

# Capital Gains Tax

A **ShareScope** Guide



# Foreword

ShareScope calculates CGT in accordance with current legislature. This document is intended as a guide to help you understand more about how our calculator works.

Should you be interested in more detail in Capital Gains Tax, we would recommend either of the CGT guides by Tolley Publishing Company Ltd or Tottel Publishing Ltd.

# Capital Gains Tax (CGT)

Capital Gains Tax was introduced in 1965. It is charged on gains made on capital assets when you sell or dispose of them. If when you sell or give away an asset it has increased in value, you may have to pay tax on the 'gain' (profit).

You don't have to pay CGT on:

- your car
- your main home - provided certain conditions are met
- ISAs or PEPs
- UK Government gilts (bonds)
- personal belongings worth £6,000 or less when you sell them
- betting, lottery or pools winnings
- money which forms part of your income for income tax purposes

# Capital Gains Tax (CGT)

These are some points to bear in mind:

- if you are **married** or in a **civil partnership** and living together you can **transfer assets** to your husband, wife or civil partner **without having to pay CGT**
- you **can't give assets** to your children or others or sell the assets cheaply **without having to consider CGT**
- if you **make a loss** you may be able to **make a claim for that loss** and deduct it from other gains, but **only if the asset normally attracts CGT** - for example you cannot set a loss on selling your car against gains from disposing of other assets (*see previous re no CGT on car*)
- if someone **dies** and leaves their belongings to their beneficiaries, **there is no CGT** to pay at that time - however if an asset is **later disposed of by a beneficiary**, any **CGT they may have to pay** will be based on the **difference between the market value at the time of death and the value at the time of disposal**

# How CGT is worked out

CGT is worked out for each tax year (which runs from 6 April one year to 5 April the following year). It is charged on the total of your taxable gains, after taking into account:

- certain costs and reliefs that can reduce or defer gains
- allowable losses you have made on assets to which normally CGT applies
- the annual exempt (tax-free) amount (the AEA) - this is £9,200 for every individual in the tax year 2007-2008

# CGT Rates

How much CGT you pay depends on your overall income. Your total taxable gains are added to your taxable income for the year and treated as the top part of that total. The gains are then charged to CGT at the following rates (2007-2008 tax year):

- 10 % where they fall below the starting rate limit for Income Tax (£2,230)
- 20 % where they fall between the starting rate and basic rate limits for Income Tax (£2,231 to £34,600)
- 40 % where they fall above the basic rate limit for Income Tax (£34,601 and above)

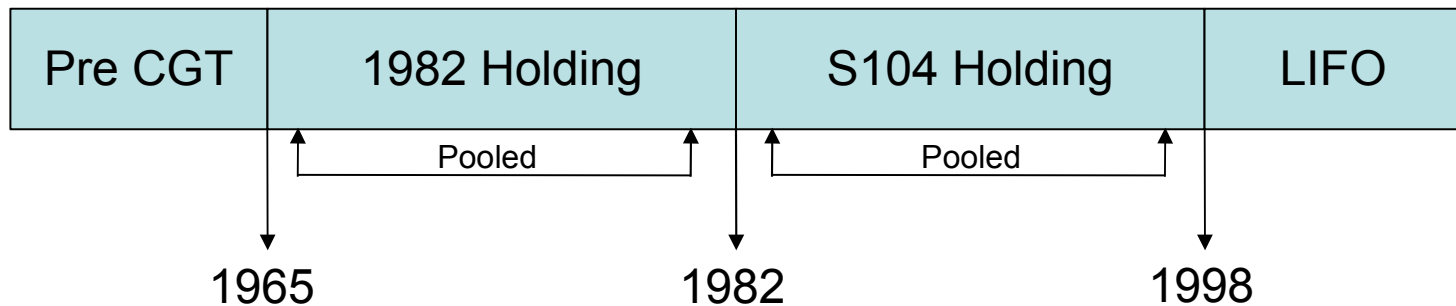
# Identification Rules

When shares are sold the gain is calculated from the cost of purchasing the shares. Where there is more than one purchase calculations can be more complex, especially if the purchases fall into different holdings. The different holding types are:

- Purchases before 6th April 1965.
- Purchases from 6th April 1965 to 5th April 1982 are pooled - '1982 holding'.
- Purchases from 6th April 1982 to 5th April 1998 are pooled - 'Section 104 holding'.
- Purchases from 6th April 1998.

