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Course **APS Owner-Managed Businesses**

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Section 1	**6313**	**28806**	**35060**
Total	**6313**	**28806**	**35060**

Report

From: Charlotte Mitchell

To: James Blackwood

Date: 30 April 2026

Re: Report on advice relating to sole trade incorporation, business expansion, gift of business premises to Danielle and bringing Danielle into the business

Introduction

This report is provided to you following our meeting on 18th April 2026 and subsequent email correspondence. I will highlight to you the various tax implications you need to consider on incorporation of your sole trade, advise you on your business expansion, and bringing Danielle into the business.

This report is intended only for yourself, and we do not accept liability for any third parties who may wish to rely on this report.

I have assumed that the estimated values of the business assets at 31 March 2027 is accurate, however you should seek professional a valuation.

Executive Summary

I recommend that you incorporate at 1 April 2027, and that as part of this process, you sell the Plant and machinery to the company for £1 to generate a large balancig allowance.

I also adivse that you transfer all assets to the company, including the business premises.

This is because you will avoid a double tax charge that may be present using gift relief, and you will retain 100% BPR on the premises. This also gives you greater flexibility such as having a laon account and withdrawing money tax free to repay this.

I recommend that you purchase the new plant and machinery whilst you are still a sole trader, as this will increase your balancing allowance at 31 March 2027 by £350,000, resulting in a significant trading loss in your final period.

This will then allow you to utilise the terminal loss releif and carry the loss back to save tax of £356,139. Any unused loss can be offset against income received from the company in the future, as long as you have 80% of your consdieration in shares.

I recommend that you initially employ Danielle whilst she is at university, creating an employment contract to avoid national minimum wage issues.

You could then transfer Danielle 5% of the ordinary shares so that she has at least 5% of the v0ting rights and will be able to claim BADR after two years. The rest of your shareholding would then pass over in your estate, covered by 100% BPR, and resulting in a large increase in Danielle's base cost.

Finally, I would advise that you transfer the business premises into the company for incorporation relief, but then Danielle is gifted the business premises along with 5% of the shares at a later date as this would make use of the associated disposal rules for BADR. A claim for gift relief would also be possible if you agree this with Danielle.

Section A - Incorporating your business

A1 - Formalities upon cessation and beginning to trade as a Limited Company

On the incorporation of your business, your sole trade will cease and trading via the use of a limited company (Ltd Co) will commence. There are various formalities that must be followed for both of these to occur.

Firstly, you will be ceasing your sole trade and must inform HMRC that it will no longer be trading, therefore they will not be expecting to see this information on your self-assessment tax return going forwards. You will also need to contact HMRC within 30 days of cessation to deregister your sole trade from VAT.

To set up your Ltd Co, you will need to notify HMRC that the company has began trading and will be under the scope of corporation tax (CT). This notification must be done within 3 months of your first accounting period beginning. If you begin to trade via your Ltd Co on 1 April 2027, then you will need to do this by 30th June 2027. You will also need to register for VAT within 30 days of your first accounting period starting. As you have done this previously with your sole trade, I assume you are familiar with what to include on your VAT registration form, customer invoices, and VAT returns, so I will not expand on these points further. If you would like me to go into detail on any of these points, please let me know and we can arrange a meeting.

Whilst a Limited Company restricts your personal liability to the amount that you have invested within the company, it would still be adviseable to arrange for some business insurance to protect the company against any potential claims. A formal shareholding agreement should also be drawn up, and I recommend that you contact a solicitor to arrange this.

Your final tax return with sole trade profits will be in the 2026/27 tax year, meaning this

tax return and balancing payment will be due by 31 January 2028. If you believe that your profits will be lower in the next year, you will be able to make a claim for reduced payments on account for your 31 January and 31 July 2028 payments on account, but as discussed later, this may not be the case depending on what you decide to do with your plant and machinery.

