



# Hexagon Housing Association Russell Hill Road Development

**Corporation Tax, SDLT and VAT implications of the proposed Russell Hill Road development**

7 March 2019



**KPMG LLP**  
1 Forest Gate  
Brighton Road  
Crawley RH11 9PT  
United Kingdom

Tel +44 (0) 1293 652743  
Fax +44 (0) 1293 652767

Bulbul Ali  
Hexagon Housing Association  
130-136 Sydenham Road  
Sydenham  
SE26 5JY

7 March 2019

Dear Bulbul

**Corporation Tax, SDLT and VAT implications of the proposed acquisition and development of 41-43 Russell Hill Road, CR8 2LD.**

Further to our correspondence with you, we have provided comments on the Corporation Tax, SDLT and VAT implications of Hexagon Housing Association acquiring and developing the proposed site in Croydon.

This work has been performed under our Engagement Letter dated 14 February 2019. It should be noted that this written report supersedes all previous oral, draft or interim advice, reports and presentations and that no reliance should be placed by you on any such oral, draft or interim advice, reports or presentations other than at your own risk. Our findings do not constitute recommendations to you as to whether or not you should proceed with the proposed transaction.

I would suggest you look through the report, and let us know if you have any questions or would like to discuss any aspect of the analysis.

Yours sincerely

*Kathryn Mallett*  
*Tax Director*

# Glossary

<b>ACI</b>	Approved Charitable Investment
<b>CBS</b>	Community Benefit Society
<b>CT</b>	Corporation Tax
<b>GLA</b>	Greater London Authority
<b>Hexagon</b>	Hexagon Housing Association Limited
<b>Horniman</b>	Horniman Housing Association Limited
<b>NPRP</b>	Non-profit registered provider of social housing
<b>OMS</b>	Open market sale
<b>SDLT</b>	Stamp duty land tax
<b>VAT</b>	Value Added Tax

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# Background and scope



# Background

## Group Structure

- Hexagon Housing Association Limited (“Hexagon”) is a Non-Profit Registered Provider of Social Housing (“NPRP”), a Community Benefit Society (“CBS”) and a charity.
- Hexagon has a wholly owned subsidiary Horniman Housing Association Limited (“Horniman”). Shares in Horniman are held by Hexagon board members on Hexagon’s behalf.
- Horniman is a CBS and a non-charitable NPRP.
- Hexagon and Horniman are each separately registered for VAT.

## Land acquisition

- Hexagon intends to purchase a site in Croydon from a private company.
- Hexagon exchanged contracts on 7 February 2019, subject to planning permission being granted.
- The purchase price is £3.623m
- There is no VAT payable on the purchase of the site.
- The site is made up of two houses, there is no commercial property.

## Development plans

- On acquisition of the site, the intention is for Hexagon to demolish the existing houses.
- Planning permission is shortly expected to be granted to develop two blocks on the site, containing 28 new build flats in total. The planning is based on one block to comprise of 12 flats for shared ownership. Planning for the second block is that it would be comprised of 16 flats for private sale on the open market.
- Hexagon’s intention is to implement the tenure as per the planning.
- Internal (Board) approval was provided on the basis that all 28 units are to be developed for shared ownership. The approvals paper stated that a further option to include some outright sale homes would be presented to both Hexagon and Horniman’s Board for approval. If this option is not approved, the scheme will revert to an all shared ownership scheme as per the original approval.
- Hexagon will transfer the land relating to the open market sale units (expected to be 16 units) to Horniman following board approval and site purchase, prior to any work being commenced.
- Hexagon expects to receive GLA funding for the shared ownership units.

# Scope

This note assesses the high level corporation tax, VAT and SDLT implications of Hexagon's proposed acquisition, development and disposal of 41-43 Russell Hill Road, Croydon.

