

**Paragon Asra Housing Limited**

# **Tax Strategy**

February 2022

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<b>Department</b>	Finance
<b>Approved by</b>	Finance Committee February 2022
<b>Next review date</b>	February 2025 (earlier if required in response to changing legislation)

## AUDIT LOG

Date of Change	Who updated	Details of the change
March 2019	Simon Hatchman	New policy drafted, based on the Paragon policy which was approved in October 2016 and taking into account the views expressed by Audit & Risk Committee members in November 2018
February 2022	Simon Hatchman	Routine review in line with standard three year renewal cycle. No significant changes as document remains current and fit for purpose. Approval authority as noted within the document switched from Board to Finance Committee, in line with the approved Committee Terms of Reference.

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## **1. Purpose and scope**

1.1 Paragon Asra Housing Limited ('PA') has established a Tax Strategy in order to:

### **1.1 *Ensure integrity in PA's compliance and taxation reporting***

PA recognises the importance of achieving and maintaining full compliance with legislative and regulatory requirements. PA has established procedures which support this aim, and we have no appetite to engage in activities which may compromise our ability to meet the expectations of HM Revenue and Customs ('HMRC') and other key external stakeholders.

### **1.2 *Clearly set out how PA aims to achieve value for money through legitimate tax efficiency initiatives***

As a charitable organisation with a clear social purpose, PA has an obligation to make the most of its available resources so that the maximum amounts possible can be reinvested for furtherance of its objectives. This can include the operation of legitimate and established tax efficiency models. PA has no appetite to innovate in this respect, and wherever necessary we will seek advice from tax advisors and / or HMRC before implementing any new tax planning model.

### **1.3 *Articulate how PA controls and manages tax risks***

PA has set a high assurance threshold in respect of its tax affairs. We recognise that tax risk is multi-faceted, and we have a range of control measures in place to manage those risks.

### **1.4 *Safeguard PA's external reputation***

Tax compliance and more broadly, an ethical approach to managing one's tax arrangements, has become an increasingly important topic of public debate in recent years. While recognising that as a charitable organisation, any tax efficiencies achieved will release funds for reinvestment in business objectives rather than derive direct financial benefits for directors or shareholders, PA fully accepts and supports the notion that corporate entities should ensure that they manage their tax affairs in a responsible way which stands up to external scrutiny.

### **1.5 *Meet the needs of PA's stakeholders***

PA has a range of different stakeholders. Their various needs will often overlap and at times will appear to conflict. PA has a responsibility to manage these relationships in a balanced way, allocating its resources so as to deliver the best possible outcomes for all.

### **1.6 *Comply with HMRC requirements and expectations***

HMRC is clearly a key stakeholder when it comes to taxation. While PA is not currently of sufficient size to require us to make a Tax Strategy publicly available (in accordance with the Finance Act 2016 – turnover above £200m and / or balance sheet above £2bn), we expect to reach the prescribed thresholds in this respect in the relatively near future. Irrespective of that, PA believes that the adoption of a Tax Strategy is a matter of good business practice which will help to underpin our ongoing relationship with HMRC.

1.7 PA is a Community Benefit Society and it is registered with HMRC as an exempt charity. All of PA's activities are within the United Kingdom. PA does have commercial subsidiary companies which deliver certain services on its behalf. This Strategy equally applies to all of PA's subsidiary entities.

## **2. Applicable taxes**

2.1 There are a number of different types of taxes that directly affect PA's operations. These are:

### **2.2 Corporation Tax ('CT')**

As almost all of PA's income is both derived from and applied to activities which further its charitable objectives, PA qualifies for charity tax exemptions. Unless there is a change in tax legislation affecting charities, it is unlikely that significant CT will be payable. A small element of PA's income is from non-charitable activities, and PA ensures that it pays the correct amount of CT on its surpluses from such activities. The directors of PA's subsidiary companies may elect to gift aid those entities' taxable profits to PA. This is a decision which is made annually, taking into account a range of factors. Any taxable profits not gift-aided will be subject to CT payments. PA engages specialist tax advisors to assist with the computation and submission of its annual tax returns to HMRC.

### **2.3 Capital Gains Tax ('CGT')**

This tax is levied on the sale of property or other capital investments. PA does not ordinarily pay CGT as it is able to claim charitable exemption provided the gains are applied for charitable purposes. If any applicable transaction is subject to complexity or uncertainty, then specialist advice will be obtained to establish the tax position.

