The Chartered Tax Adviser Examination

May 2017

Suggested solutions

Application and Interaction Question 2

Model Answer

Report to Board

1. Executive Summary

Capital expenditure programme

With the exception of the £1.3 million expenditure on structural work, most of Soliminster Ltd's expenditure qualifies for capital allowances, at 18% or 8% per annum. With regard to VAT recovery, we need to consider whether to opt to tax Kenbor House. It is probably better not to, given that this is likely to result in an irrecoverable cost to VAT exempt tenants and could therefore necessitate lower net rents.

Wallhampton Ltd is liable to Income Tax and can claim capital allowances on qualifying expenditure. It should opt to tax the properties.

HMRC Letter

HMRC are seeking to recover an additional approximately £1.7 million tax plus interest and potentially penalties. Whilst it seems likely that we can challenge the claim in connection with regard to the year ended 30 June 2012 on procedural grounds, if the technical issues are conceded, an additional amount of up to about £1.6 million still remains potentially payable and we should consider providing for this and the associated costs in the accounts.

We should also disclose this to the bank before any loan offer is made. These additional liabilities could significantly impact the proposed capital expenditure programme and the loan application.

EIS

Kidihull Ltd will not qualify as an EIS company so it would be necessary to create a new company for this project. While Peter and Paul Brimfield's investment can attract EIS relief, that of Mr and Mrs Corbell represents too high a proportion of the total and adjustments to the respective investments would, therefore, be required. Investors should not be entitled to remuneration until the new company is set up and business commences.

2. Proposed capital expenditure programme

a) Soliminster Ltd

This company is UK resident and carries on a UK property business. It is therefore within the charge to Corporation Tax and can deduct capital allowances in computing the profits of its property business.

Capital allowances

The availability of capital allowances on the proposed expenditure at Kenbor House is as follows:

(i) £1.3 million on general structural alterations is expenditure on the building. It is not plant and machinery and will not attract any capital allowances.

(ii) £2.2 million on new air-conditioning and lighting systems represent integral features in the building. They will be included in the special rate pool attracting capital allowances at 8% on a reducing balance basis. As the expenditure is on replacement assets, it is treated as capital expenditure and is not deductible as a repair.

(iii) £900,000 on sanitary appliances constitutes fixtures, which go into the general pool, attracting writing down allowances at 18%, on a reducing balance basis.

(iv) £400,000 on partitions - insofar as these are moveable and intended to be moved, they are plant and machinery and will be added to the general pool, again attracting annual writing down allowances at 18%.

(v) £500,000 new office furniture is plant and machinery, to be included in the general pool, attracting annual writing down allowances at 18%.

(vi) Subject to its not having been used elsewhere in the group, the 100% Annual Investment Allowance of £200,000 per annum should be claimed on the expenditure at (ii) above which otherwise attracts the lowest rate of allowances.

VAT

All of the proposed expenditure will attract input VAT at 20%, which will be recoverable insofar as it can be attributed to outputs on which VAT is chargeable i.e. a taxable supplies. Commercial rental income is an exempt supply i.e. no VAT is chargeable thereon, unless the property owner chooses to opt to tax the building.

At present, as the option to tax has not been exercised, none of the input tax will be recoverable and it will become an additional cost, which is added to the expenditure incurred on each item and qualifies for capital allowances as part of that expenditure.

Alternatively, if an option to tax was exercised, which must be made in respect of the whole building, not separate floors thereof, we would charge output VAT on rents, and the input VAT would be immediately recoverable against the output VAT, subject to any of the rents or other outputs, notwithstanding the opt to tax, remaining exempt from VAT by virtue of the anti-avoidance legislation. This should not apply however as we are not connected to any of the intended tenants.

The Capital Goods Scheme (CGS) will apply to these works. This reviews the amount of VAT recovered initially over a ten-year period, and adjusts the initial recovery based on subsequent use. If however the extent of the use does not change over the 10 years (i.e. it is used for wholly taxable or wholly exempt use) there will be no need to adjust.

