Devonshire Corporate Services
Helping clients succeed

Tax and Trust Services for business owners and directors

About us

Devonshire Corporate Services LLP specialises in providing businesses and individuals with bespoke advice on executive remuneration and trust arrangements. This expertise extends across a range of commercially driven, tax- advantaged solutions.

Devonshire Corporate Services LLP advises business owners on:

- remuneration arrangements for directors and key staff
- UK and international trusts
- exit routes for company directors.

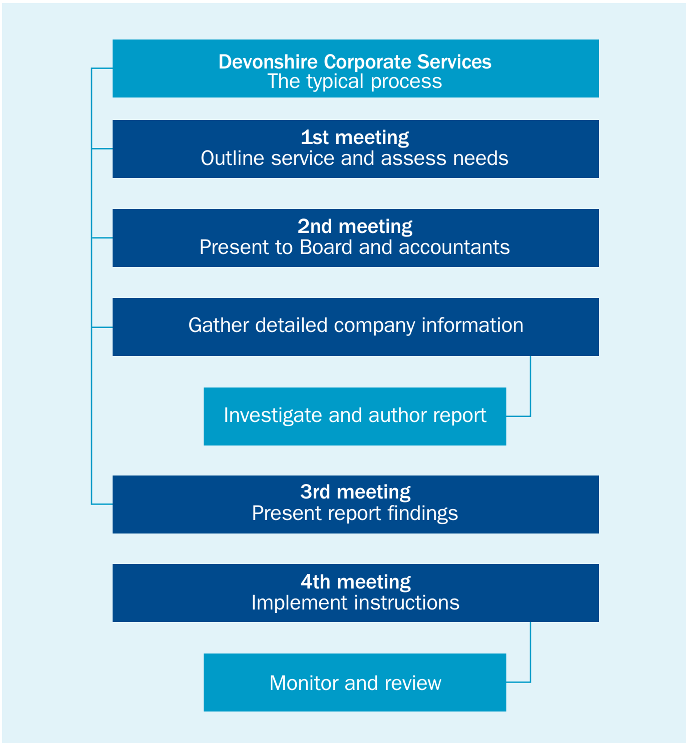
We offer innovative, commercially driven advice on tax-efficient methods of rewarding directors and senior executives, using a combination of:

- Trusts (including Employee Benefit Trusts)
- Corporate structures
- Tax-efficient 'wrappers'

Our consultants have many years of hands-on experience in these specialist areas of corporate planning.

Devonshire Corporate Services' range of services is not regulated by the Financial Services Authority (FSA) under the Financial Services & Markets Act 2000. Our recommendations and services do not include advice or brokerage in relation to regulated financial products, such as life assurance, pensions and investment products. However, we do work closely with Blacktower Financial Advisers Limited (www.bfa-uk.com) who can provide these services if required.

We do not charge for our initial meeting, and we will agree a fee for our company review after the second meeting. Our subsequent report will identify fees for the implementation of specific recommendations and these will become payable upon receiving instructions to proceed with the implementation of any plans recommended. All fees are offset by insurance, annual savings from cost-reduction exercises and one-off and ongoing annual tax savings from our trust and tax-mitigation programmes. Our fees are normally a fraction of the savings we are able to make for our clients.



"Principles must never be altered to suit the occasion."

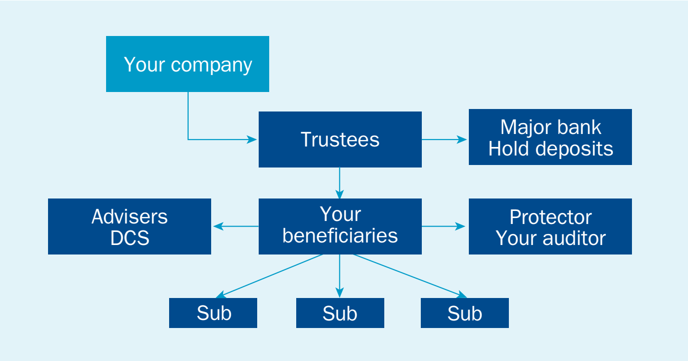
Paul Grafton-Holt and Claudio Bacci,
Partners

Corporate trust Arrangements

Here we assess the tax-saving arrangements available to individuals and companies via trusts. Retained profits can be placed into trusts created by you or a member of your company's group. These funds can then be allocated to directors and key staff on a tax deferred or advantaged basis. In some cases, companies can reclaim their corporation taxes paid in the current year or obtain a credit for taxes paid in earlier years. The illustration below highlights the advantages of a typical tax- saving arrangement.

