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BUSINESS LAW AND PRACTICE

Comprehensive Study Guide | Chapters 1 – 12

This guide covers all 12 chapters of Business Law and Practice including: types of business, company formation, directors, equity and debt finance, partnerships, LLPs, VAT, trading profits, insolvency, income tax, capital gains tax, corporation tax, and company accounts.

Chapter 1 — The Different Types of Business

Businesses are central to economic wealth in the UK, and a solid understanding of business law is essential for solicitors across all practice areas — from corporate and commercial to family and criminal law. For example, knowledge of business structures and accounts is necessary when advising on divorce cases involving hidden assets or defending clients against fraud allegations.

Part 1 Types of Business

1.2 Incorporated and Unincorporated Businesses

- **Incorporated businesses** (e.g. limited companies) — exist as a separate legal entity from their owners and managers. A key feature is that owners are generally not liable for the debts of the business.
- **Unincorporated businesses** (e.g. sole traders and partnerships) — run by individuals who have not created a separate legal entity, resulting in full personal liability for business debts.

1.3 Sole Traders

The sole trader is the most common business medium in the UK. It involves a self-employed person owning the business outright, keeping all profits after expenses, and bearing all losses personally.

Unlimited Liability
There is no legal distinction between business and personal assets. If the business fails, personal assets — including bank accounts and property — can be used to pay creditors, potentially leading to personal bankruptcy.

1.4 Partnerships

A partnership is formed when two or more people "carry on a business in common with a view of profit" (Partnership Act 1890, s 1).

- **Nature:** Not a separate legal entity. Assets are owned by the partners and they remain personally and jointly liable for all partnership debts.
- **Default Rules:** The PA 1890 provides default terms that apply unless the partners enter into a written partnership agreement to disapply them.

1.5 Limited Partnerships

Governed by the Limited Partnerships Act 1907. Must have at least one general partner (unlimited liability) and one limited partner (liability capped at their initial investment).

Restriction on Limited Partners
To maintain limited liability, the limited partner must not manage the business or take binding decisions on its behalf. Currently popular for specialised financial businesses such as venture capital funds.

1.6 Companies

Companies are formed by registering documents with the Registrar of Companies under the Companies Act 2006 (CA 2006). Unlike sole traders or partnerships, they cannot start trading until formal incorporation steps are completed.

1.6.1 Private Companies Limited by Shares

The most popular business medium, offering separate legal personality and limited liability.

- **Limited Liability:** Owners (shareholders) are generally not liable for company debts beyond the amount paid for their shares.

Case: Salomon v A Salomon and Co Ltd [1897] AC 22
Established that a legally incorporated company is an independent legal person, entirely separate from its members. The "corporate veil" can only be pierced in extremely rare cases where a person deliberately evades a legal obligation by interposing a company.

Case: Prest v Petrodel Resources Limited [2013] UKSC 34
Confirmed the very limited circumstances in which the corporate veil may be lifted — only where a person is under an existing legal obligation or liability and deliberately interposes a company to evade it.

- **Decision-making:** Responsibility is divided between directors (who manage day-to-day operations via board meetings) and shareholders (who provide finance and make major decisions via general meetings).

1.6.2 Public Companies Limited by Shares (PLCs)

A plc must comply with specific CA 2006 requirements: its name must end in "public limited company" or "plc"; its constitution must state its public status; and it must have a minimum allotted share capital of £50,000.

- More prestigious and can raise capital by offering shares to the public
- May apply to be traded on stock markets such as the London Stock Exchange or AIM

- More heavily regulated than private companies to protect public investors
- Can register as a plc upon original incorporation or re-register from a private company later

1.7 Limited Liability Partnerships (LLPs)

Formed under the Limited Liability Partnerships Act 2000 (LLPA 2000). An LLP is a "hybrid" between a company and a partnership — it has separate legal personality and limited liability like a company, but is taxed and run with the flexibility of a partnership.

1.8 Other Types of Business Medium

Type	Key Feature
Companies Limited by Guarantee	Non-profits; members guarantee debts up to a small amount (usually £1)
Unlimited Companies	Rare — no liability protection for members
Community Interest Companies (CICs)	Businesses using profits for public good
Joint Ventures	Joint commercial enterprises between two or more parties; can take various legal forms

1.9 What Type of Business is Best?

Factor	Key Consideration
1.9.1 Liability	Companies and LLPs offer limited liability; sole traders and partners risk personal assets
1.9.2 Tax	Most advantageous form depends on specific financial circumstances of the owners
1.9.3 Formalities	Unincorporated businesses have almost no formalities; companies must file minutes, registers, and accounts
1.9.4 Publicity	Companies and LLPs must make financial and director information public; sole traders remain private
1.9.5 Cost	Incorporated businesses are more expensive to form and run due to administrative burdens
1.9.6 Status	Companies are often seen as more prestigious, particularly for international trade
1.9.7 Finance	Companies and LLPs can grant floating charges over all assets, making them more attractive to lenders

Part 2 The Limited Company

1.10 Forming a Company

To incorporate, an applicant must submit Form IN01, a Memorandum of Association, and Articles of Association to Companies House with a fee. Applications can be made by individuals, solicitors, accountants, or company formation agents. Once satisfied, the Registrar issues a Certificate of Incorporation — conclusive evidence of registration.

