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Course **APS Owner-Managed Businesses**

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Section 1	**4985**	**23437**	**28240**
Total	**4985**	**23437**	**28240**

From: Morgan & Mitchell

To: James Blackwood

Date: 30 April 2026

Subject: Expansion and incorporation of Blackwood Trading

Introduction

I am writing this report in response to our meeting on 18 April 2026 and your email on 23 April 2026.

This report is intended for use by you (James). We cannot accept responsibility for any use by third parties.

We have based this report on the information provided to us by you.

The report intends to advise on the following matters:

- The best method and timing of incorporation and purchase of machinery.
- Tax implications of incorporation.
- Involving Danielle with the business.

We look forward to hearing from you after you have had the chance to digest this report.

Executive summary

- We recommend you do still incorporate the business on 1 April 2027, with the sole trade business' date of cesstion being 31 March 2027. This will entitle you to claim the Structures and Buildings allowance on the premises expansion until the date of incorporation, reducing your profits.

We also recommend you purchase the machinery prior to incorporation. This will help you to acquire new contracts, and will also allow for large balancing capital allowances in your final period of the sole trade, generating losses.

As loss reliefs will save you more tax if they are sole trade losses compared to company losses, this also supports you purchasing the machines via the sole trade.

- You should purchase the plant and machinery from the sole trade for £1 on incorporation. This is because you will need cash to fund the purchase, and you are currently low on funding.

This will generate £360,000 of losses in the final year of sole trade. We recommend that you claim terminal loss relief against your sole trade profits in the three tax years prior to cessation, generating a tax repayment of roughly £76,000.

The remaining £100,000 loss should be claimed to be used as loss relief against future income derived from the company. This will reduce your taxable income received from the company (salary/dividends) and therefore save you tax in the future. We recommend you use this relief as soon as possible, to extract funds from the company tax free to ease your cashflow issues.

- We suggest you claim gift relief on the disposal of the goodwill to the company on incorporation, to reduce capital gains tax to nil now. This also means you can retain the

premises personally, which would not be available for other reliefs.

- We recommend some of the consideration paid by the company is by way of loan, in addition to shares. This is so you can extract funds by way of interest from the company, utilising your personal savings allowance. Capital repayments of the loan are also tax free.

- We recommend you employ Danielle on a salary of £12,570, as to not exceed her personal allowance or pay class 1 primary NICs.

- We also recommend she is issued alphabet shares, which will allow you to pay dividends out to her and extract funds from the company via lower tax rates. By having the different share classes it also means you can set different voting rights for the different share classes, maintaining your control over the company.

- Danielle can be made a director/shareholder, which would motivate her to get more involved in the business in the future. More control over the company could be passed to her as she grows into her role b issuing more shares.

Timing of incorporation

In our meeting we suggested the 1 April 2027 as the date of incorporation, as to line up with you current accounting period of the sole trade.

You would continue to be taxed on your profits in the 2026/27 tax year as a sole trader up until the date of incorporation, with income tax and class 4 NICs being due on your profits as usual.

The date of cessation for your sole trade would be 31 March 2027.

As I explained in our meeting, we suggest continuing to trade as a sole trader in the 2026/27 tax year as at projected profits of £80,000 - £90,000 it is more tax efficient than a company.

Expansion of the premises

We understand work is commencing very soon for the expansion of the business premises, with work to be completed in six months (October/November).

Any qualifying costs on construction or renovation of existing structures, and land preparation costs, will entitle you sole trade to the Structures and Buildings Allowance (SBA).

This allowance is a capital allowance at 3% of the qualifying expenditure per annum, beginning at the date the building is brought into use. This relief is available for 33 and 1/3 years.

As the premises is used in your sole trade, you will be able to claim the SBA for the 5/6 months from October/November to the end of the tax year. This will help to reduce your taxable profits/increase your losses.

As you have said you would like to keep the premises outside of the company, you will not be able to claim SBAs on the premises once you incorporate. We therefore suggest you do not bring forward incorporation date in order to be able to claim the SBA on the building for this short period.

Purchase of new machinery

You originally planned to purchase the two new machines in May, which would be after incorporation.

The purchase of the machines for the company would receive the Annual Investment Allowance (AIA) upon purchase, giving capital allowances (CAs) at 100%. The AIA is capped at £1 million every 12 month period. As the machines, and any other capital expenditure, is expected to be less than that limit, you would receive the full AIA.

