



Tax Valuations

HMRC approach

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How is HMRC approaching share valuations for tax purposes?

What are the factors driving value?

What are the areas of concern when agreeing values?

HMRC approach

HMRC approach

In numbers

14,000

Number of cases considered by SAV in 2014/15

Tax Take: £130 million

1,500

Number of ESS valuations considered by SAV (late 2015)

£20,000-
£25,000

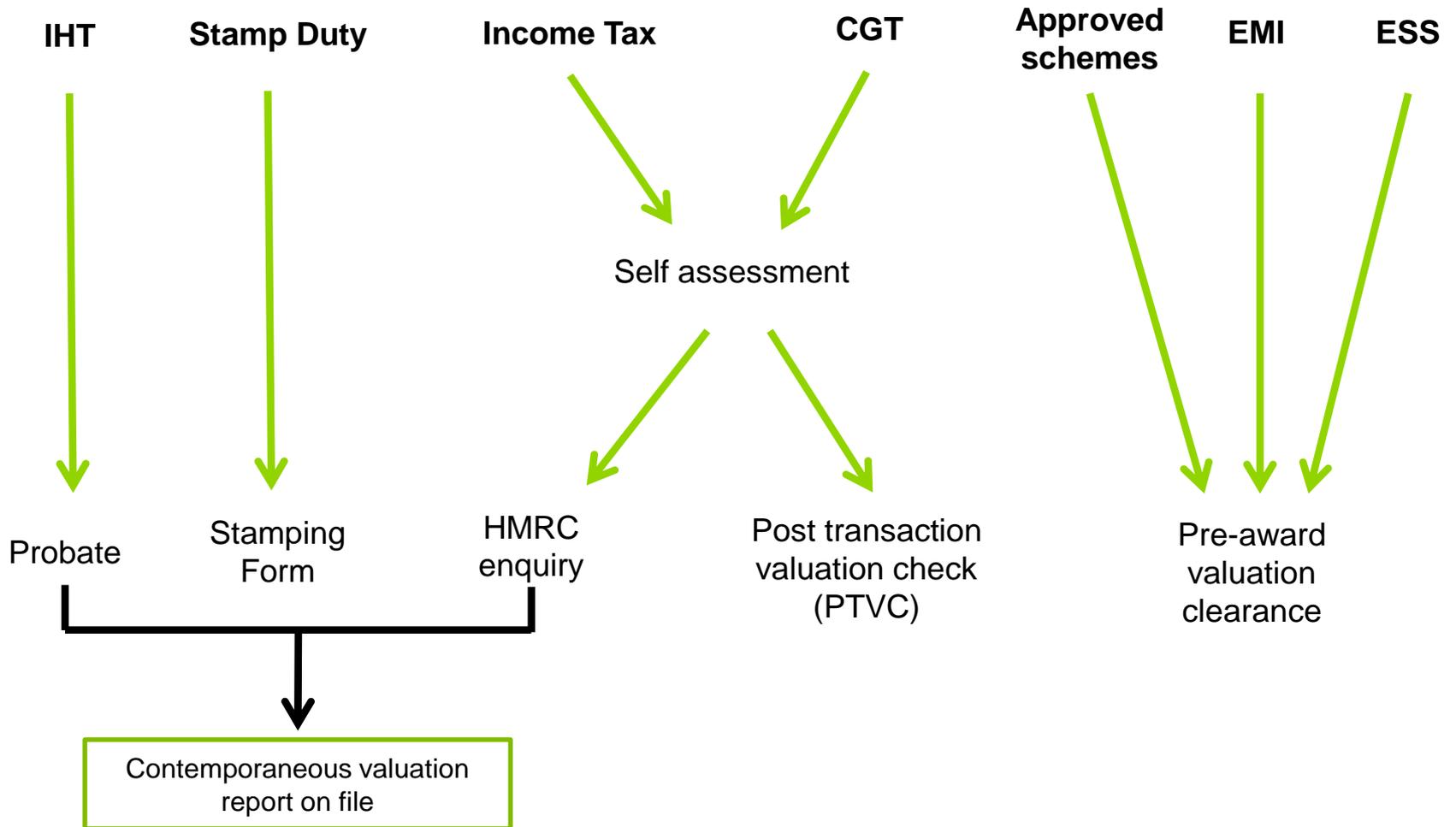
Median tax take from PTVCs queried in 2014/15

