

1986 No. 387

TAXES

**The Capital Gains Tax (Parallel Pooling)
Regulations 1986**

<i>Made</i> - - - - -	<i>3rd March 1986</i>
<i>Laid before the House of Commons</i>	<i>4th March 1986</i>
<i>Coming into Operation</i>	<i>1st April 1986</i>

The Treasury in exercise of the powers conferred on them by paragraph 21 of Schedule 19 to the Finance Act 1985(a) hereby make the following Regulations:—

1. These Regulations may be cited as the Capital Gains Tax (Parallel Pooling) Regulations 1986 and shall come into operation on 1st April 1986.

2. In these Regulations unless the context otherwise requires:—

“new holding” has the meaning given to it by paragraph 9(3) of Schedule 19 with the omission therefrom of the words “or sub-paragraph (2)”;

“qualifying securities” are securities to which Regulation 3 applies;

“relevant securities” has the meaning given to it by section 88(9) of the Finance Act 1982(b);

“Schedule 6” means Schedule 6 to the Finance Act 1983(c);

“Schedule 19” means Schedule 19 to the Finance Act 1985;

“1982 holding” has the meaning given to it by paragraph 6 of Schedule 19;

“1983 holding” is a holding within the meaning of paragraph 3(3) of Schedule 6.

3. These Regulations shall have effect in relation to a disposal on or after 1st April 1985 of qualifying securities, within the meaning of Schedule 6,—

(a) in respect of which an election under that Schedule had been made by a company and not revoked on or before 31st March 1987 or such further time as may be allowed by the Board under paragraph 20(1) of Schedule 19; and

(a) 1985 c. 54.

(b) 1982 c. 39; section 88(9) was amended by paragraph 3 of Schedule 19 to the Finance Act 1985.

(c) 1983 c. 28; Schedule 6 was amended by section 67 of, and paragraph 11(2) of Schedule 9 and paragraph 6 of Schedule 13 to, the Finance Act 1984 (c. 43) and by Part V of Schedule 19 to the Finance Act 1985.

(b) which, immediately before 1st April 1985, were regarded as indistinguishable parts of a single asset by virtue of paragraph 3 of Schedule 6; and are designed to enable section 68 of, and Parts I to V of Schedule 19 to, the Finance Act 1985 to have full effect in relation to the qualifying securities concerned.

4. Of qualifying securities in each 1983 holding which is held by a company immediately before 1st April 1985 there shall be identified as at that time for the purposes of these Regulations—

- (a) by reference to the provisions of Regulations 5, 6, 7 and 8, the 1982 holding and the new holding of such of those securities as are not relevant securities; and
- (b) by reference to the provisions of Regulations 5, 6 and 9, the 1982 holding (and the securities not in the 1982 holding) of such of those securities as are relevant securities;

and, as modified by these Regulations, the relevant provisions of the said section 68 and Schedule 19 shall apply in relation to the 1982 holdings, the new holdings and the holdings of relevant securities.

5. For the purposes of these Regulations or, as the case may be, the Schedule hereto, "A" to "H" shall be identified by reference to the circumstances obtaining in relation to each 1983 holding held by a company immediately before 1st April 1985 as follows—

- (a) A is the number of qualifying securities in the 1983 holding.
- (b) B is the amount of the unindexed pool of expenditure (within the meaning of paragraph 6 of Schedule 6) attributable to the 1983 holding.
- (c) C is the amount of the indexed pool of expenditure attributable to the 1983 holding, computed on the assumption that an operative event within the meaning of paragraph 7(3) of Schedule 6 occurred immediately before 1st April 1985.
- (d) D is the aggregate of—
 - (i) A; and
 - (ii) the number of securities which are of the same class as those to which paragraph (a) above refers, but which, because the conditions of paragraph 3(3)(b) of Schedule 6 are not fulfilled, do not form part of the 1983 holding.
- (e) E is the aggregate of—
 - (i) B; and
 - (ii) the relevant allowable expenditure in relation to a disposal immediately before 1st April 1985 of the whole of the securities to which paragraph (d)(ii) above refers.
- (f) F is the aggregate of the relevant allowable expenditure in relation to all disposals by the company made after March 1982 and before April 1985 of securities which are of the same class as those to which paragraph (a) above refers and which were acquired after 6th April 1965.