### **2.4 Value Added Tax ('VAT')**

PA is only able to recover part of the input VAT that it incurs. This is because the majority of PA's income stream, being rent from residential property lettings, is exempt from VAT. PA maximises its VAT recovery through a Partial Exemption Special Method which has been agreed with HMRC. From time to time this is reviewed and modified in line with evolving business activities, and whenever a change is considered appropriate PA will liaise with HMRC to obtain renewed agreement to the new method. Some of PA's subsidiary companies are able to fully recover their input VAT due to the nature of the services they provide.

### **2.4 Stamp Duty Land Tax ('SDLT')**

This tax is payable on land transactions, however relief is available for charitable activities and PA will seek this whenever possible. If any applicable transaction is subject to complexity or uncertainty, then specialist advice will be obtained to establish the tax position.

### **2.5 Employment taxes**

There are a number of facets to employment taxes and related transactions, including

Pay As You Earn, Construction Industry Scheme, National Insurance, Salary Sacrifice, the Apprenticeship Levy, and employee benefits and expenses. In all cases, PA operates in accordance with legislation and standard expectations, and we liaise with HMRC as required to ensure full compliance.

### **3. Integrity, compliance and reporting**

- 3.1 At all times, PA seeks to conduct its tax affairs in an ethical and transparent manner. We recognise that our tax arrangements are subject to scrutiny, and our aim is to facilitate this through comprehensive, open and honest record keeping.
- 3.2 We will maintain full records and audit trails for all of our tax transactions. We will ensure that these records are, wherever necessary, annotated with clear notes and explanations which enable users to fully understand our selected tax treatments and their implications. If expert external advice has been sought, this will be maintained on file alongside our transactional records in order to validate our approach. We will also ensure that any such advice is shared with our executive and non-executive directors as required in order to support corporate decision-making processes.
- 3.3 PA's overall intention is to fully comply with all tax regulations and disclosure requirements in all areas in which it operates. This requires that:
  - PA will submit all tax returns and payments by their due dates and all such returns will be accurate
  - PA will proactively pursue any tax timing benefits but only within the context of a full compliance culture
  - PA will monitor changes in tax law and practice and undertake regular training in order to assess any consequences for the business, with the aim of ensuring ongoing compliance and good practice from a position of strong corporate awareness
  - PA will manage its tax compliance affairs with a view to minimising the risk of any adverse public comment
  - PA will identify and address any systems or procedural weaknesses which may compromise full compliance

### **4. Achieving value for money**

- 4.1 As a charitable organisation, PA has an obligation to use its resources carefully and to maximise its capacity for furtherance of its objectives. This includes investment in services for our residents and communities, building new affordable homes, and improving the corporate infrastructure.
- 4.2 Tax efficiency is part of this remit – we will seek to reduce our tax exposures where it is legitimate to do so. However, we have no appetite to innovate in this respect and we will only pursue tax efficiency models which we know are compliant with HMRC requirements and expectations. Where there is any uncertainty as to the approach we are taking or proposing, we will procure expert advice and liaise with HMRC as required in order to achieve certainty. If this cannot be achieved then we will alter our approach or terminate the proposal.
- 4.3 The measures which PA currently has in place to mitigate its tax exposure are as follows:
- 4.4 *VAT Partial Exemption Special Method*  
This allows us to recover a relatively small proportion of our input VAT, based on a calculation method which has been deemed acceptable by HMRC. From time to time,

we may decide to modify our method and if so we will seek HMRC approval of the revised approach.

#### 4.5 *VAT charitable relief*

As a charitable organisation we are able to benefit from reduced or zero rate input VAT for the supply of certain goods and services. This is subject to the agreement of our suppliers, and we liaise with them in line with the relevant HMRC VAT Notices to achieve these reliefs.

#### 4.6 *VAT on new build construction projects*

PA engages the services of its subsidiary companies for some of its construction projects. The subsidiary companies are not in PA's VAT Group, and therefore they charge VAT on the services they supply to PA and are able to recover VAT on their input costs. Primarily, these are incurred on the professional fees (legal, architectural, valuation etc) associated with a construction project.

#### 4.7 *Corporation tax and gift aid*

PA's subsidiary companies may make taxable profits from its new build property sales activities. The directors of these companies may elect to make gift aid payments to PA, in order to reduce or eliminate their taxable profits and thus reduce or eliminate corporation tax payable. This is a decision which those directors make annually and it is at their discretion, based on their assessment of business performance and objectives.

#### 4.8 *PAYE Settlement Agreement ('PSA')*

PA has in place a PSA, agreed with HMRC, to cover all the tax and National Insurance due on minor, irregular or impracticable expenses or benefits for our employees. The PSA is reviewed from time to time. This arrangement does not reduce the tax we pay, but it is a more efficient way of working than running all such transactions through our payroll. As such, it offers us internal process savings.

