

# Tax Doesn't Have to be Taxing

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Member of the Sensatus Investment Club



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# Investment Taxes

**Income Tax** is payable on income received from:

- Interest (cash, bonds, gilts)
- Dividends (shares, unit trusts, OEICs)
- Property Income Dividends (REITs)

**Capital Gains Tax** is payable on gains made from disposal of assets:

- Shares, unit trusts, derivatives, commodities, currencies, property

# Calculating Capital Gains (Yr End 2008)

## **Disposal / sale proceeds**

Less Incidental costs of disposal (eg broker commission)

## **Net Disposal proceeds**

Less Acquisition Cost \*

Less Incidental costs of acquisition (eg stamp duty)

Less Indexation Allowance

## **Chargeable Gain**

Less Allowable losses \*\*

## **Net Gain**

Less Taper relief \*\*\*

## **Net gain after taper relief**

Less Annual Exempt amount

## **Amount Chargeable to CGT**

\* Share Identification rules; 1982 elections

\*\* Current Year Losses & Carried Forward Losses

\*\*\* Business or Non Business Taper Relief

# Calculating Capital Gains (Yr End 2009)

**Disposal / sale proceeds** \_\_\_\_\_

Less Incidental costs of disposal (eg broker commission) \_\_\_\_\_

**Net Disposal proceeds** \_\_\_\_\_

~~Less Acquisition Cost \*~~ \_\_\_\_\_

Less Incidental costs of acquisition (eg stamp duty) \_\_\_\_\_

~~Less Indexation Allowance \*\*~~ \_\_\_\_\_

**Chargeable Gain** \_\_\_\_\_

Less Allowable losses \_\_\_\_\_

**Net Gain** \_\_\_\_\_

~~Less Taper relief \*\*\*~~ \_\_\_\_\_

**Net gain after taper relief** \_\_\_\_\_

Less Annual Exempt amount \_\_\_\_\_

**Amount Chargeable to CGT** \_\_\_\_\_

\* Share Identification rules changed; calculate carried forward cost for part disposals before April 2008 applying old share identification rules

\*\* Indexation Relief withdrawn \*\*\* Taper Relief withdrawn

# Calculating Capital Gains (Yr End 2009)

## **Disposal / sale proceeds**

Less Incidental costs of disposal (eg broker commission)

## **Net Disposal proceeds**

Less Acquisition Cost or 31 March 1982 value

Less Incidental costs of acquisition (eg stamp duty)

## **Chargeable Gain**

Less Allowable losses

## **Net Gain**

Less Annual Exempt amount

## **Amount Chargeable to CGT**

# Share Identification Rules

If you made two or more acquisitions for a given share or fund on different dates, then you have to apply Share Identification rules to calculate the **Acquisition Cost**.

These rules tell you which shares or units you are deemed to have disposed of. You then use the allowable costs relating to those shares. You may not choose for yourself which shares or units in your holding you disposed of.



# Share Identification Rules (98 - 08)

For the year ending 5th April 2008, shares must be disposed of in the following order:

1. Shares acquired on the same day
2. Shares acquired in the 30 days following the day of disposal, on a First In First Out Basis (FIFO); aka the Bed & Breakfasting rule
3. Shares acquired on or after the 6<sup>th</sup> of April 1998 on a Last In First Out Basis (LIFO) i.e. dispose of the most recent acquisition first
4. Any shares acquired after 5 April 1982 and held in a Section 104 holding; these shares are treated as a single pool of shares

# Share Identification Rules (98 - 08)

For the year ending 5th April 2008, shares must be disposed of in the following order (*continued*):

5. Any shares acquired after 6 April 1965 and held as a '1982 holding'

6. Any shares held on 6 April 1965 (using a LIFO Basis)

7. Any other shares acquired subsequent to the disposal

Further reading – IR284

# Share Identification Rules (08 - 09)

For the year ending 5th April 2009, shares are deemed to be disposed of in the following order:

1. Shares acquired on the same day
2. Shares acquired in the 30 days following the day of disposal, on a First In First Out Basis (FIFO); aka the Bed & Breakfasting rule
3. Remaining shares are held in a Section 104 holding; these shares are treated as a single pool of shares.

