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HELP SHEETS

Help Sheets giving more detailed information about particular tax rules for capital gains are available from our Orderline and website.

- IR261: Foreign Tax Credit Relief: Capital gains
- IR276: Incorporation relief
- IR277: Trusts with settlor interest and trusts for the vulnerable: taper and losses
- IR278: Temporary non-residents and Capital Gains Tax
- IR279: Taper relief
- IR280: Rebasing - assets held at 31 March 1982
- IR281: Husband and wife, civil partners, divorce, dissolution and separation
- IR282: Death, personal representatives and legatees
- IR283: Private residence relief
- IR284: Shares and Capital Gains Tax
- IR285: Share reorganisations, company take-overs and Capital Gains Tax
- IR286: Negligible value claims and Income Tax losses on disposals of shares you have subscribed for in qualifying trading companies
- IR287: Employee share and security schemes and Capital Gains Tax
- IR288: Partnerships and Capital Gains Tax
- IR290: Business asset roll-over relief
- IR292: Land and leases, the valuation of land and Capital Gains Tax
- IR293: Chattels and Capital Gains Tax
- IR294: Trusts and Capital Gains Tax
- IR295: Relief for gifts and similar transactions
- IR296: Debts and Capital Gains Tax
- IR297: Enterprise Investment Scheme and Capital Gains Tax
- IR298: Venture Capital Trusts and Capital Gains Tax
- IR299: Non-resident trusts and Capital Gains Tax
- IR301: Calculation of the increase in tax charge on capital gains from non-resident, dual resident and immigrating trusts

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
- copies of any valuations obtained.

Fill in the Capital Gains Pages if:

- you disposed of chargeable assets in the year to 5 April 2006 worth more than £34,000, **or**
- you have allowable losses which must be deducted from your chargeable gains for the year and your chargeable gains **before** deducting losses and applying taper relief total more than £8,500, **or**
- you have no allowable losses which must be deducted from your chargeable gains for the year and **after** applying taper relief your taxable gains total more than £8,500, **or**
- you want to claim an allowable capital loss, or make any other Capital Gains claim or election for the year.

In working out **whether the assets you disposed of were worth more than £34,000**:

- if you gave an asset away or sold it for less than its full value, you should use its market value rather than any sum you received
- include all assets disposed of wherever in the world they are situated but exclude exempt assets such as cars or shares held within a PEP or ISA (see page CGN8)
- exclude your home if the whole gain from its disposal is exempt as a result of private residence relief. It will be exempt if it has been your only residence throughout the period you owned it (ignoring the last three years of ownership) and the area of its garden and grounds disposed of with it did not exceed half a hectare (see page CGN18)
- exclude assets disposed of to your spouse or civil partner if you were living together at some time during the tax year. You are regarded as living together unless legally separated in circumstances which are likely to become permanent (see page CGN17).

In working out your **total chargeable gains** you should include gains from all assets apart from exempt assets. You should also include gains attributed to you from trusts and companies and chargeable gains you have made without a disposal (see pages CGN4, CGN6 and CGN15 for some examples).

If you have to fill in the Capital Gains Pages you must include all your capital losses for the year which are to be claimed as allowable losses. If you do not have to fill in the Capital Gains Pages you can still complete them **if you want to claim a capital loss** arising in this year. If you do not do this you have to claim any losses arising in this year by 31 January 2012 for them to be available to set against future gains (see page CGN12). **If you want to make any other claim or election** for this year you should also do this by completing the Capital Gains Pages (see page CGN18).

If you are not domiciled in the UK and are chargeable on the remittance basis then in applying the above limits:

- include the proceeds from any overseas asset disposed of in this year or an earlier year to the extent that these have been remitted to the UK during this year
- include in respect of gains arising on the disposal of any overseas asset in this year or an earlier year only amounts remitted to the UK during this year.

The following notes, and the Help Sheets, 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 for access to the Capital Gains Manual at any Enquiry Centre. The Manual is also available at www.hmrc.gov.uk

The notes are divided into 8 sections.

Section 1 (pages CGN2 to CGN7) explains how to fill in the Capital Gains Pages.

Section 2 (pages CGN7 and CGN8) provides a simple guide to Capital Gains Tax.

Sections 3 to 8 (pages CGN8 to CGN24) provide more detailed guidance.

Section 1 – General – Filling in Pages CG1 to CG8

Before you start completing the Capital Gains Pages you may find it useful to familiarise yourself with the requirements of these Pages by reading these notes.

The notes on pages CGN10 to CGN15 will help you to understand what information you need provide to your Tax Inspector. If there are any points you do not understand ask us or your tax adviser for assistance.

For 2005–06 the Capital Gains Pages are split into two sections. If **all of** the transactions you undertook in 2005–06 involved quoted shares or other securities (for a definition of quoted shares or other securities for this purpose, see the note on page CGN3), and:

- taper relief (see page CGN18) is not available to you to reduce any of the gains disclosed, **and**
- you are not claiming any tax reliefs, other than indexation allowance, which may reduce your gains

you may use the simple grid on Page CG1 to record your transactions.

If you use Page CG1 you should ignore Pages CG2 to CG6 of the Capital Gains Pages. However, you must always fill in Page CG8 once you have completed Page CG1. You can also use Page CG7 if there is insufficient space in Column F on Page CG1 for any additional information you wish to provide.

If, however, you undertook a number of transactions involving **both** quoted shares or other securities (as defined on page CGN3) and also other assets, for example unlisted shares or land or buildings, you must use Pages CG2 and CG3 (and CG4 to CG7 as appropriate) to record **all** of your transactions. **You must not use a combination of Page CG1 for some transactions and Pages CG2 and CG3 to record your other transactions.** Although you may need to consider some extra boxes on Page CG3, this will ensure that any allowable losses you may have made are allocated so that you take best advantage of them under the taper relief rules (see page CGN18 and *Help Sheet IR279: Taper relief*). You will not be required during completion of your Capital Gains Pages to give any extra information on Pages CG4 to CG7 for your quoted share or other security transactions even though you have to record those transactions on Pages CG2 and CG3 instead of Page CG1.

To summarise, Page CG1 has been designed to help simplify the reporting requirements for taxpayers who have undertaken only straightforward transactions. If we need further information to clarify any of these transactions, we will write to you. For transactions involving assets other than quoted shares or other securities, or a mixture of these and other assets, you must always use Pages CG2 and CG3 (and CG4 to CG7 as appropriate). We ask for more information in respect of the transactions involving assets other than quoted shares or other securities as these are often more complex and require greater review. For example you may be claiming various tax reliefs which reduce your chargeable gains, or you may have used an estimate or valuation within your computation and we may need to check the accuracy of the estimate or valuation with our specialist valuers (see page CGN14). Again if we need further information to clarify any of your transactions, we will write to you.

If you think that you will need more than one copy of Page CG1, or Pages CG2 and CG3 (together with Pages CG4 to CG6 as appropriate), to give details of all your disposals, take photocopies before making any entries. Please put your name and tax reference

on each photocopy. If you use photocopies of the Pages please ignore the numbered boxes on all but the final sheet. On the final sheet make sure the entries in the boxes reflect the **totals** of all the transactions covered by the photocopy pages. Alternatively you may send in computer-generated schedules to replace Page CG1, or Pages CG2 and CG3 (together with Pages CG4 to CG6 as appropriate), **provided they follow the form of the paper copy of these Pages.**

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 Page CG1 or Pages CG2 and CG3 in these cases, under the heading 'Small receipts' on page CGN9.

You are not required to submit any calculations or other supporting documents unless specified with your Tax Return. If you want to provide more information to show how you have calculated your figures, please give the details on Page CG7. If you want to provide more information or calculations you are welcome to do so. If you provide calculations you **must still** complete Page CG1 or Pages CG2 and CG3 (together with Pages CG4 to CG6 as appropriate).

■ **Definition of quoted shares or other securities for the Capital Gains Pages**

For the purposes of completing your Capital Gains Pages **only**, 'quoted shares or other securities' means any of the following:

- shares or securities of a company which were either quoted on the London Stock Exchange Daily Official List (SEDOL) or listed on the Stock Exchange **throughout** the period you held them (you may ignore any period when the quote or listing was suspended **temporarily**)
 - shares or securities of a company which were listed on an overseas recognised stock exchange (see below) **throughout** the period you held them (you may ignore any period when the listing was suspended **temporarily**)
- If you obtained shares or securities as a result of a share exchange, or other company reorganisation (see page CGN9) and the shares or securities you originally held were not quoted or listed throughout the period you held them, you should **not** use Page CG1 to record your gains and losses. Instead **all** of your transactions should be recorded on Pages CG2 and CG3
- units in a unit trust which was a UK authorised unit trust **throughout** the period you held them
 - shares in a company which was a UK open-ended investment company (OEIC) **throughout** the period you held them.

A list of recognised stock exchanges is available at www.hmrc.gov.uk or ask us.

■ **Filling in Page CG1**

Fill in Page CG1 to give details about your disposals in the year ended 5 April 2006. This page should only be used if **all** of your transactions involved quoted shares or other securities (see page CGN2) and:

- taper relief (see page CGN18) is not available to you to reduce any of the gains disclosed, **and**
- you are not claiming any tax reliefs, other than indexation allowance, which may reduce any of your gains.

If you use Page CG1, you can ignore Pages CG2 to CG6 of the Capital Gains Pages. You must always fill in Page CG8 once you have completed Page CG1. Page CG7 provides space for any additional information you need to provide.

If you do not fall within the limits described above you must use Pages CG2 and CG3 (together with Pages CG4 to CG6 as appropriate) to record all of your transactions. **You must not use a combination of Page CG1 for some transactions and Pages CG2 and CG3 to record other transactions.**

Column A

Enter in this column details of each disposal. Give the name of the company (or unit trust), the type of shares or other securities you have disposed of and the number of shares or units, or face value of the securities which you have disposed of.

