Hazlewoods Accountants in an Interview with Buyacarehome Consider the Practical Considerations when Structuring Your Care Business: Choosing the Right Model for Growth, Protection and Exit

For care home owners, operators and investors

How you structure your care business has a significant impact on:

- Corporation and personal tax
- Asset protection
- Cashflow
- Borrowing
- Succession planning
- Attracting investors
- Selling your business

The "right" structure depends on where your business is today—and where you want it to be in five to ten years.

Why Structure Matters

Many independent care businesses begin as a simple owner-managed operation. As the business grows, that original structure often becomes less efficient.

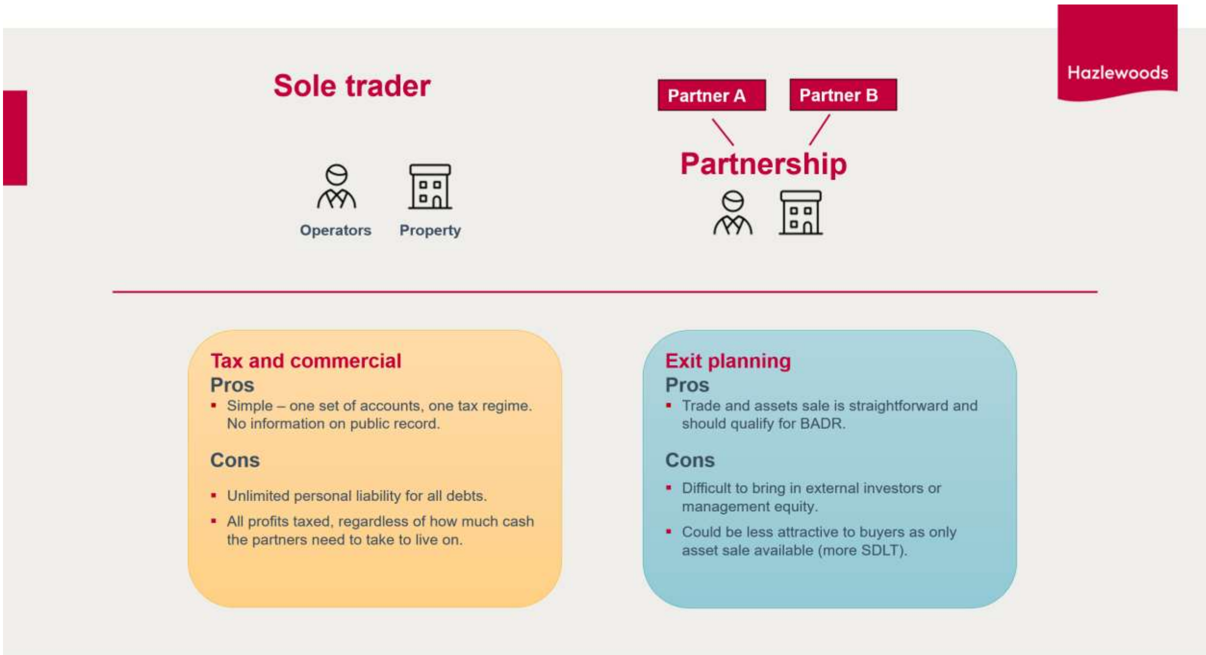
A poorly designed structure can:

- increase tax costs
- expose valuable property assets to trading risks
- restrict future investment
- make succession more complicated
- reduce flexibility when selling

“Reviewing your structure before growth—or before an exit—is usually far easier than changing it later.”