The scope of our advice will cover:

1. **Corporation tax** implications of the acquisition of the land, development of the units and disposal of the shared ownership and OMS units.
2. **VAT** implications of the purchase of the land, development of the units and the disposal of the shared ownership and OMS units
3. **SDLT reliefs** available on initial acquisition of the Property, on the understanding that more than 50% of the property is to be developed for private sale and that you expect to receive grant to assist the purchase.
4. **SDLT due** if the private sale land is transferred to a wholly owned subsidiary, in relation to clawback of reliefs claimed on acquisition, and availability of group relief.

The advice is based on the assumption that the development will be implemented on the basis that planning is expected to be granted. That is, that of the 28 new units to be developed, 16 will be for private sale on the open market, and 12 will be for shared ownership.

In preparing our analysis, we have used the information provided by Bulbul Ali by email correspondence dated 4 February 2019, 7 February 2019 and 25 February 2019.

The scope of our advice is limited to providing advice to Hexagon on the tax implications of acquiring and developing the proposed site and is not intended for use by any other parties.

# Executive summary



# Executive summary

Area of tax	Main points
Corporation tax	<ul style="list-style-type: none"> <li>Hexagon is a charity and, therefore, is entitled to exemption from corporation tax on certain income and capital gains provided that the profits are applicable and applied to charitable purposes only.</li> <li>Exemption will not extend to the development of properties for sale on the open market. These activities should ideally be transferred to Horniman to minimise the corporation tax arising on any profits from this activity.</li> <li>In order for Horniman to be able to afford to make the gift aid donations that it needs to eliminate its taxable profits, it is important that land is transferred between Hexagon and Horniman at the same value for tax and accounting purposes. On the basis that the purpose for the acquisition of the land was to provide shared ownership (even though only on 43% of the land), there is a supportable filing position that the land should be a capital asset in Hexagon. For tax purposes, sales of capital assets between housing associations take place for such consideration as ensures that neither a gain nor a loss arises. Therefore to prevent difficulties with gift aid in Horniman, for accounting purposes, the land should be transferred at cost.</li> <li>If Hexagon undertakes any development work before the transfer to Horniman, there is a risk that Hexagon could be taxed on any value that it has created. We therefore recommend that the relevant land interest is transferred as soon as possible after acquisition.</li> </ul>
SDLT	<ul style="list-style-type: none"> <li><b>On the understanding that Hexagon will be purchasing the Property directly, and the acquisition will be assisted by funding provided by the GLA, the acquisition should qualify for the SDLT exemption for NPRPs, such that no charge arises.</b></li> <li>If there is an onward transfer of the Property from Hexagon to Horniman this should also qualify for the NPRP exemption, although this would be sensitive to the specific facts of the transaction.</li> <li>For completeness, in the unlikely event that grant funding is not received, it should be noted that as the transaction is structured, charities relief from SDLT would not be available such that there would be an SDLT charge on the acquisition by Hexagon.</li> </ul>
VAT	<ul style="list-style-type: none"> <li>Although no VAT is being charged on the acquisition of the land, the transfer of the private sale land to Horniman will result in an irrecoverable VAT cost arising in Hexagon. Irrecoverable VAT would include VAT on acquisition costs and would be calculated in accordance with Hexagon's partial exemption method. It would be more efficient from a VAT perspective if Hexagon and Horniman were both in the same VAT group or acquired the land separately.</li> <li>The development and sale of the units by Hexagon and Horniman respectively should not result in a VAT cost.</li> </ul>

# Technical analysis



# Technical analysis: Corporation Tax

## 1. Basis for taxation

Hexagon is a charity and therefore is entitled to generous, but not unlimited, exemptions from corporation tax on certain income and capital gains provided that the profits are applied for charitable purposes only.

Where the conditions for exemption are not met for particular activities or transactions, Hexagon could be taxed on the profits. The exemptions do not apply to profits arising from trading activities which do not further the charitable purposes of the entity. Such transactions would typically be undertaken by Horniman.

