



Finance Act 1998

1998 CHAPTER 36

PART III

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER II

TAXATION OF CHARGEABLE GAINS

Taper relief and indexation allowance

121 Taper relief for CGT

- (1) The following section shall be inserted after section 2 of the Taxation of Chargeable Gains Act 1992—

“2A Taper relief

- (1) This section applies where, for any year of assessment—
- (a) there is, in any person’s case, an excess of the total amount referred to in subsection (2) of section 2 over the amounts falling to be deducted from that amount in accordance with that subsection; and
 - (b) the excess is or includes an amount representing the whole or a part of any chargeable gain that is eligible for taper relief.
- (2) The amount on which capital gains tax is taken to be charged by virtue of section 2(2) shall be reduced to the amount computed by—
- (a) applying taper relief to so much of every chargeable gain eligible for that relief as is represented in the excess;
 - (b) aggregating the results; and
 - (c) adding to the aggregate of the results so much of every chargeable gain not eligible for taper relief as is represented in the excess.

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- (3) Subject to the following provisions of this Act, a chargeable gain is eligible for taper relief if—
- (a) it is a gain on the disposal of a business asset with a qualifying holding period of at least one year; or
 - (b) it is a gain on the disposal of a non-business asset with a qualifying holding period of at least three years.
- (4) Where taper relief falls to be applied to the whole or any part of a gain on the disposal of a business or non-business asset, that relief shall be applied by multiplying the amount of that gain or part of a gain by the percentage given by the table in subsection (5) below for the number of whole years in the qualifying holding period of that asset.
- (5) That table is as follows—

<i>Gains on disposals of business assets</i>		<i>Gains on disposals of non-business assets</i>	
<i>Number of whole years in qualifying holding period</i>	<i>Percentage of gain chargeable</i>	<i>Number of whole years in qualifying holding period</i>	<i>Percentage of gain chargeable</i>
1	92.5	—	—
2	85	—	—
3	77.5	3	95
4	70	4	90
5	62.5	5	85
6	55	6	80
7	47.5	7	75
8	40	8	70
9	32.5	9	65
10 or more	25	10 or more	60

- (6) The extent to which the whole or any part of a gain on the disposal of a business or non-business asset is to be treated as represented in the excess mentioned in subsection (1) above shall be determined by treating deductions made in accordance with section 2(2)(a) and (b) as set against chargeable gains in such order as results in the largest reduction under this section of the amount charged to capital gains tax under section 2.
- (7) Schedule A1 shall have effect for the purposes of this section.
- (8) Subject to paragraph 2(4) of that Schedule, references in this section to the qualifying holding period of an asset are references—
- (a) except in the case of an asset falling within subsection (9) below, to the period after 5th April 1998 for which that asset had been held at the time of its disposal; and

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- (b) in the case of an asset falling within that subsection, to the period mentioned in paragraph (a) above plus one year.
- (9) An asset falls within this subsection if—
- (a) the time which, for the purposes of paragraph 2 of Schedule A1, is the time when the asset is taken to have been acquired by the person making the disposal is a time before 17th March 1998; and
 - (b) there is no period which in the case of that asset is a period which by virtue of paragraph 11 or 12 of that Schedule does not count for the purposes of taper relief.”
- (2) Before Schedule 1 to the Taxation of Chargeable Gains Act 1992 there shall be inserted, as Schedule A1 to that Act, the Schedule set out in Schedule 20 to this Act.
- (3) Schedule 21 to this Act (which makes incidental and consequential provision in connection with the introduction of taper relief) shall have effect.
- (4) This section and those two Schedules have effect for the year 1998-99 and subsequent years of assessment.

122 Freezing of indexation allowance for CGT

- (1) In section 53 of the Taxation of Chargeable Gains Act 1992 (indexation allowance), after subsection (1) there shall be inserted the following subsection—
- “(1A) Indexation allowance in respect of changes shown by the retail prices indices for months after April 1998 shall be allowed only for the purposes of corporation tax.”
- (2) In subsection (1) of section 54 of that Act (calculation of indexation allowance), in the definition of “RD”, for “the month in which the disposal occurs” there shall be substituted “the relevant month”.
- (3) After that subsection there shall be inserted the following subsection—
- “(1A) In subsection (1) above—
- (a) the references to an item of relevant allowable expenditure shall not, except for the purposes of corporation tax, include any item of expenditure incurred on or after 1st April 1998; and
 - (b) the reference to the relevant month is a reference—
 - (i) where that subsection has effect for the purposes of capital gains tax, to April 1998; and
 - (ii) where that subsection has effect for the purposes of corporation tax, to the month in which the disposal occurs.”
- (4) In section 13 of that Act (attribution of gains to non-resident companies), the following subsection shall be inserted after subsection (11)—
- “(11A) For the purposes of this section the amount of the gain or loss accruing at any time to a company that is not resident in the United Kingdom shall be computed (where it is not the case) as if that company were within the charge to corporation tax on capital gains.”
- (5) In section 145 of that Act (call options: indexation allowance), in subsection (1), after the word “applies”, in the first place where it occurs, there shall be inserted “(subject to

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subsection (1A) below”); and after that subsection there shall be inserted the following subsection—

“(1A) In a case where the whole of the expenditure comprised in the option consideration was incurred on or after 1st April 1998, this section applies for the purposes of corporation tax only.”

- (6) Subject to subsection (7) below, the preceding provisions of this section have effect in relation to disposals on or after 6th April 1998.
- (7) This section does not affect the computation of the amount of so much of any gain as—
- (a) is treated for the purposes of the taxation of chargeable gains as having accrued on a disposal on or after 6th April 1998; but
 - (b) is taken for those purposes to be equal to the whole or any part of a gain that—
 - (i) would (but for any enactment relating to the taxation of chargeable gains) have accrued on an actual disposal made before that date, or
 - (ii) would have accrued on a disposal assumed under any such enactment to have been made before that date.