HMRC - CTM03592 - Whether Trade Or Business Carried On - Investment And Holding Companies

Close Investment Holding Companies

For accounting periods beginning on or after 1 April 1989 until 31 March 2015, regardless of whether it is in business a close company that simply holds investments such as a bank deposit account will fall within the definition of a close investment holding company at CTA10/S34, and will be liable at the full rate of CT (see CTM60700 onwards).

Company with investment business

Some companies will seek relief for management expenses under CTA09/S1219, which requires that the company carry on ‘investment business’, defined without much further enlightenment at CTA09/1218 as making investments. In such cases, it is a reasonable inference that the company is also carrying on a business for the purposes of CTA10/S25 (3).

Reorganisations

A company wishing to take over the trade of another may do so by first acquiring the target company’s shares and then transferring the trade to itself. This is commonly known as a hive up. In some cases the transfer of the trade takes place on the same day as the acquisition of the shares.

Whether the acquired company carries on a trade or business during the period after acquisition of the shares and before transfer of the trade is a question of fact. But the normal sequence of events in a hive up is that the predecessor must carry on the trade (even if only for a few minutes) while it is in common ownership with the successor. There is no reason to overlook such very short periods of trading.

Non-Trading Holding Companies

CTA10/S26 provides that a non-trading holding company is not treated as carrying on a business, and is therefore excluded from the count of associated companies for an accounting period, provided that in relation to or throughout the period:

it carries on no trade

it has one or more 51% subsidiaries, and

it is a ‘passive company’, that is to say

it has no assets other than shares in companies which are its 51% subsidiaries

no income arises to it other than dividends

if income arises to it in the form of dividends, they are passed through to shareholders (‘redistribution condition’), and those dividends are franked investment income in its hands

no chargeable gains accrue to it

no management expenses within CTA09/S1219 are incurred, and

no qualifying charitable donations are deductible from profits.

These conditions are broadly similar to those in SP5/94, which CTA10/S26 replaced. If one or more of them is not met, it does not necessarily follow that the company must be regarded as an associated company; the company might still be able to establish that it is not carrying on a business, in line with the principles discussed above.

Previous page

Next page