Although Horniman is subject to corporation tax (at 19% currently) on its profits, it is able to claim tax relief for any qualifying gift aid donations that it makes to Hexagon. We understand that Horniman is a wholly owned subsidiary of Hexagon. Provided that Horniman meets the conditions of gift aid payments, including making the gift aid donation within 9 months of the year end in which the profits actually arise, it should be able to mitigate and potentially reduce its corporation tax payable to nil.

## 2. Acquisition of site by Hexagon

The proposed scheme involves the acquisition of a site with a view to demolishing the existing buildings on the site and developing two blocks containing 28 residential units in total. Of the 28 units, 12 units are expected to be developed in one block for shared ownership and 16 units are expected to be developed in another block for private sale on the open market.

It is likely that the development of shared ownership units will be an approved charitable investment activity whereas the development of the open market sale units will be a potentially taxable trading activity. We have commented in more detail below.

For corporation tax purposes, land can be treated as either an investment asset or a trading asset. In general, land or properties held for long term use, for example for affordable rent or shared ownership, are regarded as investment assets. Investment assets give rise to capital gains on disposal, which are generally exempt from corporation tax in charities provided the gains are applied to charitable purposes only.

On the other hand, land or properties acquired with the intention of developing and selling within a relatively short timeframe for profit are regarded as trading assets and will therefore be held as trading stock and/or work in progress rather than fixed asset investments. Trading assets give rise to a trading receipt on disposal, and the resulting trading profits, in a charity, would be subject to corporation tax if the trading activity is not in respect of the charity's primary purposes.

# Technical analysis: Corporation Tax (continued)

Whether properties are held as investment assets or trading assets is a question of fact, and HMRC would look to a number of factors to assess which category they fall into, including the following: how the properties are accounted for; the intention for the properties at the outset of the project; whether there have been any previous transactions and if so at what intervals; the length of time the property was held and particularly whether there might have been a pre-arranged sale.

Provided that the Croydon site is purchased by Hexagon with the intention of developing charitable social housing for long term rental – i.e. charitable purposes at the time of acquisition – we consider there is a supportable position that the land purchase is the acquisition of a capital asset for tax purposes and an approved charitable investment.

We note that, of the 28 units, 12 are expected to be developed for social housing (ie 43%) and 16 are expected to be developed for open market sale (ie 57%). There would be a stronger filing position that the acquisition of the land by Hexagon is a capital asset and not a trading asset if more than 50% was used for and held by the charity. However provided the underlying intention driving the acquisition of the land is to put charitable shared ownership housing on the site, we consider there is a defensible position that the acquisition of the land should be treated as the acquisition of a capital asset.

Whether the land is treated as a capital or trading asset would impact on the treatment of the subsequent disposal of the land, including of transferring a portion of the land relating to Open Market Sales to Horniman, as set out in section 9 below.

Whether the land is treated as a capital or trading asset would impact on the treatment of the subsequent disposal of the land, including of transferring a portion of the land relating to Open Market Sales to Horniman, as set out in section 9 below.

### 3. Shared Ownership units – sale of first tranche

We understand that the shared ownership units are intended for use by charitable beneficiaries of Hexagon and the intention is to retain the majority of the property interest for long term rental. In this case, no corporation tax liabilities should arise on the sale of the first tranche of the shared ownership properties.

KPMG's view is that a shared ownership property should be an investment asset, therefore the first tranche disposal should be treated as the disposal of a capital asset. As a result, any capital gains should qualify for the tax exemptions available to charities.

# Technical analysis: Corporation Tax (continued)

However, HMRC considers the first tranche disposal of a shared ownership property to be a trading activity. Trading profits are only exempt from corporation tax if the trade is being carried out in the direct furtherance of a primary purpose of the charity. As shared ownership should be a charitable activity of Hexagon and the shared ownership properties will be sold to charitable beneficiaries, any profits obtained should qualify for the charitable exemption for primary purpose trading.

