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Infocus

Experts Update

November 2016



UK200Group expert panels and forum comprise of skilled technical advisers who work independently or as part of a multi-disciplinary business team to achieve the best possible solution for members and their clients. Each adviser brings experience from the different disciplines of tax, corporate finance, forensic accounting & dispute resolution, business advisory, business recovery & insolvency and international business.

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The Worldwide Disclosure Facility (WWDF) and Common Reporting Standard (CRS)

The WWDF opened on 5 September, with an online Digital Disclosure Service (DDS), as a last opportunity for taxpayers to report tax irregularities arising from offshore income and gains. The WWDF is open until September 2018 after which a severe penalty regime is proposed. Penalties proposed, subject to consultation, are up to 200% of the tax going back up to 20 years (with a maximum of 100% for periods before 2008/9) plus possible prosecution.

The introduction and timeframe of the WWDF are around the implementation of the OECD CRS which will allow an unprecedented degree of cross-border exchange of information on taxpayers, with tax authorities across the globe able to share information for the first time.

The first reporting period for CRS is 31 December 2016 with the mandatory requirement for financial institutions to report to HMRC on or before 31 May 2017. Initially the requirement will only relate to UK Crown Dependencies and Overseas Territories but, from the second period, HMRC will receive information from in excess of 100 additional jurisdictions.

The WWDF covers disclosure of UK liabilities relating wholly or partly to offshore matters including non-UK source income, assets situated or held abroad, taxable activities carried on wholly or mainly abroad or where funds connected to unpaid UK tax are transferred abroad.

Disclosure can be made via DDS following notification of intention to disclose. Following notification there is a 90-day window to collate the information needed, calculate the liability, (tax, interest and penalties) and to complete the disclosure.

In contrast to previous disclosure facilities, such as the Lichtenstein Disclosure Facility, the WWDF offers no special advantageous terms, such as a favourable penalty regime. Taxpayers disclosing irregularities under the WWDF will have to pay the outstanding tax plus interest from the original due date. They may also be faced with a tax-gearred penalty and there is no immunity from criminal prosecution.

However, given that the CSR will make concealment of offshore assets from HMRC very difficult, the WWDF does offer an opportunity which is favourable to the alternative of being caught!

David Hibbert, davidhibbert@smaillesgoldie.co.uk
Smailles Goldie

Reform to the Taxation of Non-Domiciles

HMRC issued a consultation document on 19 August 2016 to consider the proposed changes to non-domicile taxation, announced in the summer 2015 budget. Draft legislation was also issued with the proposal that this will be included in the Finance Bill 2017, so it seems unlikely that these changes will be postponed.

Under the new rules, a non-domiciled individual will be deemed domiciled for Income tax, Capital Gains tax and Inheritance tax purposes when they have been resident for 15 out of the last 20 years. This rule also covers children who could therefore become deemed domiciled on their 16th birthday. Individuals born in the UK with a UK domicile of origin will automatically become UK domiciled if they return to the UK, even if they have acquired an alternative domicile status whilst absent from the UK.

There are two areas of good news. Firstly there will be a re-basing opportunity for those who become deemed domiciled on 6th April 2017 for directly held assets (i.e. not for assets held within a trust or company); providing the individuals were not born in the UK. Secondly for 2017-18 only, all non-domiciled individuals (with few exceptions) will be able to segregate mixed offshore bank accounts into their constituent parts for the purposes of determining what funds are being remitted.

There are changes to the proposals for the protection of assets within an offshore trust and whilst the proposed "benefit charges" have been dropped there are a number of changes to the main anti-avoidance legislation. These need careful consideration as, for example, the protections offered can be lost entirely if assets are added or removed from the trust structure.

Offshore trusts established before an individual becomes deemed domiciled will remain excluded property trusts and therefore outside the scope of UK IHT. However, UK residential properties will be removed from the definition of excluded property and therefore will be chargeable to UK IHT whether held by an individual or company.

There are therefore some planning opportunities but the lack of any de-enveloping reliefs for UK property structures remains disappointing.

