The Club has received a tax inspection from the Tax Authority regarding Corporate Income Tax for the fiscal years 2020 to 2023. The inspector's main reasoning is the consideration of the entry fees paid by new members as income. The Board commissioned two independent reports to assess the implications of the inspector's position. These reports were prepared by FMC and KPMG, both recognized specialists in tax law and corporate compliance.

For Corporate Income Tax purposes, the Club applies the Special Regime for Partially Exempt Entities regulated in Chapter XIV of Title VII of Law 27/2014, of November 27, on Corporate Income Tax (hereinafter "LIS").

Prior to 2022, the Club recorded all contributions made by members as income attributable to the profit and loss account, regardless of their nature.

From a tax perspective, the Club filed its Corporate Income Tax returns making extra-accounting adjustments that treated all recorded income as exempt from taxation, while also considering non-deductible the expenses linked to such income. In practice, the Club only included financial income in its taxable base, **understanding that its main activity was exempt, in accordance with Articles 110 and 111 of Chapter XIV of Title VII of the LIS.**

During fiscal year 2022, after consulting with independent professionals, it was concluded that the criterion previously applied for recognizing accounting income was incorrect, as entry fees paid by new members were being recorded as ordinary recurring income. This practice resulted in an overstatement of the retained earnings account and the failure to recognize contributions made by members directly in equity, as reflected in the Club's bylaws under Article 12, thereby distorting the true and fair view of the Club's equity.

From a tax perspective, in 2022 and onwards, the Club considers that the exemption provided in Article 110 of the LIS does not apply to the periodic fees paid by members, since payment of such fees grants them the right to use the sports facilities. However, contributions made by new members continue to be considered exempt from taxation for Corporate Income Tax purposes, as they do not correspond to any consideration or service.

<u>Financial Impact - Board recommendation and proposal.</u>

The tax exposure for the 4 years in question totals €507k and with interest comes to €580k. We have the liquidity to meet this and have already set aside the amount on a contingency basis (but not as a cost or actual liability) to ensure the tax exposure is met if the worst outcome ensues.

Nevertheless, the board recommends to members we should appeal the case and formally challenge the decision of the tax inspector and tax authorities for the following reasons: -

The independent reports from KPMG y FMC are very clear that we have a very strong argument against the tax liability principally on the basis there is no consideration for services (or anything else) given for payment of entry fees. It is true the by-laws and joining information for new members could be worded slightly differently and that is something which can be looked at for the future, but the fundamentals of the transaction are factual and not open to meaningful dispute – the entry fee in itself gives nothing and is therefore outside the scope of corporation tax.

Furthermore, other clubs of similar standing to us who are also affected by the blanket decision of the tax authorities have indicated they will likewise appeal the tax decision on similar grounds. We would be isolated and vulnerable if we did not appeal.

In the worst outcome if we were to lose the appeal penalties would be relatively small as the tax authorities have indicated we acted in good faith at all times, we have been totally transparent and given full co-operation to them, and there is no question of anything professionally remiss or questionable in our actions. It is purely a question of interpretation of an equivocal aspect of tax law which is being disputed.

Of course, professional fees, time and uncertainty are factors to be considered but the cost - benefit ratio of the issue if we appeal works hugely in our favour.

For these reasons, the board recommends to members that we appeal the decision and give instructions to appoint an appropriate professional tax specialist(s) to act on our behalf accordingly.