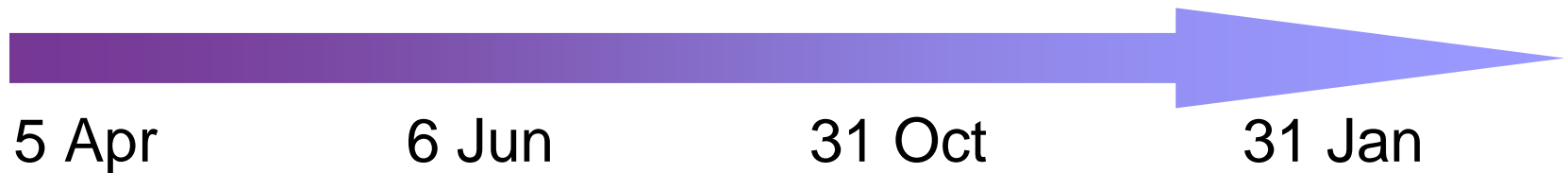
Shares acquired before 6 April 1982 are included in the pool at their value as at 31 March 1982 – the 'kink test' has been removed

# Keep in mind that..

- Investment Clubs are not constituted as companies and are therefore not subject to Corporation Tax
- The only costs that you are allowed to offset against gains are broker commissions, stamp duty and the cost associated with apportioning gains
- All gains and losses are directly attributable to the club members

- Share Identification Rules are applied to Fund transactions e.g. the purchase and sale of Unit Trusts and OEICS
- With Accumulation Unit Trusts all Dividend and Interest Payments are retained and the cost of your units are increased proportionately. The retained Dividend or Interest is called a notional payment and although you do not receive any cash, you have to pay income tax on the notional dividend or interest amount that was retained.
- Equalisation payments are a method of returning capital to investors who bought units that contained Dividends or Interest that they will not receive. Equalisation payments are made against Group 2 Units i.e. units that include dividend or interest cash in their valuation, but are not entitled to a dividend or interest payment. Equalisation payments should be used to reduce the cost of the Group 2 Units.
- Equalisation payments are commonly re-invested, but can be taken as cash. If taken as cash it is treated as a return of capital without any taxation liabilities.

# Tax Return time line



- Tax year end is on the 5th April
- The treasurer should submit Form 185(new) to their local tax office on or before the 6th of June
- If required, each club member (or private investor) should submit SA100 & SA108 by the 31st October if submitting a paper return
- 31st January for online electronic submissions. You will be subject to fines if you miss this submission deadline.

# Tax Return Requirements – Clubs

It is required that you register your investment club with your local HMRC office. Upon registration, the Revenue should offer you the choice to adopt:

- Standard Form of Agreement
- Form 185(new) for reporting gains and income

If a club decides not to adopt the Standard Form of Agreement, it should be pointed out to the club officers that:

- each member will have to show on his or her annual tax return, their share of any gains arising on the disposal of the club's investments, an or any income derived from the investments
- the person(s) in whose name(s) the club's investments are held may be required to make a return under TMA70/S24
- the treasurer or other officer who handles the club's money may be required to make a return under TMA70S13

# Form 185(new); apportioning gain

There are three methods of apportioning gain based on member unit holdings:

- “End of Year” - based on units owned at the end of the tax year
- “Year Average” – weighted value of units owned each month, averaged at the year end
- “Time Based Allocation” – apportion gains and losses each month based on units owned



# Form 185(new) - overview

**Inland Revenue**      *Investment Club Certificate*

**Year ended 5 April 07**

Members's name Sarah Stochastic	Inland Revenue office
Address 1 Any Street	Taxpayer's reference
Anytown	Employer's reference
Anywhere	National Insurance Number
Postcode AN1 1RE	

Enter the member's proportionate share of income and gains (as either a fraction or percentage) arising or accruing from the club's investments

