HM Revenue & Customs

Chargeable Gains for Companies Toolkit

2018-19 Company Tax Returns

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Introduction

Tax agents and advisers play an important role in helping their clients to get their tax returns correct. This toolkit is aimed at helping and supporting tax agents and advisers by providing guidance on the errors we find commonly occur in relation to chargeable gains for companies. It may also be helpful to anyone who is completing a Company Tax Return.

This version of the toolkit was published during May 2018.The risks in this toolkit have been reviewed and updated where necessary for 20118-19. It is applicable for accounting periods ending in the period 1 April 2018 to 31 March 2019 for Company Tax Returns. That means it covers the rules that may affect the capital gains treatment of assets disposed on dates from 2 April 2017 to 31 March 2019. Its use is entirely voluntary.

This version of the toolkit does not reflect any new legislation but has been updated where changes were shown in the 2017-18 version.

The content of this toolkit is based on our view of how tax law should be applied. Its application to specific cases will depend on the law at the relevant time and on the precise facts.

For further information on using this toolkit and reasonable care under our penalty system see **Tax agents toolkits**.

For guidance on matters not dealt with in this toolkit you should refer to our full guidance, which you can find in our **Capital Gains Manual (CG)**.

Areas of risk within chargeable gains for companies

Companies pay Corporation Tax on their profits, including chargeable gains from the disposal of assets, and so they are not normally chargeable to Capital Gains Tax. For the exception to this rule where a company acts in a fiduciary or representative capacity see **CG40320**. However, the same principles apply in calculating any chargeable gains or allowable losses for companies as apply for other persons, see **CG40260**; with accounting periods treated as years of assessment, see **CG40202**.

For companies, Corporation Tax is charged on chargeable gains arising on the disposal of assets. A chargeable gain may arise when a 'chargeable person' (**CG10700c**) disposes of a 'chargeable asset' (**CG11700c**) on a 'chargeable occasion' (**CG12700c**).

It is important to note that any charge to Corporation Tax on income will take priority over a charge to Corporation Tax on chargeable gains, for example liability as income will arise on the disposal of an asset held as trading stock as part of a trading activity. For further guidance see **CG10260**.

The relevant Capital Gains Tax legislation is contained in the Taxation of Chargeable Gains Act 1992. The main source of guidance is contained in the **Capital Gains Manual** although there are several useful links to guides and helpsheets on the **Capital Gains Tax** pages of the HMRC website.

The Simplification of Capital Gains Tax in Finance Act 2008 does not apply to companies and so indexation allowance and the 'kink test' are still pertinent for companies.

This toolkit aims to identify risks for chargeable gains for companies only. Capital Gains Tax may be due on gains arising from assets disposed of by directors and/or shareholders on their own behalf.

For further guidance on the types of asset on which Capital Gains Tax may be due see **Capital Gains Tax - what you pay it on**.

For any other questions or advice please refer to **Chargeable gains and Corporation Tax** and

Capital Gains Manual.

The main areas of risk for chargeable gains for companies broadly fall into five categories:

Record keeping

Good record keeping is essential. Poorly kept records can mean that information provided is not accurate and may result in expenditure or reliefs being claimed incorrectly. Conversely allowable expenses or reliefs may not be claimed.

The nature of chargeable gains means that relevant events may have occurred in the distant past yet still affect the current transaction, for example, a previous part disposal. Having access to detailed histories of assets also makes it easier to gather the relevant information when disposals occur and help complete the company tax return correctly and in full.

For Corporation Tax purposes, the general record keeping requirement is six years from the end of the accounting period. Records connected with the acquisition and enhancement of a capital asset will need to be retained until the asset is disposed of, which may be longer than six years. After disposal, the records will need to be retained for a further six years from the end of the accounting period in which the disposal is made in line with general record keeping requirements. In the case of a part-disposal of an asset, records will need to be retained until the remainder of the asset is disposed of, and then the further six years.

For further guidance on record keeping see **Running a limited company - company and accounting records**.

Disposals

Disposals include the sale, exchange or gift of all or part of an asset. It can also include the loss or destruction of an asset and the receipt of capital sums derived from assets.

It is important to establish the date of disposal to ensure that chargeable gains are calculated for the correct Corporation Tax accounting period. Often the date of disposal will be clear, such as when the disposal is made under an unconditional contract where the date of disposal is the date of the contract. However there are occasions when this will not be straightforward, for example when a contract is 'conditional'.

A contract is only conditional if particular conditions have to be satisfied before the contract becomes legally binding. The date on which these conditions are met and the contract becomes legally binding is the date of disposal.

Valuations

Valuations are the biggest single area of risk, accounting for a large part of our compliance checks. It is important to instruct an independent valuer, and make sure the valuation is made for the purposes of relevant legislation and meets Royal Institution of Chartered Surveyors or equivalent standards in appropriate cases.

Issues that are sometimes overlooked when instructions are given to a valuer include:

- the potential for development of land or the existence of tenancies or restrictive covenants
- the inclusion of intangible or other assets in a sale of land and buildings
- the full history of a shareholding
- relevant close company information in respect of unquoted shares

Where we are satisfied that all the relevant information has been fully considered by an independent valuer, the valuation is less likely to be challenged.

It is often necessary to establish a market value for assets held at 31 March 1982 but there are other occasions when it may also be required. Such occasions can be overlooked.

Expenditure

Certain expenditure is allowed against the disposal proceeds in calculating the chargeable gain. The main rules are contained in S38 Taxation of Chargeable Gains Act 1992 and cover:

- acquisition costs
- enhancement expenditure
- incidental costs of acquisition and disposal

The expenditure should be capital and not allowable elsewhere against income profits. There are specific rules for apportioning the allowable expenditure on a part disposal.

To be allowable, enhancement expenditure must be incurred for the purpose of enhancing the value of the asset and reflected in the state or nature of the asset at the time of disposal.

For further guidance see **CG15150+**.

Reliefs

There are several reliefs that may apply to a chargeable gain. There are certain conditions that must be met before each relief is due. If these conditions are not met, the relief may not be available.

There are some reliefs which require specific associated documentation without which the claim for relief is invalid. It is important to ensure that all necessary documentation is available and complete before making a claim for relief.

There are occasions when certain reliefs that are only available for business assets are claimed incorrectly when the activities may not amount to a business, for example the holding of investment property will not normally amount to a business.

Using links within this document

Blue underlined text are links within this document.

Green bold text are hyperlinks to external documents on the internet (access to the internet is necessary to view these).

We have a range of services for people with disabilities, including guidance in Braille, audio and large print. Most of our forms are also available in large print. Please contact any of our helplines if you need these services.

