



October 14, 2026

HM Revenue and Customs
Clearance and Counteraction Team
BAI Clearance
BX9 1JL

Re: Northquay Software Ltd ([UTR] / [Company registration number]) and Northquay Group Ltd ([Company registration number]) - proposed insertion of a holding company by share-for-share exchange - clearance under TCGA 1992, s 138 and ITA 2007, s 701

Dear Sirs,

1. Provisions under which clearance or assurance is sought

We act for Northquay Software Ltd and for Northquay Group Ltd, and we make this application as their authorised representative. Clearance is sought in advance of the proposed transaction described in section 3 below. The application is made in writing and before the issue of the new shares.

- Taxation of Chargeable Gains Act 1992, s 138, on the application of Northquay Software Ltd and Northquay Group Ltd, that HMRC are satisfied the exchange will be effected without arrangements in respect of which section 137 applies, so that section 137 does not apply and does not prevent Taxation of Chargeable Gains Act 1992, s 135 from applying to the exchange.
- Income Tax Act 2007, s 701, that HMRC are satisfied that the transactions in securities described below, as described in these particulars, were or will be such that no counteraction notice ought to be served in respect of them under Part 13, Chapter 1 of that Act.

Particulars of the operations to be effected are given in section 3, in accordance with the requirement that the application be in writing and contain particulars of the operations that are to be effected (Taxation of Chargeable Gains Act 1992, s 138). The same particulars are relied on as the particulars provided for the purposes of Income Tax Act 2007, s 701.

2. The applicant, the other parties, the group structure and the shareholdings

Northquay Software Ltd ([Company registration number], [UTR]) is a trading company based in Manchester which develops and licenses software as a service for the logistics sector. Its turnover is £4.1m and it employs 31 staff. Its directors are Ms [A] and Mr [B], who are also its only shareholders and who subscribed for their shares at par in 2017.

Northquay Group Ltd ([Company registration number], [company UTR] once issued) is the proposed new holding company, incorporated or to be incorporated in England and Wales on [date of incorporation]. It is intended that its directors will be Ms [A] and Mr [B]. It has not traded and has no assets other than, following the exchange, the shares in Northquay Software Ltd.

The other parties to the exchange are the two individual shareholders: Ms [A] ([UTR], of [address]) and Mr [B] ([UTR], of [address]). There is no other shareholder, no option holder and no holder of loan notes or other debentures at the date of this application. An enterprise management incentives scheme is planned at the trading company level next year, as described in section 4, but no option has yet been granted.

Immediately before the exchange there is a single company with two individual shareholders. Immediately after the exchange Northquay Group Ltd will hold the whole of the issued share capital of Northquay Software Ltd and the two individuals will hold the shares in Northquay Group Ltd in the same number, class and proportions as they previously held in the trading company.

Shareholder	Before: Northquay Software Ltd	After: Northquay Group Ltd	After: Northquay Software Ltd
Ms [A]	60% ([number] ordinary shares of £[par value])	60% ([same number] ordinary shares of the same class)	Nil (held indirectly through Northquay Group Ltd)
Mr [B]	40% ([number] ordinary shares of £[par value])	40% ([same number] ordinary shares of the same class)	Nil (held indirectly through Northquay Group Ltd)
Northquay Group Ltd	Nil	Not applicable	100% of the issued share capital
Total	100%	100%	100%

The arithmetic of the proportions is unchanged: 60% plus 40% equals 100% before the exchange and 60% plus 40% equals 100% after it. Northquay Group Ltd will hold 100% of the ordinary share capital of Northquay Software Ltd, which exceeds the 25% threshold in Case 1 of Taxation of Chargeable Gains Act 1992, s 135.

The classes and voting rights attaching to the shares are set out in the articles enclosed, and the adviser will confirm from those articles whether the shares acquired also carry the greater part of the voting power for the purposes of Case 3.

3. The proposed transaction, step by step

Step 1, on or about [date of incorporation]: Northquay Group Ltd is incorporated in England and Wales with an issued share capital of [number] subscriber share(s) of £[par value], subscribed by Ms [A] and Mr [B] in the proportions 60% and 40%. No consideration passes other than the subscription moneys for the subscriber share(s).

Step 2, on or about [intended date of the exchange]: Ms [A] and Mr [B] each transfer the whole of their holdings of ordinary shares in Northquay Software Ltd to Northquay Group Ltd. In consideration, and solely in consideration, Northquay Group Ltd issues to each of them the same number of shares of the same class in itself as that shareholder previously held in Northquay Software Ltd. There is no cash consideration, no loan note, no debenture, no deferred or contingent consideration and no payment of any kind other than the issue of the new shares.