7.17%

Date member joined club

	Club income		Member's share	
	Tax Credits £	Dividends received or net income £	Tax Credits £	Dividends received or net income £
UK dividends	37 54	381 44	2 69	25 90
Overseas dividends	0 00	0 00	0 00	0 00
Income taxed at Investment Rate	0 00	59 02	0 00	4 23
Income taxed at basic rate	0 00	0 00	0 00	0 00
Untaxed income	0 00	0 00	0 00	0 00
<b>Total income to be shared</b>	<b>37 54</b>	<b>420 45</b>	<b>2 69</b>	<b>30 13</b>

**Declaration** *must be completed and signed*

I (Name) Terry Technical the Member Office held (for example, Chairman, Secretary, Treasurer)

of the investment club certify that all the particulars given by me in this certificate are correct and complete to the best of my knowledge and belief

Investment club name Demo Investment Club Private Address 1 Any Street

Signature Any Town

Date 19 Nov 07 Any Where

Postcode AN1 1RE

Substitute 185(New) TimeToTrade

Schedule of gains and losses made in the year								
include realised gains and losses only								
Date of sale	Date of acquisition	Name of company and description of holding (for example, Ordinary or Preference share)	Club Details			Member's Details		
			NET Sale proceeds £	Capital Gains £	Capital losses £	NET Sale proceeds £	Capital Gains £	Capital losses £
5 Dec 06	9 Nov 05	MAJESTIC WINES x 350 Sold	1,202.00	183.85	0.00	86.16	13.18	0.00
28 Dec 06	19 Sep 05	LLOYDS TSB GROUP PLC x 100 Sold	572.22	83.10	0.00	41.02	5.96	0.00
28 Dec 06	13 May 05	LLOYDS TSB GROUP PLC x 350 Sold	2,002.78	378.03	0.00	143.57	27.10	0.00
28 Dec 06	16 Jun 06	BARCLAYS PLC x 200 Sold	1,468.86	238.70	0.00	105.29	17.11	0.00
28 Dec 06	22 May 06	BARCLAYS PLC x 150 Sold	1,101.84	200.32	0.00	78.97	14.36	0.00
28 Dec 06	18 Sep 06	TESCO PLC x 550 Sold	2,221.88	126.89	0.00	159.27	9.10	0.00
2 Jan 07	20 Jul 06	ARM HOLDINGS x 1800 Sold	1,918.75	304.53	0.00	137.54	21.83	0.00
14 Feb 07	19 Sep 05	PARTYGAMING x 100 Sold	22.02	0.00	92.70	1.58	0.00	6.65
16 Aug 06	16 Jun 06	WESTERN ALLIANCE BANC ORP x 75 Sold	1,413.51	196.15	0.00	101.32	14.06	0.00
28 Sep 06	16 Aug 06	CHEESECAKE FACTORY INC x 100 Sold	1,378.95	146.44	0.00	98.85	10.71	0.00
1 Mar 07	16 Aug 06	BMET x 30 Sold	509.97	8.76	0.00	36.56	0.63	0.00
13 Dec 06	16 Nov 06	KINGFISHER x 500 Sold Short	1,311.25	109.08	0.00	93.99	7.82	0.00
28 Nov 06	22 Sep 06	WALGREEN CO x 50 Sold Short	1,177.15	154.00	0.00	84.38	11.04	0.00

**Notes**

- Shortly after the 5 April the Treasurer or other officer of the club should
  - prepare two copies of this form for each member of the club to indicate the member's share of the income and capital gains or losses of the club for the year to 5 April,
  - give one copy to the member; and
  - send all second copies to your Inland Revenue office.
- The member is required to enter the details from this form onto their own personal Tax Return form.
- Booklet CGT1 provides detailed information on capital gains matters.
- The capital gains computed by the club are shown above before any Taper Relief. Each member is responsible for calculating their own entitlement to Taper Relief (if any).
  - When computing Taper Relief, to determine the qualifying holding period use the later of
    - the date the club acquired the asset, or
    - the date you joined the club, or
    - 6 April 1998.