If you have made any chargeable gains or allowable losses in 2005–06 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 2005–06 (see the section on gains of earlier years on page CGN10). You must state the nature of the event causing the gain to become chargeable and the particular gain which is now becoming chargeable. If you have gains attributed to you as settlor or beneficiary, see page CGN10.

Column B

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, valuations need to be used where an asset you have disposed of was acquired from, or disposed of to, a connected person (see page CGN14).

Please give details of why you have used an estimate or valuation in Column F, or if there is insufficient space, on Page CG7.

Column C

Enter in Column C the date of disposal for the shares or securities that gave rise to a chargeable gain or allowable loss. If for example the date of disposal was 3 June 2005 you should show the date in the appropriate row of Column C as '03/06/05'.

Pages CGN8 and CGN12 explain when a disposal for Capital Gains Tax purposes occurs and on what date your disposal will be treated as having occurred.

Column D

Enter in this column the total disposal proceeds you have received or will receive from each disposal. Page CGN12 explains what to include in disposal proceeds.

Column E

Enter in this column the net gain or loss from each transaction, after indexation allowance, where appropriate (see page CGN15) has been deducted. Put brackets around any losses to distinguish them from gains.

There is a simple guide to Capital Gains Tax, including a sample calculation, in Section 2. Section 4 explains in more detail how to calculate gains and losses.

Column F

Use Column F to provide further information.

For example:

- if there were transactions with a connected person (see page CGN14)
- why estimates or valuations have been used (see page CGN14)
- if you have made a disposal of part of a larger holding of shares (see page CGN15)
- if you have exchanged shares in a company reconstruction or take-over (see page CGN9).

box F1 Total all of your gains in Column E. Enter the total in box F1.

box F2 Total all of your losses in Column E. Enter the total in box F2.

box F3 Subtract your losses in box F2 from your gains in box F1 and enter the result in box F3. If your net gains exceed £8,500 continue to box F4. If your net gains are £8,500 or below you have no liability to Capital Gains Tax in 2005–06. Enter the amount of your net gains in box F7 and box 8.7 on Page CG8. Leave box 8.8 on Page CG8 blank. If you have a net loss, you will now need to fill in the Capital losses summary on Page CG8. Leave blank box F7 and boxes 8.7 and 8.8 on Page CG8.

box F4 Enter in box F4 any income losses (basically certain trading losses, losses from furnished holiday lettings, post cessation expenditure or post employment deductions – we or your tax adviser will be able to confirm which losses will qualify) that you wish to set against your chargeable gains. You should only enter the lower of:

- the total losses you can claim, **and**
- the amount required to reduce the figure of gains, after capital losses of the year have been set off, to zero.

box F5 Subtract your losses in box F4 from your gains in box F3 and enter the result in box F5. If your net gains exceed £8,500 continue to box F6. If the net gains are £8,500 or below you have no liability to Capital Gains Tax in 2005–06. Enter the amount of the net gains in box F7 and box 8.7 on Page CG8. Leave box 8.8 on Page CG8 blank.

box F6 Subtract any losses brought forward you may have from an earlier tax year. You should use only enough losses to reduce your chargeable gains to the level of the annual exempt amount, £8,500. Update the Capital losses summary on Page CG8.

box F7 Subtract your losses in box F6 from your gains in box F5 and enter the result in box F7. Copy this figure to the total taxable gains box, box 8.7, on Page CG8.

■ Filling in Pages CG2 and CG3

Fill in Pages CG2 and CG3 to give details about your disposals in the year ended 5 April 2006 unless all of your transactions were in quoted shares or other securities and you are able to complete Page CG1 instead (see 'Filling in Page CG1' on page CGN3). If any of the transactions you are recording on Pages CG2 and CG3 involve assets other than quoted shares or other securities, as defined on page CGN3, you must also give, where appropriate, the additional information requested on Pages CG4 to CG6. If, however, the information requested on Pages CG4 to CG6 has already been supplied in a claim to gifts hold-over relief (see *Help Sheet IR295: Relief for gifts and similar transactions*) or as a result of a post transaction valuation check request (see page CGN14) it need not be repeated again. The information provided helps determine whether we need to ask you any more detailed questions about your Tax Return. Fully completed Pages will help us avoid making unnecessary enquiries.

Column A

Enter in this column details of each asset you have disposed of. For example, if you have disposed of land or property, unlisted shares or securities or other assets (other than quoted shares or other securities) simply give a brief one-line description of the asset. You should then cross reference each entry to the additional information requested on, as appropriate, Pages CG4, CG5 or CG6.

If you have disposed of quoted shares or other securities, (as defined on page CGN3) enter on Page CG2 (or if there is insufficient space, use Page CG7) the name of the company or unit trust, the type of shares or securities you have disposed of and how many shares or securities you have disposed of. You do not need to complete Page CG4 or CG6 for these transactions, unless you have to record them in Column AA as 'U' (see the section aside about completing Column AA).

We have split the section for recording your gains into two. This is so you can record how much taper relief you are entitled to on each gain you make. Always use the first section 'Gains on assets

which are either wholly business or wholly non-business' where you have made disposals of assets that were wholly business assets, (see page CGN18) or wholly non-business assets. Use the second section 'Gains on assets which are partly business and partly non-business' where you have made disposals of assets that were partly business assets and partly non-business assets. In Column H you need to split these gains into a business asset gain and a non-business asset gain to record how much taper relief, if any, is due on each part. *Help Sheet IR279: Taper relief* explains an alternative way of completing this part of the Return where, in certain cases, you disposed of an asset that became a business asset on 6 April 2000.

If you are not domiciled in the UK and have disposed of assets outside the UK to which remittance basis applies, you should include details of such assets disposed of in this tax year or an earlier year where there have been remittances to the UK in this tax year.

If you have made any chargeable gains or allowable losses in 2005–06 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 2005–06 or a gain accrued in 2001–02 to 2004–05 when you were regarded as a 'temporary non-resident', (see the section on gains of earlier years on page CGN10) or you are claiming that a loan you made to a trader has become irrecoverable (see the section on other reliefs on page CGN18). You must state the nature of the event causing the gain to become chargeable and the particular gain which is now becoming chargeable.

If you have gains attributed to you as settlor, make a separate entry for each rate of taper relief relating to those gains, showing the name of the settlement. Do not make any entries in Columns B to G for these items. A detailed explanation of how to make entries in respect of these gains is in *Help Sheet IR277: Trusts with settlor interest and trusts for the vulnerable: taper and losses*. If you have gains attributed to you as beneficiary, see 'Attributed gains and box 8.4' on page CGN6. The same applies to the 'special case' described in *Help Sheet IR277*.

Column AA

Enter in each row of this column the identifying letter (Q, U, L, T or O) which corresponds to the asset(s) or gains identified in each of the rows. Please make an entry for every row (both gains and losses) in Column A.

For transactions in:

- quoted shares or other securities (as defined on page CGN3), enter **Q**
- other shares or securities, enter **U**
- land and property, enter **L**
- other assets (for example, goodwill), enter **O**.

Where you have gains attributed to you as settlor enter **T** against each individual entry.

Shares or securities that were acquired as a result of a share exchange, or other company reorganisation (see page CGN9), where the shares or securities you originally held did not count as 'Q' throughout the period you held them, should be recorded in Column AA as 'U'.

Do not forget to give the additional information requested in respect of each individual transaction on:

- Page CG4 for transactions in other shares or securities (**U**)
- Page CG5 land and property (**L**)
- Page CG6 other assets (**O**).

If, however, the information requested on Pages CG4 to CG6 has already been supplied in a claim to gifts hold-over relief (see *Help Sheet IR295: Relief for gifts and similar transactions*) or as a result of a post transaction valuation check request (see page CGN14) it need not be repeated again.

Column B

Tick the box in this column on any row where you have used an estimate or valuation in calculating the gain or loss. Please also tick the 'Yes' box at the top of Page CG8. (You should include details of any valuations you have used on Pages CG4 to CG6 – see the note on page CGN14.) For example, valuations need to be used where an asset you have disposed of was:

- acquired from, or disposed of to, a connected person (see page CGN14), **or**
- held by you at 31 March 1982 (see the notes on rebasing on page CGN14).

Column C

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. Please also tick the 'Yes' box at the top of Page CG8.

Column D

Chargeable gains accruing in 2005–06 may be subject to taper relief, see page CGN18.

If the asset which you have disposed of was acquired on or after 17 March 1998 you should enter in Column D the actual date of acquisition of the asset (see page CGN12). If the asset disposed of was acquired before 17 March 1998 enter 16 March 1998. All dates should be entered as 6 characters for example, 16 March 1998 should be entered as '16/03/98'.

If you have disposed of shares or securities which were pooled you should insert the later of 16 March 1998 and the date when you first acquired shares in the pool. For more information on disposals of shares and securities see page CGN17, 'What about disposals of shares or securities?' and *Help Sheet IR284: Shares and Capital Gains Tax*.

Column E

Enter in Column E the date of disposal for each asset that gave rise to a chargeable gain or allowable loss. If, for example, the date of disposal was 3 June 2005 you should enter the date in the appropriate row of Column E as '03/06/05'.

Pages CGN8 and CGN12 explain when a disposal for Capital Gains Tax purposes occurs and on what date your disposal will be treated as having occurred.

Column F

Enter in this column the total disposal proceeds you have received or will receive from each disposal; page CGN12 explains what to include in disposal proceeds. If remittance basis applies, enter only the amounts of any remittances to the UK in 2005–06 from the proceeds of the disposal of assets outside the UK (whether the disposal occurred in 2005–06 or in an earlier year).

Column G

Where the disposal entered on any row is affected by a Capital Gains Tax claim or election, or a relief is due, you should give details in Column G. For claims to relief you should also state the amount of your claim. For example, you may have claimed roll-over relief, exemption under the terms of a Double Taxation Agreement, or Enterprise Investment Scheme deferral relief. Or you may have decided to make an election that affects how your gains or losses are calculated, such as a rebasing election (see page CGN14).