- (g) G is—
- (i) the number of securities of that same class which were held by the company immediately before 1st April 1982 and which comprise a holding within the meaning of Part II of Schedule 13 to the Finance Act 1982(a); or
 - (ii) where on or after 1st April 1982 there has been a reorganisation of share capital within the meaning of section 77(1) of the Capital Gains Tax Act 1979(b), the number of shares which (on the assumption that there had been no part disposal of original shares within the meaning of the provisions of that subsection) would comprise a new holding within the meaning of that section.
- (h) H is the amount which would be the aggregate of the relevant allowable expenditure in relation to a disposal by the company immediately before 1st April 1985 of the whole of the securities to which paragraph (g) above refers.

6.—(1) J is the number of qualifying securities in the 1982 holding, rounded to the nearest whole number and is given by the formula—

$$G \times \frac{E}{E + F}.$$

(2) In relation to a disposal by the company of the whole of the 1982 holding on or after 1st April 1985, K is the relevant allowable expenditure, given by the formula—

$$H \times \frac{E}{E + F}.$$

7. In respect of qualifying securities (“the securities”)—

- (a) the number of the securities which fall to be included in the new holding is given by the formula $A - J$;
- (b) the relevant allowable expenditure in relation to a disposal by the company of all the securities referred to in paragraph (a) above immediately before 1st April 1985 is given by the formula $B - K$;
- (c) the indexed pool of expenditure in relation to the securities referred to in paragraph (a) above for the purposes of paragraph 13(2) of Schedule 19 is given by the formula—

$$(B - K) \left(\frac{C}{B} + 0.05 \right).$$

8. In respect of the new holding (“the holding”)—

- (a) the number of securities in the holding is given by the formula $D - J$;
- (b) the qualifying expenditure in relation to the holding is given by the formula $E - K$;

(a) 1982 c. 39; Part II of Schedule 13 was modified by Part II of Schedule 19 to the Finance Act 1985 (c. 54).

(b) 1979 c. 14.

- (c) the indexed pool of expenditure in relation to the holding is given by the aggregate of—
- (i) the amount given by the formula

$$(B - K) \left(\frac{C}{B} + 0.05 \right);$$
 - (ii) the relevant allowable expenditure in relation to a disposal by the company immediately before 1st April 1985 of the whole of the securities to which Regulation 5(d)(ii) refers; and
 - (iii) any indexation allowance applicable to such a disposal on the assumption that the amendment of the Finance Act 1982 made by paragraphs 1 and 2 of Schedule 19 had always had effect.

9.—(1) This Regulation applies to a holding of relevant securities (“relevant securities holding”) which are qualifying securities comprised in a 1983 holding held by the company immediately before 1st April 1985 and, for the purposes of this Regulation, references to qualifying securities in Regulations 5 and 6 shall be treated as references to the relevant securities holding.

(2) In respect of the relevant securities holding—

- (a) the number of relevant securities in the holding, not being relevant securities in the 1982 holding, is given by the formula A–J;
- (b) the relevant securities in the holding to which paragraph (a) above refers shall be treated for the purposes of the Capital Gains Tax Act 1979 as having been acquired on 31st March 1984;
- (c) the amount of the relevant allowable expenditure in relation to a disposal on or after 1st April 1985 of all the relevant securities in the holding to which paragraph (a) above refers is given by the formula

$$(B - K) \times \frac{C}{B}$$

and shall be apportioned rateably to the relevant securities.

10. The Schedule to these Regulations shall have effect only for providing an example of the operation of the Regulations and, in the event of any conflict between the provisions of the Schedule and the Regulations, the Regulations shall prevail.

Donald Thompson,
A. G. Hamilton,
Two of the Lords Commissioners
of Her Majesty’s Treasury.

3rd March 1986.