An example of who would benefit from trusts

Those with on-balance sheet retained profits where corporation tax has already been paid and the directors wish to remove such by way of dividends/bonuses.



Corporate trust arrangement showing parties to a transaction

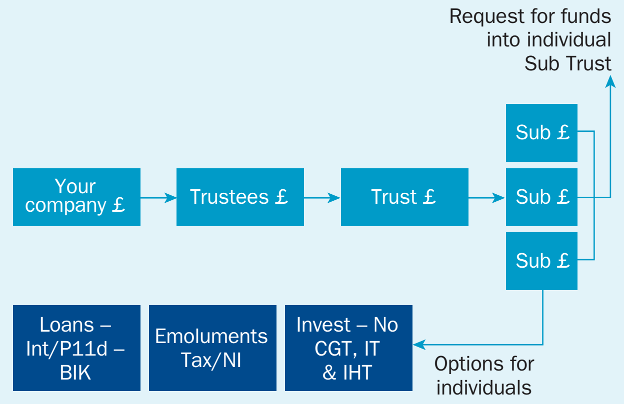
Bonus pools are placed into a trust arrangement (tax deferred) as part of a company's remuneration strategy. The trustees are major banks or financial institutions.

All monies are held on deposit by a major bank in the name of the trust account. The trustee manages assets on behalf of the beneficiaries, whose funds are split into sub-trusts to distinguish between beneficiaries.

A protector, selected by you, is appointed to adjudicate any disputes between the trustee and beneficiaries and an arrangement adviser, (Devonshire Corporate Services) provides ongoing advice.

Remuneration planning and Tax mitigation

Remuneration planning is tailor-made to each company's requirements to protect capital, provide efficient employee remuneration strategies for directors and key staff and to mitigate taxes.



Corporate trust arrangement showing parties to a transaction

Trusts often form part of this planning and are regularly used by many of the UK FTSE 250 companies today. The following facts about these companies make interesting reading.

- Started in 800BC (source: Brief History of the Pure Trust, www.wealth4freedom.com)
- 85% of the UK's wealth is estimated to be held in trusts (Pensions, OEICs, Unit/Investment trusts, Will trusts, Accumulation and Maintenance, Discretionary and Bare trusts)
- Established under Common Law and statute: Trustees act 1925, Settled Land Act 1925, Law of Property Act 1925, Administration of Estates Act 1925, Trustee Investment Act 1961, Trust of Land and Appointment of Trustees Act 1996, Trustee Delegation act 1999 & Trustees act 2000
- Recognised by most countries of the world (source: Hague Trust Convention 1985, enacted into English law by the Recognition of Trusts Act 1987)
- Assets protected from creditors (source: Asset Protection, finance-encyclopaedia.com)

Example of who would benefit from Remuneration planning

Companies that wish to retain the services of their directors and key staff for the medium to long-term benefit of the company's development. These companies need to offer commercially driven, tax-efficient incentives to these individuals. The company should have pre-tax profits above £300,000 per annum.

Capital gains tax mitigation arrangements

Tax planning to mitigate or defer CGT liabilities. On completion of a CGT review, advice is given on the various ways upcoming CGT payments can be deferred or mitigated altogether.

"The hardest thing in the world to understand is the income tax."

Albert Einstein

Banking

Additional and/or alternative banking relationships with City merchant banks are facilitated to:

- cut costs
- increase interest rates paid on deposits
- improve relationships

Referrals to City-based merchant banks (at director level) are made to our clients. These banks offer a more traditional and flexible approach to banking over typical high street operations. Without the costs associated with hundreds of branches and their staff across the UK, their charges are far lower for the same service and their rates for money held on deposit are often much higher. Being merchant bankers, they have a more traditional and relaxed style of lending. They tend not to be subject to the same inflexibilities as the high street banks.

A thorough examination of banking fees and charges are made and a comparative example is illustrated to show the cost/benefit of using an alternative or additional banking provider.