3

Number of graduates who joined SAV in September 2015

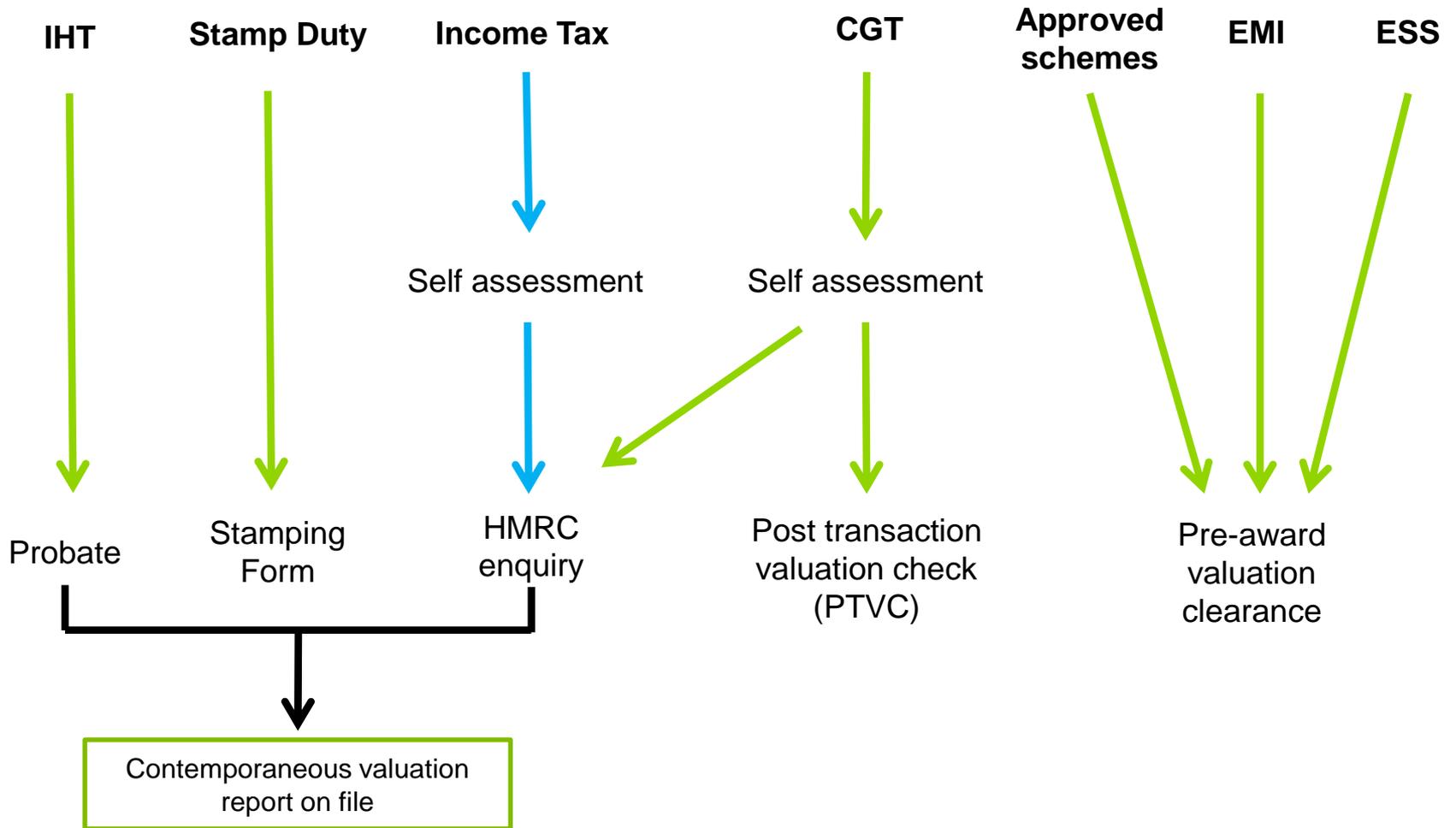
HMRC approach

What routes are currently available?



HMRC approach

What routes are available post April 2016?



Factors driving value

Valuations for tax purposes

Money's Worth	Market value ("MV")	Actual Market Value ("AMV")	Unrestricted market value ("UMV")
<p>No statutory definition</p> <p>Section 62 ITEPA</p> <ul style="list-style-type: none">• Of direct monetary value OR• Capable of being converted into money or something of direct monetary value <p>Little case law</p>	<p>Section 421 ITEPA</p> <p>Section 272 TCGA 1992 and case law</p> <p>Sale in the open market</p> <p>Between hypothetical, unidentifiable parties</p> <p>Willing buyer/ willing seller</p>	<p>Section 428 ITEPA</p> <p>Not defined</p> <p>Taken to mean sale in the open market but reflecting personal restrictions</p> <p>Generally substituted for MV in section 423</p>	<p>Section 428(2) ITEPA</p> <p>What the MV would be, but for any restrictions</p> <p>Restriction: MV is less than it would be but for that provision (Section 423(1))</p>
<p>HMRC approach:</p> <p>Information known to individual</p> <p>Personal rights and restrictions</p>	<p>HMRC approach:</p> <p>Information standards</p> <p>Rights and restrictions: ignore personal and sub-sets of shareholders</p>	<p>HMRC approach:</p> <p>Information standards</p> <p>Personal restrictions</p>	<p>HMRC approach:</p> <p>Information standards</p> <p>Restrictions: ignore all</p> <p>Rights: ignore personal and sub-sets of shareholders</p>