Linda Warner, lwarner@roffeswayne.com
Roffe Swayne

Members of the UK200Group Tax Panel

BANBURY

Ellacotts LLP

Alan Boby 01295 250401
aboby@ellacotts.co.uk
www.ellacotts.co.uk
1, 2, 3, 4, 8, 11, 12

BIGGLESWADE

George Hay Partnership LLP

Philip Blackburn 01767 315010
phil.blackburn@georgehay.co.uk
www.georgehay.co.uk
1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14

CARDIFF

Watts Gregory LLP

www.watts-gregory.co.uk

Anne Smith 029 2054 6600
a.smith@watts-gregory.co.uk
1, 2, 3, 4, 5, 8, 9, 11, 12, 13

Hayley Bradfield 029 2054 6600

h.bradfield@watts-gregory.co.uk
1, 2, 3, 4, 5, 7, 8, 11, 12, 13

CHELMSFORD

Edmund Carr LLP

Francis Whitbread 01245 261818
fwhitbread@edmundcarr.com
www.edmundcarr.com
1, 2, 3, 4, 7, 11, 12, 14

GODALMING

Roffe Swayne

Linda Warner 01483 416232
lwarn@roffeswanyne.com
www.roffeswanyne.com
1, 2, 3, 4, 7, 11

HULL

Smailes Goldie

David Hibbert 01482 326916
davidhibbert@smailesgoldie.co.uk
www.smailesgoldie.com
2, 5, 11, 14

HUNTINGDON

George Hay Partnership LLP

Barry Jefferd 01480 426500
barry.jefferd@georgehay.co.uk
www.georgehay.co.uk
1, 2, 3, 4, 7, 8, 10, 11, 12

LEWES

Knill James

www.knilljames.co.uk

Alison Sampson 01273 480480
alisonsampson@knilljames.co.uk
14

Lorna Sizer 01273 480480

lornas@knilljames.co.uk
1, 3, 4, 7, 11, 12

Mike Chapman 01273 480480

mikec@knilljames.co.uk
2, 11

LONDON N3

BKL Tax

www.bkltax.co.uk

Stephen Deutsch 020 8922 9119
stephen.deutsch@bkltax.co.uk
1, 2, 3, 7, 8, 9, 11

Terry Jordan 020 8922 9360

terry.jordan@bkltax.co.uk
4, 12

Anthony Newgrosh 020 8922 9144

anthony.newgrosh@bkltax.co.uk
1, 2, 3, 4, 7, 8

Doug Sinclair 020 8922 9328

doug.sinclair@bkltax.co.uk
10

David Whiscombe 020 8922 9306

david.whiscombe@bkltax.co.uk
1, 2, 3, 5, 6, 7, 8, 9, 10, 11, 13

LONDON NE

Haslers

www.haslers.com

Debra Dougal 020 8418 3426
debra.dougal@haslers.com
14

Paul Reynolds 020 8418 3421

paul.reynolds@haslers.com
3, 11, 14

LONDON WC1

Postlethwaite Solicitors Limited

Robert Postlethwaite 020 3818 9420
rmp@postlethwaiteco.com
www.postlethwaiteco.com
3

NESS

Michael Donnan & Co Limited

Mike Donnan 0151 214 3365
mike@michaeldonnanandco.co.uk
1, 2, 7, 8, 11

NEWCASTLE UPON TYNE

Robson Laidler Accountants Limited

Graham Purvis 0191 281 8191
gpurvis@robson-laidler.co.uk
www.robson-laidler.co.uk
1, 3, 4, 7, 11, 12

NORTHWICH

Howard Worth

Tim Lwin 01606 369000
timlwin@howardworth.co.uk
www.howardworth.co.uk
1, 2, 3, 4, 5, 7, 8, 9, 10, 11, 14

NORWICH

Price Bailey LLP

Aaron Widdows 01603 709330
aaron.widdows@pricebailey.co.uk
www.pricebailey.co.uk
1, 2, 3, 11

SELBY

JWPCreers LLP

Alastair Byrne 01757 294959
ajb@jwpcreers.co.uk
www.jwpcreers.co.uk
1, 2, 11

SOUTHAMPTON

Fiander Tovell LLP

Andrew Jackson – *Chairman*
023 8033 2733
andrewjackson@fiantertovell.co.uk
www.fiantertovell.co.uk
1, 2, 5

STOCKTON-ON-TEES

Baines Jewitt LLP

Hilary Bevan 01642 632032
hb@bainesjewitt.co.uk
www.bainesjewitt.co.uk
14

TEWKESBURY

CB Chartered Accountants

Christopher Hobbs 01684 290123
cjh@cbcharteredaccountants.com
www.cbcharteredaccountants.com
1, 2, 4, 7, 8, 10, 11, 12

KEY

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Tax





The science behind the art of valuation

As corporate affairs become more complicated, expert opinion is increasingly required to value entire or part-holdings of owner managed companies. As corporate finance advisers, judging value features in all projects.

