

GROWING, SELLING & RISK

Group Structures and Holding Companies

Why owners put a holding company above their trading company, how groups are taxed, and the costs and pitfalls to weigh first.

FOR: ESTABLISHED OWNER-MANAGED BUSINESSES • EXPERIENCED

What a group is

A group is a set of companies linked by ownership. The simplest form has a **holding company** that owns the shares in one or more **subsidiaries**, which do the trading, hold property or carry out other activities. Owners usually own the holding company, not the subsidiaries directly. Groups are common in larger businesses, and increasingly in owner-managed ones, where the aim is protection, flexibility or preparing for a sale.

Why owners use them

- **Separating risk.** Putting property or valuable assets in a separate company can protect them from the trading company's liabilities.
- **Separating businesses.** Different trades can sit in different companies, each with its own accounts, staff and, if needed, investors.
- **Taking profits out in stages.** The trading company can pay dividends up to the holding company, which can keep the cash and invest it, often without further tax on that step.
- **Preparing for a sale.** A buyer can purchase one subsidiary, or the owner can sell a trading company and keep the rest.
- **Succession.** Different family members can own different shares in different parts, and new people can be brought in at the right level.
- **Bringing in investors** into a specific business without involving the rest.

How groups are taxed

- **Dividends between group companies** are generally exempt from corporation tax.
- **Losses** in one company can often be used against profits in another group company, under group relief rules.
- **Gains and assets** can generally be moved within the group without tax at the time, in some circumstances.
- **A holding company selling shares in a subsidiary** may be exempt from tax on the gain, if the conditions of the substantial shareholding exemption are met.
- **Stamp duty and VAT** have group reliefs, with conditions.

Who this is for

- Owners with property or cash inside a trading company
- Businesses with more than one trade
- Owners planning succession or a part-sale

Key points

- A group can protect assets and allow flexibility.
- It adds cost, admin and complexity.
- Connected companies share certain tax limits.
- Reorganising can trigger tax, so plan carefully.
- Take advice before you restructure.

Costs and downsides

- **More accounts and filings**, for each company, and often consolidated accounts for larger groups.
- **More admin**, including separate bank accounts, records and decisions.
- **Associated company rules**. Companies under common control share the profit thresholds for the corporation tax rates, so a group may pay tax at the higher rate on more of its profit than a single company.
- **Financing and guarantees**. Lenders may ask for guarantees from several companies, which reduces the protection you hoped for.
- **Possible tax charges on the reorganisation** itself, if it is not done properly.
- **Perceived complexity**, which can deter some buyers or investors.

Questions to ask

- What do I want to protect or separate?
- What will it cost to set up and run?
- What will it cost in tax now?
- Do I need HMRC clearance?
- How does it affect lenders and investors?
- What is the plan for a sale or succession?

How a group is put in place

The usual route is a share-for-share exchange: the owners swap the shares in their trading company for shares in a new holding company. If done correctly, with the right conditions and sometimes advance clearance from HMRC, it can be tax-neutral. Property or other assets can be moved to a separate company by a transfer, which may have capital gains tax and stamp duty consequences. A new subsidiary can be started afresh for a new activity, which is simpler.

Making it work

- Keep **intercompany loans and charges** properly documented, with sensible terms.
- Hold **regular board meetings** for each company, and keep records.
- Keep each company's **money separate**.
- Review the structure at least every few years, and when something changes, such as a sale, a death or a new investor.

When not to

If the business is small, simple and you have no plans to sell, split or protect parts of it, a single company is often enough. A group is a tool for a purpose, not a status symbol.

Related guides

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- Corporation tax
- Inheritance tax and your business
- Preparing to sell

How King Street can help

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We review whether a group structure would help, work out the tax and cost of putting one in place, apply for clearances where needed, prepare the filings and group accounts, and keep the structure in order. We work with your solicitor on the legal documents.

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