

BUSINESS STRUCTURE CASE STUDY

THE CLIENT:

A utilities, civil engineering and groundworks business based in the South West. Due to this wide range of services, they have quickly established themselves as a trusted provider of trenching and cable laying on a nationwide scale, providing first class service to both renewable energy companies as well as utility companies.

THE SITUATION:

The client joined Mark Holt & Co in early 2022. Like many owner operator businesses, the client had simply got on with growing the business and building customers and contacts, but not really thought about the business structure, tax efficiency or protecting against risk.

One of the main issues was that the client owned business property assets personally, along with a personal mortgage which financed them. The problem here is that they needed to extract high income from the business, with high tax costs, simply to pay the mortgage.

As with any new client, we started with a blank piece of paper to understand what the personal and business objectives were, and how wealth should be structured. Once we had that, we then developed a plan to move towards that, making sure we understood the various commercial issues (moving loans, transaction costs etc.) and the possible tax impacts, such as Capital Gains tax and Stamp duty for example.

WHAT WE DID:

The starting point was to do all the basics such as producing accounts and doing tax returns quickly to get an up to date picture.

Our meetings with the client also discovered some investment in designing and making some really complex and specialised equipment that qualified for Research & Development tax credits. This generated a substantial tax repayment for the business, and is stuff you only find out when you really get to know a client.

The restructure project also helped the client to understand the merits of a two company structure, whereby property and machinery assets are held in a holding company, whilst all of the trading activity is undertaken in a subsidiary. Separating all the risks associated with employing people and operating complex machinery on work sites, from the value of the assets. Advice we give to many clients.

The final stage was to plan the transfer of business property and the associated debt back into the company structure, so that there is no longer the need to extract personal income and pay tax to service the debt, and also so that the loan interest is tax deductible within the business. Some property was left outside the business (The owners own home) but is also now mortgage free.

THE IMPACT:

The biggest impact is that the client now has a clear plan and up to date information to make decisions.

The Research & Development claim generated a tax saving of over £13,000.

Separating business and personal assets and forming a group structure has significantly improved the risk protection for both the business and the owners. It has allowed the client to protect the growing value of the business, enabling them to grow it in a more controlled manner. Making a change of this scope does have tax implications that need to be understood and managed, but our plan resulted in an overall neutral situation. I.e. the tax costs of the transactions were offset by all tax savings.

WHAT THE CLIENT HAS TO SAY:

"I am busy running my business, and just grew bigger and faster than I expected. I didn't give enough attention to the business structure, tax or risk issues.

Mark Holt & Co give me complete confidence that they are working in my best interests, have the expertise to provide the advice and support I need, and that they talk my language.

It's great that I can focus completely on running the business whilst they take care of the rest."