PRIVATE **VIEW**

A LOOK AT THE WORLD OF PRIVATE CLIENTS

BDO

I am delighted to bring you PRIVATEVIEW, BDO's look at the world of Private Clients.

As a firm we are committed to exceptional client service and providing advice tailored to our clients' personal circumstances and needs.

PRIVATEVIEW *is a new publication intended to highlight topics that may be relevant, or of interest to you. This issue gives insights into the purpose of your wealth, how to protect and grow it, as well as how to spend it!*

Leading experts within our firm and industry have provided the benefit of their knowledge and experience to help us gain a wider perspective.

We hope you enjoy reading PRIVATEVIEW *and find something that sparks your interest. If you have any comments, or feedback, please let us know.*

HELEN JONES
On behalf of the Private Client Services Partners

PRIVATE VIEW

A LOOK AT THE WORLD OF PRIVATE CLIENTS

success in SUCCESSION

In business, succession means changing leaders or changing owners - neither is easy; they both require careful planning over many years.

Many of the world's top businesses are, or started as, family ventures: **NM Rothschild**, **JP Morgan**, **JCB**, **Sainsbury's**, and **the Ford Motor Company** to name but a few.

In the UK, around two in five private sector jobs are in owner-managed businesses. Without appropriate governance or structure in place, the future of the company can be quickly undermined - indeed, surveys suggest that up to ninety percent of family business owners have no governance structure or succession plans in place, thereby undermining future stability and success.

So daunting are the challenges of succession that many ignore the issue until it is simply too late.

Yet firms ranging from temple builders in Japan to Bordeaux wine traders have excelled for more than half a millennium. These firms demonstrate one thing: that through **good leadership**, **culture**, **ownership**, and **organisation,** companies can continue to achieve long into the future. There are many family-owned businesses in the UK that have been operating successfully for generations.

Generally speaking, such companies will have clear governance structures and shareholder arrangements. Family Trusts are common vehicles to help manage the shareholders.

"The final test of a leader is that he leaves behind him, in other men, the conviction and the will to carry on."

WALTER LIPPMAN

"The finest inheritance you can give to a child is to allow it to make its own way, completely on its own feet."

ISADORA DUNCAN

"We are made wise not by the recollections of our past, but by the responsibility for our future."

GEORGE BERNARD SHAW

Succession creates a shared vision that can cascade through an organisation, safeguarding its direction and informing decision making. A strong ethos can be reinforced with long-term planning.

EMOTIONAL OWNERSHIP AND THE NEXT GENERATION OF LEADERS

SUCCESS IN SUCCESSION

Succession can only be achieved if companies create a deep sense of ownership and belonging, not just of the past but also the future of the company.

Emotional ownership builds upon the inspiration of culture, stories, ciphers and mythology, and bridges the gap between an individual and their company. Personality and corporate identity become enmeshed, working in the same direction.

The impulses of owners, leaders and the founder of a business are of enormous value to that organisation. It is vital that they can provide affirmative answers to two questions. First: am I part of the identity and success of the business? Second: is the business part of me, of who I am?

Emotional ownership helps to harness a sense of belonging and reinforces positive values and a sense of mission, rather than simple obedience to hierarchy.

Engagement leads to an edifying state of mind in which 'I work for company X' answers the question 'what do you do?' more succinctly than merely describing the functions of one's profession.

Importantly, in a family business this sense of emotional ownership can also serve as a powerful force in achieving continuity to the next generation. By creating a sense of belonging across the company it is possible to identify future leaders and to prepare them for management.

Having taken the reins, the next generation will be focused on maintaining the success of their company in the long-run, rather than simply chasing short-term profits, or seeking a radical change in the company's direction.

STEPS TO SUCCESS

Managing the succession process is most successful when it results from a well-planned partnership with the next generation, and a shared vision for the future, borne out of emotional ownership and an aligned vision. The planning process should not be seen as a daunting challenge but an opportunity to reaffirm the organisation's values.

Although the succession challenges faced by businesses are very real, it is also worth recognising the opportunities this process offers to positively plan and embrace change in the future.

It is never too early to start planning for succession. Those with the longest-term goals are no exception. Long-term achievement isn't founded on quick fixes or parachute provisions when leadership goes awry. Instead it should be seen as an ongoing process to enshrine values at the heart of an organisation and winning support for them at all levels.

When undertaking the succession planning process there are a number of factors that must be considered. The following questions should be at the forefront for everyone involved in an owner-managed business:

Families should be honest and self-critical when considering the questions posed here.

Planning for succession and changing owners is one of the toughest challenges that a company faces and yet it can present enormous opportunities.

OWNERSHIP SUCCESSION

- Has an ownership succession plan been drawn up and is it understood and accepted across the business and the family?
- Have the next generation bought into the concept of ownership and the responsibilities that go along with becoming shareholders?
- Will shares be given only to those family members working in the business and how will others be compensated, if at all?
- Have the family members working in the company "bought in" to wanting to build on the success of the earlier generations?
- Will future generations share the same aspirations for the business as the earlier generations?

MANAGEMENT SUCCESSION

- Does your family have the necessary skills and experience to take over the management of the business?
- Is there sufficient experience within the family to take over the running of the business?
- What can be done to ease transition and to ensure that familial rivalries do not come to the fore?
- Is the next generation ready to take over the business; what steps are in place to ease this transition?
- What has been done to balance the relationship between working and non-working family members and the management team?

