

Name

Tax reference

Fill in these boxes first

If you want help, look up the box numbers in the Notes.

Chargeable gains and allowable losses

● Total chargeable gains for 1996-97	8.1 £
<i>minus</i> Total allowable losses for 1996-97	8.2 £
<i>equals</i> Net chargeable gains for 1996-97	8.3 £
<i>or equals</i> Net allowable losses for 1996-97	8.4 £
<i>minus</i> Trading losses, losses from furnished holiday lettings, post-cessation expenditure, or post-employment deductions which can reduce chargeable gains	8.5 £
<i>minus</i> Allowable losses brought forward	8.6 £
	box 8.3 minus (box 8.5 + box 8.6)
<i>equals</i> Chargeable gains for 1996-97	8.7 £
Your chargeable gains <i>minus</i> exempt amount	8.8 £
	box 8.7 minus £6,300
● Additional liability in respect of offshore trusts	8.9 £

Capital losses

Use this part of the Page to record your allowable losses

■ **Earlier years' losses**

● Unused losses of earlier years	8.10 £
	from box 8.6
● Used this year	8.11 £
	box 8.10 minus box 8.11
● Carried forward losses of 1995-96 and earlier years	8.12 £

■ **This year's losses**

● Total	8.13 £
	from box 8.2
● Used against gains	8.14 £
● Used against earlier years' gains	8.15 £
● Used against income	8.16 £
	box 8.13 minus (box 8.14 + box 8.15 + box 8.16)
● Carried forward losses of 1996-97	8.17 £

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Filling in your Capital Gains Pages

Gather together the material you need, such as:

- contracts for the purchase or sale of assets
- invoices for allowable expenditure.

If you have capital gains, you may have to fill in the Capital Gains Pages. You do not have to fill them in if:

- any gains arising from the disposal of your only or main residence are exempt as a result of private residence relief (see the note on 'Your home' on page CGN14), **and**
- any other assets you disposed of in the tax year were worth less than £12,600 in total (ignoring exempt assets - see below - but including any residence that is not exempt or is only partly exempt), **and**
- your total chargeable gains were less than £6,300.

Otherwise you must fill in the Capital Gains Pages. You may also have to fill them in if you want to claim an allowable loss (see page CGN7). Leaflet *CGT14: Capital Gains Tax - an introduction*, available from the Orderline, will help you decide if you have chargeable gains.

The following notes, and the Help Sheets and leaflets, cannot describe all the possible circumstances in which you may have to pay Capital Gains Tax. In more complex cases you may need to obtain professional advice or you can ask to see the Inland Revenue Capital Gains Tax Manual, which is available at any Tax Enquiry Centre.

The Notes are divided into seven sections.

Section 1 (pages CGN2 and CGN3) explains how to fill in the Capital Gains Pages.

Section 2 (page CGN3) provides a simple guide to Capital Gains Tax.

Sections 3 to 7 (pages CGN4 to CGN16) provide more detailed guidance.

Section 1 - Filling in Pages CG1 and CG2

The details in the Capital Gains Pages provide the information the Inland Revenue needs about your chargeable gains and allowable losses. You must fill in both Pages. **Fill in Page CG2 first.** If you think that you will need more than one Page CG2 to give details of all your disposals, make photocopies before making any entries. Please put your name and tax reference on each photocopy.

In some situations, if you receive an amount in respect of an asset which is small compared to the value of that asset, the receipt may not be treated as a disposal. You will find more details on where this may apply, and how to fill in Pages CG1 and CG2 in these cases, under the heading 'Disposals' on page CGN5.

You do not normally have to submit any calculations or other supporting documents with your Tax Return. If, however, you consider that further information is necessary to show how you calculated your figures, you may send calculations **in addition to** the Capital Gains Pages.

■ **Filling in Page CG2**

Fill in Page CG2 to give details about your disposals in the year ended 5 April 1997. This information helps determine whether the Inland Revenue needs to ask you any questions about your Tax Return.

Column 1

Enter in this column details of each asset you have disposed of. For example, if you have disposed of land or buildings, give the address and a description of the property. If you have disposed of shares, give the name of the company, the type of shares you have disposed of and how many shares you have disposed of.

If you have made any chargeable gains or allowable losses in 1996-97 without making a disposal, you should include details of these gains and losses in the list. This could occur, for example, because a deferred gain is treated as made in 1996-97 (see the section on gains of earlier years on page CGN6 or a loan to a trader has become irrecoverable (see the section on disposals on page CGN5).

Column 2

This column is only relevant if the asset you listed in column 1 is shares in a company.

Tick the box in this column unless the shares were listed on the Stock Exchange Daily Official List (SEDOL) throughout the period you held them. You will also need to tick the box if you obtained the shares on a share exchange or other company reorganisation, and the shares you originally held did not appear on SEDOL throughout the period you held them.

Column 3

Enter in this column the total disposal proceeds you have received or will receive from each disposal. Page CGN7 explains what to include in disposal proceeds.

Column 4

Enter in this column the net gain or loss from each disposal, after all reliefs have been taken into account. Put brackets around any losses to distinguish them from gains. Section 4 explains how to calculate gains and losses. Section 6 describes some common reliefs.

Column 5

Tick the box in this column on any row where you have used an estimate or valuation in calculating the gain or loss. For example, estimates need to be used where an asset you have disposed of was:

- acquired from, or disposed of to, a connected person (see page CGN9), or
- held by you at 31 March 1982 (see the notes on rebasing on page CGN9).

Column 6

Tick the box in this column on any row in which you are recording the disposal of an asset you owned, or are treated as having owned, at 31 March 1982.

Column 7

Tick the box in this column on any row where you have provided details of a disposal that is affected by a relief. For example you may have claimed roll-over relief or you may be entitled to retirement relief. Section 6 describes the common reliefs.

Column 8

Use this space to provide other information. For example:

- why estimates or valuations have been used
- what reliefs have been claimed
- whether taxable value has been transferred
- whether you have made a part disposal
- whether you have exchanged shares or securities in a company reconstruction or take-over.

■ Filling in Page CG1

Now you have completed Page CG2 you have the information to enable you to fill in Page CG1.

Chargeable gains and allowable losses

box 8.1 Add up your total chargeable gains for the year, including any gains deemed to arise to you from non-resident or dual resident trusts, and enter the total in box 8.1.

box 8.2 Add up your total allowable losses for the year and enter the total in this box.

Do not include any losses that you are claiming to deduct from your income.

boxes 8.3 and 8.4 Subtract any figure in box 8.2 from the figure in box 8.1, and:

- if the result is more than zero, or zero, enter it in box 8.3, or
- if the result is less than zero, enter it in box 8.4.

If you have entered a figure in box 8.3 and that figure is less than or equal to £6,300, you have no Capital Gains Tax to pay. You can ignore boxes 8.4 to 8.7. Enter '0' in box 8.8. Go to box 8.10.

If the figure in box 8.3 is greater than £6,300, go to box 8.5.

If you entered a figure in box 8.4, you have a surplus of losses in this year that can be carried forward to be deducted from any gains in the next or subsequent years. You can also carry forward any losses from earlier years that you have not yet set against your gains. You can ignore boxes 8.5 to 8.7. Enter '0' in box 8.8. Go to box 8.10.

Personal representatives acting for a person who has died, who are completing the Tax Return for the part of 1996-97 before the date of death, can also carry back losses made in that part year against gains of earlier years. This is dealt with in detail in *Help Sheet IR282: Death, personal representatives and legatees*.

box 8.5 Enter in this box the amount of any trading losses, losses from furnished holiday lettings, post-cessation expenditure or post-employment deductions that you are claiming to deduct from chargeable gains. If you do not wish to make a claim, go to box 8.6.

You should only enter the **lower of**:

- the total losses etc. you can claim, and
- the amount required to reduce the figure of gains in box 8.3 to zero.

If you have made a claim for enough losses to reduce the gains in box 8.3 to zero, you can ignore boxes 8.6 and 8.7. Enter '0' in box 8.8. You can ignore boxes 8.9 and 8.10.

box 8.6 Enter in this box the amount of any allowable losses of earlier years that are deductible against gains in 1996-97.

You should only enter the **lower of**:

- the amount of losses available, and
- the amount required to reduce the figure of gains in box 8.3, after deduction of any trading losses etc. entered in box 8.5, to £6,300.