# Tax Return Requirements - Individuals

For the year ending 5th April 2008, investment club members (and private investors) must return Capital Gains form **SA108** along with SA100 if:

1. You disposed of chargeable assets (e.g. shares, non-residential properties) worth more than £36,400
2. You have allowable losses which must be deducted from your chargeable gains, and your gains before applying the losses and taper relief is more than £9,200
3. Your gain after applying taper relief is more than £9,200
4. **You want to claim an allowable capital loss**, or make any other Capital Gains claims or election for the year

\* The above figures are based on the combined personal and club apportioned chargeable assets, gains and losses

# Income Tax Self Assessment (SA100)

## Income

### UK interest etc. and dividends

1 UK bank, building society, unit trust, etc. interest/amount which has been taxed already - the net amount after tax £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	4 Dividends from authorised unit trusts and open-ended investment companies £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
2 Untaxed UK interest etc. (amounts that have not been taxed at all) - the total amount £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	5 Foreign dividends (up to £300) - the amount in sterling before foreign tax was taken off. Do not include this amount in the Foreign pages £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
3 Dividends from UK companies - do not include the tax credit. Property Income Dividends (PIDs) go in box 15 below £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	6 Tax taken off foreign dividends (the sterling equivalent) £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>

### UK pensions, annuities and other State benefits received

7 State Pension - the amount due for the year (not the weekly amount) £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	11 Tax taken off box 10 £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
8 State Pension lump sum £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	12 Taxable Incapacity Benefit - the total amount before tax was taken off £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
9 Tax taken off box 8 £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	13 Tax taken off box 12 £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
10 Pensions (other than State Pension), retirement annuities and taxable triviality payments - give details of the payers, amounts paid and tax deducted in box 19 on page TR 6 £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	14 Total of any other taxable State Pensions and benefits £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>

### Other UK income not included on supplementary pages

Do not use this section for income that should be returned on supplementary pages. Share schemes, gilts, stock dividends, life insurance gains and certain other kinds of income go on the Additional information pages in the Tax Return pack.

15 Other taxable income - before expenses and tax taken off £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	18 Benefit from pre-owned assets - read page TR 6 of the guide £ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
16 Total amount of allowable expenses - read page TR 6 of the guide	19 Description of boxes 15 and 18 income - if there is not enough space here please give details in the 'Any other information' box on page TR 6

If you received gross interest, or a high rate tax payer, then you have to submit a HMRC Income Tax return (SA100)

The information from the 'income' section of Form 185(new) is used to populate section Questions 1 to 6 of your Self Assessment Tax Return (SA100).

# CGT Tax Return (SA108)



## Capital Gains Summary

Tax year 6 April 2007 to 5 April 2008

1 Your name	2 Your unique taxpayer reference (UTR)
<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>

### Summary of your enclosed computations

You must enclose your computations, as well as filling in the boxes.

3 Total gains in the year, before losses and taper relief £ <input type="text"/> · <input type="text"/> <input type="text"/>	10 Losses available to be carried forward to later years £ <input type="text"/> · <input type="text"/> <input type="text"/>
4 Total losses of the year £ <input type="text"/> · <input type="text"/> <input type="text"/>	11 Losses used against an earlier year's gain (special circumstances apply - read pages CGN7 and 12 of the Notes) £ <input type="text"/> · <input type="text"/> <input type="text"/>
5 Losses brought forward and used in the year £ <input type="text"/> · <input type="text"/> <input type="text"/>	12 Losses used against income - amount claimed against 2007-08 income £ <input type="text"/> · <input type="text"/> <input type="text"/>
6 Total gains, after losses and taper relief but before the annual exempt amount £ <input type="text"/> · <input type="text"/> <input type="text"/>	13 Losses used against income - amount claimed against 2006-07 income £ <input type="text"/> · <input type="text"/> <input type="text"/>
7 Annual exempt amount £ 9 2 0 0 · 0 0	14 Income losses of 2007-08 set against gains £ <input type="text"/> · <input type="text"/> <input type="text"/>
8 Net chargeable gains (box 6 minus box 7) - but if box 7 is more than box 6, leave blank £ <input type="text"/> · <input type="text"/> <input type="text"/>	15 If business taper relief has been applied to a gain on any asset, put 'X' in the box <input type="checkbox"/>
9 Additional liability in respect of non-resident or dual resident trusts £ <input type="text"/> · <input type="text"/> <input type="text"/>	

Return SA108 along with SA100 to report a capital gain or claim a realised loss.