BDO's Private Client Services team are able to advise families and their businesses on setting up the right structures, planning succession and educating the next generation of leadership.

To find out more please contact your relationship partner or **local BDO adviser**

YOU MAY ALSO BE INTERESTED IN
the **Institute for Family Business**

A PERSONAL PERSPECTIVE
SUCCESS IN SUCCESSION

With over forty years of entrepreneurial experience, Geoff Roper is an expert in what it means to build a successful business.

As chairman of the Hugh Symons group he has guided the company through the volatile IT and communications market place and established it as a market leader in cutting-edge technological developments.

The corner stone of his success has been knowledge and experience but how is this passed down between the generations, and what guidance does he have for those undertaking the difficult process of succession planning?

At twenty-nine, Geoff Roper asked himself one of the most important questions in business: *"Where am I going?"*

Although a successful computer manager, Geoff's ambitions had outstripped those of his employers and he branched out alone. He sought, and failed, to raise £50,000 in seed capital, but did secure enough to establish a data preparation bureau and in 1971 Hugh Symons was established.

His timing was, by his own admission, fortuitous. Ted Heath's government had implemented a public sector pay freeze and data systems were rapidly outsourced. In just two years, Geoff was leading a team of 150 staff.

Recognising that the good times wouldn't last forever, he looked to adapt his business and moved into retailing and distributing computer products.

This was a bold step, but one that taught him the value of diversity within a business and moving from one success to another. It also enabled him to ride the wave of new technology, as he came to sell not only Acorn Computers, but PC frontrunners, including Commodor, Atari and Amstrad.

From personal computers to personal phones, Geoff moved into the mobile business. He set up Hugh Symons Walk and Talk and secured a deal to distribute Motorola handsets, before becoming the national distributor for major firms like Orange and Nokia. In 2000 the company was rebranded as Hugh Symons Communications, before being sold to Carphone Warehouse in a multi-million pound deal.

Running parallel to this thriving hardware business, Geoff also saw the potential of software development, creating programmes that were eventually sold to American giants Qolcom. The Hugh Symons Group was also a market leader in the field of wireless data and associated support services.

A PERSONAL PERSPECTIVE

SUCCESS IN SUCCESSION

Underlining this success was the sale of Hugh Symons' subsidiary WDS to Xerox in 2012. By this stage it employed some 2,500 people internationally and enjoyed profits of upwards of £12 million per annum.

Reflecting on his success, Geoff Roper is sage. With up to seven operating divisions, the Hugh Symons Group has been a global player in the world of technology but his desire to create and build profitable businesses has not diminished.

Indeed, it has spread throughout his family. Geoff's wife has served as Director of Personnel, and his children have worked in various divisions.

But did he plan for Hugh Symons to become a family business? *"No, I had no plans…just opportunities!"* This was Geoff's original mantra, but in the past decade, after some 30 years of trading, he has begun to think about the next generation and the future for his business.

Central to this has been his son, Hugh, who he hopes will take the reins in the future. Hugh's entry into the business initially came to the surprise of his father, who had wanted him to garner experience elsewhere. However, he has subsequently become a 'key player' and one who has been instrumental in building up the business. Importantly, Hugh was not handed a gold-plated position, but rather worked his way up, learning about the company's culture and direction organically.

Geoff is clear that this is the best way to plan for the future and that entrepreneurs must recognise that experience, longevity and commitment are key.

When planning for succession, and business development more generally, the need for good advice is clear. Indeed, Geoff refers to his advisors as *"an important part of my life"* and one that has gone far beyond advising on tax efficiencies and business structure.

Again, the value of close relationships, shared culture and mutual objectives are important. Succession planning will only work if advisors understand the business and are able to identify how generational transfer will increase its chances for success in the future.

Looking back at his career Geoff is nothing if not self-deprecating, going as far as suggesting that *"business is not as hard as you think"*.

Importantly, he has also come to realise the opportunities to transfer his company to the next generation and taken steps to ensure that this is done in a timely manner. This not only ensures continuity in personnel, but also in values.

PHILANTHROPY

the value of values

Creating lasting change in environmental, economic, social or political worlds requires determination, strategy and co-operation. Bereft of the accountability imposed on business by the markets or on government by voters, philanthropy is free to experiment and take risks.

But with the breadth of this opportunity comes a burden. Aristotle said in the third century BC: *"Wealth is evidently not the good we are seeking for it is merely useful and for the sake of something else."*

Divining and comprehending the purpose of wealth is one of the key questions for many prosperous families. Doing so protects against the corrosive forces which for many are inherent in the mere act of accumulation and preservation of wealth.

This obliges individuals to confront the philosophical and social question: 'What is my wealth for?'

Shifting trends in philanthropy

If a family can recognise and articulate its purpose, it is more likely to endure and to find a way through difficult times.

Once this philosophical view has been reached, the distinction between whether money is invested in a for-profit business that creates jobs and prosperity, or gifted to support good causes becomes less material in the social value equation.

SOCIAL BUSINESS

Some families are exiting from one business and planning a second transition back into a new kind of business ownership. Recent research shows that these individuals are thinking much more deeply about the wider economic and social purpose of their new ventures. Wealthy families are getting back into business not just to create wealth for themselves, but to create jobs and economic security for a wider community.