If you have sufficient losses available to reduce the gains in box 8.3, as reduced by any trading losses in box 8.5, to £6,300, you can ignore boxes 8.7 and 8.9. Enter '0' in box 8.8. Go to box 8.10.

box 8.7 Subtract any figures you have entered in box 8.5 and in box 8.6 from the figure for gains entered in box 8.3. The net figure is your chargeable gain for 1996-97 and should be entered in this box. Go to box 8.8.

box 8.8 You do not have to pay tax on the first £6,300 of chargeable gains that you made in 1996-97. This amount is referred to as your 'annual exempt amount'.

Deduct £6,300 from the figure in box 8.7. Enter the net amount in box 8.8.

The figure in box 8.8 is the net amount of chargeable gains on which you must pay Capital Gains Tax for 1996-97.

box 8.9 You may have to pay tax because you have received, or you are treated as having received, capital or a benefit from any non-resident or dual resident settlement. If so, ask the Orderline for *Help Sheet IR301: Capital gains on benefits from non-resident and dual resident trusts* to work out the amount of tax to go in box 8.9. Enter the name (and the tax reference if known) of the trust in the 'Additional information' box on Page CG1. If you are not sure if this applies to you, ask your Tax Office or tax adviser.

Capital losses

boxes 8.10 to 8.12 These boxes summarise the losses you have made in earlier tax years that have not yet been used against chargeable gains.

boxes 8.13 to 8.17 These boxes summarise the allowable losses you have made this year and the various ways in which they have been used. Any remaining losses are carried forward to use against gains of later tax years.

Section 2 - A simple guide to Capital Gains Tax

At its simplest Capital Gains Tax is a tax you pay if you make a gain from selling something you own. Some things, such as your home, your car or shares held in a PEP, are usually outside the charge to tax, see page CGN4.

You may be one of the many people who hold shares directly in major UK companies. If you sell any of these shares, you will have to consider whether you have to pay Capital Gains Tax. This is a simple guide to help you answer that question. The guide deals only with the case in which you bought shares listed on the Stock Exchange in one lot after 5 April 1982 through a broker, and where you sold the shares in the same way. In any other case, or if you are in any doubt, you should read the notes in Sections 3 to 7.

You need to work out your gain using the rules for Capital Gains Tax. This is called your **chargeable gain**. You must pay Capital Gains Tax if your total chargeable gains for 1996-97 exceed £6,300. Section 1 on page CGN2 shows how to fill in the Capital Gains Pages.

So how do you work out your chargeable gains? Here is a simple example. Let us say that in March 1988 you bought 3,000 shares in a company for £2.50 each. Your broker charged a fee of £100. In May 1996 you sold those shares for £5 each. Your broker charged a fee of £200.

Your gain is:

Sale price		£15,000
less broker's fee		<u>£200</u>
		£14,800
Cost	£7,500	
plus broker's fee	<u>£100</u>	
	£7,600	<u>£7,600</u>
Gain		£7,200

You can deduct an indexation allowance from this gain that compensates you for the effect of inflation since you bought the shares. You multiply the cost of buying the shares (£7,600 in the example) by a figure known as the **indexation factor** and deduct the resulting amount from your gain. The notes on page CGN10 explain how to find the indexation factor from the table on pages CGN12 and CGN13. In this case the indexation factor is 0.469 and so your indexation allowance is:

$$£7,600 \times 0.469 = £3,565$$

Deduct this from your gain to give your chargeable gain. This will be:

Gain	£7,200
less indexation allowance	<u>£3,565</u>
Chargeable gain	£3,635

If this is your only chargeable gain in 1996-97, you will have no Capital Gains Tax to pay because you can make gains of up to £6,300 before you pay tax.

If you have made a loss on your sale, the rules are different. You cannot deduct any indexation allowance to increase the loss. Nor can you deduct all of your indexation allowance if it would turn your gain into a loss. If your indexation allowance is greater than your gain, you can only deduct enough to reduce your gain to zero.

Losses you make from sales in the year must be deducted from your chargeable gains to decide whether your total chargeable gains are greater than £6,300. You can also deduct losses you made from sales in earlier years if they have not yet been deducted from gains you made in earlier years. See Section 4 on Calculating gains and losses for more information.

Section 3 - An introduction to Capital Gains Tax

These notes are a simplified summary of the Capital Gains Tax law as it applies in some common cases. If you are in any doubt about whether you have Capital Gains Tax to pay, ask your Tax Office or tax adviser.

■ Chargeable gains

A chargeable gain is made when something you own (an asset):

- is wholly or partly disposed of (or treated as disposed of), **and**
- has increased its value since you acquired it, or since 31 March 1982 if that is later, **or**
- is sold and the proceeds are greater than the reduced value for which you are deemed to have acquired the asset because of a claim to relief.

You may also be treated as making a gain in other circumstances, for example where:

- a gain on an earlier disposal of an asset has been deferred, and a particular event, for example, disposal of another asset, or the lapse of time has ended the deferral period, **or**
- the value of an asset you own has had its value decreased by a transfer of rights, or by any other means that would not by itself be regarded as a disposal, **or**
- you dispose of a wasting asset, which has not diminished in value as quickly as was expected (see *Help Sheet IR293: Chattels and Capital Gains Tax*), **or**
- you derive a capital sum from your ownership of an asset, **or**
- you dispose of an asset that you acquired from your spouse.

You do not pay tax on the price you receive for the asset, but only on the increase in its value while you have owned it.

SA108 (NOTES) You also may be treated as making a disposal if you recover money for which you have had some relief under the capital gains rules. Ask the Orderline for *Help Sheet IR296: Debts and Capital Gains Tax*.

If it has lost value in that time, you deduct that loss from any gains you make on other assets in the same year or later. Section 4 helps you work out your gains and losses.

■ Who pays Capital Gains Tax?

You must pay Capital Gains Tax on all your chargeable gains if you are resident or ordinarily resident, **and** domiciled in the UK in 1996-97.

If you are not domiciled in the UK, you pay tax on gains made on the disposal of assets situated outside the UK, **only** when the gains are remitted to the UK (the 'remittance' basis). Gains on the disposal of assets situated in the UK are taxable as in the paragraph above.

If you are neither resident nor ordinarily resident in the UK, you are only taxable on gains made from assets of any branch or agency in the UK through which you are trading or carrying on a profession or vocation.

If you are not sure whether you are resident, ordinarily resident or domiciled in the UK, you should ask the Orderline for the Notes for the Non-residence Pages which explain residence and domicile in more detail and, if appropriate, complete the Non-residence Pages.

■ Assets

Any form of property, wherever it is situated, may be an asset that attracts Capital Gains Tax. The most common assets include:

- stocks and shares
- land and buildings
- business assets, such as goodwill.

Some assets are exempt from Capital Gains Tax. Common exempted assets are listed below.

The gains made on some assets may be wholly or partly relieved from tax. See the explanation of the common reliefs on page CGN14.

■ Exempt assets

The disposal of some types of asset is exempt from Capital Gains Tax.

If you receive a sum of money or an asset that is taxable as part of your income, you will not have to pay Capital Gains Tax on that sum as well.

The following types of asset are exempt from Capital Gains Tax:

- private cars
- personal effects and goods worth £6,000 or less when you dispose of them
- Savings Certificates, Premium Bonds and British Savings Bonds
- gains made within a Personal Equity Plan (PEP)
- bonuses from tax exempt special savings accounts (TESSAs)
- UK Government stocks (gilts)
- personal injury compensation
- foreign currency for you or your family's personal use
- life assurance policies and deferred annuity contracts, unless purchased from a third party
- betting, lottery or pools winnings
- SAYE terminal bonuses
- compensation for mis-sold personal pensions taken out as a result of disadvantageous advice given between 29 April 1988 and 30 June 1994.

If your only disposals are of these types of asset, you should tick the 'No' boxes in Question 8 of your Tax Return.

If a gain on the disposal of an asset would be exempt from Capital Gains Tax, any loss you make on that asset will not be an allowable loss.

Gains from the disposal of personal effects or goods, each of which was worth £6,000 or less, when you disposed of them, are exempt. You may be able to use any loss that you make on such a disposal. This is dealt with in more detail in *Help Sheet IR293: Chattels and Capital Gains Tax*, available from the Orderline.

In most cases you will not pay tax on any gain you make when you dispose of your home. See the section dealing with the disposal of your home on page CGN14.