Since each business is unique, every valuation has its own quirks; it's rarely as straightforward as applying the formula of the UK200 PE average x current profits after tax. To identify the correct 'PE' and 'profit' to apply, there is much to be considered. When beginning a valuation, we start with the following:

- Why is the valuation being sought? To consider a sale of the whole business; to enable one shareholder to purchase the shares of another; for tax purposes; for a strategic health check, or external reasons – e.g. matrimonial purposes. In many cases the answer to this won't alter the valuation, but it is important to determine the approach taken, and whether there may be undue bias in the prime data provided.
- What does the Shareholders' Agreement/Articles of Association say? These are extremely relevant in minority disposals or shareholder disputes. Even when considering selling 100% of the share capital, these documents still bear relevance in matters such as 'drag and tag'.
- What is the shareholding structure, and what rights are attached to each class of shares?
- What does the business do? Brief summary of trends, risks and market changes. Much of this can be researched and we will take our own view, but it's helpful to directly hear the owner's assessment of internal risks and the external climate.
- Financial information – detailed P&L for past 3 years, a forecast for the next 12-36 months and narrative of changes in recent history or planned in the foreseeable future. Where possible this should be provided on a monthly basis.
- An understanding of how reported profits may be altered if the business had different ownership: understanding the reality of owner managers' PAYE/Dividend strategy, exceptional legal & professional costs or property repairs, any instances of 'owners' whim' and so on.
- Detailed balance sheets together with an indication of non-trading assets: investment property, surplus cash reserves, related party accounts or unusual debt.

A valuation requires more than a review of the financial performance of the business, and there are many factors which lie behind the judgement reached.

Katy Bruce, kbruce@critchleys.co.uk
Critchleys

Acquisition Search Case Study

Most of our clients want to grow. Most know how to grow organically through putting more sale focus in their existing markets, increase marketing and advertising, innovate their products or services.

But at another level, acquisitions represent an opportunity to leapfrog into a new market – whether geographic or a new product; it might represent an opportunity to access additional management expertise or quickly grow to a larger business. For instance, most corporate financiers would agree that a business generating >£1m+ EBITDA is likely to achieve a higher multiple than the multiples achieved by two businesses each generating c£500k.

But acquisitions require much greater level of time and monetary investment – to find, secure, deliver and integrate, and most of our clients are already busy running their existing business.

This is where we, as trusted advisors, can provide fantastic value. We can undertake an acquisition search, prepare and negotiate valuations, assist and advise existing management on the development of a combined group business plan, undertake the financial and tax due diligence on the target, assist in raising necessary finance, project manage the transaction with other professionals, and throughout create an accountability to each of our client's managers to consider the impact of the proposed acquisition on each aspect of the business – QC, HR, IT, Accounts, Sales and Purchasing rules, senior management team changes etc.

We recently completed an acquisition search for Bokomo Foods – an existing audit client of Price Bailey, owned by a quoted South African group looking to expand UK activities. We agreed a search profile, researched the market, drew up a long list and then guided our clients through that to agree a short list. We then approached each party on the short list directly (by phone to a decision maker, not just a "dear sir" letter. Of the four shortlisted firms, the first was acquired by our client within 12 months of our assignment beginning and we're working on the second currently which an LOI is being finalised for. As a result, we have also provided deal advice, due diligence and now won an additional audit and further compliance work for the larger assignment.

Patrick Abel, patrick.abel@hartshaw.co.uk
Hart Shaw

Members of the Corporate Finance Panel

ALTRINCHAM

Akeel Latif
Myerson Solicitors LLP
0161 941 4000
akeel.latif@myerson.co.uk
www.myerson.co.uk

BEVERLEY

Mike Beckett
Forrester Boyd Robson
01482 889400
m.beckett@forrester-boyd.co.uk
www.fbrobson.co.uk

CARDIFF

Lindsay Hogg
Watts Gregory LLP
029 2054 6600
l.hogg@watts-gregory.co.uk
www.watts-gregory.co.uk

CHELTENHAM

Will Abbott
Ollie Newbold
Randall & Payne LLP
01242 548600
wja@randall-payne.co.uk
qan@randall-payne.co.uk
www.randall-payne.co.uk

DERBY

Roy Farmer
Dains LLP
0845 555 8844
rfarmer@dains.com
www.dains.com

HULL

Jeremy Allison
Smailes Goldie
01482 326916
jeremyallison@smailesgoldie.co.uk
www.smailesgoldie.co.uk

LEWES

David Martin
Knill James
01273 480480
david@knilljames.co.uk
www.knilljames.co.uk

LONDON EC2

Simon Blake – *Chairman*
Price Bailey LLP
020 7065 2660
simon.blake@pricebailey.co.uk
www.pricebailey.co.uk