Dealing with HMRC if you have additional needs

Giving HMRC feedback on toolkits

HMRC would like to hear about your experience of using the toolkits to help develop and prioritise future changes and improvements. HMRC is also interested in your views of any recent interactions you may have had with the department.

Send HMRC your feedback

Client Name:	Period Ended:

Checklist for chargeable gains for companies

		Yes	No	N/A	N/K
	Disposals				
1	Has the correct date of disposal been established?	☐	☐	☐	☐
2	Has market value been used instead of actual disposal proceeds, where appropriate?	☐	☐	☐	☐
3	Has market value been used where there has been a disposal of an asset to a connected person?	☐	☐	☐	☐
4	Where an apportionment of the sale consideration for a disposal is required, has the apportionment been made on an appropriate basis?	☐	☐	☐	☐
5	Where a valuation is necessary, has the asset disposed of been valued by a properly instructed, independent valuer?	☐	☐	☐	☐
	Allowable Costs				
6	Is all of the expenditure deducted in working out the chargeable gain allowable?	☐	☐	☐	☐

Allowable costs continued

7 If there has been any enhancement expenditure since the asset was acquired, is the expenditure all allowable?

☐ ☐ ☐ ☐

8 Has there been a disposal of part of an asset, and if so, have the part disposal rules been applied?

☐ ☐ ☐ ☐

9 Where a lease has been granted over all or part of a property, have the part-disposal rules been considered?

☐ ☐ ☐ ☐

10 Where a short lease has been disposed of, have the correct rules been applied?

☐ ☐ ☐ ☐

Reliefs, allowances and exemptions

Roll-over Relief

11 If Roll-over Relief has been claimed on the disposal of a business asset, have the relevant conditions for relief been satisfied?

☐ ☐ ☐ ☐

12 Have the extended rules been applied in considering a Roll-over Relief claim made by a company which is a member of a group of companies?

☐ ☐ ☐ ☐

13 Has a qualifying replacement been acquired within the time limits?

☐ ☐ ☐ ☐

Roll-over Relief continued

14 Has a declaration to obtain provisional Roll-over Relief been confirmed or withdrawn?

☐ ☐ ☐ ☐

15 Where the cost of the asset was reduced as a result of an earlier claim to Roll-over Relief, has the reduced cost been used in computing the gain?

☐ ☐ ☐ ☐

16 Has the Roll-over Relief claimed been restricted where all of the disposal proceeds have not been reinvested in new qualifying assets?

☐ ☐ ☐ ☐

Indexation Allowance

17 Has Indexation Allowance been calculated only up to December 2017?

☐ ☐ ☐ ☐

18 Has Indexation Allowance been calculated by reference to the correct dates of disposal and expenditure (if before January 2018)?

☐ ☐ ☐ ☐

Substantial Shareholdings Exemption

19 Have all the necessary conditions been met so that there is no chargeable gain under the Substantial Shareholdings Exemption?

☐ ☐ ☐ ☐

Substantial Shareholdings Exemption continued

20 Have the conditions for Substantial Shareholdings Exemption been met on a disposal of shares on which a loss has arisen so that there is no allowable loss?

☐ ☐ ☐ ☐

Losses

21 If a loss has arisen from a disposal of assets to a connected person, has it been relieved only against gains arising on a further disposal to the same connected person?

☐ ☐ ☐ ☐

22 Has relief for losses brought forward been claimed correctly?

☐ ☐ ☐ ☐

23 Has an election been made to treat a capital loss on the transfer of an asset to stock as an adjustment to trading profits?

☐ ☐ ☐ ☐

Groups of companies

24 Has the no gain/no loss treatment been applied correctly where an asset has been disposed of by one company and acquired by another?

☐ ☐ ☐ ☐

25 Has a loss been restricted correctly on a disposal of shares where the value of the shares has been materially reduced by a depreciatory transaction?

☐ ☐ ☐ ☐

Groups of companies continued

26 Have the degrouping charge rules been applied where a company, which acquired an asset from another group company, has left the group?

	☐	☐	☐	☐

Explanation and mitigation of risks

Disposals

1. Has the correct date of disposal been established?

Risk
Proceeds for the disposal of an asset may be received (and recorded for accounting purposes) in a different accounting period to that in which the disposal arises for chargeable gains purposes.

A gain may therefore be returned in the wrong accounting period if the date of disposal for chargeable gains purposes is not properly identified. Where the date of disposal is not correctly identified and the gain is returned in the wrong period, there may be significant tax consequences. For example, the rate of tax charged could be affected, as could the availability of reliefs or losses.

Mitigation
Ensure that the correct date of disposal has been identified. This will normally be easily identifiable but there are specific rules which determine the date of disposal in particular circumstances, as explained below.

Explanation
Where an asset is disposed of other than under a contract, the date of disposal will depend on the nature of the transaction. For further guidance on the specific rules see **CG14260**.

Where an asset is disposed of under a contract, the date of disposal will depend on whether the contract is unconditional or conditional. Where the contract is unconditional, the date of disposal will be the date of the contract. However, where the contract is conditional, the date of disposal will be the date on which the conditions are satisfied.

A contract is conditional only if particular conditions have to be satisfied before the contract becomes legally binding. For further guidance see **CG14270+**.

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2. Has market value been used instead of actual disposal proceeds, where appropriate?

Risk
In a number of circumstances market value must be used instead of the actual disposal proceeds. If market value is not used the consideration may be incorrect resulting in an under or overstatement of a chargeable gain.

Mitigation
Establish whether the disposal involves any of the criteria for using market value. Ensure market value is used in place of the actual disposal proceeds when calculating any chargeable gain or loss.

Explanation
Market value is the price which the asset disposed of might reasonably be expected to fetch on a sale in the open market.

There are many circumstances in which a valuation of an asset may be needed for capital gains purposes. The most common are:

- where an asset is disposed of otherwise than by way of a bargain made at arm's length, S17

Taxation of Chargeable Gains Act 1992 - for further guidance see **CG14530**
- where an asset is disposed of to a connected person, S17 and S18 Taxation of Chargeable Gains Act 1992 - for further guidance see **CG14530** and Q3 below
- where only part of an asset is disposed of and a valuation is needed of the part retained, S42 Taxation of Chargeable Gains Act 1992 - for further guidance see **CG12730+**
- where rebasing to 31 March 1982 applies, S35 Taxation of Chargeable Gains Act 1992 - for further guidance see **CG16700c**.