A2 - Balancing adjustments on the cessation of trade

The next issue I wish to raise with you is the adjustments that you will need to make on the cessation of your trade. As your sole trade is taxable to income tax on yourself, but the company will be subject to corporation tax, you will need to make some balancing adjustments to your trade profit for the period to cessation.

As we discussed previously, I believe ceasing trade on 31 March 2027 and beginning to trade via the Ltd Co on 1 April 2027 makes the most sense, due to you already having a 31 March year end for your accounts, it aligns with the tax year, and you expect your profits to rise from May 2027.

When you cease to trade, there are two main adjustments that you will need to make to your trade profit. Firstly, you will need to make an adjustment for stock. I note based on your estimated value of business assets at 31 March 2027, you do not expect to hold any stock at cessation, however, if you do your sole trade will be treated as disposing of this stock to the Ltd CO.

As your sole trade is connected to your Ltd Co. due to you owning all of the shares (or the majority if some are allocated to Danielle as discussed later), if you gift any stock, then the market value of the stock at cessation will be the deemed proceeds. If you sell the stock to the company, as long as both the cost of the stock when you bought it, and

the amount you charge the company are both less than the market value, then you can elect for the amount treated as proceeds to be the higher of the original cost and consideration paid on incorporation. As you prepare your accounts using the accruals basis, you will add the proceeds as income in the final trading period, but deduct the cost of all remaining stock, to arrive at a balancing adjustment.

The other main profit adjustment on incorporation is on your plant and machinery (P+M). When you cease to trade, an amount will need including in your capital allowances calculations for the deemed disposal of the P+M. As your sole trade and Ltd Co. are connected, the default for the deemed proceeds is market value. This will be the case if the P+M are gifted to the company.

However, if you sell the P+M to the company, the deemed proceeds included will be the lower of the original cost to purchase the P+M and whatever consideration is paid for them. This is significant as you could transfer the P+M for as little as £1. Before any capital expenditure in your final trading period, this would result in a balancing allowance of £96,139 being deducted from the final trading profit.

The only disadvantage to this method, is that the price the company pays for stock will be included in the first set of accounts, and the capital allowances that the company can claim are based on the purchase price of the P+M. This means the company will only be able to claim £1 of capital allowances on the P+M, however, as the sole trade and company are connected, the company would not be able to claim the Annual Investment Allowance (AIA) on this purchase. It also wouldn't be able to claim the First Year Allowance (FYA) as the P+M wouldn't be new. This means the company would only get relief over a long period of time anyway via written down allowances on the main and special rate pools of 18% and 6% respectively.

Alternatively, you can elect for the tax written down value at 5 April 2026 to be used as the deemed proceeds. This will result in a nil balancing adjustment.

As your sole trade profits are partially taxed at 40%, you generally pay more on profits arising in a sole trade than you do in a limited company, as demonstrated in the illustrations that I provided to you previously. I therefore recommend that you sell your P+M to the company for £1, and if you have any stock, to set the price equal to your original cost as this would also give you a reduction to your trade profits, despite the reduced capital allowances and stock deduction available to the company in the future.

In section C of this report, I will further discuss the implications of you increasing the ballancing allowance for your trade, as this may result in a loss for the final period.

A3 - Capital Gains tax implications of incorporation

The cessation of your sole trade will likely trigger disposals for Capital Gains Tax (CGT). You mentioned that you wish to retain ownership of your current business premises. Doing this would not be a disposal for CGT and I will therefore primarily discuss the implications for your goodwill, however, many of the impacts of the disposal of your goodwill will equally apply to the business premsies if you did decide to transfer this to the company. I will point out where relevant where different treatment applies between the two assets.

Assuming that the valuation of your goodwill is accurate, as it has nil base cost, the disposal will give rise to a capital gain of £295,000, as market value has to be used for the disposals when the parties are connected. The gain if you disposed of your business premises would be £40,000. Before any releifs, your disposal of your goodwill will be subject to CGT at 24%, although you will be able to make use of your Annual Exempt

Amount (AEA) of £3,000. This would result in a CGT liability of £70,080 ((£295,000-£3,000)x24%).

