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Review of taxation implications of the bids

Southern Housing Group

Proposed Structure

1.5 SHHOL (possibly in conjunction with Southern Housing Group Limited) will acquire the site from LBS at a consideration less than market value. SHHOL will enter into a contract to develop the site with a Contractor (proposal is for this not to be a joint contract with SGHL) . SHGL may provide funding to SHHOL in the form of equity or finance. SHHOL will sell the BFS to third parties and gift aid the taxable profits to mitigate any potential tax liability. SHHOL will sell the developed social housing to SHGL at market value. Any profit will be gift aided out to mitigate tax.

Questions/comments

- KPMG report received by Southern Housing Group on tax issues refers to third option of using another Trading sub; SSL. Has this option been ruled out?
- Has SHGL considered entering into a separate contract with the Contractor for the development of Social Housing?
- Under current structure what agreement would be in place between SHHOL and SHGL, if part of site was held by SGHL?
- Structure assumes LBS is a qualifying body as above for SDLT purposes. This needs to be confirmed.
- If SSL acquires part of the land, SDLT will be due if this is not a qualifying RSL. Need to confirm this option is not being considered.

Urban Choice

Proposed Structure

1.6 Development carried out by 2 RSL's. Land transferred from LBS to RSLs and development agreement entered into with Contractor. Likely will be in form of a development lease with freehold either being passed to Contractor on BFSs at point of sale or at outset of construction. Alternatively RSL may sell BFSs directly.

Questions/Comments

- There is a need to obtain further clarification on the structure as both options result in different tax consequences.

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Homes for Heygate

1.11 It is proposed that Southwark will grant a lease to each of the three individual RSLs within the consortia and that each lead RSL would enter into a development agreement with its non-charitable subsidiary to take the sale units upon completion on a long leasehold basis (or freehold in the case of houses). The leasehold or freehold will then be assigned to the purchaser.

1.12 All RSLs will contract by way of Design & Build contracts to Countryside Plc (or a n other).

Questions

- The project will include new build dwellings and repair/refurbishment and ongoing maintenance of existing housing stock. While the new build should qualify for zero-rating, what is the impact of irrecoverable VAT on repairs and refurbishments and are there any proposals to mitigate such costs?
- Are the respective RSLs and their trading subsidiaries in a VAT group?
- What is the supply chain for the proposed transactions in the design, build and eventual sales of sale units to purchasers?
- Will it be the RSL or trading subsidiary which will be responsible for shared ownership sales?
- The assumptions and inputs in the financial model indicate there will be no irrecoverable VAT on site acquisitions costs or associated professional fees. Is it anticipated that there will be no third party or other acquisitions costs or are there plans to afford full recovery of associated VAT?

Southern Housing Group

1.13 SHGL is a charitable RSL and SHHOL is a non-charitable RSL and members of a VAT group. It is proposed that that SHHOL will carry out the purchase and development of the site and will sell the developed social housing to SHGL and 'sale' units to third parties.

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Review of taxation implications of the bids

Questions

- The project will include new build dwellings and repair/refurbishment and ongoing maintenance of existing housing stock. While the new build should qualify for zero-rating, what is the impact of irrecoverable VAT on repairs and refurbishments and are there any proposals to mitigate such costs?
- Will it be SHGL or SHHOL which will be responsible for shared ownership sales?
- The assumptions and inputs indicate there will be no irrecoverable VAT on site acquisitions costs or associated professional fees. Is it anticipated that there will be no third party or other acquisitions costs or are there plans to afford full recovery of associated VAT?

Horizon

1.14 Upon conditions of Agreement for Lease being satisfied, Horizon will take a Building Lease for each relevant site and will grant a development licence to a third party developer (Oakmayne). When the building works on each site reach practical completion the Building Lease will be surrendered to the council and the freehold to each site will be transferred to Horizon.

1.15 It is proposed that housing for sale in the project will be transferred to Oakmayne Properties which will be selling houses for sale.

Questions

- The project will include new build dwellings and repair/refurbishment and ongoing maintenance of existing housing stock. While the new build should qualify for zero-rating, what is the impact of irrecoverable VAT on repairs and refurbishments and are there any proposals to mitigate such costs?
- What is the supply chain envisaged of the proposed transactions in the design, build and eventual sales of sale units by Oakmayne to purchasers?
- Will it be the RSL or Oakmayne which will be responsible for shared ownership sales?
- The assumptions and inputs indicate that there will be irrecoverable VAT on all aspects of the project but the irrecoverable VAT rate is denoted as 0%. On what basis have these conclusions been reached and is appropriate for VAT to be recorded as 17.5%?