SOCIAL INVESTMENT

Philanthropic financiers: A new generation of financier is uniting a passion for investing with an intense desire to transform the world for the better. In the UK an increasing number want to use repayable finance to help them increase their impact on society, for example by growing their business, providing working capital for contract delivery, or buying assets.

DISRUPTIVE TECHNOLOGY

Idealistic entrepreneurs: Tech entrepreneurs are transforming the methodology of charitable giving. Taking the disruptive models from their businesses founders of tech start-ups are looking at changing the process of giving or social investment.

CHARITABLE TRUSTS

With recent and long-standing success stories including Atlantic Philanthropies and ranging to the Rockefeller Foundation by way of the Band Aid Charitable Trust setting up a foundation or trust is a major route for many modern philanthropists.

The key thing that unites all of these perspectives on philanthropy is the values that underlie the approach. Wealth does not, in the 21st Century, confer a sense of privilege but asks for a sense of purpose.

BDO have a dedicated team who are able to advise on the full philanthropic journey, from defining your goals to making sure you achieve them. Typical of our work is advising new foundations on the whole range of financial and governance issues that they face. Recently, for instance, we have helped Foundations established by individuals or their related corporate entities on matters such as:

- Establishing endowments, and distinguishing types of funds
- Setting up effective grant making strategies
- Validating the eligibility of beneficiary organisations in the UK or overseas
- Treasury and investment policy
- The effectiveness of grant spend
- Regulatory policies around reserves, risk and ethics
- Governance arrangements, and distinguishing legal requirements from best practice.

Because we have a team who have worked either professionally or personally in all aspects of charities' operations we are well placed to help on all of these issues.

Our expertise can result in real cost savings when they prevent expensive mistakes. For instance, grants spent inappropriately can lead to tax liabilities, regulatory intervention or adverse media coverage.

For many Foundations the impact of this goes beyond the charity but can also affect the individuals or entities who are the principal funders.

The interaction of treasury management, cash flow, trust law and accounts presentation can also cause huge problems. It is not uncommon for investment managers, trustees and accountants to think they have agreed on something that looks completely different to all three of them.

It is important to involve people who understand all these aspects and make sure there are no misunderstandings.

YOU MAY ALSO BE INTERESTED IN:

New Philanthropy Capital   the Charities Aid Foundation

Will the British mid-market please stand up?

Owner-managed businesses are at the very heart of the British economy, employing around two-thirds of private sector workers and fuelling innovation and development. However, the importance of the mid-market is often unfairly overlooked.

In the London School of Economics' 2014 Scale Up Report on UK Economic Growth serial-entrepreneur and angel investor Sherry Coutu CBE wrote that *"competitive advantage doesn't go to the nations that focus on creating companies, it goes to nations that focus on scaling companies."*

Historically, Germany has provided the gold-standard model in achieving the above. At the core of Europe's strong economy is the 'Mittelstand', a tier of tightly-run, focused and small-to-medium sized firms, which have come to be credited with the country's recent successes. The Mittelstand is a source not only of national pride, but of real reverence.

However, while Germany is internationally known for its mid-sized success stories, Britain has long hidden its light under a bushel. It should, for example, be noted that the so-called 'Brittelstand' of mid-market companies with a turnover of between £10m and £500m makes up a third (31.3%) of all private sector turnover in the UK.

Growth in the British mid-market has totalled almost 33 percent over the past five years, compared with just 12 percent in Germany, and total turnover is now around £1.4 trillion per annum. The knock-on benefits of extra consumption and contracts with suppliers put the overall effect at 38.6 percent in the UK, compared with 31 percent in the United States and 35.5 percent in Germany.

Finally, the UK has now surpassed Germany in terms of the number of people employed in their respective mid-markets – the Brittelstand employs 9.3 million people vs. 9.2 million in the German Mittelstand.

a more forward thinking approach to supporting mid-market businesses

Clearly the British mid-market is a success story, however, much more could be done to help create an environment in which the achievements above can be sustained and enable the Brittelstand to become as internationally known as its German equivalent.

Obvious steps to achieve more favourable conditions for mid-sized firms include reducing employers' National Insurance contributions; a step that would release upwards of £1 billion for investment and new jobs. Similarly, a VAT zero-rating of supplies to companies that export may be considered.

Although the government currently allows manufacturers to zero rate their exports, relief for domestic companies that supply exporters is far less generous – this change is already being undertaken in the Republic of Ireland.

Another area where the government could support mid-market firms is in its procurement policy and considering awarding contracts on the basis of their value to the UK's economy as a whole.

This forward-thinking approach would put long-term planning at the fore and enhance sustainability.

Less tangibly, sustained thought should be offered to boosting British exports and repositioning Britain as an economy with mid-sized firms at its heart.

Certainly it would be wise to see long-term growth as a gradual process, one that will be propelled not only by new, innovative technology and enterprise, but also by the unhurried success of mid-sized organisations.

BDO are committed to supporting Mid-Market businesses. Our Mid-Market Manifesto details how government can support the powerhouse of the UK's economy.

In addition, as supporter of The Sunday Times Fast Track, Profit Track and Tech Track series we are committed to ensuring Britain's businesses have a dedicated adviser who can help them achieve their goals, from expanding into new territories to investing in their workforce.

just *what is it* about art?