Gains made on assets of your sole trade would typically be able to obtain some releif via Business Asset Disposal Relief (BADR). This would see any gains taxed at 18% rather than 24%. BADR would be available on the business premises as you own at least 5% of the asset for the last two years, you have worked for the sole trade for the last two years, it is a trading company.

However, you will not be able to obtain BADR on your goodwill as this is specifically blocked on incorporation. This is because you own at least 5% of the current trade, and you will own at least 5% of the new business, and the companies are connected.

If you pursued this route, you would pay CGT of £70,080 by 31 January 2028, which may be a struggle due to the limited funds that you currently have available. I will therefore consider two further CGT reliefs available to you in the next section of this report.

A4 - Incorporation Releif

The first tax releif that you could consider is incorporation relief. This works by defering the CGT gains on incorporation by reducing the base cost of the shares you are subscribing for. This releif applies automatically and can be disapplied by the second anniversary of 31 Janaury following the disposal (31 January 2030), but one of the key conditions for this to apply is that all assets are transfered to the new company. Therefore, if you retian the business premises personally, you will not be able to make use of this relief. I will breifly outline how this releif works, so that you are fully aware of all of the options available to you.

If you transfer all of the assets and liabilities to the company at their estimated value at 31 March 2027, you will be creating a company with a value of £460,000, and this is the starting point for the base cost of your shares. I note that as your loans are unsecured, your creditors may not allow you to transfer these loans to the company, as this means they would no longer be able to pursue your personally for repayment as they would be covered by the limited liability of the company structure. If this occurs, your share base cost would increase to £712,000 prior to any incorporation relief, although for simplicity I will assume that the loans can transfer across to the company.

As you would need to transfer all of the assets into the new company for incorporation relief to apply, the gains of £335,000 would be deducted from the base cost of your shares, resulting in a share base cost of £125,000
(£460,000-£335,000). This would defer the entire gain until you dispose of the shares, and no CGT would be payable at 31 January 2028.

If you decided to take for example £100,000 of the consideration as loan notes, then you would have shares worth £360,000, which are then defered by the following fraction

£360,000 - (£335,000 x £360,000/£460,000) = £97,826.

This route would also result in not all of the gain being defered, with £72,826 being taxable at 31 January 2028 (£335,000 - £100,000/£460,000).
This gain would need to be apportioned between the two assets, which I have shown in Appendix 1, resulting in a CGT liability of £16,279.

If you used incoporation relief, the company is purchasing the assets from your sole trade (in return for shares, loan notes, etc.) and therefore would have base costs for these assets

equivalent to their market value at incorporation.

As you may incur significant trading losses (see section C), you may have some loss to carry forward agaisnt future income from the company. For this to be available, you would need to take 80% of the consideration (£368,000) in shares. The remaining 20% of £460,000, being £92,000, could be taken as loan stock. You could then charge the company interest on this, to make use of your savings allowance of £500 that is available to you as a higher rate tax payer.

This interest would be deductible for the company, but they would have to withold 20% income tax and report this quarterly to HMRC. You would then receive a tax credit for this amount on your self assessment tax return.

A5 - Gift Relief

The second CGT releif available to you on incorporation is Gift Relief. This is a joint election made between you as the sole trader, and the company, to defer the gains made by reducing the base cost of the asset for the company. This election must be made within 4 years from the end of the year of transfer, meaning for 2027/28, this must be made by 5 April 2032.

The main benefit of pursing Gift Relief (GR) is that you do not need to transfer all of the assets to the company. This would allow you to retain the business premises personally and only transfer the goodwill.

Assuming you did not recieve any consideration for the goodwill, the full gain would be defered and the company would obtain the goodwill with a nil base cost.