Consideration needs to be given to the VAT position of the tenants. If they are able to recover the VAT as their input tax, VAT on their rent will not increase their costs. However, if a tenant is not able to recover VAT, it becomes an additional cost to them. Therefore:

- **The insurance company** will almost certainly be wholly, or almost wholly, making exempt supplies so that it would not be able to recover VAT inputs. VAT charged on its rent would potentially increase its rental cost from £4 million per annum to £4.8 million per annum – and so it may press for a lower rental.
- **The retail group** is likely to be mainly or wholly making taxable supplies and so it would be able to recover all its VAT inputs. It would therefore not suffer any additional cost in renting the property.
- **The small technology companies** who will occupy the serviced office accommodation are likely to have taxable outputs, and will be able to recover input VAT on rents, unless they are too small to be VAT registered.

Corporation Tax and VAT interaction

The total proposed expenditure is £5.3 million. VAT will be charged thereon at 20%, i.e. £1.06 million. Of that amount, £800,000, (20% of £4 million) is expenditure qualifying for capital allowances.

If we do not opt to tax Kenbor House, the after-tax effect of the expenditure is as follows:

Qualifying expenditure £4 million plus 20% VAT	£4.8 million
Less Estimated Corporation Tax relief on capital allowances at say 20% (the relief arises over many years at 8% and 18% per annum and will be at prevailing CT rates)	(£0.96 million)
Non-qualifying expenditure (£1.3 million plus 20% VAT)	£1.56 million
Total	**£5.4 million**

Alternatively, if an option to tax is exercised, the position is as follows:

Qualifying expenditure	£4 million
Less Estimated Corporation Tax relief on capital allowances at say 20%	(£0.8 million)
Non-qualifying expenditure	£1.3 million
Total	**£4.5 million**

Therefore, by opting to tax, the total project cost is reduced by £900,000.

Unless VAT-inclusive rent represents market rate, the insurance company tenant is unlikely to be willing to bear the additional VAT cost. The covenant on the building requiring that

financial services companies occupy one-half of the building means that the same issue will be faced with any financial services tenant. If the VAT cost were absorbed by Soliminster Ltd so that the £4 million rent were to include VAT, the net rent received per annum, after VAT, would reduce to £3.33 million (£4 million x 100/120) i.e. a loss of rent of £666,667 per annum, or £533,333 after tax. The £900,000 saving mentioned above would be lost after less than two years. Depending on market conditions, it might be worth trying to persuade the insurance company tenant to pay a higher rent to defray this loss.

However, if that were to be unsuccessful, it seems that it is not beneficial to opt to tax Kenbor House.

b) Wallhampton Ltd

This company is non-UK resident and does not carry on a trade within the UK through a permanent establishment. Neither is it carrying on a trade of dealing in or developing UK land for the purposes of selling it. It is not therefore within the charge to UK Corporation Tax. However, it carries on a UK property business and is therefore within the charge to Income Tax on UK source property income and can deduct capital allowances in computing the profits of its business.

Capital allowances

The availability of capital allowances on the proposed expenditure is as follows:

(i) The new industrial units costing £15 million will not qualify for capital allowances being expenditure on buildings. However, certain building fixtures will qualify and should be identified in the course of construction so that claims can be made.

(ii) £2 million spent upgrading electrical systems will qualify for plant and machinery allowances. Electrical systems are within the definition of an integrated system in a building. Even if the expenditure is on replacement assets, it is treated as capital expenditure and is not deductible as a repair. The expenditure will therefore be included in the special rate pool attracting writing down allowances at 8% per annum.

(iii) £800,000 on a new staff restaurant is likely to include kitchen equipment, dining furniture etc. Such items will qualify as plant & machinery to be included in the general pool. Other items such as electrical and water systems will qualify for the special rate pool as integral features.

Because Wallhampton Ltd is not within the charge to Corporation Tax and does not carry out any trading activity, it does not quality for first year allowances at 100% on plant and machinery expenditure, which would otherwise be available for expenditure in the designated enterprise zones.

VAT

As the units will be occupied by trading companies who can probably recover VAT on inputs, including rent, it would be sensible, as Wallhampton Ltd has not already done so, to opt to tax all the industrial units, including those to be constructed, so that VAT on the input costs can be recovered against output VAT charged on rents. Wallhampton Ltd is able to register for VAT even though it is non-resident as it is making taxable supplies i.e. renting property, within the UK.

