

## TAPER RELIEF

**This Help Sheet provides information to help you complete the Capital Gains Pages of your Tax Return.**

**The Help Sheet explains how taper relief affects the way in which you calculate chargeable gains. But it is only an introduction. If you are in any doubt ask your tax adviser. Your Inland Revenue office will also be pleased to help. You can ask to see the Inland Revenue Capital Gains Manual which explains the rules in detail.**

For most people taper relief will have no effect on the calculation of gains chargeable to Capital Gains Tax for the year 1999-2000. Taper relief only applies in 1999-2000 if you have disposed of an asset which you acquired before 17 March 1998 and which was a business asset (see page 3) to any extent in the period between 6 April 1998 and the date of disposal. Gains on assets that are not business assets are not tapered if they are disposed of in 1999-2000.

### WHAT IS TAPER RELIEF?

Taper relief was introduced in the Finance Act 1998 for disposals after 5 April 1998.

For individuals, trustees of a settlement and a deceased individual's personal representatives taper relief ensures that a reducing percentage of a gain is chargeable to tax, according to the number of whole years the asset has been held **after 5 April 1998**. The greater the number of years you have held the asset from 6 April 1998, the smaller the percentage of the gain which is chargeable to tax. The rate of taper depends on whether the asset is a business asset or a non-business asset.

The percentage of gain that remains chargeable for business and non-business assets, depends on the number of whole years in the *qualifying holding period* and is set out in the following table :

Gains on business assets		Gains on non-business assets	
Number of whole years in qualifying period	Percentage of gain chargeable	Number of whole years in qualifying period	Percentage of gain chargeable
1	92.5	1	100
2	85	2	100
3	77.5	3	95
4	70	4	90
5	62.5	5	85
6	55	6	80
7	47.5	7	75
8	40	8	70
9	32.5	9	65
10 or more	25	10 or more	60

The complete taper relief table has been included for information, although for disposals in tax year 1999-2000 that you include in your Tax Return it will only be possible to benefit from, at most, two whole years. The percentages rates for three or more years (those that are shaded) will not be available until future tax years.

Any losses you make are not tapered. Instead your losses are simply set off against chargeable gains before taper in such a way as to maximise the benefit of taper relief.

### WHAT IS MEANT BY 'QUALIFYING HOLDING PERIOD'?

This is 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. **For assets acquired before 6 April 1998 you only count the holding period from that date.**

### WHAT IS A WHOLE YEAR FOR TAPER RELIEF?

A whole year is any continuous period of 12 months. Fractions of a year are ignored. An asset which you dispose of on the anniversary of its acquisition is accepted as having been held for a whole year. A whole year does not have to coincide with a tax year, although it will do so for assets acquired prior to 6 April 1998, because only the holding period from that date is counted. For an asset acquired or held on 6 April 1998 the anniversary for taper relief occurs on 6 April 1999. It is therefore only possible to accumulate one whole year in tax year 1999-2000 unless the bonus year (see below) is available to you in respect of the disposal of a business asset.

### BONUS YEAR FOR ASSETS ACQUIRED BEFORE 17 MARCH 1998

Assets which you acquired before 17 March 1998 (the date of the 1998 Budget) and still held at 6 April 1998 qualify for an additional one year in the qualifying holding period. Add one year to the period for which they were actually held after 5 April 1998 to establish their qualifying holding period.

### Examples of qualifying holding periods

#### Example 1

You acquire a non-business asset on 25 March 1998 and sell it on 30 March 2000. You have owned the asset for one year and 358 days (remember it is only the period after 5 April 1998 that counts). As there is only one whole year in the qualifying holding period the whole (100%) of your gain will be chargeable to Capital Gains Tax.

**Example 2**

You acquire a non-business asset on 1 July 1994 and sell it on 31 July 1999. As the asset was acquired before 17 March 1998 and was still held at 6 April 1998 the bonus year will be available. You have owned the asset for one year and 116 days after 5 April 1998. Your qualifying holding period will therefore include two whole years, consisting of the bonus year and one full year after 5 April 1998. The percentage of gain chargeable for a non-business asset held for two years is 100%.