Examples of who would most likely benefit from this arrangement

1. Companies wishing to reduce their costs and significantly add to their bottom-line profitability.
2. Companies that are dissatisfied with the level of service or responsiveness they get from their existing bankers.
3. Companies that like diversification in their banking arrangements.
4. Companies looking for increased interest on their cash deposits.

Redemption arrangements

Free up director loans made to your company.

These arrangements allow directors to have access to their loan accounts for geared investment purposes. The company will still have access to the funds but each director will also benefit from capital appreciation on his/her funds.

The following illustration shows the company borrowing 70% of the director's fund to repay some of its account. The company can then offset the costs of this borrowing over a 5-7 year period against its corporation taxes. This type of arrangement will normally facilitate very cost effective borrowing for most businesses (after tax relief). The funds are then given to the director by way of a geared investment portfolio (e.g. Traded Endowment Plans – TEPs). Bank financing completes the transaction with a matching fund. The proceeds are split 75% into TEPs and the remaining balance is used for the payment of premiums for the 5-7 year period. At termination, the matching loan is repaid and the profits and initial investment is given to the director.

Example of who would benefit from redemption arrangements on a £100,000 director loan

Directors who have lent money to their company (often with their homes as security). The arrangement allows for investments as an alternative to a dormant loan with personal guarantees or property securing funds loaned to the company. The structure also allows for a geared investment to maximise profits over the medium term (5-7 years).

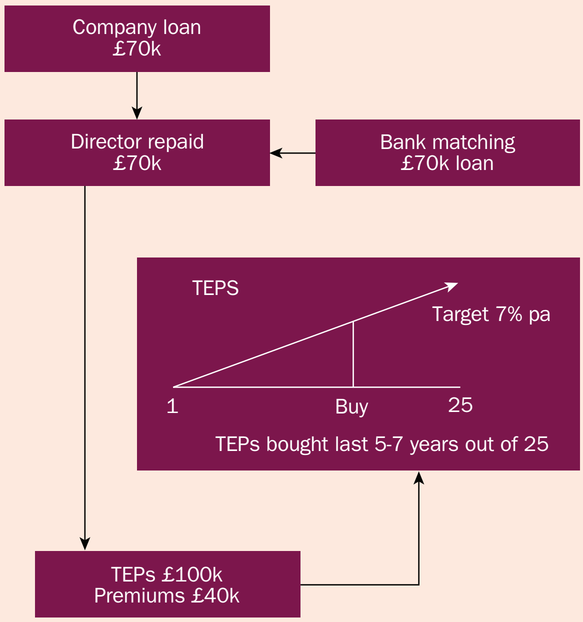


Illustration of redemption arrangements with TEP portfolio over 5-7 years on £100k director loan with matching loan for geared investment.

The company takes out a loan to repay 70% of the director's loan account. The company's loan payments are offset by a deduction of corporate tax. The director receives proceeds and obtains a matching loan to buy a TEP portfolio. Part of the fund buys TEPs; the rest is used to service TEP premiums to maturity. Assuming growth at 7% pa, the director receives money back, pays off the matching loan and makes a profit of 65% on investment (source: Surrcnda-link). Investment returns are not guaranteed.

The illustration above shows a director's loan account for £100,000 over 5-7 years. The business takes out a loan and offsets loan interest against corporation tax relief, making effective borrowing.

Credit management

Many solutions are available to help businesses with their cash flow (the lifeblood of any business).

These include:

- professional fee funding to offset unexpectedly high professional fees, which can then be paid over an extended period.
- credit insurance to transfer the risk of non-payment and creditor defaults to an insurer in exchange for a relatively small annual premium.
- confidential invoice discounting to provide immediate cash flow from existing invoices. Fees and charges for this arrangement can be offset by reduced bank charges on overdraft facilities.

Example of who would benefit from credit management – i.e. confidential invoice discounting

Any company that is either using its own cash reserves to finance its debtor book or is using its overdraft facility to improve cash flow.

Corporate finance

Review existing loans to see if they can be rewritten at better rates and assess future capital requirements for:

- acquisition
- R&D
- start-up
- venture capital
- MBOs/MBIs
- expansion
- commercial property purchases
- sale and leaseback
- rolling credit facilities

Loan financing can be provided (subject to status) at competitive terms.

