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Answer-to-Question-_1_

Report

To: Michael and Suvil Blatt, Jo Peskal and Fran Bowler
From: OT Accounting
Subject: Acquisition of the Rising Star and business structure
Date: 30 October 2025

Introduction

This report has been prepared for Michael, Suvil, Jo and Fran only, OT Accounting do not take any liability for reliance placed on this report by third parties.

This report has been prepared based on the current leglislation at the time and will not be updated for any changes unless specifically engaged to do so. We recommend that if there is any delay in acting on the advice that you get in touch.

This report covers:

- The most tax efficient acqusition of The Rising Star.
- The business vehicle for the new venture.
- Structuring the investments in the most tax efficient way for all parties.
- Future sale of the business.

Executive Summary

We recommend that you purchase the trade and assets of Rising Star Ltd (RS Ltd) as this is the best way to ensure that there is a 'clean' trading history. Purchasing the trade and assets would be beneficial as the new company would not take on the HMRC enquiry. This option will also be favourable for RS Ltd as they will be able to offset the trading losses brought forward of £257,706 against the chargeable gains.

Our analysis shows that you should operate through a limited company as this limits all of your risk given that you are friends starting a business. We recommend seeking legal advise to draw up a shareholders agreement to ensure that all potential outcomes are considered.

We recommend issuing Enterprise Management Incentive(EMI)options to Jo as she is a vital part of the business and as she is an ambitious chef, this will motivate her in the business. We recommend putting a resriction on the shares if she was to leave within 5 years time to ensure the smooth operating of the business prior to exit.

Another benefit of operating through a limited company is that there is greater flexibility in drawing funds. Michael and Suvil would benefit from New Co making pension contributions so not to push them over £100,000 each as their income would be taxed at a effective rate of 60%. Making pension contributions is a tax efficient way as it would be exempt income for Michael and Suvil and corporation tax deductible for New Co.

We recommend that you should claim structures and building allowance on the acqusition of the property. You can claim £7,050 per year saving tax of up to £1,762 per annumn depending on the profits. We recommend that you obtain the allowance statement from RS Ltd as soon as possible.

New co. will be able to carry the intital losses forward and offset against the future trading profits, saving tax of £39,564 in the year to 31 March 2029.

Upon the eventual sale of the business, we recommend that Michael and Suvil claim Business Asset Disposal Relief (BADR), their gain would be taxed at 10% up to £1m. If you issue EMI shares to Jo she will also be taxed at 10% on her gain as it qualifies for BADR.

We recommend that Fran claims investors relief on the sale of the shares, being a business angel she would be able tax £10m of the gains at 10%. Fran must ensure that she is not connected to new co. so that she qualifies for this relief.

Section 1 - Acquisition of The Rising Star

We will first discuss the acqusition of RS Ltd, the options available are:

Option 1 - Share acquisition
Option 2 - Purchasing the trade and assets

We will consider the consequences of purchasing the shares including inheriting the history of the company, Stamp Duty and losses.

1.1 Share acquisition

Risk associated with share purchase

By purchasing RS Ltd you are acquiring the trading history of the company.

A key concern is that the company has not operated PAYE correctly for casual and part time staff and there is a HMRC enquiry into an employee benefit trust. If you were to purchase the shares, the company would still be liable for any tax owed, despite this ocurring prior to you purchasing the shares.

To mitigate this you could agree indemnities and warranties with the seller, however, there is still a concern that you could be left with a significant liability.

Losses

RS Ltd has been loss making for some time, the tax computation to 30 June 2025 shows that there are carry forward losses of £257,706, if the company was profit making in the future this would result in relief of £64,626.50.

By purchasing the shares in the company, this would constitute a change in ownership, however, as you plan to continue the business not making any major changes other than improvements to efficiency and management. The losses would be available to offset against future profits if you purchased the shares in the business.

Stamp Duty

By purchasing the shares of RS Ltd, you would have to pay stamp duty at 0.5% on the consideration paid being £4,500 as shown in appendix 1.

You would have to sumbit a stamp duty form within 30 days of the purchasing the shares.

Recommendations

Although there would be losses available of £257,706 in RS Ltd to offset against future profits the risk associated with buying the trading history of this company are signficant. Therefore we do not recommend this option.

The share sale is often the preferred option of the seller as there is no double tax charge with the company paying corporation tax on the sale and then the shareholders having to pay tax to extract the funds. However, you should be able to use the losses of £257,706 as a way to negotiate with RS Ltd as they will be able to offset the losses against the gains from selling the trade and assets.

We will go onto discuss the benefits of purchasing the trade and assets.

