

Shares and Assets Valuation Fiscal Forum meeting held on 28 June 2010 at 13.30

Venue - A William Chambers meeting room, Somerset House, New Wing, Strand, London WC2

List of attendees

Guy Leeser - Head of Shares And Assets Valuation (Chair)
Mike Fowler - Shares And Assets Valuation
Steve Gridley - Shares And Assets Valuation
Debbie Walker - Charities Assets & Residence
Andrew Caldwell - BDO Stoy Hayward (co Chair)
Diane Elliott - BDO Stoy Hayward
Kirti Seth - PriceWaterhouseCoopers
Steve Lygo - Parmentier Arthur Tax Services Ltd
Stuart Gilham - Parmentier Arthur Tax Services Ltd
Kevin Paterson - KPMG
Peter Gouw - KPMG
Angela Belsten - Ernst & Young LLP
David Gudmensen - Ernst & Young LLP
Jenny Nelder - Bruce Sutherland & Co (on behalf of Institute of Directors)
David Bowes - Bruce Sutherland & Co (on behalf of CIOT)
Sue Tilstone - Deloitte Touche
Matt Earp - Deloitte Touche
Ken Read - Grant Thornton
Jodie Fletcher - Grant Thornton
Lucy Norton - Grant Thornton
Mahesh Varia - Travers Smith Braithwaite
Michael Weaver - American Appraisal
William Franklin - David Pett & Co
A J Bains - David Pett & Co
Ian Murphie - MM & K
Mark Collins - Baker Tilly
David Hadley - Kingston Smith
Tony Hindley - Valuation Solutions
James Lindon - The RM2 Partnership

List of apologies

Mark Evans - Evans Appraisal Ltd
John Blamey - KPMG
Phillipa Stedman - Institute of Chartered Accountants in England & Wales
Carol Ferguson - on behalf of Institute of Chartered Accountants of Scotland
Jonathan Brownson - Royce Peeling Green Ltd
Richard Fleet - Sir Robert McAlpine Ltd
Angela Hennessey - Angela Hennessey Chartered Arbitrator
Colin Paterson - The RM2 Partnership
Stuart Davis - Davis Consultancy

Simon Browning - PKF (UK) LLP
Simon Jennings - Rawlinson-Hunter (on behalf of ICAEW)

1. HM Revenue & Customs overview

Guy Leaser (GL) welcomed everyone to the meeting and introduced himself as the new Chair from HM Revenue & Customs (HMRC) side. GL outlined his responsibilities as Head of Shares and Assets Valuation and Head of the Policy Group for Inheritance Tax (IHT), Trusts and Capital Gains Tax. GL then gave a broad outline of the current resource situation in SAV and the ongoing and future financial pressures facing the department.

Andrew Caldwell was introduced as the new co Chair replacing Mark Evans who sent his apologies.

2. SAV manual/toolkit

Several people tabled questions about the introduction of the valuation toolkit and changes to the SAV manual.

HMRC explained that the valuation toolkit (actually a link from mainstream toolkits) was made available online in May 2010 after a pilot exercise involving around 100 agents. It can be accessed via the link below.

[Valuation of Assets](#)

The main aim of the toolkit is to help taxpayers submit valuations which are likely to be accepted without enquiry. The key messages are to employ an expert valuer and submit enough information for SAV to be able to properly check the valuation proposed.

The changes to the SAV manual were prompted by some of the generic material increasingly being taken out of context and leading to unrealistic expectations and extra delay and costs in settling cases. The material that was causing these problems has been removed and the aim now is to prepare a section summarising important decided cases.

3. Impact on valuation of dilutive effect of unexercised options

A question was asked about SAV's practice regarding the treatment of unexercised options for valuation purposes.

SAV responded that two similar questions had been raised previously at the forum. The first time it was raised the practice on EMIs tended to be to fully dilute and a pragmatic stance was taken. On the second occasion the issue was raised, a more reserved view was given, particularly in relation to a further prospective issue of options possibly being made some months after the actual date of valuation being considered.

The current position is that for EMI purposes only, SAV's stance is to consider each valuation on a pragmatic basis and SAV will usually go along with full dilution, while reserving the right to argue otherwise when the circumstances justify such a stance.

For valuations other than for EMI, HMRC applies its normal risk assessment procedures and reserves the right to challenge full dilution if it considers that to be the right answer.