■ Disposals

Capital Gains Tax is payable on gains from the disposal of assets. A disposal will occur when you:

- sell, **or**
- give away, **or**
- exchange an asset, **or**
- receive a capital sum from your ownership of an asset, **or**
- the value of an asset you own has been reduced to increase the value of an asset owned by some other person.

A capital sum is a sum that is not part of your taxable income.

You can claim to be treated as making a disposal when an asset you own has become of negligible value. This may give you a loss that you can set against your gains.

If you dispose of only part of an asset, you can only use part of the cost in calculating your gain. Part disposals are explained more fully on page CGN10.

Any disposal which is made by your nominee, or by a person who is a bare trustee in relation to assets to which you are absolutely entitled, will be treated as your disposal.

Some disposals do not result in a charge to Capital Gains Tax. For example:

- when somebody dies and their assets pass to their personal representatives, **or**
- where shares are disposed of in exchange for other shares - see the notes on 'company reconstructions and take-overs' on page CGN6.

If you transfer an asset to your husband or wife and you are living together, you will not be taxed. Instead, any gain or loss is deferred until the asset is disposed of by your spouse. Your spouse may then pay tax on any gain made during the whole time that one or other of you has owned the asset.

If you are a member of a partnership, there are special rules dealing with the disposal or acquisition you make when there is a change in your share of partnership assets. If you need advice, ask the Orderline for *Help Sheet IR288: Partnerships and Capital Gains Tax*.

You can also be treated as having made a loss when:

- certain loans you have made to persons who are trading cannot be recovered, **or**
- you have had to make payments as a result of guarantees you have given for loans to persons who are trading.

In each case you must make a claim. *Help Sheet IR296: Debts and Capital Gains Tax* explains how to make a claim.

■ Small receipts

In some situations, an amount received in respect of an asset, which would otherwise be treated as a part disposal of the asset, may not be treated as a disposal at all if the amount is small compared to the value of the asset. This applies where amounts are received:

- as a capital distribution in respect of shares. This includes amounts received where rights to further shares which are allotted to you are sold nil paid, **or**
- as compensation, or under an insurance policy, for damage or injury to the asset, **or**
- for surrendering or agreeing not to exercise rights, **or**
- for use or exploitation of the asset, **or**
- in some cases where there is a compulsory acquisition of land.

Where the receipt is not treated as a disposal, the amount will need to be deducted from the expenditure available to set against any later disposal of the asset. If the amount of the receipt exceeds the available expenditure, a gain may still arise on receipt. Ask your tax adviser or Tax Office for further details.

If you exchange shares for consideration including qualifying corporate bonds and cash, the gain arising on the cash element may also be deferred if the amount is small compared to the value of the shares. Again, you should ask your tax adviser or Tax Office for further details.

What is small?

If in the situation described above the amount you receive:

- does not exceed £3,000, **or**
- does not exceed 5% of the value of the asset in respect of which it is paid, then you do not need to show the amount as a disposal on Pages CG1 and CG2.

If the amount exceeds these limits, but you think that it should be regarded in the circumstances as small, you should:

- enter the gain or loss on the list of disposals on Page CG2, **and**
- explain in column 8 why you think the amount should be treated as small;

but **do not** include the gain or loss in the totals at boxes 8.1 or 8.2 on Page CG1. Your Tax Office may ask for further details in these cases.

■ Building Society mergers, conversions and take-overs

If you have:

- received cash as a result of a merger of two or more societies, **or**
- received cash, or been issued with shares, or received both cash and shares, as a result of either
 - a conversion of a building society to a company, **or**
 - a take-over of a building society by a company,

there may be liability to either Income Tax or Capital Gains Tax. The building society may be able to tell you whether there is any tax liability. If not, ask your Tax Office or tax adviser.

If you have received cash, you should include details of the amount received in box 8.1 on Page CG1 and in the list on Page CG2.

If you have received shares, you can refer to the notes on page CGN6 on company reconstructions and take-overs for general guidance.

If you need more detailed guidance, you should ask your Tax Office or tax adviser.

If there is any immediate tax liability, any capital gain should be included in box 8.1 and in the list on Page CG2.

Otherwise, you will only need to provide details of any gain you make when you dispose of the shares.

■ **Company reconstructions and take-overs**

If you have exchanged shares or securities of a company for other shares or securities, as part of a company reconstruction or take-over, you may be treated as having acquired the new shares or securities at the same price, and on the same date, as the old. It will not be counted as a disposal for tax purposes.

You may however be treated as making a disposal if the company reconstruction or take-over is not carried out for commercial reasons, or is made in order to avoid tax. Companies can apply in advance to the Board of Inland Revenue for clearance from these anti-avoidance rules. The clearance will only be valid if the take-over, reconstruction or amalgamation is carried out in accordance with the clearance application.

If you think you have obtained shares or securities as part of a company reconstruction or take-over, or you need advice about the anti-avoidance rules, ask the Orderline for *Help Sheet IR285: Share reorganisations, company take-overs and Capital Gains Tax*.

■ **Allowable losses set against income**

If you have losses from the disposal of certain unlisted shares, you may be able to make a claim to set those losses against your income, rather than your gains. The rules for making such a claim are explained in *Help Sheet IR286: Income Tax losses for shares you have subscribed for in unlisted trading companies*, available from the Orderline.

If you are making a claim to set such losses against your income, you should remember to enter the amount of the loss in box 8.16.

■ **Other taxable gains**

In certain circumstances you may have to pay Capital Gains Tax on gains made by a company or a trust in which you have an interest. This includes gains made by:

- certain types of company not resident in the UK and in which you are a participator, **or**
- a trust not resident in the UK and the gains of which are attributed to you because you have received capital payments, **or**
- a trust not resident in the UK and of which you are a settlor, **or**
- a trust resident in the UK from which you can or do benefit and of which you or your spouse are the settlor.

If you think you may be liable to Capital Gains Tax on gains made by any such company or trust, ask your Tax Office or tax adviser.

■ **Gains of earlier years**

Some gains that were made before 1996-97 may be taxable in 1996-97. For example, where:

- roll-over relief was claimed on the purchase of a wasting asset, see *Help Sheet IR290: Business asset roll-over relief*, **or**
- gifts hold-over relief has been claimed on a transfer of an asset to you and you have become non-resident, see *Help Sheet IR295: Relief for gifts and similar transactions*, **or**
- a gain has been deferred as a result of a share reorganisation in which you have been issued with qualifying corporate bonds, see *Help Sheet IR285: Share reorganisations, company take-overs and Capital Gains Tax*, **or**
- you have claimed a deferral of a gain on a subscription for Enterprise Investment Scheme or Venture Capital Trust shares.

You must include these gains in the Capital Gains Pages.

Section 4 - Calculating gains and losses

Remember, these notes are a simplified summary of the Capital Gains Tax rules, as they apply in some common cases. If you are in any doubt about your liability, ask your tax adviser or Tax Office.

■ **How to calculate gains and losses**

To calculate the gain you have made on the disposal of an asset deduct:

- the allowable costs, **and**
- the indexation allowance

from the proceeds you receive on the disposal. The amount of the gain can be affected by the **date of disposal**, see page CGN7 for examples showing how to work out your gain or loss.

Most holdings of shares or securities are pooled. The method of working out a gain or loss on the disposal of pooled assets is explained in *Help Sheet IR284: Shares and Capital Gains Tax*, available from the Orderline.

■ **A simple calculation**

At its simplest a calculation of a chargeable gain will use the format:

	See notes on page	
Disposal proceeds		CGN7
<i>minus</i> Incidental disposal costs	CGN8	
<i>minus</i> Cost of acquisition (a)	CGN8	
<i>minus</i> Incidental costs of acquisition (b)	CGN8	
<i>minus</i> Enhancement costs (c)	<u>CGN8</u>	
Total costs	X	X
<i>minus</i> Indexation allowance on a, b and c	<u>CGN10</u>	
<i>equals</i> gain or allowable loss		CGN10

This method will not work if:

- the disposal is a part disposal, see page CGN11, **or**
- relief is due, see page CGN14, **or**
- it is a disposal of shares or securities, unless it is a disposal of the whole of your holding of a particular class of shares or securities.

Indexation allowance cannot be used to turn a gain into a loss or to increase your loss (see below and Section 5).

Losses are worked out in exactly the same way as gains, except that indexation allowance cannot be used to create or increase a loss. The section above sets out the format of a simple calculation. If you have a loss after deducting the allowable costs from the disposal proceeds, that is an allowable loss. If you have a gain after deducting allowable costs, but a loss after deducting allowable costs and indexation allowance, you will be treated as having made neither a gain nor a loss.

