Institution **CIOT - CTA**
Course **APS Owner-Managed Businesses**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID [redacted]

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**4668**	**21315**	**25833**
Total	**4668**	**21315**	**25833**

Plan

Already decided to incorporate

Exec summary

- Incorporate but don't transfer all assets, keep property.
- Gift relieve goodwill as don't have funds to pay and won't qualify for BADR
- Incorporate in October/November. After completion of extension but before machines
- Buy machines in company - AIA available and loan to company. Limited liability
- Extract money via interest to minimise IT.
- Bring Danielle on as an employee. Also give her shareholding? BADR conditions met earlier. IHT implication?

<u>Method of incorporation</u>

1. Transfer all for shares = incorp relief
- Connected = MV
- Automatically applies

2. Transfer part for loan account
- Income impact - CT61, no NICs, deduct for co
- Part gain now
- Utilise AEA
- Won't have funds for this with the anticipated outgoings from purchase of machines.
- How to fund the gains?

3. Can disapply

BADR conditions - not on goodwill. 5% shares - will apply through sole trader so conditions still met.

TOGC

SDLT

4. Keep some assets + gift relief

- no SDLT
- No gain on what kept
- Gain on what transferred but gift relief - joint, 4y from EOTY
- Keep the business premises outside.
- Gift to daughter in the future - 50% BPR, gift relief. On death. but is easier extraction.

5. Drawings

- £100k shown dividends but entitlement to pension - modest salary as shown by calculations provided by Charlotte following the meeting.
- No e'er NIC exemption if only one man company but can if bring in daughter
- Annual maxima
- Keep PA
- Interest from loan? Then can build up savings faster. Saving allowance.
- Rent from property?

<u>Timing of key capital expenditure</u>

1. business premises expansion

- In meeting suggested 1 April 2027 as ease.
- Incorporate before = full capital allowances.
- If keeping building outside? Do work now and incorporate still on 1 April 2027. No AIA in cessation. Keep building personally.
- Takes time to register company
- Taxed from 6 April - cessation. annual maxima?

2. 2 new machines

- Benefit in company is full AIA available as not available in year of cessation or from connected person. No FYA as not new when incorporated.
- October/November. Can incorporate and do it then. Attract new contracts.
- £350k - part loan - best to do this in the company
- Insurance?
- Loan to company = draw down interest. Risk of losing it.

<u>Bring daughter into the business</u> - IT, NIC, CGT, IHT

- Shareholder - BADR 2y
- Employee - first employee payroll. Deduction only for appropriate amount of work but full IT - £10k-£12k said already justify the amount with the work can get her to do.
- Does not want to give up any voting rights. But could do alphabet shares.
- Currently all in PA anyway. dividends not a tax saving unless increase.

- Employee - start payroll

- Bring daughter after incorporation = easier to give shares

- BPR? PET? CGT uplift on probate value. Can be e'ee without shareholder.
- Gift relief?

- Currently maintenance of family is exempt from IHT - books etc.

LINE BELOW INDICATES END OF PLAN AND START OF REPORT

REPORT

From: Morgan & Mitchell LLP

To: James Blackwood

Date: 30 April 2026

Subject: Expansion and incorporation of Blackwood Trading

Introduction

This report has been provided following your meeting with Charlotte Mitchell on 18th April 2026 and the email received from you on 23rd April 2026.

The purpose of this report is to advise you on the most efficient way of incorporating the business and the timing of capital expenditure around the incorporation. This report will also consider how to bring Danielle into the business.

This report is based on the information provided by you and has been prepared based on the estimated forecasted profits and market values provided by you. As you have confirmed you would like to incorporate, we have not considered any other vehicles such as trading as a partnership in this report. We have also not included administrative matters of incorporation and registering as an employer with HMRC.

The advice provided in this report is based on current UK tax legislation, if there is a delay in implementing this advice, you should seek confirmation that the advice is still appropriate.

This report has been provided solely for use by you, James Blackwood, and Morgan & Mitchell LLP accept no liability for any reliance placed on this report by any other parties.

Executive Summary

We recommend incorporating the company on 1 November 2026, before purchase of the new machines and draw down of the loans as this will offer you more protection in the event of insolvency and full AIA can be claimed on the new machines in the company if acquired by the company. You will then benefit from the possibility of attracting new contracts sooner, whilst still keeping the tax benefits.