3. Implications of HM Revenue & Customs (HMRC) letter of 24 April 2017

The latest letter from HMRC could affect the capital expenditure programme and the loan application as the potential unprovided tax liability for earlier years could affect the availability of cash and could impact the bank's lending decision.

I do not have sufficient information to advise on whether Project Pegleg is likely to be effective from a tax perspective. We should discuss the matter with the scheme's promoters to understand what action they are proposing to take, whether other companies are in a similar position, how any litigation is to be funded and which company might be a lead case. Subject to that, the position for Birmfield is as follows:

a) Dealing with HMRC

HMRC's powers in relation to amending self-assessments and making assessments/further assessments, and the rights and obligations of the taxpayer are as follows.

Where in the case of a company that is a member of a group, a return has been submitted within the statutory deadline, being 12 months after the end of an accounting period, HMRC have one year after the end of that statutory deadline i.e. two years after the end of the accounting period, to raise an enquiry. An enquiry is brought to an end by HMRC issuing a closure notice and, if an adjustment is required, the issuing of an amendment to the self-assessment. The taxpayer has the right of appeal against any such amendment, and the appeal is resolved either by agreement between HMRC and the taxpayer or by hearing before the First-tier Tribunal, with further appeals to higher Courts.

If HMRC discover, after the normal enquiry time limit has expired, that tax has been under-assessed, they may make a further assessment to bring that tax into charge. 'Discovery' means that the Inspector could not reasonably have been expected on the basis of the information available to them before that time to be aware that tax had not been assessed, by the time the enquiry time limit expired or any enquiries were concluded. The taxpayer can appeal against any such discovery assessment. The time limit for HMRC to make a discovery assessment is four years after the end of the accounting period, or six years where the loss of tax has been brought about carelessly by the taxpayer, or twenty years if the actions of the taxpayer were deliberate.

In the case of an appeal against an amendment or a discovery assessment, the taxpayer can apply for the tax to be stood over and not be collected, pending resolution of the appeal.

Applying these rules to each of our accounting periods:

Year ended 30 June 2016

The return was submitted before the statutory filing deadline of 30 June 2017. As HMRC raised an enquiry in January 2017, that enquiry was made in time.

HMRC have concluded that additional amounts are due to be assessed for this accounting period and have informed us that they will issue a closure notice to conclude the enquiry and amend the self- assessment to £4,440,000, being an increase of £1,440,000 over the amount shown on the return submitted. The increase is in respect of the interest receivable by Sheffham Ltd under the loan relationship with Carcastle Ltd, being a non-trade credit. HMRC are empowered to do this.

Earlier years generally

For all previous years, HMRC propose to raise discovery assessments. Such assessments can only be made where there has been a discovery that tax ought to have been assessed or an assessment has become insufficient.

Year ended 30 June 2015

It is proposed to make a further assessment under the discovery powers on Sheffham Ltd for in the sum of £1,920,000, being in respect of the interest receivable under the loan relationship with Carcastle Ltd. The return was submitted by 30 June 2016, so HMRC have until 30 June 2017 to raise an enquiry. Because the enquiry window has not ended, HMRC cannot make a discovery assessment. The correct process would be for HMRC to make an enquiry, issue a closure notice and amend the return to increase the chargeable profits by £1,920,000.

Years ended 30 June 2012, 2013 and 2014

For each of these, the normal enquiry windows have closed but HMRC have four years to make discovery assessments.

Year ended 30 June 2012 - the four year deadline expired on 30 June 2016, so HMRC can only make a discovery assessment by invoking the six or twenty year time limits where tax has been lost due to carelessness or deliberate behaviour, respectively.

Years ended 30 June 2013 and 2014 - so long as the 2013 assessment is made by 30 June 2017 and the 2014 assessment is made by 30 June 2018, the statutory four-year deadlines will have been observed and HMRC would not have to rely on the longer time limits.

