



When shareholders of unquoted companies want to retire, or exit from a business for other reasons, a common problem is that there is no one available to buy their shares from them. A solution is for the company to purchase its own shares from the exiting shareholders, provided it has sufficient funds to do this and the company's articles of association permit a Company Purchase of Own Shares (CPOS). There should be at least one shareholder remaining in the company to own it.

## **Income treatment**

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Ordinarily, the money received by the shareholders as a result of the CPOS is treated as a distribution and subject to Income Tax at dividend rates (currently 10.75%, 33.75% or 39.35% from 6 April 2026).

## Capital treatment

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It may be possible for the amounts received by the exiting shareholders to be treated as a capital disposal subject to tax at 18% for basic rate taxpayers and 24% for higher rate taxpayers. If Business Asset Disposal Relief applies, a flat rate of 18% applies from 6 April 2026.

To qualify as a capital disposal, the following conditions apply:

- + The company is an unquoted trading company;
- + The purchase is being made wholly or mainly for the purpose of benefiting the trade carried on by the company or any of its 75% subsidiaries;
- + The seller is a UK resident at the time the purchase is made;
- + The seller has owned the shares for five years or more ending with the date of the purchase (three years if acquired by will or intestacy);
- + The shareholding interests of the seller and their associates in the company (and group, if appropriate) are substantially reduced - the shareholders should not own more than 75% of their original shareholding;
- + The seller and their associates must not be connected to the company after the purchase takes place - the shareholders and their associates should not own more than 30% of the issued ordinary shares, loan capital, voting rights or rights to assets on winding up; and
- + The purchase must not form part of a scheme or arrangement which has a main purpose either of enabling the seller to participate in the profits of the company without receiving a dividend or of avoiding tax.

Given the strict conditions for qualifying for capital treatment, it is recommended that the company applies for advanced clearance from HM Revenue & Customs (HMRC) that capital treatment will apply. Without advanced clearance, HMRC could impose Income Tax treatment on the proceeds received by the shareholder, with potential penalties for incorrect returns being applied.

If a company purchase of own shares takes place, various documents need to be filed at Companies House and a return must be submitted to HMRC setting out details of the buy back and confirming all legal conditions are met.





## How M+A Partners can help

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This factsheet is an overview of the tax considerations relating to a Company Purchase of Own Shares; however it is important to also consider the legal and commercial implications. Professional advice should be taken before implementing any of these arrangements.

**M+A Partners** can assist you in determining whether the conditions for capital treatment are available, apply for an advance clearance from HMRC on your behalf and ensure that all necessary reporting is completed.

If you need further assistance, then please get in touch with our expert - Faith Pearce, your usual M+A Partners' contact or email [enquiries@mapartners.co.uk](mailto:enquiries@mapartners.co.uk)



**Faith Pearce**  
**Senior Tax Manager**

[faith.pearce@mapartners.co.uk](mailto:faith.pearce@mapartners.co.uk)

**01603 227600**  
**[enquiries@mapartners.co.uk](mailto:enquiries@mapartners.co.uk)**  
**[mapartners.co.uk](http://mapartners.co.uk)**

MA Partners LLP  
7 The Close, Norwich NR1 4DJ

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