1.12 Decisions to Be Made on the IN01 Form

1.12.1 Company Name

- Ending: Must end in "Limited" or "Ltd" ("plc" for public companies)
- Similarity: Cannot be the same as an existing company
- Prohibitions: Cannot be offensive or suggest unauthorised government connections
- Trading Names: Companies can trade under a "business name" different from their registered name
- Infringement: Trade mark searches should be performed to avoid "passing off" actions

- 1.12.2 Registered Office: Must be in the same part of the UK where the company is registered; used for official correspondence
- 1.12.3 First Directors: At least one natural person aged 16 or over
- 1.12.4 Addresses: Directors must provide a service address (public) and a residential address (private)
- 1.12.5 Company Secretary: Optional for private companies; mandatory for PLCs
- 1.12.6 First Shareholders (subscribers): No maximum number
- 1.12.7 Statement of Capital: Details the number and types of shares and the rights attached to them

1.13 The Company's Constitution

The constitution consists primarily of the Articles of Association (the company rulebook) and the Memorandum of Association (the initial intent to form a company).

- **Model Articles:** A standard set of articles provided by regulations that apply by default if a company does not provide its own customised articles.
- **Table A:** The precursor to Model Articles for companies formed under the Companies Act 1985.
- **Amending Articles:** Shareholders can amend articles via a special resolution (75% majority).

1.14 People with Significant Control (PSC)

Companies must identify and register anyone holding more than 25% of shares or voting rights, or having the right to appoint or remove a majority of directors. This information must be filed at Companies House to ensure transparency for third parties.

1.16 – 1.17 Public Companies: Additional Requirements

- **Trading Certificate (SH50):** A PLC must satisfy share capital requirements and obtain a trading certificate before it can trade or borrow.
- **Re-registration:** A private company can re-register as a PLC by passing a special resolution, altering its name and articles, and providing a balance sheet and auditors' statement proving it meets capital requirements.

1.19 Post-Incorporation Steps

Newly incorporated companies typically hold a first board meeting to address:

- Chairperson — deciding if the board will have a chair with a casting vote
- Bank Account — authorising individuals to manage company funds
- Company Seal — adopting an optional seal for official documents
- Accounting Date — aligning annual accounts with the tax or calendar year
- Auditor — appointing an auditor unless the company qualifies as "small" and is exempt
- Tax Registrations — registering for corporation tax, PAYE/NIC, and VAT
- Agreements — establishing insurance and potential shareholders' agreements

Chapter 2 — Company Decision-Making, Officers and Shareholders

Because a company is an artificial legal person, it cannot make its own decisions — humans must act on its behalf. Directors are responsible for day-to-day management, while shareholders are involved in a limited number of major decisions (e.g. changing the company name or Articles).

2.2 Directors' Decision-Making

Provision	Rule
MA 5 — Delegation	Directors can delegate responsibilities to specific directors or employees
MA 8 — Unanimous decisions	Directors can pass resolutions in writing without a formal meeting if all eligible directors agree
MA 9 — Notice	Notice of a board meeting must be given to all directors; must be "reasonable" and include time, date, and place
MA 11 — Quorum	Default quorum is two directors
MA 13 — Casting vote	The chairperson has a casting vote to break ties
MA 14 — Interested directors	An interested director generally cannot vote or count in the quorum for that decision
s 177 CA 2006 — Declaration	Directors must declare any personal interest in a proposed transaction to the board

2.3 Shareholders' Resolutions

Type	Majority Required / Rules
Ordinary Resolution	More than 50% of votes cast
Special Resolution	75% or more of votes cast; must be filed at Companies House
Notice period (standard)	14 clear days (excluding day of service and day of meeting)
Short notice	Majority holding at least 90% of voting shares (95% for PLCs) must consent
Quorum	Default: 2 shareholders
Poll vote	One vote per share — overrides show of hands; can be demanded by chair, directors, or shareholders with 10%+ of voting rights

Written resolutions (private companies only)	Passed when required majority of ALL eligible members agree; lapses after 28 days by default

2.5 Annual and Ongoing Responsibilities

- Shareholders holding 5%+ of voting rights can requisition a written resolution or call a general meeting
- Special resolutions and certain ordinary resolutions must be filed at Companies House
- Companies must maintain statutory books (registers of members, directors etc.) and keep minutes for 10 years
- Directors must file annual confirmation statement (CS01) to keep public records accurate

2.7 Shareholders

- **Becoming a shareholder:** As a subscriber at incorporation; via allotment of new shares by the company; or via transfer or transmission of existing shares.
- **Records:** Register of members must be maintained; share certificates must be issued within 2 months of any change.
- **PSC Register:** Companies must keep a register of People with Significant Control (those with >25% shares or voting rights).

2.9 Types of Share

- **Ordinary Shares:** Most common; typically carry voting rights and dividend rights based on profitability.
- **Preference Shares:** Enhanced financial rights (e.g. fixed dividend), often in exchange for foregoing voting rights.

2.9.3 Protection of Minority Shareholders

- **Unfair Prejudice Petition (s 994 CA 2006):** Any shareholder can petition the court if the company's affairs are conducted in a way that causes them unfair harm.
- **Derivative Claims (s 260 CA 2006):** Shareholders can instigate a claim on the company's behalf against a director for negligence or breach of duty.

