Commencements and cessations

If you started your business between 6 April 1997 and 5 April 1998, your writing down allowance is calculated for the period of accounts which starts on the date that your business began

Example 13

Bob starts business on 1 May 1997. He draws up his accounts to 31 December. On 1 May 1997 he buys a computer for £12,000. He buys no other business assets. On 1 August 1998 he buys equipment costing £6,000. His capital allowance computation for his period of account ending 31 December 1997 is:

Cost of computer	£12,000
Writing down allowance 8/12 x 25%	£2,000
Value to carry forward	£10,000

His capital allowance computation for the period of account ended 31 December 1998 is:

Value brought forward	£10,000
Additions	£6

	,000
Writing down allowance 255 x £16,000	£4,000
Value to carry forward	£12,000

If your business ceases you should deduct from the value of the pool the sale prices for any items you sell, or their values if you keep them. If these are more than the value of the pool, the difference is a balancing charge. If there is any value remaining in the pool, do not work out a writing down allowance, but claim the value remaining as a balancing allowance, instead.

Example 14 shows how this is done. If you sell any items for more than you paid for them, or their value if you keep them is more than you paid for them, you should deduct the amount you paid from those items in the pool, not the sale price or value. If you acquired the item from a connected person, you should deduct the greater of the cost to them and your cost if both are less than the sale proceeds.

Example 14

Jackson has been in business for many years. He draws up his accounts to 31 March. At 31 March 1997 the value in the pool is £10,000. He stops trading on 1 July 1997. He keeps a word processor with an open market value at 1 July 1997 of £2,000. He sells the other business assets for £7,000. His capital allowance computation for 1997-98 is:

Writing down allowance brought forward	£10,000
Disposal proceeds (£7,000 + £2,000)	£9

	,000
Balancing allowance	£1,000

Special rules for particular items
The precise way the allowances are worked out depends on the type of item and whether you use it privately as well as for business. The following rules will help you work out how much to claim under each of the headings in the Self-employment Pages.

Expensive cars
For cars which cost more than £12,000, the 25% writing down allowance is restricted to £3,000 a year for each car. This amount is then restricted further if the car is used partly for private motoring. A separate calculation, as shown in Example 15, must be made for each car - they are not 'pooled'. If you sell the car, you do not get writing down allowances for the period of account in which the sale took place. Instead, you should calculate a balancing allowance or balancing charge. This is done in the same way as described in the sections on cessations above.

Example 15
Your accounts are drawn up for the year to 5 April 1998. You spend £15,000 in that year on a car which is driven 12,000 miles a year including 8,000 private miles. The calculation is:

Cost of car	£15,000
Writing down allowance @ 25% (restricted)	£3,000
Value to carry forward	£12,000
The writing down allowance you can claim is [£3,000 x 1/3 (one-third of mileage on business)].	£1,000

Other cars
For cars which cost less than £12,000 and are used solely for business, separate calculations are not necessary. Instead, all expenditure and sales are dealt with in a single pool, separate from the pool of other capital expenditure. There is no restriction of the writing down allowance to £3,000.

Any sales proceeds are deducted from the pool in the normal way. The pool continues until the last car in it is sold. When that happens no more writing down allowances are calculated but there is a balancing charge or balancing allowance.

Plant and Machinery used only partly for business purposes

This category includes any cars costing less than £12,000 which are not used solely for business. These items should not be included in any pool. Instead the allowances on each item should be worked out separately (in the same way as Example 15) but there is no £3,000 restriction on the writing down allowance.

The writing down allowance, and any balancing allowance or charge when the item is sold, should be reduced so that only the business use proportion is taken into account.

Example 16

Your accounts are drawn up to 31 December each year. You buy a car for £8,000 in 1994 and sell it for £5,000 in 1997. You use it 50% for business. The calculation is:

1996-97	
Cost of car	8,000
Writing down allowance @ 25%	£2,000
Value to carry forward	£6,000
The writing down allowance which can be claimed is (£2,000 x 50% business use).	£1,000
1997-98	
Value brought forward	£6,000
Price when sold	£5,000
Difference	£1,000
The balancing allowance which can be claimed is (£1,000 x 50% business use)	£500

Short life assets

There are special rules if you intend to keep the item of equipment for only a short time or you think it will wear out quickly. If you acquire an item (other than a car) which you expect to dispose of within five years of the date you acquired it, you may elect to have the capital allowances calculated separately from your main pool.

You should make the election for this no later than the first anniversary of 31 January following the end of the tax year in which you acquired the item. You cannot withdraw an election. The separate calculation of capital allowances means that when the asset is sold the allowances given can be adjusted by way of a balancing allowance or charge to bring them in line with the actual depreciation.

If the item has not been sold or disposed of by the end of the five year period, the balance in the ‘separate pool’ for that item is added to the ‘main pool’, then dealt with in the normal way. Further information is available from your Tax Office.

Long life assets

A long life asset is an asset whose expected working life when new is more than 25 years.

The writing down allowance rate for long life assets is 6%. There is a separate pool of expenditure for long life assets and the 6% rate is applied to that pool. If you work full time in your business and the amount you spend on long life assets is less than £100,000, the reduced rate of writing down allowance does not apply.

Assets leased out

You can claim capital allowances for assets you own and lease out to other users. Capital allowances on these assets should be claimed in the same way as for assets you use in your business. However, if the asset is used by a person who is not resident in the UK, you will need to discuss with your tax adviser what allowances are due.

Buildings

You can claim capital allowances for the cost of constructing agricultural or industrial buildings, industrial and commercial buildings in enterprise zones and certain types of hotel.

You can claim industrial buildings allowance if you buy or construct a building which is used for the purposes of a qualifying trade. Manufacturing is a qualifying trade, so are processing trades and there are certain others. You cannot claim industrial buildings allowance on buildings such as houses, showrooms, offices and shops even if they are used for the purposes of a qualifying trade, or for the land on which the building stands. You should consult your Tax Office or tax adviser if you think you may be able to make a claim.

You can claim capital allowances at a special rate on industrial and commercial buildings in enterprise zones. You can also claim capital allowances for the cost of constructing a qualifying hotel or buying a qualifying hotel constructed on or after 12 April 1978. Ask your Tax Office or tax adviser if you need help.

Losses

Form not available

Unfortunately we are not able to reproduce this form in TaxCalc. If you do not already have a hard copy of this Help Sheet which includes the form, call the Revenue's Orderline on 0645 000404.

[List of Help Sheets reproduced in TaxCalc](#)
Brief details of other Help Sheets

These Inland Revenue Help Sheets are reproduced by permission of the Board of Inland Revenue. Some of them contain working sheets, we have reproduced most of these to the best of our ability, so that if you print out the relevant pages you can use the document as a working sheet. Unfortunately we have been unable to reproduce some of the working sheets and examples in the Help Sheets. If you need any of these you can obtain them from the Revenue's Orderline on 0645 000404.

Two of the Help Sheets reproduced here (IR291 and IR290) contain pages which you should attach to your Tax Return under certain circumstances. We have not been able to reproduce these as the Revenue would require a facsimile. If you do not already have a copy of these Help Sheets, you can obtain them from the Revenue's Orderline on 0645 000404.

List of Help Sheets reproduced in TaxCalc

Brief details of other Help Sheets

If you need copies of any of these Help Sheets, call the Inland Revenue Orderline on 0645 000404.

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- IR270 - Trusts and settlements - income treated as the settlor's

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- IR286 - Income tax losses for shares you have subscribed for in unlisted trading companies
- IR287 - Employee share schemes and Capital Gains Tax
- IR288 - Partnerships and Capital Gains Tax
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- IR290 - Business asset roll-over relief
- IR291 - Reinvestment 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
- IR301 - Capital gains on benefits from non-residents and dual resident trusts

Non-residence

- IR300 - Non-residents and investment income
- IR302 - Dual residents
- IR303 - Non-resident entertainers and sportspersons
- IR304 - Non-residents - relief under double taxation agreements

IR201 - Vouchers, credit cards and tokens

This Help Sheet gives you information to help you fill in box 1.13 in the Employment Pages of your Tax Return.

Box numbers in this sheet refer to boxes in your Employment Pages.

IR202 - Living accommodation

This Help Sheet helps you fill in box 1.14 in the Employment Pages of your Tax Return if you are provided with living accommodation by reason of your employment.

Box numbers mentioned in this Help Sheet refer to boxes in the Employment Pages and the Working Sheets on pages 2 and 3 will help you work out the amount to enter in box 1.14.

IR203 - Car benefits and car fuel benefits

This Help Sheet gives you information to help you fill in boxes 1.16 and 1.17 on the Employment Pages of your Tax Return. The notes refer, by letter to boxes you will need to fill in on the Working Sheet on page 3. The box numbers refer to boxes on the Employment Pages.

FULL TEXT

Please note that this Help Sheet contains a large working sheet which we have been unable to reproduce. If you need this, you can obtain a copy of the Help Sheet from the Inland Revenue Orderline.

This Help Sheet gives you information to help you fill in boxes 1.16 and 1.17 on the Employment Pages of your
Tax Return. The notes below refer, by *letter* to boxes you will need to fill in on the Working Sheet on page 3. The box *numbers* below refer to boxes on the Employment Pages. You will need to fill in a separate Working Sheet for each car made available to you in the year 1997-98.
Page 4 contains an example of how to fill in the Working Sheet.

Car 'cash equivalent'

A] Enter the price of the car and the price of any optional accessories that were available with the car when it was first provided to you. Ask your employer for the details you need to fill in box A (and box B). 'Price' for the purpose of the car benefit charge will usually be the total of:

the manufacturer's importer's or distributor's list price of the car	è	the published price for the day before the date of the car's first registration including VAT, car tax (where appropriate) and delivery charges including number plates.
and		
the list price of optional accessories (excluding those optional accessories shown below)	è	the price published for any accessories with the car when the car was first made available to you including VAT, car tax (where appropriate) and the fitting and delivery charges.

Exclude from the optional accessories in A:

- any mobile telephone
- any accessory designed solely for use by a disabled person
- if you are a disabled person entitled to an 'orange badge' at the time the car was first made available to you, other equipment which was made available for use with the car because it enabled you to use the car in spite of the disability for which you were entitled to the 'orange badge'
- and any accessory which
  - you own yourself, **or**
  - is necessarily provided for use in the performance of the duties of your

employment, **or**

is never fixed to the car (for example, maps, rugs).

There are separate rules for cars with no 'list price' and 'classic cars' - see booklet *IR133: Income tax and company cars from 6 April 1994: a guide for employees* or booklet 480, *Expenses and benefits - a Tax Guide* for details.

B] Price of accessories added after the car was first made available to you. If any accessories were added to the car after the car was first made available to you (either in 1997-98 or previous years) the price of those accessories must be entered in box B. The price of an accessory for this purpose includes VAT, car tax (where appropriate) and the fitting and delivery charges. The price of these additional accessories will be on the P11D.

Exclude from box B:

any mobile telephone

any accessory designed solely for use by a disabled person

if you are a disabled person entitled to an 'orange badge' at the time the car was first made available to you, other equipment which was made available for use with the car because it enabled you to use the car in spite of the disability for which you were entitled to the 'orange badge'

and any accessory or set of accessories which

was available with the car when the car was first made available to you (already included at A), **or**

had a price of less than £100, **or**

was added before 1 August 1993 if the car was available to you before that date, **or**

you own yourself, **or**

is necessarily provided for use in the performance of the duties of your employment, **or**

is never fixed to the car (for example, maps, rugs), **or**

replaced a previous accessory and is not superior to the accessory it replaced, **or**

was added after the car was first made available and then removed before 1997-98.

D] Capital contribution. Enter the amount of any lump sum payments you made towards the cost of buying:

the car, **or**

the accessories included in boxes A or B.

The maximum capital contribution which is allowable as a deduction is £5,000, even if you contributed more than that amount during this or earlier years.

E] This figure is the price of the car for tax purposes - **not** the price paid for the car. It is used to calculate the car benefit cash equivalent on which you will pay tax. It will be the same figure each year that you have the car, unless accessories are added to the car in later years (see B above). The price of the car for tax purposes is limited to a maximum of £80,000.

G] Business mileage discounts are given depending on the level of your business travel in the car. Business travel means travelling which you were necessarily obliged to do in the performance of the duties of your employment (see the notes for box 1.32 in your Notes on Employment). If you had more than one car available for private use at the same time, the 'first car' is the car which you used for the greatest amount of business travel. The 2,500 and 18,000 mile limits are annual amounts. If the car was unavailable for part of the year, as explained at K, the mileage limits are reduced on a time basis.

> **Example**
> If a car was only available for the first 73 days in the tax year, the business mileage limits are reduced to 500 and 3,600 miles for that period (73/365 x 2,500 or 18,000 respectively). See also the note about replacement cars below.

In this example the car benefit charge for the car is reduced by one third for 500 or more business miles and by two thirds for 3,600 or more.

If there is a change of car during the tax year, the limits must be reduced proportionately for each car. They are then applied **separately** to the business miles you have driven in each car. Sometimes this will mean that there is, for example, a one third reduction applied to the benefit charge for one car and a two thirds reduction for the other

K] Time apportionment. The benefit charge is reduced on a time basis in proportion to the number of days when the car was unavailable to you or members of your family or household. It is treated as unavailable on any day:

> before it was first made available to you, **or**
>
> after it finally stopped being available to you, **or**
>
> **if that day fell in a continuous period of 30 days** or more throughout which it was not available to you.

Note: This is a test of availability of the car, not whether it was used. A car may not be used for a continuous period of 30 days but it may still be available to an employee during that period. There is no time apportionment for periods of less than 30 days during which the car was not available.

M] Payments for private use. If as a condition of the car being available for your private use, you are required to make payments for that private use, the amount that you paid in or in respect of the year is deducted. Enter the amount you paid for the private use of the car in box M.

N] Car benefit charge. This is the amount on which you will pay tax for the benefit of this car. You should add the amount in this box to any other box N figures for other cars which you were provided with in the year and **include the total in box 1.16.**

Car fuel scale charge
A fuel scale charge will apply if you are provided with fuel for private use in a **car** which is made available to you, unless you make good the cost of all the fuel used for private journeys in the year. The amount of the fuel charge depends on the car's engine size and the type of fuel. A separate fuel scale charge applies for each car, except replacement cars (see below). The fuel scale is time apportioned if the **car** was unavailable for part of the year as described at K above.

If your employer provided fuel for a car for business travel only, or if you made good the whole of the cost of the fuel used for private travel, enter '0' in box Q on the Working Sheet.

The car fuel scale charges

Cylinder capacity (cc)	**Cars with petrol engines***	**Cars with diesel engines**
1,400 or less	£800	£740
not more than 1400 but not more than 2000	£1,010	£740
more than 2000	£1,490	£940

Cars without a cylinder capacity (for example, with rotary engines) all have a car scale charge of £1,490

* Includes also other non-diesel fuels for example, LPG.

Q] The car fuel benefit charge. This is the amount on which you will pay tax for the fuel provided for private use in this car. You should add the amount in this box to any other box Q figures for other cars for which you were provided with fuel for private use in the year and **include the total in box 1.17.**

Replacement cars
If your normal car was unavailable for a continuous period of fewer than 30 days and during that time you were provided with a replacement car (for example, because your normal car was undergoing repairs), then you will not be charged to tax for the replacement car, provided the replacement car:

was of a similar quality to your normal car, **or**

was not made available to you as part of an arrangement to provide you with the benefit of a materially better car.

When this applies:

the business mileage which you travelled in the replacement car is treated as though it was travelled in your normal car - so include that mileage in your calculation at box G

any payment which you were required to make for the private use of the replacement car is treated as though it was a payment for the private use of your normal car - so include the amount at box M

there will not be a fuel scale charge for the replacement car in addition to the fuel scale charge for the normal car.

Summary

Complete a separate calculation for each car which was made available to you or members of your family or household during the year, unless the car was a replacement car (see above) or the car qualified as a 'pool car' for tax purposes.

References to the availability of a car for an employee includes availability of the car for members of his or her family or household. Include in box 1.22 of your Employment Pages the benefit of any chauffeur provided by reason of your employment.

Further details and examples are available in booklet *IR133: Income tax and company cars from 6 April 1994: a guide for employees* or booklet 480, *Expenses and benefits - a Tax Guide*, available from the Orderline.

Remember if you had more than one car in the 1996-97 tax year you will need to add up figures in boxes N and Q respectively in all the Working Sheets you have completed (one for each car) before filling in boxes 1.16 and 1.17 of your Employment Pages.

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

Issued by the Inland Revenue
April 1998

Help Sheet IR204
For the Employment Pages

The two Working Sheets in this Help Sheet tell you how to deal with lump sums that derive from an employment. They tell you what figures to enter in boxes 1.24 to 1.30 in the Employment Pages of your Tax Return.

Lump sums can arise in several different ways. For example, a lump sum may be paid on redundancy, under other terms of an employment or in respect of non-approved retirement benefits schemes.* *(Please note that for this purpose any payment into such a scheme by your employer also counts as a lump sum received by you.)*

Different rules apply to different types of lump sums and the Working Sheets direct you through them. If you are in any doubt, ask your Tax Office or tax adviser.

*A 'retirement benefits scheme' means any arrangement under which benefits may be paid in respect of retirement or death. 'Early retirement' due to redundancy or severance is not included.

Start with Working Sheet 2

You will not need to look at Working Sheet 1 unless a lump sum relates to an employment that involved 'foreign service'. So Working Sheet 2 will refer you to it at the appropriate point. 'Foreign service' is the duration of employment the pay from which was not taxed in the UK because either:

you were 'not resident and ordinarily resident' in the UK, **or**

you qualified for Foreign Earnings Deduction.

If you need advice, ask your Tax Office or tax adviser.

Filling in the Working Sheet

Completing Working Sheet 2 involves four steps.

Step 1 Enter all the lump sums you have received (regardless of whether an employer has deducted any tax under PAYE when paying the lump sum). Do not include a sum if it was paid during the tax year, for which you are filling in your Tax Return, but the termination or change it relates to took place before the start of that tax year. If so, it should be included in the tax calculations for the earlier year in which the termination or change took place. You can make the necessary arrangements by contacting your Tax Office.

Step 2 Next, the lump sums should be divided up so that the right rules can be applied to the different types.

Step 3 Make adjustments for the various deductions that reduce the tax to pay on the sums. You may find it useful to have your Employment Pages to hand, as you will be asked to copy figures to it as you go. However, make sure you finish all the Working Sheet boxes.

Step 4 Calculate taxable figures. **Transfer these figures to your Employment Pages.**

Working Sheet 1: foreign service

First fill in boxes G to K in Working Sheet 2.
Full exemption: box L Working Sheet 2
You get full service exemption if:

- 75% of your service was foreign service, or
- the last 10 years were foreign service and the total service was **not more than 20 years, or**
- the total service was more than 20 years and 50% was foreign service (including any 10 of the last 20 years).

If this applies to you:

- ignore the rest of this Working Sheet
- return to box L and enter the lump sums there, then continue filling in Working Sheet 2.

If this full exemption does not apply, you may be entitled to a foreign service reduction. See below.

Foreign service reduction: box N of Working Sheet 2

If full exemption does not apply, but you have some foreign service, you still qualify for some relief.

Enter, in box A the figure from box J of Working Sheet 2	**A**	£.......................
	B	£30,000
	C	box A minus box B £........................
Enter the total service in the **employment in months**	**D**	....
Enter the number of **months** of foreign service in the employment	**E**	....
Box C x box E and divided by box D	**F**	£..........................

Copy the figure in box F to box N on Working Sheet 2, then fill in the rest of that Working Sheet starting at box M.

Working Sheet 2*

Enter in box G the total lump sum(s) received (following the guidelines in Step 1 overleaf), whether or not tax was deducted under PAYE. Include the value of any non-cash benefits not entered elsewhere. If these were associated with a retirement scheme, ask your Tax Office for advice on the sum to enter in box I. If these were made available when you were still an employee follow the notes for box 1.12 to calculate the sum to enter in box H. Otherwise, enter the total value of the benefit you receive. Where the benefit is being made available for a period, for example, the us a car or a loan at no or a low rate of interest, contact your Tax Office for advice on the sum to enter. Leave out sums for retirement benefit schemes that are:

G £.......

approved by the Inland Revenue
statutory schemes
foreign government schemes.

Leave out counselling services provided in connection with termination of employment where they are exempt from tax; y Tax Office or tax adviser can provide further information if needed. For members of Her Majesty's forces only, also leave o any terminal grant, gratuity or other lump sum paid to you under Royal Warrant, Queen's Order or Order in Council.

Now divide the figure in box G into three parts.

(1) Calculate and enter in box H the part of the figure in box G that was:

Enter this figure in box 1.27 unless it is zero

H £...........

expected by you from your employment, **or**
paid under any term or condition of your employment (except payments for redundancy from your employer's scheme), **or**
paid for an undertaking restricting your conduct (usually called a restrictive covenant).

(2) Enter in box I sums from non-approved retirement benefits schemes.

I £...........

(3) Enter in box J the figure in box G, *minus* the figure in box H *minus* the figure in box I. The figure in box J should reflect sums received on termination of employment.

J £...........

Figures in boxes K to N, and P, reduce taxable amounts in boxes I or J

Enter in box K any disability exemption claimed:

K £...........

If your job ended because of disability (that is, you were not able to perform your duties), enter in box K the sum paid for that reason
If a sum in box I arose due to an accident, enter that sum in box P and not in box K. If the figure in box K equals the figure in box J, go to box P.

Enter in box L any foreign service exemption claimed. Working Sheet 1 tells you what figure to use. If the figure in box L reduces the figure in box J to zero, go to box P. Consider here only lump sums in box J from employment with foreign service, and **not** any in boxes H or I.

L £...........

Enter in box M the smaller of £30,000 and the figure in box J. **But the figure in box M must not exceed that in box** J**.** If the figure in box M reduces the figure in box J to zero go to box P. Do not enter in box M a figure for any lump sum which has already been entered in box L.

M £...........

Enter this figure 1.24 unless it is

Enter in box N any foreign service reduction claimed. Use Working Sheet 1 to calculate the figure to go here. Consider here **only** lump sums in box J from employment with foreign service and **not** any in boxes H or I.

N £...........

boxes K + L + M + N
O £...........

Enter in box P lump sums that are part of retirement or death lump sums **within box I and:** which arose because of an accident at work, **or** were funded by a contribution from your employer on which you have already paid tax, or arose from your own contributions.	**P** £...........	*Enter this figure 1.26 unless it is*
If the sums come from an overseas scheme, consult your Tax Office or tax adviser. ***Note**: where tax has been deducted from the lump sum(s), you may have already included that tax in the figure in box 1.11. If you have, make no entry in box 1.30. Otherwise, enter the amount of the tax in box 1.30.*	*Enter this figure in box 1.28 unless it is zero*	(box I *minus* bo **Q** £...........
	Enter this figure in box 1.29 unless it is zero	(box J *minus* bo **R** £...........
	Enter this figure in box 1.25 unless it is zero	(boxes K+L+N) **S** £...........

* If you wish to use this version of the working sheet you may have to print the page out in landscape mode.

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

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IR204 - Lump sums and compensation payments

The two Working Sheets in this Help Sheet tell you how to deal with lump sums that derive from an employment. They tell you what figures to enter in boxes 1.24 to 1.30 in the Employment Pages of your Tax Return.

FULL TEXT

IR205 - Foreign Earnings Deduction

This Help Sheet helps you decide if you qualify for foreign earnings deduction. If you do, it enables you to calculate:

- your qualifying period, and
- the deduction to be entered in box 1.37 of the Employment Pages of your Tax Return.

There is a separate version for seafarers.