LONDON N3

Daniel Shear
BKL Corporate Finance
020 8922 9321
daniel.shear@bkl.co.uk
www.bkl.co.uk

LONDON NE

Michael Watts
Haslers
020 8418 3333
michael.watts@haslers.com
www.haslers.com

NEWTON ABBOT

Linda Luggar
Peplows Limited
01626 208802
lindal@peplows.co.uk
www.peplows.co.uk

OXFORD

Katy Bruce
Critchleys LLP
01865 261100
kbruce@critchleys.co.uk
www.critchleys.co.uk

SHEFFIELD

Patrick Abel
HART SHAW LLP
0114 2518850
patrick.abel@hartshaw.co.uk
www.hartshaw.co.uk

YORK

Tony Farmer
JWPCreers LLP
01904 717260
jaf@jwpcreers.co.uk
www.jwpcreers.co.uk



Forensic Accounting & Dispute Resolution

When playing games with the taxman backfires

Over the years I have been involved in forensic accounting, I have been involved in a variety of assignments. Whilst I always assumed that undertaking criminal work would involve issues of interest to H M Revenue & Customs (HMRC), I didn't necessarily foresee that HMRC issues would arise in other areas of work.

One such case involved a review of a consequential loss claim in respect of a café, following a flood. The café had operated for 2-3 years as a sole trader business, with father employing his wife and daughter. The business grew and was approaching the VAT threshold, when someone came up with the idea of separating it into three businesses, one run by each member of the family. The split appeared totally artificial, with one pot of income and expenditure which was arbitrarily allocated three ways, but with no evident relationship to the performance of the three "business units". The new set up had not been in operation for a sufficient period to have come to HMRC's attention, when the flood occurred.

Soon after I commenced work, I realised the insurers had not been advised of the separation of the businesses or separate insurance put in place for the wife or daughter. Playing games with HMRC therefore resulted in a much smaller claim than would otherwise have been the case, as the insurers would only consider the business then operated by the husband.

Another case was a criminal one in which HMRC became involved in an unusual way. A lady was walking past a second hand shop, when she spotted a bracelet which she believed had been stolen from her home six months earlier. She informed the police, who decided to investigate, which opened a can of worms.

The police visited the shop and found other jewellery reported as stolen. The proprietor was charged with handling stolen goods, but on reviewing the minimal shop records, the police decided to refer matters to HMRC. It transpired that HMRC had no record of the business which had been in operation for 7 years, with the proprietor failing to register as self employed, no VAT registration in place and no PAYE/NI scheme in respect of the employees. Unsurprisingly, charges of handling stolen goods were escalated to include false accounting, cheating the public purse and so on.

Chris Hatcher, c.hatcher@watts-gregory.co.uk
Watts Gregory LLP

Late payment – how to claim interest

For SME's in all industries, late payment for goods and services can be a real issue. Cash flow is harder to manage for small suppliers, and SME owners can often feel helpless when dealing with large customers. A question on the lips of many SME's we have spoken to is "What can I do to ensure speedy recovery of payments?"

One method is by claiming interest on late payments. The statutory right to interest, compensation (at up to £100 per invoice) and the reasonable costs of recovery applies to all commercial contracts and, as the interest on sums due accumulates, it provides a powerful deterrent to late payment.

The law gives the supplier the right to charge interest at 8% above base rate – however, although the Bank of England has recently changed that rate to 0.25%, SME's can continue to charge at 8% over the old rate at 0.5% until 31 December 2016.

In many cases, the interest rate base rate plus 8% will be more expensive for a late paying customer (who is effectively borrowing from you) than the cost of overdraft borrowing from the bank. This incentivises timely payment.

You may think that claiming interest on late payments may seem to be adverse to good customer relationships, but by having a clear system in place, suppliers can actually avoid awkward situations.

Communication with late payers is key, and can be distilled into 3 steps:-

1. State agreed payment dates on all invoices and your intention to exercise the right to charge interest, penalties and reasonable costs on late payments.
2. If the invoice is not paid by the agreed date, inform customers of the interest, penalties and costs that they are now accruing.
3. Once the payment has been received, issue a bill to the payer informing them of how the interest was calculated and how much was paid.

This communication is an effective tool for ensuring timely payment with the minimum of friction between supplier and customer, and no undue surprises for the customer.