Chapter 3 — Directors

Directors are responsible for the day-to-day management of a company, including entering into contracts and making business decisions.

3.2 – 3.5 Who Can Be a Director?

Type	Key Point
Minimum number	Private: 1 director; Public: 2 directors; At least 1 must be a natural person aged 16+
Corporate directors	Currently permitted but SBEEA 2015 will require all directors to be natural persons (not yet in force)
Executive Directors	Board member + employment contract (service agreement); fills a specific role (e.g. Finance Director)
Non-Executive Directors (NEDs)	Board member providing objective oversight; no employment contract; receive fees for meetings
De facto directors	Act as directors without valid appointment
Shadow directors	Persons whose instructions the board is "accustomed to act" upon (s 251(1) CA 2006)
Sole directors	Can make decisions alone under MA 7(2) in a private company

3.12 Directors' Authority

- **Actual Authority:** Arises when the board gives express or implied consent for a director to act on the company's behalf.
- **Apparent Authority:** Arises when the company represents to a third party that a director has authority, even if they do not. The company is then estopped from denying that authority. If a director lacks both types, they may be personally liable for the contract.

3.13 Directors' Service Contracts

Any service contract with a guaranteed term of more than two years requires approval by shareholders via an ordinary resolution (s 188 CA 2006). If approval is not obtained, the long-term guarantee is void — though the rest of the contract remains enforceable.

3.14 Ending the Directorship

- **Removal (s 168 CA 2006):** Shareholders can remove a director by ordinary resolution at a general meeting. Requires "special notice" of at least 28 days. The director has the right to make written representations and speak at the meeting (s 169).

Bushell v Faith Clauses
Articles may include "Bushell v Faith" clauses, which provide weighted voting rights to a director/shareholder if a resolution to remove them is proposed — making removal practically very difficult.

3.16 Directors' Duties (ss 171–177 CA 2006)

Duty	Summary
s 171 — Act within powers	Follow the constitution; use powers only for authorised purposes
s 172 — Promote company success	Act in good faith to promote success for the benefit of members as a whole (subjective test); consider long-term, employees, environment
s 173 — Independent judgement	Do not let discretion be dictated by others
s 174 — Care, skill, diligence	Dual test: (a) objective standard (role) + (b) subjective standard (specific director's knowledge and experience)
s 175 — Avoid conflicts	Must not exploit company property, information, or opportunities for personal gain
s 176 — Third-party benefits	Must not accept bribes or excessive benefits given because of their directorship position
s 177 — Declare interests	Must disclose any personal interest in a proposed contract before the company enters it

Important
Directors owe these duties to the company itself — NOT to shareholders or creditors (except where the company approaches insolvency, when duties to creditors increase in importance).

- **Civil consequences of breach (ss 171–177):** Account of profits, damages, rescission of contracts, or injunctions.
- **Ratification:** Shareholders can ratify a breach by ordinary resolution — but the breaching director's own votes (if also a shareholder) do not count.
- **s 182 — Interest in existing transactions:** If a director becomes interested in a transaction AFTER it was made, they must declare it as soon as practicable. Failure is a criminal offence.

3.21 Claims Against Directors of Insolvent Companies

- **Wrongful trading (s 214 IA 1986):** Director knew (or should have known) there was no prospect of avoiding insolvency and failed to take every step to minimise creditor losses. Court can order personal contribution to company assets.
- **Fraudulent trading (s 213 IA 1986):** Carrying on business with the specific intent to defraud creditors.
- **Misfeasance (s 212 IA 1986):** Summary remedy for any breach of fiduciary duty discovered during liquidation.

3.22 Controls on Directors

Control	Key Rule
s 190 — Substantial Property Transactions	Assets over £100,000 (or over 10% of net assets and over £5,000) between company and director require ordinary resolution
s 197 — Loans to directors	Loans or guarantees for directors generally require shareholder approval by ordinary resolution
s 217 — Payment for loss of office	Payments over £200 (not a legal entitlement) require shareholder approval
CDDA 1986 — Disqualification	Directors can be disqualified for 2–15 years for indictable offences, persistent filing breaches, or "unfitness" in insolvency

Chapter 4 — Equity Finance

Companies obtain finance through equity finance (investors paying for shares) or debt finance (borrowing money). This chapter addresses equity finance — how shares are allotted, how ownership is transferred, and how a company can buy back its own shares.

4.2 Overview of Share Ownership Changes

Method	Effect
Allotment	Company creates NEW shares → increases total number of shares in the company
Transfer	Shareholder sells/gives EXISTING shares → total number stays the same; only the owner changes
Buyback	Company reabsorbs and CANCELS own shares → reduces total number; increases remaining shareholders' percentage

4.3 Allotment of Shares — Three Procedural Hurdles

4.3.1 Constitutional Restrictions on Allotment

Check Articles of Association for any ceiling on shares. For companies formed before October 2009, Authorised Share Capital (ASC) may need to be removed by ordinary resolution before new shares can be allotted.

4.3.2 Directors' Authority to Allot

- **Post-2006 Private Companies with one class of share:** Automatic authority under s 550 CA 2006.
- **PLCs and Private Companies with multiple classes:** Require authority from shareholders via ordinary resolution or provision in Articles under s 551 CA 2006 (can last up to 5 years).