Section 7 describes the common reliefs and elections.

If you have insufficient space, use Page CG7 to give any additional information.

If you make a claim to:

- gifts hold-over relief (for claim form see *Help Sheet IR295: Relief for gifts and similar transactions*), **or**
- Enterprise Investment Scheme deferral relief (the claim form EIS3 is attached to the EIS3 certificate you receive from the company. For information also see *Help Sheet IR297: Enterprise Investment Scheme and Capital Gains Tax*)

you must also attach the official claim form.

For a claim to business asset roll-over relief (for a claim form see *Help Sheet IR290: Business asset roll-over relief*), an optional claim form, which sets out all of the information required, can be found attached to the respective Help Sheet. If you do not use the claim forms you must still provide all of the information requested.

If you are making a claim to exemption under the terms of a Double Taxation Agreement, give details on Page CG7 of the territory in which the gain falls to be taxed, and the circumstances in which exemption is claimed.

You do not need to make an entry in Column G simply because you have deducted indexation allowance in calculating the chargeable gain. This should simply be deducted in calculating the figure in Column H. You cannot use indexation allowance to turn a gain into a loss or to increase a loss (see page CGN15).

Column H

Enter in the **Gains** part of this column the net gain from each disposal, after all reliefs, **but before losses and taper relief** have been taken into account.

For example, you have a chargeable gain after indexation allowance, but before losses and taper relief, of £50,000. In Column G you give details of a claim for Enterprise Investment Scheme deferral relief of £30,000. In Column H you should enter only the net gain of £20,000.

If you have recorded gains in rows 9 and 10 under the section 'Gains on assets which are partly business and partly non-business' make sure you split those gains into business asset and non-business asset gains so that you can work out how much taper relief is due, see *Help Sheet IR279: Taper relief*.

A loss arising on a disposal should be entered in the **Losses** section of Column H. Section 4 explains how to calculate gains and losses. Section 7 describes some common reliefs. If the remittance basis applies, enter only the amounts of any remittances to the UK in respect of gains from the disposal of assets outside the UK (whether the disposal occurred in 2005–06 or in an earlier year).

Now total your gains and losses at boxes 8.1 and 8.2. You must complete the whole of Page CG3 if:

- you have gains at box 8.1 of more than £8,500 and no losses available to you, **or**
- your gains after deducting losses of the year (and where applicable losses brought forward from earlier years) are greater than £8,500.

You need only complete the totals boxes (boxes 8.3 to 8.6) on Page CG3 (you can ignore the remainder of Page CG3) provided you have no attributed gains to be included in box 8.4, see page CGN6, or income losses available to set against your gains, and you fall into one of the following:

- your gains (box 8.1) after deducting losses of the year (box 8.2) are £8,500 or less. (If this is the case you have no liability to Capital Gains Tax in 2005–06, even if taper relief is available to you. In these circumstances, you may enter the amount of your net gains (box 8.1 *minus* 8.2) in box 8.3, the total taxable gains box and box 8.7 on Page CG8. Enter 0 (zero) in boxes 8.4 to 8.6. Subject to giving any further information required on Pages CG4 to CG6 you can now proceed to Page CG8.)

- your gains after deducting losses of the year are greater than £8,500 but you have sufficient losses brought forward, to reduce those gains to £8,500. (If this is the case you have no liability to Capital Gains Tax in 2005–06, even if taper relief is available to you. In these circumstances, you may enter in box 8.6 the amount of the losses needed to reduce your gains to £8,500, enter £8,500 in box 8.3, the total taxable gains box, and box 8.7 on Page CG8. Enter '0' (zero) in boxes 8.4 and 8.5. Subject to giving any further information required on Pages CG4 to CG6 you can now proceed to Page CG8.)
- your allowable losses at box 8.2 exceed your chargeable gains at box 8.1. (You may enter '0' (zero) in boxes 8.3 to 8.6 and the total taxable gains box. Leave box 8.7 on Page CG8 blank. Provide any further information required on Pages CG4 to CG6 and then fill in the remainder of Page CG8, as appropriate.)

If you have any attributed gains to be included in box 8.4, or income losses available to set against your gains, or you are unsure whether you fall into one of the specific situations described above, you should always complete the whole of Page CG3.

Column I

If the asset disposed of was a business asset, (see page CGN18) you should enter 'Bus' in the appropriate row(s) of this column.

If a gain has to be apportioned into a part that relates to a business asset and a part that relates to a non-business asset use row 9 or 10.

For more information on what is a business asset for the purposes of taper relief see page CGN18 and *Help Sheet IR279: Taper relief*.

Column J

Enter against each individual gain the taper percentage rate appropriate to the qualifying holding period for the asset disposed of. The percentage rates are shown in the table on page CGN18. For example, if you acquired a business asset on 6 April 1999, and disposed of it in 2005–06, the percentage gain chargeable will be 25%. If the asset was not a business asset then the percentage gain chargeable will be 80%. Whether or not an asset is a business asset and what taper relief you are entitled to is explained in *Help Sheet IR279: Taper relief*.

Column K and boxes 8.5 and 8.6

There are special rules for allocating your allowable capital losses against chargeable gains, (see page CGN11). These rules ensure you use your losses in the most beneficial way so that gains that qualify for the greatest rates of taper reduction remain chargeable. If you are setting off losses brought forward from earlier years you should use only enough losses to reduce your chargeable gains to the level of the annual exempt amount, see page CGN7. However, if you have attributed gains and also capital losses, see 'How is a loss allowed' on page CGN11.

In Column K2 you should enter details of any allowable trading losses, losses from furnished holiday lettings, post-cessation expenditure or post employment deductions that you wish to claim against chargeable gains. You should only enter the **lower** of:

- the total losses you can claim, **and**
- the amount required to reduce the figures of gains, after capital losses of the year have been set off, to zero.

Now allocate your losses starting with Column K1, next consider Column K2 and finally Column K3. Losses should be firstly allocated against chargeable gains with the highest percentage rate shown in Column J. If you still have losses available after setting them against these gains you should set the remaining losses against the remaining gains.

Example 1

You have two gains in Column H:

- Gain 1 £20,000; where the percentage rate in Column J is 50%
- Gain 2 £10,000; where the percentage rate in Column J is 100%

You have an allowable loss brought forward of £17,000.

Firstly you should allocate in Column K3, £10,000 of your loss to Gain 2 as this gain is chargeable at 100%. Next allocate the remaining £7,000 of your loss in Column K3 to Gain 1 as only 50% of this gain is chargeable.

If you have a number of gains and losses you should consider each gain in turn and allocate losses so that gains with the smallest percentages in Column J remain chargeable. If your allowable losses are greater than your chargeable gains you can carry the surplus losses forward to be set against gains you make in future years. Do not forget to fill in the capital losses summary boxes on Page CG8. *Help Sheet IR277: Trusts with settlor interest and trusts for the vulnerable: taper and losses* explains that you just allocate losses to your personal gains in the order described above and then to any gains attributed to you as settlor, again in that order.

Total your losses claimed in Columns K2 and K3 and enter the amounts in boxes 8.5 and 8.6.

There are further rules for allocating 'clogged losses'. Clogged losses are losses that arise on the disposal of assets to connected persons or where losses are transferred to you by trustees after 15 June 1999 when you become absolutely entitled to settled property. These losses can only be set against gains of certain types (see page CGN11).

Column L

Subtract all losses claimed in Columns K1, K2 and K3 from the chargeable gains in Column H. Any net gains remaining chargeable should be entered in the appropriate rows of Column L.

Column M and box 8.3

Each gain remaining chargeable after losses have been set-off in Column L should now be multiplied by the taper rate appropriate to that gain. The taper rate is in Column J. For example if a gain in Column L was £20,000 after losses have been set-off and the taper rate was 50% then the tapered gain to enter in Column M will be £10,000 (£20,000 x 50%). If you have more than one gain in Column L work out each tapered gain in turn, entering all the figures in Column M as you go.

Add up all of the gains in Column M and enter the total in box 8.3.

Attributed gains and box 8.4

On Page CG7 please enter the name of the trust(s) and on what basis the attribution(s) have been made to you.

Enter in rows 11 and 12 on Page CG3 any gains of trustees which are attributed to you as a beneficiary of non-UK resident trusts (row 11) or from settlor interested trusts where personal losses cannot be set-off (row 12). (Other attributed gains should be entered in the main section of Pages CG2 and CG3 above.) Enter the total of rows 11 and 12 in box 8.4.

Total taxable gains

Add together all of your tapered chargeable gains from box 8.3 and any attributed gains from box 8.4 and enter the total in the total taxable gains box.

Filling in Pages CG4 to CG6

If the transactions you have entered on Pages CG2 and CG3 relate to asset disposals involving:

- other shares or securities (recorded in Column AA as 'U'), or
- land and property (recorded in Column AA as 'L'), or

- other assets, other than quoted shares or securities, (recorded in Column AA as 'O')

you must provide additional information in respect of each individual transaction on Page CG4, CG5 or CG6.

Each Page has space to give details of two transactions. If you have more than two transactions of each type, please photocopy the Page before completion and **send all completed (photocopied) Pages with your Capital Gains Pages**. If, however, the information requested on Pages CG4 to CG6 has already been supplied in a claim to gifts hold-over relief (see *Help Sheet IR295: Relief for gifts and similar transactions*) or as a result of a post transaction valuation check request (see page CGN14) it need not be repeated again.

This information will help us with our review of your Tax Return and may enable us to conclude that no enquiry is necessary. Occasionally we will need extra information. We will write and ask you for this if the need arises. If you are not sure at any point what information you should provide, we or your tax adviser will be able to help.

■ Filling in Page CG7

If you are asked to give additional information to support any entry on Pages CG1 to CG3, or just need more space, please use this Page.