1.2 Purchase of Trade and assets

Property

By purchasing the property for £710,000, this will be your cost of the balance, together with the Stamp Duty Land Tax (SDLT)of £25,000 as shown in appendix 1.3. This will be due within 14 days of completion. You will only get tax relief for the SDLT when if you sell the property in the future.

By purchasing the property from RS Ltd, you are able to claim Structures and buildings allowance (SBA), you need to obtain the allowance statement from RS Ltd as soon as possible. You are able to claim 3% per year on construction costs incurred after 28 October 2018.

As illustrated in appendix 1.2, you would receive a deduction for SBA of £7,050 per year, a maximum anount of tax saving of £1,762.50 per annumn.

Upon sale of the building in the future, all SBA claimed would be added to the proceeds resulting in a claw back of the tax relief obtained.

As the property is commercial property that is more than 3 years old, it is an exempt supply for VAT.

Fixtures and fittings

You need to negotiate the capital allowance value of the fixtures and fittings. Ordinarily, RS Ltd, as the seller would want the lowest amount possible to ensure that there is no balancing charge on sale.

As the buyer, you want the highest amount so that you can obtain the maximum amount of tax relief. There would be a 100% deduction for annual investment allowance.

However, as mentioned previously, there are signficant losses in RS Ltd, therefore we recommend suggesting £65,300 to maximise the tax relief available on purchase. This would result in maximum tax saving of £16,325.

Goodwill

There will be no tax relief on the purchase of goodwill because it has not been purchased with intellectual property. Tax relief would only be available if you were to sell the goodwill in the future. Goodwill will be amortised in the accounts over it's useful life, however there will be no corporation tax deduction.

VAT

We recommend that you register for VAT as the restraunt will be making taxable supplies at 20%.

Purchasing the trade and assets will be a tranfer of going concern and therefore the transfer of fixture and fittings, stock and goodwill are outside the scope for VAT.

You will be able to recover the VAT on the purchase of the building which will help with cashflow.

Recommendations

We recommend that you purchase the trade and assets of RS Ltd to ensure you have a clean company, which will elimiate the risk associated with their trading history.

We recommend obtaining the allowance statement as soon as possible so that you can determine the SBA claim, saving tax of £1,762.50 per year.

We recommend registering for VAT as you will be making taxable supplies, the transaction will be a transfer of going concern so there will be no VAT to pay.

Section 2 - Structure of new business

We will discuss the options of operating through a partnership, Limited Liability Partnership or Limited company.

2.1 Partnership

Profits

The benefit of operating as a partnership is that this is the simpliest option from a compliance perspective. You would form a partnership agreement setting out all parties rights and responsibilities. Each partner is putting in £50,000 and you would each have an equal share in the business.

Partnerships are trasparent from a tax perspective so you would each be taxed on your individual share of the partnership profits as they arise.

Given that Jo is a basic rate tax payer, her profits would be taxed at 20% and class 4 national insurance at 6%.

Michael and Suvil would be taxed at the effective rate of 60% as additional profits would push up their income above £100,000 resulting in a loss of personal allowance.

Fran is an additional rate tax payer so any profits would be subject to tax at 45% and class 4 national insurace at 6%.

The downside to operating as a partnership is that you are jointly liable for actions of the other members of the partnership. There would be no limit to your exposure, and your personal assets would be at risk.

Losses

As you anticipate losses in the first 2 years of trade, it is important to address the sideways loss relief restrictions. This is the amount of loss that can be offset against nontrading income.

As Jo would be an active member of the partnership, she would be able to offset the higher of £50,000 and 25% of adjusted income. As Jo will be working full time in the new busines, she will not have other income to offset this against.

As Michael and Suvil would be active partners, working more than 10 hours per week on average, they would be able to offset the loss against their income as freelance journalists. The loss of £43,600 would be offset against income in the current year resulting in a tax saving of £17,440 (£43,600 x 40%).

As Fran will not be active in the business, her sideways loss relief is limited in the first 4 years to the lower of £25,000 and the unrelieved capital contribution. After the first 4 years it is limited to £25,000. Therefore, this would result in a tax saving of £11,250 (£25,000 x 45%) for Fran.

Recommendations

In the short term, there would be favourable loss relief for Michael, Suvil and Fran resulting in tax savings. However, we do not recommend this option, because once the business becomes profit making there is a lack of flexibility in drawing funds. In addition, Jo is a vital part of the business and this set up is the least efficient for her.

2.2 LLP

Operating as a partnership will mean that all parties are jointly liable, this poses a significant risk for all of your personal assets. On this basis, an LLP could be better option as it limits the individuals partners liability.