As you will cease to trade part way through the tax year, and will be subject to Class 1 and Class 4 NICs in the 2026/27 tax year, we recommend that you check you have not overpaid NICs and perform the annual maxima test.

We recommend that you charge interest on the loan made to the company for purchasing

the machines as it will reduce the amount of income tax payable by utilising your starter rate band and savings allowance and is deductible for the company. This will save you £1,936 of tax if £5,500 of interest is charged on the loan.

As you are buying the machinery and do not have any more finance available, we recommend you keep the business premises outside the company to avoid paying £5,500 stamp duty land tax and recommend you make a claim for gift relief on the goodwill to the company so that no capital gains tax is due. Although this will mean that the business premises may only receive 50% BPR rather than 100% BPR, it is likely that all, or most of the gain will be covered by your nil rate band (and any of your wife's remaining nil rate band) and therefore, reduces the IHT impact.

The transfer is a transfer of the business as a going concern so will be outside the scope of VAT.

We recommend that you bring Danielle in to the company as an employee as all NIC contributions will be covered by the employment allowance of £10,500 and a salary below £12,570 will be covered by her personal allowance so will not have any income tax due and is deductible for the company.

In the future, when Danielle's income increases as her role in the company increases, it will be beneficial for tax purposes to bring her in as a shareholder and pay part of her income as dividends. If you do not wish to give up voting rights, this can be done by setting up a new class of shares that is not entitled to voting rights.

If you want to give the business premises to Danielle in the future, you should do this at the same time as giving her shares (over 5%) so that both gains qualify for BADR.

Timing of key capital expenditure

As discussed in the meeting, an incorporation of date of 1 April 2027 simplifies the income tax position as you will be treated as ceasing to trade as a sole trader on 31 March 2027 and all profits from Blackwood Trading for that tax year will be taxed on you on 31 January 2028.

If you incorporate in November 2026, you will be taxed on the profits from 6 April 2026 until you cease to trade. This will also be payable by 31 January 2028. If you receive a salary from the company after incorporation, you will have paid Class 4 and Class 1 national insurance contributions (NICs) in the year and therefore, you should check using the annual maxima tests that you have not overpaid NICs.

If you incur the expenditure before you incorporate but in the year of cessation, no annual investment allowance (AIA) or writing down allowances (WDA) will be available in the sole trade. If these assets are transferred to the company, no AIA or first year allowances (FYA) will be available to the company as they will be transferred from a connected person and are not new and unused. Therefore, the company will only be able to claim 18% WDA on the machinery.

As the transaction will be between connected parties, an election can be made to transfer the plant and machinery at the tax written down value (TWDV) rather than the market value. This will mean no balancing charges or allowances will arise in the sole trade business. Then, 18% writing down allowances on the main pool expenditure can be continued.

However, if you incur the expenditure on the new machines after incorporation, the

company will be able to claim AIA and receive full tax relief in the year of purchase as this will be below the £1mn limit (assuming your first period of account is 12 months long). In addition, if the loans to purchase the machines are made after incorporation, the loans will be in the company and therefore, if the company becomes insolvent, the liability will be limited to the value in the company and the bank will not be able to collect the money from you personally, for example, by taking your house. By purchasing the machinery and drawing down the loans after incorporation, you will have more protection in the event of insolvency. Therefore, we recommend that the new machines are purchased after incorporation and the remaining assets are transferred at their tax written down value. If you would like to buy the machines in November, we recommend you incorporate on 1 November 2026. You will then benefit from the possibility of attracting new contracts sooner. If you do attract new contracts which increases your level of profits in the year, it will be more beneficial to be a limited company for tax purposes.

As you are partly funding the purchase of the machines with your own savings, you will also benefit from having a loan account in the company. This amount can be drawn down tax free from the company without attracting NICs. In addition, you could charge interest which would be deductible for the company (on the gross amount) and have no NIC implications. The company would need to withhold basic rate tax (20%) on any payments of interest made to you and complete quarterly CT61 forms and pay the withheld tax over to HMRC on the 14th day following the quarter ends. This would be shown as paid in your self assessment tax return and reduce your income tax liability (as the company has already paid it on your behalf). There is a possibility this income would not attract a tax charge if it was below these limits which would further improve the tax savings shown by the illustrative calculations previously provided to you. We recommend that you charge interest on the loan made to the company to fund the purchase of the machines. The total tax saving of charging £5,500 interest is £1,936

(Appendix 3). You should also consider getting insurance as you may not be able to recover these funds if the company does not make sufficient future profits.