Art is a popular but controversial asset class. We ask what are the motivations, opportunities and pitfalls for those who invest in art?

Spanish painter, sculptor and ceramicist Pablo Picasso once suggested that ***"the purpose of art is washing the dust of daily life off our souls."*** This suggestion is easy to mock as overly romantic, perhaps a touch too sentimental and not a little impractical.

However, despite the complexities, speed and pressures of modern living, art retains a special place within the human psyche. Certainly, amongst society's wealthiest, art has a place of passion that is almost unparalleled. Yes, yachts, wine and clothes have their doyennes but art collectors seem to have a particularly powerful and deep interest in their subject.

beyond passion

ART AS AN INVESTMENT

While art inspires passion, it can also be a savvy investment and a means of diversifying one's portfolio. Investment in art is liable to lower rates of volatility, particularly when compared with international equities. Over the past fifty years the Mei Moses World All Art Index, which tracks art pieces across mediums and styles, has run the returns of the S&P 500 close, and in fact bettered them over the past decade.

Economist and senior lecturer at Sotheby's Institute of Art, Anna Dempster, said recently that the purchase of art as a commodity *"continues to go from strength to strength"* and, with an estimated $2 trillion worth of art held in private, presents *"significant opportunities"* for savvy investors.

However, investing in art is not a decision that should be taken lightly, nor is it risk free. Indeed, careful consideration when buying a piece, regardless of how subjectively beautiful, is always advised.

Firstly, it should be noted that purchase and resale fees can be as high as twenty five percent, and potential investors must recognise possible appraisal and storage costs before purchase. Many works will also require a degree of upkeep during their lifetime.

Secondly, art, unlike bonds, property or equities, does not return any monetary income and is a long-term commodity, rather than one that can be relied upon for a stable return. However, for many art buyers the 'visual dividend' of their purchase more than makes up for this.

Finally, although returns over the past decade have topped 10 percent, these figures are derived from art advisors themselves, and thus require close scrutiny. Indeed, in 2013, the European Finance Association suggested that returns had in a number of cases been overestimated, due largely to selection bias.

TIPS FOR FIRST TIME COLLECTORS

STUART LOCHHEAD
Director, Daniel Katz Gallery

ALWAYS BUY WHAT YOU LIKE: never buy purely for investment.

FIND A GALLERY THAT YOU LIKE AND GET TO KNOW THE DEALER. Don't be afraid to keep visiting and asking questions. They will have years of experience and will be only too happy to help and guide.

ART ADVISORS CAN BE OF GREAT ASSISTANCE if you have less time. They can alert you to pieces coming up at auction (or with dealers) and negotiate or bid on your behalf.

You don't always have to go for the big names but **ALWAYS BUY THE BEST QUALITY YOU CAN AFFORD.** The best work by a smaller artist will be better than a mediocre work by a more famous artist.

IT'S NOT ALL ABOUT CONTEMPORARY ART! There are many other fields that will be rewarding from antiquities to modern works on paper. They are also tried and tested markets so the works can be more easily re-sold than a lot of contemporary art.

ABOVE ALL COLLECT BECAUSE YOU LOVE THE ART. It can be a life-long passion that is deeply rewarding the more you understand it.

Johnny Van Haeften's CV is one of the most impressive in the British art world.

Having joined Christie's in 1969 he has been a mainstay of the buying circuit and has seen first-hand how tastes and buyers have changed. What has always stayed the same however is his belief that "art is primarily an object of passion, rather than just an investment."

Johnny and Sarah Van Haeften

For Van Haeften's beloved Old Masters the situation is also positive. Although demand is lower than contemporary pieces in the short-term, they offer what he refers to as *"good value"* and *"a feeling of stability, security and taste."* Moreover, their success indicates that buyers should be guided principally by their own tastes, something Van Haeften passionately believes.

"Personal taste generally outweighs professional advice, as you can only hang something on your wall if you like it yourself. Obviously if the expert in that particular artist, or your own advisor recommends you don't buy something you have to listen to them, but I would never buy something I did not like because I thought it might be more valuable in the future."

Describing his approach, he suggests that *"to a certain extent it is best to follow your gut instinct"* and that whatever your motivation for entering the art world *"maximizing the return becomes secondary to personal fulfilment."* In this sense Van Haeften's philosophy is simply:

"art is an object of passion, rather than just an investment."

A PERSONAL PERSPECTIVE

just what is it about art?

HOW DID YOU GET INTO THE ART WORLD?

My story begins at Eton where I was President of the school Philatelic Society. A love of stamp-collecting informed my early career.

At 17 I joined Christie's, opening their stamp department. However, this fell by the wayside when my eyes were opened to art in general, and Old Master paintings in particular.

HOW HAS THE ART MARKET CHANGED?

In 1977, aged just 25, I opened my first gallery. At this point contemporary auctions were very much a new phenomenon, with the market controlled by a small circuit of buyers.

This is no longer the case; rather art has become socially acceptable as an investment and a popular means of gaining social status and acceptance into society.

HOW DO YOU BALANCE FINANCIAL RETURNS AGAINST OTHER CONSIDERATIONS?