■ **How is a loss allowed?**

The total allowable losses of 1996-97 are deducted from the total chargeable gains of the year. If the allowable losses are greater than the chargeable gains this loss is carried forward to be set against gains you make in future years.

When you set losses brought forward against chargeable gains of a later year, you use only enough losses to reduce those the chargeable gains to the level of the annual exempt amount. If you have made allowable losses in that year, those losses must be set off against the gains for that year **before** you use the losses brought forward. These points are illustrated in the example headed 'Allowable losses' in Section 7.

■ Carry back of losses

Personal representatives completing a Tax Return for the period up to the date of death in the year in which a person has died, should be aware that the losses of that period can be carried back to be set against gains of the three preceeding years. Further information is available in *Help Sheet IR282: Death, personal representatives and legatees*.

Allowable losses made on the expiry or termination of a mineral lease can be carried back and set against gains made from mineral royalties.

■ Do losses have to be claimed?

A loss made in 1996-97 or later years has to be claimed. These losses are not allowable losses until you have given notice of the amount of the loss to your Tax Inspector. You do not have any choice about the order in which allowable losses are used. They must be deducted from gains in the order set out on page CGN6.

Losses for 1995-96 and earlier years cannot be claimed. These losses should be shown in the box for allowable losses brought forward (box 8.6) in your 1996-97 Tax Return. They will form part of this Tax Return and the Tax Inspector may make enquiries into them. There is no time limit before which these losses must be used and the same priority of set-off applies.

■ How to make a claim for a loss

You can claim a capital loss in two ways:

- in your Tax Return. A loss made in 1996-97 can be claimed by making an entry in box 8.2 and entering the details on Page CG2, **or**
- by sending your Tax Inspector a separate notice of the amount of the loss.

The rules for completing returns mean many losses will have to be included in the Tax Return for the year they are made. In 1996-97, if the total worth of all the assets you disposed of was more than £12,600 or you have made chargeable gains of more than £6,300, you must include all allowable losses for the year in box 8.2. If you have incurred allowable losses in 1996-97, you can use the Capital Gains Pages to make a claim.

■ Is there a time limit for claiming losses?

Allowable losses for 1996-97 and later years have to be claimed within five years and ten months of the end of the tax year in which they were made. This applies whether the losses are used in that time period or not. The latest date for claiming losses made in 1996-97 is 31 January 2003. If these losses have not been included in the Tax Return for the year in which they were made, you can make this claim in two ways:

- by making an entry for allowable losses brought forward in a later year's Tax Return, **or**
- by giving your Tax Inspector a separate notice.

If you make the entry in a later year's Tax Return, the claim will only apply to the losses you actually show in the relevant box. This may be less than the losses actually incurred in the earlier year. You will have to make a separate claim for these losses.

If losses brought forward have been claimed in the Tax Return for the year they were made, or by a separate claim, they will still have to be included in a later year's Tax Return when they are used.

■ What is the date of disposal?

If the disposal is by way of a contract, the date of disposal is usually the date of the contract.

In a small number of cases the contract may be conditional. This will be so if one or more conditions have to be met before the contract becomes binding. In these cases the date of disposal is the date on which the last of the conditions is met.

In other cases the date of disposal will usually be the date when the asset was conveyed to the purchaser.

There are exceptions, for example, if the asset is land that has been compulsorily purchased, or in most of the cases where you get a capital sum from your ownership of an asset. There, the date of disposal is the date you receive the capital sum.

Example 1

You sell a piece of land in a contract dated 2.4.97.

The land was conveyed to the purchaser on 2.5.97.

Your disposal, for the purpose of working out your gain or loss, is treated as taking place on 2.4.97.

Your disposal is in the tax year ending on 5.4.97 and you should include any gain or loss in your Tax Return for 1996-97.

■ What are disposal proceeds?

In most cases your calculation should begin with the total amount of disposal proceeds you will receive. This may include:

- cash payable now or in the future, **or**
- the value of any asset received in exchange for the asset you have disposed of, **or**
- the value of a right to receive future payments.

The disposal proceeds should include cash, or anything that can be turned into cash, but **not** anything that is taxable as part of your income.

If disposal proceeds include any amount taken into account as a balancing charge in calculating your income, ask the Orderline for *Help Sheet IR293: Chattels and Capital Gains Tax*.

Example 2

You exchange a painting you own, which is worth £30,000, for a painting that you consider to be worth £33,000. Your calculation of the gain or loss on the first painting should begin with £33,000, the value of the painting you have received.

The distinction between future payments and the right to receive future payments is important when you do not receive all of the money to which you are entitled straightaway.

If the total amount to which you are entitled is known or can be calculated, include the full amount you may receive. No allowance can be made for the possibility that the whole sum may not be paid to you. However, if it becomes clear later on that you will never receive some part of the total amount originally due, the calculation of the gain can be adjusted.

If you will receive the total amount due in instalments over a period exceeding 18 months, you may not have to pay the tax which is due on the gain in one sum. Ask your Tax Office for details.

Example 3

You sell shares in a company in July 1996 for £50,000, together with a sum equal to 10% of the profits made by the company in the year ended 30 June 1996. You should begin your calculation by bringing in the £50,000 and the sum equal to the percentage of profits to which you are entitled. Accounts can be prepared and the sum can be calculated.

If some part of the amount to which you are entitled cannot yet be calculated when you make the disposal because of an unknown factor, you should include the value of the right to that future sum. When you receive the amount to which you are entitled, you will make a further gain or loss on the disposal of that right.

Example 4

You sell land for £40,000 and you will also be entitled to receive 50% of any increase in the value of the land, if the purchaser is able to obtain planning permission for a housing development. When you make the disposal you cannot know whether planning permission will be obtained or what effect that will have on the value of the land. So you do not know how much you will finally get. You should begin your calculation by bringing in the £40,000 together with your estimate of the value of your right to further money.

In some circumstances, the amount you are to receive should be replaced in your calculation by the **market value** of the asset you have disposed of. The phrase 'market value' is explained on page CGN9. Market value will apply where the disposal is, for example:

- to a connected person, **or**
- otherwise than by a bargain made at arm's length, for example a gift (unless the no gain/no loss rules apply), **or**
- wholly or partly for a consideration that cannot be valued.

The phrase 'connected person' is explained on page CGN9.

List the total disposal proceeds of each of your disposals on Page CG2 of the Capital Gains Pages.

Example 5

You transfer a piece of land worth £10,000 to your former spouse in a divorce settlement, in exchange for their undertaking to give up all claims against you. The consideration given cannot be valued. You should begin your calculation by bringing in disposal proceeds of £10,000.

A disposal which is otherwise than by way of a bargain made at arm's length is a disposal in which one or other of the parties intends in that transaction to confer a gratuitous benefit on the other.

Example 6

You sell land worth £40,000 to a friend for £25,000 as a token of your friendship. You should begin your calculation on the disposal of the land by bringing in disposal proceeds of £40,000.

■ What expenses can be deducted?

In working out a gain, the expenses you can deduct fall into four categories. These are:

- **acquisition costs**
- **enhancement costs**
- **incidental costs of acquisition and disposal**
- **expenditure on defending or establishing your right over the asset.**

These phrases are explained in the following notes.

Expenses you deduct must be expenditure on the asset disposed of. These must not be expenses that you can claim against income. Expenditure which has been taken into account in a claim to capital allowances can be deducted. You cannot claim for the cost of normal maintenance and repairs, or payments of interest.

The expenses you can deduct may be reduced if the asset you have sold is a wasting asset. This phrase is explained on page CGN9.

If you have only made a part disposal of an asset, you can only deduct part of the expenditure on that asset. See page CGN10 for more details about part disposals.

■ What acquisition costs can be deducted?

You can deduct any amount you gave wholly and exclusively for the acquisition of the asset. In certain circumstances the amount you gave may be replaced by the **market value** of the asset when you acquired it. The phrase **market value** is explained in more detail on page CGN9.

If the asset is not one you acquired but one you created yourself (for example, a copyright or the goodwill of a business), deduct any capital expenditure you incurred wholly and exclusively in creating the asset.

If you held the asset at 31 March 1982, **rebasings** will apply and the calculation should be based on the value at 31 March 1982 unless the comparison calculation described in the section headed 'What is rebasing?' on page CGN9 applies.