# Identification Rules

## Timeline:



LIFO – Last In First Out

# Identification Rules

## Example 1

Suppose you bought 10,000 Bits and Bobs plc 25p ordinary shares as follows:

16 June 1979 2,000 shares  
2 August 1982 2,500 shares  
17 September 1987 2,500 shares  
7 June 1998 3,000 shares.

You would have:

- a separate acquisition of 3,000 shares - the 1998 purchase
- a Section 104 holding pool of 5,000 shares - the 1982 and 1987 purchases
- a 1982 holding pool of 2,000 shares - the 1979 purchase.

# Identification Rules

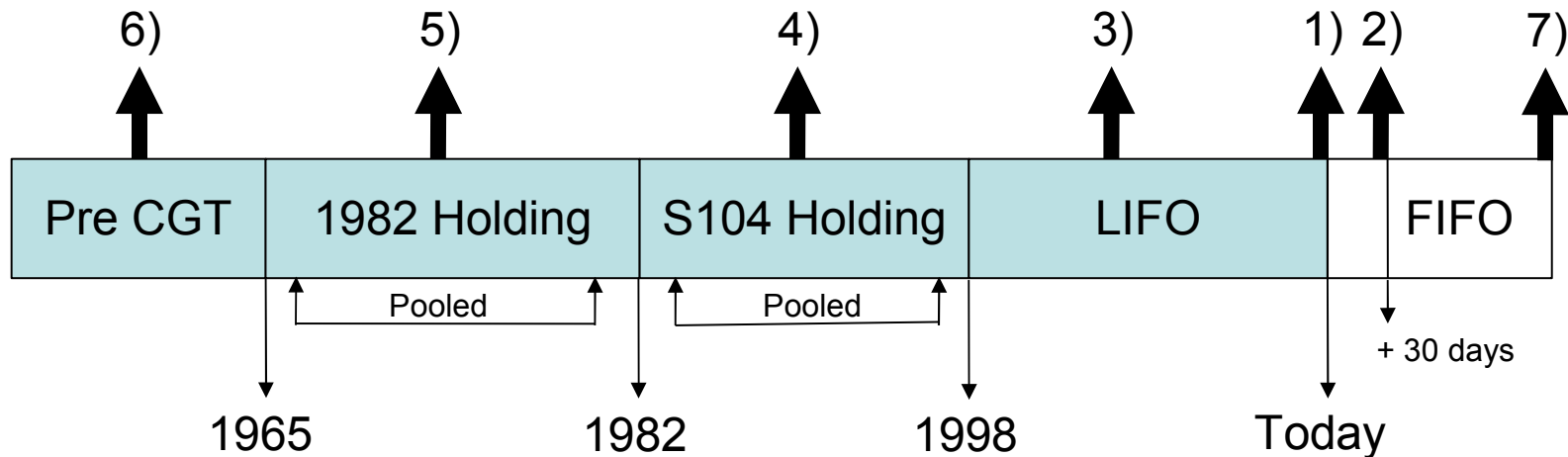
Shares sold are matched or identified with purchases in the following order:

- 1) Any shares bought in the same company on the same day as the sale
- 2) Any shares bought in the same company up to 30 days after the sale, on a first-in, first-out basis [FIFO] (using earlier buys first before later ones)
- 3) Any shares bought from 6th April 1998 onwards, identified on a last-in, first-out basis [LIFO] (so later purchases are used before earlier ones)
- 4) Shares in a 'Section 104 holding' (in no particular order as they are pooled)
- 5) Shares in a '1982 holding' (in no particular order as they are pooled)
- 6) Shares held on 6th April 1965, identified on a last-in, first-out basis
- 7) Shares bought more than 30 days after the sale on a first-in, first-out basis

*Bed & Breakfasting (B&B) is now not possible due to rule 2) being introduced in March 1998. It used to be a common practice involving selling a share one day and buying back the next day (normally at an agreed price) to establish a capital gain or loss.*

# Identification Rules

## Timeline:



LIFO – Last In First Out

FIFO – First In First Out

# Identification Rules

## Example 2

Mr Smith owns 10,000 shares

500 were purchased on 30 April 1998

2,500 are held in a Section 104 holding

7,000 are held in a 1982 holding.

Mr Smith sells 4,000 shares on 11 October 2003.

In what order are the disposals identified?

