

Due diligence checklist for buying a UK business

Due diligence is where you find out whether the business you have agreed to buy is the business you think it is. Most buyers do it in the wrong order: they spend on lawyers and accountants before checking the few things that would kill the deal anyway.

This checklist is prioritised. Work through it top to bottom and you will spend least on the deals you walk away from.

How to use it

TIER 1	Check first — deal-breakers Before you sign heads of terms, or as soon after as the seller allows. Most can be started from public records.
TIER 2	Before heads of terms are final Items that move the price or the structure. Get them clear before you commit to a number in writing.
TIER 3	Before completion Confirmatory checks. They rarely kill a deal but they feed into the sale agreement, warranties and indemnities.

Tick each item when it is done, put a name in the **Owner** column (a suggested owner is shown in grey) and use **Notes** for what you found and any effect on price or structure.

Who does what	
Your accountant	Quality of earnings, working capital, debt-like items, tax (HMRC, VAT, PAYE), deal tax costs and the completion accounts.
Your lawyer	Title to the shares, contracts and change-of-control clauses, employment and TUPE, property, data protection, regulatory approvals, and the sale agreement, warranties and indemnities.
You	The first-pass checks on Companies House, the commercial review (customers, pipeline, churn), conversations with key staff, and deciding whether what is found changes the price, the structure or the deal.

This checklist is a guide, not legal or tax advice. Your own lawyers and accountants should carry out due diligence.

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TIER 1

Check first — deal-breakers

Before you sign heads of terms, or as soon after as the seller allows. Most can be started from public records.

Financial — quality of earnings	Owner	Notes
☐ Rebuild EBITDA from the management accounts and the filed accounts. Do the two reconcile?	Accountant	
☐ Test every “one-off” adjustment. How much of the profit you are paying for comes from adjustments rather than trading? If it is a large share, slow down.	Accountant	
Working capital and debt-like items	Owner	Notes
☐ List every debt and debt-like item: bank loans, asset finance, director loans, deferred income, unpaid tax, aged creditors and deferred consideration from earlier deals. These come off the price.	Accountant	
Legal — title, filings and charges	Owner	Notes
☐ Title to the shares. Does the seller actually own what they are selling? Check the register of members, the confirmation statement, and any share options or shareholder agreements.	Lawyer	
☐ Companies House filings. Are the accounts and confirmation statements up to date? Late filing is often a sign of weak finance control.	You	
☐ Charges register. Lenders must register a charge at Companies House within 21 days of it being created, and the register is public. Can the seller explain every outstanding charge, and will each be released or repaid at completion?	You / Lawyer	
Commercial — customers	Owner	Notes
☐ Customer concentration. What share of revenue comes from the top customer, and from the top five? How long has each been a customer, and are they under contract?	You	
Regulatory — approvals needed to complete	Owner	Notes
☐ FCA change in control. If the target is FCA-authorised, you must notify the FCA and get its approval before you acquire control. Doing so without approval is a criminal offence. The FCA has up to 60 working days from a complete notification to assess it, so this sets your timetable.	Lawyer	
☐ Other approvals. Does any other regulator, licence holder or contract counterparty need to approve the change of ownership before completion? Ask the seller and your lawyer early.	Lawyer	

TIER 2

Before heads of terms are final

Items that move the price or the structure. Get them clear before you commit to a number in writing.

Financial — trend, forecast and working capital	Owner	Notes
☐ Trend. Get monthly revenue and margin for at least two to three years. Is the latest year the peak?	Accountant	
☐ Forecast. What assumptions sit behind the seller's forecast, and what has to go right for it to happen?	You	
☐ Normal working capital. Work out a normal level across the year, not at one point in time. Agree that the business will be handed over with that level, or the price adjusts.	Accountant	
☐ Cash and debt basis. Is the price on a cash-free, debt-free basis? Agree in writing which items count as debt.	Accountant / Lawyer	

Tax — HMRC, VAT and PAYE	Owner	Notes
☐ HMRC position. In a share purchase you inherit the company's tax history. Check corporation tax returns, any open HMRC enquiries and any time-to-pay arrangements.	Accountant	
☐ VAT and PAYE. Any late returns or penalties? Are any staff paid as contractors who should be on payroll? Ask how employment status and the off-payroll working (IR35) rules have been handled.	Accountant	
☐ Deal tax costs. Stamp duty on a share purchase is 0.5% of the price (rounded up to the nearest £5). In an asset purchase, land tax can apply to property (SDLT in England and Northern Ireland, LBTT in Scotland, LTT in Wales), and VAT may apply unless the sale qualifies as a transfer of a going concern (TOGC).	Accountant	

Legal — deal structure	Owner	Notes
☐ Share or asset purchase? In a share purchase you take the company with all its history. In an asset purchase you choose what you take, but TUPE, VAT and property tax rules differ. Decide early, as it changes the rest of this list.	Lawyer / Accountant	

Commercial — contracts, pipeline and churn	Owner	Notes
☐ Key contracts. Read the top customer and supplier contracts. Do any contain change-of-control clauses that let the other side end or renegotiate if the company changes hands?	Lawyer	
☐ Pipeline and churn. How much revenue is contracted or recurring? How many customers left last year, and why?	You	

People — key staff and the owner	Owner	Notes
☐ Key staff. Who really runs the business? Will they stay? Plan how you will keep them (salary, equity, retention bonus) before you finalise the price.	You	
☐ Owner dependency. Does the owner hold the customer relationships? If so, price and structure need to reflect that, often with an earn-out or a handover period.	You	

TIER 3

Before completion

Confirmatory checks. They rarely kill a deal but they feed into the sale agreement, warranties and indemnities.