If you:

- inherit an asset, **or**
- have become absolutely entitled to settled property,

you are treated as acquiring it at its market value at the date of death of the testator (or exceptionally the date on which the personal representative acquired it) or the date on which you became absolutely entitled, as appropriate, and not on the date on which you actually acquired it.

■ What enhancement costs can be deducted?

You can deduct any amount you spent wholly and exclusively for the purpose of enhancing the value of the asset.

Only expenditure that is still reflected in the state or nature of the asset at the date of sale is allowable.

Example 7

You have built an extension onto a property that you let, but demolished it before sale. The cost of that extension cannot be deducted, because it is no longer reflected in the state of the asset at the date of sale. The costs of demolition will be allowable.

■ What incidental costs can be deducted?

You can deduct expenditure you incurred wholly and exclusively on the acquisition or disposal of the asset, and which is either:

- fees, commission or remuneration paid for professional advice, **or**
- the costs of transfer or conveyance.

Advertising costs, to find a buyer or a seller, can be deducted and so can the costs of any valuations or apportionments needed to work out the gain or loss on a disposal.

You cannot deduct any costs you incur after your Tax Return is made if the Inland Revenue disagrees with your valuation.

■ What is expenditure in defending or establishing rights over an asset?

You can deduct expenditure you have incurred wholly and exclusively in establishing, preserving or defending your title to an asset, or your rights over an asset.

This may include, for example, the legal costs of a dispute with a neighbouring landowner whose fence encroaches on land of yours.

■ What is meant by market value?

In some cases the price you paid when you obtained the asset, or the price you received when you disposed of it, is replaced by the market value of the asset in working out your gain or loss.

The market value is the price an asset might reasonably have been expected to fetch on the open market at the date of that acquisition or disposal.

If the asset you have disposed of was held by you at 31 March 1982, **rebasings** will apply - rebasing is explained below. If so, the price you paid for the asset may be replaced in the calculation by the market value of the asset at 31 March 1982.

There is a special rule that applies if you have disposed of assets by a series of linked disposals to connected persons, so that the value of the assets transferred, taken separately, is less than their combined value. The value of each separate asset is replaced in your calculation by a proportion of the total market value of all the assets in the series. You can exclude from the series any disposals that took place more than six years before the last disposal in the series.

Example 8

You own the freehold interest in a piece of land. That interest is worth £100,000. Four years later you grant your brother a lease over that land. The lease is worth £20,000. You then sell your brother the freehold reversion for its market value of £60,000. Because the freehold, and the lease, considered separately, are worth less than the unrestricted freehold you have only realised a total of £80,000 in disposing of land worth £100,000. Because this was a series of transactions, you must replace the £20,000 you got from the grant of the lease by £25,000 in working out your gain. You must replace the £60,000 you got for the freehold reversion by £75,000 in working out the gain on that disposal.

In the case of shares or securities listed on the Stock Exchange the market value is the lower of:

- a figure one-quarter up from the lower of the two prices in the quotation for the relevant day, **and**
- the figure halfway between the highest and the lowest prices of recorded bargains for that day.

■ Estimates and valuations

If you have used any estimated figures to work out your gains and losses, tick the appropriate box in column 5 on Page CG2 of the Capital Gains Pages, and describe which figures you estimated and why you had to estimate.

You should include any valuations you have used to work out your gains or losses, for example, because you held the asset at 31 March 1982 or because the asset was disposed of to a connected person. You should tick the appropriate box in column 5, whether you have prepared your own estimate of the value of the asset, or have taken professional advice.

The values you have used may need to be checked for accuracy. The Inland Revenue uses specialist valuers to value some assets, mainly unlisted shares, land, goodwill and works of art. You will be able to discuss the values you have used with the valuers. If the valuation cannot be agreed after discussion you can appeal to an independent tribunal.

■ Valuations already checked by the Inland Revenue

If you have already asked the Inland Revenue to check any of the valuations you have used in your calculations, put a note to that effect in column 8 on Page CG2. The Revenue needs to know which valuations have been agreed already and which have not yet been agreed.

■ Who are connected persons?

If you dispose of an asset to a connected person, or acquired an asset on a disposal by a connected person, the price you pay or receive is replaced by the market value of the asset in working out your gain or loss on the disposal of that asset.

Connected persons are:

- your husband or wife (but if you are living together any gains are deferred), see *Help Sheet IR281: Husband and wife, divorce and separation*
- your brothers or sisters and your spouse's brothers or sisters
- your parents, grandparents or other ancestors and your spouse's parents, grandparents or other ancestors
- your children and other lineal descendants and your spouse's children and other lineal descendants
- the husbands or wives of any of the relatives listed above
- your business partners and their relatives, together with the husbands and wives of those partners except for genuine commercial acquisitions or disposals of partnership assets
- any company that you control, either by yourself or with any of the persons listed above
- the trustees of a settlement of which you, or an individual (still alive) who is connected with you, are the settlor.

If you make a loss on the disposal of an asset to a connected person, you can set that loss only against gains you make on disposals to that same connected person.

■ What is a wasting asset?

A wasting asset is an asset that had a predictable life of 50 years or less on the date on which you acquired it. All plant and machinery is treated as wasting assets.

When you dispose of a wasting asset the expenses you can deduct are reduced to account for the remaining predictable life of the asset.

If you have disposed of such an asset, ask the Orderline for *Help Sheet IR293: Chattels and Capital Gains Tax*, which explains how to make the calculations.

■ Is there any adjustment for capital allowances?

You may have claimed capital allowances on the assets you disposed of. You do not need to adjust the Capital Gains Tax calculation if the disposal has produced a chargeable gain reduced to zero by indexation allowance. If the disposal produces an allowable loss, the amount of the loss is reduced by restricting the expenses by the net capital allowances. 'Net capital allowances' means total capital allowances minus any balancing charges. This restriction can only reduce the loss to zero. It cannot produce a gain.

Example 9

In March 1993 you bought a printing press for £100,000. You sold it in June 1996 for £27,000. The net capital allowances after deducting the balancing charge are £73,000. The loss of £73,000 is reduced to zero by restricting the allowable expenses by the amount of the capital allowances.

■ What is rebasing?

A gain or loss is basically restricted to the amount of the gain or loss since 31 March 1982. You can:

- elect to have gains and losses on all assets covered by the election calculated by reference to the value of the assets on 31 March 1982, **or**
- compare that calculation with the calculation based on the original cost of the asset, **and**

- if there is a gain on both calculations, the smaller gain is taxable,
- if there is a loss on both calculations, the smaller loss is allowable, **or**
- if one calculation produces a loss, while the other produces a gain, you will be treated as having made neither a gain nor a loss.

If you:

- have acquired an asset from your spouse at a time when you were living together, **and**
- your spouse owned that asset at 31 March 1982,

you can be treated as if you owned that asset at 31 March 1982, in order to work out your gain or loss.

If you have disposed of an asset which you held at 31 March 1982, ask the Orderline for *Help Sheet IR280: Rebasing assets held at 31 March 1982*, which explains these rules in more detail.

Your election is called a 'rebasing election' and will apply to all of the assets you held at 31 March 1982. An election may not always be to your advantage, but if you wish to make the election you must do so within 2 years from the end of the tax year in which you first made a disposal of an asset which you held at 31 March 1982. The Board of Inland Revenue has discretion to allow you a longer period. Once you have made an election, it will not be possible for you to withdraw it at a later date.

Show where you have used a valuation at 31 March 1982 by ticking the appropriate boxes in columns 5 and 6 on Page CG2 of the Capital Gains Pages.

If you want to make a rebasing election in your 1996-97 Return:

- tick column 7 on Page CG2 of the Capital Gains Pages against each disposal affected by the election
- write 'rebasing election' in column 8.

■ **What is indexation allowance?**

This allowance ensures that only gains adjusted for the effects of inflation since you acquired the asset are taken into account.

It does this by giving you an allowance equal to the amount by which the cost of the asset would have risen if its value had kept pace with inflation since it was acquired.

If you held the asset at 31 March 1982 (or you acquired that asset from your spouse and he or she held it on that date) and the market value of the asset on that date was greater than when you acquired it, indexation allowance is calculated on that higher value. There is an exception if you have made an election described under the section headed 'What is rebasing'. In that case, indexation allowance is calculated on the 31 March 1982 value irrespective of cost, unless you acquired the asset from your spouse and they had not made an election.

