**Arthur Weller case study 1 – Splitting a limited company in two?**

Question:

I have a client with a limited company that runs two shops. They want to split them into two separate companies. Can they do this without capital gains tax difficulties?

Answer:

If you look at HMRC’s Company Taxation manual at CTM17280, you can see that there are two statutory ways of doing a demerger: the direct route, and the indirect route. The broad effect of the legislation for the shareholders is that these procedures are not considered to be distribution income, and do not normally give rise to a Capital Gains disposal, as explained on CTM17250.

There is a helpful example of the indirect route in HMRC’s Capital Gains manual at CG52721. An advanced clearance facility is available as explained in CTM17260. It is also possible to do a Section 110 Insolvency Act 1986 liquidation. For HMRC guidance, see CG52722, CG52723 and CG52724. There is an example of a liquidation on CTM36345. Of course, there are rules and conditions that must be complied with (note that guidance in the above HMRC manuals are generally not legally binding).