Step 3, following the exchange and on a date to be fixed, expected to be in [period]: a new wholly owned property subsidiary of Northquay Group Ltd, provisionally [Propco name] ([Company registration number] once incorporated), is to be incorporated, and the freehold office currently owned by Northquay Software Ltd is to be

transferred within the group to that subsidiary.

The office was bought in 2021 for £900,000 and is now worth about £1.3m, an increase in value of £1,300,000 less £900,000, that is about £400,000. The mechanism, consideration and timing for that transfer have not yet been settled and are listed in the firm's notes below; they will be notified to HMRC before the transfer is effected.

Step 4, expected next year on a date to be fixed: Northquay Software Ltd intends to grant enterprise management incentives options to six key engineers at the trading company level. No option agreement has been entered into, no grant has been made and no exercise is contemplated as part of the present exchange.

No sale of the group or of any company in it is planned or in negotiation, and no approach from any potential purchaser has been received so far as the directors are aware. No dividend, share buy-back, capital reduction or other extraction of value is contemplated before or after the exchange as part of these arrangements. The £1.2m bank facility is to be refinanced after the holding company is in place, on the terms recorded in the correspondence enclosed.

4. The commercial reasons for the transaction and for its form

First, the company's bank requires a holding company structure before it will refinance the existing £1.2m facility. The refinancing is needed for the continuing working capital and growth requirements of a business with turnover of £4.1m and 31 employees. The bank's requirement is a condition imposed by a third party and is not within the shareholders' control.

Second, the owners wish to move the freehold office, bought in 2021 for £900,000 and now worth about £1.3m, into a separate property subsidiary so that the trading business can later be sold cleanly without the property. Separating an operating business from the premises it occupies is a common and commercially ordinary structure, and it cannot be achieved by the trading company alone because the trading company has no parent to which, or under which, the property can be moved. The insertion of a holding company is therefore the step that makes the separation possible.

Third, an enterprise management incentives scheme for six key engineers is planned at the trading company level next year. Granting options over the trading company while the shareholders hold the group through a holding company keeps the incentive aligned with the trading business and keeps the engineers' interests out of the property holding structure.

As to the form, a share-for-share exchange in which each shareholder receives the same number and class of shares is the simplest means of achieving the bank's requirement without altering the economic position of either shareholder. Any alternative, such as a sale of shares to a new company for cash or loan notes, would require funding the company does not have and would change the shareholders' economic interests. The form chosen involves no consideration other than shares and no change in the proportions held.

5. The tax consequences expected, and the absence of a tax advantage as a main purpose

Where a company (company B) issues shares to a person in exchange for shares in another company (company A) and company B in consequence of the exchange will hold more than 25% of company A's ordinary share capital, Taxation of Chargeable Gains Act 1992, s 135 applies so that sections 127 to 131 apply with the necessary adaptations as if company A and company B were the same company and the exchange were a reorganisation of its share capital.

On the facts given, Northquay Group Ltd will hold 100% of the ordinary share capital of Northquay Software Ltd in consequence of the exchange, which is more than 25%, so Case 1 is satisfied. The expected consequence is accordingly that Ms [A] and Mr [B] are treated as making no disposal of their Northquay Software Ltd shares and as making no acquisition of the new holding, the new shares being treated as the same asset as the old and as acquired at the same time and for the same cost.

The base cost of the new holding will therefore be the amount actually subscribed at par in 2017. The facts given do not state the par value or the amount subscribed, so no figure is stated here; the adviser will confirm the subscription amount from the company's statutory records before completion. Section 135 has effect subject to Taxation of Chargeable Gains Act 1992, s 137, which is why clearance is sought under section 138.

Section 137 does not apply where, before the issue of the new shares, the Board have, on the application of either company mentioned in section 135(1), notified the company that they are satisfied the exchange will be effected without arrangements in respect of which section 137 applies (Taxation of Chargeable Gains Act 1992, s 138). We apply for that notification.

The substantive test in the retrieved text of section 137 is whether a main purpose of the arrangements is to reduce or avoid capital gains tax or corporation tax, and we understand that the revised wording of section 137 applies to an exchange where the new securities are issued on or after 26 November 2025; as the new shares will be issued after that date, these particulars are given by reference to the main purpose test.

We confirm that neither the reduction nor the avoidance of capital gains tax or corporation tax is a purpose, still less a main purpose, of the exchange or of any arrangements of which it forms part.

A person is only liable to counteraction of an income tax advantage under Income Tax Act 2007, Part 13, Chapter 1 if, among the other conditions, a main purpose of the transaction in securities is to obtain an income tax advantage and an income tax advantage is obtained in consequence of it (Income Tax Act 2007, s 684).