IR205(S) - Foreign Earnings Deduction: Seafarers

This Help Sheet helps you decide if you qualify for foreign earnings deduction. If you do, it enables you to calculate your qualifying period and the deduction to be entered in box 1.37 of the Employment Pages of your Tax Return.

IR206 - Capital allowances for employees and office holders

This Help Sheet helps you fill in boxes 1.23 and 1.35 of the Employment Pages in your Tax Return to show your capital allowances and balancing charges.

Help Sheet IR208
For the Employment Pages

Please note
The hard copy of this Help Sheet shows annotated pages of a P60, a P45 and a payslip which we have been unable to reproduce here. If you want a copy of the Help Sheet, please call the Inland Revenue Orderline on 0645 000404

This Help Sheet tells you where to get information to help you:

- enter the correct pay and tax details in the Employment Pages of your Tax Return, and
- if you have decided to calculate your tax,
  - enter figures in boxes W51 and W57 in the Tax Calculation Guide Working Sheet
  - fill in boxes 18.1 and 18.4 on page 7 of your Tax Return.

Pay and tax details

You might have several documents which show pay and tax details for employments you had in the tax year. Remember, if you had more than one employment in the tax year you have to complete separate sets of Employment Pages - see the Notes on Employment. Documents you might have are:

- a P60 if you were in employment on 5 April. Each employer for whom you worked on that date should give you a P60 by 31 May
- a P45 (Part 1A) if you left any job during the year. Each time you leave a job your employer should give you three parts of a P45. You should have kept Part 1A and given Parts 2 and 3 to your next employer, if you started a new job in the tax year
- payslips. Most employers give employees payslips when their wage or salary is paid. These show details of pay and tax, sometimes just for the pay period, but often the beginning of the tax year, or the start of the job. Although it is a good idea to keep these slips, the P60s and P45s should provide you with the information you need for completing your Tax Return.

P60

Employers are allowed to design their own form, as long as they agree it with the Inland Revenue. But whatever the design, the information you need for your Tax Return will be shown on it somewhere. The Inland Revenue has a standard design for the P60. It shows the information required to complete the Employment Pages of your Tax Return.

Enter in your Employment Pages only the figure of pay used by your employer to calculate your tax deductions. This is usually described on your P60 as 'In this employment' or 'This employment pay for tax purposes'. To arrive at this figure your employer will usually have deducted from your gross pay certain items, such as your pension contributions (and charitable donations). Some employers show the pension contributions you have paid. (Make sure that you do not include these contributions in the figures you give for employment income in your Employment Pages.)

P45 Part 1A

You should have a P45 (Part 1A) for each job you had during the year other than one for which you got a P60. A separate set of Employment Pages will need to be completed for each of your previous employments, and these forms are the easiest way to find the figures you need to complete a set of Employment Pages for each of your previous employments.

Payslips

It will probably be more difficult to find the right figures in your payslips than to use P60s and P45s. But payslips can be a useful way to check that the figures you have used are the right ones.

Collecting tax unpaid for earlier years through your PAYE code for another year

You should have kept all the PAYE coding notices, forms P2, which you received from the Inland Revenue. Your tax code for the tax year may have been adjusted to collect tax unpaid in an earlier year. Similarly, your tax code for the year after the tax year may have been adjusted to collect tax for the Tax Return year. The latest coding notices for each tax year will show the amount of the tax that is being collected in this way. If you are calculating your own tax bill on your Tax Return you need to take the amount of these underpayments into account or your tax bill will be too high. You should therefore refer to:

the last P2 you received for the Tax Return year

the last P2 you have received for the year after the Tax Return year.

If you did not keep your last P2, or have lost it, contact your Tax Office.

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

Issued by the Inland Revenue
April 1998

IR208 - Payslips and coding notices

This Help Sheet tells you where to get information to help you:

- enter the correct pay and tax details in the Employment Pages of your Tax Return, and
- if you have decided to calculate your tax,
  - enter figures in boxes W51 and W57 in the Tax Calculation Guide Working Sheet
  - fill in boxes 18.1 and 18.4 on page 7 of your Tax Return.

<u>FULL TEXT</u>

IR209 - Mobile telephones

This Help Sheet tells you whether or not you need to put a figure in box 1.20 in the Employment Pages of your Tax Return.

IR210 - Assets provided for private use

This Help Sheet tells you how to work out the figure to enter in box 1.22 on the Employment Pages of your Tax Return if, by reason of your employment, you have been provided with an asset for private use.

IR211 - Employment - residence and domicile issues

The boxes on your Employment Pages enable you to calculate total emoluments received from that employment during the year ending 5 April 1998. However, in consequence of your:

- residence status (see Non-residence etc Pages), and
- the place where the duties of your employment were performed

you may not be liable to UK Income Tax on the whole amount in the year ending 5 April 1998. This Help Sheet enables you to calculate the amounts received from that employment in the year ending 5 April 1998 which are not liable to UK Income Tax in the year ending 5 April 1998 and which must be entered in box 1.31 on the Employment Pages.

IR212 - Tax equalisation

This Help Sheet is intended to assist professional advisers and employers who are preparing Tax Returns for tax equalised individuals. The following assumptions have been made:

- the Tax Returns of tax equalised individuals will be prepared by the employer or advisers engaged by the employer
- advisers or employers have experience of preparing tax computations for foreign national employees working in the UK.

IR213 - Payments in kind - assets transferred

This Help Sheet tells you when to use a figure which is higher than the second-hand value (that is the market value at the date of transfer to you) in completing box 1.12 in the Employment Pages of your Tax Return and what figure you should put in that box if:

- you were a director, or your earnings from your employment were at the rate of £8,500 or more a year, and
- you (or a member of your family or household) bought, or were given, an asset by reason of your employment.

IR216 - Shares as benefits

This Help Sheet gives you information to help you fill in box 2.27 in the Share Schemes Pages of your Tax Return.

IR217 - Shares acquired: post-acquisition charges

This Help Sheet gives you information to help you fill in box 2.30 in the Share Schemes Pages of your Tax Return.

IR218 - Shares acquired: operation of Pay As You Earn (PAYE)

This Help Sheet explains how to fill in the Share Schemes Pages of your Tax Return if you have received free or cheap shares either directly or from the exercise of a cheap share option, and:

- tax is due in respect of those shares; and
- some or all of that tax has been paid to the Inland Revenue under the PAYE system.

IR220 - More than one business

This Help Sheet gives you information to help you fill in:

- the Self-employment Pages, or the Partnership Pages, of your personal Tax Return, or
- the Partnership Tax Return

If either you, or the partnership, carries on more than one business.

IR222 - How to calculate your taxable profits

This Help Sheet gives you information to help you fill in boxes in:

- the Self-employment Pages of your personal Tax Return, or
- the Trading Pages of the Partnership Tax Return and the Partnership Pages of your personal Tax Return.

FULL TEXT

This Help Sheet gives you information to help you fill in boxes in:

- the Self-employment Pages of your personal Tax Return, or
- the Trading Pages of the Partnership Tax Return and the Partnership Pages of your personal Tax Return.

Except where specifically noted in this Help Sheet the box numbers on the Trading Pages of the Partnership Tax Return follow those on the Self-employment Pages of the personal Tax Return.

This Help Sheet explains about:

More detailed information is available if you need it. The Help Sheet refers you to other sources.

You will come across the terms **'accounting period'** and **'accounting date'** in both the notes to the Tax Return and the Help Sheets. If you do not have accounts prepared for your business, you should read:

- **'accounting period'** to mean the period for which you provide details of your business income and expenditure, and
- **'accounting date'** to mean the date on which that period ends.

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

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IR223 - Rent a Room for traders

This Help Sheet explains how the Rent a Room scheme works. If your trade involves providing furnished accommodation, the notes will help you to fill in the Self-employment Pages of your Tax Return to take account of the scheme (if it applies to you).

If your provision of furnished rooms does not amount to a trade, do not include the letting income in the Self-employment Pages. Ask the Orderline for the Land and Property Pages, and include the income there.

IR224 - Farmers and market gardeners

This Help Sheet gives you information about special rules which can apply to farmers and market gardeners:

- farmers' averaging relief
- herd basis
- agricultural buildings allowance
- losses
- the treatment of compensation for compulsory slaughter
- some aspects of information from accounts in addition to those covered in *Help Sheet IR229: Information from your accounts*.

Help Sheet IR227
For the Self-employment and Partnership Pages

This Help Sheet tells you what you can do if:

- you have made losses in your business, or
- you are entitled to a share of the loss made by a partnership of which you are a member.

-- Sole traders

The box numbers mentioned below refer to boxes in the self-employment Pages of your Tax Return.

You can claim tax relief for a loss you made in business by filling in boxes 3.81 to 3.85 in your Self-employment Pages. You do not have to make your claims immediately; if you prefer, you may wait and claim them later. But remember to make your claims within the time limits shown below. Late claims cannot normally be accepted.

The different ways you can claim tax relief for a business loss are:

- as a deduction from your income for this year (boxes 3.81 or 3.85 in the Self-employment Pages)
- as a deduction from your capital gains for this year (box 8.5 in the Capital Gains Pages)
- as a deduction from your income or capital gains for earlier years (box 3.82 in the Self-employment Pages).
- by reducing your business profits taxed in earlier years (box 3.82) following cessation
- by carry forward against future profits from your business (box 3.83 in the Self-employment Pages).

You cannot claim only part of the loss. And you can only claim relief once for each pound of loss. But if you make a claim and your income, gains or profits are not enough to use the whole of the loss, the balance of the loss can be claimed in another way.

You can claim loss relief as soon as you know how big the loss is, normally when the accounts have been prepared. But we cannot give the relief you claim until you have sent in your complete Tax Return for the year you are claiming the relief to be given

If you want to claim loss relief as a deduction from your income or gains for this year you must make your claim in your 1997-98 Tax Return. If your business makes a loss in future, you can claim tax relief as a deduction against your income of the same year as the loss arose as soon as you know how big the loss is. We cannot, normally, give the relief until you have sent in your Tax Return for that year. But if, exceptionally, you have income from employment then you can claim for your loss relief to be included in your tax code for the year of the loss.

If your claim is for loss relief as a deduction from your income or capital gains for earlier years, you can claim as soon as you know how big the loss is. This may mean that you claim relief even before you have been sent a Tax Return. If you want to claim relief before you have been sent a Tax Return, write a letter telling us the name of your business, how much the loss is and for what period and say how you want relief to be given.

-- Partners

If you are a member of a partnership you can claim tax relief for your share of the partnership losses by filling in boxes 4.15 to 4.19 in your Partnership Pages.

Your share of the loss will be treated as having arisen from a business that you carried on alone. That business will be regarded as having started on the date you became a partner (unless you previously carried on the business on your own account when it will be regarded as having commenced on the date you started the business) and to have ceased on the date on which you ceased to be a partner (or if you carry on the business thereafter as a sole trader the date on which the business ceased).

The boxes referred to on this Help Sheet are those shown on the Self-employment Pages. The equivalent boxes on the Partnership Pages in your Tax Return are as follows:

Box 3.81 is equivalent to box 4.15

Box 3.82 is equivalent to box 4.16

Box 3.83 is equivalent to box 4.17

Box 3.84 is equivalent to box 4.18

Box 3.85 is equivalent to box 4.19

Deduction from income or gains for 1997-98

You can claim relief for the loss as a deduction from your income for 1997-98. If the allowable loss is more than your income, you can claim the balance of the loss as a deduction from your capital gains for 1997-98.

The loss you claim in box 3.81 will normally be the whole of the loss. But your total income less deductions cannot be reduced below zero. So, the figure you put in box 3.81 should be no higher than your total income less deductions.

If you wish to claim the balance of the loss against your capital gains for 1997-98, enter the balance of your loss in box 8.5 on the Capital Gains Pages or, if this is more than your total gains for 1997-98, enough of the loss to reduce the gains to zero. If there is a balance of loss after setting it against your income (and capital gains if you choose) then it can be claimed in another way.

The time limit for this claim is **31 January 2000.**

Deduction from income or gains for earlier years

You can claim relief for the loss as a deduction from your income for an earlier year. There are two ways of doing this:

> If your business was set up and commenced trading on or after 6 April 1994, you can claim relief for the loss as a deduction from your income (but not capital gains)

of the three years 1994-95 to 1996-97. The loss is first deducted from your 1994-95 income. If there is any balance of loss left, this is deducted from your 1995-96 income. Finally, any remainder is deducted from your 1996-97 income.

You can claim relief for the deduction from your income for 1996-97. If the allowable loss is more than your 1996-97 income, you can, if you wish, claim the balance of the loss as a deduction from your capital gains for 1996-97. This option is available to any business.

The time limit for claims is **31 January 2000.**

If you want to claim relief in your Tax Return, enter the total to be carried back in box 3.82, and provide details of the amount carried back to each year in the 'Additional information' box on Page SE4. You can use the Working Sheet below to keep track of your losses. The first entry will normally be the whole of your allowable loss for 1997-98 (box 3.80). But if your total income for this year is less than the loss, it will be the amount of your income. You may then complete the second line in the same way, and so on.

If you claimed loss relief under this heading before your Tax Return was sent to you, you must remember to include the amount of relief claimed in box 3.82 of the Self-employment Pages.

Deduction from income and gains: restrictions

You should only claim relief for your loss as a deduction against your income or capital gains of 1997-98 or an earlier year if you ran your business commercially for profit. If not, for example, because your business is run as a hobby, you can only claim to set the losses against profits made in your business. And if you are a farmer or market gardener, you cannot normally claim your losses in this way if you also made losses in each of the previous five tax years. If your business is carried on wholly overseas, you can only claim your losses as a deduction from your income or capital gains which come from abroad. Your tax adviser or Tax Office will tell you what to do.

Carry forward against future profits

You can carry your loss forward to set against future profits from the same business. It will then be deducted from your profits in the first and each subsequent profitable year until it is used up. The time limit for a claim is **31 January 2004.**

Enter in box 3.83 the amount of your 1997-98 loss which you wish to claim in this way. Enter in box 3.84 the amount of any losses you sustained in 1996-97 and earlier years which you have not yet used, and include in box 3.85 losses used against 1997-98 profits.

Reduction of business profits taxed in earlier years

If your business ceased in 1997-98, you can set the loss of your final 12 months of trading against any profits from the same business which were taxed in 1994-95, 1995-96, 1996-97 or 1997-98. *Help Sheet IR222: How to explain your taxable profits* explains this.

Summary of how allowable loss is to be relieved

You may find it useful to summarise your loss relief claims in the Working Sheet below. This will enable you to keep track of your losses and make sure you do not forget to claim relief for any of them.

Working Sheet

Allowable loss for 1997-98 (from box 3.80)		**A** £......................
Loss relief claimed against other taxable income or capital gains for:		
1997-98	**B** £..................	
1996-97	**C** £..................	
1995-96	**D** £..................	
1994-95	**E** £...................	
Total losses claimed in this way		(total boxes B to E) **F** £......................
Balance of allowable loss for 1997-98		(box A *minus* box F) **G** £......................
Loss brought forward from last year	**H** £..................	
Loss allowed this year (box 3.85)	**I** £...................	
Not yet allowed		(box H *minus* box I) **J** £.........................
Loss carried forward to next year		(box G + box J) **K** £.........................

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

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IR227 - Losses

This Help Sheet tells you what you can do if:

- you have made losses in your business, or
- you are entitled to a share of the loss made by a partnership of which you are a member.

FULL TEXT

IR229 - Information from your accounts

This Help Sheet helps you fill in boxes on:

Page SE2 of the Self-employment Pages to give details of your income and expenditure, and

Page SE4 of the Self-employment Pages to give details of your balance sheet, if you have one.

It does not give guidance on which expenses are allowable for tax purposes. If you need advice on this topic you should ask for *Help Sheet IR222: How to calculate your taxable profits.*

FULL TEXT

This Help Sheet helps you fill in boxes on:

Page SE2 of the Self-employment Pages to give details of your income and expenditure, and

Page SE4 of the Self-employment Pages to give details of your balance sheet, if you have one.

It does not give guidance on which expenses are allowable for tax purposes. If you need advice on this topic you should ask for *Help Sheet IR222: How to calculate your taxable profits*.

The box numbers mentioned in this Help Sheet are references to boxes in the Self-employment Pages. Look up the box numbers in the Notes to the Self-employment Pages for more information.

Partnership Tax Return

The Help Sheet will also help you fill in the Trading Pages of the Partnership Tax Return.

The box numbers on the Trading Pages of the Partnership Tax Return are the same as those on the Self-employment Pages of the personal Tax Return (except where specifically noted).

What does this Help Sheet cover?

If you have business accounts, and your annual turnover (that is, all the money earned in your business before deducting business expenses) is £15,000 or more for a full year, you must fill in boxes 3.14 to 3.52 and, if you have a balance sheet, boxes 3.93 to 3.109 - the 'standard accounts information'.

This Help Sheet provides guidance on how to fill in the boxes from the figures in your accounts and answers some of the more common questions that arise from doing this.

What is 'standard accounts information (SAI)?

SAI is a self-contained summary of your accounts which you complete as part of your Tax Return. It provides a comprehensive summary of your trading and profit and loss account or your income and expenditure account, and your balance sheet. Also it shows what adjustments you have made to arrive at your profit for tax purposes.

What if there are no accounts?

If you are not intending to have accounts prepared, the Notes to the Self-employment Pages provide guidance to help you calculate your business profit, the adjustments you may need to make for tax purposes and how to fill in the SAI boxes.

Remember, you must keep records of all your business transactions. Leaflet SA/BK3 available from the Orderline helps you decide what records to keep.

What if annual turnover is less than £15,000?

If your annual turnover before adding any balancing charges is less than £15,000 you do not need to fill in the SAI section. Instead you can fill in the shortened income and expenditure section on Page SE1 of the Self-employment Pages or page 2 of the Partnership Tax Return - boxes 3.11 to 3.13.

Remember, if your accounts do not cover a period of 12 months the £15,000 threshold is adjusted proportionately. For example, if your accounts covered only eight months the threshold would be £10,000 (that is, £15,000 x 8/12).

Must accounts and tax calculations be sent in?

No. There is no longer a requirement for you to submit business accounts, or tax calculations based on them, with your Tax Return unless you are a partnership with a turnover of £15 million or more.

Normally the SAI gives all the information the Inland Revenue needs to know about your business for the purpose of deciding whether to make an enquiry into your Tax Return.

What if there are things to draw attention to?

For most businesses this information will enable you to present a full and fair picture of your business for tax purposes. If there are any points needing further explanation enter details in the 'Additional information' box on Page SE4 of the Self-employment Pages or page 4 of the Partnership Tax Return.

In some larger or more complex businesses additional information given in the Return may not be enough to provide a means of adequate disclosure. The submission of further information, including perhaps accounts and supporting calculations, may be considered necessary. For example, where:

- a large business has substantial turnover, or
- a business is complex (perhaps because it is in a highly specialised trade), or
- accounts or calculations are needed for a proper understanding of the figures.

Remember to fill in Page SE2 and, if you have a balance sheet, Page SE4 of the Self-employment Pages or, in the case of a partnership, pages 3 and 5 of the Partnership Tax Return as well.

Where to start

As well as your accounts you may find it useful to have your business records available when you complete the SAI section of your Return.

There are no hard and fast rules, but you should be consistent from one year to the next. It will help you next year if you keep a note of which accounts figures you enter in which SAI boxes.

Remember, the purpose of completing these boxes is to present the accounts information as clearly and informatively as the standard format allows.

Filling in the boxes

Here are some suggestions:

- unless your accounts are very simple, or they have been drawn up using SAI headings, it is probably best not to write any figures in the Self-employment Pages until you are sure of the final amounts to put in each box
- start by transferring the business income shown in your accounts to boxes 3.16 and 3.37
- go through the expenses shown in your accounts and note against each one the number of the box in which you think it should be entered. If, for whatever reason, an expense causes difficulty leave it initially and go on to the next item
- once you have looked at every item in the accounts go back to the ones for which you could not make an immediate decision. The notes that follow should help you decide what to do
- Make sure that every figure from your accounts is included somewhere in the SAI boxes, and included only once.

What to do if there are expenses in the accounts that are not specified in the accounts pages

The general guidance explains what each box is broadly intended to include and gives some examples of common types of expenditure which are usually appropriate to each. But inevitably there will be some expenses that the SAI format does not readily accommodate. In these cases you will have to judge how best to present your figures.

Consider whether the expense can be swept up into one of the SAI headings. For example, expenditure on training courses could, depending on the circumstances, be included under the general heading of employee costs. Some types of expenditure might be included under alternative SAI headings depending on the type of business and the precise nature of that expenditure. But whichever treatment you adopt, you should be consistent from one year to the next.

If the expenditure is of a one-off or unusual nature, or if you want, for any reason, to draw particular attention to it, or to the tax treatment you have adopted, give details in the 'Additional information' box on Page SE4 of the Self-employment Pages (or page 4 of the Partnership Tax Return).

If there is no suitable heading or the amounts involved are immaterial use the 'Other expenses' box (box 3.50). Do not change the descriptions printed on the Tax Return. Use the 'Additional information' box if you need to write anything outside the boxes.

What should be included under 'other expenses'?

If expenditure you include here is material by reference to the total amount of business expenditure, consider the need to explain what is included by making a note in the 'Additional information' box in order to make your figures clear.

There is no precise definition of what is or is not material, but as a general rule, if the inclusion or exclusion of an item might affect judgements that the Inland Revenue, or anyone else who uses the information in your Tax Return, might make, the item should be considered as material.

Avoiding unnecessary use of the 'Other expenses' box, and explaining the main items you have included may help avoid enquiries being made into your Tax Return.

What to do if accounts include as a single item expenses that may need to be shown separately in the Self-employment Pages

If the expenditure is virtually all of one type, there is no objection to categorising the whole expense under the main heading. For example, your accounts may include an entry for 'Bank charges and interest' that consists almost entirely of bank charges. If so, put the whole amount in box 3.48.

But you should divide the expenses between different headings if the amounts involved are material, or it would be misleading if they were all included under one heading. For example, if your accounts include a single entry for 'travel and entertainment' you should distinguish the amount of the entertainment expenses, include it in the entry in box 3.44 and make sure this is disallowed for tax by entering the disallowable part in box 3.26. The remainder of the expenses relating to travel costs should be entered in box 3.43, and any disallowable part of that expense, for example private travel costs, should be shown in box 3.25.

Consider keeping these amounts separate when the next accounts are prepared.

In cases where the taxable profit or loss is not affected and the amounts involved are not material by reference to the total expenditure, no objection would normally be made if you decide to estimate the split between the SAI boxes. For example, if your accounts include an item for 'insurance' of say £300, and you know that about £200 was the premium for insuring the business premises and the remainder was other insurance costs, wholly allowable for tax, include £200 under 'Premises costs' (box 3.39) and £100 under 'General administrative expenses' (box 3.41).

Will wrong entries be penalised?

In many cases there will be an element of choice in how you complete the SAI boxes and there will be no right or wrong answer.

But you must take reasonable care to ensure that your Tax Return is completed accurately. Errors arising from fraudulent or negligent conduct that give rise to a loss of tax will be subject to penalties.

Examples

The rest of this Help Sheet contains examples to show you how to fill in the SAI boxes on Pages SE2 and SE4 of the Self-employment Pages (or pages 3 and 5 of the Partnership Tax Return).

Example 1, starting on page 4, gives details from the trading and profit and loss account and balance sheet of a snack bar, Jack's Snacks. Pages 5 and 6 show how the Self-employment Pages can be completed. Jack is not intending to do the tax calculation himself.

Example 2, on pages 7 and 8, deals with a business, Harry Cooper Business Services. A balance sheet was not drawn up, so there is no need to fill in boxes 3.93 to 3.109 in the Self-employment Pages.

