



Goodwill

A typical scenario....

- Mr Smith has been running a small garage for a few years
- he decides to incorporate his business and sets up Smiths Garage Limited with himself as the sole director and shareholder
- he transfers the goodwill of the business and its other assets and liabilities to Smiths Garage Limited but does not claim incorporation tax relief under Taxation of Chargeable Gains Act (TCGA) 1992, s162, nor does he claim hold-over relief under TCGA s162
- at the time of incorporation, the goodwill of the business is valued at £100,000
- Mr Smith makes a chargeable gain on the transfer of the goodwill, which is deemed to be at market value, of £100,000 which, after deducting the annual CGT exemption (£11,000 2014-15), will be **taxable at 10%** due to the availability of entrepreneur's relief
- the company will pay Mr Smith £100,000 for the acquisition of goodwill and this is done by way of a credit to Mr Smith's director's loan account. Mr Smith is able to draw down on this account without any further tax charges.

In addition Mr Smith started his Sole Trader business after the 1st April 2002 so he can claim a corporation tax deduction for amortisation of the goodwill in the company accounts. Small Companies pay Corporation Tax at 20%, so being able to deduct Goodwill on £100,000 will **save £20,000 in Corporation Tax**.

However, please bear the following in mind:

1. If the business started before 1st April 2002, Corporation Tax Act 2009 s895 prevents the company from claiming a deduction against corporation tax, also refer to HMRC Spotlight 1: Goodwill – companies acquiring businesses carried on prior to 1 April 2002 by a related party
2. Where a trader transfers his business to a limited company of which he is a 'substantial shareholder', the parties are treated as 'related parties' and the transfer must be at market value, but you can ask HMRC to carry out a post transaction valuation check by submitting form CG34
3. Goodwill relating to personal services is not normally considered to have a market value as it cannot be transferred
4. In general it is expected that intangibles will have a useful life of **no more than 20 years**
5. Get professional advice to help you to prepare the valuation, disclose the capital gain and claim the tax relief

Goodwill – the amount paid for a business in excess of its balance sheet value.