However, the question arises whether HMRC have made the necessary discovery in respect of any of these earlier years? I have not yet established whether sufficient information was provided on the Company Tax returns of Sheffham Ltd to enable the Inspector of Taxes to be aware that the interest receivable under the loan relationship was being treated as not taxable. HMRC suggest that contentious positions taken on a return should be highlighted in the “white space” on the CT600, and in the absence of such a note their view is that there has not been sufficient disclosure, so that a discovery can subsequently be made.

In this case, the DOTAS number in relation to the loan relationship scheme was entered on every return submitted by Sheffham Ltd, thus drawing HMRC’s attention to what was being claimed. HMRC would therefore have known about the scheme from the DOTAS number. Furthermore, it would be difficult for HMRC to contend “carelessness” in respect of the 2012 accounting period, as the DOTAS number had been disclosed. In the tax case of *HMRC v Charlton, Corfield & another*, it was held that the entry of the DOTAS number on the return precluded a subsequent discovery by HMRC.

If we concede that the arrangement does not have the tax effect we sought on implementation~~,~~ HMRC will be entitled to proceed in respect of Sheffham Ltd as shown in the table below:

Accounting period year ended 30 June	Assessment or amendment	Profits chargeable	CT rate	Additional tax payable	Notes
2012	Assessment	£480,000	25.5%	£122,400	Only if HMRC establish "carelessness" by Sheffham Ltd and that a discovery has been made
2013	Assessment	£1,920,000	23.75%	£456,000	Only if HMRC establish that a discovery has been made
2014	Assessment	£1,920,000	22.5%	£432,000	Only if HMRC establish that a discovery has been made
2015	Amendment	£4,520,000 (of which £1,920,000 is additional)	20.75%	£398,400	Must be made by 30 June 2017
2016	Amendment	£4,440,000(of which £1,440,000 is additional)	20%	£288,000	
Total additional tax				£1,696,800	

HMRC will seek interest on the late paid tax, accruing from the dates on which the quarterly instalments were due, and could seek penalties of up to 100% of the understated tax if a deliberately concealed action could be established. We would expect to be able to overturn any penalty demand by reason of the fact that professional advice, including Counsel's opinion, was sought and followed, so that there has been no culpable conduct or carelessness.

I recommend that we should contest procedural matters as follows:

i. Advise HMRC that they cannot make a discovery assessment for year ended 30 June 2015. I expect HMRC will agree to withdraw any assessment made and then issue an enquiry notice, a closure notice and an amended assessment. If they fail to do this by 30 June 2017, they will have missed the enquiry window, and will not be able to make a

discover assessment because clearly they knew about the pertinent information before the enquiry window closed. Any assessment or amendment should be appealed.

ii. Ask HMRC their grounds for discovery in respect of the 2012, 2013 and 2014 accounting periods, given that the DOTAS number was provided on each return, and (if further review shows this) that additional information was provided on the returns' "white space".

iii. If, we decide to contest HMRC's view on the tax effectiveness of the scheme, we should also:
   a) Appeal against the amended assessment for year ended 30 June 2016;
   b) Apply for tax/additional tax to be stood over on all amendments/further assessments.

Once assessments/amendments are appealed, we can discuss with HMRC the merits of the DOTAS scheme and seek to agree the position. However, as this is a scheme that HMRC has probably seen many times, and as their letter clearly states that they believe the interest receivable is taxable, they are unlikely to concede. Closure notices are likely to be issued by HMRC where we have appealed against assessments. We can then appeal against such notices. Such appeals, along with appeals against the amendments for 2015 and 2016, will then be listed for hearing before the First-tier Tax Tribunal.

We should consider how such appeals to the Tribunal might be funded, as it is an expensive process in terms of legal fees and our own time. We will need to weigh up the amount at stake against the chances of success bearing in mind that HMRC might well choose to appeal the decision of a First-tier Tribunal to the higher Courts. We should bear in mind that in recent cases involving similar schemes (e.g. *Greene King v HMRC*), the Courts have found against the taxpayer. Furthermore, the matter comes into the public domain once before the Tribunal and thus could generate reputational risk if we are perceived to be undertaking "unacceptable "tax avoidance.