4. Referrals to the Valuation Agency Officer (VOA)

HMRC were asked whether there had been a change to their policy regarding referrals of property values to the VOA.

HMRC responded that there hadn't. SAV are conscious of the cost, to HMRC and customers alike, of involving the VOA and the policy is only to do so if a significant amount of tax might be at stake.

It was suggested that the length of time the VOA takes to respond seems to have reduced.

HMRC said that a Service Level Agreement (SLA) exists and this could have contributed to a perceived improvement.

5. Valuation of future growth shares

SAV were asked if there was a set view on valuing growth shares.

SAV responded that its task is to consider valuations rather than to set a view on how to value such shares. The expectation is that appropriate evidence is produced (for example a comparison of the value from two different models). There are several common models in use, but SAV do not have a preferred model. Mention was made of Black Scholes, Monte Carlo simulation and CAPM.

SAV explained that when it was asked to consider a valuation as a PTVC, there was little point in agents submitting a valuation for SAV to check that comprised 'screenshots' of a non-standard in-house computer model. If agents wished to rely on their own models, they would need to provide SAV with a working copy, with an explanation of the basis of the model.

6. Post Transaction Valuation Check (PTVC) procedures

Capital Gains PTVCs

HMRC reminded the Fiscal Forum of the November 2009 announcement (in Working Together Bulletin No 38) that, except as stated below, CGT PTVCs for individuals, partnerships and personal representatives should be sent to:

The Capital Gains Team (Individuals & Public Bodies)
16 West
Government Buildings
Ty Glas Road
Llanishen
Cardiff
CF14 5FP

CG34s for customers dealt with by High Net Worth Units, Trust Offices or Public Department 1 should continue to be sent direct those offices.

Employment Income PTVCs

There is no formal PTVC service for Employment Income valuations but HMRC want to be as helpful as possible and hope to set up a system similar to the CG one.

In the meantime, as an interim measure, Employment Income PTVCs should be sent direct to SAV with:

- a covering letter making it clear that an Employment Income PTVC is being requested
- an explanation of the value offered including a copy of any valuation report obtained/prepared
- full accounts for the three years up to the valuation date

- names and National Insurance Numbers of all employees who have received shares or an interest in shares
- details of the relevant inspector where known

To avoid possible processing delays form CG34 should NOT be used for Employment Income PTVCS.

HMRC advised that, much as these PTVCS services are available for the time being, all areas of HMRC work are subject to close scrutiny and there were no promises that they could be maintained. There were a number of comments from people who found the service very useful and a few indicated that they might be prepared to pay for it.

7. Impact on fiscal value of prices fixed by articles, shareholder agreement or negotiation

SAV were asked if they accepted that where a price was fixed by the articles, for example at a full pro-rata value, that such a value represented the fiscal market value of the shares.

SAV stated that the payment to an employee of the full pro-rata value of his shares by the company or an employee benefit trust etc could be more than the fiscal market value of the shares. It all depended on the particular facts of the case.

The question of put and call options written into the articles of association and how they might be treated for valuation purposes was discussed. SAV declined to provide a view on the matter in the absence of a specific case and without consulting ESSU.

8. Update on discussions about the valuation of goodwill

SAV provided an update. The practice note shared at the last forum was published via Agent update 10 in February 2009.

[Practice Note - Apportioning the Price Paid for a Business Transferred as a Going Concern](#)

There is still no universal agreement on the appropriate approach but discussions are continuing and the backlog of cases in SAV has now largely been settled in line with the practice note. There are no cases listed for litigation.

9. Treatment of personal rights when valuing under different chapters of Part 7, ITEPA 2003

SAV were asked for their view on Lord Hope's judgement in Grays Timber where he said that there could be different treatment under different parts of ITEPA.

SAV responded that this was not a SAV issue as such. ESSU hopes to prepare some guidance although the date for this is not known. It could be argued that the principle remains to identify the asset to be valued and then apply what it says in the relevant chapter. And that point was made in Grays Timber by the Supreme Court.

It was agreed to invite an ESSU representative to the next Fiscal Forum if the issue remains live.

10. Format of future Fiscal Forums

There was a general discussion about the benefits and future format of the forum with general recognition that settling items for discussion in advance was beneficial.

HMRC agreed to explore ways of getting answers to any significant questions raised between forums into the public domain.

Members attention was also drawn to the budget paper [Tax policy making: a new approach available on the Treasury website](#).

11. Any other business

None.