The exchange is a transaction in securities, but no income tax advantage is identified as arising in consequence: the shareholders receive nothing but shares of the same number and class, no cash passes, no loan note is issued, no relevant consideration of any kind is received and the proportions held are unchanged at 60% and 40%. Accordingly the conditions as to a main purpose of obtaining an income tax advantage, and as to an income tax advantage being obtained, are not met on these facts.

We record plainly that obtaining a tax advantage, whether an income tax advantage or a reduction in capital gains tax or corporation tax, is not a main purpose of the transaction.

The facts supporting that statement are these: the bank's requirement for a holding company before it will refinance the £1.2m facility is a condition set by a third party; the intended separation of the freehold office, bought in 2021 for £900,000 and now worth about £1.3m, addresses the saleability of the trading business; the enterprise management incentives scheme for six key engineers is a staff retention measure; no sale of the

group is planned or in negotiation; and the shareholders take no value out of the group, receiving only mirror shareholdings.

Any tax consequence of the exchange is a consequence of the statutory treatment in Taxation of Chargeable Gains Act 1992, s 135 and not a purpose of the parties.

We acknowledge that the exclusion commonly described as the fundamental change of ownership exclusion is not relied on: because Ms [A] and Mr [B] continue to hold the shares indirectly in unchanged proportions, that exclusion would not be met, and our position rests instead on the absence of a main purpose of obtaining an income tax advantage and on the absence of any income tax advantage (Income Tax Act 2007, s 684).

We also acknowledge that whether the circumstances are covered by the relevant condition in Income Tax Act 2007, Part 13, Chapter 1 is a separate question; the company's distributable reserves and cash position at the date of the exchange will be confirmed to HMRC from the management accounts, and are listed in the firm's notes below. No promise or assumption is made as to the outcome of either application.

6. Related applications and earlier correspondence

The two applications in section 1 are made together in this single letter and no other clearance or advance assurance application is made at this time. No advance assurance has been sought in respect of the planned enterprise management incentives scheme, and any notification of option grants will be made separately in the ordinary way after the grants are made.

No application has been made in respect of the intended intra-group transfer of the freehold office, because the mechanism and consideration are not yet settled.

There has been no earlier correspondence with the Clearance and Counteraction Team about this transaction or about either company, and no clearance notification has previously been given or refused in respect of it. [If any earlier correspondence exists, insert reference and date.] We will notify HMRC of any material change to the transaction after the date of this application.

7. Disclosure of material facts

We confirm, on the basis of the instructions and documents supplied to us by the directors, that this application discloses all facts and considerations which are material for the decision of HMRC, including those known to us which might be considered to bear against the clearances sought.

We understand that any notification of satisfaction is void if the particulars furnished do not fully and accurately disclose all facts and considerations material for the decision (Taxation of Chargeable Gains Act 1992, s 138), and that a clearance under Income Tax Act 2007, s 701 covers only the transaction as described in the particulars provided.

The items identified in the bracketed placeholders above, and listed in the firm's notes below, are not yet settled or not yet confirmed, and we will supply them as soon as they are available.

The directors have confirmed to us that they are not aware of any known specific criminal, civil or regulatory risk or liability affecting either company, and the adviser will obtain written confirmation of that point from each director before completion. No approach has been received from any potential purchaser of the group or of any part of it. If either position changes before the new shares are issued, we will notify HMRC immediately.

8. Documents enclosed

Enclosures

1. Authority to act for Northquay Software Ltd, Northquay Group Ltd, Ms [A] and Mr [B]
2. Structure charts showing the shareholdings immediately before and immediately after the exchange
3. Current articles of association of Northquay Software Ltd and draft articles of association of Northquay Group Ltd
4. Statutory register of members of Northquay Software Ltd showing the 2017 subscriptions at par
5. Latest statutory accounts of Northquay Software Ltd for the period to [accounting date] and management accounts to [date]
6. Correspondence from [bank name] recording the requirement for a holding company structure as a condition of refinancing the £1.2m facility
7. Draft share exchange agreement and draft board and shareholder resolutions
8. Valuation or agent's opinion supporting the current value of the freehold office of about £1.3m and the 2021 purchase documentation showing the cost of £900,000
9. Outline terms of the proposed enterprise management incentives scheme for six key engineers

9. Request for confirmation

We ask HMRC to notify Northquay Software Ltd and Northquay Group Ltd, care of this firm, that they are satisfied that the exchange will be effected without arrangements in respect of which Taxation of Chargeable Gains Act 1992, s 137 applies, so that section 137 does not apply (Taxation of Chargeable Gains Act 1992, s 138).

We note that HMRC may within 30 days of this application, or of any further particulars previously required, require further particulars by notice, and are to notify their decision within 30 days of the application or, where such a notice is given, within 30 days of its being complied with.