THere are restirctions where there are non-business chargeable assets or if some consideration is received for the asset. It does not appear that there are any investment assets within the sole trade, but if any proceeds are received, these would be immedately taxable as Excess proceeds is Consideration less base cost and as your base cost is nil, if you recieved £20,000 for the goodwill (shares or loan stock) this £20,000 would be liable to CGT now, and the company would have a £20,000 base cost. I would therefore recomend trasnfering the goodwill to the company for no consdieration in this instance.

The main downside to Gift Relief is that you have a low base cost of your shares, maybe just £100 you paid to purchase the off the shelf company, and the assets have a low base cost for the company. This is significant, because if you sell the trade and assrts in the future, this would result in a double taxation occuring. This is becuase there would be a large CGT gain for the company, and you would be taxed when extracting these profits, either via dividends or liquidation in the future.

For example, if you later sold the Goodwill for £500,000 the company pays tax on that gain at 25%, being £125,000 of CT. You would then extract the remaining cash of £375,000 either via dividends at 33.75/39.35% or liquidation, potentially at 18% £67,500 of CGT, before AEA and reliefs other than BADR.

A6 - National Insurance implications

You will go from paying class 4 NIC at 6% between £12,570 and £50,270 and 2% on profits greater than £50,270, to only paying class 1 primary contributions on any salary you draw from the company at 8% between £12,570 and £50,270 and 2% above £50,270. By incorporating at the end of a tax year, you will have no annual maximum of National Insurance Contributions (NIC) to be concerned about, as you will not pay both class 4 and class 1 NIC in the same tax year. You will however, have to consider that the

company will pay class 1 secondary NIC on your salary at 15% above £5,000, as well as any potential class 1A due on any benefits.

A7 - Inheritance Tax, VAT and Stamp Duty implications

As the value of the company is the same as the value of your sole trade if all assets are transfered, there is no fall in value, and therefore no change to your inheritance tax (IHT) position. This is becuase both the sole trade and company shares are covered by Business Property Relief (BPR) at 100% as they have been owned for at least two years.

If you retain the business premises personally, this will only be covered by 50% BPR, and so you would need to factor this into your decision making.

As mentioned previously, you will have to deregister your sole trade and register your company for VAT within 30 days of incorporation. Normally, the transfer of assets might be subject to VAT, however, you incoproration should be covered by the transfer of going concern (TOGC) rules.

These apply where there is a transfer of all or part of a business, there is no significant break in trading, the new person is or will become VAT registered immediately, and the new person will be carrying on the same kind of trade as before.

There is no Stamp Duty (SD) due on the subscription of new shares. If you do decide to transfer the business premises, Stamp Duty Land Tax (SDLT) will be due of £5,500. This is based on the estimated market value of £320,000 and the tax bands being (£1-£150,000 @ 0%, £150,001 - £250,000 @ 2%, £250,001+ @ 5%).

A8 - Summary and recomendations

Overall, I recommend that you should transfer the P+M to the company for a consideration of £1 to make use of the large balancing allowance that arises from this, as this can obtain greater relief to you persoanlly than to the trade (see section C).

I also recommend that due to the inheritance tax position, and to avoid double taxation, that you transfer all assets to the company and make use of incorporation relief. I will go into the issues surrounding the business premises further in section E of this report.

You should take 80% of the consideration in shares, and 20% in loan stock, as this makes incorporation loss relief avaialble to you, as well as being able to extract some money as interest and not pay NIC on this.

Section B - Expansion

The next point to consider is your proposed business expansion. The purchase of new plant and machinery would be eleigible for capital allowances, and the extension to the business premises would qualify for the structure and buildings allowance (SBA).

The purchase of P+M would qualify for AIA in either the sole trade or the limited company, as well as FYA in the company if it is new P+M. However, the best way to make use of this expenditure, would be to pruchase it whislt operating as a sole trader.