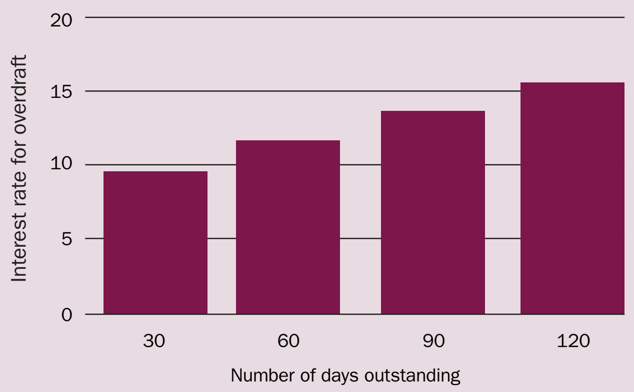


Chart shows effect of escalating interest payable over 1-4 months No actual interest rate illustrated

The chart above shows escalating bank charges as accounts remain unpaid for 30-120 days. Where this is self financed, it ties up money the company could have invested and so reduces its return on capital.

Example of who would benefit most from corporate finance arrangements

Any company in need of corporate finance.

Retained profits

Advice is given on deposits and investment of company profits. There are significant advantages in using trusts and company structures with these investments.

The illustration below shows an example to highlight tax savings. The illustration assumes the purchase of a residential property in the UK with a value of £100,000 and a rental income of £10,000 per annum. The first part shows individual ownership, the second part, trust ownership and the third part, trust and company ownership combined.

Example of who would benefit most from this type of arrangement

Any company with excess profits which can be invested medium to long term in a UK property portfolio.

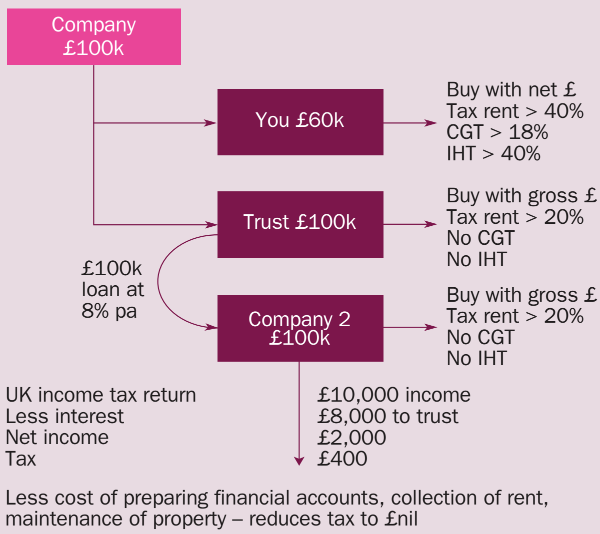
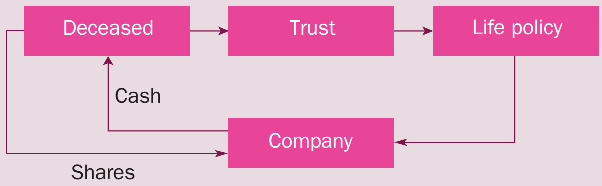


Illustration of you, a trust and a trust/offshore company owning UK rental property valued at £100k and producing rental income of £10k pa

Shareholder protection

Review and advise on existing shareholder arrangements to:

- Safeguard business against beneficiary claims and loans being called-in
- Provide tax-free funds for shareholders' estates
- Ensure no interruption to business
- Devise an exit strategy on death/critical illness using business trusts and cross options



On the death of a shareholder

When a shareholder dies, the policy pays the trust tax-free cash. The shares are either bought by the company or passed on to the remaining directors/shareholders.

A review of existing arrangements is the first port of call. A high percentage of these reviews reveal discrepancies between the Shareholder Agreement and the Memorandum and Articles of Association or are in conflict with recent changes in the law. Quite often, a new agreement needs to be authored and these can be referred to our legal advisers for drafting.

Additionally, key employee protection is also reviewed to see what impact (if any) the loss of key staff would have on the profitability of the company. Risk insurance can also be obtained to mitigate the costs associated with this loss and for the costs of replacing a major shareholder or key employee.