Indexation allowance will reduce, or may eliminate, the gains on which you are taxable. But it cannot be used to create or increase an allowable loss. See Section 5 in the next column for help with working out your indexation allowance.

■ **What are part disposals?**

If you have made a disposal of part of an asset so that part of the asset is retained by you (or you have retained an interest in the asset), there are rules to allocate expenditure between the part sold and the part retained. These are:

- expenditure which relates wholly to the part disposed of is deductible in full
- expenditure which relates wholly to the part retained is not deductible
- a proportion of expenditure which partly relates to the part sold is deductible (the proportion relating to the part retained is not).

The deductible proportion is the following fraction:

$$\frac{\text{Disposal proceeds}}{\text{Disposal proceeds} + \text{Value of part retained.}}$$

Example 10

You sell part of an asset for £25,000. The asset cost you £30,000 and the part of the asset that you have retained is worth £50,000. You have also incurred expenditure of £5,000 wholly on the part of the asset you have sold. To work out your gain or loss you can deduct the £5,000 spent on the part sold together with:

$$\frac{£25,000}{£25,000 + £50,000} \times £30,000 = £10,000$$

Where the part of the asset sold, particularly in the case of shares and securities, is a recognisable fraction of the asset, the allowable expenditure may be allocated according to that fraction to avoid unnecessary valuation work. The expenditure not allowed this time can be allowed on a later disposal.

■ **What are chargeable gains?**

When you have made your calculations and taken into account any reliefs to which you are entitled, the net figure you are left with is referred to as your chargeable gain or allowable loss.

These figures should be totalled in boxes 8.1 and 8.2. They are used to work out how much Capital Gains Tax you must pay.

Section 5 - Indexation allowance

This Section shows you how to work out the indexation allowance on some simple disposals. But it is only an introduction. If you are in any doubt about your entitlement to relief, ask your Tax Office or tax adviser. In particular the basic rules are modified if:

- you have made a disposal of an asset that you held at 31 March 1982, **or**
- you have made a disposal of pooled shares or securities.

The changes to the rules are mentioned here, but you may need Help Sheets to understand them fully. You can also ask to see the Inland Revenue Capital Gains Manual at your Tax Enquiry Centre, which explains the rules for indexation allowance in detail.

■ **How is indexation allowance calculated?**

You work out indexation allowance by calculating the indexation factor, which is based on the increase in the Retail Prices Index (RPI) between:

- the month in which you incurred expenditure on the asset (or 31 March 1982 if that is later), **and**
 - the month in which you disposed of the asset,
- and multiplying that indexation factor by the amount you spent.

■ **How to find out about the indexation factor?**

Each month the Inland Revenue publishes a press release giving details of all indexation factors. You can ask your Tax Office for details or work out the factor for yourself using this formula:

$$\frac{(\text{RD} - \text{RI})}{\text{RI}} \times \text{expenditure}$$

where

RD = the RPI for the month in which the disposal took place

RI = the RPI for the month in which you incurred the expenditure.

A list of the RPI figures is on pages CGN12 and CGN13. If you need more recent information, ask your Tax Office or tax adviser.

Two special rules apply:

- if RI is equal to or more than RD, so that there has been no inflation between the date you spent the money and the date you disposed of the asset, your indexation allowance will be zero
- the indexation factor should be rounded to three decimal places. This rule does not apply when you are dealing with a disposal from a pool of shares or securities.

Example 11

You buy an asset for £10,000 in March 1986 and sell it in May 1996 for £20,000. Your indexation factor will be:

RD	-	May 1996	152.9
RI	-	March 1986	96.73
(RD - RI)	=	(152.9 - 96.73)	
RI		96.73	
	=	0.580688	

which is rounded to 0.581.

Your indexation allowance will be

$$£10,000 \times 0.581 = £5,810$$

You deduct an allowance of £5,810 in working out your gain.

■ **What about losses?**

You cannot use indexation allowance to turn a gain into a loss or to increase your loss.

Example 12

You sell an asset in May 1996 for £20,000. It cost you £30,000 in November 1989. You have made a loss of £10,000. You cannot deduct any indexation allowance, because the allowance cannot be used to increase the amount of a loss.

Example 13

You sell an asset in May 1996 for £70,000. It cost you £50,000 in June 1984. Before indexation allowance you make a gain of £20,000. Your indexation factor is:

RD	-	May 1996	152.9
RI	-	June 1984	89.2
(RD - RI)	=	(152.9 - 89.2)	
RI		89.2	
	=	0.714	

Your indexation allowance would be

$$£50,000 \times 0.714 = £35,700$$

But your gain before indexation allowance is only £20,000 and indexation allowance cannot turn a gain into a loss. Your indexation allowance is restricted to £20,000 so that you are treated as making neither a gain nor a loss.

■ **Which costs attract indexation allowance?**

You can deduct indexation allowance from your gain if you have any of the following types of expenditure:

- the cost of an asset, **or**
- the incidental cost of acquiring an asset, **or**
- the cost of creating an asset if it was not acquired.

Any of these types of expenditure is treated as having been made when the asset was acquired or created.

Example 14

You acquire an asset under a contract made in March 1993.

Payment does not have to be made until June 1993. When you calculate your indexation allowance you should treat the expenditure as if it had been made in March 1993.

You can also deduct indexation allowance if you have either of the following types of expenditure:

- expenditure on enhancing the asset, **or**
- expenditure on establishing, preserving or defending your title to the asset.

Either of these types of expenditure is treated as having been made when that expenditure became due and payable.

Example 15

In May 1988 you entered into a contract with a builder to add an extension to a property you own. The cost was due and payable when the work was completed in September 1988. When you calculate the indexation allowance you should treat the expenditure as incurred in September 1988.

You cannot have indexation allowance on the costs of disposing of an asset, regardless of when you met those costs.

■ **What about part disposals?**

If you make a disposal of part of an asset you own, you will only be able to deduct part of the costs of that asset in working out your gain or loss. Section 4 explains how the calculation is made.

Your indexation factor is multiplied by the part of the cost that can be deducted - not by the whole of the cost of the asset.

Example 16

You sell part of an asset which cost you £20,000. The part disposal formula allows you to deduct £5,000 of that cost to work out your gain. You should multiply the indexation factor by £5,000 to work out your indexation allowance.

■ **What about transfers to spouses?**

If you dispose of an asset to your husband or wife, you do not pay Capital Gains Tax if you are living together.

The asset is treated as having been disposed of for an amount that is enough to ensure that you make neither a gain nor a loss. This amount includes indexation allowance. This sort of disposal is referred to here as a no gain/no loss transfer.

Your husband or wife will pay tax on any gain they make when they dispose of the asset. Ask the Orderline for *Help Sheet IR281: Husband and wife, divorce and separation*.

Example 17

In May 1996 you give a painting to your husband. It cost you £50,000 in June 1986. You are treated as having disposed of it for £78,200 as shown below. He is treated as having acquired it for the same amount.

Transferred at	£78,200
Cost	£50,000
Indexation	
	$£50,000 \times 0.564$
	<u>£28,200</u>
no gain/no loss	zero

The calculation is exactly the same if the painting is sold to your husband regardless of any amount he might have paid.

■ **The Retail Price Index (RPI)**

Use the figures on this and the next page if you want to calculate indexation allowance; see instructions on page CGN10.