Option 1

Sole Trader or Partnership



Best suited to

- Small single-home operators
- Lifestyle businesses
- Businesses with no immediate growth or sale plans

Advantages

- Simple administration
- One tax regime
- Minimal compliance
- Private financial information

Things to consider

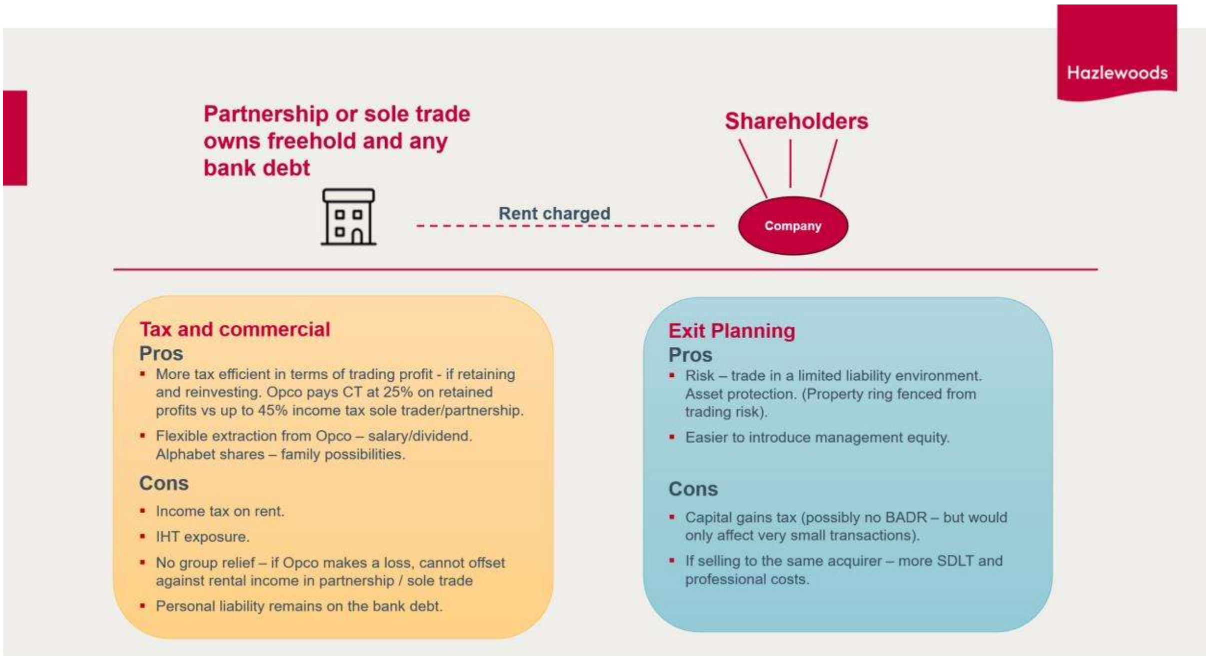
- Unlimited personal liability
- Profits taxed personally regardless of drawings
- Difficult to bring in investors
- Limited exit flexibility

Hazlewoods Insight

“Whilst suitable for some smaller operators, this structure rarely provides sufficient flexibility once a business begins to expand.”

Option 2

Separating Property from Trading – A Common Structure for Growing Care Operators



One of the most common structures we see in the care sector is where the **property is owned personally (or by a partnership)** and the **care business trades through a limited company**.

The trading company pays a commercial rent to the property owner, separating the operational business from the property investment.

Why operators choose this structure

For many owner-managed care businesses, this structure strikes a balance between tax efficiency and protecting valuable property assets.

Retaining trading profits within the operating company allows profits to be taxed at corporation tax rates before being reinvested, while ownership of the property remains outside the trading business.

It can also provide greater flexibility over remuneration, allowing owners to extract income through a combination of salary, dividends and rental income.

Key advantages

Tax efficiency

- Trading profits retained within the company are generally taxed at corporation tax rates, providing greater funds for reinvestment and growth.
- Directors have flexibility over how profits are extracted through salary and dividends.
- Share structures can support wider family ownership where appropriate.

Commercial protection

- Property is separated from trading risk.
- If the trading company encounters financial difficulties, the property is generally protected from operational liabilities.
- Limited liability applies to the trading business.