4.3.3 Pre-Emption Rights (s 561 CA 2006)

Existing shareholders have a "right of first refusal" to buy new equity securities in proportion to their current holding — to prevent their voting power being diluted.

- Exceptions: Bonus shares; shares issued for non-cash consideration (e.g. property); employee share schemes
- Disapplication: Shareholders can waive these rights via special resolution or specific Articles provisions

4.3.4 – 4.3.5 Payment and Administration

- **Payment (MA 21):** Shares must be fully paid at the time of allotment. If shares are sold for more than their nominal value, the excess goes to a share premium account (subject to capital maintenance rules).
- **Administration after allotment:** File Form SH01 at Companies House within 1 month; update register of members within 2 months; issue share certificates within 2 months.

4.4 Transfer of Shares

- **Process:** Transferor signs a stock transfer form and gives it to the transferee along with the share certificate. If sale exceeds £1,000, stamp duty (0.5%) must be paid.
- **Board discretion:** Under MA 26, the board can refuse to register a transfer. The transferee does not become a legal shareholder until their name is entered in the register of members.
- **Transmission:** Automatic process on death (to personal representatives) or bankruptcy (to trustee in bankruptcy). Representatives entitled to dividends but must elect to be registered as members.

4.5 – 4.6 Maintenance of Share Capital and Share Buybacks

Capital Maintenance Principle
A company's share capital must be preserved for the protection of creditors. Companies generally cannot return capital to shareholders or pay dividends out of capital — they must use distributable profits.

4.6.1 – 4.6.2 Off-Market Purchase (Most Common)

- Articles must not forbid buybacks
- Shares must be fully paid and paid for at time of purchase
- Ordinary resolution required to approve the buyback contract
- The selling shareholder cannot vote on the resolution
- Directors must ensure company has sufficient cash and fulfil s 172 duties

4.6.3 – 4.6.4 Buyback Out of Capital (Private Companies Only)

- Directors must sign a statement of solvency
- Auditors' report must confirm the directors' opinion is reasonable
- Special resolution required from shareholders

- Notice published in the London Gazette and a national newspaper (creditor objection period)
- Payment out of capital must occur 5 to 7 weeks after the special resolution is passed

4.7 Dividends

Dividends are the distribution of a company's distributable profits to shareholders. Directors decide whether to recommend a dividend and the amount; shareholders must then approve (declare) it via an ordinary resolution.

Chapter 5 — Debt Finance

Debt finance occurs when a business obtains funding by borrowing money. While sole traders and partnerships can also take loans, this chapter emphasises procedures and regulations specific to companies and LLPs.

Part 1 Types of Debt Finance

5.2 Before Borrowing

Companies must check Articles of Association and Memorandum (if formed before October 2009) for restrictions on borrowing. If restrictions exist, remove via special resolution. Directors typically have authority to borrow under Model Article 3.

5.3 – 5.6 Types of Loan Facility

Type	Key Feature
Secured Loan	Business gives lender rights over property → lower interest rates than unsecured
Overdraft Facility	"Uncommitted facility" repayable on demand; flexible but expensive due to high interest rates
Term Loan	Fixed amount for a specified period; used to purchase capital assets; bilateral (one lender) or syndicated (multiple lenders)
Revolving Credit Facility	Flexible maximum limit; can borrow, repay, re-borrow throughout the term; useful for uneven income streams

5.7 Key Contractual Terms in Facility Agreements

- 5.7.1 Payment — amount, currency, and availability period
- 5.7.2 Repayment — bullet payments (total at end), amortisation (equal instalments), or balloon repayments (larger final instalment)
- 5.7.3 Interest — fixed or floating (variable based on base rate formula)
- 5.7.4 Express covenants — contractual promises to do or not do things (e.g. provide financial info, not dispose of assets, limit dividends)
- 5.7.6 Events of default — specific breaches (missed payments, insolvency) allowing lender to terminate the agreement

5.10 Comparing Debt and Equity Finance

Factor	Debt vs Equity
Risk	Loans less risky for investors — interest is a contractual liability paid before dividends
Control	Shareholders have voting rights; lenders generally do not (unless the contract is breached)
Tax	Interest payments are tax-deductible trading expenses; dividends are NOT
Gearing	High debt-to-equity ratio increases insolvency risk

Part 2 Security

5.13 Who Can Grant What Security?

Sole traders and general partnerships can only grant fixed charges. Only companies and LLPs can grant floating charges.

5.17 Types of Security

Type	Key Feature
Mortgage	Highest form of security; transfers legal ownership to lender (except for land)
Fixed Charge	Specific, identified assets (e.g. machinery); borrower cannot sell without lender's consent
Floating Charge	Hovers over a changing class of assets (e.g. stock); business can deal freely until "crystallisation" on default/insolvency
Book debts	Can be fixed or floating depending on level of control lender exerts over proceeds
Personal guarantee	Individual guarantees company's debt personally
Pledge	Physical delivery of asset to lender as security
Lien	Lender retains possession of goods
Retention of title	Seller retains ownership until payment received

Priority of Charges
Fixed charges always take priority over floating charges (even if the floating charge was created first). Between identical types of registered charges, priority is determined by date of CREATION, not date of registration.