HMRC are likely to require us to pay the tax in dispute pending final determination by the Courts. They can do this by issuing an Accelerated Payment Notice (APN). While we would be able to make representations against such a notice, there are no rights of appeal. If HMRC do not accept our representations, the tax would become payable. Given HMRC's apparently fixed view on the effectiveness of Project Pegleg, I would not be confident that they would accept our representations and instead are likely to demand payment of all the tax saved, amounting to £1,696,800.

<u>b) Accounting adjustments</u>

Our accounts at 30 June 2016 contain provisions for possible tax liabilities of Sheffham Ltd in respect of the non-trade loan relationship credit for the 2015 and 2016 accounting years. In preparing our accounts for the year ended 30 June 2017:

I. We would not expect to reverse the 2015 and 2016 provisions as those years are now under enquiry.
II. We will need to consider whether to reinstate the provisions for the tax liabilities for the 2012, 2013 and 2014 accounting years, totalling £1,010,400.
III. We should also consider whether to provide for the interest that HMRC will charge on the unpaid tax for all years, if it becomes payable, together with potential penalties.

IV. In considering whether to provide for the additional tax, and interest, we should consider whether providing for the tax might been seen by HMRC as an admission of weakness, but that not to provide might leave the accounts not giving a "true and fair" view.
V. We should consider providing for likely litigation costs if this matter proceeds to Tribunal.

We should discuss with our auditors whether, and to what extent, we should provide for the additional tax, interest, penalties and costs.

c) Wider commercial implications

Birmfield group's bank is currently reviewing our application to borrow £20 million to fund the capital expenditure programme set out in the March 2017 report to the Board. The bank has access to the statutory group accounts for the year ended 30 June 2016.

As discussed above, in the light of the recent HMRC enquiries, the tax provision in the accounts could be underprovided by up to £1,010,400 plus interest.

Should the bank agree the loan application without being made aware of these issues, relying instead on the statutory accounts as they stand, its position might change on discovering that it was not told about the potential additional tax and interest liability. The offer and acceptance of the loan, being a contract between Birmfield Properties plc and the bank, could be regarded as void and the bank might call in its loan, with possible adverse cash-flow implications. We might have to halt or defer the capital expenditure programme and the group's commercial activities, future profit-earning capacity and reputation could be damaged among both suppliers (who might not be paid) and subcontractors who we would have to lay off. That in turn could lead to further breach of contract disputes. Furthermore, a criminal offence of fraud could be committed, by reason of false representation of the facts of Birmfield Properties plc's tax position to the bank, thus exposing it to the risk of loss.

For these reasons, I recommend that we inform the bank immediately of the HMRC dispute and the possible financial consequences to the group.

We also need to re-appraise the financial viability of the capital expenditure programme in the light of:

(i) Whether the loan will be obtained and on what (potentially less favourable) terms;

(ii) Alternative sources of finance if the loan is declined such as approaching other lenders, or implementing a rights issue and costs thereof;

(iii) Cash-flow implications of additional tax and litigation costs.

4. Proposed EIS investment

Introduction

The success of the new trading venture requires cash investments by Peter and Paul Birmfield and by Mr and Mrs Corbell. Those investments are proposed on the basis that they will qualify for income tax relief under the Enterprise Investment Scheme (EIS).

For EIS relief to be obtained there are separate requirements for the company issuing the shares in respect of which relief is to be claimed, and for the investors.

Company requirements

a) The issuing company must not, at the time of issue, be under the control of another company i.e. not more than 50% of its ordinary shares must be owned by another company, and it must not be listed on a recognised stock exchange.
b) Its assets must not be greater than £15 million before, and not greater than £16 million immediately after, the share subscription.
c) The company must have fewer than 250 full time equivalent employees.
d) It must carry on a qualifying trade from the date of issue of the shares for a period of three years. A qualifying trade is defined as not, to a substantial part (where "substantial" is regarded as 20% by HMRC), comprising excluded activities.

Excluded activities include:

(i) Property dealing i.e. buying and selling of property;

(ii) Property development i.e. development and sale of property; or

(iii) Operating or managing hotels or comparable establishments – meaning establishments which provide as their main activity overnight accommodation.

