018