

## How to create a group using share exchange

Share for share exchange is a type of share transaction that allows two companies to reorganise their shareholdings without triggering Capital Gains Tax (CGT) or Stamp Duty. Under this arrangement, one company transfers its shares to another company in exchange for an equal number of shares in the second company. This type of share swap is often used when two companies are merging or joining forces in some way.

To do a share for share exchange, you must have genuine commercial reasons for doing it - it cannot just be to avoid tax. For example, you might want to create a group in order to separate trading and investment activities and enable an investment company to obtain mortgage finance.

### The share exchange process

The process to create a group for share for share exchange involves 4 steps:

1. Form the new companies
2. Apply for HMRC clearance
3. Create the contract
4. Check Stamp Duty Relief conditions

### Form the new companies

Holding companies are created to own a controlling interest in subsidiary companies. These are the most common ways of forming a group structure.

Assuming you are creating a new holding company with a new investment company, these need to be formed first. The process of registering a holding company is similar to registering other private limited companies. You can register online through HMRC online services or by post.

### Apply for HMRC clearance

Although this step is not mandatory, it is best practice to [apply for clearance of a transaction from HMRC](#). To do so, you need to submit a letter explaining the facts of the transaction, the group structure and the commercial reasons. Such a letter is typically 6 to 10 pages long.

You can also request advance clearance by emailing [reconstructions@hmrc.gov.uk](mailto:reconstructions@hmrc.gov.uk) with a note stating that you accept the risks associated with email and that you confirm that HMRC can email you.

### Create the contract

Typically carried out by a solicitor, the share contract is a legal agreement between the acquiring company and the shareholders of the target company. It deals with how the shares are to be acquired and usually includes details such as pricing and payment dates.

### Check Stamp Duty Relief

Because the acquiring company is paying consideration for the shares, in the form of its own shares, the transaction is subject to Stamp Duty.

However, relief can be claimed if certain conditions are met. Specific HMRC guidance on relief can be found on [STSM042370](#). You will also need to ensure that the anti-avoidance rule of [S77A FA 1986](#) does not apply.

Once the conditions have been checked and a claim has been prepared, you can claim relief by emailing [stampdutymailbox@hmrc.gov.uk](mailto:stampdutymailbox@hmrc.gov.uk), explaining why you want to claim it. Put the type of relief in the subject line and attach a signed and dated scan of your stock transfer form. The claim needs to be made within 30 days of the contract date.