Lee Bramley, l.bramley@endeavourpartnership.com
Endeavour Partnership LLP (solicitors)



Members of the Forensic Accounting & Dispute Resolution (FADR)

BRAINTREE

Paul Short

Lambert Chapman LLP

01376 326266

paul@lambert-chapman.co.uk

www.lambert-chapman.co.uk

CAMBRIDGE

Denise Cullum

Price Bailey LLP

01223 565035

denisec@pricebailey.co.uk

www.pricebailey.co.uk

CARDIFF

Christopher Hatcher

Watts Gregory LLP

029 2054 6600

c.hatcher@watts-gregory.co.uk

www.watts-gregory.co.uk

LONDON N3

Marjorie Hurwitz-Bremner

BKL

020 8922 9388

marjorie.bremner@bkl.co.uk

www.bkl.co.uk

MIDDLESBROUGH

Nicholas Upton

Anderson Barrowcliff LLP

01642 660300

nicku@anderson-barrowcliff.co.uk

www.anderson-barrowcliff.co.uk

PRESTON

Neil Calvert

Rushtons

01772 693111

mail@rushtonsaccountants.com

www.rushtonsaccountants.com

STOCKTON-ON-TEES

Lee Bramley

Endeavour Partnership LLP

Solicitors

01642 610300

l.bramley@endeavourpartnership.com

www.endeavourpartnership.com

WATFORD

Grant Franklin

Hillier Hopkins LLP

01923 232938

grant.franklin@hhllp.co.uk

www.hillierhopkins.co.uk

WITNEY

Jonathan Russell - *Chairman*

ReesRussell LLP

01993 702418

jrussell@reesrussell.co.uk

www.reesrussell.co.uk



Making Sense of Business Advisory work

It is surprising how often I hear practitioners mention how much business advice they provide and then bemoaning the fact that clients seem reluctant to pay for it. I find it surprising as there are practitioners who make a substantial living, either within a practice as I do or on their own, providing just such advice. We are achieving effectively hourly rates in excess of £700 from working with small businesses of all sizes (excluding any element of success fees).

In no particular order, here are a few reasons why I think you are not receiving full value for that advice:

- A belief that clients don't want to pay
- A belief that your clients are too small
- Focus on billing time spent
- Doubt in your own capability
- Lack of time to really explore client's issues
- Selling products not outcomes
- Ineffective sales skills
- Deliberate over servicing of clients

It is not intended to be an exhaustive list, but I suspect at least one of the above will resonate with most of you, if you take a few moments to reflect on how you approach and deliver business advice.

What are some of the key success factors then that allow advisers to maximise their advisory income?

For me the start point has to be a genuine curiosity in your client and what they are trying to achieve. And I mean genuine, not a cursory interest and not paying lip service to the promise, that everyone puts on their website, "to really understand our clients' business"

That curiosity demands a commitment to spend time with your clients asking them open questions and strongly resisting the urge to offer solutions. To quote Voltaire "You judge a man by his questions, not by his answers". That is a hard habit to change for most of us who have been trained in consulting.

It is also absolutely at the heart of the way you monetise your knowledge and expertise. In short, stop giving away the solution for nothing.

Let me give you an example. I am working with two partners in a legal firm who have transformed it into an exciting, growing business and are looking to bring in new partners. Their question was how they could do this and receive value to reflect the work they had put in to make it successful. They had a typical one hour meeting with their accountant (not us) who suggested selling the goodwill to a limited company. Great advice, right?

Reflect for a moment how the client felt about that. Getting this right is a big worry for the partners – get it wrong and they would miss out on their just rewards. In less than an hour the accountant told them what they should do. (And probably moaned afterwards about not getting paid for that great advice). I spent time with them just exploring how they felt about the business, what they wanted to achieve next and discussing how important it was to have the right structure.

As a result we agreed a project to help them develop a vision and strategy for the next phase of the business and conclude on the most appropriate structure. The only advice I gave in the meeting was to suggest that next step – no discussion of structures at all. This piece of work will generate £350 per hour plus fees to implement the solution – a total in excess of £10K for a two partner legal firm. Is that the kind of outcome you are looking for from advising your clients?

A key purpose of UK200 is to help members take advantage of opportunities and be different. The Business Advisory Panel (formerly the Business Strategy Panel) exists exactly for that purpose – to help you generate significant profitable fees from providing business advice to your clients. Whilst strategy is a core advisory product, it is intended that the Panel will have a broader appeal, allowing members to generate fees from a range of advisory work whilst developing and expanding their knowledge. If you see wider advisory opportunities in your firm, it would be great to have you on board.