This would reduce your corporation taxable profits by the £200,000 and £150,000 purchase prices of the machines.

You have projected that profits in the first 12 months after the contracts are won would be £180,000. The AIA would therefore generate a loss within the company.

Losses within the company can be carried back 12 months against previous profits, used against other profits from the company in the same year, or carried forward and used against the first available profits.

The losses incurred from purchasing the machines within the company would only be saving tax on future profits (which is not guaranteed) and at rates of 19%/25% (the corporation tax rates).

Instead, you could purchase the machinery prior to incorporation, in October/Novemeber.

You have said that this may be able to attract more contacts, which is obviously a benefit.

From a tax perspective, if you purchased the machinery within the sole trade, you would

not get the full AIA deduction on the purchases.

This is because you will be purchasing the machinery in the sole trade's final period. The AIA is not available in the final period, and the value of the machines would instead get added in full to the main rate pool of your capital allowances, taking the value to approximately £420,000 in the main pool, with approximately £25,000 in the special rate pool.

You will also not receive any writing down allowances in the final period for any of your capital assets.

When the sole trade ceases on 31 March 2027 you will have balancing adjustments in each pool of the capital allowances.

If no proceeds are paid from the company to the sole trade for the plant and machinery, the value deducted from each pool is the market value (limited to cost) of the assets at that date. On the basis the two machines do not fall in value from purchase to incorporation, the market value will be approximately £440,000. As this is roughly the same as the tax written down value in the pools, there would only be minor balancing adjustments and there would not be a large affect on your trading profits in the final year.

However, if the company pays a consideration for the plant and machinery on incorporation, the purchase price will be the disposal values in each of the capital allowance pools.

You could therefore purchase the plant and machinery from the sole trade for £1 in the main pool and £1 in the special rate pool. This would provide the sole trade with approximately £445,000 of balancing allowances in the final period of trade, deductible

against the trade profits.

This would mean the plant and machinery is transferred to the company at lower amounts, meaning less capital allowances for the company. However, as this will incur losses that you can use to reduce your tax now, this is still the best option, especially with the potential cashflow issues.

You could of course deem this purchase price to be any amount. This will entitle you to create losses in the final period of the sole trade, and be able to use these losses in the most efficient way.

We therefore recommend you purchase the machinery prior to incorporation. This will help you to acquire new contracts, and will also allow for large balancing capital allowances in your final period of the sole trade, generating losses.

As loss reliefs will save you more tax if they are sole trade losses compared to company losses, this also supports you purchasing the machines via the sole trade.

Any interest paid on the loan to fund the purchase of the plant and machinery will be deductible against your taxable income on your tax return, due to it being a qualifying loan to purchase assets used in your sole trade/a company you control. This applies regardless of the date of the machinery purchase.

Use of loss reliefs and transfer of plant and machinery

As there will be a loss in the final period of the sole trade, you will have various loss reliefs available to you.

The default is to carry forward losses against future profits from the same trade but as the trade is ceasing, this is not applicable.

You can set the losses against your net income in the year of the loss, and/or the prior tax year. As you have no other income, this will be set against your trading income and there is a more efficient option.

On cessation of a trade, you are entitled to terminal loss relief. This is explained in Appendix 1. This is a valuable relief in your position.

We therefore suggest utilising the terminal loss relief against your sole trade profits in the three years prior to cessation, to the extent your personal allowance is not wasted in the 2023/24 tax year.

This will mean you will have a tax repayment of £76,446 from HMRC once your 2026/27 tax return has been filed. This cash could be very useful for you for the repayment of the loans you have.

This would require £115,000 purchase price of the plant and machinery, to maximise the tax repayment whilst not wasting your personal allowance in 2023/24. This would also mean that the company could get capital allowances on that amount.

As the purchase is from a connected party, the AIA would not be available for the company, and it would instead get the writing down allowances of 18%/6% each year.

However, as this requires cash to be transferred from the company for the purchase, this may not be an option for you due to the cashflow issues.

We therefore suggest that you purchase the plant and machinery for £1.

This would incur total losses of £360,000 in the final year of trade.

We would still recommend that you claim the terminal loss relief, still saving tax of roughly £76,000.

This would just mean there will be no capital allowances claimable for the company on the transferred plant and machinery, but as you would only get writing down allowances of 18% and 6%, it would be a while until the amounts would be realised.

It does mean there would be £100,000 of unrelieved losses in the final period.

