

SCHEDULES

SCHEDULE 13

THE INDEXATION ALLOWANCE

PART I

GENERAL

Part disposals

- 1 For the purpose of determining the indexation allowance (if any) on the occasion of a part disposal of an asset, the apportionment under section 35 of the Capital Gains Tax Act 1979 of the sums which make up the relevant allowable expenditure shall be effected before the application of section 87 of this Act and, accordingly, in relation to a part disposal—
- (a) references in section 87 to an item of expenditure shall be construed as references to that part of that item which is so apportioned for the purposes of the computation under Chapter II of Part II of that Act of the gross gain on the part disposal; and
 - (b) no indexation allowance shall be determined by reference to the part of each item of relevant allowable expenditure which is apportioned to the property which remains undisposed of.

Disposals on a no-gain / no-loss basis

- 2 (1) This paragraph applies to a disposal of an asset which falls within subsection (1)(a) of section 86 of this Act if, by virtue of any enactment other than subsection (5)(b) of that section or any provision of this Schedule, the disposal is treated as one on which neither a gain nor a loss accrues to the person making the disposal.
- (2) In relation to a disposal to which this paragraph applies—
- " the transferor " means the person making the disposal of the asset concerned ; and
 - " the transferee " means the person acquiring the asset on the disposal.
- (3) On a disposal to which this paragraph applies and which falls within subsection (1)(b) of section 86 of this Act, the amount of the consideration shall be calculated for the purposes of the Capital Gains Tax Act 1979 on the assumptions that—
- (a) the disposal is one to which that section applies ; and
 - (b) on the disposal a gross gain accrues to the transferor which is equal to the indexation allowance on the disposal;
- and, accordingly, the disposal shall be one on which, after taking account of the indexation allowance, neither a gain nor a loss accrues.

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- (4) Except as provided by paragraph 3 below, for the purposes of the application of sections 86 and 87 of this Act there shall be disregarded so much of any enactment as provides that, on the subsequent disposal by the transferee of the asset acquired by him on a disposal to which this paragraph applies, the transferor's acquisition of the asset is to be treated as the transferee's acquisition of it.

Subsequent disposals following no-gain / no-loss disposals

- 3 (1) The provisions of this paragraph apply in relation to a disposal by the transferee of the asset acquired by him on a disposal to which paragraph 2 above applies ; and in this paragraph—
- (a) " the initial disposal " means the disposal to which paragraph 2 above applies ;
 - (b) " the subsequent disposal" means the disposal to which this paragraph applies; and
 - (c) " the transferor " and " the transferee " have the same meaning as in paragraph 2 above.
- (2) If the subsequent disposal is one on which a loss accrues (and, accordingly, is one to which section 86 of this Act does not apply) then, for the purposes of the Capital Gains Tax Act 1979, the amount of that loss shall be taken to be reduced by—
- (a) an amount equal to the indexation allowance (if any) on the initial disposal; or
 - (b) such an amount as will secure that, on the subsequent disposal, neither a gain nor a loss accrues,
- whichever is the less.
- (3) The following provisions of this paragraph apply where the initial disposal is one to which paragraph 2 above applies by reason only of any of the following enactments applying to the initial disposal, namely—
- (a) section 267 or section 273 of the Taxes Act; or
 - (b) section 44 of the Capital Gains Tax Act 1979 ; or
 - (c) section 148 of this Act.
- (4) For the purpose of calculating the indexation allowance (if any) to which the transferee is entitled on the subsequent disposal in a case where the initial disposal falls within sub-paragraph (3) above and the transferor made that disposal outside the qualifying period.—
- (a) subsection (1) of section 86 of this Act shall have effect with the omission of paragraph (b); and
 - (b) the indexed rise in any item of relevant allowable expenditure falling within section 32(1)(a) of the Capital Gains Tax Act 1979 shall be calculated as if, in the definition of RI in the formula in section 87(2) of this Act, the words " which is the twelfth month after that" were omitted, and as if section 87(3) (a) of this Act were also omitted.
- (5) For the purpose of calculating the indexation allowance (if any) to which the transferee is entitled on the subsequent disposal in a case where the initial disposal falls within sub-paragraph (3) above and the transferor made that disposal within the qualifying period (so that he was not entitled to any indexation allowance) the transferor's acquisition of the asset shall be treated as being the transferee's acquisition of it.

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- (6) If, in a case where sub-paragraph (5) above applies, the subsequent disposal is itself a disposal to which paragraph 2 above applies, that sub-paragraph shall again apply so that the original transferor's acquisition of the asset shall be treated as being the acquisition of it by the transferee under the subsequent disposal; and so on if there is a series of disposals to which paragraph 2 above applies, all occurring within twelve months of the first such disposal.