Purchasing the P+M in the final period of being a sole trader will mean that no AIA is or written down allowances (WDA) is available to you, however, you will benefit from the

£1 transfer I mentioned in section A. The price of the P+M purchased would be added to the tax written down value (TWDV) of the CA pools brought forward at 1 April 2026. WHen the P+M is subsequewntly sold for £1, this would result in a balancing allowance of £446,139. Assuming a profit in the final period of £90,000, this would result in a trading loss of £356,139 which can be offset in a number of ways as discussed in section C of this report.

As the company and sole trade are connected, the company would only be able to claim the WDA on the amount it pays for P+M from the sole trade, which would delay the relief. It would also only be able to carry any losses arising forward against future company profits, saving 25% tax, which is less than you wuld save as a sole trader, especially as you would still need to extract these profits. I therefore do not recommend waiting and purchasing the P+M new via the company.

As your sole trade uses the accruals basis for preparing its accounts, once the extnesion to the business premises is finshed and being use by the company, you will be able to obtain an SBA of 3% of the relevant expenditure, time apportioned where not avaialble for the full year.

Allowable costs of the SBA include building material, labour. They do not include planning permission and land costs or fees, these are added to the base cost of the premises for CGT.

On incorporation, the company would continue claiming the SBA at 3% per annum for the remainder of the 33 1/3 years. The SBA would be added to the deemed proceeds of the business premises for CGT, both at incoporation and subsequent dispsal.

I would therefore recommend purchasing the P+M whilst operating as a sole trader if

possible, and selling these to the company for £1 to obtain a large loss, which can be offset as shown in section C.

I also recommend claiming the SBA on the allowable costs of the extension of the business premises.

Section C - Loss Relief

As mentioned in sections A and B, an efficient way of purchasing the P+M for expansion is via your sole trade in 2026/27, to obtain a balancing allowance of £, and potentially a loss of £356,139. This loss can be releived in a number of ways as a sole trader, but if it arose within the company, it would only be carried forward against future profits within the company, and save tax at most at 25%.

The main factors to consider on loss relief are, that you want to relieve the loss as early as possible, and at as high of a rate as possible.

Before discussing the various loss releifs available to you, I want to point out that all loss releifs that are offsetting against net income are restricted to the higher of £50,000 and 25% of your adjusted net income. However, there is no restriction on the amount of loss that you can offset against your trading income, and as you have no other private income, you can relieve the full amount in each year.

The first option for your sole trade loss relief is a s.64 claim. This allows you to offset the loss against your net income for the current year (2026/27) and the previous year (2025/26). You do not need to make both claims, you can make them in either order, although as you have no other private income, you have no current year claim to make. S.

64 claims are all or nothing, meaning carrying it back against 2025/26, as it it just trading income, will result in the full profit of £87,254 being relieved, saving tax and class 4 NIC of £25,334.

You could also extend any S.64 claims to CGT via a S.71 claim. However, this would only save tax at 18% or 24%, and as I am only calculating a small gain by taking 20% of the consideration in loan stock, this would not be an effective use of the loss releif.

You could also use terminal loss relief as you are ceasing to trade. This allows the loss of the final 12 months of £356,139 to be carried back against profits from the 36 months before the beginning of your final accounting period, meaning you can extend your carry back claim to 2024/25 and 2023/24. This is on a last in first out basis starting with the current year.

This means you would fully relieve your total taxable profits from 2024/25 and 2023/24, resulting in a complete saving of tax across these three tax years of £75,996.

Finally, if on incorporation you take 80% or more of the consideration of as shares, you will be able to utilise incorporation loss releif. This allows you to withdraw the remaining loss carried forward £96,017 (£356,139 - 260,122) against future salary or dividends from the company.

This is beneficial as it would allow you to take more salary from the company, resulting in a greater deduction from the company, and only an increase in class 1 secondary contributions as a result, but a greater saving of tax for the company.

I would therefore recommend utilising the terminal loss relief against your profits for the year 2023/24-2026/27 and using incorporation relief against future profits from the

company.

Section D - Bringing Danielle into the business

The next issue that I will consider is how best to bring Danielle into the business. Your two options are as either an employee or as a shareholder.

