

LexisNexis® Practical Research – Tax

Unwieldy Group PLC ('UG') is a UK listed group and a new client in need of some urgent advice. After some shareholder unrest about the efficiency of the group, the client has been in to see our corporate colleagues to discuss options to address this. They advised that the group should demerge, using a direct dividend demerger structure, subject to the tax issues associated with this route.

Memo

To: New Tax Trainee

From: Supervising Associate

Client: Unwieldy Group PLC

Status: URGENT

The client is coming in tomorrow to discuss the tax issues.

Background facts:

1. UG is a holding company and has three wholly owned subsidiaries:
 - PropCo owns the building that the group uses. About 50% of the building is used by the group. The remainder of the building is rented out to third parties, generating an income.
 - BootCo runs the main business of the group manufacturing fur-lined wellington boots.
 - DiceCo runs a business manufacturing furry dice for cars.
2. DiceCo was established by the previous CEO as part of a plan to diversify the business. It is this business that UG proposes to demerge.
3. All the assets of the furry dice business are owned by DiceCo except the building.

I have had a look at the conditions for statutory demerger treatment in CTA 2010, s 1075-1082 and am confident that most of the conditions are met, however I am concerned about the impact of PropCo on the transaction.

Please prepare the following answers before the client's call tomorrow morning:

1. What is a statutory demerger?
2. What are the requirements of Corporation Tax Act 2010, s 1081(2)(a)?
3. Is the rental income classified as trading activity?
4. Does the rental income affect the classification of the UG group as a trading group?
5. Is there anything UG can do to reduce the uncertainty on this issue?

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