

Shares and Capital Gains Tax

i Contacts

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0300 200 3310**
- the SA Orderline on **0300 200 3610** for helpsheets or go to hmrc.gov.uk/sa

This helpsheet explains the basic rules which apply in simple cases to the acquisition and disposal of shares by individuals, personal representatives and trustees in the tax year. It helps you work out the capital gain or loss if you have disposed of shares in that tax year. If you are in any doubt about your circumstances, ask your tax adviser. We will also be pleased to help. You can also consult our Capital Gains Manual, which explains the rules in more detail. Go to hmrc.gov.uk/manualsa-z

This helpsheet explains:

- why special rules are needed
- how you identify the shares disposed of
- how you work out the gain under the 'bed and breakfasting' rule
- how you work out the gain if the shares are held in a Section 104 holding
- the treatment of units in a unit trust.

It will help you fill in the *Capital gains summary* pages of your tax return.

This helpsheet refers to acquisitions and disposals. These are not restricted to purchases and sales although they will be the most common events.

An important exception is where share reorganisations such as rights and bonus issues, or an issue of shares on a company takeover, are not treated as acquisitions. See Helpsheet 285 *Share reorganisations, company takeovers and Capital Gains Tax*.

This helpsheet also assumes that the capital gain or loss will be calculated using the actual costs of acquisition and the actual disposal proceeds.

The section 'Transfers of assets between connected persons' on page CGN 4 of the *Capital gains summary notes* explains the circumstances in which you must substitute market value for actual cost or disposal proceeds.

Helpsheet 287 *Employee share and security schemes and Capital Gains Tax* explains more about shares which you acquire in connection with your employment or by exercising an employee share option.

Helpsheet 295 *Relief for gifts and similar transactions* explains more about the capital gains treatment of gifts, including gifts to charity. Helpsheet 342 *Charitable giving* tells you about the Income Tax relief available for gifts of certain shares, securities and other investments to charity.

The general rules described in this helpsheet may not apply to any shares which you acquired under the Enterprise Investment Scheme (EIS), or to shares in a Venture Capital Trust (VCT). For general information on EIS and VCT shares see Helpsheet 297 *Enterprise Investment Scheme and Capital Gains Tax* and Helpsheet 298 *Venture capital trusts and Capital Gains Tax*.

Ask us or your tax adviser if you need detailed information on the rules for EIS or VCT shares.

Nor do these general rules apply to shares issued on the exercise of an option under the Enterprise Management Initiative on or after 6 April 2012, the rules applying to those shares are explained in Helpsheet 275 *Entrepreneurs' Relief*.

Why are special rules needed?

Shares of the same class in the same company are identical. Suppose you have a holding of 10,000 Wilson & Strickland plc 25p ordinary shares acquired at different times for different prices. You then sell 2,000 shares. To calculate the gain you need to know how much cost you can attribute to the shares you have sold. The capital gains rules for shares allow you to do this.

From 6 April 2008 all shares of the same class, in the same company, are together called a 'Section 104 holding'. You add together the costs of the shares in this holding: each share in the holding is treated as if acquired at the same average cost.

There are a couple of circumstances in which shares will not be regarded as becoming part of the holding. Mainly shares affected by the 'bed and breakfasting' and 'same day' rules (see below).

Example 1

Suppose you bought 12,000 Wilson & Strickland plc 25p ordinary shares as follows:

7 June 1979	2,000 shares
4 November 1982	2,500 shares
26 August 1987	2,500 shares
7 July 1998	3,000 shares
14 May 2006	2,000 shares

You would have a Section 104 holding of 12,000 shares - containing all of your purchases.

How to identify the shares disposed of

When you dispose of shares you cannot work out your capital gain or loss until you have matched the shares disposed of with shares you acquired. You are treated as disposing of shares in the following order:

First shares acquired on the same day as the disposal (the 'same day' rule).

Second shares acquired in the 30 days following the day of disposal (the 'bed and breakfasting' rule) provided the person making the disposal was resident in the United Kingdom at the time of the acquisition if the relevant acquisition was on or after 22 March 2007.

Third shares in the Section 104 holding.

If the above rules fail to exhaust the shares disposed of, the remaining shares are matched with later acquisitions, taking the earliest one first.

Example 2

Mr Schneider owned 10,000 shares in Mesopotamia plc.

500 were purchased on 11 September 2013. The remaining 9,500 are held in the Section 104 holding. Mr Schneider sells 4,000 shares on 30 August 2013. The disposals are identified as:

500 against the shares purchased on 11 September 2013 under the 'bed and breakfasting' rule.

3,500 against the shares in the Section 104 holding.

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How you work out the gain under the 'bed and breakfasting' rule

If a disposal of shares is identified with shares acquired within the following 30 days, the gain or loss on disposal is the difference between the net disposal proceeds and the acquisition cost.

This 'bed and breakfasting' rule does not apply to acquisitions made on or after 22 March 2007 if the person who made the disposal was not resident in the United Kingdom for tax purposes at the time of the acquisition.

Example 2 continued

Suppose Mr Schneider received £6,000 for the 4,000 shares he sold and paid £850 for the 500 he had bought a few days later.

Because he bought additional shares within 30 days of making the disposal, 500 of the shares sold are not matched with shares in the holding. They are identified with the 500 shares bought on 11 September 2013.

The gain or loss on those shares is calculated as follows:

Disposal proceeds (apportioned 500/4,000 x £6,000)	£750
Allowable cost	£850
Loss	£100

How to work out the gain for shares in a Section 104 holding

The Section 104 holding consists of a single pool of expenditure usually representing the actual cost of shares.