**Example 3**

You acquire a business asset on 6 April 1996 and sell it on 5 March 2000. As the asset was acquired before 17 March 1998 and was still held at 6 April 1998 the bonus year will be available. You have owned the asset for one year and 333 days after 5 April 1998. Your qualifying holding period will therefore include two whole years, consisting of the bonus year and one full year after 5 April 1998. The percentage of gain chargeable for a business asset held for two years is 85%.

**VARIATIONS TO THE LENGTH OF THE QUALIFYING HOLDING PERIOD**

If any of the following apply, the length of your qualifying holding period may be varied:

- where you acquire an asset at no gain/no loss from your spouse or vice versa the qualifying holding period includes the period during which your spouse held the asset; see the section 'Transfers to spouses' on page 3
- where you acquire an asset by the exercise of an option the qualifying holding period for the asset is determined by reference to the exercise of the option and not by reference to the grant or acquisition of the option.

**Example 4**

In July 1996 you were granted an option to acquire a piece of land. In November 1998 you exercised the option and acquired the land. You sold the land in March 2000 and made a chargeable gain. Your qualifying holding period will begin in November 1998.

- where assets have merged or divided and the asset that you dispose of derives some part of its value from an earlier asset in your ownership the qualifying holding period may be extended.

**Example 5**

You acquire a lease of land on 8 January 1995. You acquire the freehold of the same land on 4 February 1999. The lease is extinguished by merger with the freehold. You dispose of the freehold on 31 March 2000.

As the value of the freehold is derived to some extent from the extinguished lease your qualifying holding period begins on 6 April 1998. You are treated as having acquired the asset before 17 March 1998 and as the asset was still held at 6 April 1998 you qualify for the bonus year and one full year after 5 April 1998.

- where a gain would have accrued on a disposal or other event but is postponed to accrue on the happening of a later event the qualifying holding period is determined by reference to the date of the earlier disposal or event and not by reference to the time of accrual.

**Example 6**

In September 1993 you acquire a holding of shares in XYZ Ltd. On 1 January 1996 the company is taken over by ABC plc. You receive a loan note from ABC plc in exchange for your shares in XYZ Ltd. The loan note is a qualifying corporate bond. On 31 December 1999 the loan note is redeemed by ABC plc.

Under the rules for company takeovers, see *Help Sheet IR285: Share reorganisations, company take-overs and Capital Gains Tax*, you calculate the gain which would have arisen if the shares had been sold at their market value immediately before the take-over. That gain does not come into charge at that time, but is postponed until you dispose of the loan note in December 1999. But for taper purposes you have no qualifying holding period because you swapped your shares for the loan note before 6 April 1998. If you had swapped your shares on, say, 1 June 1998 your qualifying holding period would have ended on 1 June 1998, which is the date when your deferred gain would have been calculated.

- where you acquire shares from the reconstruction of a mutual business the qualifying holding period cannot begin earlier than the date of issue of the shares.

**Example 7**

In 1992 you opened a share account with a building society. On 1 June 1999 the society converted into a company and you received shares in the new company. You sell the shares later that month.

Your qualifying holding period begins on 1 June 1999 when the new company shares were issued to you.

- where you defer the whole or part of a chargeable gain under the Enterprise Investment Scheme deferral relief which arises to you on the disposal of shares to which deferral relief or Income Tax relief (or both) is attributable, a longer qualifying holding period may be available (see leaflet *IR137: The Enterprise Investment Scheme*, available from the Orderline).

Anti-avoidance rules apply where:

- you have entered into a transaction relating to an asset that you own, and the transaction limits your exposure to fluctuations in its value, **or**
- you hold shares in a company which changes its activities, **or**
- you hold shares in a company and, without disposing of them, enter into a transaction that affects their value.

In each of these cases taper relief is denied or reduced.

If you think any of the above variations or the anti-avoidance rules apply to you, or you are unsure whether they apply, ask your Inland Revenue office or tax adviser for advice.

## HOW IS ENHANCEMENT EXPENDITURE TREATED FOR TAPER PURPOSES?

Where expenditure is made to enhance the value of an asset, the date of the enhancement expenditure is not relevant for the purposes of taper relief. Taper relief is given on the whole gain by reference to the qualifying holding period.