Clearly Kidihull Ltd, a subsidiary of Birmfield Properties plc, with net assets of £20 million, will not satisfy the first and second tests above and therefore any new shares it issues would not qualify for EIS.

Therefore, it is suggested that a new unquoted company, Newco, should be formed which is not under the control of Birmfield Properties Ltd or any of its subsidiaries.

Investments would then be made into Newco as follows:

a) Kidihull Ltd transfers properties worth £500,000 in consideration for one-third of Newco's ordinary shares; and
b) Peter Birmfield, Paul Birmfield, Mr Corbell and Mrs Corbell each subscribe £250,000 cash for one-sixth of Newco's ordinary shares each.

Newco would not therefore be under the control of any other company and would have initial net assets of £1.5 million. The shares issued to individuals will potentially qualify for EIS income tax relief, subject to the other conditions being satisfied.

Newco must also satisfy the "qualifying trade" test. Although it proposes to refurbish the properties transferred to it, that activity is not being undertaken with a view to sale, so that

Newco is not carrying on the excluded activities of property dealing or property development. However, consideration should be given whether, to a substantial extent, Newco could be held to be operating or managing hotels or similar establishments. Although, the Blackburn property could constitute an hotel or comparable establishment, the 20% test is viewed across the whole of the company's activities as a question of fact, taking into consideration turnover, profits, capital employed, staffing etc. A business plan of the trading activities would help to establish whether the 20% threshold might be breached because of the extent and nature of the trading activity at Blackburn.

Before Kidihull Ltd transfers its properties into Newco, an informal clearance application, including a business plan, can be made to HMRC. Based on stated facts and intentions, HMRC will indicate whether a future share subscription is likely to attract EIS income tax relief.

Investor requirements

a) EIS relief is available only to individuals. Accordingly, the shares issued by Newco to Kidihull Ltd will not qualify for relief.
b) Shares issued to individuals must be ordinary shares issued on full payment in cash. The shares must not be issued as part of the registration process of Newco, without full payment, as that would invalidate the relief.
c) The individuals must not be existing shareholders of Newco (otherwise than as subscriber shareholders) and must not be connected to Newco by being interested in the capital of Newco or by being employed by Newco.

The "capital test" requires that the individual does not possess or be entitled to acquire, directly or indirectly, more than 30% of the share capital of Newco or be entitled to more than 30% of Newco's assets on a winding up. For these purposes, the rights and powers of associates are attributed to the individual.

<u>Peter and Paul Birmfield</u>.

As siblings, the rights of the one are not attributed to the other as the parties are not associates. Prime facie, therefore, they will each hold one-sixth of Newco. However, their father is associated with each of them and, under the proposed ownership of Newco, Birmfield Properties Ltd (through its ownership of Kidihull Ltd) will own one-third of Newco. Sir Warwick Brimfield's 30% holding in Birmfield Properties plc means that he will indirectly own one-tenth of Newco. Adding this to the one-sixth ownership in Newco directly held by each son gives each of them a deemed ownership of 26.66% in Newco. As this is less than 30%, they would qualify for EIS income tax relief.

<u>Mr and Mrs Corbell</u>

As spouses, Mr and Mrs Corbell are associates of one another. They are therefore each deemed to own the other's one-sixth of the shares in Newco, taking the total of each to one-third of the issued share capital i.e. 33.3% which, being greater than 30%, means they would not qualify for EIS income tax relief.

If their investment is to qualify for EIS income tax relief, they need to invest no more than 30% between them i.e. £450,000 in total. The remaining £50,000 required under the expenditure plan would have to be raised from another investor.

For example, the Birmfield group could invest £50,000 cash for shares. It would then have 550/1500 of the issued share capital and Sir Warwick's interest would equate to 30% thereof i.e. 11%. Adding this to each of his son's shareholding gives each of them a deemed shareholding of 27.66%, so still qualifying for EIS. Each of Mr and Mrs Corbell would invest £225,000 giving each of them (after attributing each other's) a holding of 30%, and they would thus qualify for EIS income tax relief.

d) The individuals must not be connected to Newco by reason of being, or an associate being, a partner, employee or director of Newco at any time in period beginning 2 years before and 3 years after the date the shares are issued.