There is available relief for sole traders on incorporation, for them to carry their losses forward and use against income the individual receives from the company.

This is available when a sole trader incorporates, and receives consideration for wholly or mainly shares. The shares have to be owned for the tax year of incorporation and the company needs to be trading for the whole tax year.

You will then be able to carry the £100,000 forward and relief is available by setting against the income you receive from the company (salary/dividends/interest).

We recommend you also claim this loss relief under s.86 ITA 2007. We recommend you extract funds in the first year of £100,000, meaning no income tax will be due and you can get more cash now.

Method of incorporation

We have already discussed the income tax implications of incorporation. There are also capital gains tax (CGT) implications.

There are two assets chargeable to CGT within the sole trade, being the premises and the goodwill.

As the sale will be to a connected party (the company owned by you) sale proceeds will be deemed to be at market value.

There is therefore a gain of £40,000 on the premises and £295,000 on the goodwill.

Plant and machinery is exempt from CGT on the assumtpion they have all decreased in value, or were bought and sold for under £6,000.

In the absence of reliefs, as I explained in our meeting, there would be a chargeable gain of roughly £335,000 if both goodwill and premises were transferred to the company. This would be taxed at 18% to the extent of your remaining basic rate band, and 24% over that, with the annual exempt amount (AEA) of £3,000 reducing the chargeable gain.

Business Asset Disposal Relief (BADR) is available on the cessation of the business to relevant business assets.

The assets must have been used in the trade for the 2 years prior to cessation, and must be sold within 3 years of cessation. However, the gain on goodwill will not qualify for BADR on incorpoation if you own more than 5% of the shares in the company (which

you will). BADR will apply on a sale of the building.

BADR has the affect of reducing the tax rate to 18%.

In the absence of any reliefs, there would be capital gains tax of roughly £77,500 due 31 January 2028 and reportable on your 2026/27 tax return. The BADR claim would need to be made on the tax return, or failing that, within the year following the tax return filing date.

You have said you want to keep any large cash outflows to a minimum, and so this is not the best option for you.

You also do not want to transfer the building to the company. CGT on the goodwill alone will be £67,818. This is because all of your basic rate band will remain due to no trade profits in the final period.

Incorporation relief

Incorporation relief applies in the following circumstances:

- incorporation of a going concern
- consideration is wholly or partly for shares
- all assets (except for cash) are transferred to the company

Incorporation relief reduces the gain chargeable now, and reduces the base cost of the shares received.

The assets would be transferred into the company at their market value for the base cost.

This would mean the building's base cost for the company would be £320,000 and the goodwill would be £295,000.

If you were to receive consideration completely for shares, there would be no CGT payable now. The gain of £335,000 would instead reduce the base cost of the shares in the company. On the basis you will also transfer the loans to the company, this will reduce the base cost of your shares from £460,000 to £125,000. This would result in an increased gain when you come to sell the shares.

However, as you intend to keep the premises owned personally to prevent a double taxation in the future when you intend to gift it to Danielle, all the assets of the sole trade will not be transferred, and incorporation relief is not available.

If you were to transfer the premises for a consideration (shares) into the company, there would be stamp duty due on the consideration amount (market value). This would be approximately £5,500 on a value of £320,000, another good reason to not transfer the building to the company.

Gift relief (GR)

It is common to use gift relief on incorporation when incorporation is not available. Gift relief is available on business assets, and will be available on the premises and goodwill.

Gift relief must be claimed jointly by the donor and donee (you and the company) within 4 years of the tax year of disposal.

GR reduces the chargeable gain on you now, and reduces the base cost of the asset being

transferred into the company.

For the goodwill, GR will reduce the chargeable gain on you now from £295,000 to £0. The company will then receive the goodwill at your base cost of £0.

This means that, if the goodwill is ever sold in the company, there will be a huge gain. As the company will be earning more than £50,000 profits a year, it will be taxable at corporation tax rates of 25%.

The benefit of GR is that it will not reduce the base cost of the shares you receive, only the base cost of the assets transferred into the company.

It also means you can get relief on the CGT now, without having to transfer the premises into the company.

We therefore suggest you claim gift relief on the disposal of the goodwill to the company on incorporation, to reduce capital gains tax to nil now.

Consideration of the purchase

As you are claiming gift relief, you can be more flexible with the consideration paid for the business by the company.

You can have consideration of shares, or a loan.