Where an asset is disposed of for consideration in money's worth rather than in cash, any assets which are received in exchange for those disposed of will need to be valued. Where the money's worth consideration is in another form the value of the consideration will need to be established. For further guidance see **CG14500**.

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3. Has market value been used where there has been a disposal of an asset to a connected person?

Risk
Where there is a disposal of an asset to a connected person, the disposal is treated as a transaction 'otherwise than by way of a bargain made at arm's length'. In these circumstances the market value rule needs to be applied. An exception to this is where the disposal is made by a company to another member of the same group of companies, see Q24. For further guidance on the market value rule see Q2 and **CG14530+**.

If it is not identified that the disposal is to a connected person, and the gain computed by reference to the market value rather than any actual proceeds, the resulting gain may be incorrect.

Mitigation
Check the disposal details and identify the person acquiring the asset to determine whether there is any connection between them and the person disposing of the asset. Where the person acquiring the asset is a connected person, a valuation of the asset disposed of will be required, in order to establish the correct disposal consideration to be used in calculating the gain. See Q5 for valuations.

Explanation
In many cases it will be obvious that the parties to the transfer of an asset are connected but there can be occasions when it is not immediately apparent.

A company is connected with another person in either of the situations below:
- if that person has control of the company
- if that person and persons connected with him together have control of the company.

A company is connected with another company in any of the situations below:
- if the same person has control of both
- a person has control of one and persons connected with him (or he and persons connected with him) have control of the other
- if a group of two or more persons have control of each company, and the groups either consist of the same persons or could be regarded as consisting of the same persons by treating (in one or more cases) a member of either group as replaced by a person with whom he is connected.

'Control' has the same meaning as it has for close companies for Corporation Tax, for further guidance see **Company Taxation Manual (CTM) CTM60200+**.

For further guidance on companies and connected persons see **CG14620**.

When an asset is transferred by a company to a connected person, there may be other tax consequences as well as use of the market value rule as described above. For further guidance see **CG16270+**.

Where an asset is transferred by a company to an employee or director at less than its true market value, the difference between the price paid by the employee or director and the value of the asset received will usually be chargeable as employment income. For further guidance see **Employment Income Manual (EIM) EIM00540** and **EIM08001+**.

There may also be a charge as employment income where an employee or director transfers an asset at overvalue to the company, for further guidance see **CG16320**.

Where a company transfers an asset to a member, who is not an officer or employee of the company, at less than its true market value, any difference between the cash consideration and the market value of the asset may be treated as a distribution. For further guidance see **CG16280** and **CTM15290**.

A transfer at undervalue by a company may also reduce the value of the company's shares, and S125 Taxation of Chargeable Gains Act 1992 restricts the advantage a shareholder may have gained. For further guidance see **CG57122**.

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4. Where an apportionment of the sale consideration for a disposal is required, has the apportionment been made on an appropriate basis?

Risk
Where an apportionment of consideration is required to compute chargeable gains, the apportionment must be made by a method which is just and reasonable and the terms of any agreement made at arm's length in relation to the apportionment must be respected. If this is not the case, then any chargeable gain or allowable loss computed by reference to an inappropriate adjustment will be under or overstated.

Mitigation
Check whether an apportionment is necessary to compute any chargeable gains or allowable losses. Also check whether any agreement has been made at arm's length, specifying the apportionment for both parties to the transaction. If an apportionment has been specified, that apportionment should be used in the computation. Any apportionment should be checked to see whether it has been made by a method which is just and reasonable.

Explanation
An apportionment of the disposal consideration, or the allowable costs, in respect of one or more assets is often required so that any chargeable gains or allowable losses may be calculated correctly. For example, an apportionment may be necessary where:

- a number of assets are sold or acquired in a single transaction
- a single asset is sold or acquired but only part of it qualifies for some relief.

Any apportionment must be necessary and made by a method which is just and reasonable. For further guidance see **CG14781**.

When the parties to an arm’s length transaction have agreed an apportionment between them, either in the contract or separately, such apportionment should be used in completing the chargeable gains computation and the company's tax return. However, if that apportionment has not been made using a method which is just and reasonable that should be clearly stated in both the computation and the return.

If the parties to the transaction are connected persons, or the transaction in relation to each asset involved is otherwise than by way of a bargain made at arm's length, the consideration or expenditure is the market value of the asset - see Q2 and Q3 above. In such a transaction the consideration and any apportionment agreed between the parties is not relevant.

For further guidance on apportionments for capital gains purposes see **CG14771+**.

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5. Where a valuation is necessary, has the asset disposed of been valued by a properly instructed, independent valuer?

Risk
Valuation is an area of high risk, especially in connection with 'unquoted' shares, land and buildings. This is particularly so where the valuation is not referred to a qualified, independent valuer. However, it is not sufficient simply to refer a valuation to a valuer. In the absence of proper instructions, the valuer will not understand the context nor have all the necessary details on which to make a proper valuation.

For land and buildings, areas that are frequently overlooked include:

- tenancies
- development potential (even where this has not been pursued)
- inclusion of other assets in the transaction, such as goodwill or farm machinery
- restrictive covenants over the land.

For 'unquoted' shares, areas that are frequently overlooked include:

- The size of the holding
- A full description of the rights attaching to the shares
- The class (for example, ordinary, preference, A, B etc.) and denomination of the shares (disposals of different classes of share in the same company must be shown as separate transactions)
- A history of the holding, particularly if there has been a reorganisation or takeover - in which case all the above details in respect of the original shares held will need to be included. For further information on share reorganisations see **CG51700+**.

There are also other assets which may need to be valued when disposed of, and also on occasion when acquired.

Mitigation
Valuations are not a precise science and lengthy correspondence may be avoided if it is demonstrated that all the relevant factors have been taken into consideration. It is important to:

- engage an independent valuer (qualified to Royal Institution of Chartered Surveyors or equivalent standards in respect of land and buildings)
- explain the context, for example, a valuation for the purposes of rebasing to 31 March 1982 (S35 Taxation of Chargeable Gains Act 1992)
- draw attention to the definition of market value for chargeable gains purposes
- provide all relevant details concerning the asset, and in particular, the points mentioned in the bullet points under 'Risk' above.

For further guidance on the valuation of assets see **CG16200+** and **Valuation of Assets**.

Explanation
There are a number of occasions when a valuation may be required in order to establish the correct figure to be used in a chargeable gains computation, as well as a variety of types of asset which may need to be valued.

For further guidance on valuation of 'quoted' shares see **CG59510+**.

For further guidance on valuation of 'unquoted' shares see **CG59540+**.

For further guidance on valuation of land and buildings see **CG74000+**.

