Knowledge direct – Capital Gains Tax on stocks & shares

Quick reference guide 3 – Share identification rules (30 day and same day matching)

This guide will help you to calculate the Capital Gains realised on the disposal of shares or units in a collective investment scheme. For simplicity, we'll refer only to units in a collective investment scheme (a fund) in this guide. The guide only covers units acquired on or after 1 April 1982 and is not suitable for investments held by limited companies.

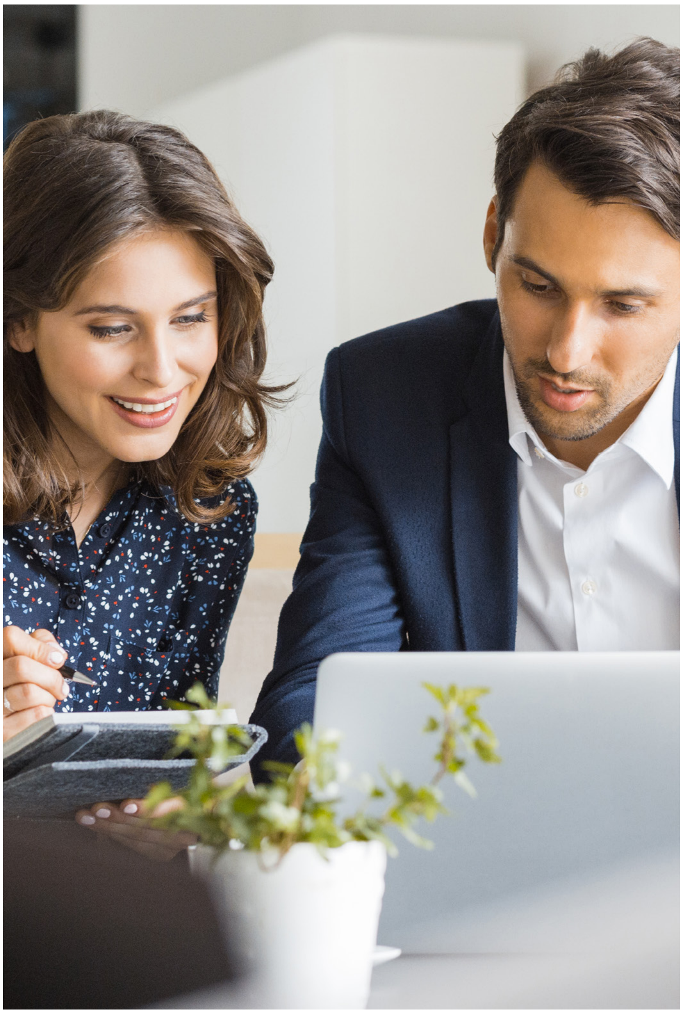
Quick Reference Guide 2, Section 104 holdings, gives an overview of calculating gains on disposals and should be read in conjunction with this guide.

What are the share identification rules?

Historically, it was common practice for people to sell units and buy them back in a very short space of time. This allowed them to utilise their capital gains tax personal exemption each year and reset the base cost of these units - reducing future gains. This was known as 'bed and breakfasting'

The introduction of 'share identification' rules put an end to this practice. Now units disposed of are matched with units purchased in the following order:

First	Units acquired on the same day as the disposal (the 'same day' rule)
Second	Units acquired in the 30 days following the day of disposal (the 'bed and breakfasting' rule)
Third	Units in the Section 104 holding (i.e. the average cost for the holding)



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Example 1:

30 day and s104 matching

Your client owns 12,000 units in a fund

- 4,000 units are sold on 25 February for £10,480
- 500 were purchased on 11 March for £1,360
- 11,500 units are held in the s104 holding with a total cost of £24,988.55 (Calculating the total cost is covered in quick reference guide 1)

To calculate the gain on the 25 February disposal, the units sold are matched as follows:

First

There are no 'same day' purchases to match.

Second

11 March is within 30 days of the sale. The 'bed and breakfasting' rule applies. The gain for these units is:

Proceeds – Cost = Gain or loss

Proceeds = (£10,480/4,000) x 500 = £1,310 (proceeds received for the 500 units).