In summary, whether the first tranche disposal of the shared ownership properties is seen as an investment or trading activity, profits arising on the disposal should not be liable to corporation tax provided that any gains are applicable and applied for charitable purposes only.

## 4. Shared Ownership units – sale of subsequent tranches

Subsequent staircasing disposals of interests in the shared ownership properties should be exempt from corporation tax as disposals of capital assets and this is consistent with HMRC's view.

## 5. Shared Ownership – rent receipts

Rental income received by Hexagon from the shared ownership properties should qualify for the charitable exemption for income derived from land and buildings and therefore not be liable to corporation tax.

## 6. Approved Charitable Investments

Investments can give rise to corporation tax liabilities for a charity unless they are "approved charitable investments". To be treated as qualifying expenditure, the investment must be either for the financial benefit of the charity or to carry out its charitable objectives. In the case of the acquisition of the Russel Hill Road site by Hexagon, to the extent that the land acquisition is for both the financial benefit of the charity (open market sales units) and for the charitable objects (shared ownership units), we consider that the acquisition and development of the land should be considered to be an approved charitable investment. Hexagon should be able to evidence that the trustees have adequately considered how the investment would support their charitable objectives. HMRC could ask to see evidence of the trustees' decision-making process and the information considered as part of that process.

# Technical analysis: Corporation Tax (continued)

## 7. Market sale units – Hexagon

In respect of the proposed Russell Hill Road development, we consider the development and sale of residential units on the open market by Hexagon would be a development trade not in respect of the charitable purposes of Hexagon, and therefore a taxable trade which falls outside the corporation tax exemptions available to charities. Profits arising in Hexagon Housing Association on the sale of residential units on the open market should be subject to corporation tax (at the current rate of 19%).

It should be possible to mitigate the corporation tax (“CT”) liability arising in Hexagon on the profit on the sale of open market sales units by transferring the portion of land not required for charitable shared ownership purposes from Hexagon to Horniman. However, as set out below, care needs to be taken on this approach as in certain circumstances this could potentially lead to a corporation tax charge arising in Horniman and / or Hexagon.

## 8. Basis of Taxation – Horniman

Profits in a trading subsidiary, ie Horniman, including those arising from open market sale activity, are subject to corporation tax. Taxable profits are based on accounting profits, with adjustments made to arrive at the profits chargeable to corporation tax (‘PCTCT’) where tax legislation, case law or HMRC practice requires a different treatment of an item for corporate tax purposes from that adopted in the accounts.

Horniman can mitigate its CT liability on the profits made on the sale of the private sale units by making a gift aid donation to Hexagon, its charitable parent. The donation would be tax deductible in the trading subsidiary (Horniman), which can potentially reduce the subsidiary’s taxable profits to nil. Equally, the donation will be exempt from tax in the hands of the charitable parent (Hexagon).

Importantly, three key requirements of gift aid payments are that the gift aid donation of the trading subsidiary (ie, Horniman) is: 1) made in cash; 2) limited to the distributable reserves of the company, and 3) made before the year end, or, in the case of wholly owned subsidiaries, within 9 months of the year end for it to be considered against that period’s profits. In the instance that there are tax adjustments to the accounting profits as a result of timing differences, the taxable profit could be higher than the accounting profit for a given period. In this case, there may not be enough distributable reserves to reduce the taxable profits to nil. The company will, as a result, have a CT liability in that year.

# Technical analysis: Corporation Tax (continued)

## 9. Transfer of land from Hexagon to Horniman

The corporation tax treatment of transferring a portion of land from the Croydon site for development of market sale units from Hexagon to Horniman would vary depending on whether the land is held as a trading asset or an investment asset in Hexagon from a tax perspective.