Losses must be claimed before they can be used to offset future gains.

You must include supporting calculations when returning SA108.

# CGT Supporting Calculations (SA108)

Computation Working Sheet - complete one sheet for each asset sold

Description of asset

*for example, type and number of shares sold or address of property*

Date of sale DDMMYYYY

Disposal/sale proceeds or market value *if appropriate* £  1

Incidental costs of disposal/sale £  2

Net disposal proceeds *box 1 minus box 2*  3

Date of acquisition

Cost or 31 March 1982 value *See page CGN 5*  4

Incidental costs of acquisition  5

Improvement costs  6

Indexation allowance  7

Total costs *boxes 4 + 5 + 6 + 7*  8

Gain or loss *box 3 minus box 8*  9

Capital gains elections or reliefs *not the annual exempt amount and description*  10

Losses deducted *See pages CGN 7 and CGN 8 for guidance*  11

Net gain *box 9 minus boxes 10 + 11*  12

Taper rate  13 %

Net gain after taper relief *box 12 multiplied by the rate in box 13*  14

You are also required to provide your supporting calculations for each disposal.

HMRC provide a template you can use, however it is not a requirement to use their template.

If you are submitting your SA108 electronically, HMRC have the facility to attach your calculations to your return as a pdf document.

# Claiming Losses

- Losses made from the 6th of April 1996 onwards have to be 'claimed' via your tax return, before they can be used as allowable losses; you do not have to claim losses for earlier years
- You must differentiate between the allocation of pre and post 1996 pools of losses when completing SA 108. Losses from the post 1996 pool of losses must be allocated first.
- Losses must be reported to HMRC within 5 years after the 31<sup>st</sup> January following the end of the tax year in which the loss arose. (So there is still time to claim losses going back as far as 2002 – 2003).
- Once you have formally claimed your losses, they can be carried forward indefinitely and accumulated to offset against future gains.

# Share Reorganisations

- Share Reorganisations such as Rights Issues is a general term used to describe certain transactions in which:
  - New shares are issued to the share holder
  - The rights attached to shares are altered
  - A company's share capital is reduced
- Basic Capital Gains Tax rules applied to share reorganisations are:
  - The issue of any new shares is not treated as an acquisition
  - The loss or alteration of any old shares is not treated as a disposal
- Share reorganisations where you receive a different class of share from the shares already owned, require cost to be apportioned between the two classes of shares based on the value of the different classes of shares on the first day of trading after the share reorganisation (quoted shares only). For unquoted shares, wait until the disposal of the shares before apportioning cost.
- Further reading – IR285

# Share Reorganisation – cash received

- Cash received as part of a share reorganisation is classified as ‘small’ if the cash amount is either less than £3,000 or not more than 5% of the value of the shares in the original company, immediately before the share reorganisation.
- If the cash received is classified as ‘Small’, there is no immediate tax liability, however you have to reduce your allowable cost for the associated shares by the amount of cash received. As a result you will pay tax on the ‘small’ cash amount when you dispose of the underlying shares.
- If cash received is classified as ‘Large’, (i.e. greater than £3,000 or 5% of the value of the shares), there is an immediate tax liability.
- For calculating the gain on large cash amounts you have to apportion cost based on the ratio of the value of the cash received and the value of the shares
- Further reading – IR285



# Negligible Value

If you own an asset that has become worthless you may make a 'Negligible Value' claim.

The negligible value claim treats the asset as if you sold it and then immediately re-acquired it at a price that you claim is the 'negligible value'; reference IR 286.