The returns on investment are twofold. First, there is an aesthetic that you don't get from share certificates and second, most, but not all, art has grown in value.

This is particularly true in the fields of impressionist and contemporary art, where the comparative youthfulness of collectors and availability of modern works have helped to fuel the market.

AVIATION

*an asset class that combines **business** with **pleasure***

Private jet ownership is a delicate balance between the requirements of wealthy individuals, the legal requirements of the ownership entity, regulation, the operational requirements of a jet and tax.

While private aviation is sometimes derided merely as a plaything of the super rich and an accessory to boom times, it can also be a business tool.

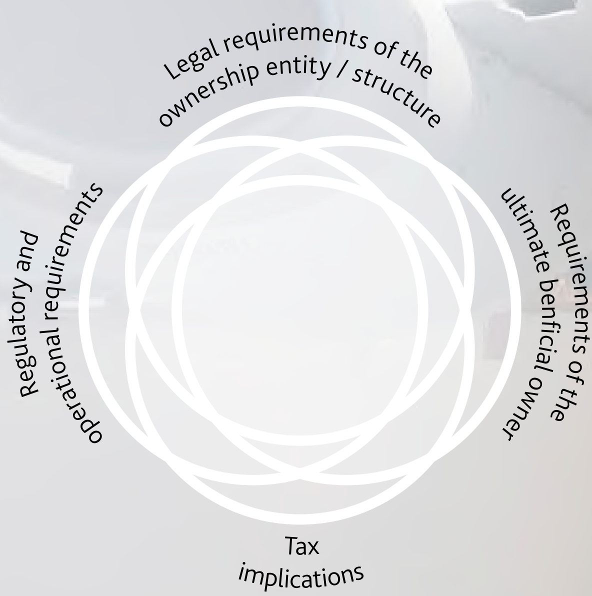
With business becoming increasingly international, these private jets are essential in providing a readily available and comfortable means of travel with additional privacy and security for the owner and their key executives. In certain developing markets private jets are not a plaything but a business essential.

Even with the continual requirement for safety upgrades and the continuous steady delivery of new jets to the market, the number of private aircraft under register has now increased to over 20,200 on a worldwide basis (source: JetNet IQ).

In the UK a similar trend has emerged. The number of private aircraft delivered to customers, both new and pre-owned, has increased over recent years, with statistics from Corporate Jet Investor showing 241 business jets registered in the UK as at February 2014.

Increasingly private jet ownership will require significant wealth. There are many, potentially extremely expensive, pitfalls for the unwary who simply want to purchase an aircraft and fly off into the sunset.

As such, consideration should be given to four key areas: requirements of the ultimate beneficial owner; legal requirements of the ownership entity/structure; regulatory and operational requirements; for the private jet; and tax implications. A delicate balance needs to be found to deliver a private jet ownership structure that will meet all these requirements.



REQUIREMENTS OF THE OWNER

The private jet that is ultimately purchased will be governed by the requirements of the owner. The first question to be answered is whether the jet is purely for private use, a mixture of private and use in their business, or whether the jet will be made available for charter to third parties.

The decision of the owner is instrumental in determining the legal requirements of the ownership entity/structure, the regulatory and operational requirements, and indeed the tax implications.

The owner can access the private aviation market in two ways – ownership and charter. Generally, if an individual flies for more than 150 hours a year ownership rather than charter becomes more economically viable. However, careful consideration to all the running costs of a jet should be looked into. Owning a jet means ultimately being responsible for all costs such as insurance premiums, hangerage, fuel, maintenance programs, crew remuneration, crew training, repositioning costs and depreciation. Also whilst some of these costs are fixed, others will vary significantly on the usage of the private jet.

As a result, understanding the costs of owning a private jet at the outset is always recommended. It also helps to identify all the various counterparties that will be required to safely operate this high value personal asset.

TYPE OF JET AND NEW VERSUS PRE-OWNED

If ownership is the desired option, thought needs to be given to the type of aircraft required. This will primarily be driven by the jets operational requirements. To be precise, how far do you want to or need to fly? With the long range and new ultra range jets flying to San Francisco non-stop is now a reality from the UK. Whereas if European coverage is more likely a medium range jet may be the preferred option.

Also new versus pre-owned needs to be considered. Despite the growth of the number of jets registered on a global basis, the sales of new aircraft have actually remained relatively static with c.700 new aircraft being delivered each year (source JetNetIQ).

It has therefore been the pre-owned market which has seen an increase in demand. The average age of a jet in the European fleet is 11.6 years old. This compares to 16.4 years old in North America to 10.6 in Asia Pacific. Pre-owned jets are a vibrant Market and continues to represent the majority of transactions we have seen.

Where a pre-owned jet is being considered, careful inspection of the jet is always necessary. We recommend taking legal and tax advice early. Legal advice is strongly recommended as the jet market is driven by 'buy as seen'.

Therefore ensuring that if a preowned jet is rejected at inspection the deposit of the intended buyer is refundable needs to be negotiated and documented at the outset. Also, from a tax perspective, key considerations are: who or what owns the jet, where is it registered and will it need to be imported.

LEGAL REQUIREMENTS OF THE OWNERSHIP ENTITY/STRUCTURE

Whilst statistically private aviation remains remarkably safe, particularly when measured in terms of per aviation mile, ownership of aircraft carries a number of inherent risks and owners are well advised to take steps to ring fence liability and protect other assets they own.