Please note that we are unable to reproduce these examples in TaxCalc. If you need them, you can obtain a copy of this Help Sheet from the Inland Revenue's Orderline on 0645 000404.

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

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IR231 - Doctor's expenses

This Help Sheet gives advice about the calculation of business profits that is of particular relevance to doctors and medical practitioners. For a partnership it explains how to return details of:

- expenditure incurred by a partner on behalf of the partnership (in boxes 3.38 to 3.50 of the Partnership Tax Return)
- capital allowances claimed by the partnership on a vehicle (or other asset) owned by a partner (in boxes 3.61 to 3.68 of the Partnership Tax Return).

and, where appropriate, how such items are then reflected in the allocation of partnership profit between the partners.

IR232 - Farm stock valuation

This Help Sheet explains the methods of farm stock valuation that are acceptable to the Inland Revenue. It will help you fill in the Self-employment Pages of your Tax Return and the Trading Pages of the Partnership Tax Return.

It was originally published in 1993 as Business Economic Note 19 and is sometimes referred to as 'BEN19'.

IR250 - Capital allowances and balancing charges in a rental business

This Help Sheet gives you information to help you fill in the Land and Property Pages in your Tax Return.

IR251 - Agricultural land and land managed as one estate

This Help Sheet gives you information to help you fill in the Land and Property Pages in your Tax Return. This Help Sheet covers two different situations:

- the additional loss relief, known as 'agricultural relief', available to you where agricultural land is included in your rental business.
- land managed as one estate under a valid election and the restriction of the pooling of all income and expenditure within your rental business brought about by the special rules governing such estates.

IR260 - Overlap

This Help Sheet contains two Working Sheets:

Working Sheet 1 will help you calculate the tax credit relief that must be recovered if you are now claiming overlap relief

Working Sheet 2 enables you to work out your tax credit relief position if you have overlap profits.

IR261 - Tax credit relief: capital gains

If you want to calculate your tax, use this Help Sheet to work out the tax credit relief available against your income and your capital gains.

IR262 - Tax credit relief: lump sums and compensation payments

If you want to calculate your tax, use this Help Sheet to work out the tax credit relief available against your income, if that income includes lump sums and compensation payments.

IR263 - Tax credit relief: lump sums and capital gains
If you want to calculate your tax use this Help Sheet to work out the tax credit relief available against your income and your capital gains.

IR270 - Trusts and settlements - income treated as the settlor's

This Help Sheet will help you fill in the Trusts etc. Pages of your Tax Return if you are a settlor and:

- you have retained an interest in a trust or settlement, or
- trust income or capital has been paid to or for the benefit of your minor (under the age of 18) unmarried child, or
- the trustees of a settlement made by you have (or are deemed to have) paid a capital sum to you.

The Notes on Trusts etc. tell you how to include the income on your Tax Return.

IR280 - Rebasing - assets held at 31 March 1982

This Help Sheet gives you information to help you complete the Capital Gains Pages of your Tax Return.

This Help Sheet is only an introduction. If you are in any doubt about your tax circumstances, ask your tax adviser.

Your Tax Office will also be pleased to help. You can ask to see a copy of the Inland Revenue Capital Gains Manual which explains the rules for particular situations in detail.

FULL TEXT

Help Sheet IR280
For the Capital Gains Pages

This Help Sheet gives you information to help you complete the Capital Gains Pages of your Tax Return.

This Help Sheet is only an introduction. If you are in any doubt about your tax circumstances, ask your tax adviser.

Your Tax Office will also be pleased to help. You can ask to see a copy of the Inland Revenue Capital Gains Manual which explains the rules for particular situations in detail.

What is rebasing?

Capital Gains Tax was introduced in 1965 and the rules were designed so that the tax charge was effectively limited to the gain accruing from 6 April 1965 to the date of disposal. In 1988 new rules were introduced to move the base date forward to 31 March 1982.

The rebasing provisions apply where:

- you have made a disposal
- on or after 6 April 1988
- of an asset which you held on 31 March 1982.

The object is that only gains or losses accruing since 31 March 1982 will be brought into account.

Basic rules of rebasing

--Two calculations

The rebasing legislation requires two calculations of the gain or loss accruing on the disposal to be made where:

- no election has been made, and
- the disposal is not a specified no gain/no loss transfer (so that the benefit of rebasing is deferred).

The first is by reference to a deemed acquisition of the asset as at 31 March 1982 (the rebased gain or loss); the second must accord with the old rules, that is, without rebasing.

-- Indexation allowance

In calculating both the rebased gain and the gain on the old rules, indexation allowance is given by reference to:

- the 31 March 1982 market value, **or**
- the relevant allowable expenditure (cost of acquisition and other allowable costs) incurred up to 31 March 1982.

However, indexation allowance cannot be used to create or increase a loss if the disposal is made on or after 30 November 1993.

If there is a gain after deducting costs from the net sale proceeds but a loss after deducting costs and indexation allowance, you are treated as making neither a gain nor a loss.

-- Kink test

The rebased gain or loss is compared with the gain or loss on the old rules. The gain or loss to be compared is:

- after indexation allowance (restricted if necessary), but
- before any reliefs like private residence relief or retirement relief.

The comparison is known as the 'kink test' and the rules are:

- if both calculations result in a gain, select the smaller gain
- if both calculations result in a loss, select the smaller loss
- If one calculation results in a gain and the other results in a loss, the disposal is deemed to be at no gain/no loss
- if the calculation under the old rules results in no actual gain or loss, or the old rules deem there to be neither a gain nor a loss, then the disposal is deemed to be at no gain/no loss whatever the value of the rebased gain or loss.

This gives the gain or loss which, subject to any further reliefs or exemptions, is the chargeable gain or allowable loss.

Example 1

Rebased gain exceeds the gain on the old rules

Asset cost £8,000 on 01/03/80. On 31/03/82 market value was £7,000. Asset sold (at arm's length) for £50,000 on 01/05/97.

1. Rebased gain (new rules)	
Disposal proceeds minus cost	£50,000
minus cost (Value at 31 March 1982)	£7,000
Unindexed gain	£28,000
minus indexation 8,000 x 0.975*	£7,800
Gain	£20,200
2. Gain on old rules	
Disposal proceeds	£35,000
minus cost (01/03/80)	£8,000
Unindexed gain	£27,000
minus indexation £8,000 x 0.975*	£7,800
Gain	£90,200
Chargeable gain (the smaller)	**£19,200**

* Indexation is based on the higher of relevant allowable expenditure before 31/03/82 and the 31/03/82 value, so that in both calculations indexation is based on the actual cost of £8,000.

Example 2

Rebased loss exceeds the loss on the old rules

Asset cost £14,000 on 06/04/74. 31/03/82 market value £20,000. Asset sold (at arm's length) for £10,000 on 01/05/96.

<u>1. Rebased loss</u>	
Disposal proceeds	£10,000
minus cost (value at 31/03/82)	<u>£20,000</u>
Unindexed loss	£10,000
minus indexation*	zero
Loss	£10,000
<u>2. Loss on old rules</u>	
Disposal proceeds	£10,000
minus cost	<u>£14,000</u>
Unindexed loss	£4,000
minus indexation*	zero
Loss	£4,000
<u>Allowable loss (the smaller)</u>	**<u>£4,000</u>**

* Indexation allowance is restricted to zero in both calculations as indexation cannot increase a loss.

Example 3

Rebased loss but gain if calculated on old rules
Asset cost £2,000 on 1.5.67. March 1982 market value £200,000. Asset sold (at arm's length) for £198,000 on 1.5.96.

<u>1. Rebased loss</u>	
Disposal proceeds	£198,000
minus cost (value at 31/03/82)	<u>£200,000</u>
Unindexed loss	£2,000
minus indexation (1)	zero
Loss	<u>£2,000</u>
<u>2. Gain on old rules</u>	
Disposal proceeds	£198,000
minus cost	£2,000
Unindexed gain	£196,000
minus indexation £200,000 x 0.975 (2)	<u>£195,000</u>
Gain	<u>£1,000</u>

As there is a rebased loss but a gain on the old rules, neither a gain nor a loss is deemed to arise.

(1) Indexation allowance is restricted to zero in the first calculation as indexation cannot increase a loss.

(2) Indexation is based on the higher of relevant allowable expenditure before 31.3.82 and the 31.3.82 value, so that indexation is based on the actual cost of the March 1982 value of £200,000.

Example 4

No actual gain or loss on old rules

Asset cost £2,000 on 01/05/67. 31/03/82 market value £8,000. Asset sold (at arm's length) for £9,800 on 01/05/96.

2. Gain on old rules

Disposal proceeds	£9,800
minus cost	£2,000
Unindexed gain	£7,800
minus indexation £8,000 x 0.975*	£7,800
	zero

As neither a gain nor a loss arises on the old rules, neither a gain nor a loss is deemed to arise following rebasing.

* Indexation is based on the higher of relevant allowable expenditure before 31/03/82 and the 31/03/82 value, so that indexation is based on the 31 March 1982 value of £8,000.

Rebasing elections

Where you dispose of an asset on or after 6 April 1988 that you held on 31 March 1982, you can elect to have gains and losses on all assets covered by the election calculated by reference to 31 March 1982 values alone, that is without the restrictions imposed by the kink test.
But:

- there is a time limit for making this election
- the election cannot be withdrawn
- indexation allowance is given by reference to the value of the asset at 31 March 1982 (and not by reference to the relevant allowable expenditure incurred up to 31 March 1982, even if that is greater)
- there are special rules for married couples
- certain assets are excluded from the election.

Example 5

Rebasing election in force

Asset cost £8,000 on 01/03/80. 31/03/82 market value £7,000. Asset sold (at arm's length) for £35,000 on 01/05/96. Rebasing election made.

Rebased gain

Disposal proceeds	£35,000
minus cost (value at 31/03/82)	£7,000
Unindexed gain	£28,000
minus indexation £7,000 x 0.975	£6,825
Gain	£21,175

These are the same dates and amounts as in Example 1. The difference is that a rebasing election has been made.

No comparison is made with the gain made by reference to the original cost of the asset. The gain is the rebased gain £21,175.

Notice of election

An election must be made by notice in writing to the Tax Inspector:

- within two years of the end of the tax year in which the first relevant disposal is made, **or**
- at such later time as the Board of Inland Revenue may allow.

An election cannot be withdrawn. There is no special form for the election.

-- First relevant disposal

The first relevant disposal is the first disposal on or after 6 April 1988 of:

- an asset held at 31 March 1982, **or**
- an asset treated as having been held at 31 March 1982.

In most cases it is the first disposal to which the 1982 rebasing rules apply.

Three kinds of disposal can be disregarded in deciding what counts as a first relevant disposal from which the two year time limit for making an election is counted.

1. Disposals on which the gain would not be a chargeable gain by virtue of a particular provision in the Taxes Acts. Some common examples are:
   - private cars
   - chattels worth less than the chattel exemption
   - foreign currency acquired to meet personal or family expenditure abroad
   - betting and lottery winnings.
2. Disposals which in practice do not give rise to a chargeable gain or allowable loss. The main examples are:
   - withdrawals from building society accounts
   - the disposal of an individual's private residence where the whole of the gain would qualify for relief.
3. Disposals of assets excluded from a rebasing election.

-- Husband and wife

There are special rules for elections where assets have been transferred between husband and wife before a disposal.

When an asset is transferred on or after 6 April 1988 between spouses, and the disposal is no gain, and no loss arises on the transfer, any election made by the transferee will be ignored. The asset will be covered by the election or non-election of the transferor.

Where there is a series of such transfers the asset will be covered by the election or non-election made by:

> the last person by whom the asset was acquired after 5 April 1988 (otherwise than by a husband and wife transfer), **or**
>
> if there is no such person, the person who held the asset on 5 April 1988.

Elections by subsequent transferees are ignored.

> **Example 6**
> Transfer between husband and wife.
>
> Mr A bought an asset costing £14,000 on 06/04/74. 31/03/82 market value £20,000. Asset sold (at arm's length) for £10,000 on 01/05/96.
>
> The dates and amounts are the same as in Example 2, therefore the loss is to be restricted by the kink test to £4,000.
>
> Mr A has not made a rebasing election and does not intend to do so.
>
> If Mr A decided to transfer the asset to Mrs A before finalising the sale, and if Mrs A had already made, or could make, a rebasing election, she would realise the rebased loss on sale £10,000.
>
> The special rules prevent this happening. Any election made by the transferee, Mrs A, will not apply. Only an election made by the transferor, Mr A, is recognised in these circumstances.
>
> Therefore, in this case an election made by Mrs A is ignored and the allowable loss is restricted to £4,000, the same as if Mr A had sold the asset himself.

-- In what capacity is election made?

You may be the taxpayer in several different capacities. For instance, in addition to your own personal affairs you may also be a trustee or a personal representative of a deceased person or a partner. An election you make in one of these capacities does not cover disposals made by you in another capacity.

For example, an election you make as an individual will not cover your interest in assets held as trustee or partner.

A separate election is required in respect of each settlement or partnership.

Therefore there will be a separate time limit for making an election for each holding of assets held by you in different capacities.

If you do hold assets in different capacities, you should indicate at the time you make an election in what capacity you are making it.

-- Excluded assets

An election does not apply to the disposal of the following assets:

- plant and machinery in respect of which capital allowances have or could have been given to the person making the disposal
- oil licences
- shares which, on 31 March 1982, were unquoted and derived the greater part of their value directly or indirectly from oil exploration assets situated in the UK or on the continental shelf (for disposals on or after 22 January 1990).

Interests in such assets are also excluded from the election.

-- Who should make the election: Special cases

In some cases you may be personally liable to Capital Gains Tax even though you do not personally own or dispose of an asset. For example:

- gains made by certain non-resident companies
- gains made by certain non-resident settlements of which you are a beneficiary
- gains made by certain non-resident settlements of which you are a settlor
- gains made by certain UK resident settlements.

In these circumstances, the person who must make an election, if one is to be made, is the person making the actual disposal: the non-resident company, the trustees of the non-resident settlement or the trustees of the resident settlement, as appropriate.

Special rebasing rules

There are a number of rules to deal with particular situations which may arise. These are briefly described below. If you need further information, ask your Tax Office.

-- Specified no gain/no loss disposals

Special rules apply to specified no gain/no loss disposals. These allow the transferee to benefit from rebasing. The most common specified no gain/no loss transfer is the transfer between husband and wife.

Subject to certain conditions the transferee is deemed, for the purposes of the rebasing provisions only, to have held the asset on 31 March 1982.

-- Assets derived from other assets

Rebasing may apply on the disposal of an asset where the value of that asset is derived from another asset you owned on 31 March 1982. For example, if you:

- held a leasehold interest in property on 31 March 1982,
- subsequently acquired the freehold reversion, and
- sold the unencumbered freehold interest on or after 6 April 1988.

-- Rebasing following part-disposal

Where there has been a part-disposal of an asset:

- after 31 March 1982, and
- before 6 April 1988,

the allowable expenditure remaining after the part-disposal has to be recalculated by reference to the 31 March 1982 value rather than cost.

-- Deferred charges on gains before 31 March 1982

There are a number of provisions, apart from the no gains/no loss provisions, under which tax on capital gains on a disposal can be deferred until some later time. The most common ones are the hold-over relief provisions for gifts and roll-over relief for the replacement of business assets.

Where gains have been rolled over or held over on the acquisition of an asset, and the asset is later disposed of, the deferred gain is to be reduced by half, thereby increasing the allowable expenditure. A claim has to be made within 2 years of the end of the tax year in which the disposal occurred.

-- Relief for certain postponed charges

The amount of the gain accruing is to be halved where:

> the charging of a gain has been postponed under certain provisions, for example, postponement of charge where a depreciating asset is acquired as replacement for a business asset, **and**
>
> the gain accrues on the occurrence of an event on or after 6 April 1988, **and**
>
> the gain is attributable, directly or indirectly, in whole or in part, to the disposal before 6 April 1988 of an asset acquired before 31 March 1982,

subject to a claim being made.

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

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April 1998

IR281 - Husband and wife, divorce and separation

This Help Sheet gives you information to help you fill in the Capital Gains Pages of your Tax Return.

The Help Sheet explains how husbands and wives are treated for Capital Gains Tax. But it is only an introduction. If you are in any doubt about your tax circumstances you should ask your tax adviser.

Your Tax Office will also be pleased to help. You can ask to see a copy of the Inland Revenue Capital Gains Manual which explains the rules in detail.

IR282 - Death, personal representatives and legatees

This Help Sheet gives you information to help you fill in the Capital Gains Pages of your Tax Return.

It is only an introduction. If you are in any doubt about your tax circumstances you should ask your tax adviser.

Your Tax Office will also be pleased to help. You can ask to see a copy of the Inland Revenue Capital Gains Manual which explains in detail the rules for particular situations.

If you need information regarding Inheritance Tax, please contact the Capital Taxes Office.

IR283 - Private residence relief

This Help Sheet gives you information to help you fill in the Capital Gains Pages of your Tax Return.

This Help Sheet explains the relief available on the disposal of your private residence. But it is only an introduction. If you are in any doubt about your tax circumstances you should ask your tax adviser.

Your Tax Office will also be pleased to help. You can ask to see a copy of the Inland Revenue Capital Gains Manual which explains the rules in detail.

IR284 - Shares and Capital Gains Tax

This Help Sheet explains the basic rules which apply to the acquisition and disposal of shares by individuals, personal representatives and trustees in the tax year 1997-98. It helps you work out the capital gain or loss if you have disposed of shares in that tax year. The Help Sheet explains:

- why special rules are needed
- how you identify the shares disposed of
- how you work out the gain if the shares are held in a new holding
- how you work out the gain if the shares are held in a 1982 holding
- how you work out the gain if the shares were held on 6 April 1965
- the treatment of privatisation of shares

FULL TEXT

This Help Sheet explains the basic rules which apply to the acquisition and disposal of shares by individuals, personal representatives and trustees in the tax year 1997-98. It helps you work out the capital gain or loss if you have disposed of shares in that tax year. The Help Sheet explains:

- why special rules are needed
- how you identify the shares disposed of
- how you work out the gain if the shares are held in a new holding
- how you work out the gain if the shares are held in a 1982 holding
- how you work out the gain if the shares were held on 6 April 1965
- the treatment of the privatisation of shares

The Help Sheet refers to acquisitions and disposals. These are not restricted to purchases and sales although they will be the most common events. An important exception is that share reorganisations such as rights and bonus issues, or an issue of shares on a company take-over, are not treated as acquisitions. See *Help Sheet IR285: Share reorganisations, company takeovers and Capital Gains Tax* available from the Orderline.

This Help Sheet also assumes that the capital gain or loss will be calculated using the actual costs of the acquisition and the actual disposal proceeds. Page CGN7 of the Notes on Capital Gains Pages explains the circumstances in which the market value must be substituted for the actual cost or disposal proceeds.

Help Sheet IR287: Employee share schemes and capital gains tax explains more about shares which you acquire in connection with your employment or by exercising an employee share option. This is also available from the Orderline.

Why are special rules needed?

Shares of the same class in the same company are identical. Suppose you have a holding of 10,000 Bits and Bobbs plc 25p ordinary shares acquired at different times for different prices. You then sell 2,000 shares. To calculate the gain you need to know which shares you have sold and how much they cost.

The way the capital gains rules work is to pool shares of the same class in the same company. The cost of the shares in the pool is added together. Each share in the pool is treated as if acquired at the same average cost.

For historical reasons shares may be held in two pools:

- a pool of shares acquired on or after 6 April 1982, called a new holding
- a pool of shares acquired between 7 April 1965 and 5 April 1982, called a 1982 holding.

Pooling does not apply to:

- shares disposed of within ten days of being acquired
- shares held at 6 April 1965.

How to identify the shares disposed of

You may have disposed of some but not all of the shares you hold. In that case you need to use the following rules to identify shares which you have disposed of.

You are treated as disposing of shares in the following order

First,	shares acquired on the same day. No indexation allowance is given on these disposals.
Second,	shares acquired in the previous nine days. No indexation allowance is given on these disposals.
Third,	shares in the new holding.
Fourth,	shares in the 1982 holding.
Fifth,	shares held on 6 April 1965.

Example 1

In May 1996 Mr Smith owns 10,000 shares:

500	were purchased on 30/4/97
2,500	are held in a new holding
7,000	are held in a 1982 holding

Mr Smith sells 4,000 shares on 6/5/97.
The disposals are identified as:

500	against the shares purchased on 30/4/97. No indexation allowance is given on this disposal
2,500	against the shares in the new holding
1,000	against the shares in the 1982 holding.

How to work out the gain for shares in a new holding

The new holding consists of two pools of expenditure, a pool of actual cost and a pool of indexed cost. (Section 5 beginning on page CG10 of the Notes to the Capital Gains pages explains indexation) The pool of indexed cost is the actual cost plus indexation. Both pools are adjusted each time shares are acquired or disposed of. The basic steps are as follows:

Step 1 The new holding is opened when you first acquire shares. At this stage the pool of actual cos and the pool of indexed cost are the same.

Step 2 When you dispose of, or next acquire, shares you add indexation to the pool of indexed cost. You do this by multiplying the pool of indexed cost by the indexation factor for the period between Step 1 and Step 2 and by adding this figure to the pool of indexed cost. If the event is an acquisition, you then add the allowable expenditure on the new shares to the pools of actual cost and indexed cost. If the event is a disposal, see Step 3.

Step 3 You calculate the gain or loss. If all the shares are sold, the allowable expenditure is the pool of the actual cost. Indexation allowance is the difference between the pools of actual cost and indexed cost. If only some of the shares are sold, the allowable expenditure is a fraction of the pool of actual cost. The fraction is:

$$\frac{\text{Number of shares sold}}{\text{Total number of shares in pool}}$$

You apply the same fraction to the pool of indexed cost. Indexation allowance is the difference between the fractions of the allowable cost and indexed cost. The indexation allowance given is restricted if it would create or increase a loss.

Step 4 If any shares remain in the pool, you repeat Steps 2 and 3 next time you acquire or dispose of shares.

Example 2 below shows you how to work this out.

Example 2

In April 1992 Ms Smith buys 1,000 XYZ plc shares for 400p per share plus dealing costs of £150 including VAT. This is her first acquisition of XYZ plc shares.

In September 1994 Ms Smith buys a further 500 XYZ plc shares for 410p per share plus dealing costs of £80 including VAT.

In May 1997 Ms Smith sells 700 XYZ plc shares for 480p per share, including dealing costs of £120 including VAT.

Step 1 - April 1992

The pool is opened

Number of shares	Pool of actual cost	Pool of indexed cost
1,000	£4,150	£4,150

Step 2 - September 1994

Give indexation from April 1992 to September 1994. Multiply the pool of indexed cost at Step 1 by the indexation factor and add this to the pool of indexed cost

£4,150 x 0.045=£187. Add the allowable expenditure on the new shares to the pools of actual cost and indexed cost.

	Number of shares	Pool of actual cost	Pool of indexed cost
	1,000	£4,150	£4,150
Add indexation			£ 187
Add cost of further shares	500	£2,130	£2,130
	1,500	£6,280	£6,467

Step 3 - May 1995
Give indexation from September 1994 to May 1995. Multiply the pool of indexed cost by the indexation factor and add this to the pool of indexed cost. £6,467 x 0.082=£530 plus £6,467=£6,997.

