Quilter

Technical Insights – Capital Gains Tax on stocks & shares

Quick reference guide 2 –section 104 Holdings (calculating gains on disposal)

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 3, Share Identification Rules, provides details of additional rules which must be applied to your disposal calculations.

Background

Since 6 April 2008, all units of the same class in the same fund, acquired from 1 April 1982 onwards, are pooled in a 's104 holding'. The name is derived from section 104 of the Capital Gains Tax Act 1992. You add together the costs of the shares in this holding and each share in the holding is treated as if acquired at the same average cost.

The average cost can be represented as either the average cost per unit, or the total cost for all units held. Either way, the average cost is used when calculating the gain on a disposal.

Creating a pool or s104 holding

Suppose your client buys 12,000 units in a fund as follows:

Transaction Date	Units Purchased	Price per unit	Total Transaction Cost
07-Jun-16	2,000	200p	£4,000
04-Nov-16	2,500	210p	£5,250
26-Aug-17	2,500	197p	£4,925
07-Jul-18	3,000	230p	£6,900
14-May-19	2,000	250p	£5,000
	12,000		**£26,075**

This creates a s104 holding of 12,000 units containing all of the purchases.

The total cost is **£26,075.**

The average cost per unit is £26,075/12,000 = **217.2917p** per unit

Disposing of units from a s104 holding

Continuing the above example; on 1 March 2022 - 3,750 units are sold for £10,200. Your client asks you to confirm the gain realised by this sale.

There are two approaches to this:

Approach 1 – work out the fraction of the total cost removed and deduct from proceeds of sale:

Cost x (units sold/units in holding)

£26,075 x (3,750/12,000) = £8,148.44

Then deduct this cost from the proceeds of the sale to provide the gain:

£10,200 - £8,148.44 = £2,051.56 gain

Approach 2 – work out the gain per unit and multiply by the number sold:

Proceeds per unit – average cost of a unit = gain per unit

Proceeds per unit = £10,200/3,750 = 272p

272p – 217.2917p = 54.7083p (gain per unit)

Then Multiply gain per unit by the number sold:

54.7083 x 3,750 = £2,051.56 gain

Adjusting the cost of the remaining units

Following the disposal, the ongoing total cost for the remaining units need to be calculated.

Approach 1 – remove the cost from the total

Following on from approach 1 above, we calculated that £8,148.44 was the purchase cost associated to the 3,750 units. Prior to the disposal, the total cost was £26,075. The remaining cost of the 8,250 units is therefore:

£26,075 - £8,148.44 = £17,926.56

Approach 2 – multiply the average cost by the remaining units

Following on from approach 1 above, we have calculated the average cost per unit to be 217.2917p. The sale removed 3,750 units from the pool.

The remaining cost is therefore; the average cost per unit x the remaining units:

217.2917p x 8,250 = £17,926.56

Regardless of which approach you use, £17,926.56 is the new total cost for the holdings. It replaces the previous total cost of £26,075.

Income reinvestment

Income received from the fund will affect the total cost. The impact differs depending on the type of units held.

Income units

Additional units or shares purchased by reinvested distributions or fund manager rebates are simply treated as additions to the s104 holding. Using the same table format as above, add each income reinvestment as an additional transaction (the cut off point for unit holders to be eligible for the subsequent income distribution).

If the income is paid directly to the fund holder, there is no need to account for it in the s104 holding.

Accumulation units

These distributions are added to the cost of the existing units. However, the number of units held stays the same. Using the same table format as above, add each income accumulation as an additional transaction. Keep the number of units the same, but increase the total cost by the value of the income payment. The date of the transaction is the ex-dividend date.

Equalisation payments

Any equalisation payments included in the income distribution are deducted from the s104 cost.

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

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