5.17.4.7 Registration of Charges

- **Process:** Charges must be registered at Companies House using Form MR01 (and certified copy of the charge) within 21 days of creation.
- **Failure to register:** The charge becomes void against a liquidator, administrator, or other creditors, and the debt becomes immediately repayable.
- **Negative pledge:** A clause in a floating charge prohibiting later charges with priority. If a subsequent lender has actual knowledge of this clause, they lose priority.

Chapter 6 — Partnerships and LLPs

Part 1 General Partnerships

6.2 – 6.4 What is a Partnership?

Under s 1 of the Partnership Act 1890 (PA 1890), a partnership exists when two or more persons are "carrying on a business in common with a view of profit." Partners can be individuals or companies. No separate legal personality.

Why Operate as a Partnership?
No formalities required — the relationship exists as soon as the legal definition is met. No administrative or filing requirements. However, partners have unlimited personal liability for all business debts.

6.6 The Partnership Agreement — Key Provisions

Provision	Default Rule / Key Point
6.6.1 Name	Must not include "Limited", "LLP", or "plc"; must not be offensive or suggest government connection
6.6.4/5 Work input	Default: partners may manage but are not required to work
6.6.6 Decision-making	Most decisions by majority; changing nature of business, introducing new partners, or changing agreement require unanimous consent
6.6.7/8 Financial input	Default: equal share of all capital, profits, and losses
6.6.9 Drawings	Partners are owners not employees; income is "drawings" from profit
6.6.11 Expulsion	Default: partners cannot be expelled unless express power is in written agreement
6.6.12 Dissolution	Default: immediate dissolution on notice, death, or bankruptcy; agreement should provide "partial dissolution" clause
6.6.15 Distribution on dissolution	1. Third-party creditors → 2. Partner loans → 3. Partner capital → 4. Surplus

6.8 – 6.9 Liability to Third Parties

- **Actual authority:** Firm bound by contracts entered into by partners with express or implied authority.

- **Apparent authority:** Firm liable if a partner's transaction relates to the usual business of the firm and the third party did not know the partner lacked authority.
- **Joint and several liability:** Partners are personally liable for all partnership debts incurred while they were partners.
- **Leaving the firm:** An outgoing partner remains liable for old debts unless there is a novation agreement with the creditor. Must give actual notice to existing contacts and publish in the London Gazette.
- **Holding out:** A person held liable if they represent themselves as a partner to a creditor who relies on that representation.

Part 2 Limited Liability Partnerships (LLPs)

6.15 – 6.25 LLPs

Feature	Detail
Incorporation	File form LL IN01 at Companies House; at least 2 members; name must end in "LLP" or "limited liability partnership"
Designated members	At least 2; responsible for filing accounts, confirmation statements; owe duty of reasonable care and skill
Liability	Members have limited liability; but may be liable for wrongful/fraudulent trading if insolvent
Property	The LLP itself (not individual members) owns its property
Floating charges	Can grant floating charges — an advantage over general partnerships for securing finance
Membership changes	New members join per LLP agreement; Companies House notified within 14 days
Default terms	LLP Regulations 2001 apply if no agreement: equal profit share, right to manage, no right to expel members
Advantages	Limited liability, floating charges, flexible management structure
Disadvantages	Public disclosure of financial accounts; administrative burdens similar to a company

Chapter 7 — Trading: Calculating Profits and Paying VAT

7.3 Calculating Trading Profit

The Formula
Trading Profit = Chargeable Receipts LESS Deductible Expenditure LESS Capital Allowances

- **Chargeable receipts:** Income-natured receipts derived from the trade (money received for goods or services). Capital receipts are excluded.
- **Deductible expenditure:** Must be (i) income in nature; (ii) incurred "wholly and exclusively" for purposes of trade; (iii) not prohibited by statute. Entertainment costs and some car leasing costs are specifically barred.
- **"Wholly and exclusively" test:** If an expense has a dual purpose (business and personal), it is generally not deductible. However, HMRC allows apportionment where there is an identifiable business proportion (e.g. home office heating costs).

7.8 – 7.11 Capital Allowances

Allowance	Rate / Limit
Writing Down Allowance (WDA)	18% per year on pooled plant and machinery value
Annual Investment Allowance (AIA)	100% deduction for qualifying P&M in the year of purchase; limit: £1,000,000
Plant and machinery	Apparatus for business use (equipment, tools, computers, furniture); excludes stock in trade

7.12 Trading Loss Relief — Unincorporated Businesses

Type of Relief	How it Works
7.12.1 Start-up loss relief	Losses in first 4 tax years can be carried back 3 years against total income
7.12.2 Carry-across / 1-year carry-back	Set against total income of same tax year or preceding year
7.12.3 Set-off against capital gains	Unabsorbed losses from carry-across can be set against chargeable capital gains
7.12.4 Carry-forward relief	Set against subsequent profits from same trade indefinitely until exhausted
7.12.5 Terminal carry-	Losses in final 12 months can be carried back against trading

back (12 months)	profits of final year + 3 prior years
7.12.6 Carry-forward on incorporation	If business transferred to company for 80%+ shares, losses set against future salary/dividends from that company
7.12.7 Cap on reliefs	Capped at greater of £50,000 or 25% of total income (for non-trade income only)

7.14 Value Added Tax (VAT)

VAT is charged at 20% on the supply of most goods and services. Businesses charge "output tax" to customers and deduct "input tax" paid on their own purchases, paying the difference to HMRC.

