Chapter 21

CHARGEABLE GAINS – COMPANIES – RELIEFS

1 Replacement of business assets (Rollover Relief)

1.1 Definition

A gain may be 'rolled over' (deferred) where it arises on the disposal of a qualifying business asset whose sale proceeds are reinvested in another qualifying business asset.

1.2 Qualifying assets

Both the old and new assets must fall into one of the following categories:

(a) Land and buildings

(b) Fixed plant and machinery

Both the old and new assets must be used in the business.

1.3 The relief

(a) The gain is not taxed immediately but is postponed until the company makes a disposal of the replacement asset without further replacement.

(b) The postponement is achieved by deducting the gain made on the old asset from the cost of the new one.

(c) Where the disposal proceeds of the old asset are not fully reinvested, the surplus retained reduces the amount of capital gain that can be rolled over.

(d) The replacement asset must be bought in the period 12 months before to 36 months after the disposal of the old asset.

(e) A claim must be made within 4 years from the end of the accounting period in which the disposal occurred.

EXAMPLE 1

JM Ltd bought a building for use in the business in October 1994 RPI (145.2) for £150,000. The building was sold in October 2014 RPI (257.7) for £400,000. In December 2014 JM Ltd bought some land for use in the business for £500,000. (JM Ltd has a 31 December year end)

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

Example 2

A Ltd bought land for use in the business in May 2003 (RPI 181.5) for £200,000. The land was sold in October 2014 (RPI 257.7) for £350,000.. In September 2014 A Ltd bought a factory for use in the business for £335,000 (A Ltd has a 31 December year end)

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

2 Depreciating assets

2.1 Definition

(a) An asset with an expected life of a maximum 60 years or

(b) Fixed plant and machinery

Note: You will only be examined on fixed plant and machinery and leasehold property with a life of 60 years or less.

2.2 Effect

If the new asset is a depreciating asset.

(a) The gain deferred is not deducted from the cost of the new asset

(b) Instead it is postponed until the earliest of:
- (i) disposal of the new asset
- (ii) the date the new asset ceases to be used in the trade
- (iii) 10 years after the new asset was acquired

Example 3

YR Ltd bought land for use in the business in April 1997 (RPI 156.3) for £200,000. The land was sold for £350,000 in May 2009 (RPI 212.8).
In March 2010 YR Ltd bought fixed plant for use in the business, costing £390,000.
YR Ltd sold the plant in February 2015. (YR Ltd has a 31 March year end)

Calculate the chargeable gains as far as the above information allows for y/e 31/3/2010 and y/e 31/3/2015

(c) When the replacement asset is a depreciating asset, the gain is deferred as in (b) above. However, if a non-depreciating asset is purchased before the deferred gain crystallises, the original gain may be rolled over against the cost of the new, non-depreciating asset and will only crystallise on sale of the non-depreciating asset..

You should now review the following technical articles written by the F6 examining team: Chargeable Gains parts 1 and 2

You may now attempt Practice Question 28