## HOW ARE RIGHTS ISSUES, BONUS ISSUES AND SCRIP DIVIDENDS TREATED FOR TAPER PURPOSES?

You may have acquired shares or securities in a company under a **rights or bonus issue**. Under a rights issue shareholders have to pay for the new shares. Under a bonus issue (sometimes described as a scrip or capitalisation issue) the new shares or securities are issued free. For Capital Gains Tax purposes both these types of issues are treated as a reorganisation of a company's share capital and not a new acquisition of shares. Your qualifying holding period for taper relief purposes begins on the date of acquisition of the original shares or securities to which the rights or bonus issue relates and **not** the date that the new shares are issued. Where the original shares or securities have been acquired on different dates the new shares will need to be apportioned to the respective acquisitions on a pro rata basis.

### Example 8

You bought 1,000 shares in a company on 20 April 1999. On 13 November 1999 you bought another 500 shares in the same company. On 1 March 2000 the company makes a bonus issue of one extra share for every 10 held.

You are treated as having acquired 1,100 shares on 20 April 1999 and 550 shares on 13 November 1999.

A **scrip dividend** (sometimes described as a stock dividend) is a dividend paid by a company in the form of additional shares as an alternative to a cash dividend. Shares or securities acquired in this way after 6 April 1998 are treated as a new acquisition. The qualifying holding period for taper relief purposes therefore commences on the date you acquire the scrip dividend shares or securities.

## TRANSFERS TO SPOUSES

Where you dispose of an asset which has been transferred to you by your spouse your qualifying holding period for taper relief purposes is the combined period of ownership of both of you after 5 April 1998. The bonus year may be added where the asset was acquired by either of you before 17 March 1998.

### Example 9

Mrs Young acquired a business asset on 1 March 1998. She transferred it to her husband on 31 May 1999. Mr Young's qualifying holding period will consist of the combined period of ownership from 6 April 1998 to 5 March 2000 when it was sold. His wife acquired the asset before 17 March 1998. There is therefore one whole year (the bonus year) in his qualifying holding period and one full year after 5 April 1998. The percentage of gain chargeable for a business asset held for two years is 85%.

## WHAT IS A BUSINESS ASSET?

There are different definitions of business asset depending on whether you are disposing of the asset as an individual, a trustee of a settlement, or as the personal representative of a deceased individual.

If you are an **individual** a business asset is:

- an asset (other than shares or securities) which is used for the purpose of a trade, profession or vocation carried on by you (either alone or in partnership) or by your qualifying company
- an asset held for the purpose of an office or employment with a trading employer to which you are required to devote substantially the whole of your time
- shares or securities held by you in a qualifying company.

If you are a **trustee** a business asset is:

- an asset (other than shares or securities) which is used for the purpose of a trade, profession or vocation carried on by you as a trustee, an eligible beneficiary (either alone or in partnership) or by the trustees' or eligible beneficiary's qualifying company
- an asset (other than shares or securities) held for the purpose of an office or employment with a trading employer to which an eligible beneficiary is required to devote substantially the whole of his or her time
- shares or securities in a qualifying company held by you in your capacity as trustee.

If you are a **personal representative** a business asset is:

- an asset (other than shares or securities) which is used for the purpose of a trade, profession or vocation carried on by you as a personal representative or by your qualifying company
- shares or securities held by you in a qualifying company.

A qualifying company is a trading company (or the holding company of a trading group) in which you, whether as an individual, as a trustee of a settlement or as a personal representative of a deceased individual as the case may be, hold shares which entitle you to exercise at least 25% of the voting rights in that company.

If you are an individual or trustee of a settlement a qualifying company may also be a company in which you hold shares which entitle you to exercise at least 5% of the voting rights in the company and you as an individual, or an eligible beneficiary of the settlement as the case may be, are a full-time working officer or employee of that company (or group).

A full-time working officer or employee of a company is an individual or eligible beneficiary who:

- is an officer or employee of that company or that company and one or more other companies connected with it; **and**
- is required to devote substantially the whole of their time to the service of the company or service of those companies taken together.

