

## CHAPTER 13

### SHARES AND SECURITIES: MATCHING RULES

All statutory references are to the Taxation of Chargeable Gains Act (TCGA) 1992 unless stated otherwise.

#### 13.1 Introduction

In this chapter we shall examine how we calculate capital gains on sales of shares. Before we examine the treatment of shares, we will consider why we need special rules in the first place.

Consider a taxpayer who has been buying shares in a quoted company called XYZ Plc for a number of years. The share purchases have been as follows:

| <i>Date</i>    | <i>Shares</i> | <i>Cost</i>    |
|----------------|---------------|----------------|
| December 1975  | 1,000         | £1,000         |
| June 1986      | 3,000         | £9,000         |
| September 1990 | 2,000         | £8,000         |
| December 2005  | <u>4,000</u>  | <u>£20,000</u> |
| Total          | <u>10,000</u> | <u>£38,000</u> |

The taxpayer currently has 10,000 shares, which have been acquired in four tranches between 1975 and 2005 and the total cost of the taxpayer's shareholding is £38,000.

In August 2010, the taxpayer sells 6,000 of the XYZ Plc shares for £36,000. His capital gain will therefore be:

|                     |            |
|---------------------|------------|
|                     | £          |
| Proceeds            | 36,000     |
| Less: CGT base cost | <u>(?)</u> |
| Capital gain        | <u>£X</u>  |

In order to calculate the chargeable gain arising on the sale of these 6,000 shares, we need to identify their base cost. To calculate the base cost, **we need to identify which shares the taxpayer has sold.**

The share "matching" rules determine the order in which shares are deemed to have been sold. The "matching" rules we are about to study, **apply for individuals only**. There are different matching rules for disposals of shares by companies.

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Also note that the "matching" rules only apply to shares **in the same class in the same company**. We should never mix up different types of shares in different companies. Indeed, with shares of different types there is no need for matching rules because there is not the same difficulty telling them apart.

## 13.2 The share matching rules

There are 3 matching rules, and we shall cover them in their order of priority:

[TCGA 1992, s. 106\(A\)](#)

- (1) If an individual disposes of shares, he is first deemed to have sold any shares he acquired on the **same day**.
- (2) Next, the shareholder is deemed to have sold any shares he acquired in the **following 30 days**. This rule was introduced to prevent the common tax planning practice known as "bed and breakfasting".
- (3) Finally the disposal will be matched with all other share acquisitions which are "pooled" together and form one asset for CGT purposes. This asset is called the "**Section 104 pool**".

[TCGA 1992, s. 105](#)

[TCGA 1992, s. 106A\(5\)](#)

Shares acquired before 31 March 1982 are deemed to have been acquired on 31 March 1982 for their market value at that date.

If there are multiple acquisitions in the Section 104 pool, each share in that pool will be treated as having a base cost equal to the **average cost of the shares in the pool** as at the date of the disposal.

### Illustration 1

Geoff has shares in XYZ Plc, acquired over a number of years. The share purchases have been as follows:

| <i>Date</i>    | <i>Shares</i> | <i>Cost</i> | <i>1982 value</i> |
|----------------|---------------|-------------|-------------------|
| December 1975  | 1,000         | £1,000      | £2,000            |
| June 1986      | 3,000         | £9,000      |                   |
| September 1990 | 2,000         | £8,000      |                   |
| December 2005  | 4,000         | £20,000     |                   |

On 15 August 2010, Geoff sold 6,000 shares for £36,000.

To calculate Geoff's capital gain, we first identify which shares Geoff has sold, by applying the share matching rules.

Geoff sold 6,000 shares on 15 August 2010. Our first question is "did Geoff buy any shares on the **same day**" - i.e. did he buy any shares on 15 August 2010? If he did, these shares will be sold in priority to any others. The answer to this question is "no".

We then move to the second matching rule, and ask whether Geoff bought any shares in the **30 days following** the date of disposal.