This may include ownership through a limited company, a Limited Liability Partnership or a Limited Partnership, and each has its own legal and tax implications to consider.

Some of these structures require that business to be carried out with a view to making a profit, and are therefore only suitable where the owner intends to charter the aircraft, for which limitation of liability is critical.

Where there is a business motive certain partnerships that offer limited liability protection and are tax neutral, ie where the same tax implications if the individual owned it personally, can be very effective ownership entities.

Within the global market place the precise legal requirements in each country of incorporation (company) or formation (partnership) should be considered.

Also, if the legal owner is located in a different country to the tax-residency status of the beneficial owner, consideration should be given to the tax treatment of the ownership entity in the tax jurisdiction of the beneficial owner. Understanding how and where liability falls if there is an incident is important, especially on an asset that by its very nature moves.

For example, the UK and the US can have different views about who is the ‘operator’ of a jet. This is important if there are lease arrangements where, in effect, the jet ownership entity leases the jet to another person or entity.

REGULATORY AND OPERATIONAL REQUIREMENTS

These requirements will ultimately be driven by fundamental issues, such as where the aircraft is purchases, how it is used and where it is located.

Some registries, such as the Aruban Civil Aviation Authority, have weight and age restrictions, which may preclude some second hand aircraft. Others, such as the Isle of Man, are not an option if the aircraft is to be chartered to third parties. If the aircraft is to be registered in the UK, there are no weight or age restrictions and both private and commercial operations are permitted.

Operational requirements, such as pilot qualifications and maintenance intervals, will also vary depending on usage and where the aircraft is registered. Registry may have an impact if third party finance is involved and security is being taken over the jet. Banks generally want to see a registry with good safety records.

In aviation there is no registry of convenience. In addition, repossession of the asset for any financier is a consideration and 'The Cape Town Convention on International Interests in Mobile Equipment', which is a global register of security interests, is important to this globalisation. It is anticipated the UK Civil Aviation Authority will sign the 'Cape Town Convention' very soon.

HOW DO YOU START?

Understanding the complex issues around luxury asset ownership can be difficult to navigate. BDO have a market-leading Private Aviation and Marine advisory team who are able to support clients at every step

TAX IMPLICATIONS

With this asset class falling under ever closer scrutiny, tax advice is recommended when considering how to structure the acquisition of a private jet. Significant tax liabilities can arise if the structuring is not suitable for the requirements of the ultimate beneficial owner. Consideration needs to be given to a wide array of tax implications, including limited liability protection; benefit in kind charges where a company owns an aircraft used by its directors; anti-avoidance legislation; charter income; capital allowances; exit/sale implications; NIC and VAT matters; and potential remittances for nondomiciled individuals. For UK tax resident and non-UK domiciled individuals the identification of the monies used to fund the purchase of the jet is a key consideration. After all, the jet will be used in the UK and therefore will be remitted and if the jet has been bought with funds that are taxable if remitted a UK tax charge is very likely to arise.

This position can become more complex where the funds to buy the jet are borrowed from a non-UK bank but the security is over other non-UK assets.

The tax implications of the funding requirements of the owner, both for the initial acquisition and running costs, will be of particular significance. For example, are the monies to purchase and operate the private jet in their business? How are these monies accessed – dividend, bonus or loans? Each one of these options will have tax implications.

From a VAT perspective consideration needs to be given to how the jet will be operated within the EU and whether VAT registrations are required in a number of countries where the source of the supply starts in that country. The source of supply can be where a flight commences, which may be different to where the legal entity is initially registered for VAT.

Successful structuring of this asset class will only work with advisors who understand how to make the balance between all these factors work in harmony.

INVESTMENT TRENDS

MAKING EVERY DROP COUNT

There are moral and ethical as well as economic aspects to the issue of water. These stem from the fact that water is essential to survival and hence the right to fresh water is defined as a basic Human Right and is also specified as one of the Millennium Development Goals.

Abuse of these rights is highly emotive and third sector organisations will name and shame those caught polluting water courses or withholding access to fresh water from local people causing inevitable reputational damage to the organisations accused.

Water shortages are often overshadowed as an environmental issue by climate change. While the two issues are closely inter-twined, water is the issue that is already having a quantifiable impact on economic prosperity:

1 in 9 PEOPLE
(750 million worldwide) lack access to safe water [1]

2,300 PEOPLE
per day die from water related illness globally [2]

$260bn
is lost to the economy each year due to lack of adequate watersupply or sanitation [1]

$32bn
The global, annual economic benefits of universal access to water and sanitation [1]

$18.5bn
The economic benefits per year (from deaths avoided) of universal access to water and sanitation [1]

CAUSES OF WATER STRESS

Areas in which the demand for water exceeds the available amount during a certain period or when poor quality restricts its use are described as experiencing water stress. Water stress is caused by:

- **Population growth**: the global population is expected to grow from 7 billion (2011) to 9 billion (2050) with more than half of that growth focussed on developing countries, many of which are already water stressed.
- **Increased industrial demand**: companies such as PUMA have already recognised that water may put a brake on their development and are changing production processes as a result
- **Growth in the use of water for energy generation**: and especially hydro electric power. It is estimated that for every gallon of residential water used in an average household, five times more is used to provide that home with electricity via hydropower turbines and fossil fuel power plants
- **Changes in food preferences**: (partly as a result of population growth but also because of increased prosperity increasing the amount of meat eaten). It is expected that by 2050 an additional billion tonne of cereals and 200 million tonnes of meat will need to be produced annually to satisfy growing food demand and increasing water consumption
- **Poor water infrastructure**: in Europe ageing water networks systems waste more than 40% of water supply through leaks and cracks
- **Probable impacts of climate change** Current projections show that the number of people affected by water scarcity will rise by 1.2 billion between today and 2025.

