



Client guidance note

Subsidiaries and group structures

If your business is expanding, or you want to explore new business opportunities, you may be wondering whether to set up a subsidiary.

A subsidiary is a distinct legal entity (typically in the form of a limited company) that is wholly or partly owned or controlled by another entity, its 'parent'. If the parent has no business operations of its own it is known as a 'holding' company.

As a separate legal entity, the subsidiary will enter into contracts in its own name and will own and be responsible for its assets and liabilities, including employees. It must also comply with the filing requirements at Companies House and any other industry or regulatory requirements.

A new business is unlikely to need a subsidiary, but as a business grows there may be benefit to operating in a group structure. Below are four main reasons why this might be commercially beneficial:

LIMITING THE LIABILITY OF THE PARENT COMPANY

Group structures can be an effective way to manage risk. With each member of a group having a distinct legal personality, it is possible for a parent company to limit its losses by ring-fencing any potential liability to an individual subsidiary. In practice this means riskier ventures can be separated from the parent company to ensure the parent is not affected by any failure. There are however certain, if limited, situations where a parent can be held legally responsible for the acts of its subsidiary

DISTINCT MANAGEMENT

As businesses become larger and more complex, each entity within a group can benefit from its own management structure most applicable to that subsidiary. This may be relevant if a subsidiary operates internationally, adhering to different rules and systems.

BRANDING

As businesses grow and seek to expand into new markets or product ranges, it is common for a company to distinguish between its brands, not only in name but in legal form. Each brand is therefore able to establish its own goodwill and build its own supplier/customer relationships.

FUTURE SALE

Are you seeking investment or looking to restructure your business with a view to a sale? Subsidiaries can reduce the regulatory constraints on future transactions, facilitate mergers, reduce tax consequences or simply make a part of a business easy to sell.

IS THIS APPLICABLE TO MY BUSINESS?

Although legally quite a quick and straightforward process, establishing a group structure is not for all businesses. Tax advice should be sought as to the most efficient way for assets and liabilities to be held, and administrative costs associated with setting up and operating separate companies can add up. Groups can become unwieldy, so that auditing, controlling and tracking activities and assets can become unduly complicated. Usually, therefore, only those businesses of a certain size or with a particular strategy will benefit from operating with subsidiaries.

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