You may also consider using the Post Transaction Valuation Check procedure - CG34 procedure - to agree the valuation prior to submitting the return. For further guidance see **CG16600+**.

If you use the CG34 procedure, ensure you enclose a chargeable gains computation for the accounting period, clearly state which reliefs are being claimed or are due, and provide an explanation of how the value was arrived at. You must ensure that the CG34 is submitted at least two months prior to filing the relevant Company Tax Return or we may be unable to complete the check in time.

Forms CG34 and any relevant additional information should be sent directly to the office dealing with the company's affairs.

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Allowable costs

6. Is all of the expenditure deducted in working out the chargeable gain allowable?

Risk
For expenditure to be allowed against a chargeable gain it must be incurred wholly and exclusively in one of the four categories set out in the explanation below. Expenditure not within these categories, or which is allowed elsewhere, for example against property income, will not be allowed against the chargeable gain.

Mitigation
Check each item of expenditure to confirm that it falls within one of the four allowable categories (see below). Check also that it is not relievable against income and has not been deducted in computing income profits.

Ensure that the actual figures of expenditure have been used in the computation and not figures taken from the company accounts, which may have been subject to one or more revaluations for accountancy purposes. Check that the asset was not acquired from a connected person or fellow group company, where the market value or no gain/no loss amount will apply, see Q24.

Explanation
Expenditure is allowable only if it was incurred wholly and exclusively in one of the following four categories:

- acquiring or creating the asset
- enhancing its value
- establishing or defending title to or rights over the asset
- incidental costs of acquisition and disposal

Allowable incidental costs are limited to:

- fees, commission or remuneration paid for the professional services of any surveyor, valuer or auctioneer, accountant, agent or legal adviser
- costs of transfer or conveyance (including Stamp Duty)
- costs of advertising to find a buyer or seller
- costs reasonably incurred in making any valuation or apportionment required for the purposes of the chargeable gains computation.

For further guidance see **CG15160+**.

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7. If there has been any enhancement expenditure since the asset was acquired, is the expenditure all allowable?

Risk
Not all enhancement expenditure is allowable, for example if the enhancement is no longer reflected in the state or nature of the asset at the time of disposal. Some expenditure on the asset may be properly relievable against income and deductible in computing income profits and so must not be used in the calculation of any chargeable gain or allowable loss.

Mitigation
Obtain a full history of the asset and details of the expenditure.
Ensure that the expenditure meets the conditions detailed below and that it is neither relievable against income nor has it been deducted in computing profits in the year in which the expenditure was incurred.

Explanation
In order to qualify as enhancement expenditure, expenditure must satisfy all the following conditions. It must be:

- incurred on the asset
- incurred for the purpose of enhancing the value of the asset
- reflected in the state or nature of the asset at the date of disposal.

Enhancement expenditure incurred prior to March 1982 will already be reflected in the March 1982 valuation and should not be deducted separately in calculating the chargeable gain or loss.

Example 1
A company buys some land and has a factory built on it. The building of the factory is an enhancement. It is still standing in its entirety at the time of disposal so all the expenditure is allowable.

Example 2
A company buys some land and has a factory built on it. The building of the factory is an enhancement. A few years later the original building is knocked down to make way for a new factory building. The original factory is not reflected in the state or nature of the asset at the time of the disposal so expenditure attributable to its construction in the first place is not allowable.

For further guidance see **CG15180+**.

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8. Has there been a disposal of part of an asset, and if so, have the part disposal rules been applied?

Risk
It is not always obvious that a disposal is of only part of the asset originally acquired. If this is the case but the part disposal rules are not applied, or are applied incorrectly, then the incorrect amount of allowable expenditure may be deducted in computing the gain.

For example, a 60 year lease is granted at a premium on a shop unit. The disposer retains the freehold (reversionary interest), which itself has value. The right to receive rental income also has value. Both of these values are used in apportioning allowable expenditure in order to compute the gain on the grant of the lease.

Mitigation
Check the history of the asset and the disposal contract to identify the part of the asset disposed of. Where there has been a part disposal, ensure the part disposal rules have been applied - see below for part-disposal formula.

Explanation
The allowable acquisition cost (or March 1982 market value where appropriate), and any enhancement expenditure or incidental costs of acquisition, should normally be apportioned using a statutory formula. For further guidance see **CG12731**. The part retained must be correctly determined and valued.

Example
A part of an asset which originally cost £40,000 in total is sold for £50,000 and the value of the remainder is £45,000. Using the formula below the adjusted cost would be £21,053.

$$\text{Original cost} \times \frac{\text{Consideration for part disposal}}{\text{Consideration for part disposal + value of remainder}} = \text{Adjusted cost}$$

$$£40{,}000 \times \frac{£50{,}000}{£50{,}000 + £45{,}000} = £21{,}053$$

An alternative method applies to land only, as detailed in **Statement of Practice D1**, which can only apply where the subject of the part-disposal is the entire interest in an identifiable part of the holding of land.

On a disposal of shares from the pool (the S104 holding) the associated cost may be calculated by applying the part disposal formula or by making a simple apportionment by reference to the number of shares in the pool. For further guidance see **CG51622**.

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9. Where a lease has been granted over all or part of a property, have the part-disposal rules been considered?

Risk
It is not always appreciated that there has been a part-disposal for capital gains purposes where a lease is granted over all or part of a property. Where a premium is received, not all of the allowable expenditure on the property will be deductible in computing any capital gain. The treatment for tax purposes is complex and depends on the precise nature of the lease granted and also the property interest out of which it is granted.

Mitigation
Consider the precise terms of the lease granted and the nature of the interest in property held by the company at the time of the grant. Ensure that the correct treatment for both capital gains and income is applied.

Explanation
The grant of a lease of land and buildings, whether out of a freehold or leasehold interest in the land and buildings, is a part-disposal for capital gains purposes. Where a premium is paid in consideration of the lease being granted, a capital gain or loss may arise. Where the lease is a short lease, and a premium is paid in consideration of the short lease being granted, then part of the premium will be chargeable as income.

The precise treatment for tax purposes depends on the circumstances of the transaction, and in particular, whether the leases are long leases or short leases. A long lease is one with more than 50 years duration remaining; a short lease has 50 years or less remaining. The duration of a lease for capital gains purposes will normally be the time remaining until the expiry of the current term of the lease.