#### 4.9 *Salary sacrifice*

PA has implemented a salary sacrifice scheme to introduce tax efficiencies for both PA and its employees in respect of pension contributions and purchase of bicycles for commuting use. This is a well established model which, with regard to pensions, can be regarded as a positive incentive to help people save for their retirement. In due course PA may consider extension of the salary sacrifice scheme to other eligible employee benefits.

#### 4.10 *SDLT*

Where applicable, PA takes advantage of SDLT reliefs on land transactions where the land will be developed in furtherance of our charitable objectives. On mixed tenure sites, only a relevant proportion of relief is claimed.

### **5. Controlling and managing tax risk**

5.1 PA recognises that tax is a complex subject, with regular changes to legislation and a number of risks to consider. We aim to achieve full compliance at all times, both in terms of our day to day tax affairs and in relation to any projects which have tax implications.

5.2 Our assessment of tax risk takes account of:

- Both short and long term implications
- Any impact on PA's reputation / brand
- Any impact on PA's relationships with funding bodies and other stakeholders
- The consequences of any disagreements with HMRC over the application of tax legislation

- The impact of taxation decisions on other aspects of the business

5.3 We control and manage our tax risks in the following ways:

- Retention of all relevant documentation including supporting audit trails and explanatory notes
- Detailed operational procedures for those Finance team members charged with tax accounting / processing / administration
- Sharing of taxation work and knowledge across the Finance team, thus minimising key person dependency
- Learning and development opportunities (training events, conferences etc) for those Finance team members charged with tax accounting / processing / administration
- Recruitment of Finance team members with relevant tax knowledge and experience
- Periodic refresher and hot topic training events for those across the business who are involved in work / projects with tax implications, provided by a combination of in-house and expert external resource
- Bite size guidance / reference notes for those across the business who are involved in work / projects with tax implications
- Access to a range of external tax specialists for advice on any matters / projects with unusual / complex tax aspects
- Use of our appointed tax compliance advisors for support with compilation of annual tax returns and their filing with HMRC
- Regular tax control account reconciliations which are signed off by a senior member of the Finance team
- Design of IT systems in line with tax management requirements
- Internal and external audit review
- Periodic tax 'health checks' from specialist advisors
- Environmental scanning to pick up on emerging tax issues and consider their application to PA
- Reporting of any material issues to our Audit and Risk Committee
- Maintenance of an open relationship with HMRC to facilitate resolution of queries and ensure full compliance with requirements / expectations

5.4 The activities of PA's subsidiary companies are a relevant consideration within the context of tax risk management. The subsidiaries have their own boards of directors who hold regular minuted meetings to set company strategy and monitor progress. This work includes risk assessment, and where relevant tax risk will be part of the boards' work programmes. All transactions between PA and its subsidiary companies are on an arms-length basis, and on commercial terms which are regularly reviewed by both parent and subsidiary boards.

5.5 PA's Finance team has lead responsibility for management of our tax affairs. Individual roles within the team have defined and specific responsibilities. The Executive Director - Resources reports to the Audit & Risk Committee on any particular matters which require discussion or attention – this can include changes to relevant legislation, new HMRC working practices which impact on PA, particular tax projects with material business impact, or matters which necessitate significant dialogue between PA and HMRC.

5.6 PA utilises tax advisors with proven expertise and specialism in the housing association sector. Our tax compliance advisors were appointed following a rigorous tender process which tested firms' ability to support a best practice approach to tax management and planning. We liaise with our tax advisors on any taxation matters which are not routine and straightforward, to ensure that all possible risks and outcomes are understood. We believe that the relatively small cost of advisory fees is a worthwhile investment when



set against the potential cost of getting it wrong, and accordingly we budget for this activity.

- 5.7 PA's Board has defined its risk appetite on a matrix basis which considers a range of risk aspects. The approved matrix states that PA has a cautious appetite in respect of the 'governance and control' element, and an averse appetite in respect of 'compliance and regulations'. This emphasises the need for tight controls and minimal risk acceptance. Our attitude to tax risk aligns with this broader corporate position.

## **6. Safeguarding PA's external reputation**

- 6.1 PA fully accepts that it has a responsibility to conduct its tax affairs in a compliant manner. Beyond that though, we recognise that a broader ethical approach to doing business is an essential component of our ways of working. Through this, we can give assurance to stakeholders and the wider public that we will not compromise on integrity in order to drive financial returns. We will align ourselves with best practice when it comes to tax management and compliance, thus minimising the risk of challenge and negative perception.
- 6.2 All of the work we do around tax is driven by this philosophy, and tax issues or opportunities will be challenged from the perspective of maintaining a position of best practice. We will not pursue tax management initiatives which threaten this stance, and we will always seek expert advice when considering something new.
- 6.3 We believe that our attitude to tax planning is well aligned with the majority of housing associations, but is more cautious than some. PA has no appetite to be involved in tax planning initiatives which could be regarded as innovative or higher risk.

