

CHATELS AND CAPITAL GAINS TAX

This Help Sheet explains how chattels are treated for Capital Gains Tax. But it is only an introduction. If you are in any doubt whether you have made a chargeable gain, or allowable loss, you should ask your Inland Revenue office or your tax adviser.

PART 1 INTRODUCTION

What are chattels?

The word 'chattel' is a legal term meaning an item of tangible, moveable property. Many day-to-day items are chattels.

These include:

- items of household furniture
- paintings, antiques, items of crockery and china, plate and silverware
- motor cars, lorries, motor cycles
- items of plant and machinery not permanently fixed to a building.

Private cars are exempt from Capital Gains Tax, but if you dispose of any other chattel, you may be liable to Capital Gains Tax.

Have you made a gain?

You only need to include in your Tax Return any gain on the disposal of a chattel where the disposal proceeds were more than £6,000. **Part 2** of this Help Sheet explains how to calculate gains and losses.

Part 3 explains the special rules that apply if you dispose of a set of chattels.

Parts 4 and 5 explain the rules for chattels that are wasting assets or that were used in a business.

PART 2 DISPOSALS OF SINGLE CHATELS

How to calculate gains

You do not need to calculate any gain on the disposal of any single chattel if the disposal proceeds did not exceed £6,000.

If the proceeds exceeded £6,000, the amount of the gain depends on the amount of:

- the disposal proceeds, and
- the gain.

To find out the gain to include in the Capital Gains Pages, work through the following steps.

- Step 1** Work out the amount by which the disposal exceeds £6,000.
- Step 2** Multiply this amount by $\frac{5}{3}$.
- Step 3** The result is the maximum chargeable gain before taper relief.
- Step 4** Work out the net gain before taper relief using the Notes to the Capital Gains Pages.
- Step 5** Include in your Capital Gains Pages the lower of the net gain and the maximum chargeable gain, before taper relief.

Example 1-

In August 1999 you sold an antique mirror for £7,500, that originally cost you £1,500 in September 1988. There were incidental costs of sale totalling £250. The disposal proceeds exceed £6,000 so you need to return any gain.

Calculate the amount by which the disposal proceeds exceed £6,000 ($£7,500 - £6,000$) = £1,500

Multiply this by $\frac{5}{3}$ ($£1,500 \times \frac{5}{3}$) = £2,500

That is the maximum chargeable gain, before taper relief.

Then work out the actual gain, before taper relief. Your calculation will be:

Disposal proceeds		£7,500
Minus Expenses	£250	
Cost	£1,500	
Indexation (0.5) to April 1998	<u>£750</u>	<u>£2,500</u>
Actual gain		£5,000

Compare this with the maximum chargeable gain and enter the lower figure, which is £2,500.

What happens if a loss is made?

The amount you can claim as a loss on the disposal of any single chattel also depends on the amount of the disposal proceeds.

If the disposal proceeds were less than £6,000, then your loss is restricted by treating the disposal proceeds as £6,000.

If the disposal proceeds were £6,000 or more, you can claim the full loss.

PART 3 SETS OF CHATTELS

The normal rules for calculating gains or losses on the disposal of a single chattel may not apply if you dispose of a set of chattels.

What is a set?

A 'set' is a number of chattels that are:

- similar and complementary to each other, **and**
- worth more together than separately.

Examples of sets are:

- chessmen
- books by the same author, or on the same subject
- matching ornaments such as vases or statuettes.

This is not a full list. If you require more details, ask your Inland Revenue office or tax adviser.

What happens when you dispose of a set?

If you dispose of a number of chattels that form a set, the £6,000 limit that normally applies to a single chattel, applies to the set.

There are special rules that apply to sets which have been broken up and sold separately.

If the parts of the set:

- were owned by you at the same time, **and**
- were disposed of by you to the same person, or a number of people acting together, or a number of people who are connected, then

the £6,000 limit applies to all of the set collectively and not to each member of the set individually.

Example 2

You own a full 32 piece set of antique chessmen which cost you £3,200 (that is, each piece cost £100). Together the set is worth £32,000.

In 1999 you sell the pieces individually to an antique dealer for £1,000 each. If the £6,000 limit were to be applied to each piece, disposals would be exempt from Capital Gains Tax. But the pieces form a set, so the £6,000 limit applies to the total consideration of £32,000 and you must return the chargeable gain.

PART 4 WASTING ASSETS

A wasting asset is an asset with a predictable life of 50 years or less. If a chattel is a wasting asset, any gain on its disposal is exempt from Capital Gains Tax.

Certain chattels are always treated as wasting assets, for example, plant or machinery.

If capital allowances could have been claimed on the cost of the chattel, for example, because it was used in a business, any gain on its disposal will not be exempt. Part 5 of this Help Sheet deals with such chattels.

You estimate the predictable life of a chattel as it appeared to you when you originally acquired it. You have to decide what its useful life would have been, bearing in mind the purpose for which you acquired it.

Calculating gains

A wasting asset is assumed to become less valuable over its predictable life. So, your acquisition cost, or any additional expenditure on the wasting asset is restricted to take account of the period of its predictable life which has elapsed when you dispose of it. Your Inland Revenue office can help you with the calculation.

PART 5 BUSINESS ASSETS

If you dispose of a wasting asset that you have used in a business, trade, profession or vocation and you have, or could have, claimed capital allowances for it, then any gain you make will not be exempt and must be included on your Tax Return.

You need to take account of any capital allowances in working out your gain or loss. *Help Sheet IR222: How to calculate your taxable profits* available from the Orderline explains how to calculate capital allowances.

If you dispose of a wasting asset that has been used in a business, any loss you make will be restricted to take account of the capital allowances you have received.

Example 3

You acquire an item of plant for £20,000 and use it in a trade. You are entitled to claim capital allowances. After three years, you sell it in 1999 for £7,500. You claimed net capital allowances, including any balancing charge or balancing allowance, of £12,500.

You have had the whole of your loss of £12,500 as capital allowances. So your Capital Gains Tax allowable loss is reduced to zero.

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