Appendix - Scrip for Scrip - Comparison of Market Value vs Simplified Push-up on cost base of shares in Original Co

Category	Source of uplift in value to market value in Original Co (from original and injected equity)	Reflected in tax cost post-Scrip for Scrip: Shares in Acqiure Co Level 1	Shares in Original Co Cost Transfer Level 2a	Shares in Original Co Market Value Level 2b	Shares in Original Co Simplified Push-up Level 2c	Assets of Original Co Level 3	Mismatch Market Value (Level 2b) vs Simplified Push-up (Level 2c)	Level	Potential for Double Tax from sale of (i) Shares in Acquire (Level 1) (ii) Shares in Original (Level 2) (iii) Asset disposal by Original (Level 3)
IA	Growth in business PRIOR to Original Purchase reflected in growth in asset base and realised profits	Yes	Yes	Yes	Yes	Yes	No		No
IB	Growth in business AFTER Original Purchase reflected in growth in asset base and realised profits	No	No	Yes	Yes	Yes	No		Yes
								1	Shares in Acquire
								2a	Shares in Original (Cost transfer)
IIA	Growth in the value of goodwill (without a tax cost) PRIOR to Original Purchase	Yes	Yes	Yes	Yes	No	No		No
IIB	Growth in the value of goodwill (without a tax cost) AFTER Original Purchase	No	No	Yes	Yes	No	No		Yes
								1	Shares in Acquire
								2a	Shares in Original (Cost transfer)
								3	Asset disposal by Original
IIIA	Growth in the value of unrealised assets and goodwill with tax cost PRIOR to Original Purchase	Yes	Yes	Yes	No	No	Yes		Yes
								2c	Shares in Original (Simplifed Uplift)
								3	Asset disposal by Original
IIIB	Growth in the value of unrealised assets and goodwill with tax cost AFTER Original Purchase	No	No	Yes	No	No	Yes		Yes
								1	Shares in Acquire
								2a	Shares in Original (Cost transfer)
								2c	Shares in Original (Simplifed Uplift)
								3	Asset disposal by Original
IVA	Increased value of the group as a result of the expected future synergies from the "merger" of the Acquirer and the Original Company	No	No	Yes	No	No	Yes		Yes
								1	Shares in Acquire
								2a	Shares in Original (Cost Transfer)
								2c	Shares in Original (Simplified Uplift)
									Unlikely to be reflected in Original Assets
IVB	Increase of the value of Original Co as a result of expected future change of management or similar	No	No	Yes	No	No	Yes		Yes
								1	Shares in Acquire
								2a	Shares in Original (Cost Transfer)
								2c	Shares in Original (Simplified Uplift)
								3	Asset disposal by Original

Observations

① There is a mismatch between MV and Simplified Uplift in 4 categories (IIIA to IVB).

② For IIIA, MV seems to produce the more economically sound result because the value inherrent in the Original Shares when originally purchased should be transferred to the Cost base of the Original Shares following the scrip for scrip. This cost base is not pushed up under the Simplified Push-up method. This logic does not apply to IIIB which reflects a potential benefit for MV (mitigated by a pick-up on the sale of the Acquire shares discussed below).

③ Because there is a different treatment on the Simplifed Push-up between unrealised gains from assets with tax cost and those without (goodwill, unless goodwill has a tax cost from a previous acquistion or a considation pushdown), then there will be a tension under the Simplified Push-up method on the allocation of value between assets and goodwill. This could be a source of potential conflict.

④ The level of potential double taxation is significant. Whilst that is commonly a feature of our CGT system where there are multiple layers, the real question is whether there is likely to be a claw-back of what might be seen as unwarranted benefits by virtue of this feature.

⑤ An unwarranted benefit is most likely to arise where there is latent untaxed value of assets in Original Co and after the Scrip for Scrip a significant portion of the assets are disposed. There are two observations in relation to that scenario. Firstly, that value will be reflected in the value of Acquire shares and not in the cost base, so will be taxed over time at that level. Secondly, the Simplified Push-up method does not address that if the value is reflected in goodwill (without a tax cost) and not other assets.

⑥ In comparing the MV and the Simplified Push-up method the following should be noted. In Category IIIA the failure to uplift the unrealised assets and goodwill under the Simplified Push-up could be seen as unfair to the taxpayer as that value is reflected in the purchase price of the original shares. On the other hand the value the growth in value unrealised assets after the purchase of the original shares presents a benefit to the taxpayer. This benefit is mitigated by the fact that the value would be taxed on disposal of Acquire shares and the assets themselves (thus two other potential levels of taxation).

⑦ Category IVA gives an effective uplift for value arising from expected future synergies. One point about this category is that it is unlikely to be reflected in the sale of Original Shares or assets of Original Co. It is unlikely to present an integrity concern.

⑧ Category IVB results in an effective uplift in cost based on the expected future benefits from better management. This would seem to be an uneconomic benefit but once again it is mitigated by tax picked up on the disposal of acquire shares and indeed an increase in the value of the underlying assets of Original which would be taxable if sold at that level.