In the most-likely scenario, that the land is held as a capital asset in Hexagon, the transfer of the portion of land to Horniman not required for charitable social housing purposes should be treated as a part disposal of a capital asset. As Hexagon and Horniman are both RPs, the transfer should occur for tax purposes as taking place at a price that gives rise to neither a gain nor a loss in Hexagon. For tax purposes, Horniman will be deemed to acquire the asset at the tax base cost to Hexagon. Ideally, the value for accounting purposes would be the same (ie, cost), which should mean that there is no mismatch between taxable and accounting profits in Horniman, allowing for gift aid payments to be made to extinguish any profit arising in Horniman on sale of the units. If the land is transferred by Hexagon at a higher value for accounting purposes than for tax purposes, there can be a mismatch between the accounting profits and tax profits on subsequent sales of the units by Horniman. This could make it difficult for Horniman to make gift aid payments sufficient to mitigate its taxable profits in full.

If the land is developed to golden brick level before the transfer to Horniman, any costs which have enhanced the value of the asset can be included in determining the tax base cost.

If Hexagon undertakes any work on the open market sale units before the land is transferred, there is a risk that Hexagon could be treated as trading or the transaction could be caught by the transactions in land provisions where it could be deemed that the work undertaken by Hexagon was mainly for the purposes of realising a gain on disposal of the land. Hexagon could then be taxed on any value that it has created and we therefore recommend that the land to be used for developing 16 units for open market sale is transferred as soon as possible and before any additional value is created.

In the less-likely scenario that HMRC disagree that the land is a capital asset and hold that there was an over-riding trading intention for the land at the outset, the land would be a trading asset in Hexagon, and for tax purposes the land would transfer at its market value at the date of sale to Horniman. The disposal of the land by Hexagon would be a trading transaction and Hexagon would be subject to corporation tax on the gain of the disposal of the land. The gain would be determined by assessing the difference between the deemed proceeds (ie the market value of the land at the date of sale to Horniman) and the cost, including development costs. If the market value at the time of sale is the same as the land cost plus any development costs, there would not be any taxable profit in Hexagon.

If the land is developed to golden brick level before it is transferred it will be necessary to establish the market value at that time. Any taxable profit will then depend on the difference between the market value at the time of transfer and the costs incurred by Hexagon at that point.

Alternatively, Hexagon could choose to develop and sell the open market sales units in Hexagon, and pay tax on the profits at 19%.

# Technical analysis: SDLT

## 1. Hexagon acquires the Property assisted by grant funding

Hexagon is a non-profit registered provider of social housing (“NPRP”). Where a chargeable interest in land is acquired by a NPRP there is an exemption from SDLT if, either:

1. the NPRP is controlled by its tenants,
2. the vendor is a qualifying body (broadly a council or another NPRP), or
3. the transaction is funded with the assistance of a public subsidy.

We understand the first condition is not in point for Hexagon, and that in this instance the vendor is not a council or another NPRP. However, grant funding is expected from the GLA. “Public subsidy” referred to in condition 3 above is a defined term which includes grants made or given by the GLA. **Therefore, providing that the acquisition of the Property is assisted by the funding received from the GLA the acquisition of the Property by Hexagon should qualify for the NPRP exemption from SDLT.**

The exemption must be claimed on an SDLT land transaction return. From 1 March 2019, the deadline for filing returns is 14 days from the effective date of the transaction (currently the deadline is 30 days).

## 1b. Hexagon acquires the Property – the acquisition is not assisted by grant funding

If, in the unlikely scenario that, the acquisition is not assisted by GLA funding then the conditions for the NPRP exemption would not be met. There is an SDLT relief for purchasers where the purchaser is a body established for charitable purposes only, and intends to hold the greater part of the property acquired for “qualifying charitable purposes”. Qualifying charitable purposes is defined in the legislation as;

- for use in the furtherance of the charitable purposes of the purchaser or of another charity, or
- as an investment from which the profits are applied to the charitable purposes of the purchaser.

On the basis that Hexagon is intending to develop the greater part of the development as private sale units, it is not therefore intending to hold more than 50% of the Property and charities relief from SDLT will not be available.