Concept	Detail
Mandatory registration threshold	£85,000 in taxable supplies over 12 months
Zero-rated supplies	No VAT charged (e.g. food, books); seller CAN reclaim input tax
Exempt supplies	No VAT charged (e.g. residential land, health services); seller CANNOT reclaim input tax
Returns / payment	Due 1 month after end of each quarter
Tax invoices	Must show VAT number and rate; allows other taxable persons to reclaim input tax
Penalties	HMRC can impose criminal and civil penalties for non-compliance or late payments

Chapter 8 — Insolvency

Part 1 Corporate Insolvency

8.2 What is Corporate Insolvency?

A company is legally insolvent if it:

- Fails to pay a statutory demand for a debt over £750 within 21 days
- Has an unsatisfied court judgment against it
- Cannot pay debts as they fall due (cash flow test)
- Has liabilities exceeding its assets (balance sheet test)

8.4 – 8.9 Routes for Insolvent Companies

Route	Key Feature
Compulsory liquidation (8.6)	Initiated by third party (usually creditor) presenting a winding-up petition to court
Creditors' Voluntary Liquidation (CVL) (8.7)	Started by the company when directors/shareholders agree it is insolvent; most common form
Members' Voluntary Liquidation (MVL) (8.8)	For SOLVENT companies wishing to close in an orderly fashion
Administration (8.20)	Administrator appointed to rescue company as going concern or achieve better result for creditors than liquidation
Company Voluntary Arrangement (CVA) (8.31)	Binding contract where creditors accept partial/delayed payment; requires 75% in value of creditors to approve

8.10 – 8.15 Avoidance of Transactions

Challenge	Time Limit / Rule
s 245 — Void floating charges	Floating charges for past debts void if granted within 2 years (connected persons) or 12 months (others) before insolvency
s 239 — Preferences	Paying one creditor ahead of others with "desire to prefer" within specific periods before insolvency
s 238 — Transactions at undervalue	Gifts or sales significantly below market value within 2 years before insolvency
s 214 — Extortionate credit	Grossly exorbitant credit agreements within 3 years before insolvency
s 423 — Defrauding	Transactions hiding assets from creditors — NO time limit

creditors	

8.16 – 8.18 Distribution of Assets in Liquidation

Order of Payment
1. Fixed charge holders (from their specific security)
2. Liquidation expenses
3. Preferential debts (employee wages up to £800, holiday pay; HMRC as secondary preferential creditor for VAT and PAYE since December 2020)
4. Floating charge holders (subject to ring-fencing for unsecured creditors)
5. Unsecured creditors (pari passu — share pro-rata)

8.20 – 8.32 Administration and CVA

- **Administration objectives:** (1) Rescue company as going concern; (2) achieve better result for creditors than liquidation; (3) realise assets for secured or preferential creditors.
- **Court route:** Court must be satisfied company likely unable to pay its debts and that administration is likely to succeed.
- **Out-of-court route (company/directors):** File statutory declaration that company is unable to pay its debts.
- **QFCH appointment:** A Qualifying Floating Charge Holder (e.g. bank) can appoint an administrator once their security is enforceable.
- **Statutory moratorium:** Protects the company from legal action while the administrator proposes a plan to creditors.
- **Duration:** Automatically ends after 1 year unless extended.
- **Pre-pack administration:** Sale of business agreed before company enters administration; completes immediately upon administrator's appointment.

Part 2 Personal Insolvency

8.34 – 8.54 Personal Insolvency

Concept	Detail
Definition	Cannot pay debts currently due or no reasonable prospect of paying future debts
Proving insolvency	Unpaid statutory demand for £5,000+ or unsatisfied court judgment
Bankruptcy (8.38)	Debtor's assets vest in trustee in bankruptcy; usually discharged after 1 year
Bankruptcy petition	Creditor petition for debts over £5,000 OR debtor's online

(8.39)	application to an adjudicator
Bankrupt's property (8.41)	Most assets vest in trustee; bankrupt can keep tools of trade and basic items; excess income via IPA
Bankrupt's home (8.42)	Interest passes to trustee; trustee has 3 years to deal with it
Discharge (8.51)	Automatic after 1 year; releases from most debts
Restrictions on bankrupts (8.52)	Cannot be a director; cannot obtain >£500 credit without disclosure; BROs up to 15 years for culpable debtors
Transactions at undervalue (8.45)	5-year look-back period before bankruptcy petition
Preferences (8.46)	6 months (or 2 years for relatives/associates) before petition
Defrauding creditors (8.47)	No time limit
Alternatives (8.53)	IVA (Individual Voluntary Arrangement); Debt Relief Order (DRO); informal negotiation

Chapter 9 — Income Tax

Income tax is the UK government's largest revenue source, governed primarily by the Income Tax Act 2007, ITTOIA 2005, and ITEPA 2003. The tax year runs from 6 April to 5 April the following year.