Structures and buildings allowances (SBAs) will be available in the company or as a sole trader, as you calculate your profits using the accruals basis, but only at 3% from the first non-residential use. Therefore, SBAs in the sole trade or company can be claimed from 1 November 2026. Therefore, if you incorporate on 1 November 2026, no SBAs will be deductible in the period of cessation for the sole trade. The company can claim SBAs on the original expenditure over the remaining 33 1/3 year period at 3%, which is the whole period if incorporated on 1 November 2026.

However, if you intend to keep the building outside the company and hold it personally, no capital allowances will be available. You will need to deregister from VAT within 30 days of ceasing to trade, and therefore, the construction should be carried out whilst you are still trading so that VAT can be reclaimed on any expenses on the commercial property that are within the charge to VAT. This will be available if you incorporate on 1 November 2026, after the completion of the extension. The costs of the extension will be added to the base cost of the property for capital gains tax.

Method of Incorporation

You are connected to the company and therefore, all transactions are deemed to occur at market value.

There will be no stamp duty on the shares issued.

Transfer all assets

If all assets are transferred into the limited company, incorporation relief will automatically apply. This means that any gains on incorporation will be rolled over into the base cost of your shares and no gain will arise immediately. Instead, it is deferred until the sale of the shares.

All assets, other than cash need to be transferred for incorporation relief to apply. This will include the business premises. Stamp duty land tax will be payable on the market value of the property at the time of disposal by the company. This is £5,500 (Appendix 1). Stamp duty will be due within 14 days of the transfer and is owed by the company (the buyer).

If all assets are not transferred for shares, and part is issued for loan stock, the part of the gain not transferred for shares will be charged to capital gains tax. This will be due on 31 January 2028 if you incorporate on 1 November 2026. Appendix 2 shows the position if you take 50% as a loan to the company and 50% as shares. A gain of £20,000 will arise on the business premises and £147,500 on the goodwill.

These will be charged at 24% as you are a higher rate tax payer and capital gains tax of £39,480 (Appendix 2) will be due.

As you are a sole trader and have traded for over 2 years, the disposal will qualify for business asset disposal relief (BADR). The effect of BADR is that your gain on disposal will be reduced to 18% up to the lifetime limit of £1mn. However, this does not apply to goodwill transferred to a close company. As you will hold over 5% of the share capital of the limited company, BADR will not apply to the gain on the goodwill and will only reduce the gain on the business premises. As such, the gain on the goodwill will remain taxable at 24%. The effect of making the BADR claim on the 50% taxable if you take

50% as loan stock is that the gain will reduce to £37,880 (Appendix 2). The claim for BADR needs to be made by 31 January 2029, however, we recommend that you make this claim by 31 January 2028 when the payment is due.

The benefit of taking partly loan stock, instead of shares is that as with the loan made to purchase the machinery, the loan can be drawn down from the company tax free and interest can be charged. However, as you are making a loan to the company for the purchase of the machinery, you will already be receiving the benefit of the 0% tax rates if structured to utilise the saving rate allowance and starter rate band so the added benefit will be reduced. It is also possible to crystallise a gain so that only £3,000 remains taxable which is covered by your annual exempt amount by only taking a small amount as loan stock.

It is possible to disapply incorporation relief, which will mean all of the gain will be taxable on incorporation and only the business premises will qualify for BADR. This will lead to a capital gains tax liability of £77,280 if a BADR claim is made.

As you are planning to use all of your savings to fund the purchase of the machines, we recommend deferring all capital gains tax liabilities until you have sufficient cash to pay the liabilities. Therefore, if transferring all assets to the company, we recommend doing it entirely for shares so that all gains are automatically deferred. An additional benefit of this is that your shares will qualify for BADR in the future, as long as you continue to meet all the conditions of being a director, having over 5% of the shares and the company remains trading, unlike the gain on the goodwill now.

The business is a going concern and transfers of a business as a going concern (TOGC) are outside the scope of of VAT and therefore, no VAT will be payable on incorporation.

Keep the business premises personally

If all assets are not transferred to the company, incorporation relief will not apply. Therefore, if you keep the business premises, the transfer of the goodwill to the company will be chargeable to capital gains tax.

As mentioned earlier, the gain on the goodwill will not qualify for BADR and therefore will realise a gain of £295,000. Capital gains tax of £70,080 (Appendix 2) will be due by 31 January 2028.