Value drivers

Share rights: Articles of Association

- For MV/UMV usually look at Articles only
- For AMV/ Money's Worth also look at shareholders agreements
- Key data are disposition of votes, entitlement to capital and income and transfer provisions

Information standards

- For AMV/MV/UMV
- Key drivers are status, size, quality
- Other characteristics – e.g. gearing
- Money's Worth – what is known to the individual

Actual transactions

- Before and after date of valuation
- Other elements – e.g. debt, optionality
- Changes in company performance, market sentiment
- Share rights

Interaction with other valuations

- Accounting
- Other tax valuations
- Leaver transactions

Areas of concern/
Hot topics

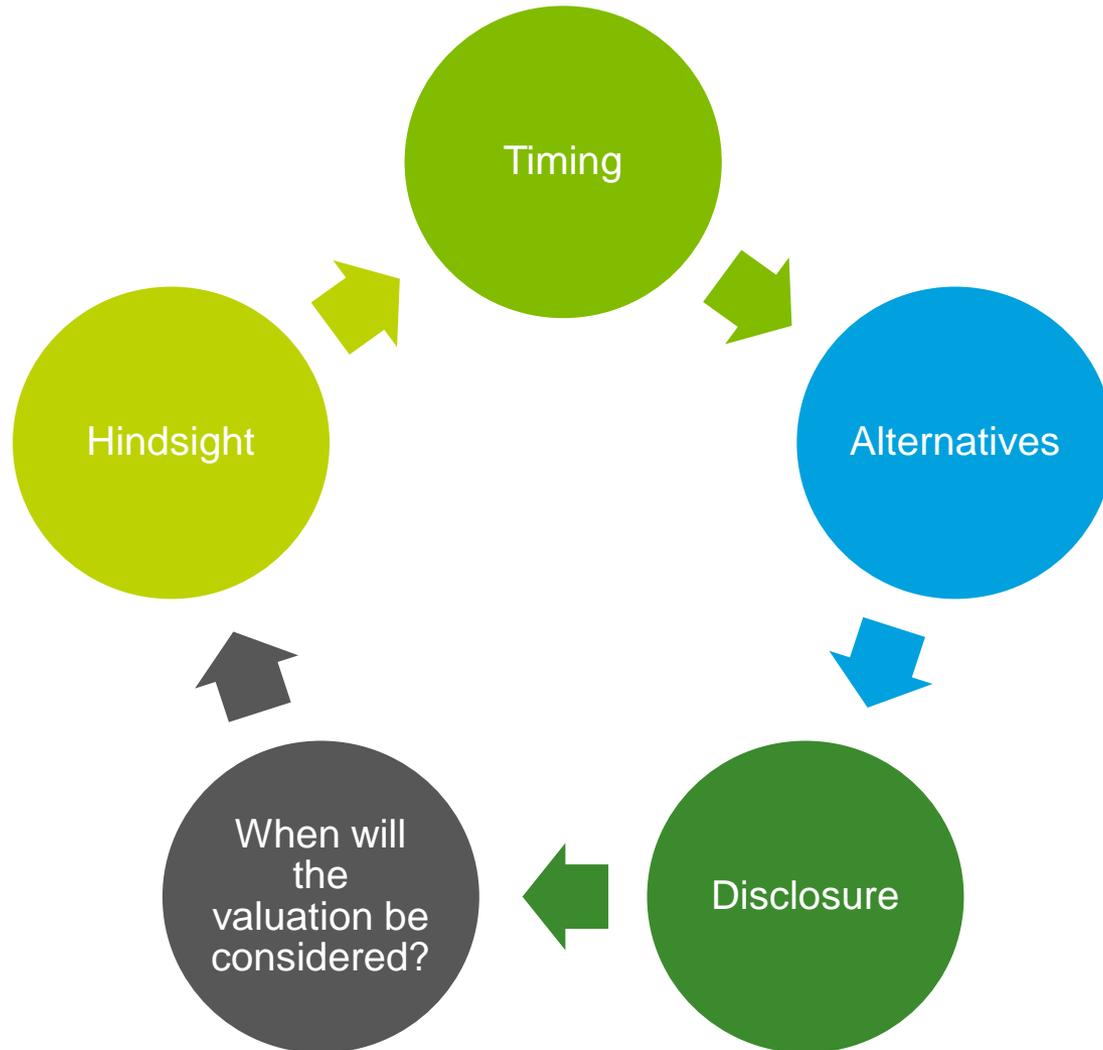
Valuation of ERS

Hot topics

- “Death of PTVCs”
- ESS
- Growth shares
- Senior changes at SAV
- Chapter 3D
- PAYE ‘best estimate’ – increased challenge?