9.5 Five-Step Income Tax Calculation

Step	Action
Step 1	Calculate total income (trading, property, savings, employment income; exempt items include ISA interest, personal injury damages)
Step 2	Deduct allowable reliefs (e.g. qualifying loan interest) to find NET income
Step 3	Deduct personal allowances to find TAXABLE income
Step 4	Apply tax rates to each category (slice)
Step 5	Add totals to find overall liability

9.5.3 Personal Allowances (2020/21)

Allowance	Amount
Standard Personal Allowance	£12,500
Income limit (taper)	Reduced by £1 for every £2 of net income above £100,000; disappears at £125,000
Marriage Allowance	£1,250 transfer between spouses
Blind Person's Allowance	£2,500
Property / Trading Allowance	£1,000 each
Personal Savings Allowance (PSA)	£1,000 (basic rate taxpayer); £500 (higher rate)
Dividend Allowance	£2,000 for all taxpayers

9.5.5 Tax Rates

Income Type	Basic Rate	Higher Rate	Additional Rate
NSNDI (non-savings non-dividend)	20%	40%	45%
Savings income	20% (0% starting rate if NSNDI is low)	40%	45%
Dividend income	7.5%	32.5%	38.1%

Order of Taxation
Income is taxed in "slices": NSNDI is the bottom slice, savings income is the middle, and dividends are the top slice.

9.8 – 9.9 Basis of Assessment

- **Sole traders:** Taxed on profits of the accounting period ending in the tax year. First year: taxed from commencement to following 5 April. Second year: full 12-month period, often creating "overlap profit" taxed twice but reclaimable. Final year: taxed from end of last period to cessation, minus overlap profit.
- **Partnerships:** Profits calculated for the firm then shared between partners. Each partner is personally responsible for tax on their share.

9.15 Collection of Income Tax

- **PAYE:** Tax deducted at source by employers for employment income.
- **Self-assessment:** Used for untaxed income (rent, trading profits). Paper returns by 31 October; online returns and final payment by 31 January.
- **Payments on account:** Due 31 January and 31 July for those with significant untaxed income.

General Anti-Avoidance Rule (GAAR)
HMRC uses GAAR to target "abusive" tax arrangements — those that involve contrived steps to exploit loopholes and "cannot reasonably be regarded as a reasonable course of action." Enablers of such schemes can face penalties.

Chapter 10 — Capital Gains Tax (CGT)

CGT is charged on chargeable gains made by individuals, personal representatives, partners, and trustees on disposal of chargeable assets. Governed by the Taxation of Chargeable Gains Act 1992 (TCGA 1992). Companies do not pay CGT — they pay corporation tax instead.

10.3 – 10.6 Tax Rates

Category	Rate
Standard assets	10% (basic rate) / 20% (higher rate)
Residential property (not main home)	18% (basic rate) / 28% (higher rate)
Business asset disposal relief	10% flat rate; lifetime cap of £1 million
Trustees and PRs	20% standard / 28% residential property

Death is NOT a Disposal
Death is not a chargeable disposal. Personal representatives acquire assets at "probate value" (market value at death), wiping out any gains accrued during the deceased's lifetime.

10.8 Step 2 — Calculating the Gain

The Formula
Gain = Proceeds of Disposal MINUS Cost of Asset

Allowable deductions: Purchase price / market value / probate value + incidental acquisition costs (legal fees, stamp duty, valuation fees) + enhancement expenditure still reflected at disposal + incidental disposal costs (legal fees, estate agent commission)

10.9 CGT Reliefs

Relief	Key Rule
10.9.1 Rollover relief	Postpones CGT on qualifying business assets if proceeds reinvested within 1 year before or 3 years after disposal
10.9.2 Rollover on incorporation	Gain rolled into acquisition cost of shares when business transferred to a company wholly or mainly for shares
10.9.3 Hold-over relief	Defer tax on gifts of qualifying business assets; donee takes over donor's original cost; tax paid on donee's disposal
10.9.4 Business asset	10% rate; requires disposal of whole business or shares in

disposal relief	personal trading company where disponer is officer/employee; £1m lifetime cap
10.9.5 Wasting assets	Tangible moveable property with predicted life <50 years generally exempt
10.9.5 Chattels exemption	Moveable property sold for £6,000 or less is exempt
10.9.6 Principal private residence	Gains on individual's only or main residence fully exempt
10.9.7 Personal injury damages	Entirely exempt

10.10 – 10.12 Annual Exemption, Losses, and Rates

- **Annual exemption (2020/21):** £12,300. Deducted from aggregated net gains. Apply to highest-rate gains first (residential property).
- **Current year losses:** Must be used against current gains (even if this wastes the annual exemption). Unused losses carried forward indefinitely.
- **Spouses/civil partners:** Transfers made on a "no gain/no loss" basis, allowing assets to be moved to the person who can make best use of their annual exemption or lower rate.
- **CGT payment deadline:** 31 January following end of tax year. Residential property: provisional payment within 30 days of completing the sale.

Chapter 11 — Corporation Tax

Companies pay corporation tax (not income tax or CGT) on their total profits. The financial year runs 1 April to 31 March. Standard rate for Financial Year 2020: 19%.