Grants of leases fall into three categories. The tax treatment is different for each category but, in all cases, the amount of allowable expenditure will be restricted. The rules are complex and you should consult the detailed guidance relevant to the appropriate category:

- where a long lease is granted out of a freehold or long leasehold interest see **CG70950+**
- where a short lease is granted out of a freehold or long leasehold interest see **CG70960+**
- where a short lease is granted out of a short leasehold interest see **CG71000+**

For further guidance on capital gains and leases in general see **CG70800+**.

For further guidance on the amount of the premium chargeable as income see **Property Income Manual PIM1200+**.

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10. Where a short lease has been disposed of, have the correct rules been applied?

Risk
Where a short lease, that is a lease with a remaining term of 50 years or less at the date of its disposal, is disposed of, the allowable expenditure is restricted and special rules apply. If the restriction or special rules are not applied, any capital gain or loss may be calculated incorrectly.

Mitigation
Check the remaining term of the lease at the date of the disposal.

Restrict the expenditure where it is a short lease and apply the special rules.

Explanation
If a lease has been assigned or surrendered, there has been a complete disposal of that leasehold interest. The amount of any capital gain or loss depends on whether the lease was a long lease or a short lease at the date of disposal.

A gain arising on the disposal of a long lease is calculated in the normal way. For a short lease the allowable expenditure is restricted and special rules apply.

A short lease of land is a wasting asset, but its value does not waste uniformly over its term. At first, the rate of decline in value is relatively slow but it becomes very rapid during the last few years of the term of the lease. As a result, the straight-line method of restricting expenditure on the disposal of wasting assets is not appropriate.

In the case of the disposal of a short lease, the allowable expenditure is restricted by a curved - line method in accordance with the table in paragraph 1, Schedule 8 of Taxation of Chargeable Gains Act 1992 and the formulae in paragraph 1(4), Schedule 8.

Separate calculations are required for costs of acquisition, see **CG71144+**, and for enhancement expenditure, see **CG71147+**.

These rules apply if the lease was a short lease at the date of its disposal whether or not it was a long or a short lease at the date of its acquisition.

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Reliefs, allowances and exemptions

Roll-over Relief

11. If Roll-over Relief has been claimed on the disposal of a business asset, have the relevant conditions for relief been satisfied?

Risk
A claim for Business Asset Roll-over Relief comprises several conditions, all of which must be satisfied for the relief to be granted. Incorrect claims are sometimes made where all of the conditions for relief are not satisfied.

Mitigation
Check that all of the conditions for relief as shown below are satisfied and that claims are submitted with the correct information within the time limit.

Conditions for relief are:

- the relief must be claimed
- the company claiming relief must be carrying on a trade (for further guidance on exceptions to this condition see **CG60260**)
- the old asset disposed of must have been used in the trade (and not held by the company as an investment or for use in non-trade activities)
- the new asset acquired must be taken into immediate use in the trade (and not held by the company as an investment or for use in non-trade activities)
- assets disposed of or acquired must be within one of the classes in S155 Taxation of Chargeable Gains Act 1992, see **CG60410**
- the new asset must be acquired in the period between 12 months before and 36 months after the disposal of the old assets (these time limits can only be extended at HMRC's discretion - see Q13). Special rules apply where the new asset is a depreciating asset and relief in respect of depreciating assets is computed differently. For further guidance see **CG60360+**.

A depreciating asset is:

- any fixed plant or machinery
- any other asset that will have a life of 60 years or less from the date it is acquired (for example a leasehold interest in property where the lease has less than 60 years to run).

Where not all the disposal proceeds have been applied on the new asset see Q16 below.

Explanation
Relief is available where all the conditions listed above are satisfied and where all or part of the consideration obtained for the disposal of the old asset is applied in acquiring the new asset(s).

If the old assets were not used for the purposes of the trade throughout their period of ownership, an apportionment is required on a just and reasonable basis.
Land and buildings are treated as separate assets for the purposes of Roll-over Relief. Therefore separate claims can be made for each asset - a claim for the land and a claim for the building on that land.

Land and buildings must be occupied as well as used solely for the purposes of the trade in order to be eligible for relief.

Where land and buildings are let by the owner upon terms that give the tenant the right to occupy to the exclusion of all others, they are not normally qualifying assets of the owner for the purposes of the owner's trade.

For further guidance on Business Asset Roll-over Relief see **CG60250c**.

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12. Have the extended rules been applied in considering a Roll-over Relief claim made by a company which is a member of a group of companies?

Risk
The Business Asset Roll-over Relief rules are extended in relation to groups of companies providing for relief in circumstances where otherwise it might not be due. Where the extended rules are not applied the availability of Roll-over Relief might be overlooked.

Mitigation
Check whether the extended rules have been applied in considering claims to Roll-over Relief by companies, which are members of a group of companies, and which make disposals and acquisitions of assets used in the trades carried on by the group.

Explanation
The rules in S152 Taxation of Chargeable Gains Act 1992 onwards for Business Asset Roll-over Relief are modified by S175 in order to apply them to groups of companies.

For further guidance on what constitutes a group of companies see **CG45100+**.

There are five modifications of the rules:

The notional single trade rule:
One of the main requirements for Business Asset Roll-over Relief is that the old asset and the new asset are used for the purposes of the taxpayer's trade.

All the trades carried on by members of a group of companies are treated as a single trade. Only trades whose profits are within the scope of Corporation Tax, that is those carried on by a company resident in the UK or carried on by a UK branch or agency of a non-resident company, can be part of the notional single trade.

For further guidance see **CG45932**.

Non-trading group companies:
A non-trading group company is treated as if it were carrying on the notional single trade, in relation to assets which it owned and which were used for trade purposes by trading companies in the same group, for the purpose of the claim to Roll-over Relief.

For further guidance see **CG45943**.
Depreciating assets:
The Roll-over Relief rules where the new asset is a depreciating asset are extended in relation to groups of companies. Where the company making the claim is a member of a group, the rules apply as if all members of the group for the time being were the same person, and as if all trades carried on by group members were the same trade.

For further guidance see **CG45945**.

The same person rule:
Two members of a group of companies are treated as the same person where all of the following conditions apply:

- the disposal is by a company which at the time of the disposal is a member of a group of companies
- the acquisition is by another company which at the time of the acquisition is a member of the same group
- the Roll-over Relief claim must be made by both companies.

For further guidance see **CG45948+**.

Acquisition from another group company:
Any acquisition made at no gain/no loss by a company which is a member of a group cannot be treated as the acquisition of a new trade asset for Roll-over Relief purposes.

For further guidance see **CG45953**.

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13. Has a qualifying replacement been acquired within the time limits?

Risk
Where the new asset is not acquired and taken into use in the trade, or an unconditional contract is not entered into to acquire the new asset, within the time limits, Roll-over Relief cannot normally be claimed.

