

UNDERSTANDING
**COMPANY
STRUCTURES**

**JACKSON
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A REAL ASSET

COMPANY STRUCTURES

Businesses and their owners arrive at all sorts of ownership structures for all sorts of historical reasons, good and bad.

Typically all of an owner's time in the early years of a business is spent focusing on the operations themselves, which often means that consideration of an appropriate structure is something which has to wait. It is no surprise to us, therefore, when we come across companies where operations need to be separated for commercial or taxation reasons.

At Jackson Stephen LLP, corporate reorganisation for commercial and tax benefits is one of our particular strengths. "Demerger" (a reorganisation which separates different activities) has the power to solve critical commercial blockages and protect valuable tax reliefs. Our demerger work is typically achieved with nil or negligible taxation cost, using complex rules of the tax code to the company's, and its owners', full benefit.

There are many different conceivable structures but let us illustrate one typical scenario to demonstrate what problems can arise and what can be done to solve them:

Mixed-up Co Ltd is a trading company which has invested surplus profits over a number of years in property. It has come to a position where the relative importance of the two strands of business is difficult to assess – the trade operations yield more income than the property, but the property represents significant capital value.

The diagram above (difficult to follow without some verbal explanation we know), depicts steps which transform the ownership structure into two separate pieces, both still owned by the same owner.

One side holds the Mixed up Co Ltd shares which is now wholly trading and the other holds Property Co, a new company carrying on the property business.

Owner is now free to deal with each piece as they feel fit, they are relieved of the risk of losing their investment assets to trade creditors and free to contemplate a sale (of either piece) in a tax efficient and professional cost efficient manner, focusing on negotiations with the seller rather than on a hasty pre-sale reorganisation perhaps.

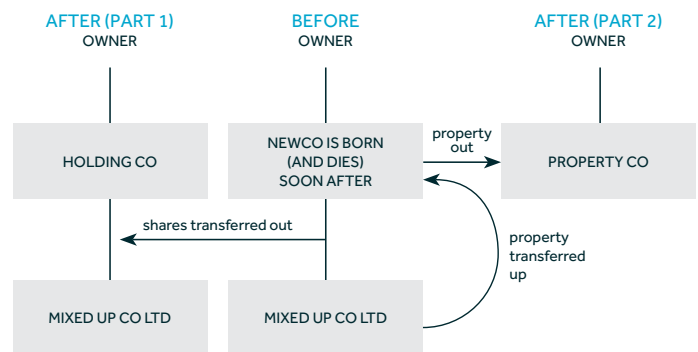
It is also possible to obtain a tax-free uplift of the property base cost to current market value using careful demerger planning.

If you have circumstances which suggest that a separation of business activities might be advantageous, we can help. Please get in touch well before the current structure might pose a costly problem.

The owner is advised that the status quo is not satisfactory:

- (i) The property is exposed to the vagaries of the (risky) trade;
- (ii) The shares in the company are likely to fail to achieve Entrepreneur's Relief on a sale;
- (iii) There is likely to be a restriction on the availability of business property relief for IHT purposes: and
- (iv) If and when a sale of the trade does come along, it could be a problem to move out the assets which the owner needs to retain, in a tax efficient way.

We can fix this, in good time, and at no taxation cost.



Contact us for more innovative tax solution booklets:

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