## **7. Meeting the needs of stakeholders**

- 7.1 PA's stakeholders are many and varied. Our approach to tax management can impact on these stakeholders in different ways, and to an extent there may be apparent conflicts to consider and manage.
- 7.2 As an example, our social purpose obliges us to maximise the resources we have available for investment in our services. Good tax management can support this, by legitimately mitigating our tax exposures and thus increasing the financial resources PA can retain. However, it could be argued that a more aggressive tax management stance would further increase our financial resources and thus release capacity to do more in support of our social purpose. This is not acceptable to PA, since it would unduly compromise our ability to meet the compliance, integrity, risk and reputation thresholds we have set for ourselves.
- 7.3 As such, it can be seen that for PA the requirement to maintain a best practice position in terms of tax compliance overrides the requirement for us to maximise our financial efficiency. We recognise the broader societal impacts and benefits of the taxation system, and we are willing to pay our fair share of tax to contribute to this.

## **8. Complying with HMRC requirements**

- 8.1 PA conducts its business affairs in an open and transparent manner, and this extends to our relationship with HMRC. We recognise the importance of and benefits from maintaining open dialogue with HMRC – this enables swifter query resolution, promotes efficiency of working for both parties, and ultimately strengthens our compliance regime.

- 8.2 HMRC visits and inspections – be they routine or for a particular reason – are welcomed and facilitated. Advance preparations for visits will be made, so that the visit itself proceeds smoothly, and all relevant documents will be made available for inspection in an easy to use format. Where considered necessary or helpful, we will engage our tax advisors to support us through any such engagements with HMRC.
- 8.3 Whenever appropriate, PA will collaborate with HMRC to resolve tax queries. This may include direct liaison between HMRC and PA's tax advisors, where it is felt that such liaison will increase shared understanding of relevant issues and allow swifter resolution.
- 8.4 More broadly, PA runs its business in a manner which is designed to accept scrutiny from all key stakeholders. This means that our document retention and filing systems can respond to external enquiry with the minimum of fuss and effort.
- 8.5 PA is also aware of HMRC's own aims and objectives, for example the Making Tax Digital agenda, and we ensure that any new HMRC initiatives which have an impact on us are understood and implemented in good time.

## **9. Management, reporting and monitoring**

- 9.1 The Executive Director - Resources will be responsible for ensuring that systems and processes are in place to ensure ongoing compliance with this Strategy. This will include reporting on all relevant issues to the Audit & Risk Committee.

## **10. Strategy review**

- 10.1 PA's Finance Committee will scrutinise and approve this Strategy on behalf of the Board at least every three years, and more frequently whenever necessitated by changes in the tax environment. Underlying procedures in operation within the business will be reviewed and updated on an ongoing basis, in response to business need and the changing operating environment.

## Glossary

<b>Term</b>	<b>Definition</b>
<b>Apprenticeship Levy</b>	A levy imposed by government on employers to fund new apprenticeships nationally, charged as a percentage of the employer's payroll costs
<b>Capital Gains Tax</b>	A tax levied on profit from the sale of property or investments
<b>Community Benefit Society</b>	Companies which conduct business for the benefit of their communities, with profits retained by the business for future reinvestment
<b>Construction Industry Scheme</b>	A scheme which involves tax being deducted at source from invoice payments relating to construction work
<b>Corporation Tax</b>	A tax levied on companies' profits
<b>Gift Aid</b>	A voluntary donation to a charity made by a UK taxpayer
<b>National Insurance</b>	The system of compulsory payments by employees and employers to provide state assistance for people who are sick, unemployed, or retired.
<b>Partial Exemption Special Method</b>	An approved method for recovering some input VAT when a company has supplies of both a taxable and an exempt nature
<b>Pay As You Earn</b>	A system by which an employer deducts income tax from an employee's wages before paying them to the employee and sends the deduction to the government
<b>PAYE Settlement Agreement</b>	An agreement which allows an employer to make one annual payment to cover all the tax and National Insurance due on minor, irregular or impracticable expenses or benefits for employees
<b>Salary Sacrifice</b>	An arrangement employers may make available to employees in which the employee agrees to reduce their earnings by an amount equal to their pension contributions or other approved expense
<b>Stamp Duty Land Tax</b>	The tax imposed by the government on the purchase of land and properties with values over a certain threshold.
<b>Value Added Tax</b>	A tax on the amount by which the value of an item has been increased at each stage of its production or distribution