■ Filling in Page CG8

box 8.7 Enter the total taxable gains from box F7 on Page CG1 or from the total taxable gains box on Page CG3.

box 8.8 You do not have to pay tax on the first £8,500 of chargeable gains that you made in 2005–06. This amount is referred to as your 'annual exempt amount'. Deduct £8,500 from the figure in box 8.7. Enter the result 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 2005–06.

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 trusts. If so, ask the Orderline for *Help Sheet IR301: Calculation of the increase in tax charge on Capital Gains from non-resident, dual resident and immigrating 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 CG7. If you are not sure if this applies to you, ask us or your tax adviser.

Capital losses

boxes 8.10 to 8.14 These boxes summarise the losses you have made this year and the various ways in which they have been used. In box 8.10 enter the total sum of all the losses you have made during the year. This figure can be copied from box 8.2 on Page CG3 or box F2 on Page CG1. If you are claiming to set capital losses against your income, see the notes on page CGN10, please ensure that you complete boxes 8.13A and 8.13B as well as the total box, 8.13. Any remaining losses are carried forward to use against gains of later years.

boxes 8.15 to 8.17 These boxes summarise the allowable losses that you have claimed and the amount of unused losses to be carried forward to use against gains of later years.

boxes 8.18 and 8.19 These boxes summarise the losses you have made in earlier years that have not yet been used against chargeable gains. See the notes on pages CGN11 and CGN12 for details of how they are set against chargeable gains.

boxes 8.20 and 8.21 These boxes summarise your losses to carry forward.

Page CGN2 tells you when to fill in the Capital Gains Pages. You do not need to fill in the Pages if your only entries are in the Summary of earlier years' losses and Total of unused losses to carry forward: boxes 8.15 to 8.21.

Clogged losses

Clogged losses are losses that can only be set against gains of certain types (see page CGN11). You must keep these losses separate from your other losses and ensure that they are used at the appropriate time. **Do not merge the clogged losses into your main loss record on Page CG8 at any time.**

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 or ISA, are usually outside the charge to tax (see page CGN8).

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 section 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 gain is called your **chargeable gain**. You must pay Capital Gains Tax if your net chargeable gains for 2005–06 exceed £8,500 after deducting any allowable losses or taper relief. Section 1 beginning on page CGN2 shows how to fill in the Capital Gains Pages.

So how do you start? Here is a simple example. Let us say that on 1 March 1988 you bought 3,000 shares in a company for £2.50 each. Your broker charged a fee of £100. On 5 August 2005 you sold those shares for £4.50 each. Your broker charged a fee of £200.

Your gain is:

Sale price		£13,500
minus Broker's fee		<u>£200</u>
		£13,300
Cost	£7,500	
plus Broker's fee and any stamp duty	<u>£100</u>	<u>£7,600</u>
Net gain		£5,700

You must then deduct indexation allowance which is an adjustment for the effects of inflation from this gain. Indexation allowance is available to April 1998. 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 net gain. The notes beginning on page CGN15 explain how to find the indexation factor from the table on page CGN16. In this case the indexation factor is 0.562 and so your indexation allowance is:

$$£7,600 \times 0.562 = £4,272$$

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

Net gain	£5,700
minus indexation allowance	<u>£4,272</u>
Chargeable gain	£1,428

Taper relief may be due on this disposal and this is explained on page CGN18. If this is your only chargeable gain in 2005–06, you will have no Capital Gains Tax to pay because you can make chargeable gains of up to £8,500 before you pay Capital Gains 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 indexed chargeable gains to decide whether your total gains are greater than £8,500. You can also deduct losses you have 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 us or your 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**
- its value has increased since you acquired it, or since 31 March 1982 if that is later, **or**
- its value at the date of disposal is greater than the reduced value for which you are deemed to have acquired the asset because of an earlier relief.

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. 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.

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, the 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 such as compensation for damage or an insurance receipt from your ownership of an asset, **or**
- you dispose of an asset that you acquired from your spouse or civil partner, **or**
- 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*, **or**
- you are the settlor or beneficiary of a trust (see 'Other taxable gains' on page CGN10).

■ Who pays Capital Gains Tax?

You must pay Capital Gains Tax on all your chargeable gains, after deducting allowable losses and applying taper relief if you are resident or ordinarily resident, **and** domiciled in the UK in 2005–06.

Normally the location of assets is irrelevant but 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). Domicile does not affect the taxation of gains on the disposal of assets situated in the UK.

If you are neither resident nor ordinarily resident in the UK, you are taxable on gains made in 2005–06 from assets of any permanent establishment in the UK through which you are trading or carrying on a profession or vocation. If you left the UK after 5 April 2005 you may also be taxable on gains made in 2005–06 from disposals after the date of your departure. You may also be taxable on gains made from any other assets which you owned while you were resident or ordinarily resident in the UK and disposed of in 2005–06 if your period of residence outside the UK does not exceed five full tax years. However, any such gains will not be taxable until the year

in which you resume residence in the UK, see *Help Sheet IR278: Temporary non-residents and Capital Gains Tax*.

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 etc. Pages which explain residence and domicile in more detail and, if appropriate, complete the Non-residence etc. 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, shares and units in unit trusts
- land and property
- business assets, such as goodwill.

The capital gains rules for shares apply generally to units in a unit trust but with some modifications. For more information, ask the Orderline for *Help Sheet IR284: Shares and Capital Gains Tax*. Shares or units in a monthly savings scheme may also come under the special scheme in Statement of Practice SP2/99, available from us or at www.hmrc.gov.uk

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. The explanation of the common reliefs on page CGN18.

■ Exempt assets

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
- stocks and shares held within a Personal Equity Plan (PEP) or an Individual Savings Account (ISA)
- bonuses from Tax Exempt Special Savings Accounts (TESSAs)
- UK Government stocks (gilts)
- personal injury compensation
- foreign currency for your, or your family's, personal use
- life assurance policies and deferred annuity contracts, unless at any time acquired for actual consideration
- 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
- shares issued after 18 March 1986 where relief has been given under the Business Expansion Scheme and not withdrawn
- Enterprise Investment Scheme shares where Income Tax relief has been given (and not withdrawn)
- Venture Capital Trust shares acquired within the annual limits and under certain conditions.

If your only disposals are of these types of asset and you have no chargeable gains, you should not tick the 'Yes' boxes in Question 8 of your Tax Return.

If a gain on the disposal of an asset would be exempt from Capital Gains Tax, normally any loss you make on that asset will not be an allowable loss. There is one exception. If such a loss arises on shares which have Enterprise Investment Scheme Income Tax relief attached to them, the loss is allowable, for more information go to hmrc.gov.uk/guidance/eis-index.htm

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 CGN18.

■ 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 part of 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 if 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 CGN15.

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 this page.

If you transfer an asset to your spouse or civil partner 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 or civil partner. Your spouse or civil partner 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*.

■ 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, need 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 giving up 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 us or your tax adviser for further details.

If you receive cash on an exchange of shares for qualifying corporate bonds, or on a conversion of securities, any 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 us or your tax adviser for further details.

■ What is small?

If in the situations 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, **and**
- the amount you receive is less than the allowable cost of the asset

then you do not need to enter the amount as a disposal on Page CG1 or Pages CG2 and CG3.

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 CG1 or Page CG2, **and**
- explain on Page CG7 why you think the amount should be treated as small;

but **do not** include the gain or loss in the totals on Page CG1 or boxes 8.1 or 8.2 on Page CG3. We 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 us or your tax adviser.

If you have received cash which is liable to Capital Gains Tax (which is likely if you received it following a conversion or take-over of a building society), then you should include details in the list on Page CG2.

If you need more detailed guidance on how to work out the gain, ask us or your tax adviser.

If you have received shares, then you only need to provide details of any gain you make when you dispose of the shares or authorise someone to dispose of them on your behalf.

■ 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 us 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*.

If you have exchanged shares or securities for a right to receive an unknown number of shares or securities in the future, the right may be treated as if it were a security so that the company reconstruction rules apply to the exchange of the original shares or securities for the right, see *Help Sheet IR285: Share reorganisations, company take-overs and Capital Gains Tax*. An election for such a right conferred in 2005-06 not to be treated as a security, should be made by giving details in Column G on Page CG2. The time limit for such an election is 12 months from 31 January in the tax year following the tax year in which the right is conferred, that is, 31 January 2008 for 2005-06.

Allowable losses set against income

If you have losses from the disposal of certain shares in an unquoted company, you may be able to set those losses against your income, rather than your gains. The rules for making such a claim are explained in *Help Sheet IR286: Negligible value claims and Income Tax losses on disposals of shares you have subscribed for in qualifying trading companies*, and for Enterprise Investment Scheme companies in *Help Sheet IR297: Enterprise Investment Scheme and Capital Gains Tax*, available from the Orderline. Further detail is available at hmrc.gov.uk/guidance/eis-index.htm

If you are making a claim on your Tax Return to set such losses against your income, enter the amount of the loss in box 8.13A or box 8.13B. You must also give details of your capital loss on Pages CG2 and CG3.

Other taxable gains

In certain circumstances you may have to pay Capital Gains Tax on gains 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. (Include these gains on rows 1 to 8 on Page CG2 but please note that taper relief is not available against these gains. Your personal losses may be set against them.), **or**
- a trust resident in the UK from which you or your spouse or civil partner can or do benefit and of which you are the settlor (see paragraph on page CGN4 at the end of the section headed 'Column A'), **or**
- a trust not resident in the UK at that time, the gains of which are attributed to you because you have received capital payments or benefits (ask the Orderline for *Help Sheet 301: Calculation of the increase in tax charge on capital gains from non-resident, dual resident and immigrating trusts*). (Enter these gains in row 11 on Page CG3.), **or**
- the gains of a trust not resident in the UK which are attributed to you because you are a settlor (ask the Orderline for *Help Sheet IR299: Non-resident trusts and Capital Gains Tax*). (See paragraph on page CGN4 at the end of the section headed 'Column A').