We also ask HMRC to notify whether they are satisfied that the transactions in securities described in these particulars were or will be such that no counteraction notice ought to be served in respect of them.

On being provided with particulars of a transaction in securities effected or to be effected, HMRC must notify the applicant whether it is satisfied that no counteraction notice ought to be served, within 30 days of receipt of the particulars or, where further information has been required, of all the further information (Income Tax Act 2007, s 701).

If any further information is required for either application, please write to the writer at this firm and we will respond as quickly as possible and in any event within the period allowed. The new shares will not be issued before HMRC's response is received. We would be grateful for confirmation of safe receipt of this application.

For the firm before sending (remove this section)

Positions that did not pass the citation gate, positions to confirm, and facts the filing still needs:

- Needed: The par value of the Northquay Software Ltd ordinary shares and the exact amount subscribed by each of Ms A and Mr B at par in 2017 (needed for the base cost statement; no figure has been stated).
- Needed: The number of shares held by each shareholder, and the class or classes of shares and the voting rights attaching to them, so that Case 3 of TCGA 1992, s 135 (the greater part of the voting power) can be tested as well as Case 1.

- Needed: The date of incorporation, company registration number and tax residence of Northquay Group Ltd, and whether it has carried on any activity.
- Needed: The intended date of the share exchange and of the issue of the new shares; the clearance application must be made before the issue, and the date determines which version of TCGA 1992, s 137 applies.
- Needed: The UTRs and company registration numbers for both companies and the UTRs and addresses of Ms A and Mr B.
- Needed: The mechanism, consideration, intended date and funding of the intra-group transfer of the freehold office to the proposed property subsidiary, and whether that transfer is to be treated as part of the same arrangements as the exchange.
- Needed: The distributable reserves and cash position of Northquay Software Ltd at the date of the exchange, relevant to whether the circumstances are covered by the relevant condition in ITA 2007, Part 13, Chapter 1.
- Needed: Whether Northquay Software Ltd is a close company, which the facts do not state.
- Needed: The written terms of the bank's requirement for a holding company before refinancing the £1.2m facility.
- Needed: Written confirmation from each director that there is no known specific criminal, civil or regulatory risk or liability in either company, and that no approach has been received from any potential purchaser.
- Needed: Whether any dividend, share buy-back, capital reduction or other extraction of value is contemplated before or after the exchange, and the intended source of any funds for a future option exercise.
- Needed: The text of ITA 2007, ss 685, 686, 687 and 702 and of TCGA 1992, s 137 as currently enacted should be read by the adviser before the letter is signed; the retrieved material did not include ss 685 and 702, and showed s 137(2) as blank, so the shareholding threshold said to restrict s 137 has not been verified.

Yours faithfully,

[Name], [Credential]

Authorities cited in this letter

Income Tax Act 2007, s 701 Statute

• VERIFIED

"The Commissioners must notify the person whether they are satisfied that the transaction or transactions, as described in the particulars, were or will be such that no counteraction notice ought to be served about the transaction or transactions."

Income Tax Act 2007, s 684 Statute

• VERIFIED

"(c) the main purpose, or one of the main purposes, of... the transaction in securities, or any of the transactions in securities, is to obtain an income tax advantage, and (d) the party or any other person obtains an income tax advantage in consequence of the transaction or the combined effect of the transactions."

Income Tax Act 2007, s 686 Statute

• ADVISER TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

Taxation of Chargeable Gains Act 1992, s 138 Statute

• VERIFIED

"Section 137 does not apply in any case where, before the issue of shares or debentures mentioned in section 135(1) or 136(1) is made, the Board have, on the application of either company mentioned in section 135(1) or 136(1), notified the company that the Board are satisfied that the exchange or scheme of reconstruction will be effected without arrangements in respect of which section 137 applies."

Taxation of Chargeable Gains Act 1992, s 137 Statute

• ADVISER TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

HMRC Capital Gains Manual CG-APP19 HMRC manual

• ADVISER TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

Taxation of Chargeable Gains Act 1992, s 135 Statute

• VERIFIED

"Where company B holds, or in consequence of the exchange will hold, more than 25% of the ordinary share capital of company A."

Taxation of Chargeable Gains Act 1992, s 127 Statute

• ADVISER TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

HMRC Capital Gains Manual CG52579 HMRC manual

• ADVISER TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

HMRC Capital Gains Manual CG52750 HMRC manual

• ADVISER TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

[2021] UKUT 291 (TCC) Assem Allam v HMRC Upper Tribunal decision

• ADVISER TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

Draft prepared for the signing professional's review. Verify every fact and figure, complete the placeholders, attach the enclosures listed, and remove the section headed "For the firm" before filing.