# Identification Rules

## Example 2

Mr Smith owns 10,000 shares

500 were purchased on 30 April 1998 [**1<sup>st</sup> - 500 shares**]

2,500 are held in a Section 104 holding [**2<sup>nd</sup> - 2,500 shares**]

7,000 are held in a 1982 holding. [**3<sup>rd</sup> - 1,000 shares**]

Mr Smith sells 4,000 shares on 11 October 2003.

The disposals are identified as:

**1<sup>st</sup>** - 500 against the shares purchased on 30 April 1998

**2<sup>nd</sup>** - 2,500 against the shares in the Section 104 holding

**3<sup>rd</sup>** - 1,000 against the shares in the 1982 holding.

# Reducing Gains

Once the shares are matched and the gain is calculated this can be reduced depending on when the purchase was made. This is mainly accomplished through the use of Taper Relief and other methods which apply depending on when you purchased the shares.

Taper Relief is applied in different percentages depending on how long you have held the shares for – the longer you hold the shares the more relief you receive. This is to allow for inflation which would naturally see the value of an asset increase over the time it is held.

# Reducing Gains

## Look at rules relating to:

- Shares bought and sold in the same day, or bought within 30 days of the sale
- Shares bought after 5th April 1998 – identified on LIFO basis
- Shares in Section 104 holding
- Shares in a 1982 holding

# Reducing Gains

## **Shares bought and sold in the same day, or bought within 30 days of the sale**

The gain or loss is the difference between the net disposal proceeds (the amount received less costs) and the purchase price.

No Taper Relief or any other sort of reduction applies.

# Reducing Gains

## Example 3

Mrs Robson bought 2,000 shares in 1984 for a total cost of £3,640. (These shares form a Section 104 holding pool.)

On 26 February 2004 she sells 1,500 shares for £10,265 (net of disposal costs).

On 1 March 2004 she buys another 1,800 of the same shares at a cost of £12,420.

The disposal of 1,500 shares is **not** matched with shares in the pool. It is identified with 1,500 of the shares bought on 1 March 2004.

The gain or loss on disposal is calculated as follows:

26/2/04	Sold 1,500 shares at £6.8433 minus £0.00 costs	£10,265.00
	Match 1,500 share purchase and sale within 30 days 1/3/04	
	Sale value of 1,500 shares ( $£10,265.00 \times 1500 / 1500$ )	£10,265.00
	Cost of 1,500 shares ( $£12,420.00 \times 1500 / 1800$ )	£10,350.00
	Chargeable loss 2003/04	-£85.00

*Note: if Mrs Robson had bought only 1,000 shares on 1 March 2004, 1,000 of the shares sold on 26 February would have been matched with that later acquisition, and the remaining 500 shares sold would have been matched with 500 of the shares in the pool. The gain or loss would have been calculated accordingly.*

# Reducing Gains

## **Shares bought after 5th April 1998 – identified on LIFO basis**

The difference between the net proceeds and purchase price is calculated.

Taper Relief is then applied to reduce the gain amount that the tax is calculated on.

The amount of Taper Relief depends on how long the shares have been held for.

# Reducing Gains

## Taper Relief Table

Number of whole years in qualifying holding period	Gains on business assets (i.e. AIM shares) <b>Not used by ShareScope</b>			Gains on non-business assets
	Percentage of gain chargeable For disposals before 6 April 2000	Percentage of gain chargeable For disposals between 6 April 2000 and 5 April 2002	Percentage of gain chargeable For disposals on or after 6 April 2002	Percentage of gain chargeable
1	92.5	87.5	50	100
2	85	75	25	100
3	77.5	50	25	95
4	70	25	25	90
5	62.5	25	25	85
6	55	25	25	80
7	47.5	25	25	75
8	40	25	25	70
9	32.5	25	25	65
10 or more	25	25	25	60

# Reducing Gains

## Example 4

Mr Quinn buys 1,000 shares on 23 April 1998 at a cost of £ 4,420.  
On 30 November 1998 he buys 800 of the same shares for £3,935.  
On 1 March 2004 he sells 1,050 shares for £4,910.

The first step is to match the disposal with acquisitions. Taking the latest acquisition first (the LIFO basis), 800 of the shares sold are identified with the shares bought on 30 November 1998. The remaining 250 are identified with 250 of the 1,000 shares bought on 23 April 1998.

