Chapter 20

CHARGEABLE GAINS – COMPANIES – FURTHER ASPECTS

1 Part Disposals, Chattels, Non chattel wasting assets

1.1 When a company disposes of a part but not all of an asset the allowable cost is computed as we saw for individuals in Chapter 12. This same calculation will be performed for a company but in addition the allowable cost computed will then be available for indexation allowance in the normal way.

Example 1

ST Ltd owned 10 hectares of land which originally cost £26,000 in March 2010 (RPI 220.7). ST sold 2 hectares of the land in October 2014 (RPI 257.7) for £16,000.
The remaining 8 hectares were valued at £34,000 in October 2014.

Calculate the chargeable gain on the disposal of the 2 hectares of land in October 2014.

1.2 A chattel disposal is also dealt with in the same way as for an individual but again with the availability in a normal gains calculation of indexation allowance

Example 2

JM Ltd sold the following assets in October 2014

(a) an antique table which had cost £3,000 in February 2008 and sold for £5,000
(b) a painting which had cost £2,000 in January 2011 and sold for £10,000
(c) an antique vase which had cost £8,000 in August 2002 and sold for £3,000
(d) a vintage car which had cost £7,000 in July 1999 and sold for £9,000

RPI's

February 2008	211.4
January 2010	217.9
August 2002	176.4
July 1999	165.1
October 2014	257.7

Calculate the net chargeable gains or losses arising for JM Ltd in October 2014

1.3 A non chattel wasting asset disposed of by a company will again be dealt with as for individuals but again with indexation allowance available on the allowable cost

EXAMPLE 3

On 1 December 2002 Z Ltd bought a copyright at a cost of £25,000. It had an estimated useful life of 30 years, and an estimated residual value of £1,000.

Z Ltd sold the asset for £38,000 on 1 October 2014.

Assume an indexation factor of 0.486.

Calculate the chargeable gain arising on the sale of the copyright in October 2014.

2 Assets damaged, lost or destroyed

2.1 Damaged assets

(a) If an asset is damaged and compensation or insurance money is received as a result, then this will normally be treated as a part disposal of the asset. The cost is calculated using the normal part disposal formula:

$$\frac{A}{A + B}$$

where

A = value of part disposal

B = market value (MV) of the remainder at the time of part disposal

(b) If insurance money is received then:

(i) if the insurance money is not used in restoring the asset a normal part disposal arises, with the MV of the part retained equating to the value of the asset in its damaged condition.

(ii) if the insurance money is fully used in restoring the asset the tax payer can elect to have the proceeds deducted from the cost of the asset for a future calculation thereby deferring any gain when the insurance is received.

Example 4

Ml Ltd bought a painting on 1 April 2000 for £10,000. The painting was damaged on 1 May 2014 when it was worth £50,000. After the damage it was only worth £25,000. On 1 July 2014 insurance proceeds of £30,000 were received and were not used to restore the painting. Assume an indexation factor from April 2000 to July 2014 = 0.505.

Calculate the chargeable gain arising on the receipt of the insurance proceeds

Example 5

Daisy Ltd purchased a painting on 1 April 2000 for £10,000. The painting was damaged on 1 May 2014 when it was worth £50,000. After the damage it was worth £40,000.
On 1 July 2014 insurance proceeds of £8,000 were received. All of the insurance proceeds were used to restore the painting.

Assuming Daisy Ltd elects for the proceeds to be rolled over against the cost of the painting, calculate the base cost of the painting on a future disposal.

2.2 Destroyed or lost assets

(a) If an asset is destroyed or lost and no compensation or insurance money is received there is a disposal which will result in a capital loss.

If there is any compensation or insurance monies received this will normally be brought into an ordinary gains computation as proceeds.

(b) The date of disposal is the date the insurance money is received. If the insurance money is used to buy a replacement asset within 12 months, the gain can be deferred until the new asset is sold.

(c) If only part or the insurance money is used to buy a replacement asset then some of the gain will be taxed immediately and some of the gain will be deferred.

EXAMPLE 6

SC Ltd bought an asset for £23,000 in June 2008, It was destroyed in March 2014. Insurance proceeds of £34,000 were received in October 2014. SC Ltd spent £30,000 on a replacement asset.

Calculate the chargeable gain and the base cost of the new asset.

RPI is	October 2014	257.7
	June 2008	216.8

Students may now attempt Practice Questions 26 & 27 and 31