

SCHEDULES

SCHEDULE 7

Section 165.

RELIEF FOR GIFTS OF BUSINESS ASSETS

PART I

AGRICULTURAL PROPERTY AND SETTLED PROPERTY

Agricultural property

- 1 (1) This paragraph applies where—
- (a) there is a disposal of an asset which is, or is an interest in, agricultural property within the meaning of Chapter II of Part V of the Inheritance Tax Act 1984 (inheritance tax relief for agricultural property), and
 - (b) apart from this paragraph, the disposal would not fall within section 165(1) by reason only that the agricultural property is not used for the purposes of a trade carried on as mentioned in section 165(2)(a).
- (2) Where this paragraph applies, section 165(1) shall apply in relation to the disposal if the circumstances are such that a reduction in respect of the asset—
- (a) is made under Chapter II of Part V of the Inheritance Tax Act 1984 in relation to a chargeable transfer taking place on the occasion of the disposal, or
 - (b) would be so made if there were a chargeable transfer on that occasion, or
 - (c) would be so made but for section 124A of that Act (assuming, where there is no chargeable transfer on that occasion, that there were).

Settled property

- 2 (1) If—
- (a) the trustees of a settlement make a disposal otherwise than under a bargain at arm's length of an asset within sub-paragraph (2) below, and
 - (b) a claim for relief under section 165 is made by the trustees and the person who acquires the asset (“the transferee”) or, where the trustees of a settlement are also the transferee, by the trustees making the disposal alone,
- then, subject to sections 165(3), 166, 167 and 169, section 165(4) shall apply in relation to the disposal.
- (2) An asset is within this sub-paragraph if—
- (a) it is, or is an interest in, an asset used for the purposes of a trade, profession or vocation carried on by—
 - (i) the trustees making the disposal, or
 - (ii) a beneficiary who had an interest in possession in the settled property immediately before the disposal, or

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- (b) it consists of shares or securities of a trading company, or of the holding company of a trading group, where—
 - (i) the shares or securities are neither quoted on a recognised stock exchange nor dealt in on the Unlisted Securities Market, or
 - (ii) not less than 25 per cent. of the voting rights exercisable by shareholders of the company in general meeting are exercisable by the trustees at the time of the disposal.
 - (3) Where section 165(4) applies by virtue of this paragraph, references to the trustees shall be substituted for the references in section 165(4)(a) to the transferor; and where it applies in relation to a disposal which is deemed to occur by virtue of section 71(1) or 72(1) section 165(7) shall not apply.
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- (1) This paragraph applies where—
 - (a) there is a disposal of an asset which is, or is an interest in, agricultural property within the meaning of Chapter II of Part V of the Inheritance Tax Act 1984, and
 - (b) apart from this paragraph, the disposal would not fall within paragraph 2(1)(a) above by reason only that the agricultural property is not used for the purposes of a trade as mentioned in paragraph 2(2)(a) above.
 - (2) Where this paragraph applies paragraph 2(1) above shall apply in relation to the disposal if the circumstances are such that a reduction in respect of the asset—
 - (a) is made under Chapter II of Part V of the Inheritance Tax Act 1984 in relation to a chargeable transfer taking place on the occasion of the disposal, or
 - (b) would be so made if there were a chargeable transfer on that occasion, or
 - (c) would be so made but for section 124A of that Act (assuming, where there is no chargeable transfer on that occasion, that there were).

PART II

REDUCTIONS IN HELD-OVER GAIN

Application and interpretation

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- (1) The provisions of this Part of this Schedule apply in cases where a claim for relief is made under section 165.
 - (2) In this Part of this Schedule—
 - (a) “the principal provision” means section 165(2), or, as the case may require, sub-paragraph (2) of paragraph 2 above,
 - (b) “shares” includes securities,
 - (c) “the transferor” has the same meaning as in section 165 except that, in a case where paragraph 2 above applies, it refers to the trustees mentioned in that paragraph, and
 - (d) “unrelieved gain”, in relation to a disposal, has the same meaning as in section 165(7).
 - (3) In this Part of this Schedule—
 - (a) any reference to a disposal of an asset is a reference to a disposal which falls within subsection (1) of section 165 by virtue of subsection (2)(a) of that

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section or, as the case may be, falls within sub-paragraph (1) of paragraph 2 above by virtue of sub-paragraph (2)(a) of that paragraph, and

- (b) any reference to a disposal of shares is a reference to a disposal which falls within subsection (1) of section 165 by virtue of subsection (2)(b) of that section or, as the case may be, falls within sub-paragraph (1) of paragraph 2 above by virtue of sub-paragraph (2)(b) of that paragraph.

- (4) In relation to a disposal of an asset or of shares, any reference in the following provisions of this Part of this Schedule to the held-over gain is a reference to the held-over gain on that disposal as determined under subsection (6) or, where it applies, subsection (7) of section 165.