The 30 days following the disposal, runs from 16 August 2010 to 15 September 2010. The answer to this question is again "no".

We now move to the last matching rule. The third match is with any other shares acquired. Geoff has bought several lots of shares. These shares form a "pool" and Geoff is treated as selling his shares from the pool on a pro-rata basis.

The shares bought in 1975 are treated as having been bought on 31 March 1982 for their market value on that day. The S.104 pool is therefore as follows:

| <i>Date</i>              | <i>Shares</i>  | <i>Cost</i><br>£ |
|--------------------------|----------------|------------------|
| 31 March 1982            | 1,000          | 2,000            |
| June 1986                | 3,000          | 9,000            |
| September 1990           | 2,000          | 8,000            |
| December 2005            | <u>4,000</u>   | <u>20,000</u>    |
| Total                    | 10,000         | 39,000           |
| Less: Sale (August 2010) | <u>(6,000)</u> | <u>(23,400)</u>  |
| Balance c/fwd            | <u>4,000</u>   | <u>15,600</u>    |

His capital gain will therefore be:

|                             |                 |
|-----------------------------|-----------------|
|                             | £               |
| Proceeds                    | 36,000          |
| Less: CGT base cost (above) | <u>(23,400)</u> |
| Capital gain                | <u>£12,600</u>  |

Note that as Geoff has sold 6,000 of the 10,000 shares in the pool (i.e. 60%) we take 60% of the total base cost.

## Illustration 2

Glenys has bought shares in ABC Plc as follows:

| <i>Date</i>      | <i>Shares</i> | <i>Cost</i><br>£ |
|------------------|---------------|------------------|
| 21 December 1994 | 20,000        | 10,000           |
| 18 June 2001     | 40,000        | 80,000           |
| 29 March 2011    | 10,000        | 40,000           |

On 14 March 2011, Glenys sold 20,000 shares for £75,000. She made no other disposals in the year.

To calculate Glenys' capital gain, we first identify which shares she has sold.

Glenys sold 20,000 shares on 14 March 2011. Our first question is "did Glenys buy any shares on the **same day**?" - i.e. did she buy any shares on 14 March 2011? The answer to this question is "no".

We then move to the second matching rule, and ask whether Glenys bought any shares in the **30 days following** the date of disposal.

The 30 days following the disposal, runs from 15 March 2011 to 14 April 2011. The answer to this question is "yes" as Glenys bought 10,000 shares on 29 March 2011. **These 10,000 shares are therefore sold first.**

The capital gain / loss on the sale of these 10,000 shares is as follows:

|                                    |                 |
|------------------------------------|-----------------|
|                                    | £               |
| Proceeds (10,000/20,000 × £75,000) | 37,500          |
| Less: cost (29.3.11)               | <u>(40,000)</u> |
| Capital loss                       | <u>£(2,500)</u> |

The last match is with all other shares acquired which are in the **S.104 pool**.

The S.104 pool is as follows:

| <i>Date</i>             | <i>Shares</i>   | <i>Cost</i>     |
|-------------------------|-----------------|-----------------|
|                         |                 | £               |
| 21 December 1994        | 20,000          | 10,000          |
| 18 June 2001            | <u>40,000</u>   | <u>80,000</u>   |
| Total                   | 60,000          | 90,000          |
| Less: Sale (March 2011) | <u>(10,000)</u> | <u>(15,000)</u> |
| Balance c/fwd           | <u>50,000</u>   | <u>75,000</u>   |

Glenys' capital gain will therefore be:

|                                    |                 |
|------------------------------------|-----------------|
|                                    | £               |
| Proceeds (10,000/20,000 × £75,000) | 37,500          |
| Less: CGT base cost (above)        | <u>(15,000)</u> |
| Capital gain                       | <u>£22,500</u>  |

Glenys has therefore sold 2 assets:

- 1) 10,000 shares bought on 29 March 2011; and
- 2) 10,000 shares from the s.104 pool.