Cost = £1,360 (the amount paid on 11 March)

£1,310 - £1,360 = **£50 loss**

Third

The remaining 3,500 units sold are matched against the units in the s104 holding. The gain for these units is:

Proceeds – Cost = Gain or loss

Proceeds = (£10,480/4,000) x 3,500 = £9,170 (proceeds received for the remaining 3,500 units).

Cost = (£24,988.55/11,500) x 3,500 = £7,605.21

(This is the proportion of the £24,988.55 s104 which applies to the remaining 3,500 units)

£9,170 - £7,605.21 = **£1,564.79 gain**

Total gain on 4,000 units is: £1,564.79 - £50 = £1,514.79

Example 2:

Same day, 30 day and s104 matching

Your client owns 15,000 units in a fund

- 5,000 units are sold on 3 February for £9,000
- 1,000 were purchased on 3 February for £1,830
- 2,760 were purchased on 3 March for £4,830
- 11,240 units are held in the s104 holding with a cost of £18,827 (Calculating the total cost is covered in quick reference guide 1)

The disposals are matched as follows:

First

1,000 against the units purchased on 3 February 2020 under the 'same day' rule. Gain for these units is:

Proceeds – Cost = Gain or loss

Proceeds = (£9,000/5,000) x 1,000 = £1,800 (proceeds received for the 1,000 units)

Cost = £1,830 (the amount paid 3 February)

£1,800 - £1,830 = **£30 loss**

Second

2,760 against the units purchased on 3 March 2020 under the 'bed and breakfasting' 30 day rule. The gain for these units is:

Proceeds – Cost = Gain or loss

Proceeds = (£9,000 / 5,000) x 2,760 = £4,968 (proceeds received for the 2,760 units)

Cost = £4,830 (the amount paid 3 March)

£4,968 - £4,830 = **£138 gain**

Third

The remaining 1,240 units sold are matched against the units in the s104 holding. The gain for these units is:

Proceeds – Cost = Gain or loss

Proceeds = (£9,000 / 5,000) x 1,240 = £2,232 (proceeds received for the 1,240 units)

Cost = (£18,827/11,240) x 1,240 = £2,077

(This is the proportion of the £18,827 s104 cost which applies to the remaining 1,240 units)

£2,232 - £2,077 = **£155 gain**

Total gain on 5,000 units is £155 + £138 - £30 = £263

Example 3:

Using 30 day matching rules to your advantage

Your client owns 50,500 units in 'Fund A'. These have a cost of £25,250.

Your client switches all units to 'Fund B'. The current price on sale of Fund A is £0.8018, realising a gain of £15,240.90 ((50,500 * £0.8018) £40,490.90 - £25,250).

Your client rings you to discuss the switch as they are concerned that they may have created themselves a capital gains tax bill.

You recommend buying back 42,500 units in Fund A as 30 days have not passed since the disposal. You arrange for the switch, rebuying the units sold for £33,575.

As a result of the repurchase in Fund A, the gain on the original disposal of that fund is recalculated as follows:

First

There are no 'same day' purchases to match.

Second

42,500 against the units purchased within 30 days under the 'bed and breakfasting' rule

Proceeds – Cost = Gain or loss

Proceeds = (£40,490.90 / 50,500) x 42,500 = £34,076.50 (proceeds received for the 42,500 units)

Costs = £33,575 (the price paid for the repurchase)

£34,076.50 - £33,575 = **£501.50 gain**

Third

8,000 of the original sale is still matched against the units in the s104 holding

Proceeds – Cost = Gain or loss

Proceeds = £40,490.90 / 50,500) x 8,000 = £6,414.40 (proceeds received for 8,000 units)

Cost = (£25,250 / 50,500) x 8,000 = £4,000

(This is the proportion of the £25,250 s104 cost which applies to the remaining 8,000 units)

£6,414.40 - £4,000 = **£2,414.40 gain**

Total gain on the original switch out of Fund A is now £2,414.40 + £501.50 = £2,915.90

As this is within the annual exemption (assuming no other disposals have occurred) no tax will be due on the switch.
The remaining 42,500 units can be switched in later tax years to avoid any capital gains tax bill for your client.

Note: Depending on market movement, there may also be a gain as a result of the switch out of Fund B.

The examples show that this is a complicated subject. However, understanding the identification rules can give you confidence when advising your clients on disposing of units.

The information provided in this article is not intended to offer advice.

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