Example of who would benefit most from this arrangement

Any company – especially those without Shareholder Agreements, or which are dependant on key staff.

Exit routes

Exit strategies are designed for business owners wishing to leave their businesses within the next year to 18 months or more. Recent changes have resulted in the 10% tax rate that would have applied to most business sales being restricted to applying only the first £1m of gain if the conditions for entrepreneur's relief are met, with the balance being taxable at 18%. This means that now more than ever, there is pressure to maximise the selling price of a business.

A company valuation is the starting point. This provides an in-depth analysis using a combination of methods to give an objectively created and transparent 'fair market value'. Suggestions are also made as to how to improve the 'saleability' of the business in the years ahead. The valuation triggers advice on the following methods of business disposal:

- sale
- flotation
- MBO/MBI
- succession
- asset strip

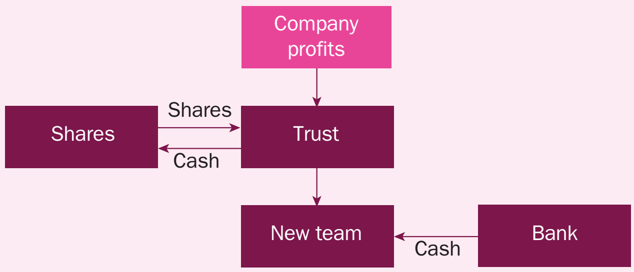
The most appropriate strategy, especially from a tax perspective, is then recommended for each business owner and for the company's Board as a whole.

Example of who would ideally benefit from an exit strategy

Those wishing to buy or sell a business

As part of an exit plan, share option arrangements can be created to incentivise key staff, without transferring actual voting power or creating a taxable event for the shareholders (intended and existing). Shares can be acquired by the arrangement from pre-tax profits (saving corporation tax) and special tax concessions are available for those making the transfers (with regard to CGT). When appropriate, finance can be made available to a management team (key people within the organisation) to buy out the remaining business owners' shares. This method creates an internal market for the shares without the need for a stock market listing.

The chart below illustrates the company's pre-tax profits being placed into an employee share trust arrangement. The trust buys shares from the shareholders with the cash. The trust transfers shares to the new management team in the future. Any remaining shares still held outside the trust are bought by the new team via bank financing at takeover or those selling their shares continue with partial ownership in the business.



Employee share option trust and management buy out

Company profits are placed into a trust. The trust uses the profits to buy shares. Shareholders sell the shares. If there is a shortfall, finance can be obtained via the bank to complete the transaction or sellers can retain partial interest post sale.

Inheritance Tax & Wealth Management

Wealth management

Advice to business owners on various aspects of personal tax planning. The main focus is on inheritance tax (IHT) mitigation using unique and sophisticated trust, company and investment property solutions. These arrangements enable clients to take advantage of:

- use of 'nil rate bands'
- transferring estate out (for IHT purposes) in 2 years in company and property structure – not the usual 7 years
- death bed planning – transferring out all estate immediately through existing settlements

Example of who would benefit most from this planning

Individuals with estates over £3m.

Man dies:

– with £2m cash/£1m of shares in the family company

– survived by widow and children

– nil rate band £325,000 from 6 April 2009

No planning	Planning
1st death, no IHT if all paid to widow	Business shares left to children £1m and cash left to widow £1m. No IHT payable by either. Children sell back via double cross option the shares to their mother. These will not be subject to CGT as there is no growth (done soon after death). Children receive £1m in cash. No IHT. SDLT will be payable at 0.5% = £5,000
2nd death, assets pass to children cash of £2m - £650k (double NRB) = £1.350m x 40% = £540,000	2nd death, £1m of trading shares pass to children. No IHT on £1m. £1m balance - £650k = 350k x 40% = £140,000
£1m free of IHT as property tax relief applies to trading company shares	IHT savings £540,000 - £140,000 = £400,000

Employee benefits review

A review of the company's existing employee benefit arrangements (pensions, life, medical etc). Advice and brokerage in this area will be passed to our sister company, Blacktower Financial Advisers. In addition, we can advise on:

- bonus plans
- villas & holiday homes
- yachts, planes and helicopters
- exotic cars
- company car arrangements
  share options, etc

The illustration below shows the various arrangements bought at different times in the evolution of a company. These arrangements need evaluation to ensure they are still cost effective, have the 'right' mixture, type and amount of benefits. A review can cut the cost of these plans and offer alternative suggestions for their improvement.