   This rule is dis-applied for investing directors who neither receive nor are entitled to receive any remuneration, so long as they have not previously been involved in carrying on the trade that Newco is carrying on. If, at some point after the shares are issued, such a director becomes entitled to remuneration at a reasonable level, in respect of services rendered to Newco, such remuneration will not prevent EIS income tax relief being available.

   Therefore, to ensure that the four investing individuals qualify for EIS income tax relief they should make their investment before becoming unpaid directors. Thereafter, Peter and Paul Birmfield can provide services to Newco as proposed and be paid reasonable remuneration without prejudicing their EIS relief.

   Mr and Mrs Corbell will not be playing active roles in the business or receiving remuneration which would otherwise compromise their EIS income tax relief (should they invest such amounts as discussed above as would entitled them to relief).

MARKING GUIDE

TOPIC	MARKS	SUBTOTALS
Capex programme		
Soliminster Ltd		
Resident-CAs in computing profits	1	
£1.3 million-no allowances	1	
£2.2 million-integral feature 8% WDA	1	
£900 k fixtures 18% WDA	1	
£400 k moveable partitions?	1	
£500 k furniture –P&M	1	
AIA at £200 k, and how to best utilise	1	
Long-term rentals exempt outputs so no VAT recovery. Add VAT to cost for CA purposes	2	
Possible partial exemption and Capital Good Scheme	1.5	
Unless opt to tax/ must be whole building	1	
Impact of charging VAT on each of 3 tenants (1/2 each)	1.5	
Calculation of VAT cost if no option to tax	1	
Calculation of VAT cost if option to tax	1	
Likely response of insurance company/impact on Soliminster	2	
Decision/advice not to opt to tax	1	
Wallhampton Ltd		
Non-resident but in UK charge on rental income. Can deduct CAs therefrom	2	
£15 million-no CAs subject to building fixtures	1	
£2 million-WDA at 8%	1	
£800 k-P&M, some integral features	1	
Can't claim Enterprise Zone at 100% and reasons	2	
Tenants likely to be able to recover inputs so opt to tax	2	27
Dealing with HMRC's letter		
y/e 30 June 2016		
Recognise potential impact on capex programme and loan application	1	
Consult promoters	1	
Normal 12 month enquiry window, closure notice, right of appeal, Tribunal (1/2 each)	2	
Discovery and time limits	2	
2016 Enquiry is in time to amend	1	
2015 by enquiry/amendment. Not discovery	2	
2012 discovery only if "carelessness", other 2 years in date	2	
Insufficient information for discovery to be	2	

valid? Impact of DOTAS number?		
Calculations of additional tax if concede	3	
Possible interest/penalties	1	
Advice to appeal assessments /query discovery	2	
Future conduct-closures, appeals	2	
Tribunal-cost/likelihood of success/reference to case law/becomes public-reputational risk (1/2 each)	2	
APNs	1	
Accounting adjustments:		
2017 additional provision	1	
Identify released provisions/ Reinstate provisions? Risks	1	
Provide for interest /not penalties and litigation costs (1/2 each)	1	
Discuss with auditor	1	
Wider commercial implications:		
Misrepresentation/ false representation Bank call in loan?	2	
Commercial implications (stop work, contractor disputes) and reputational risk	1	
Recommend inform bank immediately	1	
Alternative financing by bank or other and cash-flow implications	1	33
EIS		
Company requirements		
Not under control/not listed	1	
Asset restriction	1	
Qualifying trades/substantial	1	
Recommendation how to satisfy 1st and 2nd tests by creating Newco	1	
Analyse proposed investments	1	
Qualifying trades tests	2	
HMRC informal clearance	1	
Investor requirements		
Individuals only/ordinary shares	2	
Connection through capital –define	1	
Test Peter and Paul Birmfield	2	
Test Mr & Mrs Corbell and recommendation	2	
Connection through employment etc	1	
Rules for receiving remuneration	2	18
Total		**78**