Shares will entitle you to dividends and complete control and ownership of the company.

A loan consideration allows you to draw funds by interest on the loan. This is beneficial

as interest is paid free of NICs. The loan would be taxable on you personally at 20%/40%/45% depending on your marginal tax rate.

The loan interest paid would be deductible for the company on the basis the loan is trading. Interest would have to be paid to you net of 20% witholding tax.

Any capital repayments of the loan principle can be withdrawn tax free, which is another great way of extraction of funds.

We recommend the consideration is partly for shares and partly for a loan from you to the company.

Ownership of the premises

You have said you want to own the premises personally, to gift to Danielle at a later date.

Although this stops the availablity of incorporation relief, you can still get relief via gift relief, so this is not an issue.

By holding the building outside the company, you can charge the company rent for the use of the building. The rental income would be taxable on you personally at 20%/40%/45% depending on your marginal tax rate. The company would receive a deduction for the rent expense for the calculation of their taxable profits.

This could be a good way to extract profits from the company, as rent does not have any NICs implications (unlike extracting a salary).

If the building were to be held within the company, you would be able to claim the SBA on the qualifying works being completed soon, as explained previously. The SBA claims would reduce the profits for the company.

However, you are right that, if you were to gift the premises to Danielle in the future, there would be a capital disposal on the company, with any gains being taxed at 25% on the company.

By keeping the premises owned personally, you can gift the premises to Danielle at any point.

You can claim gift relief on the disposal, reducing the chargeable gain to nil when sold, and meaning Danielle would receive your base cost of the premises.

The base cost of the premises will increase once the works are completed as the works increase the capital value of the property. The market value of the premises would also increase, so the gift relief claim would be for more.

A gift of the building will be a fall in value for you for inheritance tax purposes, and will be a potentially exempt transfer. If you were to die within 7 years, the value of the gift would be chargeable to IHT at 40% above your nil rate band. Your nil rate band will be increased by any unused nil rate band from your spouse on her death.

Business propoerty relief would also reduce the chargeable transfer by 50% as a gift of business asset used in the sole trade or the company controlled by you.

As you are only 48, your IHT exposure is low.

We do recommend that you transfer the premises to Danielle shortly. This makes it unlikely that there will be a charge to IHT as you are only 48, and also means Danielle can charge rent of the property to the company. This is a good way for her to extract funds flexibly going forwards.

BADR would be available on the disposal of the premises, if it was sold in conjunction with the cessation of your sole trade, or in the future on an associated disposal of a material disposal of the shares of the company. However, as you are claiming gift relief on the disposal this is not relevant right now.

BADR on associated disposals is restricted by rents charged to the company. You could extract funds other ways (such as dividends,interest) rather than rent for the company to not restrict the BADR you can claim on a potential disposal of the premises in the future.

Implications of the company and involving Danielle

I provided illustrative calculations in our meeting for the way you could extract profits from the company after incorporation.

The recommended route of a salary of £12,570 per year (to make use of your peronal allowance) and then dividends above this is an efficient route of extraction, compared to being taxed as a sole trader.

NICs

As a one-man company you will not be entitled to the employment allowance. The employment allowance reduces Class 1 secondary NICs paid by the company by £10,500.

If you were to employ Danielle, then you would be entitled to the employment allowance, reducing any Class 1 secondary NICs due by the company.

Companies pay class 1 secondary NICs at 15% on earnings over £5,000 on each employer.

However as Danielle is 19, there will be no Class 1 Secondary NICs due until she turns 21, on the basis her salary is less than £50,270 annually and she is not an apprentice.

Once she turns 21, the employment allowance will be available, and all class 1 secondary NICs should be covered.

Class 1 primary contributions are made by employees over £12,570 a year. We recommend salaries of £12,570 for both of you so that you will have no NICs to pay.

Danielle's salary will be deductible for the company, to the extent it is a genuine salary for genuine duties. As she will be managing the finances of the company, HMRC should not seek issue with this.

As an employee, she will need to be paid the national minimum wage and be payrolled, and a pension shceme will need to be established.

You could also make pension contributions to your and Danielle's occupational pensions. This is an exempt benefit, meaning you and Danielle will not have tax or NICs due on the payments.

The pension contributions are fully deductible for the company (again, have to be commensurate with duties performed) so it is a ery tax-efficient way to extract funds.

Income tax

The primary method of extraction from the company after salary shoud be dividends. This is so you are taxed at the relatively lower dividend rates, and no NICs are due.