Growth and succession

- Easier to introduce new shareholders or management equity into the operating company without changing ownership of the property.
- Creates a clearer distinction between property investment and business operations.

Points to consider

This structure is not without challenges.

- Rental income remains taxable on the property owners.
- Personally owned property may continue to form part of the owner's estate for inheritance tax purposes.
- Group relief is generally unavailable because the property ownership sits outside the corporate structure.
- Existing bank borrowing secured personally may continue to expose owners to personal liability.

Exit planning

Separating property from trading can provide significant commercial flexibility when planning a future sale.

Potential benefits include:

- Buyers can acquire the trading business while the owners retain the property and receive ongoing rental income.
- Property assets remain insulated from day-to-day trading risks.
- Management share incentives are easier to introduce within the trading company.

However, owners should also consider:

- The sale of the property may give rise to Capital Gains Tax.
- Transactions involving separate property and trading businesses can increase legal complexity and SDLT costs.
- Business Asset Disposal Relief may not always be available, depending on the ownership structure.

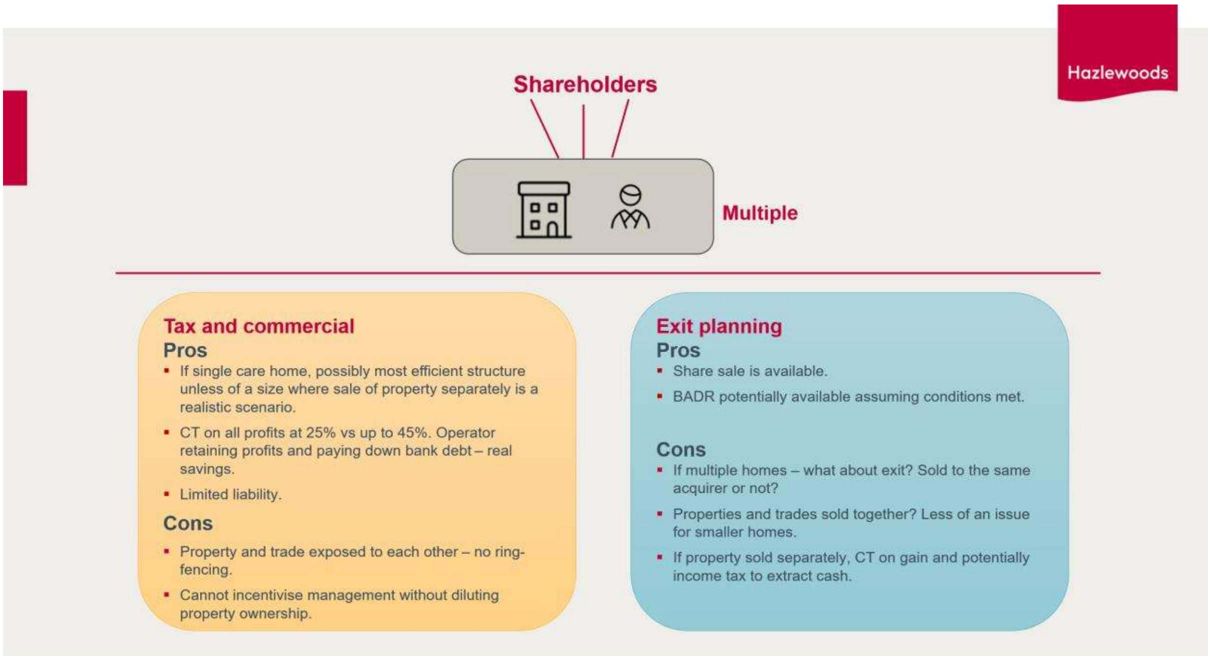
Hazlewoods View

For many independent care operators, separating the property from the trading business represents an effective balance between **asset protection, tax efficiency and future flexibility**.