We take 'devote substantially the whole of their time' to mean at least 75% of normal working hours.

An eligible beneficiary is a person who at any given time has an interest in possession in the whole of the settled property of the settlement, or in part of it which consists of or includes the shares or the asset in question.

**WHAT IF AN ASSET HAS BEEN USED ONLY PARTLY AS A BUSINESS ASSET OR FOR ONLY PART OF THE TIME AS A BUSINESS ASSET?**

Where an asset has been used partly as a business asset and partly as a non-business asset at some time during its qualifying holding period the gain on the disposal of the asset will be appropriately apportioned between the two elements. Part of the gain will qualify for the business asset taper for the qualifying holding period and the other part for the non-business taper for the qualifying holding period.

**Example 10 - asset only partly used as a business asset**

You acquire a property on 1 December 1994. You sell the property on 31 March 2000 and make a gain of £20,000 on the sale. In your period of ownership falling after 5 April 1998, the property was used 4/5ths as a shop from which you conducted a trade and the remaining 1/5th of the property was let out as a furnished flat.

There are two whole years in your qualifying holding period (being the bonus year as the property was acquired before 17 March 1998 and still held at 6 April 1998 and one full year after 5 April 1998).

In calculating your taper relief you first need to determine the proportion of the asset which relates to non-business use. In this example this is 1/5th as the letting of the flat is not business use. Next you need to apportion the overall gain into a gain on a business asset and a gain on a non-business asset as follows.

Business asset: £20,000 x 4/5 = £16,000. Your qualifying holding period is two years and so 85% of this part of the gain will be chargeable: £13,600.

Non-business asset: £20,000 x 1/5 = £4,000. On this occasion the taper relief table offers no reduction and so 100% of this part of the gain will be chargeable: £4,000

The aggregated chargeable gain is £17,600.

**Example 11 - asset used only part of the time as a business asset**

You acquire a property on 16 March 1995. You dispose of the property on 1 April 2000 and make a gain of £20,000 on the sale.

You used the property for business purposes until 6 November 1999. Between 6 November 1999 and when the property was sold on 1 April 2000 it remained empty. The gain during this period will be treated as arising on the sale of a non-business asset.

There are two whole years in your qualifying holding period (being the bonus year as the property was acquired before 17 March 1998 and still held at 6 April 1998 and one full year after 5 April 1998).

During the period of ownership falling after 5 April 1998 (6 April 1998 to 1 April 2000) the apportionments are:

- business use proportion  $\frac{580}{725}$  days (or)  $\frac{4}{5}$
- non-business use proportion  $\frac{145}{725}$  days (or)  $\frac{1}{5}$

**Computation**

First calculate the gain on the period while the asset was a business asset: £20,000 x 4/5 = £16,000.

The remainder of the gain will be treated as a gain on a non-business asset: £20,000 x 1/5 = £4,000.

So £16,000 of the gain qualifies for the business asset taper appropriate to a qualifying holding period of one year. So 85% of this part of the gain will be chargeable: £13,600

£4,000 of the gain qualifies for the non-business asset taper appropriate to a qualifying holding period of one year. On this occasion the taper relief table offers no reduction and so 100% of this part of the gain will be chargeable: £4,000

The aggregated chargeable gain is £17,600.

If you need to report details of gains, like those in the examples described on page 4, you should enter the information in either row 9 or 10 of the section headed 'Gains on assets with mixed (business and non-business) use' on Page CG2 of your Tax Return (or Page TC2 of the Trust and Estate Return). Pages CG2 and CG3 (or Pages TC2 and TC3 of the Trust and Estate Return) have been designed to help you compute taper relief and then allocate any losses you may have against gains in the most beneficial way. Using the details from the examples on page 4 you would first enter in the top part of either row 9 or 10 on Page CG2 (or Page TC2), under column H, the part of the gain that qualifies as a business asset. Underneath enter the part of the gain that will be treated as a non-business asset. Your Capital Gains Pages assuming these were your only transactions would look something like:

8	/ / / / £				£	%	£	£	£	£					
<i>Gains on assets with mixed (business and non-business) use (see the notes on page CGN4)</i>															
9	Tilkhove Green Lane, Ayleston		16/03/98	31/03/00	£ 50,000			£ 15,000	Bus 85 %	£	£	£	£	£ 12,750	
								£ 5,000	%	£	£	£	£	£ 5,000	
10	City Tower, Ayleston		16/03/98	01/04/00	£ 40,000			£ 16,000	Bus 85 %	£	£	£	£	£ 13,600	
								£ 4,000	%	£	£	£	£	£ 4,000	
					<b>Total</b>	<b>8.1</b>	<b>£ 40,000</b>			<b>8.5</b>	<b>£ 0</b>	<b>8.6</b>	<b>£ 0</b>	<b>8.3</b>	<b>£ 35,350</b>
							<i>Total column H</i>			<i>Total column K2</i>	<i>Total column K3</i>			<i>Total column M</i>	

\* Column AA: for transactions in  
 • quoted shares or securities, enter Q  
 • unquoted shares or securities, enter U

### COMPLETING THE CAPITAL GAINS PAGES

Taper relief is applied to the net chargeable gains after the deduction of any losses or other reliefs and before the deduction of the annual exempt amount.

#### If you do **not** have any allowable losses

You simply reduce the percentage of each chargeable gain made in the tax year to the percentage in the table and then deduct the annual exempt amount from the total tapered gains. This will tell you the amount on which you are liable to pay Capital Gains Tax.

#### Example 12

You acquire a business asset on 1 June 1995 for £15,000. You sell the asset on 1 July 1999 for £40,000. Your untapered chargeable gain (after deducting indexation allowance of £1,275 for the period 1 June 1995 to April 1998) is therefore £23,725. You have no other chargeable gains or allowable losses in the tax year 1999-2000. There is one whole year in your qualifying holding period for taper relief purposes plus the bonus year (as the asset was acquired before 17 March 1998 and still held at 6 April 1998). The taper percentage of gain chargeable for a business asset held for one year is 85%.

The amount liable to Capital Gains Tax is computed as follows:

Chargeable gain	£23,725 x 85%	£20,166
minus annual exempt amount		<u>£7,100</u> *
Amount liable to Capital Gains Tax		£13,066

\* The annual exempt amount shown in this example relates to that available to an individual. The amount may vary if the disposal is made by the personal representatives of a deceased individual or by trustees of a settlement.

#### If you have allowable losses

The rules for allowing losses of this year and allowing losses carried forward from earlier years are explained in the Notes to the Capital Gains Pages.

You first deduct your allowable losses of 1999-2000 from your chargeable gains of 1999-2000 without taking account of taper relief. If your net gains are equal to or below the annual exempt amount (£7,100 for individuals, the amount may vary for trustees or personal representatives) you do not have any Capital Gains Tax to pay and there is no need to taper your chargeable gains.

If, after deducting any losses you made in 1999-2000, your net chargeable gains for 1999-2000 exceed your annual exempt amount, you can further reduce them by deducting any allowable losses from earlier years that you have not yet used and that are available to be used in 1999-2000. Deduct these losses to the extent necessary to reduce your chargeable gains to your annual exempt amount. (If as an individual you have gains attributed to you as settlor or beneficiary of a settlement, the set-off of losses is modified and restricted, see below.) If you have sufficient losses to do this you do not have any Capital Gains Tax to pay and there is no need to taper your chargeable gains.

If, after deducting all the losses you can, you still have an amount of net chargeable gains greater than your annual exempt amount you will then need to taper your net gains. Before doing this you should set losses against gains in such a way as to maximise the benefit of taper relief. The examples on page 6 illustrate how this works.

You deduct losses from individual chargeable gains in turn, starting with those where there is no taper relief, and going on to those with the next lowest rate of taper relief (that is to say, the gains with the highest percentage of gain chargeable), and so on. You then apply the appropriate taper percentage to each chargeable gain after the deduction of losses. This process enables you to make maximum use of taper relief on the gains that remain chargeable. You then deduct the annual exempt amount from the amount of net tapered gains to arrive at the amount on which you are liable to pay Capital Gains Tax.