Step 4
Calculate the gain or the loss. Multiply the two pools of cost by

Number of shares sold	=	700
Number of shares held		1,500

First calculate the amount of allowable expenditure and indexation allowance

Indexed cost	£6,997 x 700/1,500	=	£3,266
Actual cost	£6,280 x 700/1,500	=	£2,931
	Indexation allowance		£335

Second, calculate the gain or loss

Disposal proceeds		£3,360
minus allowable cost	£2,931	
Costs	£120	£3,051
Unindexed gain		£309
minus indexation (restricted)		£309
Chargeable gain		0

Third, adjust the two pools in the new holding

Number of shares	Pool of actual cost	Pool of indexed cost
1,500	£6,280	£6,997
minus 700	*minus* £2,931	*minus* £3,266
800	£3,349	£3,731

Notes on calculation

1. Indexation allowance cannot create or increase a loss. In this example, the indexation allowance given has been restricted to avoid creating a loss. If the indexation allowance is restricted, you still reduce the pool of indexed cost by the full amount of the relevant fraction of the indexed cost (£3,266 in this example).

2. Indexation allowance has been calculated using the indexation factors rounded to three decimal places.

3. Fractions of actual cost and indexed cost have been calculated by reference to the number of shares held. Alternatively, you can use the fraction:

$$\frac{\text{Disposal proceeds}}{\text{Disposal proceeds + value of shares not sold}}$$

How to work out the gain for shares in a 1982 holding

A 1982 holding is also a pool of shares. Unless there is a rights or bonus issue (in which case see Help Sheet IR285: *Share reorganisations, company takeovers and Capital Gains Tax*) you cannot add to the number or value of the shares in this holding. In fact, most quoted companies have made share reorganisations and you will probably need to refer to the Help Sheet. The ordinary rules applying to all assets held at 31 March 1982 also apply to 1982 holdings. These rules are explained in Help Sheet IR280: *Rebasing - assets held at 31 March 1982*.

If you have made an election for the 31 March 1982 value to apply to all your assets, the shares in the 1982 holding will be held at their value on that day. If the shares were not quoted on a recognised Stock Exchange on 31 March 1982, you or your professional adviser will have to provide a valuation. Your Tax Office will want to check that valuation.

How to work out the gain if you have held the shares since 6 April 1965

Any shares you have held since 6 April 1965 will have been held on 31 March 1982. These shares will be covered by any election you have made to have the gain calculated only by reference to the 31 March 1982 value.

If you have not made an election, please ask your Tax Office for details of:

- how you make the comparison with the gain calculated by reference to the 31 March 1982 value
- how you can make an election for quoted shares to be included in a 31 March 1982 holding.

Privatisation shares

Nearly all sales of shares in privatised companies by the Government have two features:

- the shares are paid for by instalments
- shareholders can choose different incentives. Usually they include either the payment of lower instalments or the issue of bonus shares after a specified period.

-- Treatment of instalment payments

If you buy the shares from the Government, you are entitled to indexation allowance on the full amount you agree to pay from the date you acquire the shares. For example, shares in Loamshire Electricity plc cost 240p each, 100p payable on application, 70p by 22 October 1991 and 70p by 15 September 1992. If, as a result of the application, you acquired 300 shares in December 1990 you would be entitled to indexation allowance on £720 from December 1990.

If you sell some or all of the shares before all the instalments have been paid you should **either:**

- reduce the cost of the shares by the unpaid instalments, or increase the disposal proceeds by the amount of the unpaid instalments.

You may buy shares from a broker before all the instalments have been paid by the previous owner. For Capital Gains Tax your allowable expenditure is the amount you pay the broker plus the cost of the further instalments you have to pay. Indexation allowance is given on the full amount from the date you acquire the shares from the broker. The same rules apply if you inherit the shares or are given them with instalments outstanding, but instead of the amount paid to the broker you take the market value of the shares on the day you acquire them.

-- Reduced instalments

Shareholders may choose the incentive which allows them to make reduced instalment payments. For the original shareholder the tax treatment is the same as that described in the first two paragraphs of the 'Treatment of instalment payments' section but the references to instalments are to the reduced amount of the instalments.

The entitlement to pay reduced instalments may cease on a transfer of the shares. If you acquire the shares from a shareholder who has chosen this incentive before all the instalments are paid and you have to pay the full amount on the remaining instalments, your acquisition cost will include the full amount of the instalments you have to pay. If you take over the right to make the reduced payments, your acquisition cost will include the lower instalments you have to pay.

Indexation allowance is given on the amount paid to acquire the partly paid shares, together with the further instalments you have to pay.

-- Loyalty bonus shares

In most privatisations shareholders who acquire shares from the Government and hold them for a specified period may, if they choose this form of incentive, receive an issue of extra shares. These shares are treated as acquired at their market value. For example, a shareholder in Big City Electric plc who acquired 300 50p shares on the privatisation and still held them on 31 December 1993, may receive an extra 30 shares. The market value of Big City Electric plc 50p shares on 31 December 1993 was £6.575. The total acquisition cost of the bonus shares would be £197.25.

As an alternative to receiving bonus shares, customers may have chosen to receive vouchers that can be set against bills received from the privatised company. There is no tax liability on the receipt or use of these vouchers. For Capital Gains Tax purposes the acquisition cost of the shares is reduced by the amount of the vouchers.

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

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IR285 - Share reorganisations, company takeovers and Capital Gains Tax

This Help Sheet deals with share reorganisations involving shares held by individuals, personal representatives and trustees. It explains the basic rules that apply to disposals in the tax year 1997-98. It should be read in conjunction with *Help Sheet IR284: Shares and Capital Gains Tax*, which explains the basic rules applying to the acquisition and disposal of shares. Help Sheet IR284 explains the terms '1982 holding' and 'new holding'. Both Help Sheets assume the capital gain or loss will be calculated using the actual costs of acquisition and the actual disposal proceeds. Page CGN9 of the Notes on the Capital Gains Pages explain the circumstances in which market value must be substituted for actual cost or disposal proceeds.

FULL TEXT

This Help Sheet deals with share reorganisations involving shares held by individuals, personal representatives and trustees. It explains the basic rules that apply to disposals in the tax year 1997-98. It should be read in conjunction with *Help Sheet IR284: Shares and Capital Gains Tax*, which explains the basic rules applying to the acquisition and disposal of shares. Help Sheet IR284 explains the terms '1982 holding' and 'new holding'. Both Help Sheets assume the capital gain or loss will be calculated using the actual costs of acquisition and the actual disposal proceeds. Page CGN9 of the Notes on the Capital Gains Pages explain the circumstances in which market value must be substituted for actual cost or disposal proceeds.

This Help Sheet explains:

- what a share reorganisation is
- what information is provided about share reorganisations
- how the Capital Gains Tax rules deal with share reorganisations
- how you work out indexation if the shares are held in a new holding
- how you work out indexation allowance if the shares are held in a 1982 holding
- how you deal with share reorganisations involving different classes of share
- the special rules for scrip dividends
- the special rules for demergers
- the special rules for takeovers if the company making the take-over issues shares and/or securities.

This Help Sheet only explains the basic rules, as they apply in simple cases. In more complex cases, ask your tax adviser or Tax Office for advice. You can also ask to see the Inland Revenue Capital Gains Tax Manual at your local Tax Enquiry Centre.

What is a share reorganisation?

A share reorganisation is a general term used to describe transactions in which:

- new shares are issued to the shareholders in a company, or
- the rights attaching to shares are altered, or
- a company's share capital is reduced.

The most common transactions are bonus issues, rights issues and scrip dividends. In all three cases, new shares are allotted to some or all of the existing shareholders in proportion to their shareholdings. In a rights issue the allotment is provisional until the shareholder accepts he or she will pay for the shares. There are other transactions such as open offers, which may be treated as share reorganisations where new shares are issued to existing shareholders in proportion to their shareholdings.

Other examples, not involving an issue of shares, include capital reorganisations and an alteration of the rights attaching to shares.

Example 1

Ten 10p ordinary shares may be consolidated into a single £1 ordinary share, or non-voting 'A' ordinary shares may be given the right to vote.

What information is available about share reorganisations?

This Help Sheet is concerned primarily with share reorganisations involving listed companies. If a listed company makes a share reorganisation it will almost always issue a circular or prospectus to its shareholders. This will include the company's explanation of the tax treatment. Often it will be followed up with more detailed advice. For example, the counterfoil attached to a new share certificate may give details of the allowable cost for a scrip dividend. You should keep this information. It will help you complete your Tax Return.

How are share reorganisations dealt with for Capital Gains Tax purposes?

The basic Capital Gains Tax rules that apply to share reorganisations are:

the issue of any new shares is not treated as an acquisition

the loss or alteration of any old shares is not treated as a disposal.

Because a share reorganisation is not treated as an acquisition, any new shares of the same class that you receive are added to the holding in respect of which they were issued.

Example 2

You own 1,000 shares in IJK Ltd, 200 shares in a 1982 holding and 800 shares in a new holding. IJK Ltd makes a bonus issue of one new share for every two shares you hold. 100 new shares are added to the 1982 holding, giving a total of 300 shares. 400 new shares are added to the new holding giving a total of 1,200 shares.

Because you are not treated as acquiring the new shares, the same day rule and the ten day rule, (see the section 'How to identify the shares disposed of' in *Help Sheet IR284: Shares and Capital Gains Tax*), do not apply. If you dispose of shares issued on a share reorganisation within ten days of their issue the disposal is identified against all the shares in the new holding or the 1982 holding. This is illustrated below. There are special rules that deal with the allowance of any amounts you have to pay on a share reorganisation. These are explained below. There are also special rules which apply to the taxation of any amounts you receive other than the issue of new shares. These are explained in the section on takeovers below.

If the shares you acquire on the reorganisation are not of the same class, they will form a separate new holding. The cost of the original shares is apportioned, (see the section on 'Share reorganisations involving different classes of shares' below).

How to work out indexation allowance if the shares are held in a new holding

If the share reorganisation is a bonus issue, there is no allowable expenditure to add to the pools of actual cost and indexed cost. You merely add the new shares to the total number of shares in the pool. Step 2 in the section 'How to work out the gain for shares in a new holding' in *Help Sheet IR284: Shares and Capital Gains Tax* does not apply.

Step 2 **does** apply if the share reorganisation is a rights issue. You work out indexation up to the date you pay for the new shares. The cost of the new shares is added to the pool of actual cost and the pool of indexed cost.

Example 3
In April 1996 you buy 1,000 shares in XYZ Ltd for £7,000. On 26/5/97 XYZ Ltd declares a 1 for 5 rights issue at a price of £9 per share. You take up your full entitlement to 200 shares. On 2/6/97 you sell 300 shares at £10 per share.

Following the steps in the paragraph headed 'How to work out the gain for shares in a new holding' in *Help Sheet IR284*, you work out the gain as follows.

Step 1 - April 1996
The pool is opened

Number of shares	Pool of actual cost	Pool of indexed cost
1,000	£7,000	£7,000

Step 2 - May 1997
Give indexation allowance from April 1996 to May 1997. Multiply the pool of indexed cost at step 1 by the indexation factor and add this to the pool of indexed cost, £7,000 x 0.028=£196. Add the cost of the new shares 200 x £9=£1,800 to the pool of actual cost and the pool of indexed cost.

	Number of shares	Pool of actual cost	Pool of indexed cost
	1,000	£7,000	£7,000
plus indexation			£ 196
plus cost of further shares	200	£1,800	£1,800
	1,200	£8,800	£8,996

Step 3 - June 1997
Give indexation allowance from May 1997 to June 1997. Multiply the pool of indexed cost by the indexation factor and add this to the pool of indexed cost £8,996 x 0.04=£36 + £8,996 = £9,032.

Step 4
Calculate the gain or loss. First calculate the allowable cost and indexation allowance. Multiply the two pools of cost by the formula:

$$\frac{\text{Number of shares sold}}{\text{Number of shares held}} = \frac{300}{1,200}$$

Pool of indexed cost	£9,032 x 300/1,200	=	£2,258
Pool of actual cost	£8,800 x 300/1,200	=	£2,200
	Indexation allowance	=	£58

Then, calculate the gain or loss:

Disposal proceeds	£3,000

minus cost		£2,200
	Unindexed gain	£800
minus	Indexation allowance	£58
	Chargeable gain	£742

Then, adjust the two pools in the new holding:

Number of shares	Pool of actual cost	Pool of indexed cost
1,200	£8,800	£9,032
minus £300	*minus* £2,200	*minus* £2,258
£900	£6,600	£6,774

Notes on calculation

If, instead of acquiring the shares on a rights issue, you had simply purchased 200 shares on the open market on 26/5/97, the disposal of 300 shares on 2/6/97 would have been identified against this acquisition first. No indexation allowance would be due, see the paragraph headed 'How to identify the shares disposed of' in *Help Sheet IR284: Shares and Capital Gains Tax*. However, because a rights issue is not treated as an acquisition the 10 day rule does not apply. The disposal is identified against the new holding and indexation allowance is given.

How to work out indexation allowance if the shares are held in a 1982 holding

There is no allowable expenditure if a bonus issue is made in respect of shares in a 1982 holding. The effect of the bonus issue is to reduce the average cost of the shares in the holding.

Example 4

Suppose you have made the election described in the section 'What is Rebasing' on page CGN9 of the Notes on Capital Gains Pages, that all your assets be held at their 31 March 1982 value. You have a 1982 holding of 1,000 shares in PQR Ltd with a cost equal to their 31 March 1982 value of £2 per share. In 1997 PQR Ltd makes a one for one bonus issue. You now have 2,000 shares held at a capital gains cost of £1 per share. If you sell 500 shares, indexation allowance will be given on £500.

You are entitled to an allowable deduction for the amounts you pay for the shares issued on a rights issue. Indexation allowance on these amounts is only given from the date you pay or become liable to pay for the new shares.

Example 5

You have a 1982 holding of 1,000 shares in ABC Ltd. In May 1994 the company declares a one for two rights issue at £4 per share. You accept your full entitlement of 500 shares at a total cost of £2,000. In June 1997 you sell 400 shares at a price of £7 per share. The 31 March 1982 value of the shares is £2.50 per share. You have made an election for the 31 March 1982 value to apply to all your assets.

The 1982 holding consists of the following shares:

	Shares	Cost/31 March 1982 value
Shares held at 31 March 1982	1,000	£2,500
Rights issue	500	£2,000
	1,500	£4,500

You work out the allowable expenditure as follows:

$$\frac{\text{Shares sold}}{\text{Total shares held}} \quad \frac{400}{1,500} \quad \times £4,500 \quad = £1,200$$

Indexation allowance on the shares held at 31 March 1982 is due from that date. Indexation allowance on the shares issued on the rights issue is only due from the period May 1994 to June 1997:

£2,500 x 400/1,500 x 0.983 = £656

£2,000 x 400/1,500 x 0.088 = £47/£703

You work out the chargeable gain as follows:

Disposal proceeds	£2,800
minus cost	£1,200
Unindexed gain	£1,600
minus Indexation allowance	£703
Chargeable gain	£897

Notes on computation

You may not have made an election for the 31 March 1982 value to apply to all your assets. If so you will have to work out the gain using the cost of the shares held at 31 March 1982. As explained in the paragraph headed 'What is Rebasing' on page CGN9 in the Notes on Capital Gains Pages, you compare this gain with the gain used in the 31 March 1982 value.

Share reorganisations involving different classes of shares

The shares issued on a share reorganisation may be of a different class from the shares you already own. Because the shares are of different classes you cannot identify the allowable cost of the shares using the number of shares disposed of. Instead, you identify the allowable cost and the respective values of the shares using the formula:

Cost multiplied by:

$$\frac{\text{Value of shares disposed of}}{\text{Value of shares disposed of + value of shares still held}}$$

The time at which you split the cost of the different classes of share depends on whether or not the shares are quoted on the Daily Official List of the Stock Exchange, or any other recognised Stock Exchange:

quoted shares - you value the different classes of share immediately after the share reorganisation

unquoted shares - you wait until you dispose of some of the shares before splitting the cost. The values you use in the formula are the values of the shares at the time of the disposal.

Example 6

In May 1986 you buy 1,000 £1 ordinary shares in FGH plc, a quoted company, for £1,800. In March 1995 FGH plc makes a rights issue of 1 £1 'A' ordinary share for every four £1 ordinary shares held at a price of £2.50 per share. You take up your full entitlement of £250 £1 'A' ordinary shares at a cost of £625. Immediately after the share reorganisation, the £1 ordinary shares had a value of £8 per share, and the £1 'A' ordinary shares a value of £2.60 per share.

You split the cost of the different classes of share as follows.

Step 1

Calculate the cost and indexation allowance due up to and including the share reorganisation.

	Number of shares	**Pool of Actual Cost**	**Pool of Indexed Cost**
May 1986	1,000 ords	£1,800	£1,800
Indexation allowance May 1986 - March 1995 0.507			+ £913
March 1995	250 'A' ords	£625	+ £625
	1,000 ords/ 250 'A' ords	£2,425	£3,338

Step 2

Split the cost of the two pools of expenditure. The amount allocated to the £1 ordinary shares is given by the formula

$$\frac{\text{Value £1 ords}}{\text{Value £1 ords + Value £1 'A' ords}} =$$

$$\frac{1{,}000 \times £8}{(1{,}000 \times £8)+(250 \times £2.60)} = \frac{£8{,}000}{£8{,}650}$$

Pool of actual cost £2,425 x 8,000/8,650 = £2,243

Pool of indexed cost £3,338 x 8,000/8,650 = £3,087

At March 1995 you have a new holding of £1 ords:

Number of shares	Pool of actual cost	Pool of indexed cost
1,000	£2,243	£3,087

and a new holding of 'A' ords:

Number of shares	Pool of actual cost	Pool of indexed cost
250	£182	£251

Scrip or stock dividends

In a scrip or stock dividend, the company paying a dividend gives its shareholders the option of taking the dividend in the form of new shares rather than cash. It is a form of bonus issue as the shareholders do not pay for the new shares. Shareholders who take shares are taxable on the dividend. They are treated as having received an amount called 'the appropriate amount in cash', which attracts Income Tax.

For Capital Gains Tax purposes, shareholders are treated as though they paid the appropriate amount in cash for the new shares. In other words, the appropriate amount in cash is the allowable expenditure on the new shares. You work out the capital gains on any later disposal of shares in the new holding as though the stock dividend was a rights issue. Indexation allowance is given from the month the dividend became payable.

If a stock dividend is paid by a listed company, that company will usually explain the tax treatment and tell you the value of the appropriate amount in cash.

This explanation may not apply to stock dividends received by trustees, so please ask your Tax Office, or tax adviser, for details.

Demergers

A demerger in which a company distributes shares in a subsidiary to its shareholders may be treated as a share reorganisation. Because the shareholder owns shares in the original company and the subsidiary, this is a share reorganisation involving different classes of share. It is therefore necessary to apportion the allowable cost of the shares using the rules explained in the section 'Share reorganisations involving different classes of share' above. A listed company making a demerger will usually tell its shareholders whether the demerger is a share reorganisation.

Take-overs

When a company takes over another it may issue its own shares and/or securities in payment or part payment for the shares it is buying. Under certain conditions this is treated as a share reorganisation. If the take-over is by a listed company, the information you receive about the take-over will usually say whether these conditions are met. The payment can consist of a mixture of cash, shares and securities. The treatment of these different elements is described below.

All shares

If the company making the take-over only issues shares, you are treated as though you acquire the new shares at the same time and at the same price as the old shares. You may already own shares in the company making the take-over. Provided the new shares and the existing holding are both new holdings, or are both 1982 holdings, the newly issued shares and your existing holding will be merged.

Example 7
You have the following holdings of shares:

	1982 holding shares	Cost	New holding shares	Cost
KNO Ltd	1,000	£1,200	5,000	£6,000
RST Ltd	1,000	£1,800	2,000	£8,000

RST Ltd takes over KNO Ltd and issues 5 RST Ltd shares for every one KNO Ltd share held. 5,000 shares are issued in respect of the 1982 holding and 25,000 shares in respect of the new holding. You are treated as having acquired these shares at the same cost or 31 March 1982 value as the KNO Ltd shares. The holding of RST Ltd shares now becomes:

	1982 holding shares	Cost	New holding shares	Cost
RST Ltd	6,000	£3,000	27,000	£14,000

Shares and cash
If the company making the take-over pays cash and shares, you may have to pay Capital Gains Tax on the cash you receive. To work out the gain you will need to apportion the allowable cost of the shares in the original company between the cash received and the shares received. You do this by reference to the value of what you receive. The formula is:

$$\frac{\text{Value of cash received}}{\text{Value of cash received + value of shares received}}$$

Example 8
You have a new holding of 20,000 shares in CDE Ltd. On 1.3.98 CDE Ltd is taken over by WXY Ltd. WXY Ltd pays £4 in cash and issues 2 shares for each share in CDE Ltd. On 1/3/98 each WXY Ltd share is worth £6.

The new holding of WXY Ltd shares including indexation allowance up to the date of the take-over is:

Number of shares	**Pool of actual cost**	**Pool of indexed cost**
20,000	£60,000	£94,440

The receipt of the cash on the take-over is treated as a capital distribution.

Using consideration received the part disposal formula becomes:

$$\frac{20{,}000 \text{ x } £4}{(20{,}000 \text{ x } £4) + (40{,}000 \text{ x } £6)} = \frac{1}{4}$$

Pool of indexed cost	£94,440 x 1/4 =	£23,610
Pool of actual cost	£60,000 x 1/4 =	£15,000
Indexation allowance		£8,610

Capital Gains Tax calculation:

	Disposal proceeds		£80,000
minus	Cost		£15,000
		Unindexed gain	£65,000
minus	Indexation allowance		£8,610
		Chargeable gain	£56,390

You now have a new holding of 40,000 WXY Ltd shares. Indexation allowance will be given from March 1998.

Number of shares	Pool of qualifying expenditure	Pool of indexed expenditure
40,000	£45,000	£70,830

Securities

The company making the take-over may issue securities such as loan notes. This is sometimes described as a 'loan note alternative' to the cash offer. The tax treatment depends on whether the securities are Qualifying Corporate Bonds. The information given to you at the time of the take-over should say whether the securities are Qualifying Corporate Bonds.

If the securities are Qualifying Corporate Bonds the rules are as follows. You calculate the gain that would have arisen if the shares in the company being taken over were sold at their market value immediately before the take-over. That gain or part of that gain becomes chargeable when the securities are disposed of. There is no separate gain on the disposal of the Qualifying Corporate Bonds themselves.

Example 9

You own 1,000 shares in JLM Ltd. JLM Ltd is taken over by NPR Ltd which issues securities worth £5 for every share in JLM Ltd you hold. The securities are Qualifying Corporate Bonds. Your holding of JLM Ltd shares was worth £5,000 immediately before the take-over. If the cost plus indexation due on these shares is £3,500 this would give a notional gain of £1,500 immediately before the take-over. If you dispose of half the securities that will release a gain of £750.

If the securities are not Qualifying Corporate Bonds you follow the rules described in the paragraph above headed 'All shares'.

Cash/shares/securities

The company making the take-over may offer a combination of cash, shares and securities. You will have to apportion the allowable cost of the shares in the company being taken over between the different elements of the consideration received. As shown in the examples above, you do this by reference to the values of what is given or received.

Earn-outs

Some company take-overs may include an earn-out right, where the amount of the consideration to be paid depends on (for example) the future profits of the company. Because the amount cannot be calculated at the time of the take-over, the value of the right itself represents disposal proceeds. However, if you receive an earn-out right that can be satisfied only by an issue of shares or securities, you may elect for the right to be treated as if it was itself a security. This allows the rules for take-overs described above to apply on receipt of the right. The rules will also apply when you actually receive any shares or securities because of the earn-out.

The time limit for an election is 12 months from 31 January in the tax year following that in which the right was conferred. (That is, just under 1 year and 10 months from the end of the tax year in which the right was conferred).