AND SOME PREDICTIONS FOR 2025

Experts have mapped out areas that are already experiencing water stress and made predictions about likely scenarios.

These indicate that 20 percent more water than is now available will be needed to feed the additional three billion people who will be alive by 2025.

Thus water shortages will have ongoing significant social and economic consequences with far reaching impacts for investors.

INVESTMENT CHOICES

As water shortages bite, the value of utilities will increase. This trend can already be observed with the S&P Global Water Index posting an average return of 9.18 percent in the last five years.

While investment in water can seem somewhat narrow on first viewing there is incredible diversity in terms of end markets, from utilities to investment in technology to improving efficiency.

YOU MAY ALSO BE INTERESTED IN:
the Safe Water organisation
the WBCSD world business council for sustainable development

Utilities

Water utilities may seem the obvious investment choice.

Most water infrastructure is still in public ownership and is facing significant problems with network losses.

There is growing pressure to address these losses and privatisation could be one route to secure the maintenance required.

Given the pressure on water resources, investments in water utilities are likely to prove beneficial, but options in technology may provide alternative choices.

Technology that 'creates' water

The shortfall between water supply and demand is likely to provide ripe turf for technological innovation. Technologies such as desalination, pipeline integrity, waste water recovery and treatment technologies have all experienced double digit growth in recent years. While relatively minor players in the market at the current time, they are likely to improve as an investment opportunity as water costs from mainstream sources increase in response to demand. Finally, progress in nanotech and biotechnologies has demonstrated the feasibility of treating water that has been contaminated with hazardous materials, so much so that the global market value of nano-enabled products has increased 1.5 times since 2010. The strides have been so great that scientists have even suggested that a self-healing ecosystem may be produced within the foreseeable future.

Technology that improves efficiency

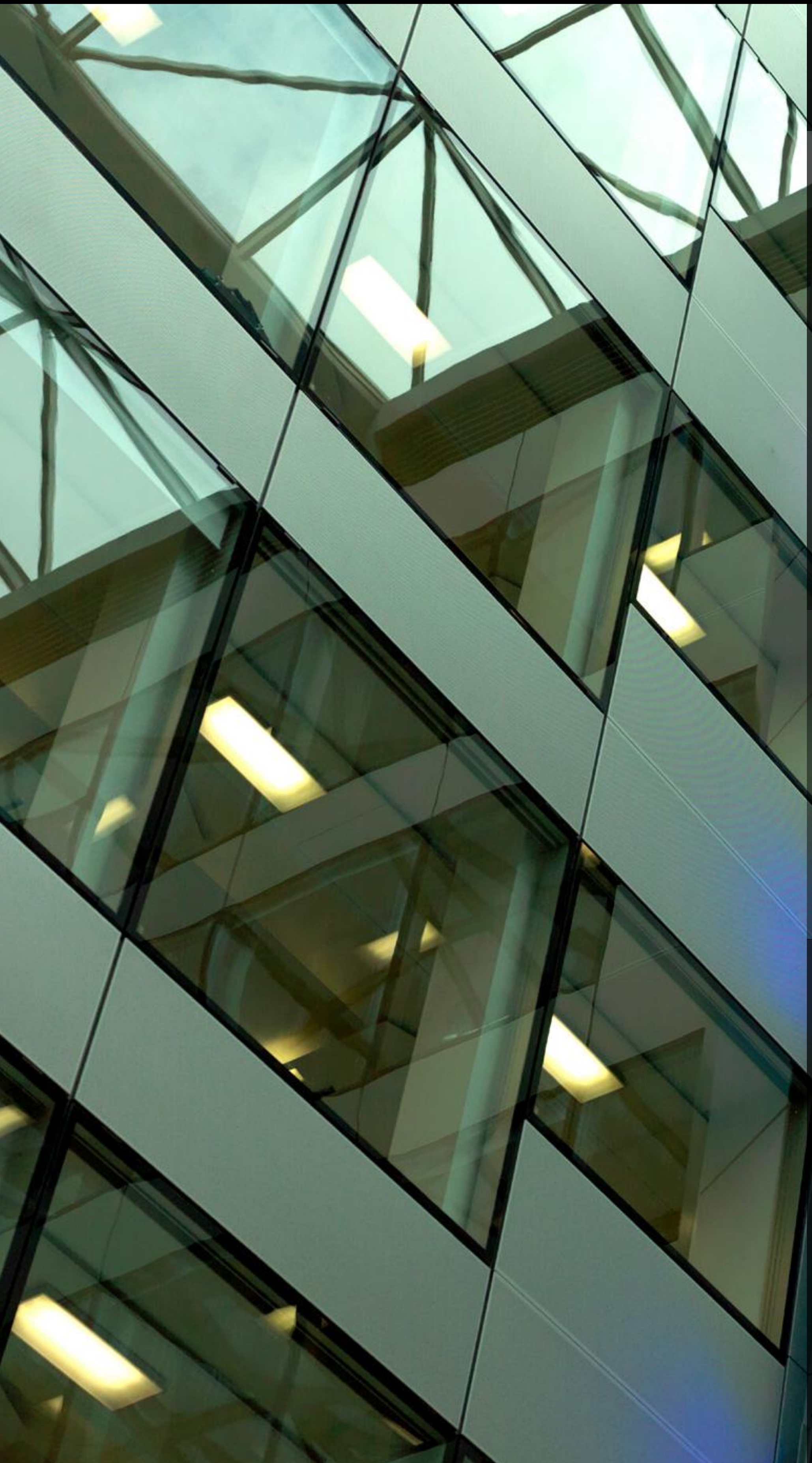
Improvements in technologies to create water will be accompanied by a pressing need to achieve more while using less.