11.2 Four-Step Corporation Tax Calculation

Step	Action
Step 1	Calculate income profits (trading profit: chargeable receipts – deductible expenses – capital allowances; plus property income and interest)
Step 2	Calculate chargeable gains (proceeds – costs – indexation allowance frozen Dec 2017)
Step 3	Add income profits + gains = total profits; deduct reliefs (trading losses, charitable donations)
Step 4	Apply 19% rate to taxable profit figure

11.4 Corporate Trading Loss Relief

Type	How it Works
11.4.1 Carry-across / carry-back	Set against total profits of same accounting period or previous 12 months
11.4.2 Terminal carry-back	Company stops trading: carry back to prior 3 years of total profits
11.4.3 Carry-forward	Unused losses carried forward indefinitely against total profits (for losses post-1 April 2017)

11.6 Groups and Close Companies

11.6.1 Close Companies

A close company is controlled by 5 or fewer "participators" (shareholders) or any number of director-participators. If a close company lends money to a participator, it must pay a 32.5% "deposit" to HMRC, refunded only when the loan is repaid or written off.

11.6.2 Groups of Companies (75% Groups)

Group Provision	Effect
Group Relief	Transfer trading losses between group companies to reduce recipient's taxable profit
Chargeable Gains	Transfer assets between group companies on "no gain/no loss" basis
Rollover Relief	Gains on disposal outside group rolled over into assets purchased by a different group company
VAT	Group companies can register under a single VAT number
Stamp Duty	Generally exempt on inter-group asset transfers

11.8 – 11.9 Notification and Payment

Obligation	Deadline
Notify HMRC of first accounting period	Within 3 months of start of first period
Standard companies	9 months and 1 day after end of accounting period
Large companies (>£1.5m profits)	4 quarterly instalments starting during the accounting period
Very large companies (>£20m profits)	All 4 instalments during the accounting period

Chapter 12 — Partnerships and Companies: Accounts and Regulation

12.3 Who Looks at Accounts?

- Business owners — for assessment and planning
- Banks — when considering lending decisions
- Solicitors — during the purchase or sale of a business
- HMRC — for assessing tax liability
- Companies House — companies required to file accounts annually

12.7 – 12.9 What Accounts Provide

Category	Definition
Income	Earnings from trade or services
Expenses	Short-term costs required for operation (e.g. utility bills)
Assets	Items owned providing long-term benefit (premises, machinery, cash, debtors)
Liabilities	Amounts owed (bank loans, creditors)

Double Entry Bookkeeping
Every transaction has two aspects recorded in Debit (DR) and Credit (CR) columns. Periodically, these balances are totalled to create a trial balance — where total DR must equal total CR.

12.9 Final Accounts

- **Profit and Loss Account:** Formula: Income – Expenses = Profit. Only includes income and expense items.
- **Trading Account:** For businesses buying and selling goods: calculates gross profit (Sales – Cost of Sales) before other P&L expenses.
- **Balance Sheet:** "Snapshot" of value on a specific date. Formula: Assets – Liabilities = Net Worth.

- **Fixed assets:** Long-term items (premises, machinery).
- **Current assets:** Short-term items (stock, cash, debtors).
- **Current liabilities:** Due within 12 months.
- **Long-term liabilities:** Due after 12 months.

12.10 Accounting Adjustments (Accruals Basis)

Adjustment	Treatment
Outstanding expenses (Accruals)	Unpaid bills: shown as expense AND liability
Prepayments	Payments made in advance: shown as asset
Work in progress	Work done but not yet billed: shown as asset
Closing stock	Stock remaining at year-end: current asset
Bad and doubtful debts	Unlikely to be paid: written off as expense or provisioned
Depreciation	Decrease in asset value over time: recorded as expense
Revaluation	Increase in property value: recorded as capital reserve

12.12 – 12.13 Partnership Accounts

- **Appropriation account:** Shows exactly how net profit is divided among partners (after deducting partner "salaries" and interest on capital, which are mechanisms for allocating profit, not actual employment income).
- **Capital account:** Records each partner's original and additional capital contributions.
- **Current account:** Records each partner's share of profits less drawings.
- **Changes in partners:** If membership changes mid-year, profit is apportioned into two periods with separate appropriation accounts.

12.14 – 12.18 Company Accounts

- **Share capital account:** Replaces individual partner capital accounts; shares recorded at nominal (par) value; excess recorded in share premium account.
- **Directors' salaries:** A company expense shown in the P&L (unlike partners' "salaries" which are appropriations of profit).
- **Corporation tax:** Shown as a liability in company accounts (unlike unincorporated businesses).
- **Retained profit:** Profit not distributed as dividends or paid as tax held in the profit and loss reserve.

Reserve Type	Can it be Distributed?
Revenue reserves (e.g. P&L reserve)	YES — available for distribution
Capital reserves (e.g. share premium)	NO — cannot be distributed to shareholders

Terminology	UK GAAP (FRS 102)	International (IFRS)

Sales	Turnover	Revenue
Debtors	Debtors	Receivables
Creditors	Creditors	Payables

- **Annual report requirements (large/public companies):** Profit and Loss account + Balance Sheet + Strategic Report + Directors' Report + Auditors' Report + Notes to the accounts.

END OF DOCUMENT — BUSINESS LAW AND PRACTICE

All 12 Chapters | Fully Enhanced and Cross-Referenced