Month	RPI
March 1982	79.44
April	81.04
May	81.62
June	81.85
July	81.88
August	81.90
September	81.85
October	82.26
November	82.66
December	82.51

Month	RPI
January 1986	96.25
February	96.60
March	96.73
April	97.67
May	97.85
June	97.79
July	97.52
August	97.82
September	98.30
October	98.45
November	99.29
December	99.62

January 1983	82.61
February	82.97
March	83.12
April	84.28
May	84.64
June	84.84
July	85.30
August	85.68
September	86.06
October	86.36
November	86.67
December	86.89

January 1987	100.0
February	100.4
March	100.6
April	101.8
May	101.9
June	101.9
July	101.8
August	102.1
September	102.4
October	102.9
November	103.4
December	103.3

January 1984	86.84
February	87.20
March	87.48
April	88.64
May	88.97
June	89.20
July	89.10
August	89.94
September	90.11
October	90.67
November	90.95
December	90.87

January 1988	103.3
February	103.7
March	104.1
April	105.8
May	106.2
June	106.6
July	106.7
August	107.9
September	108.4
October	109.5
November	110.0
December	110.3

January 1985	91.20
February	91.94
March	92.80
April	94.78
May	95.21
June	95.41
July	95.23
August	95.49
September	95.44
October	95.59
November	95.92
December	96.05

January 1989	111.0
February	111.8
March	112.3
April	114.3
May	115.0
June	115.4
July	115.5
August	115.8
September	116.6
October	117.5
November	118.5
December	118.8

Notes on **CAPITAL GAINS**

Month	RPI
January 1990	119.5
February	120.2
March	121.4
April	125.1
May	126.2
June	126.7
July	126.8
August	128.1
September	129.3
October	130.3
November	130.0
December	129.9

Month	RPI
January 1994	141.3
February	142.1
March	142.5
April	144.2
May	144.7
June	144.7
July	144.0
August	144.7
September	144.7
October	145.2
November	145.3
December	146.0

January 1991	130.2
February	130.9
March	131.4
April	133.1
May	133.5
June	134.1
July	133.8
August	134.1
September	134.6
October	135.1
November	135.6
December	135.7

January 1995	146.0
February	146.9
March	147.5
April	149.0
May	149.6
June	149.8
July	149.1
August	149.9
September	150.6
October	149.8
November	149.8
December	150.7

January 1992	135.6
February	136.3
March	136.7
April	138.8
May	139.3
June	139.3
July	138.8
August	138.9
September	139.4
October	139.9
November	139.7
December	139.2

January 1996	150.2
February	150.9
March	151.5
April	152.6
May	152.9
June	153.0
July	152.4
August	153.1
September	153.8
October	153.8
November	153.9

Ask your Tax Office if you need the figures for later months

January 1993	137.9
February	138.8
March	139.3
April	140.6
May	141.1
June	141.0
July	140.7
August	141.3
September	141.9
October	141.8
November	141.6
December	141.9

■ What about assets held at 31 March 1982?

If you:

- owned an asset at 31 March 1982, or
- you acquired an asset from your spouse in a no gain/no loss transfer after that date, and your spouse held the asset at 31 March 1982,

the rules are modified for that asset.

Your indexation allowance is calculated on the **greater** of:

- the total cost you or your spouse incurred up to 31 March 1982 on that asset (including its initial acquisition price), or
- the value of that asset at 31 March 1982, **unless**

you have made an election for rebasing to 31 March 1982 to apply to all your disposals. If you have made a rebasing election, indexation allowance is calculated on the value of the asset at 31 March 1982.

You can calculate separately indexation allowances on any relevant expenditure incurred after 31 March 1982 that is allowable in working out your gains.

You can find out about rebasing to 31 March 1982 by asking the Orderline for *Help Sheet IR280: Rebasing assets held at 31 March 1982*.

Example 18

You bought an asset in 1979 for £20,000. At 31.3.82 it was worth £15,000. You should calculate your indexation allowance by multiplying £20,000 by the indexation factor unless you have made a rebasing election; in which case you should multiply £15,000 by the indexation factor.

■ What about disposals of pooled shares or securities?

Shares of the same class in the same company are treated as a single asset, the share pool, which can:

- grow as you acquire more shares, or
- reduce as you sell shares.

If you dispose of some, but not all, of the shares in your pool, this is treated as a disposal of part of your pool. The cost of the shares sold is not the actual cost, but a fraction of the total cost of all the shares in the pool. In some circumstances, shares must be kept in separate pools. For example, shares acquired between 7 April 1965 and 5 April 1982 will form a separate pool.

The same treatment applies to some securities and similar assets.

The rules for indexation allowance are modified to cope with share pooling. If you have disposed of shares or securities, ask the Orderline for *Help Sheet IR284: Shares and Capital Gains Tax*.

Section 6 - Reliefs and elections

Reliefs from Capital Gains Tax are given in different ways to meet different purposes. **Some reliefs are given automatically and so you do not need to make a claim.** You should take account of the amount of any 'automatic' relief that is due when you work out your gains and losses.

Some reliefs are only given if you claim them. In some cases you can make a claim in the Tax Return. In others you must make the claim on a separate form, which you attach to the Tax Return.

You can also use the Capital Gains Pages to make any elections that determine how your gains are to be worked out.

The most common reliefs and elections are introduced briefly below, and are dealt with more fully in Help Sheets available from the Orderline; see the list on page CGN1.

■ Your home

In most cases you will not pay tax on any gain you make when you dispose of your only home. Similarly, if there is a loss on the disposal the loss will not be allowable. You may have to pay tax if, for example:

- the garden or grounds of your home including the site of the house exceed half a hectare (one and a quarter acres) and some or all of that excess does not qualify for relief
- part or all of your home has at some time not been used as your home; for example if it has been let or used for business.

If you think you may be entitled to private residence relief on a disposal you have made, ask the Orderline for *Help Sheet IR283: Private residence relief*.

■ Other reliefs

Roll-over relief allows gains on the disposal of business assets to be deferred if replacement assets are acquired. If you want this relief, ask the Orderline for *Help Sheet IR290: Business asset roll-over relief*.

Complete the claim form attached to *Help Sheet IR290*. Attach the claim form to the Tax Return when you send it back to me. If you are claiming in relation to any disposal, tick column 7 on Page CG2 next to that disposal and write 'roll-over relief' in column 8 next to that disposal.

Retirement relief relieves gains made by an individual aged 50 or over, or who retired early on ill-health grounds, on the disposal of their business (or shares in a personal trading company). If you think you may be entitled to this relief, ask the Orderline for *Help Sheet IR289: Retirement relief and Capital Gains Tax*. For relief on age grounds, tick column 7 on Page CG2 next to the relevant disposal and write 'retirement relief' in column 8. If you want relief on ill-health grounds, tick column 7 next to the relevant disposal and write 'ill health retirement relief' in column 8.

Gifts hold-over relief which allows gains to be deferred when certain assets are given away. If you want this relief, ask the Orderline for *Help Sheet IR295: Relief for gifts and similar transactions*. Complete the claim form attached to *Help Sheet IR295* and attach it to your Tax Return. Tick the box in column 7 on Page CG2 next to the relevant disposal and write 'gifts hold-over relief' in column 8.

Please note that in most cases the claim is a joint claim by you and the person to whom you gave the asset.

Reinvestment relief allows gains to be deferred when they are reinvested in certain unlisted company shares. See *Help Sheet IR291: Reinvestment relief*. This relief may be claimed by completing the claim form attached to *Help Sheet IR291* and attaching it to your Tax Return. Also tick the box in column 7 on Page CG2 next to the relevant disposal and write 'reinvestment relief' in column 8.

Dependent relative relief allows relief on the disposal of a home you have provided to a dependent relative and which was occupied by the relative as their sole residence before 6 April 1988. See *Help Sheet IR283: Private residence relief*. If you want this relief, you must claim it on the Capital Gains Pages by ticking the box in column 7 on Page CG2 next to the relevant disposal and write 'dependent relative relief' in column 8.

Halving relief relieves half of a gain arising from a gain deferred from before April 1988. See *Help Sheet IR280: Rebasing assets held at March 1982*. If you want this relief, you must claim it on the Capital Gains Pages by ticking the box in column 7 on Page CG2 next to the relevant disposal and writing 'halving relief' in column 8.

Enterprise Investment Scheme and Venture Capital Trust deferral reliefs allow gains to be deferred when you subscribe for Enterprise Investment Scheme shares or Venture Capital Trust shares. If you want either of these reliefs, you may claim it on the Capital Gains Pages by ticking the box in column 7 on Page CG2 next to the relevant disposal and writing Enterprise Investment Scheme deferral or Venture Capital Trust deferral relief in column 8.

Business transfer relief defers a gain made when a business is transferred to a company in exchange for shares. This relief is given automatically. If you have taken advantage of this relief on any disposal, tick the box in column 7 on Page CG2 next to the relevant disposal and write 'business transfer relief' in column 8.

Unremittable gains. If you have disposed of an asset situated outside the UK and you are unable to transfer the gains to the UK because of exchange controls or a shortage of foreign currency in the overseas country, then you can claim that the unremittable gain should not be taxable in 1996-97. You can claim relief by ticking the box in column 7 on Page CG2 next to the relevant disposal and writing 'unremittable gains' in column 8.

Relief for losses against income. This relief is introduced on page CGN5. If you are claiming this relief, tick the box in column 7 on Page CG2 next to the relevant disposal and write 'relief for losses against income' in column 8. Enter the amount claimed in box 8.16.