You will normally be treated as having sold the asset on the date you make the negligible value claim. However, you may specify in the claim that you wish to be treated as if you had sold the asset at a time during the previous two tax years.

To make a Negligible Value claim write to your local Tax Office. If successful the deemed disposal usually results in an allowable loss.

For further information contact:

- *Dary McGovern*
- [dary@sensatus.com](mailto:dary@sensatus.com)
- [www.timetotrade.eu](http://www.timetotrade.eu)

The following slides provide some additional information on the topics covered

# Allocating Losses

- The deduction of losses takes place before the application of taper relief
- Any 'allowable losses' from the current tax year must be used to reduce the chargeable gain for the current tax year to zero
- Any remaining 'allowable losses', after off-setting chargeable gain, are added to the post 1996 pool of losses and carried forward to the next tax year
- If the chargeable gain is greater than the annual exemption after off-setting the current year 'allowable losses', you then allocate losses from previous years to reduce the chargeable gain before taper relief to the level of the annual exemption amount
- You must differentiate between the allocation of pre and post 1996 pools of losses when completing SA 108. Losses from the post 1996 pool of losses must be allocated first.
- Losses should be allocated against the chargeable gains with the lowest taper relief

# Indexation Allowance

- Indexation allowance is available on shares held from before 6<sup>th</sup> April 1998 i.e. in a Section 104 holding
- The 'actual cost' of shares acquired before 6<sup>th</sup> of April 1998 are indexed to compensate for inflation
- To determine gain you have to apportion actual cost and indexed cost, based on the number of shares disposed of and the total number of shares in the Section 104 share pool
- Further reading – IR284

# Taper Relief

- Taper relief applies to disposals from the 6<sup>th</sup> of April 1998
- The Rate of Taper depends on whether the asset is defined as a business asset or a non-business asset. Most AIM stocks qualify as business assets – **but not all**
- Taper relief is applied to the ‘taxable gain after losses’ times the taper rate based on the Qualifying Holding period e.g. £20,000 x 50% = £10,000 (taxable gain after taper relief)
- Qualifying Holding period is defined as “the period between 6 April 1998, or, if later, the date you first acquired the asset in question and the date that you disposed of it”. A whole year is any continuous 12 month period and fractions of a year are ignored.
- For non-business assets acquired before 17 March 1998 and disposed of during the 2007 tax year, one additional year is added to the qualifying holding period.
- Further reading – IR279

# Taper Relief Tables

The percentage gain that remains chargeable for business and non-business assets disposed of during the 2007 tax year, depends on the number of whole years in the qualifying holding period, as set out in the following tables:

Qualifying Period	Percentage of Gain chargeable
1 year	50%
2 or more years	25%

***Gains on Business Assets***

Qualifying Period	Percentage of Gain chargeable
1 year	100%
2 year	100%
3 year	95%
4 year	90%
5 year	85%
6 year	80%
7 year	75%
8 year	70%
9 year	65%
10 + years	60%

***Gains on Non-Business Assets***

# Share Identification Rules (08 - 09)

The number of shares held and the related cost will comprise –

- shares still held that were acquired before 6 April 1965; their ‘cost’ reflecting any previous disposals on a LIFO basis
- any remaining 1982 holding, the ‘cost’ of the holding reflecting any previous part disposal out of the holding.
- Note that for any shares transferred into the Section 104 holding that were held at 5 April 1982, the sum that goes into the Section 104 holding will be their value at 31 March 1982 and not their original cost.
- Any previous Section 104 holding, the cost of the holding being the pool of qualifying expenditure and not the pool of indexed expenditure
- Shares held that were acquired from 6 April 1998 to 5 April 2008, to the extent that they have not been identified under the rules for disposals before 6 April 2008
- The shares acquired on or after 6 April 2008 at cost.
- Bear in mind that shares will not enter the pool if they are identified under the “same day” or “bed and breakfast” rules.

On a disposal of shares from the pool the associated cost may be calculated by applying the part disposal formula or by making a simple apportionment by reference to the number of shares in the pool