Making Danielle an employee is the simplest route to involving her within the business. This would involve the company paying her a salary, which she would then be liable to income tax and class 1 NIC if above certain thresholds. As the suggested salary is below £12,570, there would be no tax or NIC implications for Danielle, but the company would pay class 1 secondary at 15% above £5,000. One key benefit of employing Danielle, is that the company no longer having one employee, would benefit from the employment allowance, meaning the first 10,500 of employer NIC would not need to be paid.

If Danielle was employed, the company should draw up an employment contract setting out the terms and formalising hours and wages, to ensure there is no national minimum wage infringement which could bring about a significant penalty for the company. If her salary later increases, the company would begin deducting PAYE and class 1 primary NIC from Danielle's pay. The company could also provide Danielle with benefits such as a mobile phone, parking space, or pay pension contributions, to extract profit this way.

The company would have to submit real time information of a full payment submission on or before each payment date, pay PAYE deducted by 22nd of the month following the payment, provide Danielle with a P60 by 31 May following each tax year, and if any taxable benefits are made, these would need to be reported on P11D by 6th July and paid to HMRC by 22nd July following each tax year.

If in the future you wish to give her some shares,this would be a disposal for capital gains tax.The deemed proceeds would be the market value, assuming Danielle doesn't pay MV anyway, as you are connected. As long as you gave Danielle 5% of the shares, you would qualify for BADR once you have held them for at least two years, providing you have been working for the company for all of that time and that it is a trading company still. You could also claim gift relief on this disposal as it is of business assets. This would be a joint claim made between yourself and Danielle with four years of the end of the tax year of the claim.

Assuming it was a gift or less than market value was receieved,this would also have IHT implications. However, no IHT would be due at the date of the disposal, it would be a potentially exempt transfer (PET). As long as you survived 7 years, there would be no IHT due, and if you did die within 7 years, BPR would likely be available at 100%. See section E below for further information on BPR.

Finally, if an employee recieves shares, this would usually be deemed as taxable income by way of their eployment and subject to income tax (and class 1 NIC if the shares are readily convertible, which unless a sale agreement is in place, won't be an issue). However, there is an exemption from this where the gift is being made between family members, and so there would be no income tax due for Danielle in this scenario.

Alternatively, you could give Danielle shares upon incorporation. This would again be a disposal for CGT and a PET for IHT, but would occur earlier, meaning the value of the shares is likely to be lower, resulting in lower gains and PETs made. BADR looks through the incorporation meaning the two year holding period would be met. SImilarly, a gift relief claim could be made.

As you would prefer to retain the voting rights within the company, it is possible to create another class of shares that have different rights. THis would be an alphabet share, and is an excellent way of paying different amounts of dividends, whilst protecting your voting rights. However, one of the conditions for BADR is that the indivudal is entitled to 5% of the voting rights (5% of distributable profits and assets on winding up being the other parts). Therefore, using alphabet shares to retain your 100% voting rights would preclude the availability of BADR. However, giving Danielle 5% of your ordinary shares, would still give you the majority of the voting power. Danielle working part time would not prevent BADR, but not working across the full year, may prevent the 2 year condition from being met.

The main benefit to giving Danielle shares on or within the first few years of incorporation (maybe when she finishes univeristy) is that this will begin her 2 year holding period for BADR and BPR, as well as making her feel more part of the business and more motivated. The BADR availability is significant as this would increase the lifetime allowance on sale, as you get £1,000,000 each and you would have used a small amount on the reduced business premises gain from section A. This would also allow for an associated disposal to occur on the transfer of the business premises. Please see section E for further details regarding this.

However, the main benefit to giving shares to Danielle on your death, is that these should be covered by 100%BPR. Assuming the company is still a trading company, 100% of the share value, less any excepted assets such as excess cash or investments, would be covered by BPR. This means Danielle would not pay IHT on the recpeit of the shares and would have a CGT base cost going forward equal to the probate value, meaning she gets a tax free uplift in the base cost.

