

## Issue: VAT and exempt status

### **Background:**

A private equity fund was transferring a portfolio company it owned to a new fund with new investors as the business was performing well and the fund wished to retain the business. The business is in a sector where there has been significant VAT litigation and was always monitoring its VAT position.

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### **Issue:**

The fund wished to protect new investors against tax risk from the previous fund's period of ownership. The main risk was VAT and whether the business had been correct in asserting it was VAT exempt. The tax issue was an incredibly complex one as it had evolved over the past 10 years with amendments to legislation, guidance and case law as well as EU law which the business has been grappling with for many years and was trying to be compliant.

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### **Solution:**

We issued a policy with a limit of £22m for the benefit of the new fund, its GP and investors in the event there was a successful HMRC challenge of the VAT status business. This was a very niche area of law but we worked well with the fund and all advisors to produce a bespoke policy to remove the risk for the fund, and ultimately, its investors.

