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Your Legal Questions

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CGT Reliefs for individual business owners Part 4

In last week's article I introduced you to roll-over relief ("ROR") which is available to sole traders, partners and shareholders to relieve Capital Gains Tax ("CGT") on business disposals. This article gives a worked illustration of the relief in practice.

Q. How is the relief applied?

A. The liability for CGT on the disposal can be postponed until the disposal of the replacement asset by rolling over the gain on the disposal of the original asset into the acquisition cost of the replacement asset.

Example:

In October 2009, B a sole trader sells some premises she has owned since 1996 for £70,000. She makes a gain of £30,000 (her only disposal in the 2009/10 tax year). Eight months later she buys replacement premises for £80,000. If she claims ROR on the new premises:

(a) she will pay no CGT in 2009/10 as the gain on the disposal of the original premises is postponed:

(b) the acquisition cost of the new premises is treated as £50,000 (£80,000 less £30,000);

(c) she will not be able to use her annual exemption for 2009/10.

If B sells her new premises in 2012 for £125,000 her gain will be:

Proceeds of disposal £125,000

Less

Adjusted acquisition costs £ 50,000
(without the effect of ROR it would be £80,000)

Gain
£ 75,000

(without the effect of ROR it would be £45,000)

Providing the qualifying conditions are met the gain on the second disposal could be rolled over again.

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