Will Abbott, wja@randall-payne.co.uk
Randall & Payne LLP

Members of the Business Advisory Panel

CARDIFF

David Challenger

Watts Gregory LLP

029 2054 6600

d.challenger@watts-gregory.co.uk

www.watts-gregory.co.uk

CHELTENHAM

Will Abbott - *Chairman*

Randall & Payne LLP

01242 548600

wja@randall-payne.co.uk

www.randall-payne.co.uk

LEWES

Christopher Ketley

Knill James

01273 480480

chris@knilljames.co.uk

www.knilljames.co.uk

NANTWICH

Andrew Hague

Howard Worth

01270 626162

andrewhague@howardworth.co.uk

www.howardworth.co.uk

WORCESTER

John Painter

CB Chartered Accountants

01905 454854

jhp@cbcharteredaccountants.com

www.cbcharteredaccountants.com



Business Recovery and Insolvency

Pursuing Asset Realisations

Although most of the work we do is corporate – either assisting companies in financial difficulty or assisting directors and shareholders with solvent liquidations and the return of capital - we do a number of personal insolvency cases each year, either Individual Voluntary Arrangements or Bankruptcies.

Since most of the simpler bankruptcy cases are retained by the Official Receiver, the ones that we deal with tend to be the difficult and more interesting ones.

An undischarged bankrupt has a duty to disclose all their assets and not to do so is an offence for which they could be prosecuted. When appointed the bankrupt's Trustee, our principle task is to realise the bankrupt's assets for the benefit of creditors. Starting with the Statement of Affairs which will list the bankrupt's assets, we carry out an initial investigation to look for any other assets.

We carry out a name search at the Land Registry which will provide a list of properties registered in the name of the bankrupt. Depending on how common the name is, this may be a long list. From this list we will identify any properties we need to investigate further and if appropriate we will place a restriction on the property. This year we were able to identify a property worth more than £100,000 that had not been disclosed in the bankruptcy. Of course it does not always work out. We once had a bankrupt who was not cooperating and had failed to surrender to his bankruptcy. He had a very distinctive name and we found a property and placed a restriction on it, only to have a call a couple of weeks later from the owner asking what we were doing. It turned out that the owner was not the bankrupt and had actually changed his name by deed poll to the name in question.

We analyse bank and credit card statements to see if anything stands out and we review insurance policies and tax returns if available to see if any assets have been specifically listed. We also carry out a search of social media to see what we can find in relation to the bankrupt. This year a review of social media has helped us to find a property abroad which had not been disclosed and in another case a motor vehicle.

Sometimes we even get lucky. A bankrupt we dealt with was purporting to be living on benefits and with the support of his family. He mistakenly sent an email to us with a footer which gave details of a business he was running. The result was that we were able to claim the value of his stock as an after acquired asset for the benefit of the bankruptcy estate.

When we do find undisclosed assets, the upside for creditors is an improved dividend. The downside for the bankrupt is the loss of the asset and the risk of prosecution.

Chris Brown, chris.brown@hartshaw.co.uk
Hart Shaw

Bankrupts in Business; be warned!

Insolvency Practitioners, well some of them, love Insolvency case law, never more so than when one of their own cases is reported. Partners at Haslers have been involved in one such case where a Judgment covering a variety of insolvency law would excite many an Insolvency law geek. For them (and possibly them alone) all is revealed from a google search for: *Re C&MB Holdings Ltd: Hamilton and another (joint Trustees in bankruptcy of Charles Brown) v Brown and another [2016] EWHC 191.*

The 35 page Judgment does however contain precedent of a wider interest to accountants and non insolvency law geeks alike. It highlights the consequences when the controlling mind (and co-owner) of various incorporated businesses is bankrupted yet is reluctant to give up control.

It is widely known that a bankrupt is legally prohibited from managing, forming or promoting a limited company without the explicit permission of the court. It is also widely known that the shares held by a bankrupt form part of his bankruptcy estate. It is probably also accepted that the realisation of the value of shares in a privately owned SME is easier said than done.

Insolvency and Company law has a variety of remedies for a Trustee in the realisation of shares held by a bankrupt, one of which is to apply for a Just & Equitable winding up, the other (often used in conjunction with the first) is a claim for Unfair Prejudice. This is the road my partner, Stratford Hamilton, set off on early last year. The courts have often found it difficult to determine what might constitute Unfair Prejudice to a shareholder and applications have historically concentrated, perhaps wrongly, on the pure financial loss that may be caused to the trustee in bankruptcy as shareholder. In our case it was found that Prejudice may cover many situations other than pure economic loss.

We were able to establish, despite denials, that the bankrupt had continued to be involved in the management of the company. It was found that the concealment of that fact by both him and his co-director constituted, in itself, Unfair Prejudice; directly affecting the shareholders constitutional right to have the company managed by its directors not by non-appointed directors (i.e. a bankrupt). The bankrupt's co-director, his wife of over 45 years, was also found to have breached her duties as a director raising the spectre of a personal liability under the Company Director's Disqualification act.