Mitigation
Ensure the replacement qualifying asset was acquired and taken into use in the trade, or an unconditional contract to acquire the new asset was entered into, within the time limits detailed below.

Explanation
The new asset must be acquired in the period beginning 12 months before and ending three years after the date of disposal of the old asset. For further guidance see **CG60620**.

Time limits can only be extended at HMRC's discretion and will only be considered if it can be demonstrated that all of the following conditions apply:

- the person making the claim had a firm intention to acquire replacement assets within the time limit
- they were prevented by some fact or circumstance beyond their control from acquiring the replacement assets, or any assets, within the time limit
- they acted as soon as they reasonably could after ceasing to be so prevented.

For further guidance on Business Asset Roll-over Relief see **CG60250+**.

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14. Has a declaration to obtain provisional Roll-over Relief been confirmed or withdrawn?

Risk
Where a declaration has been made so that provisional Roll-over Relief has been given, the provisional relief has to be confirmed by a claim to Roll-over Relief, or alternatively withdrawn, at the latest four years from the end of the accounting period in which the disposal took place. If it is not, then the amount of Corporation Tax on chargeable gains may be under or overcharged.

Mitigation
Maintain a record of all declarations for provisional relief. Ensure that the declaration is reviewed and confirmed when actual reinvestment takes place as intended, and that a claim to Roll-over Relief is made. Alternatively, notify that the provisional relief should be withdrawn where the intended reinvestment does not take place.

Explanation
If the company intends to reinvest all of the proceeds, provisional relief on the gains made on that disposal can be obtained. A declaration can be made of the company's intention to use some or all of the proceeds of the disposal of an old asset in the acquisition of new assets.

The declaration must identify the old assets that have been disposed of and must specify the amount of the consideration that is to be applied in the acquisition of new assets, which may be all or part of the consideration. The Company Tax Return can then be completed as if there had been an actual acquisition of new assets for the amount specified.

The amount of Corporation Tax on chargeable gains which can be deferred is the amount of tax that would have been deferred if the company had actually acquired a new asset costing an amount equal to that whole or part of the proceeds on which the declaration has been made.

Provisional relief will be allowed until one of the following dates:

- the date on which a claim to Roll-over Relief is made
- the date on which the company notifies HMRC that the intention has changed and it no longer intends to reinvest.

The period of provisional relief automatically comes to an end on the relevant day, that is four years from the end of the accounting period in which the disposal took place, if it has not been replaced by a claim to Roll-over Relief or been withdrawn by the company before that date. For further guidance on provisional Roll-over Relief see **CG60700+**.

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15. Where the cost of the asset was reduced as a result of an earlier claim to Roll-over Relief, has the reduced cost been used in computing the gain?

Risk
It may not always be obvious that the cost of an asset has been reduced as a result of a claim to Roll-over Relief. If the reduced cost is not used this can result in the calculation of the chargeable gain being incorrect.

Mitigation
Check whether there has been an earlier Roll-over Relief claim.

Ensure that the cost figure taken into account when computing the gain reflects the reduced amount resulting from the earlier claim.

Explanation
If the acquisition cost was reduced following a claim for Roll-over Relief, the base cost for the purposes of this disposal is reduced.

It is necessary to retain records of the reduction of the acquisition cost of an asset following a Roll-over Relief claim on an earlier disposal of the 'old' asset, together with the other records relating to the asset to ensure that the capital gain can be calculated correctly on a disposal of the 'new' asset.

For further guidance on Business Asset Roll-over Relief see **CG60250+**.

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16. Has the Roll-over Relief claimed been restricted where all of the disposal proceeds have not been reinvested in new qualifying assets?

Risk
Where the new asset costs less than the consideration received for the old asset, the Roll-over Relief will be restricted. The full amount of the consideration has not been reinvested and therefore the full amount of the gain will not be covered by Roll-over Relief.

Mitigation
Compare the cost of the new asset with the consideration received for the old asset. Where the cost of the new asset is less than the consideration received for the old asset, ensure Roll-over Relief is restricted appropriately.

Explanation
The amount of Roll-over Relief available is reduced if only part of the proceeds from the disposal of the old asset is reinvested in the new asset. Only partial relief will be due if the amount not reinvested is less than the gain made on the disposal of the old asset. This is because only part of the gain has been used in the reinvestment.

Example
A Ltd sells its factory for £100,000 making a gain of £60,000. Within the statutory time limit it acquires a new factory for £80,000.

The amount not reinvested is £20,000, which is less than the gain.

The amount of the gain reinvested is £40,000 (£60,000 less £20,000).

As a result, the chargeable gain assessable on the disposal of the old asset is £20,000 and the base cost of the new asset is £40,000 (£80,000 less £40,000).

For further guidance on Business Asset Roll-over Relief see **CG60250+**.

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Indexation Allowance

17. Has Indexation Allowance been calculated only up to December 2017?

Risk
For disposals on or after 1 January 2018 of assets acquired before that date Indexation Allowance is "frozen", that is: no allowance is due for the period after 31 December 2017.

No Indexation Allowance is due for any asset acquired on or after 1 January 2018.

Mitigation
Ensure that the chargeable gains are computed using the correct Indexation Allowance rules.

Explanation
Indexation Allowance is available for companies within the charge to Corporation Tax but only for assets acquired before 1 January 2018. Where such an asset is disposed of after that date then Indexation Allowance is calculated to December 2017. No allowance is due for periods of ownership from that date - see Q18 below.

For further guidance see **Chargeable gains and Corporation Tax** and **CG17200+**.

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18. Has Indexation Allowance been calculated by reference to the correct dates of disposal and expenditure?

Risk
Where incorrect dates are used in the calculation of Indexation Allowance, the chargeable gain may be under or overstated.

Mitigation
Check that the correct date of disposal for each item of expenditure has been identified. For further information see Q1 above.

Ensure that the appropriate indexation factor is applied to each separate item of expenditure in calculating Indexation Allowance.

Where a loss arises ensure that the loss is neither created nor increased by the Indexation Allowance.

The indexation factor will not increase after 31 December 2017.

Explanation
Indexation Allowance allows for the effects of inflation when calculating chargeable gains. It is applied both to the acquisition cost of the asset and any allowable enhancement costs and then deducted from the chargeable gain.

Follow these steps to work out the Indexation Allowance:

For assets acquired after 31 December 2017 -

No Indexation Allowance is due.