SCHEDULE

INTRODUCTORY

In this Schedule—

Part I is a statement of facts which are to be assumed;

Part II is an application of the Regulations to qualifying securities which are not relevant securities;

Part III is an application of the Regulations to qualifying securities which are relevant securities.

PART I

1. QUALIFYING SECURITIES AND EXPENDITURE

PG plc held, acquired or disposed of qualifying securities as follows:—

Date		Number of securities	Expenditure/proceeds
<i>31st March 1982</i>	holding	1,000	6,000
<i>1st September 1982</i>	purchased	2,000	12,000
<i>1st March 1983</i>	purchased	3,000	10,000
<i>1st September 1983</i>	rights	6,000	12,000
<i>1st January 1985</i>	sold	3,000	12,000
<i>31st January 1985</i>	purchased	3,000	10,000

2. RETAIL PRICES INDEX

The Retail Prices Index is assumed to be:—

<i>March 1982</i>	100	<i>September 1984</i>	112
<i>September 1983</i>	107	<i>January 1985</i>	114
<i>March 1984</i>	110	<i>March 1985</i>	116

3. CALCULATION OF INDEXED POOL OF EXPENDITURE IN ACCORDANCE WITH SCHEDULE 6

Securities	Expenditure		
	Excluded from pools £	Unindexed pool £	Indexed pool £
<i>31st March 1982</i>	1,000	6,000	6,000
<i>1st September 1983</i>			
indexed rise:			
$\text{£}6,000 \times \frac{107 - 100}{100}$			
= $\text{£}6,000 \times .070$			420

	Securities	Expenditure		
		Excluded from pools £	Unindexed pool £	Indexed pool £
Additions to 1983 holding	2,000 (Acquired 1st September 1982)		12,000	12,000
Rights taken up	3,000	6,000		
<i>1st March 1984</i> indexed rise:	6,000	6,000	18,000	18,420
$\text{£}18,420 \times \frac{110 - 107}{107}$ $= \text{£}18,420 \times .028$				516
Addition (including rights) to 1983 holding	6,000	6,000	10,000	10,000
<i>1st September 1984</i> indexed rise:	12,000	12,000	28,000	28,936
$\text{£}28,936 \times \frac{112 - 110}{110}$ $= \text{£}28,936 \times .018$				521
Expiry of 12 months following rights issue; expenditure no longer excluded		(12,000)	12,000	12,000
<i>1st January 1985</i> indexed rise:	12,000	—	40,000	41,457
$\text{£}41,457 \times \frac{114 - 112}{112}$ $= \text{£}41,457 \times .018$				746
Disposal	12,000 3,000		40,000 10,000	42,203 10,551
	9,000		30,000	31,652

4. SECURITIES HELD LESS THAN ONE YEAR AT
31ST MARCH 1985

The 3,000 securities acquired on 31st January 1985 for £10,000 do not qualify for inclusion in the 1983 holding on 31 March 1985.

PART II

QUALIFYING SECURITIES WHICH ARE NOT
RELEVANT SECURITIES

STEP 1—Regulation 5(a)-(c)

Index the indexed pool as if an operative event had occurred immediately before 1st April 1985

Indexed pool (see Part I. 3, above)	£31,652
$£31,652 \times \frac{116-114}{114} = £31,652 \times .018$	570
	£32,222

Therefore—

A = 9,000
B = 30,000
C = 32,222.

STEP 2—Regulation 5(d) and (e)

Number of securities not within 1983 holding (see Part I.4, above)	3,000
Relevant allowable expenditure	£10,000

Therefore—

D = 9,000 + 3,000 = 12,000
E = 30,000 + 10,000 = 40,000.

STEP 3—Regulation 5(f)

F = 10,000.

STEP 4—Regulation 5(g) and (h)

Number of securities held on 31st March 1982	1,000
Rights issue 1 for 1	1,000
	G = 2,000
Relevant allowable expenditure on securities	= £6,000
Relevant allowable expenditure on rights 1,000 @ £2 per share	= £2,000
	H = £8,000.