Reductions peculiar to disposals of assets

- 5 (1) If, in the case of a disposal of an asset, the asset was not used for the purposes of the trade, profession or vocation referred to in paragraph (a) of the principal provision throughout the period of its ownership by the transferor, the amount of the held-over gain shall be reduced by multiplying it by the fraction—

$$\frac{A}{B}$$

where—

A is the number of days in that period of ownership during which the asset was so used, and

B is the number of days in that period.

- (2) This paragraph shall not apply where the circumstances are such that a reduction in respect of the asset—
- (a) is made under Chapter II of Part V of the Inheritance Tax Act 1984 in relation to a chargeable transfer taking place on the occasion of the disposal, or
- (b) would be so made if there were a chargeable transfer on that occasion, or
- (c) would be so made but for section 124A of that Act (assuming, where there is no chargeable transfer on that occasion, that there were).
- 6 (1) If, in the case of a disposal of an asset, the asset is a building or structure and, over the period of its ownership by the transferor or any substantial part of that period, part of the building or structure was, and part was not, used for the purposes of the trade, profession or vocation referred to in paragraph (a) of the principal provision, there shall be determined the fraction of the unrelieved gain on the disposal which it is just and reasonable to apportion to the part of the asset which was so used, and the amount of the held-over gain (as reduced, if appropriate, under paragraph 5 above) shall be reduced by multiplying it by that fraction.
- (2) This paragraph shall not apply where the circumstances are such that a reduction in respect of the asset—
- (a) is made under Chapter II of Part V of the Inheritance Tax Act 1984 in relation to a chargeable transfer taking place on the occasion of the disposal, or
- (b) would be so made if there were a chargeable transfer on that occasion, or
- (c) would be so made but for section 124A of that Act (assuming, where there is no chargeable transfer on that occasion, that there were).

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Reduction peculiar to disposal of shares

- 7 (1) If in the case of a disposal of shares assets which are not business assets are included in the chargeable assets of the company whose shares are disposed of, or, where that company is the holding company of a trading group, in the group's chargeable assets, and either—

- (a) at any time within the period of 12 months before the disposal not less than 25 per cent. of the voting rights exercisable by shareholders of the company in general meeting are exercisable by the transferor, or
- (b) the transferor is an individual and, at any time within that period, the company is his family company,

the amount of the held-over gain shall be reduced by multiplying it by the fraction—

$$\frac{\mathbf{A}}{\mathbf{B}}$$

where—

A is the market value on the date of the disposal of those chargeable assets of the company or of the group which are business assets, and

B is the market value on that date of all the chargeable assets of the company, or as the case may be of the group.

- (2) For the purposes of this paragraph—
- (a) an asset is a business asset in relation to a company or a group if it is or is an interest in an asset used for the purposes of a trade, profession or vocation carried on by the company, or as the case may be by a member of the group; and
 - (b) an asset is a chargeable asset in relation to a company or a group at any time if, on a disposal at that time, a gain accruing to the company, or as the case may be to a member of the group, would be a chargeable gain.
- (3) Where the shares disposed of are shares of the holding company of a trading group, then for the purposes of this paragraph—
- (a) the holding by one member of the group of the ordinary share capital of another member shall not count as a chargeable asset, and
 - (b) if the whole of the ordinary share capital of a 51 per cent. subsidiary of the holding company is not owned directly or indirectly by that company, the value of the chargeable assets of the subsidiary shall be taken to be reduced by multiplying it by the fraction—

$$\frac{\mathbf{A}}{\mathbf{B}}$$

where—

A is the amount of the ordinary share capital of the subsidiary owned directly or indirectly by the holding company, and

B is the whole of that share capital.

- (4) Expressions used in sub-paragraph (3) above have the same meanings as in section 838 of the Taxes Act.

Reduction where gain partly relieved by retirement relief

- 8 (1) If, in the case of a disposal of an asset—

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- (a) the disposal is of a chargeable business asset and is comprised in a disposal of the whole or part of a business in respect of gains accruing on which the transferor is entitled to relief under Schedule 6, and
- (b) apart from this paragraph, the held-over gain on the disposal (as reduced, where appropriate, under the preceding provisions of this Part of this Schedule) would exceed the amount of the chargeable gain which, apart from section 165 would accrue on the disposal,

the amount of that held-over gain shall be reduced by the amount of the excess.

- (2) In sub-paragraph (1) above “chargeable business asset” has the same meaning as in Schedule 6.

- (3) If, in the case of a disposal of shares,—

- (a) the disposal is or forms part of a disposal of shares in respect of the gains accruing on which the transferor is entitled to relief under Schedule 6, and
- (b) apart from this paragraph, the held-over gain on the disposal (as reduced, where appropriate, under paragraph 7 above) would exceed an amount equal to the relevant proportion of the chargeable gain which, apart from section 165, would accrue on the disposal,

the amount of that held-over gain shall be reduced by the amount of the excess.

- (4) In sub-paragraph (3) above “the relevant proportion”, in relation to a disposal falling within paragraph (a) of that sub-paragraph, means the appropriate proportion determined under Schedule 6 in relation to the aggregate sum of the gains which accrue on that disposal.