The gains or losses are calculated as follows:

1/3/07 Bits & Bobs PLC	
Sold 1,050 shares at £4.6762 minus £0.00 costs	£4,910.00
Identify 800 shares purchased 30/11/98	
Sale value of 800 shares ( $£4,910.00 \times 800 / 1050$ )	£3,740.95
Cost of 800 shares ( $£3,935.00 \times 800 / 800$ )	£3,935.00
No taper or indexing for losses	-£194.05
Chargeable loss 2006/07	-£194.05
Identify 250 shares purchased 23/4/98	
Sale value of 250 shares ( $£4,910.00 \times 250 / 1050$ )	£1,169.05
Cost of 250 shares ( $£4,420.00 \times 250 / 1000$ )	£1,105.00
Year 8 of taper: 70% of £64.05 gain is chargeable	£44.83
Offset loss £64.05 (this year) to generate lower gain	£0.00

# Reducing Gains

## Shares in a Section 104 holding

Shares bought between 6th April 1982 and 5th April 1998 are kept in a 'pool' – the cost of the shares in the pool is added together so each share in the pool is treated as if acquired at the same average cost.

From this, two costs are calculated – the actual cost of buying all the shares and an 'indexed' cost which is the actual cost plus indexation.

The difference between the actual cost and the indexed cost can then be used to reduce a gain when shares from the pool are sold.

Example: At the date of the first purchase between April 1982 and April 1998, both the actual and indexed costs are the same.

1/4/92 Bought 1,000 shares at £4.00 plus £150.00 costs (S104 holding) = £4,150

1/4/92 Pool of actual cost = £4,150

1/4/92 Pool of indexed cost = £4,150

# Reducing Gains

## Shares in a Section 104 holding

Each time new shares are purchased or sold between 1982 and 1998, a new pool of actual cost and a pool of indexed cost is calculated.

Indexation is calculated as a ratio of the RPI for the purchase month divided by the RPI for the month the last indexation was calculated from.

### Example:

1/9/94 Bought 500 shares at £4.10 plus £80.00 costs (S104 holding) = £2,130.00

1/9/94 New pool of actual cost = £6,280 (£4,150+£2,130)

New pool of indexed cost = original indexed cost + indexation + actual cost of latest transaction

Calculate indexation on original s104 holding =  $£4,150.00 \times 145.0 / 138.8^* = £4,335.37$

*\*see RPI table for figures – identified values as last indexation in Apr 92-138.8, new purchase month Sep 94-145.0*

1/9/94 New pool of indexed cost = £6,465.37 (£4,335.37+£2,130.00)

# Reducing Gains

## RPI Table for 1982 - 1998

RPI	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982			79.4	81.0	81.6	81.9	81.9	81.9	81.9	82.3	82.7	82.5
1983	82.6	83.0	83.1	84.3	84.6	84.8	85.3	85.7	86.1	86.4	86.7	86.9
1984	86.8	87.2	87.5	88.6	89.0	89.2	89.1	89.9	90.1	90.7	91.0	90.9
1985	91.2	91.9	92.8	94.8	95.2	95.4	95.2	95.5	95.4	95.6	95.9	96.0
1986	96.2	96.6	96.7	97.7	97.8	97.8	97.5	97.8	98.3	98.5	99.3	99.6
1987	100.0	100.4	100.6	101.8	101.9	101.9	101.8	102.1	102.4	102.9	103.4	103.3
1988	103.3	103.7	104.1	105.8	106.2	106.6	106.7	107.9	108.4	109.5	110.0	110.3
1989	111.0	111.8	112.3	114.3	115.0	115.4	115.5	115.8	116.6	117.5	118.5	118.8
1990	119.5	120.2	121.4	125.1	126.2	126.7	126.8	128.1	129.3	130.3	130.0	129.9
1991	130.2	130.9	131.4	133.1	133.5	134.1	133.8	134.1	134.6	135.1	135.6	135.7
1992	135.6	136.3	136.7	138.8	139.3	139.3	138.8	138.9	139.4	139.9	139.7	139.2
1993	137.9	138.8	139.3	140.6	141.1	141.0	140.7	141.3	141.9	141.8	141.6	141.9
1994	141.3	142.1	142.5	144.2	144.7	144.7	144.0	144.7	145.0	145.2	145.3	146.0
1995	146.0	146.9	147.5	149.0	149.6	149.8	149.1	149.9	150.6	149.8	149.8	150.7
1996	150.2	150.9	151.5	152.6	152.9	153.0	152.4	153.1	153.8	153.8	153.9	154.4
1997	154.4	155.0	155.4	156.3	156.9	157.5	157.5	158.5	159.3	159.5	159.6	160.0
1998	159.5	160.3	160.8	162.6								

# Reducing Gains

## Shares in a Section 104 holding

As the Section 104 holding ends in April 98, a final indexed cost is calculated from the date of the last transaction.