For assets acquired before December 2017 -

1 Identify the correct table to use in order to find the inflation factors for the month when the asset was disposed of or the factor for December 2017 if the disposal took place after then-see **Indexation Allowance factors**.
2 Find the entry in the table for the month when the asset was acquired (or March 1982 where the expenditure was incurred on or before 1 March 1982) and multiply the cost of the asset by the indexation factor.
3 Find the entry in the table for the month or months when allowable enhancement costs were incurred and multiply each figure of cost by the appropriate indexation factor.

The Indexation Allowance is deducted from the amount of gross gain - that is, the disposal proceeds less acquisition costs less enhancement costs. If the Indexation Allowance is more than the gain, then there is no chargeable gain.

Indexation Allowance cannot be used to turn a gain into a loss or to increase a loss. It is not available for assets acquired after December 2017.

Where assets were held at 31 March 1982, in some circumstances the indexation allowance can be based on the actual cost or the March 1982 value, whichever is the more beneficial - for further guidance see **CG17405**.

For further guidance see **Chargeable gains and Corporation Tax** and **CG17200+**.

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Substantial Shareholdings Exemption

19. Have all the necessary conditions been met so that there is no chargeable gain under the Substantial Shareholdings Exemption?

Risk
There are a number of detailed conditions which must be met if a gain arising on a disposal of shares by a company (or an interest in shares, or certain assets related to shares) is to be treated as not being a chargeable gain under the Substantial Shareholdings Exemption regime. If all of the conditions are not satisfied, then the Corporation Tax on chargeable gains may be understated.

Mitigation
Check the detailed conditions (see below) to ensure that all requirements are satisfied and that the Substantial Shareholdings Exemption applies.

Explanation
The Substantial Shareholdings Exemption regime provides that a gain on a disposal of shares by a company (or an interest in shares, or certain assets related to shares) will not normally be a chargeable gain provided these conditions are met:

- The company whose shares are being disposed of - 'the company invested in' - must meet certain trading conditions. For further guidance see **CG53007**
- 'The investing company' must have held shares in such number, and for such time, in 'the company invested in', that the shareholding satisfies the substantial shareholdings requirement. Broadly speaking, 'the investing company' must have held at least 10 per cent of the company's ordinary share capital, and have been entitled to at least 10 per cent of the profits and assets available for distribution, throughout a continuous period of at least twelve months in the period of six years ending with disposal. However, a gain on a disposal is not exempted in certain situations:
- if the disposal is a no gain/no loss disposal
- if the gain would not have been a chargeable gain because of some other provision
- should an anti-avoidance rule apply.

No claim for the Substantial Shareholdings Exemption is required - if the conditions for the relief are met, a gain is exempt.

A loss on a disposal of shares by a company where the conditions for the relief are met is not an allowable loss.

This is only a very brief summary of detailed and complex rules. For further guidance see **CG53000+**.

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20. Have the conditions for Substantial Shareholdings Exemption been met on a disposal of shares on which a loss has arisen so that there is no allowable loss?

Risk
The provisions under which certain gains on the disposal of shares are not chargeable because of the Substantial Shareholdings Exemption do not require a claim to be made and the exemption applies whenever the relevant conditions are met.

Where a loss arises on a disposal of shares to which the Substantial Shareholdings Exemption applies, a loss is not an allowable loss and should not be deducted in the year or carried forward.

Mitigation
Check the detailed conditions to see whether all requirements for Substantial Shareholdings Exemption are satisfied - see Q19 above. Ensure any loss arising on a disposal of shares to which the Substantial Shareholdings Exemption applies is not set against chargeable gains.

Explanation
The Substantial Shareholdings Exemption regime provides that a gain on a disposal by a company of shares (or an interest in shares, or certain assets related to shares) will not be a chargeable gain provided that the relevant conditions are met. No claim for Substantial Shareholdings Exemption is required. If the conditions for the relief are met, a gain is exempt.

A loss on a disposal of shares by a company where the conditions for the relief are met - should a gain have arisen instead of a loss the gain would have been exempt - is not an allowable loss.

The rules for Substantial Shareholdings Exemption are detailed and complex. For further guidance see **CG53000+**.

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Losses

21. If a loss has arisen from a disposal of assets to a connected person, has it been relieved only against gains arising on a further disposal to the same connected person?

Risk
Losses arising from a disposal to a connected person can be only be relieved against gains arising on disposals to the same connected person. Such losses are known as 'clogged losses' and cannot be relieved against general chargeable gains.

Mitigation
Ensure that losses arising from disposals to connected persons, including such losses brought forward, have been relieved only against gains arising on a disposal to the same connected person.

If any unused balance of a clogged loss is to be carried forward, keep a separate record of it for future reference.

Explanation
Where a loss arises on a disposal to a connected person that loss is known as a 'clogged loss'. These losses can only be set against gains arising on disposals to the same connected person.

A clogged loss can only be set against gains:

- arising from a disposal to the same connected person
- at a time when the persons concerned are still connected.

For further guidance on clogged losses see **CG14561**.

For further guidance on connected persons see **CG14580** and Q3 above.

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22. Has relief for losses brought forward been claimed correctly?

Risk
Without a full history of assets, or details of all the relevant disposals where losses have been claimed and relieved, it is possible to make an incorrect claim for the amount of losses to be set against chargeable gains or carried forward.

In general, capital losses cannot be carried back to earlier accounting periods (see below).

Mitigation
When checking allowable losses brought forward:

- obtain full details of when the losses arose and how they have been applied, including any adjustments following amendments or enquiries
- if the amounts cannot be confirmed from records, an appropriate explanation should be entered in the 'Additional information' box
- check for clogged losses - see Q21 above
- check whether the company has joined a group of companies.

Explanation
Allowable losses must be deducted in the following order:

- as far as possible from chargeable gains accruing in the same accounting period

- any balance is carried forward without time limit and deducted from chargeable gains accruing in the earliest later accounting period.

Relief for losses may not be given in any of the following circumstances:

- more than once in respect of the same loss
- in an accounting period where a company has an excess of losses over chargeable gains, it cannot set the excess losses against income in computing the Corporation Tax profits of the period.

Relief for losses may be restricted where a company has joined a group. This may apply when one single company acquires another. Restricted losses may only be set against certain types of chargeable gain.

Where a company joins a group on or after 19th July 2011, any losses on disposals made before the date of joining are restricted. Companies that joined a group before that date may have restrictions on losses on disposals made after they joined the new group (but before 19th July 2011). For further guidance see **CG47400+**.

Losses arising in accounting periods ending on or after 1 July 1999 (the years where Self Assessment for companies within the charge to Corporation Tax applies) must be used before losses arising in earlier (pre-Self Assessment) years.