The right cannot be treated as a qualifying corporate bond. The detailed rules here can be a complex matter, and if you receive an earn-out right you are advised to consult your professional adviser, or see the Inland Revenue Capital Gains Tax Manual at your local Tax Enquiry Centre.

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

Issued by the Inland Revenue
April 1998

IR286 - Income tax losses for shares you have subscribed for in unlisted trading companies

This Help Sheet explains how individuals can make a claim for allowable capital losses on shares to be deducted from your income. The losses you deduct from your income cannot also be deducted from your chargeable gains. The losses must arise on the disposal of shares in an unlisted trading company. You must have subscribed for the shares. You may claim for relief against your income for the year the loss was made or the previous year.

The notes in this Help Sheet are a simplified summary of the legislation as it applies to some common cases. If you are in any doubt about your liability, ask your Tax Office or tax adviser.

IR287 - Employee share schemes and Capital Gains Tax

This Help Sheet provides information to help you complete the Capital Gains Pages of your Tax Return when you have disposed of shares you acquired because you are (or were) a director or an employee, or by exercising a share option granted because you are (or were) a director or an employee.

This Help Sheet tells you about the costs you can take into account in calculating your capital gains or losses.

IR288 - Partnerships and Capital Gains Tax

This Help Sheet gives you information to help you complete the Capital Gains Pages of your Tax Return. It explains how partners are treated for Capital Gains Tax. But it is only an introduction. If you are in any doubt about whether you have made a chargeable gain, or allowable loss, as a partner, ask your tax adviser.

Your Tax Office will also be pleased to help. You can ask to see a copy of the Inland Revenue Capital Gains Manual; this explains the rules in detail.

IR289 - Retirement relief and Capital Gains Tax

This Help Sheet will help you decide if you are entitled to retirement relief. It is only a simple guide and does not cover all cases. You can get help from your tax adviser. Your Tax Office will be also be pleased to help. You can also ask to see the Inland Revenue Capital Gains Manual.

FULL TEXT

This Help Sheet will help you decide if you are entitled to retirement relief. It is only a simple guide and does not cover all cases. You can get help from your tax adviser. Your Tax Office will also be pleased to help. You can also ask to see the Inland Revenue Capital Gains Manual.

Who can get relief?

Retirement relief is available to individuals and some trustees, but not to companies. See below for further details of the qualifying conditions for trustees.

Individuals

If you are entitled to the maximum amount of relief:

the first £250,000 of qualifying gains will be exempt in full, **and**

half of the next £750,000 of qualifying gains will also be exempt.

If the gain exceeds £1 million, the excess will be taxable in the normal way.

The calculation of the relief is described in more detail below.

You can get relief if you retire at age 50 or more, or if ill-health forces you to retire below that age.

If you qualify for relief and were over 50 when you retired, tick column 7 on Page CG2 of the Capital Gains Pages next to the relevant disposal and write 'retirement relief' in column 8.

If you qualify for relief on ill-health grounds, you must make a claim to relief by the 31 January that is 1 year 10 months from the end of the tax year in which you made the relevant disposal. So for 1997-98 you must claim by 31 January 2000. Do this by ticking column 7 on Page CG2 of the Capital Gains Pages next to the relevant disposal and writing 'ill-health retirement relief' in column 8.

Ill-health claims

If you are below 50 you may still be able to claim relief if you have to give up work because of your ill-health and it is unlikely that you will ever be able to go back to similar work in future. If you are claiming relief on ill-health grounds ask the Orderline now for forms CG85 and CG85R.

Complete form CG85, following the notes on that form. Then send both forms to your GP or other medical practitioner who you want to make a report on your health. The medical practitioner should complete the report on form CG85R and then send off both forms in the envelope provided.

The Inland Revenue's medical adviser will examine the claim and may ask you to attend an examination to get more details from you. The medical adviser will then advise the Inland Revenue on whether you meet the medical conditions for relief.

What can I get relief on?

To get retirement relief you have to meet the relevant qualifying conditions throughout a period of at least one year. This period is called the qualifying period. It ends (in most cases) on the date when you disposed of the asset for which you want relief, or the date when the business ceased, if that was earlier.

The relevant qualifying conditions are described below. If you meet the conditions you can get relief on the disposal of:

- the whole or part of your business, whether you carried on the business in partnership or on your own. 'Business' does not include the letting of property unless this amounts to a trade, or the business is furnished holiday lettings

  This relief is given on all business assets such as goodwill and business premises. But it is not available for disposals of shares, securities or other investments held in the business.
- assets that had been in use for your business and which you disposed of within the 'permitted period' (see below) after the business ceased. 'Business' does not include the letting of property unless this amounts to a trade, or the business is furnished holiday lettings
- shares in, or securities of, your 'personal company' (see below). The shares must be disposed of while the company is trading or within the 'permitted period' (see below) after the trade has ceased
- assets that you used in an office or employment which was your full-time job

  This relief is not available if you are an officer or employee of your personal company, or of a company in a group held by your personal company. But you may get relief on disposals of assets which are 'associated with' a disposal of shares in your personal company.
- assets used in a business carried on either by you in partnership, or by your personal company for which you work full-time.

The 'permitted period' means a period of one year, or any longer time that the Inland Revenue allows. In practice, a period of up to three years will usually be allowed provided the asset or, in the case of a company, any chargeable business asset held by it at the date trading ceased, is not used or leased for any purpose during that period.

Your 'personal company' is a company in which you can exercise at least 5% of the voting rights.

If the disposal is by trustees, there are other qualifying conditions to be met.

Qualifying conditions

To get relief you have to satisfy a number of conditions throughout a period of at least one year. This is the 'qualifying period'. It usually ends on the date of disposal. If the business or employment has already ceased by the time the disposal is made, the qualifying period usually ends on the date of cessation.

The amount of relief depends on the length of the qualifying period.

The qualifying conditions depend on the type of disposal you have made.

-- Disposal of the whole or part of your business

There is only one condition to be satisfied in the qualifying period. You must own the business either:

- directly, or
- as a member of a partnership, or
- through a trading company which is your 'personal company', or
- through a company that is a member of a trading group, whose holding company is your 'personal company'.

If the business is owned through a company, you must be a full-time working officer or employee of that company (or of one or more members of the group).

At the date of disposal you must also be aged 50 or more or be retiring because of ill-health (see 'Ill-health claims' above).

-- Disposal of your assets following the cessation of a business

The conditions are similar to those set out in the previous paragraph. But in this case the qualifying period ends on the date the business ceased rather than the date when the asset is disposed of. The date of cessation must be within a permitted period before the date of disposal.

If the asset in question was owned by you personally, but in use by either a partnership or a company at the time business ceased, you cannot get relief under this provision. But you may be entitled to relief as an 'associated disposal'. See below.

At the date the business ceased you must also be aged 50 or more or be retiring because of ill-health (see 'Ill-health claims' above).

-- Disposal of shares or securities in your personal company

Throughout the qualifying period the company must be:

- your personal company, and
- either a trading company, or
- the holding company of a trading group.

You must be a full-time working officer or employee of that company (or one or more of the members of the group) throughout the same period. But see also 'Partial retirement' below.

Periods when the company's (or group's) business was owned by you (on your own or in partnership) can also be taken into account.

The qualifying period ends on the date of disposal of the shares, unless the company (or group) ceased to trade within the permitted period before the disposal. If so, it ends on the date of cessation.

You must also be aged 50 or more or be retiring because of ill-health (see 'Ill-health claims' above) at the date of disposal of the shares or the date the business ceased, if it is earlier.

If the company (or group) has investments as well as business assets, the amount of the gain eligible for relief may be restricted.

-- Disposal of your assets used in your office or employment

Your office or employment must be your full-time occupation throughout the qualifying period. If your office or employment ceases within the permitted period before the disposal, the qualifying period runs up to the date of cessation.

You must also be aged 50 or more or be retiring because of ill-health (see 'Ill-health claims' above).at the date of disposal or the date your office or employment ceased, if that is earlier.

This relief is not available if you are an officer or employee of your personal company, or of a company in a group held by your personal company. But you may get relief on disposals of assets 'associated with' a disposal of shares in your personal company. See the paragraph below.

-- 'Associated disposal' of your assets used in a business carried on either by you in partnership, or by your personal company (or group)

Your disposal must take place in association with a withdrawal (or partial withdrawal) from a business carried on either by you in partnership or by your personal company (or a member of your personal trading group). A 'withdrawal' is a disposal of your interest in the partnership or of your shares in the company. The asset sold must have been in use in the business immediately before the 'withdrawal' (or when the business ceased, if that is earlier).

In cases where:

- the asset had been in business use for only part of the time you owned it, or
- you were concerned in the carrying on of the business for only part of the period during which the asset was in business use, or
- for at least some of the period in which the asset was in business use, you received some form of rent for it

only a just and reasonable proportion of the gain will qualify for relief. The periods involved and the level of any rent paid, should be taken into account when working out this proportion. See Example 1 below.

Disposals of shares - How much of the gains qualify for relief?

There are special rules for working out the relief on the disposal of shares and securities. These are designed to ensure that relief is not given for assets held as investments.

Disposal of shares in a personal trading company

If you sell shares in your personal trading company, only a proportion may qualify for the relief. This is worked out by dividing the value of the company's 'chargeable business assets' by the value of its total chargeable assets. If the company has no chargeable assets, the relief is not restricted.

Example 1

Mary Grant has held a one-third share in a trading partnership since 06/04/83. In April 1988 she acquired a freehold shop, which was then let to the partnership and used by it for its trade. On 01/04/98, at the age of 60, Mary Grant retires from the partnership and sells the shop to the remaining partners, making a gain of £90,000.

Part of the gain (the 'investment part') must be excluded from the gains qualifying for relief. That is worked out as follows:

1. If no rent was paid, none of the gain is treated as the investment part. So the whole £90,000 will qualify for relief.

2. If the partnership paid a full market rent throughout the period of ownership, part of the asset is treated as if it was rented by the other two partners and so is an investment. 2/3 of the gain does not qualify for relief. So 1/3 of the gain qualifies - 1/3 x £90,000 = £30,000.

3. If the partnership paid a rent of £3,000 a year and the average market rent was £12,000 (in other words, they paid 1/4 of the market rent), then only 1/4 of the part rented by the other two partners is treated as an investment asset.

The amount which does not qualify is 1/4 of the 2/3 part rented by Mary Grant's partners (that is, 1/6).
So 5/6 of the gain qualifies - 5/6 x £90,000 = £75,000

Chargeable business assets are assets used for trade carried on by the personal company. They include goodwill but exclude shares, securities and any other investments and any assets that are exempt from Capital Gains Tax. Chargeable assets are all assets, including investments, that are not exempt from Capital Gains Tax.

Disposal of shares in the personal holding company of a trading group

Again, only a part of the gain qualifies for relief. In this case it is worked out by dividing the value of the group's chargeable business assets by its total chargeable assets.

There are extra rules for dealing with the interests of group companies in other members of the group. Ask your Tax Office or tax adviser for details.

Trustees

Retirement relief may be available to trustees who dispose of trust property that consists of either:

- shares or securities in a beneficiary's personal trading company or group, or
- assets used in a beneficiary's business.

The relief will only be available if there is a beneficiary with a life or absolute interest in possession under the trust, who satisfied the necessary conditions in the qualifying period.

'Permitted period' in the paragraphs below means a period of one year, or any longer time the Inland Revenue allows. In practice, a period of up to three years will usually be allowed provided the asset or, in the case of a disposal of shares, any chargeable business asset held by the company, is not used or leased for any purpose during that period.

Disposal of shares in a company

The following conditions must be satisfied:

the company must have been the beneficiary's personal trading company (or holding company of a trading group) for at least one year ending on the date of disposal, or within the permitted period before that date, and

the beneficiary must have

- been a full-time working officer or employee of the company (or group) throughout the same period, and
- ceased to have been a full-time working officer or employee at the date of the trustees' disposal, or within the permitted period before that date, and
- reached the age of 50, or retired on ill-health grounds, at the date of cessation.

Disposal of assets

The following conditions must be satisfied:

the asset must have been used in the beneficiary's business for at least one year, and

the beneficiary must have

- ceased to carry on the business at the date of the trustees' disposal, or within the permitted period before that date, and
- reached the age of 50, or have retired on ill-health grounds below that age, at the date of cessation.

Other information about trusts

If there are other beneficiaries of the trust who have interests in possession, only a part of the gain will qualify for relief. This part is the proportion which the beneficiary's interest in the income of the settled property bears to the interests in that income of all the other beneficiaries with interests in possession at the date the qualifying period ends.

Example 3

Richard Green has a life interest in a settlement that owns a farm. But there are other beneficiaries. Richard is entitled to only 25% of the income arising from the farm land.

He began farming the land owned by the settlement on 6.4.88. He ceases to farm the land on 5.4.98 at age 50. On that day the trustees sell the land for £500,000, giving rise to gains of £320,000. The trustees and Mr Green jointly claim relief.

The gains eligible for relief are restricted to £80,000, because Richard was entitled to only 25% of the income from the farm land - £320,000 x 25% = £80,000.

The trustees and beneficiary must jointly claim relief on the trustees' disposal. Claims must be made to the Tax Office by the 31 January that is 1 year 10 months from the end of the tax year in which the trustees' disposal took place. So for 1997-98 the claim must be made by 31 January 2000.

If the trustees and the beneficiary make disposals on the same day that both qualify for relief, the relief is given to the beneficiary's disposal in priority to the trustees' disposal. If the beneficiary's gains exhaust the maximum available relief, no relief is given on the trustees' gains.

Relief given to the trustees reduces the beneficiary's lifetime entitlement.

How the relief is calculated

If the necessary conditions have been satisfied throughout a period of at least 10 years (the maximum length of the qualifying period), gains of up to £625,000 may be exempt from tax as follows:

Full relief on first £250,000	=	£250,000
Plus 50% relief on next £750,000	=	£375,000
Total amount exempt from tax		£625,000

The 50% relief is given on the smaller of :

the gains eligible for relief (after giving the full relief due), and
the maximum figure of £750,000.

Example 4
Janet Smith, aged 63, disposes of her business, which she has owned for more than 10 years on 30/11/97.

She makes a gain of £700,000.

The relief available is:

Full relief on first £250,000	=	£250,000
Plus 50% relief on £450,000* (£700,000-£250,000)*	=	£225,000
Total amount exempt from tax		£475,000

* Note: this figure (£450,000) is less than the maximum figure of £750,000.

If the qualifying period is between one and ten years, the maximum amounts qualifying for full and for 50% relief will be a percentage of £250,000 and £750,000 respectively. For each year of the qualifying period the percentage is 10%. There are smaller percentages for part years.

Example 5
Suppose in Example 4 the qualifying period is exactly 61/2 years, the maximum relief available is:

Full relief on first £250,000 x 65% (61/2 x 10%)	=	£162,500
Plus 50% relief on £487,500* (£750,000 x 65%)	=	£243,750
Total amount exempt from tax		£406,250

* Note: this maximum figure £487,500 is less than the eligible gains £537,500 (£700,000 - £162,500).

If you have been in business for two or more separate periods and any gap between those periods is less than two years, the periods may be added together to work out the qualifying period. But any part of this extended period that goes back more than 10 years before the date of the latest retirement is disregarded.

Example 6

Alan Jones was born on 01/06/39. He:

carried on a trade from 06/04/72 to 05/04/91, when he sold his business

was then unemployed for four years

began a new trade on 06/04/95

finally retires, aged 62, on 05/04/02.

Disposal at 05/04/91 - no relief due as Alan Jones is below the qualifying age, which was 55 for disposals between 19/03/91 and 27/11/95.

Disposal at 05/04/02 - the gap between businesses is more than two years so the qualifying period does not include the earlier period of trading. The qualifying period is 7 years (06/04/95 - 05/04/02).

The maximum relief is:

Full relief on first £250,000 x 70% (7 x 10%)	=	£175,000
Plus 50% relief on £525,000 (£750,000 x 70%)	=	£262,550
Total amount exempt from tax		£437,500

Example 7

Anne Robinson's circumstances are the same as those of Alan Jones in Example 6 except that her first trade was carried on from 06/04/72 to 05/04/94.

The gap between the two business periods in her case is less than 2 years so they can be added together.

Disposal at 05/04/94 - no relief due as Anne is below the qualifying age, which was 55 for disposals between 19/03/91 and 27/11/95.

Disposal at 05/04/02 - the qualifying period runs from 06/04/92 (that is 10 years before the latest retirement) to 05/04/94 and from 06/04/95 to 05/04/02, a total of nine years.

The maximum relief is:

Full relief on first £250,000 x 90% (9 x 10%)	=	£225,000

Plus 50% relief on £525,000 (£750,000 x 70%)	=	£337,550
Total amount exempt from tax		£562,500

The maximum relief of £625,000 (including the £250,000 ceiling for full relief) is a lifetime maximum. If you have made more than one disposal qualifying for relief there are rules to make sure that your relief on all the disposals does not exceed the maximum. Ask your Tax Office or tax adviser for advice.

Special cases

Partial retirement by an officer or employee
If you are an officer or employee of your personal company, you must normally work full-time up to the date you sell your shares (or until the company's business ceases, if that is earlier) in order to qualify for relief.

There is an exception to this rule. You may stop working full-time and start to work part-time in the business, without disposing of your shares in the company. You may still get relief when the shares are disposed of later, if:

- you have continued to work as an officer or employee for at least 10 hours a week up to the date of the disposal (or until the company ceased to trade, if that is earlier), and
- you satisfied the various other conditions at the date on which you stopped working full-time, and
- you continued to satisfy those conditions up to the date of disposal of the shares or, the date trading ceased if that is earlier.

If this special rule applies the qualifying period will end when you cease full-time working.

Husband and wife
A husband and wife are usually treated separately for retirement relief. If the conditions are satisfied, each can have the maximum £625,000 relief.

A special rule may apply if your husband or wife passes to you his or her entire interest in a business or personal company by lifetime gift, or on death, and you were living together in the year the transfer took place.

In working out the relief due when you retire you can choose that the two periods of ownership be added together. This can increase the amount of relief due, by extending the length of the qualifying period.

The relief calculated on this special basis is limited to the amount that would have been available if your husband or wife had continued to carry on the business. It also takes into account any disposals he or she made.

This election has to be made in writing to your Tax Office by the 31 January that is one year 10 months from the end of the tax year in which you made the relevant disposal. So for 1997-98 you must make the election by 31 January 2000.

Example 8
Edna Jackson died on 30.4.91, having carried on a business as a sole trader since 6.4.82. Her husband Bill inherits the business and carries it on until he sells it on 30.4.97, when he is 55 years old.

If Bill Jackson elects to add the business periods together, the qualifying period is the maximum 10 years (1.5.87 to 30.4.97). The maximum relief available will be £625,000.

If he did not elect, the maximum relief available would be worked out on the basis of a qualifying period of six years (1.5.91 to 30.4.97).

Full relief on first £250,000 x 60% (6 x 10%)	=	£150,000
Plus 50% relief on £450,000 (£750,000 x 60%)	=	£225,000
Total amount exempt from tax		£375,000

Reorganisations and exchanges
Under the Capital Gains Tax rules, if shares in one company are exchanged for shares in another the original shares may, subject to certain conditions, be treated as equivalent to the new holding so that the exchange does not count as a disposal. This means that gains up to the date of exchange will be taxable only when the new shares are disposed of.

If you retire as an officer or employee of your personal company, you may exchange shares in the personal company for shares in another company. If you do this, you may elect that the ordinary rules about exchanges are not applied. Retirement relief may then be given against the gains arising when you dispose of your shares in your personal company.

You must make this election in writing to your Tax Office by the 31 January, that is 1 year 10 months from the end of the tax year in which you made the relevant disposal. So for 1997-98 you must make the election by 31 January 2000.

Capital distributions
Relief is available on disposals of shares or securities, including the receipt of a capital distribution in respect of shares on the liquidation of a company, as long as all the conditions for relief are satisfied.

However, relief will not be available if the capital distribution takes the form of chargeable business assets. If only part of the distribution is a chargeable business asset, the gains eligible for relief will be restricted accordingly.

Above it is explained that on the sale of shares in your personal trading company, only a part of the gain may qualify for relief. That same rule applies where you receive a capital distribution for your shares.

There is a special rule if a company sells chargeable business assets in the last six months of the qualifying period (normally this means the last six months before the company's trade ceases).

You can elect for such assets to be treated as if they had not been sold but retained in business use. The effect of this is to increase the proportion of the gains eligible for relief.

The election must be made in writing to your Tax Office by the 31 January that is 1 year 10 months from the end of the tax year in which you receive the capital distribution. So for 1997-98 you must make the election by 31 January 2000.

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

Issued by the Inland Revenue
April 1998

Help Sheet IR290
For the Capital Gains Pages

This Help Sheet gives you information to help you claim business asset roll-over relief so that you can complete the Capital Gains Pages of your Tax Return.

What is business asset roll-over relief?

Business asset roll-over relief lets you defer any Capital Gains Tax due when you dispose of certain assets (called 'old assets').

If you acquire other assets (called 'new assets') costing the same as, or more than, the amount you got when you disposed of the old assets, the relief allows you to postpone paying tax until you dispose of those new assets.

> **Example 1**
> You sell your shop for £75,000 and buy a new shop costing £90,000. If you claim relief you will not pay tax on the sale of the old shop until you sell the new one.

If you acquire new assets for less than the amount you got on the disposal of the old assets, you may get partial relief.

> **Example 2**
> You sell your shop for £100,000 and buy a new shop for £90,000. If you have made a gain, you may still have some tax to pay but you may get some relief.

You may get a similar relief if you have land which is compulsorily purchased and you buy new land. You will not pay tax until you dispose of the new land.

For disposals made in the tax year ended 5 April 1998 and for subsequent years, there is a system of provisional relief. This system allows you to obtain provisional relief on any gains you make on the disposal of an old asset if you declare an intention to acquire a new asset and claim relief. Further details are in the section headed 'Provisional relief' below.

Getting advice

If you have any questions about business asset roll-over relief that are not answered by this Help Sheet, ask your Tax Office or tax adviser before you make a claim. You can also ask to see a copy of the Inland Revenue Capital Gains Manual; this explains the rules for deferral in detail.

Getting relief

You can claim relief if you are:

- trading
- carrying on a business of furnished holiday lettings
- occupying commercial woodlands and managing them commercially to make a

profit

carrying on a profession, vocation, office or employment

providing an asset to your personal company

or if you have disposed of land by a compulsory purchase.

-- Traders

If you are a trader you can claim relief if you use the old and new assets in:

the same trade, **or**

another trade that you carry on at the same time or shortly after you have ceased that trade.

The Inland Revenue will accept claims to relief where there is a gap of three years or less between one trade ending and another beginning.

Example 3

You cease trading as a newsagent and sell your shop. Later you buy a grocer's shop and start trading again. If your grocery trade began three years or less from the end of your previous trade, you can defer the gain on the sale of your shop.

The Inland Revenue will treat the other activities listed above as if they were trades except for when they provide an asset to your personal company.

So, for example, you can claim relief when you sell an asset you have used in a trade and buy a new asset that you will use in an employment.

If you are not resident in the UK but are carrying on a trade here through a branch or agency, you can *only* claim relief when you acquire new assets for that branch or agency.

-- Furnished holiday lettings

If you let accommodation, you can treat it as a business of furnished holiday lettings if it meets the conditions set out on page LN2 of the Notes on Land and Property Pages.

If you do not have a copy of Notes on the Land and Property Pages, ask the Orderline for them.

-- Your personal company

Your personal company is any company in which you can exercise 5% or more of the voting rights.

