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Your Legal Questions

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CGT Reliefs for individual business owners Part 3

Continuing our look at Capital Gains Tax ("CGT") reliefs available for sole traders, partners and shareholders we consider this week Roll-over relief ("ROR").

Q. What is Roll-over Relief?

A. ROR is designed to encourage businesses to expand by allowing CGT due on the disposal of a "qualifying asset" to be effectively postponed when the consideration obtained for the disposal is used to buy another qualifying asset by way of replacement.

Q. What can I claim relief on?

A. The principal assets qualifying for relief are land, buildings and goodwill, Company shares do not qualify and although plant and machinery do they rarely produce a gain as most depreciate in value. The asset must be used in the trade of the business and not held as an investment.

Q. Does the replacement asset have to be the same?

A. No. Providing the asset disposed of and the asset acquired are qualifying assets you can, for example, sell goodwill and roll over the gain into the purchase of buildings.

Q. Are there any time limits?

A. Yes. Normally for ROR to apply the replacement asset must be acquired within one year before or three years after disposal of the original asset.

Q. Does the relief apply to gifts?

A. In theory yes but in practice it would be unusual for someone to be so generous to make a gift of business assets and to retain the CGT liability relating to that gift. Hold-over relief is likely to be more relevant in these circumstances and we will look at this in a later article.

In next week's article I will explain how ROR is applied and give a worked example by way of illustration.

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