# Technical analysis: SDLT (continued)

If the acquisition were not assisted by public subsidy (which you do not expect to be the case) such that the NPRP exemption were not available, then you may wish to consider whether it is possible to structure the acquisition so that the Property is acquired in two parts, with Hexagon only acquiring that part of the Property to be developed as the shared ownership units, and the remaining part of the Property acquired by another company in the group. As Hexagon would be intending to hold 100% of the part of the Property that it acquires, for a qualifying charitable purpose, charities relief should be available for Hexagon's acquisition of that part. SDLT would be due on the acquisition of the remaining part by the subsidiary, this would be calculated by reference to aggregate consideration for both parts and then apportioned. Further advice can be provided if this option is preferred.

## Multiple dwellings relief (MDR)

We understand that the Property comprises two dwellings and no commercial property. If NPRP relief was not available, the acquisition should therefore be subject to SDLT at the residential rates including the 3% surcharge as currently structured.

MDR ordinarily applies where a number of residential properties are purchased as part of a single transaction (or a series of linked transactions). Residential property is defined as "a building that is used or suitable for use as a dwelling, or is in the process of being constructed or adapted for such use" on the effective date of the transaction. Where MDR applies and is claimed, the amount of SDLT due is calculated by reference to the average price per dwelling and the number of dwellings.

Based on a purchase price of £3.623m, absent MDR the SDLT due should be c£457k. Applying MDR, the SDLT should be reduced to c£371k.

MDR is subject to clawback broadly where any events take place within three years of the effective date of the acquisition that reduce the number of dwellings. We note that the existing dwellings are to be demolished, there is therefore a risk that the MDR could be clawed back on demolition. However, on the understanding that the existing dwellings are being demolished in order to develop a greater number of new dwellings, and providing that the development of the new dwellings takes place shortly after the original units have been demolished and as part of the same arrangements, in our view there is a strong filing position that this should not result in any clawback of MDR claimed.

## 2 Horniman acquires the Property

If the Property were acquired directly by Horniman (which you do not expect to be the case), then as above, if the acquisition is assisted by public subsidy the NPRP exemption should apply. If the acquisition would not be assisted by public subsidy, as the vendor is not a qualifying vendor, the NPRP exemption would not be available. Horniman is not a charity, so charities relief from SDLT is not in point.

# Technical analysis: SDLT (continued)

Absent the NPRP exemption, SDLT should therefore be chargeable as set out above, i.e. at the residential rates applying MDR on the basis that any demolition carried out would be to undertake development of a greater number of residential units.

### 3. The Property is acquired by Hexagon, with part of the Property transferred to Horniman at a later date

While Hexagon is the sole owner of Horniman, Horniman is a CBS, rather than a company limited by shares. Horniman and Hexagon are not therefore grouped for SDLT purposes and SDLT group relief would not be available.

However, Horniman is an NPRP, and Hexagon would be a qualifying vendor for the purposes of the NPRP exemption (see condition 2 above). **The acquisition of part of the Property by Horniman from Hexagon may therefore qualify for the NPRP exemption such that no SDLT charge arises.** The SDLT anti-avoidance provisions and the GAAR would need to be considered having regard to the specific facts of both the initial acquisition of the Property by Hexagon and the onward transfer of part to Horniman in order to determine if the acquisition qualifies for the NPRP exemption.

If the NPRP exemption were not available, then as Horniman is a corporate body connected with the vendor, SDLT would be due on the higher of the actual VAT inclusive consideration of the market value of the property acquired. Whether the residential or non-residential rates applied would depend on the nature of the property at the time it is transferred.

For completeness the NPRP exemption is not subject to clawback, so there would be no clawback of the NPRP exemption claimed by Hexagon on an onward transfer of any part of the Property to Horniman.

# Technical analysis: VAT

## 1. Original acquisition of the property

We understand that no VAT will be charged on the sale of the property to Hexagon.

Where Hexagon will incur VAT on any costs associated with the acquisition of the property (legal costs etc), these will only be recoverable to the extent that Hexagon uses the property to make taxable supplies (see below).