For further guidance on capital losses accruing for companies within the charge to Corporation Tax see **CG40230+**.

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23. Has an election been made to treat a capital loss on the transfer of an asset to stock as an adjustment to trading profits?

Risk
Where an asset is transferred to trading stock an election to treat a capital loss as an adjustment to trading profits if the transfer if made on or after 8 March 2017.

Mitigation
Check that no election has been made to treat a capital loss on appropriation to stock as an adjustment to trading profits where the appropriation took place on or after 8 March 2017.

Explanation
Where a capital asset owned by a trader becomes part of trading stock then it is treated as being disposed of at its market value for capital gains purposes. An election can be made to treat the resulting gain or loss as an adjustment to the cost of the asset for computing trading income.

An election cannot be made where the result is a capital loss. For further guidance see **CG69200**.

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Groups of companies

24. Has the no gain/no loss treatment been applied correctly where an asset has been disposed of by one company and acquired by another?

Risk
Where one company disposes of an asset to another company and both are members of the same group of companies, then the transfer is treated as no gain/no loss for capital gains

purposes. However, if the companies are not members of the same group this treatment does not apply and a chargeable gain may arise.

Mitigation
Check that the company making the disposal and the company acquiring the asset are both members of the same group of companies within the capital gains definition.

Explanation
A company, the principal company of the group, and all its 75 per cent subsidiaries (companies in which the principal company owns 75 per cent of ordinary share capital) form a group, together with any 75 per cent subsidiaries of those subsidiaries, and so on.
However, a subsidiary can only be a group member if it is also an effective '51 per cent subsidiary' of the principal company, meaning that the principal company must have a beneficial entitlement (either direct or indirect) to more than 50 per cent of the subsidiary's profits and assets.

This is a brief overview of complex rules. For further guidance on what is a capital gains group see **CG45100+**.

Where one company which is a member of the group transfers an asset to another company which is also a member of the same group, and the asset remains within the scope of corporation tax on chargeable gains, the consideration is such an amount as secures no gain/no loss for the company making the disposal. The company acquiring the asset acquires it at the same no gain/no loss figure.

For further guidance on no gain/no loss transfers see **CG45300+**.

Transferring an asset between group companies before a disposal can be used to allow gains and losses in a group to be brought together. It is also possible to do this by making an election that transfers gains or losses between group members. Guidance on the election procedure, including the answers to some frequently asked questions, can be found at **CG45355+**.

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25. Has a loss been restricted correctly on a disposal of shares where the value of the shares has been materially reduced by a depreciatory transaction?

Risk
Where a company disposes of shares in a subsidiary company, and a loss arises, the value of those shares may have been reduced by a depreciatory transaction. If that loss is not restricted to take account of the depreciatory transaction, then the loss will be overstated. When that loss comes to be set against capital gains, the chargeable gains will be understated.

Mitigation
Check the history of the holding of shares to see whether any depreciatory transactions have occurred such as where the subsidiary has disposed of assets to another group company at less than market value, or paid dividends, and that has materially reduced the value of the shareholding.

If so, apply the depreciatory transaction rules and restrict the loss.

Explanation
A depreciatory transaction is a transaction which reduces the value of an asset. The most common examples of depreciatory transactions are dividends and asset transfers at less than market value within a group of companies.

However, the rules are extended to cover disposals by a company with at least a 10 per cent interest in another company from which it has received a distribution.

The rules restrict the allowable loss on a disposal of shares or securities. They cannot convert a loss into a gain or increase the amount of a gain.

Any dividend paid by a subsidiary to its immediate parent reduces the value of the parent's shares in the subsidiary, since a dividend is a transaction which takes value out of the dividend paying company with no consideration passing to that company. Dividends paid out of normal profits made while one company has been the subsidiary of another are not normally affected by this rule.

Apart from dividends, the most common type of depreciatory transaction is the disposal of an asset by one group member to another at less than market value.

Where there has been a depreciatory transaction the allowable loss on the share disposal is adjusted by a just and reasonable amount. The adjustment is made on the basis that the allowable loss should not reflect any reduction in value that is attributable to a depreciatory transaction.

For shares disposals before 22 November 2017 the rules only apply where the depreciatory transaction took place within the period of six years ending with the disposal. For disposals from that date the rules can take account of any transactions since the shares or securities were acquired.

This is a very complex area. For further guidance see **CG46500+**.

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26. Have the degrouping charge rules been applied where a company, which acquired an asset from another group company, has left the group?

Risk
Where a company leaves a group within six years of acquiring an asset from another company, which was a member of the same group, in a no gain/no loss transfer, then there may be a deemed disposal to bring back into charge the gain that would have arisen but for the no gain/no loss rule. This is known as a 'degrouping charge'. If this is not recognised, the chargeable gains may be understated.

Mitigation
Check the records of the assets held by a company that leaves a group to determine whether any were acquired from fellow group companies within the previous six years. If any such transactions did take place, apply the rules on the 'degrouping charge'.

Explanation
Where one company disposes of an asset to another company and both are members of the same group of companies, then the transfer is treated as no gain/no loss for chargeable gains purposes. Where the company which acquires the asset, the chargeable company, subsequently leaves the group within the following six years, then there may be a deemed disposal to bring back into charge the gain that would have arisen but for the no gain/no loss rule. This is known as a 'degrouping charge'.

The company leaving the group is treated as having made a deemed disposal and reacquisition of the asset at market value immediately after the time it acquired the asset from another group company. The time at which the deemed market value disposal takes place is the time immediately following the acquisition by the chargeable company.

It is possible to make a claim to reduce any degrouping charge where it reflects a gain that is also reflected in the gain on a share disposal. Also, where the degrouping charge is triggered by a company leaving a group because of a disposal of shares in that company or another company that was in the group then any degrouping gain or loss will result in an adjustment to the proceeds of the share disposal.

It was possible for a group to elect to have the new rules apply to it from 1 April 2011 rather than 17 July. This had to be done no later than 31 March 2012.

For degrouping charges are not triggered by a sale of shares, then for assessment purposes the gain arises in the company that leaves the group at the later of:

- the time of the deemed disposal
- the time immediately after the beginning of the accounting period in, or at the end of which, the degrouping event takes place.

At the time when the chargeable company leaves the group it must still own the asset otherwise than as trading stock for the degrouping charge to apply.

The rules are extended to cover the situation where the asset is:

- owned by an associated company (two or more companies are associated companies if, by themselves, they would form a group of companies)
- another asset against which a gain on the first asset has been rolled over.

This is a complex area. For further guidance see **CG45400+**.

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