For full details please see our website at www.hendersonblack.co.uk

The information contained in this leaflet is a brief summary of the relevant rules. Advice should be sought in relation to individual circumstances.

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CHARTERED ACCOUNTANTS

CAPITAL GAINS TAX

Share Identification Rules
and
Taper Relief

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and
ST ANDREWS
SELLING SHARES

Rules for identifying share disposals

When selling shares it is necessary to link the sale of the shares to the original purchase to calculate the capital gain.

The following rules to identify the acquisition of the shares being sold were introduced from 6 April 1998 and apply to the disposal of shares by individuals, personal representatives and trustees, but do not apply to companies.

Disposals are identified with acquisitions in the following order:
- Acquisitions on the same day as the disposal.
- Acquisitions within 30 days after the disposal.
- Previous acquisitions after 5 April 1998 on a LIFO basis, i.e. identifying the most recent acquisitions first.
- Any shares acquired after 6 April 1982 and held in the pool at 5 April 1998.
- Any shares acquired after 6 April 1965 and held at 5 April 1982.
- Shares held on 6 April 1965.
- Acquisitions more than 30 days after the disposal.

The 30 day rule above prevents “bed and breakfasting” where shares are sold and then repurchased the following day to utilise the capital gains tax annual exemption.

If multiple purchases of shares in one company are made on the same day at different prices, the shares are treated as being acquired in one transaction at an average price per share, unless they are employee share acquisitions, which are subject to special rules.

Any capital gain made on the sale of shares may be subject to taper relief.

TAPER RELIEF

Taper relief was introduced from 6 April 1998 and applies to the capital gains of individuals, trustees and executors. It does not apply to companies.

Taper relief reduces the gain chargeable to capital gains tax on a sliding scale depending on:
- the number of years the asset has been owned.
- whether or not the asset qualifies as a business asset.

Number of years of ownership
- The maximum period of ownership is ten years to the time of disposal.
- Qualifying years are the number of complete years the asset has been held between acquisition, or 6 April 1998 if later, and disposal i.e. only years of ownership after 6 April 1998 are relevant.
- Non-business assets held on 17 March 1998 qualify for an extra year of ownership.

Business Assets
From 6 April 2000 assets other than shares are business assets if they are let to a trading entity or are used in a trade carried on by:
- The individual selling the asset.
- A trading partnership of which the individual is a partner.
- A qualifying company as described below.

Qualifying Company
A company is a qualifying company where the company is trading and:
- The company is unquoted or quoted on AIM.
- The company is quoted and the individual is an officer or employee.
- The company is quoted and the individual owns at least 5% of the shares.
- or where the company is non-trading and the individual is an officer or employee who does not have a material interest.

From 6 April 2004 the definition of business asset has been extended. Business taper relief now applies to any asset used wholly or partly for the purposes of a trade carried on by any individual, personal representative, trustee or partnership of which an individual is a member.

Trading Company
If a trading company has substantial non trading assets or income it might not qualify for business taper.

Rate of Taper Relief
- Business assets: first year nil, 1 – 2 years 50%, 2 or more years 75%.
- Non-business assets: first three years nil, 3 – 4 years 5%, then an additional 5% each year until a maximum of 40% after ten years.