Dividends are paid after tax for the company, and are therefore not deductible for the company.

Once the company has been incorporated, you could issue some alphabet shares to Daniellle. Alphabet shares can be set up so that there are ordinary A, ordinary B, etc. share classes. The different classes have different entitlements. Your class would have all the voting rights, and Danielle's class would just be entitled to dividends.

This would be a good way for her to extract funds via dividends, but would not reduce your control on the company, as the different shares would have different rights.

Gift of shares to an employee can be caught by employment related securities rules, and Danielle may be taxed on the value of the shares as employment income. However, as she is your daughter and on the basis she is receiving the shares by virtue of your relationship, this should not apply and there would be no income tax implications of her receiving the shares. We therefore recommend Danielle is issued with alphabet shares in the company.

You could also extract funds by way of the loan consideration. The receipt of the loan interest would be taxed at 0% for the first £5,000 of taxable income per years, due to the startings savings rate band. As explained earlier, no NICs are paid on interest and the

expense is deductible for the company.

As you will have the £100,000 loss brought forward from incorporation to use against income you extract from the company, you should extract £100,000 in the first year of trade for the company. This could be by salary, interest on the loan. Dividends will not reduce the company's tax, so the other two options are more beneficial. This will help to ease your cash flow issues.

Corporation tax

Tax will be calculated in similar ways to your sole trade on the accruals basis.

You will need to inform HMRC of your chargeability within 3 months.

tax will be paid 9 months and 1 day after each accounting period.

Corporation tax returns will be filed within 12 months from the end of the accounting period.

Other aspects

Involving Danielle in the business is a great opportunity for her to learn new skills and apply her accountancy degree.

As you suggest, to start she will be working part time and earning a modest salary and dividends.

By making her a shareholder/director of the company, this has the potential to get her

more involved with the management of the company in the future as she develops her skills.

Other implications

VAT

The transfer of a going concern will be exempt from VAT, on the basis the business is a going concern, there will not be a singnificant break in trade, and the company will continue similar trading activities.

You can choose to keep the same VAT registration number for the company as the sole trade, to limit extra administration costs. We recommend this. The company would be liable for any extra VAT payable by the sole trade.

Liability

Under the company structure, you will have limited liability, meaning creditors can only reclaim debts to the extent of the assets within the company.

Unde rthe current sole trade structure, there is unlimited liability and you are liable toall debts incurred by the trade.

You currently have large loans unsecured, and are planning to increase financing. You should try to transfer these loans into the company, so that the creditors can only take the assets that are owned by the company.

Creditors may not agree to this, as this will reduce their power to reclaim their loans.

You could secure the loans against the premises, but this may not be the best option if you are looking to transfer the premises to Danielle in the future.

You should consider your loan options more, and possibly consider seeking financial advice.

Appendix 1 - terminal loss relief

		2023/24	2024/25	2025/26	2026/27
trade profits		83,098	89,770	87,254	(245,000)
				(87,254)	87,254
			(89,770)		89,770
		(67,976)			67,976
taxable		15,122	0	0	0

Trade profits in the final period will be £85,000 less the balancing capital allowances.

We want to set the purchase price of the plant and machinery on incorporation to best utilise the available loss options.

Terminal loss relief is available for sole traders who are ceasing to trade. Any losses incurred in the final tax year (2026/27) can be used to set against trade profits in the 3 tax years prior to the final period, on a last in first out basis.

This is an all or nothing claim, and the losses must be used to their full extent if possible.

We therefore recommend aggregating losses of approximately £245,000 in the final period.

This willreduce your taxable income in the 2025/26 and 2024/25 tax years. Although this will waste your personal allowance in the tax years, it will still save you on your income

tax and Class 4 NICs that you paid in those years of £51,726 total.

We have limited the losses so that your personal allowance is not wasted in the 2023/24 tax year. You would ideally want to reduce your taxable profits from 2023/24 to £12,570 so that it is fully covered by your personal allowance. However, as these are only estimates at this stage, we have been prudent not to over claim the loss relief. This will also save you the majority of the tax paid in 2023/24.

In order to generate a loss of approximately £245,000 in the final period, you would need a balancing allowance in the final period of £330,000, based on profits of £85,000.

As the plant and machinery in the sole trade will have a tax written down value of £445,000, the most optimum way to purchase the machinery would be purchase the machinery for £115,000.