Personal tax interactive worksheet

Calculating capital gains on the sale of shares

Based on the provisions of the Finance Act 2013

The calculation of capital gains on the sale of shares is regularly tested in the assessment for Personal tax. Question practice is the best way to achieve success in this topic.

In this module we'll look at the key topics, work through a detailed example and give you the opportunity to attempt a practice question.

Key points

Disposal of shares and securities are subject to Capital Gains Tax (CGT) except for listed government securities (gilt-edged securities or 'gilts'), qualifying corporate bonds (such as company loan notes or debentures) and shares held in an Individual Savings Account (ISA).

The identification rules

Where a taxpayer buys and sells shares in the same company at different times the price will be different. The identification rules are used to determine which shares have been sold and so what acquisition cost can be deducted from the sale proceeds. (For example, match the disposal and acquisition).

Disposals are matched:

- Firstly, with acquisitions on the same day as the date of disposal.
- Secondly, with acquisitions made in the 30 days following the date of disposal (FIFO basis).
- Thirdly, with shares from the share pool.

The share pool

- The share pool contains all shares of the same type acquired prior to the disposal date.

- Each acquisition is not kept separately, but is 'pooled' together with other acquisitions and a running total kept of the number of shares and the cost of those shares.
- When a disposal from the pool is made, the appropriate number of shares is taken from the pool along with the average cost of those shares.
- The gain on disposal is then calculated.

Bonus issues and rights issues

- Bonus issue – no adjustment to cost needed ie the number of shares in the pool will increase however the cost of the shares will remain the same
- Rights issue – adjustment to cost needed ie the number of shares in the pool and the cost of the share pool will both increase.

Worked example – 1

On 1 July 2003, Jeremy purchased 1,800 shares in Macbee plc for £12,000. On 1 May 2009, there was a 1-for-2 bonus issue. On 1 February 2014, Jeremy sold 400 shares for £4,500.

Calculate Jeremy's capital gain in the 2013/14 tax year on the disposal of these shares before the annual exemption.

Make your workings to the nearest whole figure.

Let's see how to answer this question in simple steps.

Step 1 – Place the transactions into the share pool

Hint: There are no share identifying issues here i.e. the shares disposed are from the share pool. So the capital gain is calculated as the disposal proceeds less the portion of the share pool cost for the shares disposed.

Next, we need to place the transactions in date order into the standard share pool table. It's important to treat bonus issues and rights issues correctly. This is the most common mistake in share pools. In this question, we have a bonus issue so no adjustment to the share cost is needed.

Macbee plc shares

Date	Transaction	Number of shares	Cost
1 July 2003	Purchase	1,800	£12,000
1 May 2009	Bonus issue 1 for 2	900	£0
		2,700	£12,000
1 February 2014	Sale (400/2,700)x£12,000	(400)	£(1,778)
	Share pool balance carried forward	2,300	£10,222

Hint: Do not forget to enter the share pool balance carried forward figures, marks are usually awarded in an answer for doing this.

Step 2 – Calculate the capital gain

You have the disposal proceeds and cost of the shares disposed so can now produce a simple capital gain computation.

Disposal proceeds	£4,500
Cost of shares disposed	£(1,778)
Capital gain	**£2,722**

Worked example – 2

Let's look at example 1 again, but this time instead of a bonus issue on 1 May 2009, we have a rights issue of 1 new share for every 5 shares at a cost of £7 per share.

Step 1 – Place the transactions into the share pool

Hint: The rights issue requires adjustment to the cost column as well as the number of shares column.

Macbee Plc shares

Date	Transaction	Number of shares	Cost
1 July 2003	Purchase	1,800	£12,000
1 May 2009	Rights issue 1 for 5 at £7 per share, (1,800/5) = 360 shares at £7	360	£2,520
		2,160	£14,520
1 February 2014	Sale (400/2,160)x£14,520	(400)	£(2,689)
	Carried forward	1,760	£11,831

Step 2 – Calculate the capital gain

Disposal proceeds	£4,500
Cost of shares disposed	£(2,689)
Capital gain	**£1,811**

Practice question

Karen had the following transactions in Misty Ltd shares:

1 July 2006	Purchased 800 shares for £2,250
1 April 2009	Bonus issue 1 for 8
1 December 2013	Sold 600 shares for £3,200
17 December 2013	Purchased 200 shares for £1,200

Calculate Karen's capital gain in the 2013/14 tax year before the annual exemption.

We've set out the calculation in steps to help you.

Hint: There is a share identification issue in this question.

When you've attempted each step, you can check your calculation by clicking on the button to reveal the solution before moving onto the next step.

Step 1 – Identify the purchases to match the disposal

Click to display/hide the solution.

Solution

Step 2 – Place the transactions into the share pool

Click to display/hide the solution.

Solution

Step 3 – Calculate the capital gain

Click to display/hide the solution.

Solution