The simple truth is that it is illegal to continue to control a company when bankrupt and to do so without leave of the court has serious consequences.

Nick Nicholson, nick.nicholson@haslers.com
Haslers

Members of the Business Recovery & Insolvency

BIRMINGHAM

Martin Smith – *Chairman*

Dains LLP

0845 555 8844

msmith@dains.com

www.dains.com

BISHOP STORTFORD

Paul Higley

Price Bailey LLP

01279 755888

paul.higley@pricebailey.co.uk

www.pricebailey.co.uk

CAMBRIDGE

Paul Pittman

Price Bailey LLP

01223 565035

paul.pittman@pricebailey.co.uk

www.pricebailey.co.uk

DERBY

Nicki Hawksley

Dains LLP

0845 555 8844

nhawksley@dains.com

www.dains.com

LONDON EC2

Guy Harrison

Price Bailey LLP

020 7065 2660

guy.harrison@pricebailey.co.uk

www.pricebailey.co.uk

LONDON NE

Nick Nicholson

Stratford Hamilton

Haslers

020 8418 3333

nick.nicholson@haslers.com

stratford.hamilton@haslers.com

www.haslers.com

NEWCASTLE UPON TYNE

Martin Daley

Simon Blakey

Robson Laidler Accountants Limited

0191 281 8191

mdaley@robson-laidler.co.uk

sblakey@robson-laidler.co.uk

www.robson-laidler.co.uk

OXFORD

Sue Roscoe

Anthony Harris

Lawrence King

Critchleys LLP

01865 261100

sroscoe@critchleys.co.uk

aharris@critchleys.co.uk

king@critchleys.co.uk

www.critchleys.co.uk

SHEFFIELD

Christopher Brown

Emma Legdon

Hart Shaw LLP

0114 251 8850

chris.brown@hartshaw.co.uk

emma.legdon@hartshaw.co.uk

www.hartshaw.co.uk

STOCKTON ON TEES

Lee Bramley

Endeavour Partnership LLP –

Solicitors

01642 610300

l.bramley@endeavourpartnership.com

www.endeavourpartnership.com



International

BREXIT

On 23 June 2016 the British people took the decision to leave the European Union (EU). No one appeared to know what effect this would have or what was likely to happen next, and this has now led to a significant period of uncertainty for a large number of our clients. This uncertainty is set to continue, as TEU Article 50 of the Treaty of Lisbon has not previously been invoked, and the terms of "Brexit" have not even started to be negotiated.

The immediate and most notable impact of the decision so far, has been the slump in the value of sterling. Good news for exporters, with their goods and services becoming more attractive to their overseas customers, but not for the importers seeing an increase in the cost of materials, and facing the prospect of trying to pass this on to their customers. Some businesses have delayed or cancelled projects, awaiting some degree of clarity as to what lies ahead. Businesses who have been reliant on grants and subsidies from the EU await news as to whether this is likely to continue.

As a member of the EU, the UK benefited from the European Single Market which enables the free movement of goods, capital, services and people within the EU, encompassing more than 26 million businesses. Will the UK be permitted to remain within the single market after exiting the EU? In particular, businesses in the UK have for many years benefited from the freedom of labour movement within the EU, which has enabled them to recruit skilled personnel from the continent.

Many clients are now uncertain as to what is going to happen with migration, which could result in them losing the people with the correct skill set, or increasing their labour costs with a direct result on their profitability. With the UK unemployment rate at only 4.9%, many of our clients were already struggling to find the right resources.

In this period of uncertainty, it is more important than ever that we stay close to our clients to understand the changing opportunities and threats. The UK200Group Brexit Forum survey of our clients carried out by Hillier Hopkins was a great example of this (for their excellent report which summarises the findings), and has enabled us all to engage with our clients and discuss many of the issues.

We have found that many of our clients are reacting quickly to the changing circumstances however, looking for new suppliers or different materials; they are looking for new overseas markets for their products and trying to build working relationships with countries outside the EU. In particular, and as businesses look to develop customers in new overseas markets, they will be turning to advisers who have international connections; who can introduce them to intermediaries in other countries, and provide advice on the taxation and commercial problems and opportunities of doing business in other countries.

As members of the UK200Group, we are in an excellent position to help our clients with these new international challenges and provide the support they will need; we have significant expertise at our disposal in our International Associates (we have over 40 associates in over 20 countries) and with our membership of IAPA which is currently the 10th largest accounting association in the world, we have access to over 200 members in over 70 countries.