Her net gain on sale is therefore:

|                                  |                |
|----------------------------------|----------------|
|                                  | £              |
| Gain on S.104 pool shares        | 22,500         |
| Loss on shares bought on 29.3.11 | <u>(2,500)</u> |
| Net chargeable gain              | <u>£20,000</u> |

**Example 1**

Rufus sold 2,000 shares (a 2% holding) in Widget Co Ltd for £16,000 on 1.10.10. His shares had been acquired as follows:

| <i>Date</i> | <i>No.</i> | <i>Cost</i><br>£ |
|-------------|------------|------------------|
| 1.12.05     | 1,000      | 4,000            |
| 1.12.06     | 1,000      | 5,000            |
| 1.12.07     | 1,000      | 6,000            |
| 1.12.10     | 1,000      | 8,500            |

**Calculate Rufus's chargeable gain.**

**Example 2**

Anna had the following share transactions in ABC plc:

| <i>Date</i> | <i>Event</i> | <i>No.</i> | <i>Cost</i><br>£ | <i>Proceeds</i><br>£ |
|-------------|--------------|------------|------------------|----------------------|
| 1.3.11      | Buy          | 10,000     | 15,000           |                      |
| 21.3.11     | Sell         | 8,000      |                  | 16,000               |
| 21.3.11     | Buy          | 4,000      | 10,000           |                      |
| 28.3.11     | Buy          | 6,000      | 18,000           |                      |

**Calculate Anna's gain/(loss) on the sale in March 2011.**

**Answer 1**

2,000 shares sold 1.10.10:

|               |   |
|---------------|---|
| Same day?     | X |
| Next 30 days? | X |
| S.104 pool    | √ |

| <i>Date</i>          | <i>Shares</i>  | <i>Cost</i><br>£ |
|----------------------|----------------|------------------|
| 1.12.05              | 1,000          | 4,000            |
| 1.12.06              | 1,000          | 5,000            |
| 1.12.07              | <u>1,000</u>   | <u>6,000</u>     |
| Total                | 3,000          | 15,000           |
| Less: Sale (1.10.10) | <u>(2,000)</u> | <u>(10,000)</u>  |
|                      | 1,000          | 5,000            |
| 1.12.10              | <u>1,000</u>   | <u>8,500</u>     |
| Balance c/fwd        | <u>2,000</u>   | <u>13,500</u>    |

Rufus's capital gain will therefore be:

|                             |                 |
|-----------------------------|-----------------|
|                             | £               |
| Proceeds                    | 16,000          |
| Less: CGT base cost (above) | <u>(10,000)</u> |
| Capital gain                | <u>£6,000</u>   |

**Answer 2**

8,000 shares sold 21.3.11

|              |   |                             |
|--------------|---|-----------------------------|
| Same day?    | √ | 4,000 bought 21.3.11        |
| Next 30 days | √ | <u>4,000</u> bought 28.3.11 |
|              |   | <u>8,000</u>                |

Disposal 1 - sale of 4,000 shares bought 21.3.11

|                                   | £               | £       |
|-----------------------------------|-----------------|---------|
| Proceeds                          |                 |         |
| $16,000 \times \frac{4000}{8000}$ | 8,000           |         |
| Less: cost (21.3.11)              | <u>(10,000)</u> |         |
| Loss                              | <u>£(2,000)</u> | (2,000) |

Disposal 2 - sale of 4,000 shares bought 28.3.11

|                                   | £               |                |
|-----------------------------------|-----------------|----------------|
| Proceeds                          |                 |                |
| $16,000 \times \frac{4000}{8000}$ | 8,000           |                |
| Less: cost (28.3.11)              |                 |                |
| $18,000 \times \frac{4000}{6000}$ | <u>(12,000)</u> |                |
| Loss                              | <u>£(4,000)</u> | <u>(4,000)</u> |

|            |  |                 |
|------------|--|-----------------|
| Total loss |  | <u>£(6,000)</u> |
|------------|--|-----------------|