## 2. Transfer of the Private Sale Land to Horniman

On the understanding that Horniman is separately registered for VAT and not eligible to be registered in a VAT group with Hexagon, the transfer of the Private Sale land will be a supply by Hexagon for VAT purposes. If the land is transferred prior to any works being undertaken to the land, the transfer will be an exempt supply by Hexagon, such that any VAT incurred by Hexagon on the costs associated with acquiring the land (legal costs etc) residual and recoverable in accordance with Hexagon's partial exemption calculation.

If Hexagon were to opt to tax the land, Hexagon would be required to charge and account for VAT on the transfer of the land to Horniman and would be entitled to reclaim in full the VAT incurred on the cost of acquiring the land.

## 3. VAT liability of development costs

The supply of services in the course of construction of new dwellings and any building materials supplied with those services and incorporated in the new dwellings will be zero-rated. This will include the supply of demolition services which are closely connected to the construction of the new dwellings. Professional services (architects, surveyors, consultants etc.) will be subject to VAT at the standard rate unless provided under a single 'design and build' contract, in which case they can also be treated as zero rated.

VAT at the standard rate should be charged on non-building materials (such as white goods and carpets) and this VAT will not be recoverable by Hexagon or Horniman irrespective of whether taxable supplies are made. This VAT is always a cost of residential property development.

# Technical analysis: VAT (continued)

## 4. Intended supplies and entitlement to recover VAT

The first grant of a major interest (i.e. the sale of freehold or a long leasehold over 21 years) by a person constructing a building designed as a dwelling or a number of dwellings is zero-rated for VAT purposes. Provided that each residential unit in the Croydon development will qualify as a dwelling, where Hexagon is commissioning the construction of the shared ownership units on its land it will have person constructing status ("PCS") in respect of these dwellings and therefore will be capable of making zero rated first grants. Similarly, where Horniman commissions the construction of the private sale units on its land it will have person constructing status ("PCS") in respect of these dwellings and therefore will be capable of making zero rated first grants.

In order to qualify as dwellings the residential units need to meet the following conditions:

- each unit needs to consist of self-contained living accommodation;
- there should be no provision for direct internal access to any other dwellings;
- there should not be any prohibition on the separate use or disposal of the dwelling under a covenant, planning consent or similar provisions; and
- statutory planning consent must have been granted and the units constructed in line with that consent.

## 5. Shared ownership units

Hexagon will have PCS in respect of the shared ownership units and so the first tranche sales of the shared ownership units will be zero rated and as such Hexagon will be entitled to recover VAT incurred on related costs, e.g. on professional fees related to the development of these units, and on sales and marketing costs. Ongoing rental income received in respect of the shared ownership units and any future staircasing income will be exempt from VAT. Therefore, any VAT incurred on costs post the first tranche sale (such as ongoing maintenance) will not be recoverable.

## 6. Outright sale units

We understand the outright sale land will be transferred to Horniman.

Horniman will have PCS in respect of the outright sale units and so the first sale or long lease (in excess of 21 years) of the outright sale units will be zero rated and as such Horniman will be entitled to recover VAT incurred on related costs, e.g. on professional fees related to the development of these units, and on sales and marketing costs. Ongoing rental or service charge income received in respect of the outright sale units will be exempt from VAT. Therefore, any VAT incurred on costs post the first sale or grant of a long lease (such as ongoing grounds maintenance) will not be recoverable.

# Disclaimer

This Report has been prepared on the basis set out in our tax compliance Engagement Letter addressed to Hexagon Housing Association (the 'Client') dated 14 February 2019 (the 'Services Contract') and should be read in conjunction with the Services Contract.

Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Services Contract.

This report has been designed to meet the requirements of Hexagon and is unsuitable to be used or relied on by any person or organisation other than Hexagon. Any such person or organisation who chooses to rely on this report will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of this report to any other person.



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