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

Gains of earlier years

Some gains that were made before 2005–06 may be taxable in 2005–06, 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, see *Help Sheet IR297: Enterprise Investment Scheme and Capital Gains Tax* or *Help Sheet IR298: Venture Capital Trusts and Capital Gains Tax*, **or**
- a gain accrued in 2001–02, 2002–03, 2003–04 or 2004–05 when you were regarded as a 'temporary non-resident', see *Help Sheet IR278: Temporary non-residents and Capital Gains Tax*.

You must include these gains in the Capital Gains Pages.

Section 4 – Calculating gains and losses

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 us or your tax adviser.

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 CGN12 for examples showing how to work out your gain or loss.

If you have disposed of shares or securities there are special rules for identifying the assets involved and working out the gain or loss. See *Help Sheet IR284: Shares and Capital Gains Tax*, available from the Orderline.

Shares in an approved investment trust or an open-ended investment company, or units in an authorised unit trust, which are invested in a monthly savings scheme may also come within the special simplified scheme in Statement of Practice SP2/99, available from us or at www.hmrc.gov.uk

Help Sheet IR287: Employee share schemes and Capital Gains Tax, available from the Orderline, explains more about shares which you acquired in connection with your employment or by exercising an employee share option.

A simple calculation

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

	See notes on page
Disposal proceeds (a)	CGN12
<i>minus</i> Cost of acquisition (b)	CGN13
Enhancement costs (c)	CGN13
Incidental acquisition costs (d)	CGN13
Incidental disposal costs (e)	CGN13
Total costs	<u>x</u>
<i>minus</i> Indexation allowance on (b), (c) and (d) (to April 1998 only)	CGN15
<i>equals</i> Chargeable gain	<u>CGN7</u>

A Working Sheet based on this simple calculation is on page CGN24.

If after deducting indexation allowance you still have a chargeable gain, you may be entitled to taper relief. This is explained on page CGN18. The remainder of your calculation will look like this:

Chargeable gain (from above)	£ x
Percentage of gain chargeable after taper relief (based on the qualifying holding period after 5 April 1998 for the asset now disposed of)	x %
Tapered gain: chargeable gain multiplied by taper % =	<u>£</u>

If the asset disposed of does not qualify for taper relief your final gain will be the same as the chargeable gain above.

This simple calculation will not work if:

- the disposal is a part disposal, see page CGN15, **or**
- relief is due, see page CGN18, **or**
- you have losses to set against the chargeable gain, see page CGN11, **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 and, if indexation or taper are due, all these shares attract the same rate of indexation or taper relief.

If you have made a loss on your sale, the rules are different. First, 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. Second, the taper relief rules do not apply to losses.

Instead you should set your losses against any chargeable gains you have made before you consider applying taper relief to those gains.

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.

■ How is a loss allowed?

The total allowable losses of 2005–06 are deducted from the total chargeable gains for the year, with the exception of certain attributed gains. You cannot set personal losses against gains which are treated as yours because you are a beneficiary of a non-resident trust or where the gains are treated as yours in the 'special case' described in *Help Sheet IR277: Trusts with settlor interest and trusts for the vulnerable: taper and losses*. Your personal losses can be set against other attributed trust gains but only to the extent that they cannot be set against your personal gains, see *Help Sheet IR277*. The deduction of losses takes place **before** the application of taper relief, (see page CGN18). If the allowable loss is greater than the chargeable gains these losses are 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 the chargeable gains, **before taper**, to the level of the annual exempt amount. Losses from 1996–97 and later years must be used in priority to any other losses you may have from 1995–96 and earlier years. Allowable losses must be set against the gains for the year in which they arose before you carry them forward to later years. These points are illustrated in Example 21, headed 'Allowable losses' in Section 8, page CGN21.

If you have attributed gains from which you may not deduct personal losses, in determining what losses brought forward are required to reduce the chargeable gains to the level of the annual exempt amount, you first reduce the annual exempt amount by the amount of those attributed gains.

Clogged losses

Clogged losses are losses that can only be set against gains of certain types. These are:

- Losses on disposals to connected persons, see page CGN14. These losses can only be set against gains on disposals to the same connected person. Subject to that restriction all the normal rules relating to those losses apply.
- Losses transferred to you by trustees when you become absolutely entitled to settled property, but only where the transfer occurred after 15 June 1999. In this case the losses can only be set against gains arising on the same asset, or an asset derived from that asset. In this situation the losses are set against those gains in priority to any other losses whether of the same year or brought forward and are treated as if they were losses of the current year.

In order to keep these losses separate and ensure that they are allowed at the appropriate time, if you have any clogged losses of the year, or clogged losses of any earlier year, please make a copy of the lower part of Page CG8 for each clogged loss. This copy is referred to here as a 'shadow' Page CG8.

Do not merge the clogged losses into your main Page CG8 loss record at any time. You should keep a copy of any shadow Page CG8 at least until the clogged losses have been fully utilised. Do not send copies of shadow Pages unless we ask you to.

Completion of Page CG1

If you complete Page CG1 and have a loss during the year which is 'clogged', write the word 'clogged' in Column F and give an explanation on Page CG7. If you use clogged losses of the year or clogged losses brought forward, include the amounts used in

box F2 and/or box F6, as appropriate, and give the amounts and an explanation on Page CG7. Enter the use of any actual losses on the loss record on Page CG8, and the use of clogged losses on any shadow Page CG8, as required.

If clogged losses are included in Column E, or in box F2 or F6, tick the appropriate 'Yes' box on Page CG8.

Completion of Pages CG2 and CG3

If you complete Pages CG2 and CG3 and have a clogged loss write the word 'clogged' alongside the description in Column A and give an explanation on Page CG7. Include the full amount of the clogged loss in the figure in box 8.2 but divide this total loss between box 8.10 on the loss record on Page CG8 and any shadow Page CG8, as required.

If you set clogged losses against gains in Columns K1 or K3, give the amounts and an explanation on Page CG7. Enter the use of any actual losses on the loss record on Page CG8 and the use of clogged losses on any shadow Page CG8, as required.

If clogged losses are included in any of the Columns H, K1 or K3, tick the appropriate 'Yes' box on Page CG8.

■ 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 preceding years. Further information is available in *Help Sheet IR282: Death, personal representatives and legatees*.

You may claim to carry back losses made on the expiry or termination of a mineral lease against gains made from mineral royalties. You may also be able to elect to carry back allowable losses arising on a disposal after 9 April 2003 of a right to deferred unascertainable consideration.

If you are making a claim or election on your Tax Return to set such losses against earlier years' gains you should enter the amount of the loss in box 8.12 and also enter details of your claim on Page CG7.

■ 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. If you ticked one of the 'Yes' boxes in Question 8 on page 2 of your Return you must include all allowable losses for the year in the losses section on either Page CG1 or Pages CG2 and CG3 and, if appropriate, Pages CG4 to CG6. We will treat these entries as your claim to allowable losses. 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 in the notes above.

You do not have to claim losses for 1995–96 and earlier years. The accumulated amount of such losses should be entered in box 8.18. If you are using some of these losses against gains of 2005–06 the amounts being used should be entered in the boxes for allowable losses brought forward on Page CG3, Column K3 and box 8.6 of your 2005–06 Tax Return. Such losses will form part of this Tax Return and your Tax Inspector may make enquiries into them. There is no time limit before which these earlier losses must be used.

■ How to make a claim for a loss

The rules for completing Returns mean that many losses will have to be included in the Tax Return for the year in which they are made. In 2005–06, if the total worth of all the chargeable assets you disposed of was more than £34,000 or you have made chargeable gains of more than £8,500, you must include all allowable losses you want to claim for the year in the losses section on Pages CG1 or CG2 and, if appropriate, Pages CG4 to CG6. By giving the details requested on Pages CG1 or CG2 and, if appropriate, Pages CG4 to CG6 we will treat the entries as your claim to allowable losses.

If you have already sent the Return and you discover a loss that should have been claimed on your Tax Return you should, if the time for amending your Tax Return:

- has not yet passed – write to us giving details of your loss and amend the Tax Return
- has already passed but you are still in time to make a claim, see the next section – send us a letter notifying the amount of the loss.

If your loss is one that you do not need to claim right away see the next section, 'Is there a time limit for claiming losses?' for details of when the loss should be claimed.

■ **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 2005–06 is 31 January 2012.

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. There is no time limit for claiming losses for 1995–96 and earlier years which can be carried forward indefinitely until there are gains against which they can be set (see 'Do losses have to be claimed?' on page CGN11).

■ **What is the date of disposal (or acquisition)?**

If the disposal (or acquisition) is by way of a contract, the date of disposal (or acquisition) 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 (or acquisition) is the date on which the last of the conditions is met.

In other cases where there is no contract the date of disposal (or acquisition) will usually be the date when ownership of the asset is effectively transferred.

There are exceptions. For example, in most of the cases where you get a capital sum from your ownership of an asset the date of disposal is the date you receive the capital sum.

Example 2

You sell a piece of land under an unconditional contract dated 2 April 2006.

The land was conveyed to the purchaser on 2 May 2006.

Your disposal, for the purpose of working out your gain or loss, is treated as taking place on 2 April 2006.

Your disposal is in the tax year ending on 5 April 2006 and you should include any gain or loss in your Tax Return for 2005–06.

■ **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 3

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 straight away.

If the total amount to which you are entitled is known or can be calculated, include the full amount you are due to 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 us for details.

Example 4

You sell shares in a company in December 2005 for £50,000, together with a sum equal to 10% of the profits made by the company in the year ended 30 June 2005. 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 5

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 CGN13. 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, see 'What about transfers to spouses or civil partners?' on page CGN17), **or**
- wholly or partly for a consideration that cannot be valued.

The phrase 'connected person' is explained on page CGN14.

List the total disposal proceeds of each of your disposals on Page CG1 or Page CG2 of the Capital Gains Pages.

Example 6

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 most often where one party intends in that transaction to confer a gratuitous benefit on the other.

Example 7

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 establishing, preserving or defending your title to an 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 or alternative finance payments. An alternative finance payment is the charge made by your finance provider over and above the original cost of the asset in the alternative finance arrangement.