Recommendations

We do not recommend this option as there are greater tax advantages of operating through a limited company which we will go onto discuss, including flexibility around drawing funds and the use of Enterprise Management Incentives (EMI).

2.3 Limited company

Operating through a limited company will mean that you will each have shares in the business, we recommend creating a shareholders agreement to identify your rights an responsibilites.

Losses

As the company will be loss making in the first few years, you will have total losses of £205,750 to offset against future profits. The first year that you anticipate that you will make profits is 31 March 2029. This is the period that you will receive the tax relief of £39,564 as shown in appendix 2.2.

Extraction of profits

Extracting profits is also much more flexible by operating as a limited company.

Dividends

You can vote dividends that would be taxed at 8.75%, 33.75% or 39.35%. These would not be tax deductible for the company. Dividends can only be voted once there are enough reserves in the company.

Having alphabet shares would mean that voting dividends would be easier, given the shareholders different tax positions and time invested in the business.

Salary

Jo, Michael and Suvil will receive a salary. It is important that Jo receives a salary as she will need a stable income for security as she is working in the business full time.

After deducting the personal allowance for Jo of £12,570, £37,700 of the salary would be subject to income tax at 20%.

Michael and Suvil, would be taxed at 40% on any salary, therefore it could be beneficial to consider other options of remunerating them such as pension contributions.

Pension

We recommend that Michael and Suvil consider putting cash into their pensions, this is the most tax efficient route as their income is currently £100,000 each. Any additional income would be taxed at the effective rate of 60% due to their loss of personal allowance.

Interest

We recommend that Fran charges the company interest on the loan of £400,000. This will be taxable income for Fran at 45%.

The company would have to submit CT61's and withhold 20% tax on the payments and pay these to HMRC.

Fran can also draw down on the loan tax free to recover her cash loaned to the company.

We recommend that a loan agreement is drawn up.

Section 3 - Structure of investment

Enterprise Investment Scheme (EMI)

EMI share options are one of the most tax efficient ways of rewarding employees, keeping them motivated and invested in the future of the company. The share options give employees a right to purchase shares in the future for an agreed price.

The benefit of issuing EMI share options is that there is no tax on grant and providing the share options are issued at market value there is no income tax charge on exercise.

The employee would then be subject to capital gains tax on the sale of the shares, on the difference between the price paid for the shares and the sales price. The EMI options would be eligible for BADR and therefore taxed at 10%.

Recommendations
We strongly recommend as Jo is a key part of the business that the company issues her with EMI share options. The benefit is that this will give Jo time to raise capital and consider whether she needs to raise finance against her home or whether she can raise the funds through her work for new co.

We recommend putting a resriction on the shares if she was to leave within 5 years time *to ensure the smooth operating of the business prior to exit.*

Enterprise Investment Scheme (EIS)

Issuing EIS shares would be a good option for Fran as she would be able to defer the gain on the sale of her IT company shares that did not qualify for BADR. On an investment of £50,000 she would receive a tax refund of £10,000 (£10,000 x 20%).

To claim EIS deferral relief you can be connected to the company, however, this does not apply for CGT relief or income tax relief.

Michael and Suvil would not be eligible for EIS relief as they would collectively own more than 30% of the business.

Section 4 - Sale of the business

Upon the sale of the business in 4 to 5 years time all shareholders will be subject capital gains tax on their disposal being the difference between the proceeds and the amount paid for the shares. The gain would be subject to capital gains tax at 20% assuming that they are a higher or additional rate tax payer.

Mitigation of CGT

We recommend that Micahel and Suvil claim Business Asset Disposal Relief, taxing the gain at 10%. This is as long as they continue to be an employee of the company and hold 5% of the business.

We recommend that Fran should claim investors relief as she is a business angel and not an employee of the company and therefore not connected. As Fran has already used up her £1,000,000 lifetime limit for BADR, this is a tax effcient way of taxing a further £10,000,000 of gains at 10%.

Section 5 - Appendices

1.1 Stamp duty on acquisition of shares in RS Ltd

£900,000 @ 0.5% = £4,500

1.2 Structures and buildings allowance

Renovation and fit out costs	235,000 @ 3%	7,050	

1.3 Stamp Duty Land Tax

0 - £150,000	0		
250,000 - 150,000	2%	2,000	
710,000 - 250,000	5%	23,000	
		25,000	

2.1 Partnership

	Jo	Michael	Suvil	Fran
Loss 2027	43,600	43,600	43,600	43,600

2.2 Company - Use of losses

31 March 2027	174,400		

31 March 2028	31,350		
Total losses to carry forward	205,750		

31 March 2029	163,450		
Loss	(163,450)		
Taxable	0		
Tax saving	39,564.25		