Receipts etc. which are not treated as disposals but affect relevant allowable expenditure

- 4 (1) This paragraph applies where, in determining the relevant allowable expenditure in relation to a disposal to which section 86 of this Act applies, account is required to be taken, as mentioned in subsection (3) of that section, of any provision of any enactment which, by reference to a relevant event occurring after the beginning of the qualifying period, reduces the whole or any part of an item of expenditure as mentioned in that subsection.
- (2) For the purpose of determining, in a case where this paragraph applies, the indexation allowance (if any) to which the person making the disposal is entitled, no account shall in the first instance be taken of the provision referred to in sub-paragraph (1) above in calculating the indexed rise in the item of expenditure to which that provision applies but, from that indexed rise as so calculated, there shall be deducted a sum equal to the indexed rise (determined as for the purposes of the actual disposal) in a notional item of expenditure which—
- (a) is equal to the amount of the reduction effected by the provision concerned; and
 - (b) was incurred on the date of the relevant event referred to in sub-paragraph (1) above.
- (3) In this paragraph "relevant event" means any event which does not fall to be treated as a disposal for the purposes of the Capital Gains Tax Act 1979.

Reorganisations, reconstructions etc.

- 5 (1) This paragraph applies where.—
- (a) by virtue of section 78 of the Capital Gains Tax Act 1979, on a reorganisation the original shares (taken as a single asset) and the new holding (taken as a single asset) fall to be treated as the same asset acquired as the original shares were acquired; and
 - (b) on the reorganisation, a person gives or becomes liable to give any consideration for his new holding or any part of it.
- (2) Where this paragraph applies, so much of the consideration referred to in sub-paragraph (1)(b) above as, on a disposal to which section 86 of this Act applies of the new holding, will, by virtue of section 79(1) of the Capital Gains Tax Act 1979, be treated as having been given for the original shares, shall be treated for the purposes of section 87 of this Act as an item of relevant allowable expenditure incurred not at the time the original shares were acquired but at the time the person concerned gave or became liable to give the consideration (and, accordingly, subsection (5) of section 87 of this Act shall not apply in relation to that item of expenditure).
- (3) In the preceding provisions of this paragraph the expressions "reorganisation", "the original shares" and "the new holding" have the meanings assigned by section 77 of the Capital Gains Tax Act 1979 except that in a case where, by virtue of any

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other provision of Chapter II of Part IV of that Act (which extends to conversion of securities, company reconstructions and amalgamations etc.) sections 78 and 79 of that Act apply in circumstances other than a reorganisation (within the meaning of section 77 of that Act), those expressions shall be construed in like manner as they fall to be construed in sections 78 and 79 as so applied.

Calls on shares etc.

- 6 (1) Sub-paragraph (2) below applies where.—
- (a) on a disposal to which section 86 of this Act applies, the relevant allowable expenditure is or includes the amount or value of the consideration given for the issue of shares or securities in, or debentures of, a company ; and
 - (b) the whole or some part of that consideration was given after the expiry of the qualifying period.
- (2) For the purpose of computing the indexation allowance (if any) on the disposal referred to in sub-paragraph (1)(a) above.—
- (a) so much of the consideration as was given after the expiry of the qualifying period shall be regarded as an item of expenditure separate from any consideration given during that period; and
 - (b) subsection (5) of section 87 of this Act shall not apply to that separate item of expenditure which, accordingly, shall be regarded as incurred at the time the consideration in question was actually given.

Options

- 7 (1) This paragraph applies where, on a disposal to which section 86 of this Act applies, the relevant allowable expenditure includes both—
- (a) the cost of acquiring an option binding the grantor to sell (in this paragraph referred to as " the option consideration "); and
 - (b) the cost of acquiring what was sold as a result of the exercise of the option (in this paragraph referred to as " the sale consideration ").
- (2) Where this paragraph applies, the qualifying period in relation to the disposal referred to in sub-paragraph (1) above shall not begin until the date of the sale resulting from the exercise of the option.
- (3) For the purpose of computing the indexation allowance (if any) on the disposal referred to in sub-paragraph (1) above.—
- (a) the option consideration and the sale consideration shall be regarded as separate items of expenditure ; and
 - (b) subsection (5) of section 87 of this Act shall apply to neither of those items and, accordingly, they shall be regarded as incurred when the option was acquired and when the sale took place, respectively.
- (4) The preceding provisions of this paragraph have effect notwithstanding section 137 of the Capital Gains Tax Act 1979 (under which the grant of an option and the transaction entered into by the grantor in fulfilment of his obligations under the option are to be treated as a single transaction); but expressions used in this paragraph have the same meaning as in that section and subsection (6) of that section (division of consideration for option both to sell and to buy) applies for the purpose of determining the cost of acquiring an option binding the grantor to sell.