

Indirect Tax Alert

The UK Supreme Court has ruled that Hotel La Tour cannot reclaim VAT on its share sale costs – but how far does this shut the door for others?

December 2025 - Update

On 17 December 2025, the Supreme Court handed down its judgment in the long running litigation in HMRC v Hotel La Tour Ltd, which has been closely followed by businesses involved in mergers, acquisitions, and refinancing.

Background

Hotel La Tour Ltd is the parent company of the Hotel La Tour group, which operates a chain of luxury hotels. One of its wholly owned subsidiaries, Hotel La Tour Birmingham (HLTB), owned and operated the group’s Birmingham hotel and was part of the Hotel La Tour VAT group, with Hotel La Tour Ltd acting as the representative member.

In 2015, the group decided to develop a new hotel in Milton Keynes, with part of the funding to come from the sale of the Birmingham hotel. In 2017, the shares in HLTB were sold to an unrelated third party, raising approximately £17 million.

Hotel La Tour Ltd incurred around £76,000 in VAT on professional services related to the share sale, including legal, marketing, and tax advisory fees. It recovered this VAT as input tax on its VAT return. While HMRC accepted that the holding company was engaged in an economic activity, providing management services to its subsidiaries,

and that the Milton Keynes development was a taxable activity, it disallowed the VAT recovery. HMRC argued that the professional services were more directly linked to the exempt sale of shares, and therefore the VAT was not recoverable.

Hotel La Tour appealed. Both the First-tier Tribunal and the Upper Tribunal ruled in its favour, finding that the input tax was recoverable because the costs had a direct and immediate link to the company’s taxable economic activities. The exempt share sale did not, in their view, break that link.

However, in 2024, the Court of Appeal overturned those decisions. It concluded that, in this case, the costs were directly and immediately linked to the share sale and were therefore not recoverable.

Final outcome in the Supreme Court

The Supreme Court has now upheld that decision, confirming that there is no general principle that raising funds through a share sale is always directly and immediately linked to a company’s taxable business activities.

The Court has also agreed that, in this case, the professional services received by Hotel La Tour were particularly closely tied to the

share sale. However, the judgment provides little detail on the reasoning behind this conclusion and gives no examples of situations where this might not apply.

Importantly, the Court leaves open the possibility that VAT on financing costs could be recoverable in other circumstances – for example, where costs are incurred to support an intended future business activity, or where the fundraising method is not itself a VAT-exempt activity (i.e. not a share sale by way of business nor an active investment activity).

What does this mean for businesses?

While the Supreme Court has confirmed that Hotel La Tour cannot recover input tax in its specific circumstances, it offers little guidance for other businesses on the deductibility of the costs of selling a business via a share sale.

Overall, this decision highlights the challenges in securing VAT recovery on fundraising costs without completely ruling it out. This makes it essential to consider VAT recovery early in the planning stage so a broad range of financing options can be evaluated.

Action points

HMRC has yet to make a statement on the implications of this case, and we await any updates to its policy on VAT recovery in these circumstances.

In the meantime, corporate groups who are planning to raise funds by selling shares in a subsidiary, or have done so in the last four years, should start reviewing their VAT position now.

To discuss the impact of Hotel La Tour on your business, please get in touch with VAT Partner Paul Wilson or your usual Grant Thornton contact.



Paul Wilson
Partner, Tax
T: 0161 953 6462
E: paul.m.wilson@uk.gt.com

Contacts

Karen Robb, Partner
T +44 (0)20 7728 2556
E karen.robbs@uk.gt.com

Kevin Martin, Partner
T +44 (0)20 7728 3163
E kevin.martin@uk.gt.com

Daniel Rice, Partner
T +44 (0)117 305 7822
E daniel.j.rice@uk.gt.com

Alex Miller, Partner
T +44 (0)20 7728 2210
E alex.miller@uk.gt.com

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