Rebasing. Follow the instructions on page CGN9.

Relief for foreign tax paid. If gains chargeable to Capital Gains Tax have also been charged to tax in another country, you may be able to claim relief by way of credit for the foreign tax paid ('tax credit relief'). Tax credit relief is deducted from that part of your Capital Gains Tax liability that relates to the gain on which the foreign tax has been paid. If you wish to claim tax credit relief you should ask the Orderline for a copy of the Foreign Pages, if you do not already have one.

It will usually be to your advantage to claim tax credit relief in respect of foreign tax paid. But this will not be the case where no Capital Gains Tax is chargeable on a particular gain. For example, where the disposal results in a loss, or losses brought forward extinguish any chargeable gains, there may be no UK tax against which the foreign tax can be credited. You may therefore choose not to claim tax credit relief and, instead, deduct the foreign tax paid in calculating the amount of the gain or loss. You cannot, however, deduct part of the foreign tax in calculating the gain on disposal and claim credit for the balance.

If you **do not** wish to claim tax credit relief, deduct the foreign tax in arriving at the amount of the chargeable gains or allowable losses to be shown in boxes 8.1 or 8.2

If you **do** wish to claim tax credit relief, you should obtain the Foreign Pages and complete Page F3. If you are calculating your tax, you will also need *Help Sheet IR261: Tax Credit Relief: Capital Gains* available from the Orderline.

If you do have gains which are chargeable on the remittance basis and wish to claim relief by way of credit for foreign tax paid in respect of those gains, you will need to add to the amount of net gains brought to the UK (ie the gains less the foreign tax) the appropriate proportion of the foreign tax attributable to the net gains remitted.

Section 7 - worked examples of gains and losses

■ The basic calculation

Example 19

A piece of land, which was bought in June 1988 for £20,000, was sold in May 1996 for £100,000. The incidental costs of the acquisition were £1,000, while the incidental costs of the disposal were £5,000. A barn had been built on the land in August 1988 at a cost of £15,000 and it was still there when the land was sold.

	Disposal proceeds		£100,000
minus	Incidental costs		£5,000
	Net disposal proceeds		£95,000
	Cost	£20,000	
plus	Incidental costs	£1,000	
plus	Enhancement expenditure	£15,000	
	Total	£36,000	£36,000
	Unindexed gain		£59,000
minus	Indexation allowance		
	Acquisition costs £21,000		
	Indexation factor June 1988	= 106.6	
	Indexation factor May 1996	= 152.9	
	Indexation formula	$\frac{152.9 \text{ minus } 106.6}{106.6}$	= 0.434
	Indexation allowance 0.434 x £21,000		= £9,114
	Enhancement expenditure £15,000		
	Indexation factor August 1988	= 107.9	
	Indexation factor May 1996	= 152.9	
	Indexation formula	$\frac{152.9 \text{ minus } 107.9}{107.9}$	= 0.417
	Indexation allowance 0.417 x £15,000		= £6,255
	Chargeable gain		£43,631

■ A part disposal

Example 20

A house was bought for letting in December 1987 for £50,000 including incidental costs. In March 1988 it was subdivided into 2 flats at a cost of £5,000. One flat was sold in July 1996 for £120,000. Immediately before sale a central heating system was installed at a cost of £2,000 in the flat that was sold. The incidental expenses of the disposal were £6,000 and the value of the retained flat was £80,000.

	Indexation factors December 1987	103.3	
	March 1988	104.1	
	July 1996	152.4	
	Disposal proceeds (net)		£114,000
minus	Part of cost of house		
	$£50,000 \times \frac{£120,000}{£120,000 + £80,000}$	= £30,000	
minus	Subdividing house		
	$£5,000 \times \frac{£120,000}{£120,000 + £80,000}$	= £3,000	
minus	Central heating	£2,000	
	Total costs	£35,000	£35,000
	Unindexed gain		£79,000
minus	Indexation allowance		
	cost of house 0.475 x £30,000	= £14,250	
	subdivision 0.464 x £3,000	= £1,392	
	Total indexation	£15,642	£15,642
	Chargeable gain		£63,358

■ A disposal of shares or securities

Example 21

2,000 shares were bought in May 1988 at a cost of £9,000 including incidental costs. In January 1990 there was a rights issue of two shares for each one held as a result of which a further 4,000 shares were bought for £20,000. In June 1996, 600 shares were sold for £6,000 net of incidental costs.

Indexation factors	May 1988	106.2	
	January 1990	119.5	
	June 1996	153.0	
	Number of shares	Pool of qualifying expenditure	Indexed pool of expenditure

A new holding is created in May 1988:

2,000	£9,000	£9,000
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The rights issue is an operative event (*This phrase is explained in Help Sheet IR284*)

Indexation	$\frac{£9,000 \times 119.5 \text{ minus } 106.2}{106.2} =$		£1,127
	2,000	£9,000	£10,127

Add the cost (£20,000) of the rights issue shares to the two pools:

6,000	£29,000	£30,127
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The part disposal in June 1996 is an operative event

Indexation	$\frac{£30,127 \times 153 \text{ minus } 119.5}{119.5} =$		£8,446
	6,000	£29,000	£38,573

Reduce the two pools by the apportioned amounts of cost and indexation

(600)	(£2,900)	(£3,858)
5,400	£26,100	£34,715

Calculation of chargeable gain

Disposal proceeds	£6,000
Minus Cost	£2,900
	Unindexed gain £3,100
Minus Indexation (£3,858 minus £2,900)	£958
	Chargeable gain £2,142

■ Rebasing to 31 March 1982 - No election made

Example 22

An asset cost £250,000 in May 1979 inclusive of incidental costs. It is worth £200,000 at 31 March 1982 and was sold in May 1996 for £1,000,000 net of incidental costs. No election has been made for rebasing to 31 March 1982.

Indexation factor	March 1982	79.44	
	May 1996	152.9	
	Original cost	Rebased gain	
Disposal proceeds	£1,000,000	Disposal proceeds	£1,000,000
Minus Cost	£250,000	minus value at 31.3.82	£200,000
	Unindexed gain	Unindexed gain	£800,000
Minus Indexation	£250,000 x 0.925 = £231,250	minus Indexation	£250,000 x 0.925 = £231,250
	Indexed gain	Indexed gain	£568,750

The chargeable gain is the lower of the two figures of indexed gains: £518,750. See notes on page CGN9 and *Help Sheet IR280*.

■ Allowable losses

Example 23

An individual has the following chargeable gains and allowable losses:

	1995-96	1996-97	1997-98
Gains	£10,000	£15,000	£25,000
Losses	£25,000	£5,000	zero

The chargeable gain or allowable losses position for each year would be:

1995-96	Gains	£10,000
	Minus losses	£10,000
	Losses to carry forward	£15,000

Losses of the same year are set-off to reduce gains to zero.

1996-97	Gains	£15,000
	Minus current year losses	£5,000
	Minus Losses brought forward	£3,700
	Net gains	£6,300
	Minus annual exempt amount	£6,300
		zero

Losses to carry forward	£11,300
(£15,000 minus £3,700)	

Losses of the same year are set-off in priority to losses brought forward.

Losses brought forward are set-off to reduce gains to the annual exempt amount

1997-98	Gains	£25,000
	Minus losses brought forward	£11,300
	Net chargeable gains	£13,700

■ Relief for foreign tax paid

Example 24

You sold a property abroad realising a gain of £30,000 which is chargeable to UK Capital Gains Tax on the remittance basis. Foreign tax of £9,000 is paid on the gain. Of the net after-tax gain of £21,000 you bring £5,250 into the UK. You wish to claim relief by way of credit for the foreign tax paid.

The amount of gains chargeable to UK tax is:

Amount remitted	£5,250
add foreign tax	
<u>£5,250</u> x £9,000	= £2,250
£21,000	£7,500

Tax credit relief is available for foreign tax (£2,250) attributable to the gain remitted.

If the UK Capital Gains Tax on the figure of taxable gains is less than the amount of the foreign tax available for credit, the excess foreign tax is not repayable nor can it be deducted in calculating the taxable gains. For example, if the gains of £7,500 are taxable at 24%, the tax due of £1,800 will be wholly covered by tax credit relief. No relief of any kind is available for the excess foreign tax of £450 (ie £3,250 minus £1,800).