

# **Chapter 13**

# **CAPITAL GAINS TAX – INDIVIDUALS – SHARES**

#### 1 Shares and securities

### Gift edged securities and Qualifying Corporate Bonds 1.1

Disposal of these investments by an individual are exempt.

### Disposal of shares

Where shares are disposed of a problem arises in computing the allowable cost as shares may have been acquired over several acquisitions at different costs at different dates. Therefore HMRC have deemed that when shares are disposed of, they are matched against acquisitions in the following order:

- Shares acquired on the same day (as the sale)
- Shares acquired within the 30 days following the sale
- Shares from the share pool

**Note:** The matching rules for individuals are different from those that apply to companies

#### 1.3 The share pool

This keeps a record of the following details of all shares acquired

£10,000. On 7 March 2015 Jane bought a further 200 shares in ABC Ltd for £4,000.

- number of shares
- (b) actual cost
- (c) the number of shares will include all acquisitions including bonus issue and rights issues. Bonus issues are where a company issues free shares on a proportionate basis to its existing shareholders. Rights Issues are where a company seeks to raise new share capital and offers its existing shareholders the right to acquire on a proportionate basis additional shares in the company at an advantageous share price.
- (d) the shares disposed of from the share pool will be disposed of at their average costs.

The share pool is easier to produce for individuals rather than companies as no indexation allowance applies the only information recorded is number of shares and cost of shares

Jane owns shares in ABC Ltd. She acquired 1,500 shares in the company on 31 May 2012 for £20,000, and 500 shares on 30 June 2013 for

## EXAMPLE 1

Jane sold 1,000 shares in ABC Ltd on 28 February 2015 for £25,000. She is not an employee of ABC Ltd.
Calculate Jane's capital gain on the disposal of the shares in February 2015.

une 2013 Purchased 1,000 shares for £4,000 uly 2013 Bonus issue of one for five	CAPITAL GAIN	<b>Paper F</b> Chapter 1		
(a) Bonus shares increase the number of shares held with no corresponding increase in cost  EXAMPLE 2  Graham had the following transactions in Alderholt Ltd shares:  Gebruary 2013 Purchased 7,000 shares for £15,000  une 2013 Purchased 1,000 shares for £4,000  uly 2013 Bonus issue of one for five  October 2014 Sold 5,000 shares for £20,000				
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October 2014 Sold 5,000 shares for £20,000	une 2013	Purchased 1,000 shares for £4,000		
Calculate the capital gain arising on the disposal in October 2014.	October 2014	Sold 5,000 shares for £20,000		
	Calculate the capi	al gain arising on the disposal in October 2014.		

## 3 Rights issue

The share pool is increased by the number and cost of the shares acquired via the rights issue.

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Mark in an employee of Romsey Ltd. He had the following transactions in the company shares:

February 2013 Purchased 6,000 shares for £15,000 June 2013 Purchased 900 shares for £2,700

July 2013 Took up 1 for 3 rights issue for £3.00 per share

September 2014 Sold 6,000 shares for £24,000

Calculate the capital gain on the disposal in September 2014.				
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## 4 Takeovers

- (a) Where a takeover is a share for share exchange, known as a paper for paper transaction, shareholders of the company taken over acquire shares in the acquiring company. This normally does not constitute a disposal for CGT purposes.
- **(b)** The new shares are deemed to have been acquired at the same time and at the same cost as the original shares.
- (c) If more than one type of share, for example ordinary and preference shares, are acquired in the takeover company then the cost of the original holding is attributed to the different components of the new holding on a basis of the market values of the new holding. Thus if a shareholder acquired on takeover £300,000 of ordinary shares and £100,000 of preference shares in the takeover company they would acquire respectively 3/4 and 1/4 of the original shareholding's cost. These costs may then be used to compute any subsequent gain arising on the sale of either those ordinary or preference shares. See example 4 below.
- (d) This treatment is automatic, however the shareholders can elect for the event to be treated as a disposal for CGT purposes such that the entrepreneurs' relief tax rate of 10% (see later note) may be available on the gain.
- (e) If at takeover, some cash is also received, a capital gain needs to be calculated at takeover for the cash element received. (see example 5 below)

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In May 2011 Mark purchased 4,000 ordinary shares in Silver Ltd for £12,000. In June 2014 Silver Ltd was taken over by Gold Ltd and Mark received 2 ordinary shares and 1 preference share in Gold Ltd for each ordinary share in Silver Ltd.

Immediately after the takeover the ordinary shares in Gold Ltd were valued at £5 and the preference shares in Gold Ltd were valued at £2.

In January 2015 Mark sold all his holding ordinary shares in Gold Ltd for £35,000. Mark was not an employee of Silver Ltd or Gold Ltd. Calculate the capital gain arising on the disposal in January 2015. EXAMPLE 5 Using example 4 what difference would it make if Mark received at takeover 2 Gold Ltd ordinary shares valued at £5.00 each and £2 cash for each share in Silver Ltd Calculate the capital gain arising in June 2014