The expenses you can deduct may be reduced if the asset you have sold is a wasting asset. This phrase is explained on page CGN14. If you have only made a part disposal of an asset, you can only deduct part of the expenditure on that asset. See page CGN15 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. If you bought the asset using an alternative finance arrangement the acquisition cost is the original cost of the asset under the arrangement, and does not include any alternative finance payments. 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 in the next column.

Market value will apply where you acquired the asset, for example:

- from 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, see 'What about transfers to spouses or civil partners?' on page CGN17), **or**
- wholly or partly for a consideration that cannot be valued, **or**
- where rebasing to 31 March 1982 applies (see page CGN14).

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, **rebasing** 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 CGN14 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 8

You 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 may 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, **or**
- stamp duty.

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

You cannot deduct any subsequent costs you incur if we disagree with your valuation.

■ What is expenditure on establishing, preserving or defending your title to 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 your land.

■ 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.

If the asset you have disposed of was held by you at 31 March 1982, **rebasing** will apply – rebasing is explained on page CGN14. 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. 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.

In the case of shares or securities quoted on the Stock Exchange Daily Official List (SEDOL) the market value is calculated in a special way. For those assets the market value in all normal circumstances 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.

Example 9

You own the freehold interest in a piece of land. That interest is worth £100,000. You grant your brother a lease over that land. The lease is worth £20,000. Four years later you sell your brother the freehold interest for its then 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 ($\frac{£20,000}{£80,000} \times £100,000$) in working out your gain. You must replace the £60,000 you got for the freehold interest by £75,000 ($\frac{£60,000}{£80,000} \times £100,000$) in working out the gain on that disposal.

■ Estimates and valuations

If you have used any estimated figures to work out your gains and losses, tick the appropriate box in Column B on Page CG1 or CG2 and describe which figures you estimated and why you had to estimate on Page CG1, or Pages CG4 to CG6 if you have filled in the grid on Pages CG2 and CG3. Please also tick the 'Yes' box at the top of Page CG8.

You should include any valuations you have used to work out your gains or losses, for example, because the asset was acquired from, or was disposed of to, a connected person or because you held the asset at 31 March 1982. You should tick the appropriate box in Column B, 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. We use specialist valuers to value some assets, mainly unquoted 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. If we do not enquire into a computation, you should not assume that valuations used in that computation are agreed.

■ Valuations already checked by us

If you have already asked us on form CG34 to check any of the valuations you have used in your calculations, put a note to that effect on Pages CG1 or CG4 to CG6. We need 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 or civil partner (but if you are living together any gains are deferred), see *Help Sheet IR281: Husband and wife, civil partners, divorce, dissolution and separation*
- your brothers and sisters and your spouse's or civil partner's brothers and sisters
- your parents, grandparents and other ancestors and your spouse's or civil partner's parents, grandparents or other ancestors
- your children and other lineal descendants and your spouse's or civil partner's children and other lineal descendants
- the husbands or wives or civil partners of any of the relatives listed above
- your business partners and their relatives, together with the husbands and wives or civil partners 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 living individual 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. Enter details on Pages CG1 or CG4 to CG6. See also the section on 'Clogged losses' on page CGN11.

■ 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 a wasting asset.

When you dispose of a wasting asset the expenses you can deduct may be 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 10

In March 1996 you bought a printing press for £100,000. You sold it in June 2005 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 (within the time limit allowed, see below) 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 or civil partner at a time when you were living together, **and**
- your spouse or civil partner 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. The asset will be covered by the election or non-election of your spouse or civil partner, unless the asset was transferred to you before 6 April 1988.

Your election is called a 'rebasement 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 one year and 10 months of the end of the tax year in which you first made a disposal of an asset which you held at 31 March 1982. If the first such disposal is made in 2005–06 the latest date for making an election is 31 January 2008. We have 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.

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

Show where you have used a valuation at 31 March 1982 by ticking the appropriate boxes in Columns B and C on Page CG2.

If you want to make a rebasement election in your 2005–06 Tax Return enter 'rebasement election' in Column G on Page CG2 against each disposal affected by the election.

What is indexation allowance?

This allowance ensures that only gains adjusted for the effects of inflation up to April 1998 since you acquired the asset are taken into account. Indexation allowance is frozen from April 1998. However, taper relief applies to disposals on or after 6 April 1998, see Section 6 on page CGN18, which explains how taper relief works. Indexation allowance works 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 between the time you acquired it and April 1998.

If you held the asset at 31 March 1982 (or you acquired that asset from your spouse or civil partner 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 or civil partner after 5 April 1988 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 below 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 11

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.

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 us or your 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 (see page CGN17).

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 Capital Gains Manual at any Enquiry Centre, which explains the rules for indexation allowance in detail. The manual is also available at www.hmrc.gov.uk

When does indexation allowance apply?

In the computation of chargeable gains accruing on or after 6 April 1998 indexation allowance has been frozen. This means that indexation allowance will be given for periods up to April 1998, but not after then. So, for an asset held at 6 April 1998 and disposed of after that date, indexation allowance will be computed for the period from the date of acquisition (or the date the expenditure was incurred) to April 1998, but not for the period from April 1998 to the date of disposal. For assets acquired on or after 1 April 1998 no indexation allowance can be deducted in computing the chargeable gain.

How is indexation allowance calculated?

You work out indexation allowance by multiplying the amount you spent by the indexation factor. You can find a table of indexation factors on page CGN16. You need to select the indexation factor for the year and the month in which you acquired the asset or, for subsequent expenditure on the asset, the year and month in which you incurred the expenditure. For example, the indexation factor for expenditure incurred in June 1989 is 0.409.

Example 12

You buy an asset for £10,000 in June 1989 and sell it for £20,000 in November 2005.

Your indexation allowance will be:

$$£10,000 \times 0.409 = £4,090$$

You deduct an allowance of £4,090 in calculating your indexed gain.

What about losses?

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

Example 13

You sell an asset in May 2005 for £20,000. It cost you £30,000 in November 1990. 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 14

You sell an asset in July 2005 for £70,000. It cost you £50,000 in June 1984. Before indexation allowance you make a gain of £20,000.

Your indexation allowance would be:

$$£50,000 \times 0.823 = £41,150$$

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.

In a case like this enter the gain in Column E on Page CG1 or Column H on Page CG3, as nil.

■ **Indexation allowance table for disposals after 31 March 1998**

You work out indexation allowance by multiplying the amount you spent by the indexation factor. All of the factors you will need are included in the table below.

For example, if you incurred expenditure in June 1989, look across the Month columns to find June and then look down the column until you find the row for 1989. Your indexation factor for June 1989 will be 0.409.

Year	Month											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982			1.047	1.006	0.992	0.987	0.986	0.985	0.987	0.977	0.967	0.971
1983	0.968	0.960	0.956	0.929	0.921	0.917	0.906	0.898	0.889	0.883	0.876	0.871
1984	0.872	0.865	0.859	0.834	0.828	0.823	0.825	0.808	0.804	0.793	0.788	0.789
1985	0.783	0.769	0.752	0.716	0.708	0.704	0.707	0.703	0.704	0.701	0.695	0.693
1986	0.689	0.683	0.681	0.665	0.662	0.663	0.667	0.662	0.654	0.652	0.638	0.632
1987	0.626	0.620	0.616	0.597	0.596	0.596	0.597	0.593	0.588	0.580	0.573	0.574
1988	0.574	0.568	0.562	0.537	0.531	0.525	0.524	0.507	0.500	0.485	0.478	0.474
1989	0.465	0.454	0.448	0.423	0.414	0.409	0.408	0.404	0.395	0.384	0.372	0.369
1990	0.361	0.353	0.339	0.300	0.288	0.283	0.282	0.269	0.258	0.248	0.251	0.252
1991	0.249	0.242	0.237	0.222	0.218	0.213	0.215	0.213	0.208	0.204	0.199	0.198
1992	0.199	0.193	0.189	0.171	0.167	0.167	0.171	0.171	0.166	0.162	0.164	0.168
1993	0.179	0.171	0.167	0.156	0.152	0.153	0.156	0.151	0.146	0.147	0.148	0.146
1994	0.151	0.144	0.141	0.128	0.124	0.124	0.129	0.124	0.121	0.120	0.119	0.114
1995	0.114	0.107	0.102	0.091	0.087	0.085	0.091	0.085	0.080	0.085	0.085	0.079
1996	0.083	0.078	0.073	0.066	0.063	0.063	0.067	0.062	0.057	0.057	0.057	0.053
1997	0.053	0.049	0.046	0.040	0.036	0.032	0.032	0.026	0.021	0.019	0.019	0.016
1998	0.019	0.014	0.011									

■ 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.

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 an asset.

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

Example 15

You acquired an asset under a contract made in March 1995.

Payment did not have to be made until June 1995. When you calculate your indexation allowance you should treat the expenditure as if it had been made on the acquisition in March 1995.

Example 16

In May 1996 you entered into a contract with a builder to add an extension to a let property you own. The cost was due and payable when the work was finished in September 1996. When you calculate the indexation allowance you should treat the expenditure as incurred in September 1996.

You cannot have indexation allowance on the costs of disposing of an asset, regardless or 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 17

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 or civil partners?

If you dispose of an asset to your husband or wife or civil partner, 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 or civil partner will pay tax on any gain they make when they dispose of the asset. Ask the Orderline for *Help Sheet IR281: Husband and wife, civil partners, divorce, dissolution and separation*.

Example 18

In August 2005 you give a painting to your husband. It cost you £50,000 in June 1986. You are treated as having disposed of it for £83,150 as shown below. He is treated as having acquired it for the same amount.

Transferred at	£83,150
Cost	£50,000
Indexation allowance (to April 1998 only)	
£50,000 × 0.663	<u>£33,150</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.

■ What about assets held at 31 March 1982?