The water efficiency technology market is not as mature as that for energy efficiency.

Water efficiency technologies that improve efficiencies in agricultural water consumption (70% of total water consumption is used in agriculture) and water intensive industrial processes are likely to gain a particular market edge.

For further information on future business trends, please consult your financial adviser. To read more on global themes you can sign up to receive **BDO's Business Trends report**, a 'polls of polls' that pulls together the results of all the main UK business surveys to reveal output and optimism, or our **Horizons report** which focuses on global M&A activity.

1. World Health Organization and UNICEF Joint Monitoring Programme (JMP). (2014). Progress on Drinking Water and Sanitation, 2014 Update.
2. Tropical Medicine and International Health. 19, no. 8 (2014): 894 - 905. Burden of disease from inadequate water, sanitation and hygiene in low- and middle-income settings: a retrospective analysis of data from 145 countries. http://water.org/ OECD. (2013). Financing Water and Sanitation in Developing Countries: The Contribution of External Aid.



YOU MAY ALSO BE INTERESTED IN:

our [Private Client Services video](#)

Youtube video (opens in a new window)

about BDO

We are a firm of accountants and advisers, part of the world's fifth largest accounting network with over 1,350 offices in 152 countries – but we are unlike other firms. We do things differently.

BDO is successfully different because of our people and our attitude towards them. People are at the heart of how the business thinks and acts. Our commitment to our people liberates talent: creating motivated, loyal employees free to respond to clients' needs.

Our professional expertise and understanding of business is combined with personal initiative, commitment and accessibility. We promote quality but avoid unnecessary bureaucracy and hidden costs. We make pro-active, quick, robust decisions, challenge clients when appropriate and give straight answers. Because of this approach our clients say they enjoy working with us.

18 Offices

300 Partners

3,500 Staff

No.1 for exceptional client service[1]

92% of our clients would recommend us[2]

76% already have[2]

1. Independent research (Mid Market Monitor 2012, 2013 and 2014) undertaken by Meridian West shows BDO has the highest client satisfaction rating among its peers

US$7 billion[3] 2014 REVENUE

152 Countries

1,350 Offices

60,000 Staff

2. Client Listening Programme 2013/14
3. US$7bn (€5.62 bn) combined fee income 2014

PRIVATE CLIENT SERVICES

The Private Client team at BDO has vast experience in looking after the tax affairs of wealthy individuals, their families and their businesses.

Many of our clients are entrepreneurs with complex international affairs and we work with the client and their other advisers to provide satisfactory results. We pride ourselves in providing exceptional client service and proactively seeking opportunities to improve their tax position.

OUR CONSULTANCY SERVICES INCLUDE:

- Inheritance tax advice
- Offshore tax advice
- International tax advice
- Capital gains tax advice
- Image rights structuring
- Private equity
- Divorce/matrimonial
- Yacht and plane structuring
- Succession planning and family governance
- Personal tax returns
- Family office (monthly accounts, bank statement reconciliation, etc)
- Trust returns, accounts and administration
- Partnership tax advice and compliance.

FOR MORE INFORMATION:

NATIONAL
WENDY WALTON
+44 (0)20 7893 2252
wendy.walton@bdo.co.uk

SOUTH
ANDREW LINES
+44 (0)23 8088 1845
andrew.lines@bdo.co.uk

MIDLANDS & THE NORTH
SARAH MOSS
+44 (0)121 352 6365
sarah.moss@bdo.co.uk

SCOTLAND
MARTIN BELL
+44 (0)141 249 8488
martin.bell@bdo.co.uk

LONDON
PAUL AYRES
+44 (0)20 7893 2247
paul.ayres@bdo.co.uk

RICHARD CITRON
+44 (0)20 7893 2423
richard.citron@bdo.co.uk

COLIN IVES
+44 (0)20 7893 3865
colin.ives@bdo.co.uk

ANNA JARROLD
+44 (0)20 7893 3987
anna.jarrold@bdo.co.uk

HELEN JONES
+44 (0)20 7893 2072
helen.jones@bdo.co.uk

EDWARD MAGRIN
+44 (0)20 7893 3468
edward.magrin@bdo.co.uk

RICHARD MONTAGUE
+44 (0)20 7893 2213
richard.montague@bdo.co.uk

www.bdo.co.uk/privateclients

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