Financial — completion mechanics	Owner	Notes
☐ Completion accounts or locked box? Confirm the mechanism, the working capital level and the final debt and cash figures.	Accountant	
☐ Charges released. Is there a plan, agreed with each lender, to repay and release every charge at completion, with the release recorded at Companies House?	Lawyer	
Tax — protections and filings	Owner	Notes
☐ Tax protections. In a share purchase, what tax warranties and tax covenant (indemnity) will the sale agreement give you?	Lawyer / Accountant	
☐ Stamp duty. Who pays it, and how will the stock transfer form be stamped after completion? Ask your lawyer about the deadline.	Lawyer	
Legal — contracts, IP and records	Owner	Notes
☐ Material contracts, insurance and litigation. Full review of material contracts and insurance, and any litigation, threatened or actual.	Lawyer	
☐ Intellectual property. Does the company own its trade marks, domain names, software and designs, including work done by contractors?	Lawyer	
☐ Statutory books. Registers, board minutes and shareholder resolutions. Are they complete and consistent with Companies House?	Lawyer	
☐ Warranties and disclosure. Do the warranties and indemnities cover what due diligence found? Read the seller's disclosure letter. Ask whether warranty and indemnity insurance is worth considering.	Lawyer	
People — employment, TUPE and pensions	Owner	Notes
☐ Employment records. Employment contracts, handbooks, holiday pay, right-to-work checks and any tribunal claims.	Lawyer	
☐ TUPE in asset deals. In an asset purchase, TUPE moves the employees across to you on their existing terms. In a share purchase the employer does not change, so TUPE does not usually apply.	Lawyer	
☐ Pensions. Is auto-enrolment up to date? Is there a defined benefit (final salary) scheme? If so, get specialist advice. It can be a liability far larger than the business.	Lawyer / specialist	
Property	Owner	Notes
☐ Every site. Title or lease for each site, rent reviews, break dates and dilapidations. Is the landlord's consent needed for the deal?	Lawyer	

TIER 3 · CONTINUED

Before completion

IT and data — UK GDPR	Owner	Notes
☐ Systems and licences. Who owns the systems and software, and are the licences transferable?	You	
☐ UK GDPR. Is customer data held lawfully? Is there a privacy notice? Is the company registered with the ICO (and has it paid the data protection fee)?	Lawyer	
☐ Breaches and security. Has there been a data breach or cyber incident? Was it reported where required?	You	
☐ International transfers. Where data goes to the US or elsewhere, what is the transfer basis (for example the UK–US data bridge)?	Lawyer	

Regulatory — licences and permissions	Owner	Notes
☐ Sector licences and accreditations. FCA permissions, health and safety, environmental permits, trade body accreditations. Do they survive a change of ownership?	Lawyer	
☐ Approvals in hand. Has every approval found in Tier 1 (for example FCA change in control) been received before completion?	Lawyer	

WATCH FOR

UK red flags

Tick any you see and note what you found. Bring them to your accountant and lawyer straight away.

Red flag	Where to look	Notes
☐ Filed accounts that don't reconcile with management accounts	Tier 1 · Financial	
☐ Profit that depends on lots of "one-off" adjustments	Tier 1 · Financial	
☐ Late or missing Companies House filings	Tier 1 · Legal	
☐ Charges on the register the seller can't explain	Tier 1 · Legal	
☐ HMRC arrears, time-to-pay arrangements or an open enquiry	Tier 2 · Tax	
☐ One customer (or one contract) holding up the business	Tier 1 · Commercial	
☐ Key contracts that end on a change of control	Tier 2 · Commercial	
☐ Staff treated as self-employed who look like employees	Tier 2 · Tax	
☐ A defined benefit pension scheme	Tier 3 · People	
☐ A seller who is slow to give information, or keeps changing the numbers	Throughout	

What a red flag means

One	Not always a reason to walk away. It is a reason to adjust the price, the structure or the protections in the sale agreement.
Several	Together, usually a reason to walk away.

Due diligence tests the numbers your offer was based on. If the earnings or working capital turn out lower, the price should move.

This checklist is a guide, not legal or tax advice. Your own lawyers and accountants should carry out due diligence. Sources for UK rules: GOV.UK (stock transfer forms, registering charges, TUPE, VAT Notice 700/9) and the FCA (change in control).