If you:

- owned an asset at 31 March 1982, **or**
- acquired an asset from your spouse or civil partner in a no gain/no loss transfer after that date, and your spouse or civil partner 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 or civil partner 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 19

You bought an asset in 1979 for £20,000. At 31 March 1982 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 shares or securities?

Shares acquired (or treated as acquired) after 5 April 1982 and before 6 April 1998 are treated as a single asset, the share pool, if they are:

- of the same class
- in the same company
- acquired in the same capacity.

Shares acquired (or treated as acquired) between 7 April 1965 and 5 April 1982 from 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.

Shares etc. acquired on or after 6 April 1998 are not pooled. They also do not attract any indexation allowance, (see page CGN15). If you have disposed of shares or securities, ask the Orderline for *Help Sheet IR284: Shares and Capital Gains Tax*.

Shares in an approved investment trust or an open-ended investment company, or units in an authorised unit trust, which are invested in a monthly savings scheme may come within the special simplified scheme in Statement of Practice SP2/99, available from us or at www.hmrc.gov.uk

Help Sheet IR287: Employee share and security schemes and Capital Gains Tax, available from the Orderline, explains more about shares which you acquired in connection with your employment or by exercising an employee share option.

Section 6 - Taper relief

Introduction

Taper relief is a relief that reduces the amount of a gain chargeable to Capital Gains Tax, according to the number of whole years that asset has been held after **5 April 1998**. The greater the number of whole years that you have held the asset the smaller the percentage of gain which is chargeable to tax. The amount of the reduction is shown in the table below and depends on whether the asset is a business asset or a non-business asset.

Gains on business assets		Gains on non-business assets	
Number of whole years	Percentage of gain chargeable	Number of whole years	Percentage of gain chargeable
1	50	1	100
2 or more	25	2	100
		3	95
		4	90
		5	85
		6	80
		7	75
		8	70
		9	65
		10 or more	60

The complete taper relief has been included for information, although for disposals in tax year 2005-06 that you include in this Return it will only be possible to accumulate eight whole years for non-business assets if the asset qualifies for the additional (bonus) year (as described in *Help Sheet IR279: Taper relief*). The percentage rates that are shaded will not be available until later tax years.

If you need any further information, ask for *Help Sheet IR279: Taper relief*.

In a few limited cases, chargeable gains are not subject to taper relief. For example, if you are charged on gains made by a company not resident in the UK because you are a participator in that company, no taper relief will be due.

What is a business asset?

A business asset for the purposes of taper relief is:

- to 5 April 2004 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
- from 6 April 2004 an asset (other than shares or securities) which is used for the purpose of a trade, profession or vocation carried on by an individual, and certain partnerships (as described in *Help Sheet IR279*) or by your qualifying company
- to 5 April 2000 an asset (other than shares or securities) held for the purposes of a qualifying office or employment with a trading employer to which you are required to devote substantially the whole of your time. From 6 April 2000 there is no requirement for you to devote substantially the whole of your time to the office or employment
- shares or securities held by you in your qualifying company.

To 5 April 2000 a qualifying company is a trading company (or the holding company of a trading group) in which you hold shares which entitle you to exercise at least 25% of the voting rights in that company, or 5% of the voting rights if you are a full-time working officer or employee of that company (or group).

From 6 April 2000 a qualifying company is a trading company (or the holding company of a trading company) which is not listed

either on the London Stock Exchange or a recognised overseas exchange or, if listed, you are either an officer or employee of the company (or group) or you hold shares which entitle you to exercise at least 5% of the voting rights in that company.

From 6 April 2000 a company will also be your qualifying company where, although it is not a trading company, you are an employee of the company and you do not have material interest in the company or a company that controls it. Broadly, you will have a material interest where by one means or another you have more than a 10% interest. For example, if you have more than 10% of a particular class of share in the company you will have a material interest.

Where an asset becomes or ceases to be a business asset during the period you owned it, you may need to apportion any chargeable gain into a part that relates to a business asset and a part to a non-business asset. The appropriate rate of taper is then applied to each gain. This is explained in *Help Sheet IR279: Taper relief*.

Section 7 - Reliefs and elections

Relief from Capital Gains Tax is 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 together with all the other reliefs you are claiming.

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 (see notes on completion of Column G on page CGN5).

You should 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 or at www.hmrc.gov.uk 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 (a little less than 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
- you have had a second home, and the property you have disposed of has not been your main home during your whole period of ownership
- you acquired your home by way of a gift on which gifts hold-over relief under Section 260 of the Taxation of Chargeable Gains Act 1992 is obtained. (Note: Special transitional rules that may allow some private residence relief to be obtained apply where the gift was made before 10 December 2003.)

If you are married or in a civil partnership, and you are not separated from your spouse or civil partner, you can only have **one** main residence between you.

If you think that 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 *Helpsheet IR290: Business asset roll-over relief*. The definition of business asset for this purpose is not the same as that for taper relief (in Section 6 - 'What is a business asset?').

Complete the claim form attached to *Help Sheet IR290*. Please attach the claim form to the Tax Return when you send it back. If you are claiming in relation to any disposal, enter 'roll-over relief' and the amount claimed in Column G on page CG2 next to that disposal.

Gifts hold-over relief allows gains to be deferred when certain assets are given away. If you want to claim this relief, ask the Orderline for *Helpsheet IR295: relief for gifts and similar transactions*. **Claims must be made by completing the claim form attached to *Help Sheet IR295* or a copy of the form.** Please attach the claim form to your Tax Return. Write 'gifts hold-over relief' in Column G on Page CG2 next to the relevant disposal and enter the amount claimed. Other reliefs for gifts and similar transactions are described in *Help Sheet IR295: Reliefs for gifts and similar transactions*, for example, gifts to charities and claims to defer payment of tax. In the case of gifts to charities of listed shares and securities etc. or of real property the exemption from Capital Gains Tax applies in addition to, and not as an alternative, to the relief described in the note to boxes 15A.4 and 15A.5 on page 27 of the Tax Return Guide. If you want more information go to www.hmrc.gov.uk

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

Dependent relative relief allows relief on the disposal of a home which you provided to a dependent relative before 6 April 1988 and which was occupied by the relative as their sole residence. See *Help Sheet IR283: Private residence relief*. If you want this relief, you must claim it on the Capital Gains Pages by writing 'dependent relative relief' in Column G on Page CG2 next to the relevant disposal. Enter the amount of the relief claimed.

Halving relief relieves half of a gain arising from a gain deferred before April 1988. See *Help Sheet IR280: Rebasing - assets held at 31 March 1982*. If you want this relief, you must claim it on the Capital Gains Pages by writing 'halving relief' in Column G on Page CG2 next to the relevant disposal and entering the amount of relief claimed.

Enterprise Investment Scheme deferral relief allows gains to be deferred when you subscribe for Enterprise Investment Scheme shares. See *Help Sheet IR297: Enterprise Investment Scheme and Capital Gains Tax*. Enterprise Investment Scheme deferral relief can only be claimed on receipt of an EIS3 certificate from the company invested in. A claim form is attached to the certificate for completion to claim the relief. When claiming, write 'Enterprise Investment Scheme deferral relief' or 'Venture Capital Trust deferral relief' in Column G on Page CG2 next to the relevant disposal and enter the amount of relief claimed.

Enterprise Investment Scheme and Venture Capital Trust disposal reliefs. See *Help Sheet IR297* and *Help Sheet IR298: Venture Capital Trusts and Capital Gains Tax*, as above. Any gain on the disposal of Enterprise Investment Scheme or Venture Capital Trust shares may not be chargeable to Capital Gains Tax. If you have taken advantage of either of these reliefs on the disposal of any shares, write 'Enterprise Investment Scheme disposal relief' or 'Venture Capital Trust disposal relief' in Column G on Page CG2 next to the relevant disposal and enter the amount of relief claimed.

Business incorporation 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, write 'business incorporation relief' in Column G on Page CG2 next to the relevant disposal and enter the amount of the relief. For transfers on or after 6 April 2002 it is possible to elect out of this relief. Further guidance is given in *Help Sheet IR276: Incorporation relief*.

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 2005-06. You can claim relief by writing 'unremittable gains' in Column G on Page CG2 next to the relevant disposal. Enter the amount claimed.

Gains becoming remittable. Where a gain was not taxed in an earlier year because it was unremittable but it can now be remitted to the UK it is treated as a gain arising in 2005-06. A gain may become remittable if, for example, exchange controls are lifted. Include any gains to which this applies whether or not they are actually remitted to the UK.

Negligible value claims, and claims in respect of **certain loans that have become irrecoverable**, which have the effect of crystallising losses, may be made in Column G on Page CG2. Further guidance on such claims is given in, respectively, *Help Sheet IR286: Negligible value claims and Income Tax losses on disposals of shares you have subscribed for in qualifying trading companies* and *Help Sheet IR296: Debts and Capital Gains Tax*.

Relief for losses against income. This relief is introduced on Page CGN10. If you are claiming this relief, write 'relief for losses against income' in Column G on Page CG2 next to the relevant disposal and enter the whole amount of the loss in Column H on Page CG3. Enter the amount claimed in boxes 8.13, 8.13A or 8.13B.

Rebasing. Following the instructions on page CGN14.

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 ('foreign tax credit relief'). Foreign 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 foreign tax credit relief you should ask the Orderline for the Foreign Pages, if you do not already have them.

If you 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 (that is, the gains less the foreign tax) the appropriate proportion of the foreign tax attributable to the net gains remitted.

If a gain accrued in 2001-02, 2002-03, 2003-04 or 2004-05 when you were regarded as a 'temporary non-resident' and you wish to claim relief for foreign tax paid, see *Help Sheet IR278: Temporary non-residents and Capital Gains Tax*, available from the Orderline.

It will usually be to your advantage to claim foreign 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.

If you **do not** wish to claim foreign tax credit relief, deduct the foreign tax paid in calculating the amount of the chargeable gains or allowable losses to be entered in Column H on Page CG3. You cannot, however, deduct part of the foreign tax in calculating the gain on disposal and claim credit for the balance.