Whatever Brexit turns out to mean, and as the UK forges a new economic path in the world we need to make sure that we stay close to our clients and our international contacts and resources.

David Stevens, dstevens@ellacotts.co.uk
Ellacotts

Members of the International Panel

BANBURY

David Stevens – *Chairman*

Alan Boby

Ellacotts LLP

01295 250401

aboby@ellacotts.co.uk

dstevens@ellacotts.co.uk

www.ellacotts.co.uk

BIGGLESWADE

Philip Blackburn

George Hay Partnership LLP

01767 315010

phil.blackburn@georgehay.co.uk

www.georgehay.co.uk

CAMBRIDGE

Martin Clapson

Price Bailey LLP

01223 565035

martinc@pricebailey.co.uk

www.pricebailey.co.uk

CARDIFF

Anne Smith

Watts Gregory LLP

029 2054 6600

a.smith@watts-gregory.co.uk

www.watts-gregory.co.uk

LEWES

Christopher Ketley

David Martin

Knill James

01273 480480

chris@knilljames.co.uk

david@knilljames.co.uk

www.knilljames.co.uk

LONDON EC2

Simon Blake

Price Bailey LLP

020 7065 2660

simon.blake@pricebailey.co.uk

www.pricebailey.co.uk

LONDON N3

Adrian Thomas

David Whiscombe

BKL

020 8922 9222

adrian.thomas@bkltax.co.uk

david.whiscombe@bkltax.co.uk

www.bkl.co.uk

LONDON W5

Albert Harwood

Martin Howe

Howe & Co Solicitors

020 8840 4688

a.harwood@howe.co.uk

m.howe@howe.co.uk

www.howe.co.uk

NORTHWICH

Chris Swallow

Howard Worth

01606 369000

chrisswallow@howardworth.co.uk

www.howardworth.co.uk

WITNEY

Jonathan Russell

ReesRussell LLP

01993 702418

jrussell@reesrussell.co.uk

www.reesrussell.co.uk

WORTHING

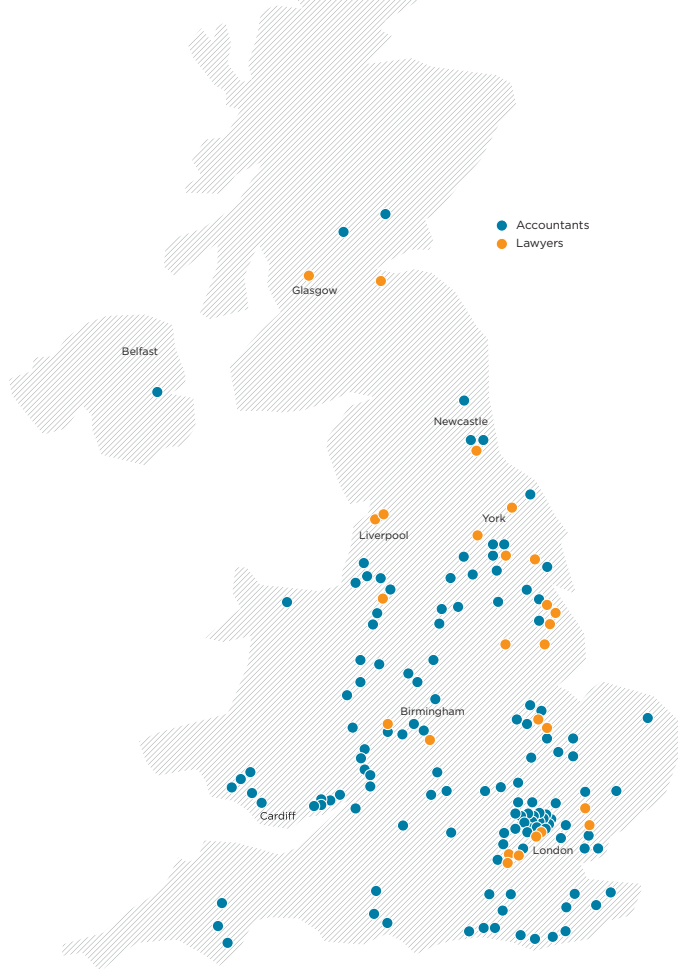
David Macdonald

The Martlet Partnership LLP

01903 600555

david@martletpartnership.com

www.martletpartnership.com



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UK200Group
 3 Wesley Hall, Queens Road
 Aldershot GU11 3NP
 Tel +44 (0)1252 350733
 admin@uk200group.co.uk
 www.uk200group.co.uk

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Member listings correct as at November 2016