STEP 5—Regulation 6

$$J = 2,000 \times \frac{40,000}{40,000 + 10,000} = 1,600$$

$$K = £8,000 \times \frac{40,000}{40,000 + 10,000} = £6,400$$

Therefore the 1982 holding comprises:

1,600 shares—relevant allowable expenditure £6,400.

Note: applying the above fraction to the separate components of H (step 4) £4,800 will qualify for indexation from March 1982 and £1,600 from September 1983 for the purposes of section 87 of, and paragraph 5 of Schedule 13 to, the Finance Act 1982.

STEP 6—Regulation 7

$$\text{Number of securities in the 1983 holding forming part of new holding} = 9,000 - 1,600 = 7,400$$

$$\text{Relevant allowable expenditure on these securities} = £30,000 - £6,400 = £23,600$$

$$\begin{aligned} &\text{Aggregate of relevant allowable expenditure and indexation allowance for the purposes of paragraph 13(2), Schedule 19} \\ &= (30,000 - 6,400) \left(\frac{32,222}{30,000} + 0.05 \right) = £26,528. \end{aligned}$$

STEP 7—Regulation 8

$$\text{Number of securities in new holding} = 12,000 - 1,600 = 10,400$$

$$\text{Qualifying expenditure} = £40,000 - £6,400 = £33,600$$

$$\begin{aligned} &\text{Relevant allowable expenditure in relation to securities not included in 1983 holding} \\ &= £10,000 \end{aligned}$$

$$\text{Indexation allowance} = £180$$

$$\begin{aligned} &\text{Indexed pool in relation to the new holding} \\ &= £26,528 + £10,000 + £180 = £36,708. \end{aligned}$$

SUMMARY

1982 holding: 1600 securities—relevant allowable expenditure £6,400 (of which £4,800 qualifies for indexation from March 1982 and £1,600 from September 1983).

New holding: 10,400 securities—qualifying expenditure £33,600 and indexed pool of expenditure £36,708.

PART III

QUALIFYING SECURITIES WHICH ARE RELEVANT SECURITIES

STEPS 1-5 as in Part II above.

STEP 6—Regulation 9

Number of relevant securities in
1983 holding not forming part
of 1982 holding = 9,000 - 1,600 = 7,400

Relevant allowable expenditure
= $(30,000 - 6,400) \times \frac{32,222}{30,000}$ = £25,348

Expenditure apportioned to securities
 $\frac{£25,348}{7,400}$ = £3.4254

Deemed date of acquisition of those securities—31st March 1984.

SUMMARY

1982 holding: 1,600 securities—relevant allowable expenditure £6,400 (of which £4,800 qualifies for indexation from March 1982 and £1,600 from September 1983).

Other relevant securities: 7,400 securities treated as acquired on 31st March 1984—relevant allowable expenditure £25,348.

3,000 securities treated as acquired on 31st January 1986—relevant allowable expenditure £10,000.

EXPLANATORY NOTE

(This Note is not part of the Regulations.)

The Finance Act 1985 by the provisions of section 68 and Schedule 19 extended the indexation relief for capital gains tax to take full account of inflation throughout the period of ownership of an asset where it was acquired on or after 1st March 1982 or, in the case of assets acquired earlier, for the period since March 1982. The Act empowered the Treasury to extend, by Regulations, the relief to certain companies which, under earlier legislation, had elected to have certain securities of the same class pooled (called "parallel pooling") so as to be treated as a single asset; the Regulations are to apply to such securities of a company only if it shall not have revoked its election by 31st March 1987 (or within such further time as the Commissioners of Inland Revenue may allow).

These Regulations extend the relief to those companies.

Regulation 1 provides the title and commencement date.

Regulation 2 contains definitions.

Regulation 3 describes the scope of the Regulations and the main conditions for relief.

Regulations 4 to 9 make provision for the identification, out of the previously pooled holdings, of holdings of securities of those categories to which the above provisions of the Finance Act 1985 will apply.

Regulation 10 introduces the Schedule which provides examples of the operation of these Regulations.

SI 1986/387
ISBN 0-11-066387-X



780110 663876