You can claim relief if you dispose of assets that you have provided to your personal company and that have been used in its trade. The new assets you acquire must also be provided to be used in the trade of that personal company.

Getting relief for the assets you have disposed of

Both the old assets you have disposed of and the new ones you have acquired must be:

interests in buildings or parts of buildings, **or**

interests in land, **or**

fixed plant or machinery, **or**

ships, aircraft, hovercraft, satellites, space stations or spacecraft, **or**

goodwill, **or**

milk, potato or ewe and suckler cow premium quotas.

-- Occupation of land and buildings

You must occupy as well as use land and buildings for your trade if you wish to claim relief.

If the land or buildings have been provided by you for use by your personal company, it is that company which must occupy and use them.

-- Fixed plant and machinery

This means plant and machinery which is fixed in a particular location. For example, you can get relief when you dispose of a printing press but not when you dispose of a lorry.

-- Improvements

You can treat any money you spend on improving assets, which you already own, as if it were spent on acquiring new assets.

-- Buying to make a gain

If you have acquired the new assets in order to make a profit by selling them, you will not be allowed relief.

-- Partial relief

If:

the old assets have only been used in your trade for part of the time you have owned them, **or**

only part of either the old or the new assets has been used or will be used in your trade,

you can only claim partial relief. Examples 4 and 5 below illustrate the amount of relief you will get.

Example 4

You sell a shop for £100,000 and make a gain of £20,000. You owned the shop for 10 years and traded from it for five years. It was let for the other five years. Only 5/10 of the gain can be deferred and to claim that deferral you must acquire new assets costing £50,000 or more.

Example 5

You sell a building for £80,000 consisting of a shop together with a flat above and make a gain of £40,000. You have always traded from the shop, which is worth £60,000. You let the flat, which was worth £20,000. Only 6/8 of the gain can be deferred. You can defer £30,000 of the gain if you acquire new assets costing £60,000.

-- Depreciating assets

If the new assets are depreciating assets you will get relief by a different method. Instead of your tax being deferred until you dispose of the new assets, it will be deferred until the earliest of the following:

- when you dispose of the new assets
- when you cease to use the new assets in your trade, **or**
- 10 years from when you acquired the new assets.

A depreciating asset is any fixed plant or machinery or any asset which will have a life of 60 years or less from when you acquired it.

> **Example 6**
> You sell a shop and use the proceeds to buy fixed plant and machinery in 1997.
> You can claim to defer the gain on the shop until the earliest of:
>
> the date you sell the plant and machinery, **or**
>
> the date you stop using the plant and machinery in your trade, **or**
>
> 2007

If you acquire a further asset which is not a depreciating asset during the period in which your tax is deferred, you can make a further claim to relief. You can defer your tax until the further asset is disposed of.

> **Example 7**
> You sell an asset in 1997 and make a gain. You buy a new depreciating asset in 1998 and use it in your trade. The gain you made in 1997 will be deferred until 2008 at the latest. If you buy a new non-depreciating asset in 2006, you can defer the 1997 gain until you dispose of that new non-depreciating asset.

-- Compulsorily purchased land

If you were the owner of land which was compulsorily purchased, you can defer your tax on that disposal by acquiring new land. There is no limitation on how the old or the new land are to be used except the new land must not contain a dwelling house:

- when you acquire it, **or**
- within six years after you acquire it

for which you would be entitled to private residence relief if you were to dispose of it.

You will not get relief if you have previously advertised your willingness to dispose of the land.

> **Example 8**
> Your local authority compulsorily purchases a house you own and have let. You receive compensation of £50,000. If you use the money to acquire a new house, which will be let, you can defer the gain until you dispose of the new house.

Period for reinvestment

You must acquire the new assets in the period between:

12 months before, **and**

36 months after

the disposal of the old assets.

The Inland Revenue will extend these time limits if you had a firm intention to acquire the new assets:

within the time limit, **and**

you were prevented by some fact or circumstance beyond your control from meeting the time limit, **and**

you acted as soon as you reasonably could after ceasing to be so prevented.

Example 9
You sell a shop in August 1997 and make a gain. To defer the gain you must acquire a new asset at some time between:

August 1996, **and**
August 2000,

unless the Inland Revenue lets you have relief for a new asset acquired outside that period.

Relief available

If you use the whole amount you receive from the disposal of the old assets to acquire new assets, the whole of your gain will be deferred by deducting it from the cost of the new assets.

Example 10
You sell a shop for £50,000 and make a gain of £10,000. You buy a new shop for £75,000 and claim roll-over relief. The cost of your new shop will be reduced to £65,000 when you calculate the gain or loss you will make if you sell it.

If you use part of the amount you received for the disposal of the old assets and that part includes some of the gain you made, you will get relief for the part of the gain you have used. You deduct that part of the gain from the cost of the new assets.

Example 11
You sell a shop for £75,000 and make a gain of £15,000. You buy a new shop for £70,000 and claim roll-over relief. You have used £10,000 of the gain to buy the new shop. So the cost of the new shop is reduced by £10,000 to £60,000 and you may have to pay tax on the remaining gain of £5,000.

Sometimes:

the actual disposal proceeds you received, **or**

the actual cost of the asset you acquired are replaced by the market value of the asset in order to calculate your chargeable gains.

For example, if you sell an asset to your brother, you can ignore the price he actually pays and you will be taxable as if you had received the full market value of the asset.

If you replace your actual cost or disposal proceeds in this way, then the amount you have to reinvest, or the amount you are treated as having reinvested, is the substitute figure.

> **Example 12**
> You sell a shop worth £80,000 to your son for £10,000. You make a gain of £30,000 and wish to claim roll-over relief. To get any relief you must acquire new assets costing more than £50,000. To get full relief you must acquire new assets costing at least £80,000.

What is the claim time limit?

You can make a claim up to five years from the 31 January in the year following the tax year in which the later of:

- the disposal of the old assets, **or**
- the acquisition of the new assets,

took place.

> **Example 13**
> You sell a shop in May 1996 and acquire a new shop in August 1998. You must claim roll-over relief by 31 January 2005.

How to claim relief

When you claim relief you must tell your Tax Office about:

- the old assets you have disposed of
- the amount you received for each of those assets
- the date on which you sold each of them
- the new assets you have acquired
- the dates on which you acquired each of them
- the cost of each asset acquired
- the amount of proceeds from the disposal of each old asset that you have used to acquire each new asset.

There is a form on page 5 which you can use to make a claim. Attach it to the Capital Gains Pages of your Tax Return.

If you want to make more than one claim, you may use a photocopy of the form.

Provisional relief

You can use the form on page 5 to make a declaration of your intention to use some or all of the proceeds of disposal of an old asset in the acquisition of new assets. If you intend to reinvest all of the proceeds, you can obtain provisional relief on the gains you make on that disposal.

If you intend to reinvest part of the proceeds, you may be able to obtain provisional relief on part of the gains you make on that disposal. The amount of Capital Gains Tax you can defer is the amount of tax that would have been deferred if you had actually acquired a new asset costing an amount equal to that part. Example 15 below shows how it works.

If you declare an intention to reinvest but do not acquire new assets and make a claim to roll-over relief, you will have to pay the amount of deferred tax, together with interest on that tax from the date on which it was originally due to be paid to the date on which you actually pay it.

Provisional relief will be allowed until:

> the date you make a claim to roll-over relief. If you make a valid claim to relief, the tax will be deferred until you dispose of the new asset or, for a depreciating asset, until the time determined in accordance with examples above, **or**
>
> the date you notify us that your intention has changed and you no longer intend to reinvest. As interest will be charged on the deferred tax, you can minimise that interest by telling us as soon as possible if your intention has changed. This may be done by contacting your Tax Office directly. You will then be asked to pay the additional tax due for the year in which the asset was disposed of, together with interest on that tax, **or**
>
> three years from the 31 January next following the tax year in which you have made the disposal (see Example 14 below),

whichever is the earlier.

If you have not made a valid claim to roll-over relief, or withdrawn the declaration of intent to reinvest, by three years from the 31 January next following the tax year in which you made the disposal, you will be asked to pay the tax due for that earlier year, together with interest on that tax. If you acquire a new asset after that time and claim relief, the tax and interest can be repaid to you if you meet the conditions set out for the reinvestment time limit to be extended. Your claim will need to be valid in every other respect.

Example 14

You dispose of an old asset in June 1997 for £50,000, making a gain of £20,000. You make a declaration that you intend to reinvest the whole of the disposal proceeds in the acquisition of new assets and intend to claim roll-over relief. You will not pay tax on 31/01/99 on the gain of £20,000. If you have not claimed roll-over relief, or withdrawn your declaration of intent to reinvest and paid the tax and interest on that gain, by 31/01/02 (2002) we will ask you to pay the tax together with interest from 31/01/99.

Example 15

You dispose of an old asset in September 1997 for £80,000, making a gain of £30,000. You only intend to reinvest £60,000 in acquiring new assets. If you make a declaration to that effect you can defer the tax on £10,000 of the gain, £20,000 of the disposal proceeds is not to be used to acquire new assets and so a gain of that amount is still charged to tax.

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

Issued by the Inland Revenue
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IR290 - Business asset roll-over relief

This Help Sheet gives you information to help you claim business asset roll-over relief so that you can complete the Capital Gains Pages of your Tax Return.

FULL TEXT

Help Sheet IR291
For the Capital Gains Pages

This Help Sheet gives you information to help you claim reinvestment relief so that you can complete the Capital Gains Pages of your Tax Return.

What is reinvestment relief?

Reinvestment relief was introduced with effect from 16 March 1993. Some of the rules governing the relief have since been changed. This Help Sheet describes the rules that apply to disposals and acquisitions after 5 April 1997. If you made a disposal or an acquisition before that date, ask your Tax Office or tax adviser for help.

You can claim reinvestment relief when you make a chargeable gain on the disposal of any asset, if you invest an amount up to the gain in acquiring *eligible shares* in a *qualifying company*. The amount of relief you can claim is explained below.

Your gain will not attract Capital Gains Tax in the year you make the disposal. Instead you deduct it from the cost of the shares. It will therefore increase any gain or reduce any loss you make when you dispose of the shares, unless there is an earlier clawback of relief.

The example below shows at its simplest how the relief works.

> **Example 1**
> You sell an asset for £50,000 realising a chargeable gain of £20,000. You invest £25,000 in acquiring eligible shares in a qualifying company. If you claim full reinvestment relief your chargeable gain is reduced to zero and the cost of the shares is reduced by the amount of the gain to £5,000. The reduction in cost will increase any gain or reduce any loss when you dispose of the shares.

Getting advice

This Help Sheet explains how the relief works. But the Help Sheet is only an introduction. If you are in any doubt about your entitlement to relief you should ask your tax adviser.

Your Tax Office will also be pleased to help. You can ask to see a copy of the Inland Revenue Capital Gains Manual, which explains the rules in detail.

Qualifying for relief

You can claim relief if you are an individual who is resident or ordinarily resident in the UK, unless you are treated for double taxation relief as resident elsewhere, so that you are not liable to UK Capital Gains Tax.

The trustees of certain settlements may also claim relief. Ask your Tax Office for details.

What are eligible shares?

-- Ordinary shares

The shares you acquire must be ordinary shares in a company and they must not have any preferential rights over other shares in the same company, either when you acquire them or later.

Example 2
You acquire 10,000, £1 ordinary shares in a company together with 5,000 £1 shares that carry a preferential right to dividends. Only the ordinary shares are eligible shares.

-- Not listed
The shares must **not** be in a company that has any shares:

listed on the London Stock Exchange, **or**

listed on any other recognised stock exchange.

Your Tax Office or tax adviser can tell you which stock exchanges are recognised.

A listing on the Alternative Investment Market (AIM) does not in itself prevent the shares from being eligible shares.

-- Not in a relevant company
If the gain for which you wish to claim relief was made by the disposal of shares in a company, any shares in that company, or in any company that is a member of the same group of companies as that company, **cannot** be eligible shares.

Example 3
You make a gain from the disposal of shares in XYZ Ltd, a company that has two subsidiaries, XY Ltd and YZ Ltd. No shares in XYZ, XY or YZ can be eligible shares.

--New issue of shares
Where shares are acquired from a company on issue, the acquisition will only qualify if the company, or a qualifying subsidiary of the company, is intending to use the money raised for a qualifying trade. The consideration paid for the shares is not a qualifying investment.

-- Not subject to a claim under the Business Expansion Scheme or the Enterprise Investment Scheme
If a claim to relief for the shares is made under either of these schemes, they will not be eligible shares.

What is a qualifying company?

A qualifying company can be **either:**

a company that exists for the purpose of carrying on one or more qualifying trades, **or**

a company which is the parent company of a trading group.

The company must not be a subsidiary of, or be controlled by, any other company.

A company will either know its qualifying status or be able to contact its Tax Office to find out.

Company residence

There is no requirement that a company has to be resident in the UK.

What is a qualifying trade?

Any trade carried on wholly or mainly in the UK and conducted on a commercial basis with a view to profit will be a qualifying trade **unless** the trade or a substantial part of it consists of:

- dealing in land, commodities, futures, shares, securities or other financial instruments, **or**
- dealing in goods, unless in an ordinary trade of wholesale or retail distribution, **or**
- banking, insurance, money-lending, debt-factoring, hire-purchase financing or other financial activities, **or**
- leasing (including letting ships or other assets for hire) or receiving royalties or licence fees, **or**
- providing legal or accountancy services, **or**
- providing services for any trade listed above which you control.

If the company is engaged in research and development wholly or mainly in the UK from which it is intended that a qualifying trade will be derived, that research and development will be treated as if it were a qualifying trade.

What is the reinvestment time limit?

You must acquire the eligible shares in the period

- beginning 12 months before, **and**
- ending 36 months after

the date of the disposal for which you wish to claim relief.

The Inland Revenue has discretion to extend these time limits. Your Tax Office can explain the circumstances in which they can do this.

> **Example 4**
> You dispose of an asset in June 1997. You can make an acquisition of eligible shares at any time between June 1996 and June 2000.

What is the claim time limit?

You can make a claim up to five years from 31 January in the year following the tax year in which the later of:

- the disposal giving rise to the gain, **and**
- the acquisition of eligible shares,

took place.

> **Example 5**

You disposed of an asset in May 1997 and acquire eligible shares in August 1998. You must make a claim to relief by 31 January 2005.

How to claim relief

Use the form at the end of this Help Sheet to claim relief. Attach it to your Capital Gains Pages when you make your Tax Return. If you are making more than one claim for relief, you should use a separate photocopy of the form for each claim.

If you have made more than one acquisition of eligible shares, you can claim relief for each acquisition. If you make more than one claim, you must state the order of priority of your claims.

The amount of relief that can be claimed

The amount of relief you can claim is limited to the smallest of:

- the amount of the chargeable gain, see Example 1
- the actual amount given for the eligible shares, see Example 6 below
- the market value of the eligible shares if you acquired them from a connected person or otherwise than in an arm's length transaction, see Example 7
- the allowable cost for Capital Gains Tax of the eligible shares if you acquired them from your spouse, see Example 8
- any smaller amount you wish to claim, see Example 9.

Page CGN8 of the Notes to the Capital Gains Pages explains what is meant by 'otherwise than in an arm's length transaction', while page CGN9 explains who are your 'connected persons'.

Example 6
You make a chargeable gain of £50,000 and acquire eligible shares worth £60,000 from a connected person for £40,000. The maximum relief you can claim is £40,000, leaving a chargeable gain of £10,000.

Example 7
You make a chargeable gain of £50,000 and acquire eligible shares worth £30,000 from a connected person for £50,000. The maximum relief you can claim is £30,000, leaving a chargeable gain of £20,000.

Example 8
You make a chargeable gain of £50,000 and acquire shares worth £60,000 from your husband for £30,000. The shares originally cost your husband £10,000 and, if indexation allowance is £5,000, you are treated for Capital Gains Tax as having acquired the shares from your husband for £15,000. Pages CGN10 to CGN14 of the Notes explain indexation allowance and show you how to deal with transfers from your spouse. The maximum relief you can claim is £15,000, leaving a chargeable gain of £35,000.

Example 9
You make a chargeable gain of £50,000 and acquire eligible shares in an arm's

length transaction for £60,000. If the annual exempt amount is £6,000, you can claim relief of £44,000, leaving a gain of £6,000 to be covered by your annual exempt amount. Page CGN3 of the Notes to the Capital Gains Pages explains 'annual exempt amount'.

Clawback of relief

If, at any time in the three years after you acquire the eligible shares, any of the following events occurs, the chargeable gain that has been deferred becomes taxable:

- the shares cease to be eligible shares
- the company ceases to be a qualifying company
- you become neither resident nor ordinarily resident in the UK
- you dispose of the shares in exchange for qualifying corporate bonds.

The following are exceptions to these rules:

- you will not lose relief if any of these events occurs after the three-year period has ended
- if you dispose of the shares to your spouse within the three year period your spouse will be subject to the same clawback rules
- if you have a gain that becomes taxable because of the clawback rules you can defer that gain by acquiring other eligible shares and claiming reinvestment relief again.

Shares acquired on issue

There is full or partial clawback of relief if the company which receives the investment does not use all of the money for a qualifying trade within a time limit. The time limit depends on the trading status of the company at the time of the investment.

Ceasing to be eligible shares

There will be no clawback if the shares cease to be eligible shares because they become listed.

Example 10
You make a chargeable gain of £50,000 and claim reinvestment relief when you acquire 50,000 £1 ordinary shares in a qualifying company for £50,000. Two years later 25,000 of the shares you bought are given preferential rights to dividends over other shares in the company. There is a clawback of relief and you are taxable on a gain of £25,000.

Ceasing to be a qualifying company

There will be no clawback if the company ceases to be a qualifying company because it is wound up for good commercial reasons, provided that the winding up is completed within three years from it beginning.

Example 11
You make a chargeable gain of £50,000 and make a claim to relief on the acquisition of eligible shares in a qualifying company. The company trades as a

retail grocer. After two years the company sells the grocery business and leaves the proceeds on deposit. The company has ceased to be a qualifying company. There is a clawback of relief and you are taxable on a gain of £50,000.

Becoming non-resident

There will be no clawback if you have become non-resident because you have taken up employment outside the UK, so long as you become resident again within three years and have not disposed of any of the eligible shares in the meantime.

Anti-avoidance rules

There are anti-avoidance rules that will prevent you getting relief for an acquisition of eligible shares, or will cause a clawback of relief, if you have made any of the following arrangements:

- to dispose of or exchange the shares
- for the company to stop trading or to dispose of a substantial part of its assets
- for any part of the value of your investment to be returned to you.

Your Tax Office or tax adviser can explain the operation of these rules in more detail. Some examples where the anti-avoidance rules apply are set out below.

Example 12
A qualifying company owes you £50,000. You subscribe £50,000 for eligible shares in the company. The company uses the subscription to repay the debt. No relief is due.

Example 13
In order to persuade you to invest in a qualifying company, someone loans you the capital. No relief is due.

Example 14
In exchange for your investment in eligible shares, the qualifying company employs you as a director, but pays you more than your services would reasonably fetch. No relief is due.

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

Issued by the Inland Revenue
April 1998

IR291 - Reinvestment relief

This Help Sheet gives you information to help you claim reinvestment relief so that you can complete the Capital Gains Pages of your Tax Return.

FULL TEXT

IR292 - Land and leases, the valuation of land and Capital Gains Tax

This Help Sheet gives you information to help you complete the Capital Gains Pages of your Tax Return.

It explains how certain disposals of land, including leases, are treated for Capital Gains Tax. But it is only an introduction. If you are in any doubt about your own circumstances, ask your Tax Office or your tax adviser.

You can ask to see a copy of the Inland Revenue Capital Gains Tax Manual which explains the rules in detail.

IR293 - Chattels and Capital Gains Tax

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

IR294 - Trusts and Capital Gains Tax

The purpose of this Help Sheet is to explain briefly the ways in which UK resident trusts are dealt with for Capital Gains Tax. It is only an introduction. If you are in any doubt about your liability to Capital Gains Tax as trustee, settlor or beneficiary you should ask your tax adviser.

This Help Sheet does not deal with special trusts such as employee trusts or charitable trusts.

IR295 - Relief for gifts and similar transactions

This Help Sheet gives you information to help you make claims and calculate liability, where you have made gift or sold an asset for less than market value, and will assist you in completing the Capital Gains Pages of your Tax Return.

IR296 - Debts and Capital Gains Tax

This Help Sheet explains:

- how debts are dealt with for Capital Gains Tax purposes
- how you can claim an allowable loss if a loan you have made to a trader cannot be repaid
- how you can claim an allowable loss if you have guaranteed a loan to a trader and have to pay up under the guarantee.

This Help Sheet only explains the basic rules as they apply in simple cases. In more complex cases, you may need to obtain professional advice or consult the Inland Revenue Capital Gains Tax Manual, available at your Tax Office.

IR297 - Enterprise investment scheme and Capital Gains Tax

This Help Sheet explains capital gains aspects of the Enterprise Investment Scheme (EIS) for investors. But it is only a simple guide and does not cover all cases. If you are in any doubt you should ask your tax adviser. Your Tax Office will also be pleased to help and you can ask to see a copy of the Inland Revenue Capital Gains Manual which explains the rules in detail.

IR298 - Venture Capital Trusts and Capital Gains Tax

This Help Sheet explains the Capital Gains Tax reliefs for investors in Venture Capital Trusts (VCTs). But it is only a simple guide and does not cover all cases. You may also want to read the Inland Revenue leaflet Venture Capital Trusts (VCTs) a brief guide and Help Sheet IR284: Shares and Capital Gains Tax, available from the Orderline. If you are in any doubt you should ask your tax adviser. Your Tax Office will also be pleased to help and you can ask to see a copy of the Inland Revenue Capital Gains Manual which explains the rules in detail.

IR300 - Non-residents and investment income

This Help Sheet explains how income from UK savings and investments (such as interest from banks or building societies, unit trusts, National Savings or dividends from UK companies) is taxable if you are not resident in the UK.

It includes a Working Sheet, which you only need to use if you decide to calculate your tax.

IR301 - Capital gains on benefits from non-residents and dual resident trusts

This sheet gives you information to help you fill in box 8.9 in the Capital Gains Pages of your Tax Return.

IR302 - Dual residents

This Help Sheet gives information to enable you to decide whether you are a resident of the UK or another country for the purposes of applying the provisions of the Double Taxation Agreement between the UK and that other country.

It includes a form on which you can claim any exemption or relief from UK tax available under such provisions, if you are a resident of the other country for the purposes of the Double Taxation Agreement.

IR303 - Non-resident entertainers and sportspersons

You should read this Help Sheet before you refer to any other printed material to save time and reduce the risk of error.

IR304 - Non-residents relief under double taxation agreements

This Help Sheet explains how non-residents can obtain relief from UK tax under Double Taxation Agreements entered into by the UK.

It includes a claim form which must be completed if you wish to claim such relief from UK tax.

IR310 - War widow's and dependant's pensions

This Help Sheet gives you information to help you fill in Question 11 on page 4 of your Tax Return and, if you got a pension from overseas, the Foreign Pages.

IR320 - Gains on UK life insurance policies

This Help Sheet will help you fill in the boxes on your Tax Return dealing with gains on UK life insurance policies, life annuities or capital redemption policies (boxes 12.4 to 12.8).

FULL TEXT

This Help Sheet will help you fill in the boxes on your Tax Return dealing with gains on UK life insurance policies, life annuities or capital redemption policies (boxes 12.4 to 12.8).

Introduction

These notes are not a comprehensive guide to all the detailed rules for taxing gains from insurance policies.

A reference in this Help Sheet to a 'policy' means a 'life insurance policy'. This Help Sheet is about taxing gains arising on such a policy.