A joint election within 4 years of the tax year of disposal can be made for gift relief. The effect of gift relief is that the gain on the goodwill will be rolled into the base cost and increase the gain on future disposal. Any future gain on the shares is likely to qualify for BADR which will reduce the capital gains tax liability on disposal of the shares.

The effect of gift relief is that no capital gains tax will be due when the goodwill is transferred to the company.

If the property is kept personally, there is no disposal and therefore, no capital gains tax will be due and no stamp duty land tax will be payable which will help the cash outflow. The property will continue to be a business asset and therefore, will qualify for BADR as an associated disposal if sold at the same time as a material disposal (over 5% of the shares in the company).

If the property is held personally, you could charge rent to the company for additional income that is free of NICs. The rent would be charged to the non-saving rates. The rent would also be deductible for the company's profits. However, if rent is charged, this will

restrict the availability of BADR on disposal. In addition, if you employ Danielle, you will be entitled to the employer's NIC allowance which reduces the NIC saving from charging rent and the salary will also be deductible for corporation tax. As we recommend you charge interest on the loans made to the company which is also free of NICs but does not restrict BADR and you do not wish to take more than £100,000 income to preserve your personal allowance, we recommend you do not charge rent on the property.

Transferring the business premises to Danielle

If the asset is held by you personally, rather than within the business, it will only qualify for 50% business property relief (BPR) rather than 100%. If you gift this to Danielle in the future, the tax impacts are different depending on whether the transfer is in life or death.

If the premises is transferred during your life, capital gains tax will be payable based on the market value at the date of the gift as you are connected. BADR is likely to be available if this is at the same time as a disposal of shares, for example gifting 5% of the shares to Danielle. A claim for gift relief can also be made jointly within 4 years of disposal which would reduce your gain to £nil but reduce Danielle's base cost to your base cost and give her a larger gain on disposal. In addition, this would be a potentially exempt transfer (PET) for inheritance tax (IHT). If you were to die within 7 years of the gift, the premises would fall into the charge to IHT. If Danielle still held the premises at the time of death, BPR would apply and reduce the charge by 50%. If you survive over 3 years from the date of the gift, taper relief will apply which will reduce the amount chargeable to IHT. Any amounts remaining chargeable would be subject to 40% IHT after the nil rate band. Therefore, there is the potential for double taxation (to CGT and IHT).

If the premises was transferred upon your death, Danielle would inherit the premises at it's probate value (market value at the date of death) and therefore, she would receive a free CGT uplift and would only be charged to IHT. If she still held the premises, it will qualify for 50% BPR which will reduce the charge to IHT. You are entitled to a £325,000 nil rate band on death plus any amount remaining of your wife's unused nil rate band (potentially up to a total of £650,000). As the shares will qualify for 100% BPR, it is likely that any amount remaining chargeable to IHT will be covered by your nil rate band and no IHT will be due.

Therefore, we recommend that you keep the business premises outside of the company so that no stamp duty land tax is payable. We recommend you make a claim for gift relief on the transfer of the goodwill to the company so that no capital gains tax is due as currently you do not have the funds to pay this. This gain will also not qualify for BADR as it is a transfer of goodwill to a close company, however, it is likely your shares in the future will qualify for the reduced rates of capital gains tax. Although, this may mean the premises only benefits from 50% BPR rather than 100%, it is likely that all, or most of the gain will be covered by your nil rate band (any of your wife's remaining nil rate band) and therefore, may not have IHT due. The transfer is a transfer of the business as a going concern so will be outside the scope of VAT.

Bringing Danielle into the business

If you bring Danielle into the business as an employee, only a salary at a just and reasonable amount will be deductible from the trade profits of the company. As you think you can justify £10,000 - £12,000 with the work you will give her, the full amount

will be deductible from the company's profits and receive corporation tax relief.

As Danielle does not currently have a job and these will be her only earnings, the full amount will be covered by her personal allowance and therefore, no income tax will be payable regardless of if the amount is taken as salary or dividends.

If Danielle is employed, it will no longer be a one man company and therefore, the employer's NIC allowance of £10,500 will be available and no NICs will be payable by the company if you continue to take £12,570, to preserve your entitlement to the state pension, as suggested by the illustrations provided following the meeting and Danielle's salary is £10,000 - £12,000.