The exception to using the actual cost is if you held some of the shares on 31 March 1982. In that case you will need to use the market value of the shares on that day. If the shares were quoted on a recognised Stock Exchange on 31 March 1982 you can find the value from authoritative published sources such as the Interactive Data Capital Tax Service. If not, then you or your professional adviser will have to provide a valuation.

We will want to check that valuation. Many quoted companies have undergone share reorganisations since 1982 and you will probably need to refer to the Helpsheets 285 *Share reorganisations, company takeovers and Capital Gains Tax*.

The pool of allowable cost is adjusted each time an 'operative event' occurs. An operative event is anything which reduces or increases the value of the pool of cost. Purchases and sales of shares are the most common examples of operative events.

The basic steps for working out a gain (or loss) on a disposal of shares in a Section 104 holding are as follows.

If all the shares in the holding are disposed of, the allowable expenditure is all of the pool of cost. If only some of the shares are disposed of, the allowable expenditure is a fraction of the pool of actual cost. The fraction is:

$$\frac{\text{Number of shares sold}}{\text{Total number of shares in the holding}}$$

The remaining cost in the holding, to be identified against future disposals, is reduced accordingly.

Example 3

In April 2006 Ms Pierson buys 1,000 Lobster plc shares for 400p per share plus dealing costs of £150 including VAT. This is her first acquisition of Lobster plc shares.

In September 2007 she buys an additional 500 Lobster plc shares for 410p per share plus dealing costs of £80 including VAT.

In May 2012 she sells 700 Lobster plc shares for 480p per share (£3,360 disposal proceeds), incurring dealing costs of £100 including VAT.

In February 2014 she sells 400 Lobster plc shares for 520p per share (£2,080 disposal proceeds), incurring dealing costs of £105 including VAT.

Step 1	Number of shares	Pool of actual cost
April 2006 The Section 104 holding is formed	1,000	£4,150

Step 2

September 2007

Add the allowable expenditure on the new shares to the pool of cost

Add cost of more shares	500	£2,130
	1,500	£6,280

Step 3

May 2012

To calculate the gain or loss:

First, calculate the amount of allowable expenditure by multiplying the pool of cost by:

Number of shares sold	=	700
Total number of shares in the holding		1,500

Cost	$\frac{£6,280 \times 700}{1,500}$	=	£2,931
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Second, calculate the gain or loss:

Disposal proceeds		£3,360
Minus allowable cost	£2,931	
Costs	£100	£3,031
Chargeable gain		£329

Note on calculation

Fractions of actual cost have been calculated by reference to the number of shares held. Alternatively, you can use the fraction:

$$\frac{\text{Disposal proceeds}}{\text{Disposal proceeds + value of shares not sold}}$$

Example 3 *continued*

Third, adjust the Section 104 holding	Number of shares	Pool of actual cost
Brought forward	1,500	£6,280
	minus <u>700</u>	minus <u>£2,931</u>
Carried forward	800	£3,349

Step 4

February 2014

First, calculate the amount of allowable expenditure. Multiply the pool of cost by:

Number of shares sold	=	400	
Total number of shares in the holding		800	
Cost	$\frac{£3,349 \times 400}{800}$	=	£1,675

Second, calculate the gain or loss

Disposal proceeds		£2,080
Minus allowable cost	£1,675	
Costs	£105	£1,780
Chargeable gain		£300

Third, adjust the Section 104 holding

Brought forward	800	£3,349
	minus <u>400</u>	minus <u>£1,675</u>
Carried forward	400	£1,674

For disposals before 6 April 2008, in addition to a Section 104 holding, you may have had a separate pool of shares held at March 1982 (the 1982 holding), shares held in 1965 and shares acquired from 1998 (which were not pooled). For disposals from 6 April 2008 you will simply need to add together all the shares held and their allowable costs to make up the Section 104 holding.

You will need to convert these holdings into a single Section 104 holding now if this is the first time you have made a disposal of such shares since the 2008 changes.

There are some particular points to note.

- The cost you carry over from any existing Section 104 holding is the actual allowable cost. It was previously necessary to also keep a record of the indexed cost. You should not use that figure because Indexation Allowance does not apply to disposals on or after 6 April 2008.
- You must use the market value at 31 March 1982 for shares held on that date.
- Only include the allowable cost of those shares you still held at 6 April 2008.

Units in a unit trust

Units in a trust are treated as if they are shares in an ordinary company. The basic rules described in this helpsheet apply equally to such units (and also to shares in an investment trust or an open-ended investment company). But there are some extra points to note.

Accumulation units

If you hold accumulation units you will not receive distributions of income from the trust. Instead, the income is retained and reinvested automatically for you (a 'notional distribution'). You do not receive any new units, but the value of your existing units is increased. If you receive notional distributions which are subject to Income Tax, you are allowed the amount of these distributions as additional expenditure on your accumulation units.

Umbrella schemes

A unit trust may take the form of an 'umbrella scheme' authorised by the Financial Services Authority. These schemes have separate sub-funds which are treated as separate authorised unit trusts for Capital Gains Tax purposes. A switch from units in one sub-fund to units in another will normally be a disposal of the old units on which capital gain or loss will arise. But if the switch occurs as part of a merger of sub-funds, the rules described in *Helpsheet 285 Share reorganisations, company takeovers and Capital Gains Tax* may apply. If so, you are not treated as disposing of your old units at the time of the merger.

Monthly saving schemes

Many authorised unit trusts, and also authorised investment trusts and open-ended investment companies, offer investors monthly saving schemes. We have a Statement of Practice, SP2/99, covering the Capital Gains Tax treatment of units and shares in monthly schemes.

We can give you a copy of SP2/99 and the Press Release 'Monthly Savings in Investment Funds', dated 31 March 1999, which accompanied it.

These notes are for guidance only and reflect the position at the time of writing. They do not affect the right of appeal.