Your personal losses of any year cannot be set off against gains attributed to you as the settlor or beneficiary of a settlement, as this would involve setting untapered losses against gains which have already been tapered in the hands of the trustees of the settlement before they are attributed to you, see Example 15 in the next column. If you have gains attributed to you in this way for 1999-2000 and also have losses brought forward from earlier years the rules are modified and restricted in respect of the set-off of those losses. The effect is that:

- your annual exempt amount is set against any attributed gains first
- any annual exempt amount left over can be used against your personal gains
- losses of 1999-2000 are set against personal gains while losses of earlier years are set against your personal gains only to the extent necessary to reduce those gains to the level of any left over annual exempt amount.

Further guidance together with examples covering the set-off of losses brought forward where there are also attributed gains is included in the Inland Revenue Capital Gains Manual which you can see at any Inland Revenue office or Inland Revenue Enquiry Centre.

**Example 13 - one gain, one loss**

You make a chargeable gain on a business asset of £10,000 in 1999-2000. There is one whole year in your qualifying holding period for taper relief purposes. The taper percentage of gain chargeable for a business asset held for one year is 92.5%. In 1999-2000 you have an allowable loss of £1,000 (it is irrelevant whether the loss arises on a business or non-business asset or how long the asset has been held).

You set your allowable loss against your untapered chargeable gain as follows:

Chargeable gain	£10,000
<i>minus</i> allowable loss	<u>£1,000</u>
Net chargeable gain	£9,000

As £9,000 exceeds the annual exempt amount of £7,100\* you then compute the amount of taper relief and your Capital Gains Tax liability as follows:

Apply taper relief £9000 x 92.5%	£8,325
<i>minus</i> annual exempt amount	<u>£7,100</u> *
Amount liable to Capital Gains Tax	£1,225

\* The annual exempt amount shown in this example relates to that available to an individual. The amount may be different if the disposal is made by the personal representatives of a deceased individual or by trustees of a settlement.

**Example 14 - more than one gain, loss fully used against one gain**

You make untapered chargeable gains on two assets and a loss on a third asset in 1999-2000, as follows:

Asset 1: Untapered chargeable gain £10,000. There is one whole year in the qualifying holding period and the asset was held as a business asset throughout. The taper percentage is 92.5%.

Asset 2: Untapered chargeable gain of £8,000. There are 0 (zero) whole years in the qualifying holding period. The taper percentage is 100%.

Asset 3: Loss of £5,000

You first establish whether you have to compute any taper relief by setting your losses against your untapered chargeable gains as follows:

Total chargeable gains	£18,000
<i>minus</i> allowable losses	<u>£5,000</u>
Net untapered gains	£13,000

As £13,000 exceeds the annual exempt amount of £7,100\* you then compute the amount of taper relief by setting the allowable loss against chargeable gains in the most favourable way. In this case you set the loss of £5000 wholly against your untapered chargeable gain of £8,000 on asset 2 since this qualifies for no taper reduction compared to 92.5% for asset 1.

So you then compute your taper relief and Capital Gains Tax liability as follows:

Asset 1 £10,000 x 92.5%	£9,250
Asset 2 Balance of gain £3,000 (£8,000 <i>minus</i> £5,000) x 100%	<u>£3,000</u>
Total net tapered gains	£12,250
<i>minus</i> annual exempt amount	<u>£7,100</u> *
Amount liable to Capital Gains Tax	£5,150

\* The annual exempt amount shown in this example relates to that available to an individual. The amount may be different if the disposal is made by the personal representatives of a deceased individual or by trustees of a settlement.

**Example 15 - Losses and attributed gains**

In tax year 1999-2000 you make a gain of £9,000 on the disposal of shares and also incur a loss of £10,000 on the sale of a property. You also have gains of £15,000 attributed to you as beneficiary of a settlement. The annual exempt amount for 1998-99 is £7,100.

Your computation is as follows:

Chargeable gain	£9,000
<i>minus</i> allowable losses	<u>£9,000</u>
	Nil
Attributed gains	£15,000
Annual exempt amount	<u>£7,100</u>
Chargeable	£7,900

The balance of your personal losses, £1,000, can be carried forward.

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