Currently you are paying for Danielle's rent and book costs. These are not chargeable to inheritance tax as they are maintenance of family and therefore, for inheritance tax purposes, you should continue to do so if you are able.

In the future, when Danielle takes on a larger role in the business, it will be more tax efficient to take the additional income as dividends to utilise the £500 dividend allowance and lower rates of tax. However, these will not be deductible for the company.

You could give Danielle shares in the company without giving up any voting rights by the creation of a new share class, also known as alphabet shares. The new class of shares could have an entitlement to dividends but not have a voting right.

If you gift shares to Danielle, a chargeable gain will arise and it will be a PET for IHT (although if the company does not have excepted assets and Danielle still holds the shares upon your death, 100% BPR will be available). You could make a joint claim for gift relief so that the gain is not taxable and instead deferred into the base cost of Danielle's

shares, or you may be in a position to pay the capital gains tax in the future if profits increase. If you gift over 5% of your shares to Danielle, you should also gift the business premises to her at the same time so that the gain on the disposal of the business premises qualifies as an associated disposal for BADR.

If you gift the shares to Danielle on your death, there will be no CGT as there will be a free uplift to probate value and no IHT will be due as it will be covered by 100% BPR. However, then you could not pay her dividends.

If Danielle pays for the shares over £1,000, stamp duty will be charged and gift relief will be restricted if there is a sale at undervalue.

We recommend that you bring Danielle in as an employee as all NIC contributions will be covered by the employment allowance of £10,500 and at £10,000 - £12,000 salary it will be deductible for the company and covered by her personal allowance so no income tax will be due. In the future, when Danielle's income increases, it will be beneficial for tax purposes to bring her in as a shareholder and pay part of her income as dividends. If you do not wish to give up voting rights, this can be done by setting up a new class of shares that is not entitled to voting rights. If you want to give the business premises to Danielle in the future, you should do this at the same time as giving her shares (over 5%) so that both gains qualify for BADR.

Appendix

Appendix 1 - Stamp duty land tax payable on the business premises

£		£	
0 - 150,000	0%	0	
150,000 - 250,000	2%	2,000	
250,000 - 320,000	5%	3,500	
Total		**5,500**	

Appendix 2 - gains on incorporation if 50% shares and 50% loan stock

	Proceeds (market value)	**Cost**	**Gain**	**50% chargeable now**
	£	**£**	**£**	**£**
Business premises	320,000	280,000	40,000	20,000
Goodwill	295,000	0	295,000	147,500
TOTAL			**335,000**	**167,500**
Less AEA			(3,000)	(3,000)
Taxable gain			333,000	164,500
Capital gains tax at 24% (no BADR claim made)			**79,920**	**39,480**

Capital gains tax payable if BADR claimed on whole gain

		BADR	**Non-BADR**
		£	**£**
Goodwill			295,000
Business Premises		40,000	
Less AEA			(3,000)
Taxable gain		40,000	292,000
CGT at 24%			70,080
CGT at 18%		7,200	
Total	**£77,280**		

Capital gains tax payable if BADR claimed on 50% chargeable as loan stock

		BADR	**Non-BADR**
		£	**£**
Goodwill			147,500
Business Premises		20,000	
Less AEA			(3,000)
Taxable gain		20,000	144,500
CGT at 24%			34,680
CGT at 18%		3,600	
Total	**£37,880**		

Appendix 3 - Taxable income if include interest

		NSI	**SI**	**DI**
		£	**£**	**£**
Salary		12,570		
Interest			5,500	
Dividends				81,930
Personal allowance		(12,570)		
Taxable income		0	5,500	81,930
Starter rate band - £5,000	0%		0	
Savings rate band - £500	0%		0	
Dividend rate band - £500	0%			0
Basic rate band - £31,700	8.75%			2,774
Upper rate band - £49,730	33.75%			16,784
Total income tax due	**£19,558**			

Corporation tax saving if £5,500 of interest paid

		£	
Taxable profits before interest		166,294	
Less interest		(5,500)	
Taxable profits		160,794	
Corporation tax - 25%		40,199	
Less marginal relief (3/200 x 250,000 - 174,500)		(1,338)	
Corporation tax		**38,861**	

Total tax saving

		£	£
Before interest	Corporation tax	40,317	
	Income tax	20,038	
	Total		60,355
After interest	Corporation tax	38,861	
	Income tax	19,558	
	Total		58,419
Tax saving			**1,936**