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

Relief for Special Withholding Tax. If gains chargeable to Capital Gains Tax have had tax withheld by another country because of the European Union Savings Directive, you will be able to set the tax withheld against your UK tax liability.

To claim the Special Withholding Tax, ask the Orderline for the Foreign Pages of the Return and complete Page F3.

Relief for Inheritance Tax on a Gift or Deemed Disposal.

Inheritance Tax is not usually taken into account in calculating liability to Capital Gains Tax. In exceptional circumstances, it may be taken into account when the transferee disposes of the assets. Further guidance is available in *Help Sheet IR295: Reliefs for gifts and similar transactions*.

Gift Aid. If you make payments under Gift Aid (see the notes to Question 15A on pages 26 and 27 of your Tax Return Guide), you might obtain relief from tax at the higher rate on capital gains. In addition, Capital Gains Tax can be taken into account as tax paid in determining whether you have paid enough tax to match the tax which the charity can reclaim. If you ask us to calculate your tax for you, we take this into account when we work out your tax bill. If you work out your tax the Tax Calculation Guide takes this into account in the calculation process. (Ask the Orderline for the Comprehensive Tax Calculation Guide if you have capital gains and you want to calculate your tax.) If you want more information about giving to charity please contact us.

Relief on certain disposals of shares to the trustees of an approved share incentive plan. This relief allows gains on the disposal of shares that are not quoted on a recognised stock exchange to be deferred if replacement assets are acquired and other conditions are met. If you think you may be entitled to this relief ask the Orderline for *Help Sheet IR287: Employee share and security schemes and Capital Gains Tax*.

Section 8 – worked examples of gains and losses

■ The basic calculation

Example 20

A piece of land, which was bought in June 1988 for £20,000, was sold in May 2005 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
<i>minus</i>	Incidental costs		<u>£5,000</u>
	Net disposal proceeds		£95,000
	Cost	£20,000	
<i>plus</i>	Incidental costs	£1,000	
<i>plus</i>	Enhancement expenditure	<u>£15,000</u>	
	Total	£36,000	<u>£36,000</u>
	Unindexed gain		£59,000
<i>minus</i>	Indexation allowance		
	Acquisition costs	£21,000	
	Indexation allowance	£21,000 x 0.525	= £11,025
	Enhancement expenditure	£15,000	
	Indexation allowance	£15,000 x 0.507	= <u>£7,605</u>
	Chargeable gain, subject to taper relief		£40,370

■ Allowable losses

Example 21

An individual has the following chargeable gains and allowable losses:

	2003-04	2004-05	2005-06
Gain	£10,000	£15,000	£25,000
Losses	£25,000	£5,000	zero

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

2003-04	<i>minus</i>	Gain	£10,000
		losses	£10,000
		Losses to carry forward	£15,000

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

2004-05	<i>minus</i>	Gain	£15,000
	<i>minus</i>	current year losses	£5,000
	<i>minus</i>	losses brought forward	<u>£1,800</u>
		Net gain	£8,200
	<i>minus</i>	annual exempt amount	<u>£8,200</u>
			zero
		Losses to carry forward	£13,200
		(£15,000 minus £1,800)	

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

2005-06	<i>minus</i>	Gain	£25,000
		losses brought forward	<u>£13,200</u>
		Net chargeable gain, subject to taper relief	£11,800

■ Rebasing to 31 March 1982 - No election made

Example 22

An asset cost £250,000 on 1 May 1979 inclusive of incidental costs. It is worth £200,000 at 31 March 1982 and was sold on 15 April 2005 for £1,000,000 net of incidental costs. No election was made for rebasing to 31 March 1982.

		Original cost			Rebased gain
	Disposal proceeds	£1,000,000		Disposal proceeds	£1,000,000
minus	Cost	<u>£250,000</u>	minus	value at 31.3.82	<u>£200,000</u>
	Unindexed gain	£750,000		Unindexed gain	£800,000
minus	Indexation		minus	Indexation	
	£250,000 x 1.047 =	<u>£261,750</u>		£250,000 x 1.047 =	<u>£261,750</u>
	Indexed gain	£488,250		Indexed gain	£538,250

The indexed gain to which taper relief should be applied is the lower of the two figures: £488,250. See notes on page CGN14 and *Help Sheet IR280*.

■ A part disposal

Example 23

A house was bought for letting in December 1987 for £50,000 including incidental costs. In March 1988 it was subdivided into two flats at a cost of £5,000. One flat was sold in May 2005 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.

	Disposal proceeds			£120,000
minus	Incidental costs			<u>£6,000</u>
				£114,000
minus	Part of cost of house			
	£50,000 x	$\frac{£120,000}{£120,000 + £80,000}$	=	£30,000
minus	Subdividing house			
	£5,000 x	$\frac{£120,000}{£120,000 + £80,000}$	=	£3,000
minus	Central heating		<u>£2,000</u>	
	Total costs		£35,000	<u>£35,000</u>
	Unindexed gain			£79,000
minus	Indexation allowance			
	cost of house	£30,000 x 0.574	=	£17,220
	subdivision	£3,000 x 0.562	=	<u>£1,686</u>
	Total indexation			£18,906
	Chargeable gain, subject to taper relief			<u>£60,094</u>

■ A disposal of pooled shares

Example 24

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 2005 600 shares were sold for £6,000 net of incidental costs.

	Number of shares		Pool of qualifying expenditure		Indexed pool of expenditure
A pool is created in May 1988:	2,000		£9,000		£9,000
The rights issue is an 'operative event' (This phrase is explained in Help Sheet IR284)					
Indexation May 1988 to January 1990	<u>2,000</u>	£9,000 x 0.125*	<u>£9,000</u>	=	<u>£1,125</u>
					£10,125
Add the cost of the rights issue shares to the two pools:					
	<u>4,000</u>		<u>£20,000</u>		<u>£20,000</u>
	6,000		£29,000		£30,125
The part disposal in June 2005 is an 'operative event'					
Indexation January 1990 to April 1998	<u>6,000</u>	£30,125 x 0.361	<u>£29,000</u>	=	<u>£10,875</u>
					£41,000
Reduce the two pools by the apportioned amounts of cost and indexation					
	<u>(600)</u>		<u>(£2,900)</u>		<u>(£4,100)</u>
	5,400		£26,100		£36,900
Calculation of chargeable gain:					
		Disposal proceeds			£6,000
minus	Cost				<u>£2,900</u>
	Unindexed gain				£3,100
minus	Indexation (£4,100 minus £2,900)				<u>£1,200</u>
Chargeable gain, subject to taper relief					£1,900

*The indexation factor (0.125) here **cannot** be taken from the table on page CGN16. This is because the 'operative event' occurred before April 1998. We or your tax adviser can supply the right figures to use for any months before April 1998.

■ Relief for foreign tax paid

Example 25

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

Foreign 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 20%, the tax due of £1,500 will be wholly covered by tax credit relief. No relief of any kind is available for the excess foreign tax of £750 (that is, £2,250 minus £1,500).

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

Working Sheet for simple disposals

This Working Sheet follows the format of the simple calculation on page CGN10. Do not use this Sheet if the asset has been acquired by the exercise of an option or if the disposal is a part-disposal (see page CGN15). You can use this Sheet for a disposal of land or other asset. You can use it also for a disposal of shares but only if it is a disposal of the whole of your holding of a particular class of shares and, where indexation or taper relief is due on the gain, the same rate of indexation or taper relief applies to all shares.

Use a separate copy of this Sheet for each disposal and enter the result of each calculation on a separate line on Page CG1 or CG2, as appropriate. (If you have more than one disposal take photocopies of this Sheet before you start.)

Disposal Proceeds (*see notes on page CGN12*)A £ *minus*Cost of acquisition (*see notes on page CGN13*)B £ Enhancement costs (*see notes on page CGN13*)C £ Incidental acquisition costs (*see notes on page CGN13*)D £ Incidental disposal costs (*see notes on page CGN13*)E £

Total costs (total of boxes B + C + D + E)

boxes B + C + D + E
F £ Gains or loss (box A *minus* box F)box A *minus* box F
G £

If you have made a loss (the figure in box G is negative), this may be an allowable loss. (*See notes on page CGN11.*) You do not need to complete the remaining boxes.

If there is a gain in box G and you incurred expenditure before April 1998, calculate any indexation allowance on expenditure within boxes B, C and D (to April 1998 only). You may need to use a separate sheet of paper if expenditure was incurred in many different months. Enter the total indexation allowance in box H. (*See notes on pages CGN14 to CGN17.*)

Month and Year	Expenditure	Factor (see page CGN16)	Allowance (expenditure x factor)
<input type="text"/>	£ <input type="text"/>	<input type="text"/>	£ <input type="text"/>
<input type="text"/>	£ <input type="text"/>	<input type="text"/>	£ <input type="text"/>
<input type="text"/>	£ <input type="text"/>	<input type="text"/>	£ <input type="text"/>

Indexation Allowance (total of 'Allowance' column above)

H £ **Chargeable gain** (box G *minus* box H).

(**Indexation Allowance cannot be used to create a loss** so if the result is negative enter zero.)

box G *minus* box H
I £ **Asset owned at 31 March 1982**

If you or your spouse or civil partner owned the asset at 31 March 1982, you may need to restrict the gain or loss before proceeding to complete the Capital Gains Pages. (*See the notes on page CGN14.*)

Completion of the Capital Gains Pages

Use Page CG1 if **all** of your disposals in the year were of quoted shares or other securities unless taper relief is due on any of them or any were held at 31 March 1982, or you are claiming a relief. (See definition of quoted shares or other securities on page CGN3.) Enter the chargeable gain or allowable loss for each separate disposal in Column E.

Otherwise use Pages CG2 and CG3. For each disposal, adjust for any election or reliefs included in Column G and enter the result in Column H. Page CG3 will then help you allocate any allowable losses and calculate the tapered gain.