Examples of who would benefit most from this sort of review

Companies that provide employee benefits bought at different times and that have not had an independent review of their arrangements for a while. Companies looking for an alternative to the 'usual' employee arrangements.

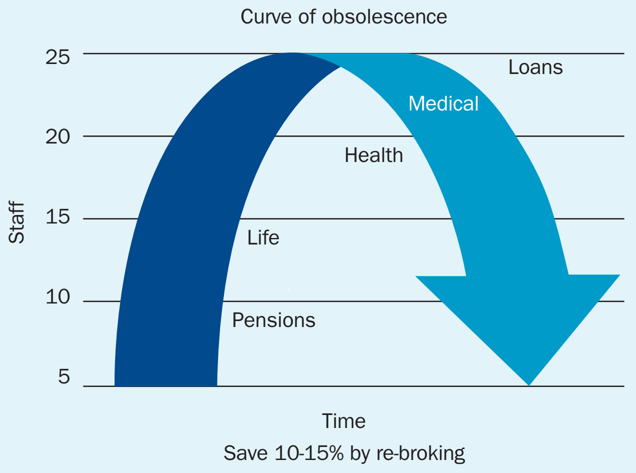


Illustration of arrangement benefit obsolescence over time

Many single products are bought throughout the evolution of a company as staff numbers increase. These products can fall into a state of obsolescence unless they are regularly monitored for cost, type and benefits provided. Advice is also given on additional/ alternative arrangements: cars, bonuses, villas, yachts, etc.

Claudio Bacci

Born in Tuscany, Italy, Claudio established residence in Great Britain in 1989, having entered financial services by qualifying as an accountant in his homeland. Claudio's earlier career was as an army officer in command of a tank squadron in Northern Italy. Claudio holds membership of the National Union of Army Officers in Italy.

Claudio has a broad experience in financial services, spanned from a consultancy role in a major Italian insurance group until 1989. He then moved into the UK where he joined American Express, (gaining financial planning qualifications and experience in wealth management for private individuals), progressively moving into senior managerial roles throughout the 1990's.

Over the past 10 years, Claudio specialised in corporate planning for SME's in the areas of remuneration planning, taxation and trusts, finance and IHT. Directorships were held in the tax and trusts divisions of major blue chip organisations, amongst others with Alexander Forbes in the City of London.

As a Partner in the City office of DCS Claudio is responsible for strategic client advice in the areas of executive remuneration planning, tax and trusts, corporate structures, finance and IHT. Claudio has a keen interest in developing offshore strategies for discerning clientele.

Claudio's hobbies include reading history, national heritage, travels, fine arts, countryside environment and pursuits, walking, horse riding, nature wildlife documentaries and watching international soccer matches. Married to Jackie, they have one son, Alexander and reside in Waltham Abbey.

Paul Grafton-Holt

Paul has spent the past twenty-four years in the financial services sector; the last half of which at senior managerial level – notably with Travellers/Citicorp in California, Acuma-American Express in north London and Alexander Forbes in the City's Square Mile. Paul lived and worked in financial securities in Newport Beach, California for ten-years, as a Vice President, before returning to his homeland in 1993 to take up a managerial position with Acuma-American Express at their Finchley office in London.

Paul held directorships with two international firms, where he headed their tax and trust divisions before joining DCS, where as a Partner he manages its day-to-day activities whilst advising clients on various aspects of executive remuneration, trusts, company structures and tax strategies. Paul specialises in director and key staff remuneration and has advised upon the set up of hundreds of trust-linked arrangements over the past decade alone.

Paul is presently conducting post-graduate research at the University of Wales (from whom he also earned a Bachelor of Arts Honours degree) for a combined M.Phil/Ph.D. Over his career, Paul obtained various professional qualifications in securities, real estate and insurance (including the NASD's series 22 [USA] & the CII's CertFP [UK]).

Paul enjoys sport (Cricket, Athletics, Boxing and the Oakland Raiders America football team), reading (history, politics and theology), research and writing (his combined philosophy Masters and Doctorate) and fine dining. He resides in Stanmore with his wife Cynthia.

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