Gains also arise in connection with two other types of insurance. The first type is known as a 'life annuity'. The second type is known as a 'capital redemption policy'. These types of insurance are described in more detail at the end of this Help Sheet. The rules for taxing gains on them are broadly similar to those for taxing gains arising on policies of life insurance. Gains on 'life annuities' and 'capital redemption policies' are fairly rare. No additional explanations of the rules applying to them are included in this Help Sheet.

Many insurance packages are made up of a number of policies often referred to as a 'cluster'. All of these policies may be identical. A reference in this Help Sheet to a policy means one policy. The calculation of any gain should be done policy by policy even if you have twenty identical policies and have received an identical lump sum from each one. The Tax Return Guide tells you to add up gains from a cluster of policies and enter the totals in boxes 12.4 to 12.8. (See also 'Tax Return entries' in this Help Sheet).

More help needed?

If you need more help in finding an answer to a question in this Help Sheet, or in any case of doubt, you may wish to consult your insurer, your financal adviser, your own Tax Office, or, if necessary, you can write to the Insurance Group at the address below. Please bear in mind that your insurer will know about your policy in detail but may know nothing about your personal tax circumstances. Unless you have told them, your Tax Office will have no detailed knowledge of your policy but will know about your tax circumstances in previous years. The Insurance Group will have no detailed knowledge of your policy or your tax circumstances.

What is a gain?

A gain arises on a chargeable event and is the profit, from a policy, which you made as a result of the chargeable event. The way the profit is worked out depends upon the nature of the event, as explained on pages 3 and 4. A gain is treated as taxable income but in many cases there will be no tax liability unless you are taxable at the higher rate of tax or qualify for the age-related allowances.

Whose gain is it?

If you are the 'beneficial' owner of the rights under the policy, a gain will be treated as part of your income. You are likely to be the beneficial owner if you paid the premium(s) and you (or your estate after your death) are entitled to any benefits under the policy. You may be regarded as the beneficial owner in other circumstances, usually because you are entitled to benefit from a policy. For example, you may be the beneficiary of what is known as a 'bare' trust or a 'resulting' trust.

If the rights under a policy are held on trusts which you created, a gain on a policy will be treated as part of your income, whether or not you are entitled to benefit under the terms of the trust (unless the gain is treated as income of a beneficiary of a 'bare trust' or a 'resulting trust'). You are entitled to recover (from the trustees) tax that you pay on the gain. The terms of the trust will determine whether a gain is treated as income of a beneficiary or income of the person who created the trusts.

If the rights under the policy are held as security for a debt of yours, such as a mortgage, a gain will be treated as part of your income.

If a gain is to be treated as part of your income, the guidance in the following pages should help you to calculate it.

(Note for Executors and Personal Representatives: a gain may arise because a policy pays a benefit as a result of the death of the person to whom the Tax Return relates. If so, the gain is treated as arising immediately before death and is treated as income of the deceased up to the date of death.)

If you own a policy jointly with someone else, or you created trusts jointly with someone else, or a policy is held as security for a joint debt (or, as the case may be, with a number of people), any gain will be divided between you. The division is made according to your share in the policy at the time the gain arises unless the rights are held in trust. If they are, you may need more help.

In what circumstances might a gain on a policy arise?

A gain may arise when money (or something of value) is obtained from or in connection with a policy; when ownership of a policy changes hands; or when a policy comes to an end.

In most cases, money is paid out as a benefit under a policy:

- on surrender of all or part of a policy
- when a policy matures
- as a result of death.

The benefit may be paid out as a single sum or as a series of sums.

Your insurance company will often have required you to 'claim' the benefit. (A benefit paid as a result of death will usually be claimed by the deceased's representatives.)

If a gain has arisen, your insurance company may have sent you a copy of a 'chargeable event certificate'.

There will be no gain if you have received a lump sum as a result of a claim to a 'critical illness benefit' or a 'disability benefit' due under the policy. Lump sum critical illness or disability benefits are always left out of account in the reckoning of any other gain; for example, if another benefit is paid under the same policy later on. If you are unsure whether your benefit is a critical illness or disability benefit, ask your insurer.

A gain may arise:

- if the insurance company makes you a loan, or makes a loan on your behalf to someone else, or
- if you sell a policy (or part of a policy).

If you transfer beneficial ownership of a policy by 'gifting' it to someone else, a gain will not arise. But if you transfer beneficial ownership of only part of a policy by 'gifting' a part to someone else, special rules apply and a gain may arise. Beneficial ownership may not have been transferred if you retain some right to, or control over, what happens to the policy or the policy benefits.

A gain may arise whenever a policy comes to an end even if all (or some) of the proceeds are kept by the insurance company and used to pay a first premium under a new 'replacement' policy or some other type of insurance.

Some policies contain an option on maturity allowing the policy holder to take out a new policy. If such a maturity option is exercised and all the proceeds of the old policy are applied as premium under the new policy, a gain will not usually arise when the first policy comes to an end. Your insurance company may have told you that this applies to you. If not, and you think it does, ask them.

You may have difficulty in recognising that one policy has come to an end and that a new 'replacement' policy (or some other insurance contract such as an annuity) has taken its place. You may not have received a new policy document. Your insurancecompany may have noted the change in some other way, such as endorsing the existing policy document. The circumstances in which a policy comes to an end include:

- the exercise of an option to take out a new policy (but see the reference to maturity options above)
- if the life (or one of the lives) insured under a policy is changed. For example, if on marriage the life of the new spouse is added or on divorce the life of the ex-spouse is removed from the policy (but a gain may not always arise in these circumstances - see page 3)
- the rewriting of a policy under the Married Woman's Property Act of 1882 (or the equivalent statutes in Scotland and Northern Ireland)
- the exercise of other options or making changes to a policy by agreement. Changes which bring a policy to an end include some which alter the nature of the insured risk. It is not possible to list all changes.

Your insurance company may have told you about the effect of any change you have made to your policy but if they have not, ask them.

I have received money from a policy - is there a gain?

If you have a 'qualifying' policy and have received a benefit or one of the other events described above has occurred, a gain will not usually arise.

Policies made before 20 March 1968 (and not changed thereafter) will not give rise to gains. (If your policy was made before but was changed after this date it may be treated as made after that date. If you are unsure, ask your insurance company about the effect of any change or write to the address below.)

There may be no gain. Certain temporary insurances (which only pay a benefit if death occurs during the term of the policy) have no surrender value, or a surrender value no greater than the premiums paid. The only time this type of policy can give rise to a gain is if it is sold. A sale may occur because the life assured is suffering from a terminal illness. See below for working out whether a gain arises from any other type of policy.

Some second-hand policies made before 26 June 1982 do not give rise to gains (but may give rise to a Capital Gains Tax charge as explained below).

Certain policies used to provide pension benefits for some sponsored superannuation schemes which existed before 5 April 1980 will not give rise to gains if an Extra-Statutory Concession applies to them. The concession is number A32,a copy of which can be obtained from the Orderline.

What is a 'qualifying' policy?

It is important to know whether a policy is a qualifying one because if it is, it will mean, in most cases, that no gains will arise. The exceptions to this general rule are described below.

The rules for 'qualifying' policies are extremely complex. Your insurer will know the details of your policy and is best placed to answer the question. Ignoring the type of temporary insurance which does not usually give rise to a gain, the rules include:

- the policy must have had a minimum term of 10 years from the date it was made to the date it was due to end, or be a 'whole of life' policy (that is a policy that pays out only on death)
- premiums of fairly even amounts must have been payable at regular intervals, weekly, monthly or annually, in every year at least for 10 (or the first 10) years.

If your policy did not meet these conditions it is not a qualifying policy. If it did you may have a qualifying policy but there are other tests to be satisfied.

A policy which starts out as a qualifying policy (this may be indicated in the policy documentation) may become a non-qualifying policy because of changes made to it or because the premiums have ceased to be paid.

Two Extra-Statutory Concessions (numbers A41 and B42) may apply in deciding what is a qualifying policy. Minor infringements of the rules may not affect the qualifying status if A41 applies to them. Free gifts costing your insurer no more than £30 will not affect the qualifying status if B42 applies to them. Copies of the concessions are available from the Orderline.

Will a gain ever arise from a qualifying policy?

A gain may arise if, within 10 years from the date it was made:

- you surrender or sell the whole or any part of your policy, or

- you give away part of your policy, or
- your policy comes to an end in any of the circumstances described above (apart from death within 10 years).

A gain may also arise if you stopped paying premiums early and the policy became 'paid-up' within 10 years from the date it was made and later on (within, or outside, the first 10 years) you receive money or any of the other circumstances described on pages 1 and 2 occurred.

If you have at some point changed the policy and increased the premiums you paid, the 10 years restart from the date of that change unless the change came about because you exercised an option in the policy. Ask your insurer if you made a change and are unsure what you did.

The 10-year minimum rule is reduced in some cases to three-quarters of the intended term; for example, for a policy with an intended 10 year term, no gain will arise if it is surrendered or sold after 7 1/2 years. Or if, for example, a policy is due to run for 12 years after a change (not by way of an option) which leads to an increase in the premiums, no gain will arise if it is surrendered after 9 years.

There are special rules about qualifying policies and interest-bearing loans made to you or on your behalf to someone else (and for loans made to employees of insurance companies or insurance associations, provided Extra-Statutory Concession A47 applies). Your insurance company may have told you whether or not a gain arises in connection with such a loan. If not, ask them.

What prevents a gain arising?

A gain will arise in the circumstances described above unless:

- the policy is a qualifying policy and none of the circumstances described in the previous column apply, or
- the policy was made before 20 March 1968 and not changed thereafter (page 2), or
- the particular transaction of concern is the transfer of beneficial ownership of a policy to a spouse with whom you are living, or as security for a debt of yours, or
- the particular transaction of concern is the ending of a qualifying policy which ended as a result of a change of life (or lives) insured (page 2) **and** all the proceeds are applied as premiums under the new 'replacement' policy **and** nobody was paid or received anything of value in connection with the change. For example (unless one of the other exemptions applies), a gain will arise if your insurance company charged a fee for making the change or paid what is known as 'initial commission' to your financial adviser as a result of the change or you paid or gave something of value to someone else, perhaps as part of arrangements made on divorce, or
- the calculations show that there is no gain.

The result of the calculation is zero or a negative amount - what should I do?

This may mean that you have made a loss on the policy. If the result is zero or the result of a part surrender type of calculation (see above) is negative, there is no gain and nothing to include in the Tax Return. If the result of one of the other types of calculation is negative and you have included an amount for 'gains which arose on part surrenders in previous years or on your insurer making a loan or on sales or gift of part of a policy (which is Amount A)', a so-called 'corresponding deficiency' arises and this must be included in box 12.9 of the Tax Return. This amount may reduce your liability to tax at the higher rate. The amount to be entered in box 12.9 is the lower of (Amount Z *plus* Amount A *minus* Amount X *minus* Amount Y) and Amount A.

If the result of one of the first three types of calculation mentioned above is negative and A is zero, this means you have made a loss on the policy. There is no relief for that loss. It should not be entered anywhere on the Tax Return. A loss on one policy cannot be set off against a gain on another policy.

In which year does a gain arise?

A gain is treated as income of the tax year in which a full surrender (including when a policy comes to an end) or maturity, or death or sale occurs.

When a gain resulting from a part surrender or your insurer making a loan or a sale or gift of part of a policy is treated as income, the tax year in which the gain occured depends upon when the insurance was first made. If, for example, you made your insurance on 25 May 1990, any gain as a result of part surrenders, etc. in the year 25 May 1995 to 24 May 1996 is treated as income arising on 24 May 1996. That is, the gain is treated as income arising on the day before the next anniversary of the day on which the insurance was made.

Other tax charges

If any other charge to Income Tax arises on money obtained from or in connection with a policy or a change of ownership or a policy coming to an end - see above - that charge will take priority over any charge on a gain. For example, a benefit under a policy may be a receipt of your trade or profession. If you think this applies to you and you need more help, ask your Tax Office or tax adviser.

If you dispose of a policy or a part of a policy which you acquired from its original owner for money or something else of value (including a part of a policy acquired for value from an ex-spouse on divorcing), a capital gain (or a loss) may arise which you should include in the Capital Gains Pages of your Tax Return.

Lloyd's Underwriters: Life assurance policies, life annuities and capital redemption policies may be held as part of funds at Lloyd's. The tax treatment of any gain on these policies or contracts depends on how they are used to back your underwriting. If the insurance company has provided a guarantee to Lloyd's secured on your policy or contract, the gains should be entered in boxes 12.4 to 12.8 on page 4 of the Tax Return, as appropriate, following the guidance in this Help Sheet. If however the Trust Deed governing your Lloyd's deposit includes the policy or contract itself, any chargeable event gain is part of Lloyd's trading income and should be included in box 3L.58 of the Lloyd's Pages of the Tax Return (see page LUN5 of the Notes on Lloyd's Underwriters). In these circumstances, the gain is treated as **not** having been taxed at the basic rate and the total sum received should be entered with no allowance for notional basic rate tax.

Life Annuities and Capital Redemption Policies

A 'life annuity' means an annuity contract for a period ending on death or at some other time related to the end of life. Annuity payments may commence immediately or be deferred. (These contracts are sometimes known as 'purchased life annuities'.) Not all annuities within this description will give rise to tax charges. In particular, pension annuities and any annuity where relief has been given for any part of the cost (or premium) will not give rise to tax charges. Your insurance company should be able to tell you if you have a life annuity or not. If you need further help, ask your Tax Office or tax adviser.

A 'capital redemption policy' is an unusual type of contract from an insurer. On payment of a sum of money the insurer guarantees that a larger sum will be payable on a specified future date. There is no 'life assured' and therefore no amount becomes payable because of a death. Examples include an 'annuity certain' which is an annuity payable for a fixed period not dependent on a life; a 'leasehold redemption policy' which builds up a fund to be used in some way on expiration of a lease; and a 'sinking fund policy' that accumulates a fund, for example, to pay for replacement of an asset.

Tax Return entries

The following guidance supplements the notes in the Tax Return Guide. You should read those notes as well.

Decide whether your gain is treated as having suffered basic rate tax or not.

Gains which are not treated as having suffered basic rate tax include those arising on:

- a friendly society policy written as part of tax-exempt business
- certain life annuity contracts.

Any gain which is not treated as having suffered basic rate tax is entered in box 12.5 on page 4 of your Tax Return. Any gain which is treated as having suffered basic rate tax is to be entered in box 12.8.

You also need to enter either the number of complete years for which your policy has run, or the number of complete years since the last gain on a part surrender, loan, or sale or gift of part of a policy. A gain on a part surrender, etc. is treated as arising on the day before the next anniversary of the day on which the insurance was made. For example, for an insurance made on 19 February 1988 a part surrender gain may arise on 18 February 1997. If there were no previous gains of this sort, the number of years to enter is '9'. If there is a further part surrender in the next year, the gain will be treated as arising on 18 February 1998 and the number of years to enter is '1'. If the policy is then fully surrendered on 1 January 1999, the number of years to enter is '10'. The number of complete years is used in calculating the amount of any tax which may be due on a gain. There is a special 'top-slicing relief' to which you may be entitled which is worked out using this figure. Broadly speaking, top-slicing relief treats the gain as spread equally over the years in order to calculate the rate of tax that would apply in the current year.

If you want to calculate your tax bill, you will need either the special 'Tax Calculation Guide (Lump Sums etc.)', or, if you also have Capital Gains, the special 'Tax Calculation Guide (including Capital Gains and Lump Sums etc.)'. These Guides are available from the Orderline.

Both Guides include more information about top-slicing relief.

Our Address

For further help or information contact your insurer, tax adviser or Tax Office. If you need to write to the author of this Help Sheet send your letters to:

Insurance Help Sheet
Insurance Group
Financial Institutions Division 1
Room 530
22 Kingsway
London WC2B 6NR.

Please note that this help sheet contains a section 'How is a gain calculated' and related examples which we are unable to reproduce. If you need these, you can obtain a copy of this Help Sheet from the Inland Revenue's Orderline on 0645 000404.

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

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IR321 - Gains on foreign life insurance policies

This Help Sheet will help you fill in the boxes on the Foreign Pages of your Tax Return dealing with gains on foreign life insurance policies, life annuities or capital redemption policies.

IR325 - Other income

This Help Sheet includes a working sheet to help you arrive at the figures to include in boxes 13.1 to 13.6 of your Tax Return.

IR330 - Pension payments

This Help Sheet gives you information to help you fill in Question 14 of your Tax Return. It:

- explains how retirement annuity relief (RAR) and personal pensions relief (PPR) are worked out and,
- gives you Working Sheets to help you calculate the amount of your claim for relief.

IR340 - Relief on loans not in MIRAS

This Help Sheet gives you information to help you fill in boxes 15.2 and 15.3 on page 5 of your Tax Return.

Losses

If your business ceased in 1997-98 and you made a loss in your last year of trading, you can claim 'terminal loss relief' against any profits from the same business taxed in 1994-95 or later. This is an alternative to the other ways in which losses can be relieved - for information on losses generally ask the Orderline for *Help Sheet IR227: Losses*. However, make sure that you do not claim the same loss twice.

Terminal loss relief

Partners trading or professional profits

The basis period and overlap rules detailed above are applied to your share of the partnership's trading and professional profits (or losses) as if that income had arisen to you from **a business which you carried on alone**, as a sole trader.

That business will be deemed to have commenced on the date you became a partner (unless you previously carried on the business on your own account when it will be deemed to have commenced on the date you started the business) and deemed to have ceased on the date on which you ceased to be a partner (or if you carry on the business thereafter as a sole trader, on the date you cease to carry on that business).

Example 19: Basis period rules for partners

The partnership commenced business on 1 October 1995 and makes up its account each year to 30 September. You cease to be a partner on 31 December 1997. Your share of trading profits as shown in the Partnership Tax Return are as follows:

year ended	30/09/96	£12,000	
year ended	30/09/97	£18,000	
year ended	30/09/98	£7,000	**(A)**
			(B)

Your basis periods for each fiscal year and the overlap relief to which you are entitled are as follows:

1995-96	1/10/95 to 5/4/96	profits	£6,000	
1996-97	1/10/95 to 30/9/96	profits	£12,00	
		(overlap profits £6,000)		
1997-98	1/10/96 to 31/12/97	profits	£25,000	(A)+(B)
	minus overlap relief		£6,000	
	Taxable profit		£19,000	

£18,000 should be entered in box 4.7 of the Partnership Pages, the net figure of £1,000 (£7,000 (B) minus overlap relief £6,000 (C)) should be entered in box 4.8 and £19,000 (D) in boxes 4.13, 4.20 and 4.22.

Other partnership income
The basis period rules to be applied to your share of the partnership's non trading or professional income are as follows:

If the partnership carried on a trade or profession in 1997-98 then the basis period will depend on whether UK tax has been deducted from that income.

Your share of the partnership's non trading or professional income from which no UK tax has been deducted 'untaxed income' is treated as having been derived from a second 'notional' business which you carried on alone. The same basis period and overlap rules which are applied to your share of the partnership's trading or professional profits are applied to the second 'notional' business which are treated as carrying on. But for this purpose the second 'notional' business is deemed always to have commencement on the date you became a partner and to have ceased on the date you ceased to be a partner.

Any overlap relief to which you may be entitled from your second 'notional' business is first to be relieved against any other untaxed income (regardless of the source from which it is derived) and the balance is to be given as a deduction against any other income of that year.

For your share of the partnership's non trading or professional income from which UK tax has been deducted 'taxed income' your basis period is the tax year. This is the period 6 April 1997 to 5 April 1998.

If the partnership did not carry on a trade or profession in 1997-98 then your basis period for both 'untaxed' and 'taxed' income is the tax year. This is the period 6 April 1997 to 5 April 1998.

Terminal loss relief

If your business ceased in 1997-98, you can set the loss of your final 12 months of trading against any profits from the same business which were taxed in 1994-95, 1995-96, 1996-97 or 1997-98.

The time limit for this claim is 31 January 2004.

First work out the amount of the loss from your first 12 months of trading (this is called the 'terminal loss'). If your 1997-98 accounts cover a period of 12 months or more to the date your business ceased trading, the terminal loss is the allowable loss, or a 12 month proportion of the allowable loss.

> **Example 17**
> If your accounts covered 15 months to your cessation of trading on 31/10/97, and the allowable loss is £5,000, your terminal loss is:
> £4,000 (£5,000 x 12/15)

If your 1997-98 accounts cover a period of less than 12 months, you need to add on part of the allowable loss from the 1996-97 accounts to make the terminal loss up to 12 months.

> **Example 18**
> Your accounts covering six months to your cessation of trading on 30/09/97, show a loss of £8,000. You had a loss of £7,500 in your accounts for the nine months to 31/03/97. You need to add six months to bring your terminal loss to 12 months. You add onto your £8,000 loss £5,000 (£7,500 x 6/9). So your terminal loss is £13,000.

The Working Sheet below will help you work out your terminal loss.

Allowable loss for 1997-98

Either

a) if this account is more than 12 months, deduct a proportion of the loss to leave 12 months' worth of loss, or	£..........................
b) if this account is less than 12 months, add part of the allowable loss (if any) from earlier accounts to make up the 12 month period to the date your business ceased.	£..........................
Terminal loss	£..........................

If you have already claimed relief for the loss in (b) above then you must reduce the terminal loss by the amount of relief that you have already claimed. This is because you can only have relief once for each £1 of loss.

Your terminal loss must be set against any profits (after deducting your losses brought forward) from the same business taxed in 1997-98. If these are zero, it must be set against profits from the same business taxed in 1996-97. Once these have been reduced to zero any balance of the terminal loss must be set against the profits taxed in 1995-96. Finally, if there is still a balance, this must be set against the profits taxed in 1994-95.

Enter the amount of terminal loss relief you are claiming against your 1997-98 profits at box 3.85 or box 4.19 as a loss brought forward and used this year. This is in addition to any other losses you are bringing forward from earlier years, but make sure you do not count the same loss twice. Enter the total amount of terminal loss relief for 1996-97, 1995-96 or 1994-95 in box 3.82 or box 4.16 and give details of the amount carried back to each year in the 'Additional information' box on page SE4 of your Self-employment Pages.

If you have been sent your Tax Return for the year in which your business ceased then you must make your terminal loss relief claim in your Return. If you have not been sent your Tax Return yet then you can claim terminal loss relief as soon as you know how big the loss is, normally when the final accounts have been prepared for the business. If you wish to claim terminal loss relief before your Tax Return has been sent to you, write a letter.

The letter should state:

- the name of your business
- that you wish to claim terminal loss relief
- the date your business ceased
- the profit or loss of the business from the end of the last basis period to the date the business ceased, calculated in accordance with the guidance in the Notes to the Self-employment Pages and elsewhere in this Help Sheet
- the terminal loss that you have calculated following the above guidance.

Partners' trading or professional profits

You will need to decide upon your accounting date - that is, the date to which your accounts are drawn up. Enter the first day covered by the accounts in box 3.4 and your accounting date in box 3.5. You can choose any convenient date: for example, the anniversary of the date you began your business or, in a seasonal business, a date when trade is slack and stocks are low. You are entitled to change to a different date if you want to. However, whatever date you choose, you will find your tax is easier to work out if you keep to it each year. And if you have just started in business, you may find 5 April is the best date to choose as it keeps your tax calculation simple.

Even if you do not have accounts prepared for your business every year, your taxable profit should still be worked out using generally accepted accountancy principles. The Notes for the Self-employment Pages and the following notes provide some practical advice on how to complete your Tax Return if you do not have accounts.