However, the right structure depends on your long-term objectives. Factors such as future acquisitions, succession planning, family ownership, funding arrangements and exit strategy should all be considered before restructuring.

Option 3

Single Limited Company



Best suited to

- Single-home operators
- Businesses retaining profits for reinvestment

Advantages

- Limited liability
- Corporation tax on retained profits
- Easier access to finance
- Straightforward governance

Considerations

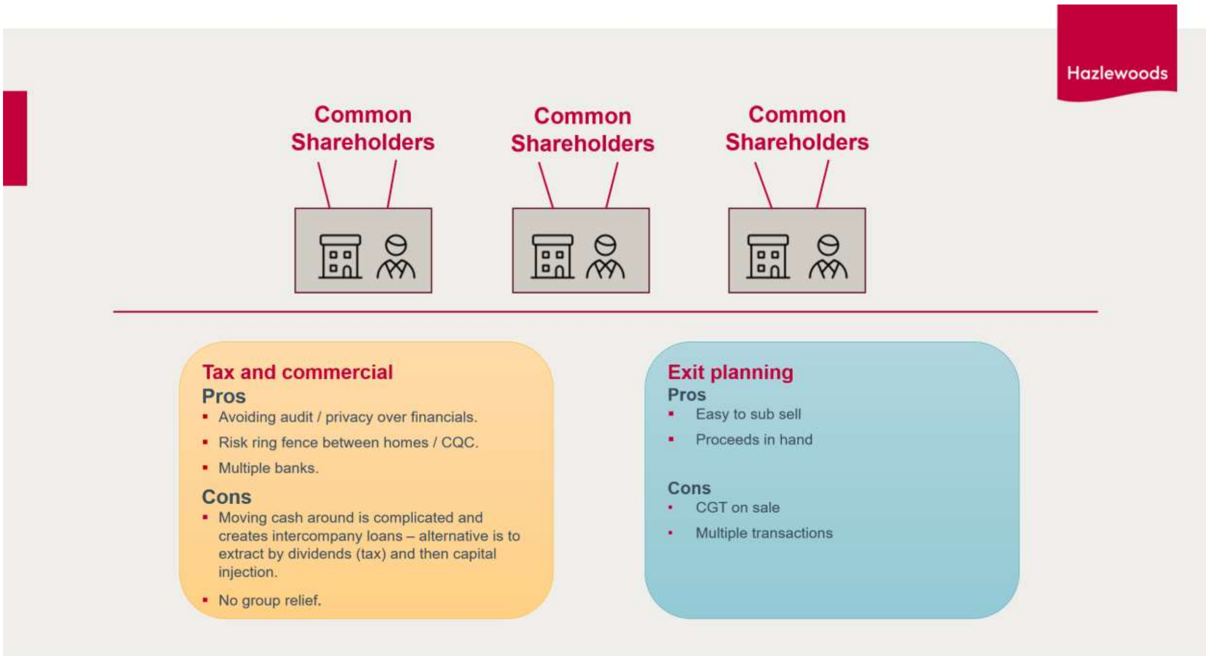
- Property and trading risks remain together
- Limited flexibility for management incentives
- Separate property sales may create additional tax costs

Hazlewoods Insight

“For many first-time care home owners this is the most practical structure, but expansion plans should be considered early.”

Option 4

Separate Companies for Each Home



Suitable where

Operators manage several individual homes.

Benefits

- Ring-fences operational risk
- Individual homes can be bought or sold
- Greater CQC risk management
- Improved banking flexibility