Overall, I would recommend making Danielle an employee initially whilst at university as this would be simple at a time where she will not be involved much in the company and may not obtain BADR. Then at a later date, you could give her 5% of your ordinary shares, claiming gift relief, allowing her to obtain BADR and you to maintain voting power, which would be beneficial despite her lower base cost on this 5% of shares.

This gift would be a PET for IHT, but both this and a subsequent gift of your remaining shares on death should both qualify for 100% BPR, and Danielle would get a tax free up lift in the base cost of the 95% shares inherited at death based on their probate value.

Section E - Gifting Danielle the business premises

If you wish to gift Danielle the business premises, you need to consider whether you do this as a lifetime gift or on death.

If you made the gift during your lifetime, you would be subject to CGT as it is a disposal. You would be treated as doing so at MV as she is connected to you. You could do this either at incorporation or in the future.

For IHT, a lifetime gift is a potential exempt transfer (PET). This means that no IHT is due at the time of the gift, but if you die within 7 years, it will become liable to IHT. This could be reduced by taper relief if you survive more than three years, along with BPR and any nil rate bands you may have available from yourself or inherited from your wife. If made within 7 years of the previous gift that you and your wife made, you would have to be aware that some of the PET may not be covered by your nil rate band if you die within 7 years of this transfer of the business premises.

If the asset is retained by you personally, it would potentially be an associated disposal for BADR. For this to happen, you must have owned the asset for the last three years, used it in the business for the last 2 years, and also be making a material disposal at the same time.

If the transfer happened on incorporation, it would not be treated as an associated disposal as you cannot dispose of singular assets on their own. If you disposed of the premises in the future when running the limited company, the material disposal in this case would be a disposal of at least 5% of your shares in the new limited company, which would also trigger a CGT disposal. This would be benefical as Danielle could also claim BADR in the future on these shares and the business premises as she has 5% of the ordinary shares.

It is also possible for you to claim gift relief on a lifetime gift of the business premises to Danielle. As it is a business asset, a joint election could be made within 4 years of the end of the tax year of the gift, between both Danielle and yourself. THis would therefore the gain and make it chargeable on Danielle in the future when she disposes of the premises. There would be a restriciton if there is a sale at undervalue with excess proceeds as before.

If the transfer is made on death, this is not a disposal for CGT. The asset would however be liable to inheritance tax. Danielle would inherit the asset with either 50% or 100% of the probate value as outlined below, due to the availability of BPR. If the asset is retained by you personally, the increase in CGT base cost will be 50% of the asset itself. If the asset is kept within the company until your death, it will obtain BPR at 100% and will be reflected in the increase in base cost of the shares in the Ltd Co that Danielle inherits from you, assuming you left them all to her.

Business Property relief is available on either a lifetime transfer or a transfer on death. If you own the premises personally, you would only obtain 50% BPR, so if you died within 7 years of a PET or left it in your estate in this way, half of the value would be liable to IHT which is not advisable. If you kept the premises within the company, you would obtain relif at 100% and not IHT would be due in either scenario.

As you wish to transfer the business premises separately from the shares, I recommend that you extract the business premises from the company at a later date, when you also wish to give Danielle 5% of the ordinary shares in the business, as this gift would qualify as an associated disposal for BADR, and allow Danielle to build her 2 year holding period to claim BADR on the shares and associated disposal of the premises in the future.

Appendix 1 - Partial incporation relief

Gain of £72,826 allocated between Business Premises and Goodwill

Business premises = £72,826 x £40,000/£335,000 = £8,696.

Goodwill = £72,826 x £295,000/£335,000 = £64,310.

These are then split between BADR and non-BADR gains:

BADR gain	Non-BADR gain
£8,696	£64,310
	(£3,000)
=£8,696	=£61,310

@18% @24%

=£1,565 =£14,714

Total CGT due = £16,279.