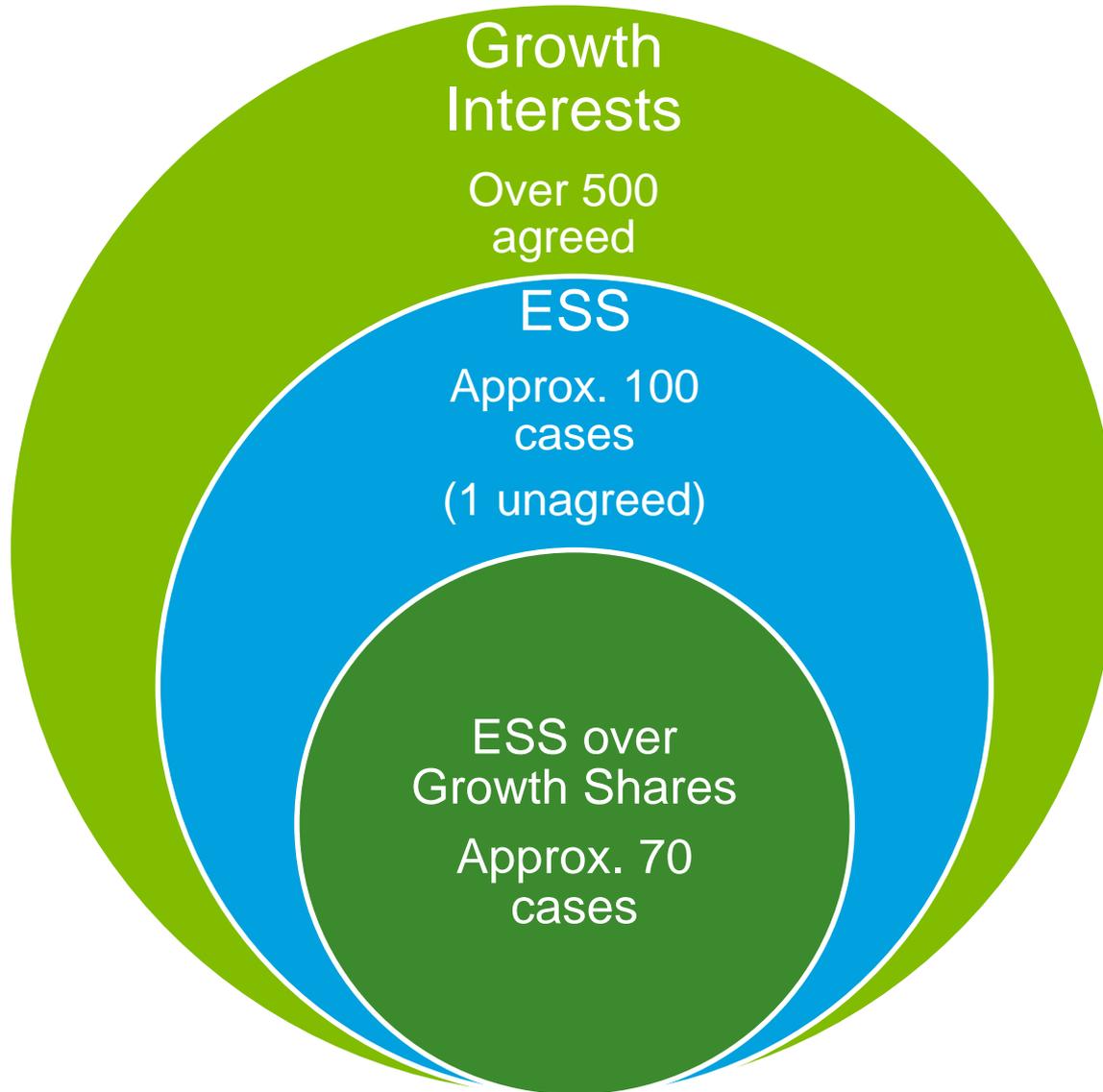
Valuation of ERS

Death of PTVCs



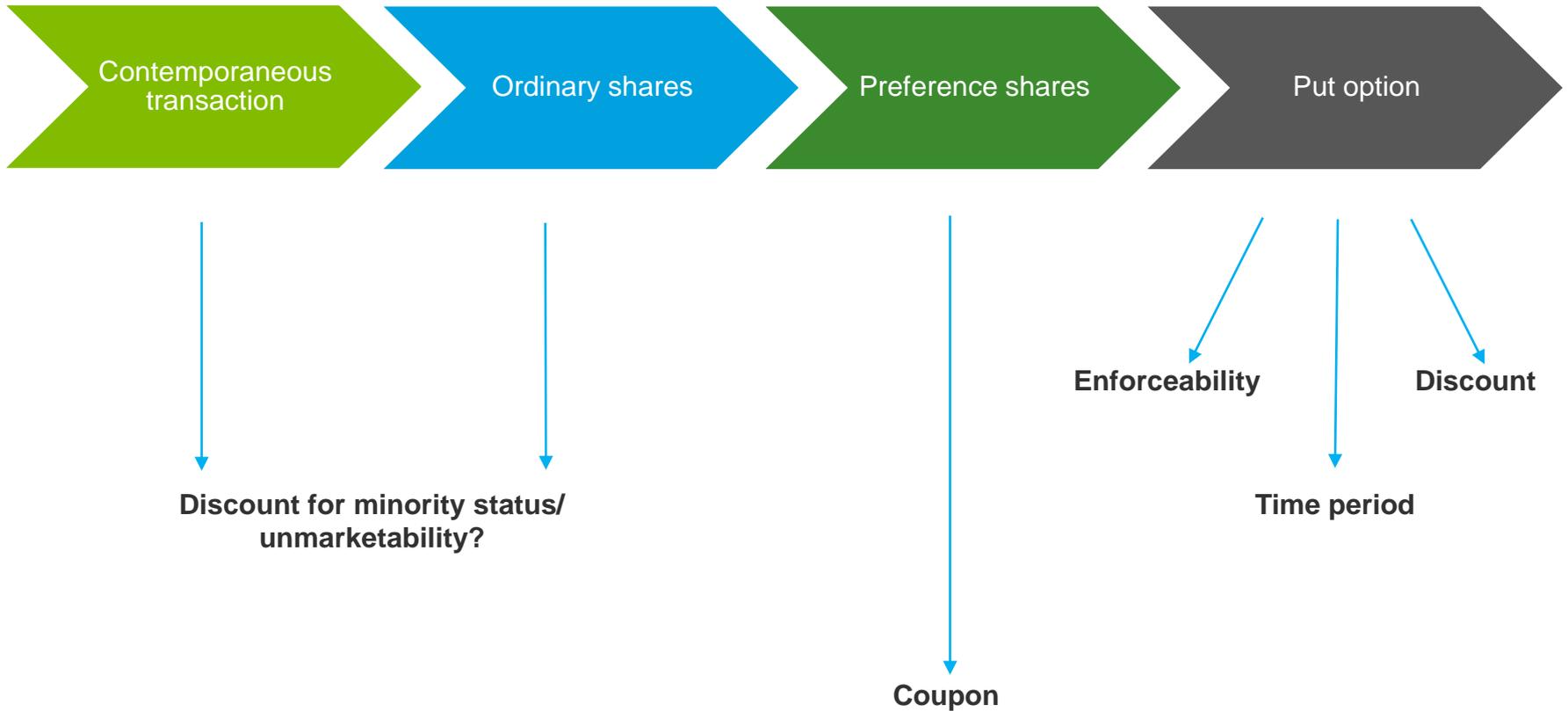
Valuation of ERS

ESS: our experience



Valuation of ERS

ESS: value > £2,000



Valuation of ERS

Growth shares: HMRC guidance

SVM114040:

“There will be cases where the size and cost of the investment may appear small but due to the nature of the investment any prudent purchaser would require further information and ‘demand as a condition of buying’.

An example of such an investment would be where the value is wholly dependent on the company achieving a growth target and where there is some provision for an early exit. Such arrangements are commonly called ‘Growth Shares’.

Clearly in such circumstances the growth prospects are intrinsic to the investment and no sale would proceed without access to additional information such as company forecasts.”

Valuation of ERS

Growth shares: HMRC approaches

Value of growth shares

Current equity value
vs Threshold

Notional
exit value

Historic
information

Forecasts

Forecasts
and NPV

Valuation of ERS

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Summary

Approach

Factors
driving
value

Hot topics

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