Challenges

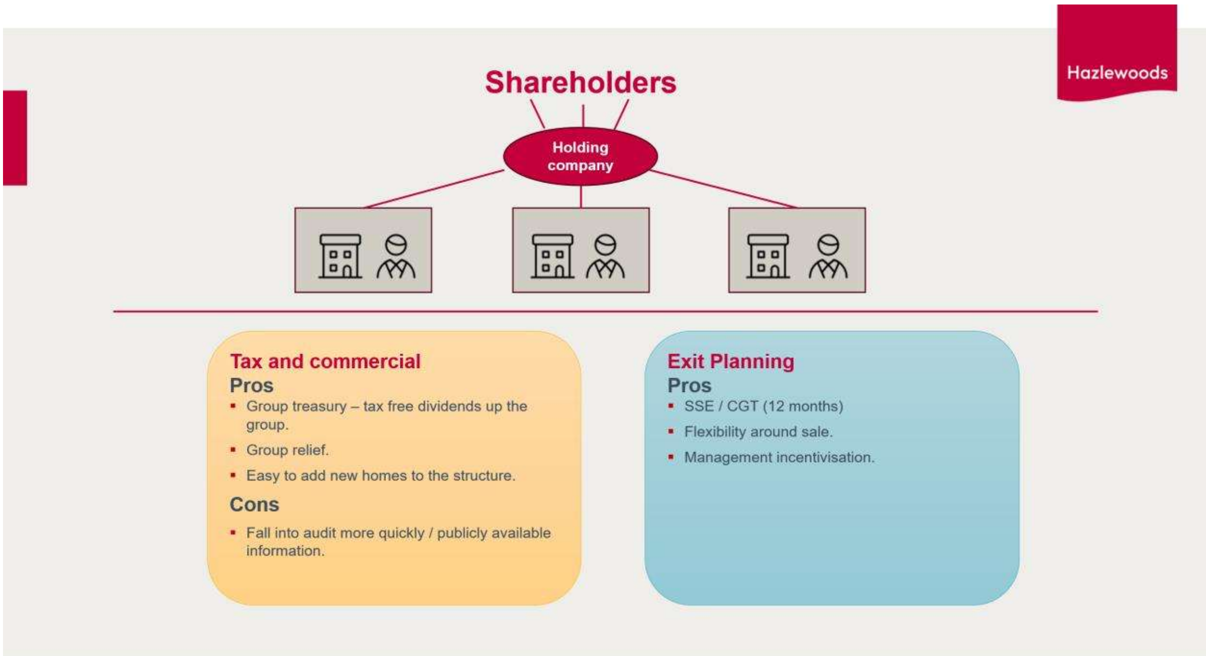
- More administration
- Inter-company funding becomes more complex
- Group relief unavailable without a holding company

Hazlewoods Insight

"This model can provide greater commercial protection but often benefits from being combined with a holding company."

Option 5

Holding Company Structure



Often the preferred structure for growing operators

Benefits

- Tax-efficient movement of profits
- Group relief
- Easier acquisitions
- Flexible ownership
- Supports management equity
- Greater exit planning opportunities

Considerations

- More complex administration
- Increased reporting requirements
- Audit thresholds reached sooner

Hazlewoods Insight

“For operators planning growth through acquisition, a holding company structure often provides the greatest long-term flexibility.”

Option 6

Family Investment Companies

Increasingly, family investment companies are being used alongside care businesses to:

- preserve family wealth
- reinvest sale proceeds
- support succession planning
- facilitate estate planning

They can be particularly effective where owners wish to separate operating businesses from longer-term family investments.

Questions Every Care Operator Should Ask

- Are property and trading risks appropriately separated?
- Could profits be retained more tax efficiently?
- Is the structure suitable for future acquisitions?
- How easy would it be to sell one home rather than the whole group?
- Are management incentives possible?
- Will the structure still work in ten years?

Key Takeaways

There is no single "best" structure.

The most effective structure depends on:

- growth ambitions
- funding strategy
- family succession
- tax efficiency
- exit objectives

Businesses that review their structure before significant expansion generally retain greater flexibility and avoid costly restructuring later.

How Hazlewoods Can Help

Our specialist healthcare team advises care home operators on:

- Business structuring
- Tax planning
- Group reorganisations
- Acquisitions
- Succession planning
- Exit strategy
- Family investment companies

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