### Example:

1/4/98    Sep 94 RPI indexation adjustment =  $162.6 / 145 = 1.121$

New indexed cost of 'S104 holding' = £7,247.68 (£6,465.37 x 1.121)

# Reducing Gains

## Selling shares in a Section 104 holding

When shares from the s104 holding pool are sold after 1998, the actual and indexed costs are calculated to give an indexation allowance on those shares.

1/5/06 Sold 700 shares at £4.80 minus £100.00 costs £3,260.00

Identify 700 shares with 'S104 holding'

Actual cost of 700 shares ( $£6,280.00 \times 700 / 1500$ ) £2,930.67

Indexed cost of 700 shares ( $£7,247.68 \times 700 / 1500$ ) £3,382.25

Indexation allowance = £451.58 ( £3,382.25 - £2,930.67)

# Reducing Gains

## Selling shares in a Section 104 holding

The actual gain or loss is then calculated:

$$\begin{aligned}\text{Gain/Loss} &= \text{Sale proceeds} - \text{actual cost} \\ &= \text{£3,260.00} - \text{£2,930.67} \\ &= \text{£329.33}\end{aligned}$$

If there is a chargeable gain then this is reduced by the indexation allowance:

$$\begin{aligned}\text{Chargeable gain} &= \text{Unindexed (actual) gain} - \text{indexation allowance} \\ &= \text{£329.33} - \text{£329.33}^* \\ &= 0\end{aligned}$$

\*The full indexation allowance of £451.58 (see previous) is not used as you can not create or increase a loss using this method – you can only use it to reduce the gain on the sale of the shares.

# Reducing Gains

## Selling shares in a Section 104 holding

To finish with, new actual and indexed costs of the remaining shares in the s104 holding pool are calculated:

Shares remaining = 800 (1,500 – 700)

New actual cost = £3349.33 (£6,280.00 - £2930.67)

New indexed cost = £3,865.43 (£7,247.68 - £3,382.25)

# Reducing Gains

## Selling shares in a Section 104 holding

The new actual and indexed costs are used for future sales of shares within the s104 holding pool.

1/2/07	Sold 400 shares at £5.20 minus £105.00 costs	£1,975.00
	Identify 400 shares with 'S104 holding'	
	Actual cost of 400 shares ( $£3,349.33 \times 400 / 800$ )	£1,674.67
	Indexed cost of 400 shares ( $£3,865.43 \times 400 / 800$ )	£1,932.72

Indexation allowance	= £258.05
Chargeable gain	= £1,975.00 - £1,674.67 - £258.05
	= £42.28*

\*Taper relief is then applied to this gain using Year 9 relief amount to get a final gain amount  
Year 9 of taper: 65% of £42.28 gain is chargeable = £27.48

Again, a new actual and indexed cost for the reduced s104 holding pool is calculated.

Actual cost of 'S104 holding' (400 shares)	£1,674.67
Indexed cost of 'S104 holding' (400 shares)	£1,932.72

# Reducing Gains

## Shares in a 1982 holding

Shares in a 1982 holding (those purchased between 6th April 1965 and 5th April 1982) are also kept in a pool. The object of this pool is that only gains or losses accruing since 31 March 1982 will be brought into account.

The rules applying to the calculation of gains on the sale of these shares are more complicated and can be applied in a number of ways depending on how the shares are chosen to be valued.

Due to the complexity of these calculation we would recommend the use of a tax professional in the calculation of these sales in order to decide which rule to use.

# Offsetting Losses

If you make a loss on your shareholding you can use the loss to offset any gains over the Annual Exemption Amount (AEA) that you may make.

Any losses made in a year are used to offset gains made in the same year. If your gains are less than the AEA or less than the losses made, then any remaining losses can be carried forward to the next tax year.

Losses are not set against specific sales – they are pooled together and deducted from the total gain. For the purpose of creating a report in ShareScope, the pooled losses are offset against gains over the AEA in a particular order, being:

Sale with lowest taper relief and highest gain



Sale with highest taper relief and lowest gain

So where an individual has gains that attract no taper relief (i.e. sales and purchases on same day or within 30 days), losses are set against those first to produce the lowest tax charge.

**If you have gains that qualify for taper relief and capital losses, the losses are set against gains before taper relief.**