How business profits are taxed

Broadly speaking, you can deduct from your turnover all the costs you incur for the sole purpose of earning business profits. But you cannot deduct costs which you incur for a non-business purpose, such as your own personal expenses or drawings. And you cannot deduct capital costs, that is, the cost of buying fixed assets or intangibles, such as goodwill, which last for several years (or losses you suffer when you sell them). But you may be able to claim capital allowances on these capital costs. Additionally you cannot deduct costs which are recoverable under an insurance.

Business expenditure is allowed in your accounts for a period if it was incurred in earning turnover in that period even if you are not due to pay the money until later.

The amount to deduct is the amount of the expense which was used up during this period. This may not be the amount actually paid. For example, if you owe money at the end of the account - your trade creditors - it may be that this should be included in this account rather than later when it is paid. (Make sure you do not deduct any payments made in this account which you included as trade creditors in your last accounts.) But if you make a payment which is used up over two periods or more you should spread it in your accounts. For example, if halfway through the year you pay 12 months rent in advance for your business premises, only one half of the payment should be deducted this year, and the other half next year.

The Notes for the Self-employment Pages tell you where to include your expenses. There is a Table on page SEN5 to help you decide which expenses can or cannot be claimed in working out business profits for tax purposes.

Use of mileage rates to calculate car expenses

You may calculate your car expenses using a fixed rate per business mile provided that:

- the rate used does not exceed the appropriate Fixed Profit Car Scheme (FPCS) mileage rate for the car at the time it is used. These rates are published annually by the Inland Revenue. (The rates for 1997-98 were announced in a Press Release dated 9 December 1996 available from the Orderline), **and**
- the annual turnover of the business at the time the car is acquired does not exceed the VAT registration threshold (currently £48,000), **and**
- no other motoring expenses (other than interest on a loan used to purchase the car) are claimed and no capital allowances are claimed on the car (since the FPCS rates already contain an element to allow for depreciation), **and**
- such a basis is applied consistently from year to year so that any change to or from an 'actual' basis (including one required by a change in turnover relative to the VAT registration threshold) takes place only when one car is replaced by another.

The VAT registration threshold is used here purely as a convenient limit whose real value is regularly reviewed; this practice has no application to VAT accounting and does not affect existing VAT rules and practices.

This practice does not apply to taxis and other cars used for hire, nor to vehicles other than cars.

If you have existing arrangements for the use of mileage rates other than those set out in this Help Sheet, your Tax Office will expect that on the next change of vehicle, these arrangements are replaced either by claims to actual expenses or (where the conditions in this Help Sheet are satisfied) by claims in accordance with the practice set out in this Help Sheet.

Whatever your business and however you work out your motoring expenses, you must keep adequate records to back up your Tax Return. For more information ask the Orderline for booklet *SA-BK 3 Self Assessment: A guide to keeping records for the self-employed*.

Basis periods

Your basis period for 1997-98

You pay tax for 1997-98 according to the profits, or losses, for your basis period. After the first year or two in business, your basis period will be the 12 month period you use for your accounts, except if you change your accounting date. However, you should check the following rules which enable you to work out your basis period.

Your accounting period is the period your accounts cover; your accounting date is the last day of your accounts. For example, if you draw up accounts each year to 31 December, your accounting period for the 1997-98 tax year is the 12 month period 01/01/97 to 31/12/97 and your accounting date is 31/12/97.

General rules for businesses started in 1995-96 or earlier

If you started business before 6 April 1996 and you were still in business at 5 April 1998, your basis period is the 12 months to your accounting date in 1997-98 *unless you have changed accounting date during 1997-98 - see the 'Changes of basis period' section below*.

> **Example 1**
> You started your business on 01/01/96 and have drawn up accounts to 31/12/96 and 31/12/97. Your basis period for 1997-98 is the 12 months 01/01/97 to 31/12/97.

Commencement

Business started in 1995-96

If you started business during the period 6 April 1996 to 5 April 1997, your basis period is one of the following *unless you have changed accounting date during 1997-98 - see the 'Changes of basis period' section below*.

If your accounting date in 1997-98 is 12 months or more after the date on which you started in business, your basis period is the **12 months to your accounting date**.

If your accounting date in 1997-98 is less than 12 months after the date on which you started in business, your basis period is the **12 months beginning on the date you started**.

If you do not have an accounting date in 1997-98, your basis period is the 12 month period **06/04/97 to 05/04/98**.

Example 2

You started in business on 01/01/97.

If your accounting date is 31/03/98, your basis period is 01/04/97 to 31/03/98.

If your accounting date is 31/10/97, your basis period is 01/01/97 to 31/12/97.

If your first accounting date is not until 30/04/98, your basis period is 06/04/97 to 05/04/98.

If you drew up an account to 31/03/97 but did not draw up an account to 31/03/98, see 'Changes of basis period' .

Business started in 1997-98

If you started business during the period 06/04/97 to 05/04/98, your basis period is from the date you started to 05/04/98.

Example 3

You started in business on 01/07/97. Your basis period is 01/07/97 to 05/04/98.

Cessations

If you ceased business during the period 06/04/97 to 05/04/98, your basis period is the period between the end of the basis period for 1996-97 and the date on which business ceased.

Example 4

Your business ceased to trade on 31/12/97. Your 1996-97 basis period ended on 30/04/96. Your basis period is the 20 month period 01/05/96 to 31/12/97.

Special rule for businesses ceasing in 1997-98 or 1988-99: 1995-96 and 1996-97 may be revised

Prior to the introduction of self assessment the taxable profits in the tax year in which a business ceases were the actual profits (6 April to date of cessation). In addition, your Tax Inspector was required to review the basis periods used in the two tax years prior to the year in which the business ceases. The review might result in profits being taxable on an actual basis for these two years in place of the original basis, but only if the aggregate of taxable profits for these two years is higher using the actual profits.

For businesses set up and commenced prior to 6 April 1994 the transitional rules may result in similar adjustments to earlier years, but only if you cease in 1997-98 or 1988-99.

Cessation in 1997-98

At the time you complete your 1996-97 Tax Return you should apply whatever transitional rules are appropriate to your business. But if your business ceases in 1997-98, and Officer of the Board may subsequently direct that pre Self Assessment rules should apply. Such directions will only be made where, under those rules, adjustment would have been made to the two years prior to the year in which the business ceases (1995-96 and 1996-97). In other words a direction will only be made to replace the original preceding year basis (1995-96) and the transitional basis (1996-97) with an actual basis for both years.

Cessation in 1998-99
Similarly, if your business ceases in 1998-99 an Officer of the Board may subsequently direct that actual basis should apply for 1996-97 instead.

Time limits for directions to revise 1997-98
Any assessment or other adjustment to give effect to a direction by an Officer of the Board must be made within 5 years 10 months after the end of the 1997-98 tax year. There is no right of appeal against any such direction.

Changes of accounting date

There is a change of accounting date if:

- you have drawn up your accounts to a date which is not the same as the date used for tax purposes last year, **or**
- you intend to draw up accounts for more than 12 months and no accounting date falls in the 1997-98 tax year, **or**
- you changed your accounting date last year, this was not accepted by the Tax Office, and you have drawn up your accounts to the same date this year. (But if you have changed back to your old date this is not treated as a change of accounting date.)

You will normally want your new accounting date to count for tax - otherwise your basis period will not end on the same date as your accounts. However, if you intend this to be only a temporary change, you may wish to ignore it for tax purposes. You can then work out your tax using the same basis period as last year.

Changes of basis period: special rules which apply if you change your accounting date

The notes above explain when a change of accounting date takes place for tax purposes. If you are in any doubt whether your accounting date has changed according to these rules, you should contact your Tax Office or tax adviser for help.

When you change accounting date and you want it to count for tax purposes, then your basis period will be given by one of two rules:

- if your accounting date in 1997-98 is more than 12 months after the end of the basis period for 1996-97, your basis period is the period between the end of the basis period for 1996-97 and the new accounting date.

Example 5
If the basis period for 1996-97 ended on 31/05/96, and the new accounting date is 31/08/97, your basis period is the 15 month period 01/06/96 to 31/08/97.

- if your accounting date in 1997-98 is less than 12 months after the end of the basis period for 1996-97, your basis period is the 12 months ending on the new accounting date.

Example 6
If the basis period for 1996-97 ended on 31/12/96, and the new accounting date is 31/07/97, your basis period is the 12 month period 01/08/96 to 31/07/97.

Time limit for notifying the change of accounting date
If you wish a change of accounting date to count for tax purposes, you are required to let your Tax Inspector know in your Return, and give the reason why the change has been made (box 3.8C is provided for you to notify the change.)

One of the conditions for changing your basis period is that your Tax Return is sent back by the relevant filing date. If you fail to do this, the change of accounting date will not count for tax purposes.

What to do if your basis period is not the same as your period of account

Your basis period for 1997-98 may be different from the period (or periods) for which your accounts are made up. If so, you must calculate the profit of the basis period by adding together and/or dividing the periods for which you have accounts. But see the note below if your accounting date falls between 31 March and 4 April.

> **Example 7**
> You commenced on 6 April 1997 and your basis period is the 12 months to 05/04/98. But your accounts are made up for the three months to 30/06/97 (profit £4,500) and the 12 months to 30/06/98 (profit £24,000). So your basis period covers three months of your 1997 accounts and nine months of your 1998 accounts.
>
> The profit of the basis period will be:
> £4,500 + (279/365 x £24,000) = £22,500
>
> These calculations should strictly be made in days but weeks, months or fractions of years may be used instead.

Accounting dates between 31 March and 4 April

The basis of assessment for the tax year in which a business commences (Year 1) is the profits arising in that tax year. So where a new business adopts an accounting date of 31 March and prepares its first trading accounts for a period of 12 months or less, it should in strictness:

> **if the business began on 6 April or later**, add on five days' worth of the profits of the following account in order to make up the full period to 5 April. There will therefore be an overlap of five days between the basis periods for Years 1 and 2, for which the 'overlap profit' should be calculated
>
> **if the business began on 1 to 5 April**, be taxed on one to five days' worth of the profits in Year 1. The basis period for Year 2 will be the first 12 months from commencement so that (except for businesses which began on 1 April) up to four days' worth of profits from the following account should be added on. There will again be overlaps between the basis periods for Years 1 and 2, and sometimes those for Years 2 and 3, for which the 'overlap profit' should be calculated.

However in either case, you can if you want, treat any apportionment of profit for a period of five days or less as zero (that is, all the profit will be treated as falling within the other part of the account). This will have the effect that:

the profits of the account to 31 March each year will be taxed as though they were for the year to the following 5 April. Over the lifetime of the business, the full profits must, of course, be taxed

for businesses which commence in the period 1 to 5 April, the taxable profits for Year 1 will be zero

there will be no 'overlap profits', and hence no overlap relief in any later year.

This practice will not affect any other matters which depend upon the date on, or tax year in, which the business commences.

You may also treat a change of accounting date where the new date is 31 March as though it was a change to 5 April. All previous overlap profits will accordingly be deductible in the year the change takes effect for tax purposes.

If you are in any doubt, ask your Tax Office or tax adviser for help.

Overlap profits and relief

In working out your business profits you must not deduct:

- the cost of buying, altering or improving fixed assets, **or**
- depreciation or any losses which arise when you sell them.

Instead, you can claim tax allowances called capital allowances. These are deducted to arrive at your taxable profits. An adjustment, known as a balancing charge, may arise when you sell an item, give it away or stop using it in your business.

Balancing charges must be added back to arrive at your taxable profits. These notes explain how you can work out these capital allowances and balancing charges.

Partnership Tax Return

The partnership can claim capital allowances on assets owned by the partnership. It can also claim capital allowances on plant and machinery owned by one of the partners but which is used in the partnership's business.

What can you claim capital allowances on?

You can claim capital allowances for the cost of:

- plant and machinery such as vehicles, tools, ladders, computers and business furniture which belongs to you (see 'Plant and Machinery' below)
- agricultural buildings, industrial buildings and certain other buildings
- patents, certain specialist types of 'know-how', scientific research, mineral extraction and dredging. Your tax adviser will claim these for you, if they apply.

If you buy on hire purchase, you can claim capital allowances on the original cost of the item; the interest or other charges count as business expenses and should be deducted at box 3.48.

You cannot claim for anything you have bought solely for private use, or the cost of land even if it is used for your business.

Value Added Tax

The purchase price of an asset on which capital allowances can be claimed sometimes includes VAT. If you are registered for VAT and can offset that VAT against your output tax when you make your returns for VAT purposes, you should only claim capital allowances on the net cost of the asset. In all other cases, and particularly if you are not registered for VAT, the VAT paid should be included in the capital expenditure on which you claim capital allowances.

How to you make your claim

Enter in boxes 3.61 to 3.70 the amount you wish to claim. This should be the amount worked out from the rules set out in these notes. The examples show you what to do. If you need more help ask your Tax Office or tax adviser. You will also need to consult them if:

- you do not want to claim the full amount of allowances, or
- someone else pays part of the cost (for example, by giving you a grant), or
- you had purchases from or sales to members of your family or other connected persons.

Periods of account

You should make a separate capital allowance computation for each period of account. If the period of account is longer than 18 months it should be split into shorter periods and separate capital allowance computations made for each of them. The first 12 months will form a period and each subsequent 12 month period, or period of less than 12 months, will form further periods. For example, if the period of accounts is the 20 months to 31 August 1998 you should split it into 12 months to 31 December 1997 and 8 months to 31 August 1998.

If there is a gap between the two periods of account you should add it to the first period of account. For example, if accounts are drawn up for the year to 31 December 1997 and the period 12 April 1998 to 31 December 1998 you should add the period 1 January 1998 to 31 March 1998 to the year ended 31 December 1997.

If there is an overlap between the two periods of account the overlap period should be treated as part of the first period of account only. For example, if accounts are drawn up for the 15 months to 31 March 1998 and the year ended 31 December 1998 you should treat the period 1 January 1998 to 31 March 1998 as being part of the 15 months to 31 March 1998 only.

The annual rate of writing down allowance for plant and machinery is 25%. This is increased or reduced if the period of account is more or less than 12 months. For example, if the period of account is 6 months long the rate of writing down allowance is 6/12 x 25% = 12.5%.

Plant and Machinery

You can claim allowances for the cost of vans, cars, machines, scaffolding, ladders, tools, equipment, furniture, computers and similar items which you use in your business. Do not claim for the things it is your trade to buy and sell - these should be claimed as business expenses.

A first year allowance of 50% is available for most expenditure on plant and machinery which is incurred in the period 2 July 1997 to 1 July 1998 apart from expenditure on motor cars and assets which you lease out. Most expenditure on plant and machinery incurred outside these dates is lumped together in a single 'pool' of expenditure. There is a single capital allowance calculation for the pool no matter how many items are included. Where a first year allowance is claimed the balance of expenditure after deducting the first year allowance is added to the pool for the following year. The types of plant and machinery which cannot be pooled are explained in these notes.

The allowances are known as writing down allowances. These are worked out at 25% of the cost of the item or 'pool' of items for each year. Example 11 shows how this works.

Example 11

Your accounts are drawn up to 5 April each year. You spend £800 on a new machine in the year ended 5 April 1997. You do not buy anything in the year ended 5 April 1998.

The writing down allowance you can claim for **1996-97** is:

Cost of machine	£800
Writing down allowance @ 25%	£200
Value of pool to carry forward	£600

The writing down allowance you can claim for **1997-98** is:

Value of pool brought forward	£600
Writing down allowance @ 25%	£150
Value of pool to carry forward	£450

If you buy something in the period covered by your accounts and you do not claim the first year allowance, the cost is added to the pool. If you claim first year allowance you cannot add anything to the pool until the following year when you can add the cost after deducting the first year allowance claimed. You can also bring into the pool the value of any items which you used privately before using them in your business. If you sell something, the sale proceeds (or the value if you gave it away or started to use it for non-business purposes) are deducted from the pool. If the sale proceeds etc. are more than the original cost of the asset you should deduct the original cost unless you acquired the asset from a connected person. If you did, you should deduct the greater of the cost to them and your cost if both of them are less than the sale proceeds. Once these adjustments have been made, your writing down allowance for those accounts is calculated.

If the sale price is more than the value of the pool, the difference is a balancing charge.

Example 12
Suppose that the value of the pool brought forward at the beginning of 1997-98 was £450;that in your accounting period for 1997-98 you bought a new machine for £500 in April 1997 and a new machine for £2,000 in August 1997; and you sold a machine on which you are claiming capital allowances for £150. Your capital allowance computation for 1997-98 looks like this:

Cost of machine August 1997	£2,000
First year allowance 50%	£1,000
Value carried forward	£1,000
Pool brought forward	£450
Additions April 1997	£950
Disposal	£150
Writing down allowance @ 25%	£200
Value carried forward	£600

The pool carried forward is £1,600 (= £1,000 for asset on which FYA was claimed + £600 from the 1997-98 pool).

Commencements and cessations

Show as cost of sales the cost of raw materials and goods bought for resale which you used during this accounting period. Make sure you count creditors, that is items delivered to you but which you had not paid for at the end of the period. Do not count items you paid for in this period if they were included as creditors in your last accounts.

You should include the value of stock you had on hand and uncompleted work in progress at the start of the period (this must be the closing figure which you used in your last accounts), but exclude the value of stock and work in progress at the end. Value your stocks for resale and your work in progress at their cost to you or, if this happens to be lower, at the net price they will fetch when sold in the normal course of your business. Value consumable stores at their cost to you, or if they have deteriorated or become obsolescent at their net realisable value where this is lower. The following Working Sheet will help you decide how much you can claim.

Goods and raw materials you bought this period	**A** £................
Plus stock and work in progress on hand at the start of this period	**B** £................
	box A *plus* box B **C** £.................
Minus stock and work in progress on hand at the end of this period	**D** £.................
Equals figure to enter in box 3.33	box C *minus* box D E £.................

Allowable business expenses

Profits which arise from carrying on trades, professions and vocations cannot usually be worked out by simply adding together the cash receipts of the business and deducting expenses paid out. This would show the business's cash flow, but it would not normally be a proper measure of its profits. To arrive at the profits it is necessary to draw up accounts using the methods which accountants have developed for dealing with income which has been earned but not received, expenses which have been incurred but not paid or paid but not fully used, and so on. And the profits arrived at using these methods - the commercial profits - have to be adjusted for tax purposes. This is because in arriving at the commercial profits some items of income or expenditure may be recognised which are not taxable, or tax deductible, and other special allowances may reduce the amount of profits which are taxable.

These guidance notes explain these principles as fully as possible, but they are not a comprehensive guide in all circumstances. If you are in doubt about the correct treatment of a particular item you should consult your Tax Office or tax adviser.

Cost of sales

Overlap profits

It may be that your basis period for 1997-98 overlaps with the basis period for 1996-97. Such overlaps can occur in the first three years after a business starts up, or in a year in which there is a change of basis period (because your accounting date has changed).

Example 8

Your business started on 01/01/97, and your first account is for the 12 months to 31/12/97. Your basis periods are:

1996-97: 01/01/97 to 05/04/97
1997-98: 01/01/97 to 31/12/97

The period of overlap is 01/01/97 to 05/04/97. So if the profit of the 12 months to 31/12/97 is £12,000, the overlap profit is (96/366 x £12,000) = £3,000 (over 96 days). This is the same as the amount which was assessable for 1996-97.

If your basis periods for 1996-97 and 1997-98 overlap, you should keep a record of both the overlap profit and the overlap period. Any overlap profit you have is carried forward until such a time as you can claim overlap relief. The amount of your overlap profit to be carried forward should be entered in box 3.77 (or box 4.11 of the Partnership Pages).

Overlap relief

Include in the adjustments you make in box 3.76 any overlap relief you are allowed to deduct for 1997-98. The notes below will help you work out how much overlap relief to deduct.

Overlap profits which arose in 1996-97 or earlier years can be deducted as overlap relief in working out your taxable business profits for 1997-98 if:

- you sold or closed down your business in 1997-98. All the overlap profits brought forward should be entered at box 3.75 (or box 4.9 of the Partnership Pages), or
- your basis period for 1997-98 is more than 12 months long because you have changed your accounting date since last year. (This can only happen if you changed your basis period.) The amount of overlap profits allowed as overlap relief is in proportion to the length of your basis period in excess of 12 months and the length of your overlap period from earlier years. The example below shows how this works.

Example 9

You have overlap profit of £5,000 (over five months) from an earlier year. You change basis period. Your basis period is 14 months and you are therefore entitled to overlap relief. There are five months' of overlap profit available. The relief is in proportion to the number of months by which the basis period exceeds 12 months (that is, two months) and the length of the basis period (that is, five months).

So the relief is:
2/5 x £5,000 = £2,000.

The balance of overlap profit £3,000 (over three months) is carried forward. You will claim this as overlap relief in a later year.

Transitional overlap relief

If you started in business before 6 April 1994 and your annual accounting date is other than 5 April you may be entitled to transitional overlap relief.

Transitional overlap relief is an amount equal to your profit of the period between the end of your basis period for 1996-97 and 6 April 1997.

Transitional overlap relief is to be calculated before adjustment of your trading or professional profits for capital allowances or balancing charges.

Any transitional overlap relief will be given in the same circumstances when overlap relief would be given. Enter in box 3.77 (or box 4.11 of the Partnership Pages) the amount of your transitional overlap profit to be carried forward.

Example 10
You have been in business for many years and make up your accounts to 31 December each year. Your 1996-97 basis period ends on 31 December 1996. Your 1997-98 basis period is the 12 months to 31 December 1997 and in that period you made a profit of £15,000 (before deducting capital allowances of £3,000). Transitional overlap profit should be calculated for the period 1 January 1997 to 5 April 1997 (the period between the end of your basis period for 1996-97 and 6 April 1997).

The profit assessable for 1997-98 is £12,000 (£15,000 minus £3,000 capital allowances) and the transitional overlap profit is £15,000 x 95 days/365 days = £3,904.

Enter £3,904 in box 3.77.

The anti-avoidance rules to counter exploitation of transitional overlap relief

The overlap rules described above provide scope for a particular type of tax avoidance. This **'transitional overlap period avoidance'** will occur when the profits of the transitional overlap period are artificially increased. Any extra profit that can be shifted into this period increases the amount that escapes taxation through relief in some subsequent year.

There are special anti-avoidance rules designed to counteract exploitation of the transitional rules in this way. They:

identify 'trigger' events responsible for the shifting of profit. These include a change of accounting policy or a modification of an existing policy (for example, a change in the basis of valuation of trading stock at the account end) and any change of accounting date other than one which brings the end of the basis period for the year 1996-97 closer to 5 April 1997

provide 'let-outs' which allow an individual or partnership to retain the tax advantage gained by the shifting of profit. In general terms these let-outs are intended to apply to cases where the trigger event arose from a genuine commercial decision which was not tax driven, or where de minimis limits apply

provide counteraction to cancel the tax advantage that an individual or partnership sought to achieve with a penalty when the let-outs do not apply (subject to a right of appeal)

provide for counteractions without penalty if the taxpayer voluntarily discloses any exploitation of the rules for which the let-outs do not apply.

Voluntary disclosure
If you need advice on whether the anti-avoidance rules might apply to you, ask your Tax Officer or tax adviser.

If you wish to voluntarily disclose that you have applied the anti-avoidance rules to remove the tax advantage that would otherwise have arisen, you should tick box **3.8A** to do so. The actual adjustment you make to remove this tax advantage should be entered in box **3.87** of the Self-employment Pages or box **3.54** of the Trading Pages of the Partnership Tax Return.

Similarly if you are uncertain whether an adjustment is required,but provide a full and frank disclosure of the fact by the filing date of the Tax Return (or within the Tax Return itself), no penalty will be imposed even though it may subsequently be agreed that an adjustment is required.

<u>Capital allowances and balancing charges</u>