

AF1 CGT 2023/2024

Part 5: Share Matching Rules

This final part will look at the special rules regarding the buying and selling of shares. These are:

- Share pools
- Anti “bed and breakfasting” rules/share matching rules

The milestones are:

- To understand why these rules exist.
- To understand the concept of share pools
- To be able to calculate the acquisition value of a share pool.
- To be able to accurately calculate the liability when shares in the same company are repurchased within 30 days.

Why special rules are needed

The starting point for any CGT calculation is to deduct the acquisition value from the sale proceeds. For most assets this doesn't present any problem.

Josh has 4 properties that he lets out. If he decides to sell one the acquisition price is easy to establish because it applies to that one property

The acquisition value of a share is straightforward if all the shares being sold had been bought in a single transaction.

David bought 10,000 shares at 500p a share for a total cost of £50,000.
Some years later he sells all of them for 800p a share and gets £80,000
The gain is £30,000

If he had sold 5,000 shares the gain would be £15,000. That is disposal of £40,000 less acquisition value of £25,000 (5,000 x 500p)

Problems arise if shares in the **same** company were purchased at **different times** and at **different prices**. A similar situation arises if units/shares in a fund are purchased at different times. This is when a share pool is used.

Share Pools

Technically a **share pool or Section 104** holding is created when a single share is purchased and only comes to an end when the last share is sold. If someone owns shares in 10 different companies, they will have 10 different share pools.

A share pool becomes significant when shares are bought at different dates and at different prices as in this case:

Jack bought shares in Acme Widgets as follows:

June 2010	5000 shares @ 100p =	£5,000
November 2012	10,000 shares @ 80p =	£8,000
October 2018	<u>15,000 shares @ 70p =</u>	<u>£10,500</u>
	30,000	£23,500

This pool consists of **30,000 shares** with an **acquisition or base value of £23,500**.

If the entire holding is sold for 150p a share he will receive £45,000 giving a gain of £21,500 but if Jack only sells some shares in the pool the calculation is a little more complicated. If Jack sells 14,000 shares for 150p he would receive £21,000 but what is the acquisition price?

Since shares (together with OEIC shares and units in a unit trust) aren't numbered we can't say whether he is selling the shares bought in 2010, 2012 or 2018. Instead the average price of the shares in the pool is calculated. **This is £23,500 divided by 30,000 = 78.3p.**

The gain is therefore

Disposal 14,000 @ 150p =	£21,000
Acquisition 14,000 @ 78.3p	<u>£10,962</u>
Gain	£10,038

Having sold 14,000 shares, Jack is left with 16,000 shares and the average acquisition price for these remains at 78.3p. His holding is worth 16,000 x 78.3p = £12,528.

The facts of this question might be presented in a different way.

Date of acquisition	Number of shares	Base/acquisition cost
June 2010	5,000	£5,000
November 2012	10,000	£8,000
October 2018	15,000	£10,500
Total	30,000	£23,500

As the individual share price hasn't been given, we can pro-rata the base cost of the disposal.

$$14,000/30,000 \times £23,500 = £10,966.$$

The gain is £150,000 less £10,966 = £10,034

The acquisition/base cost of the remaining shares is 16,000/30,000 x £23,500 = £12,523.

This is slightly different to using the share price but would be acceptable as an answer.

Adding shares to the pool

Sometime later Jack buys 8,000 shares at 100p a share and these are added to the pool:

	Number of shares	Acquisition/Base price
Previous Pool	16,000	£12,523
New purchase	8,000	£8.000
Total	24,000	£20,523

If a part disposal is made in the future the base cost would be 85.5p a share. (£20,523/24,000)

There are two important rules that can be deduced from this.

- **When shares are taken from a pool the acquisition value stays the same.**
- **When shares are added to a pool the average acquisition value will change.**

Share Matching rules

Since the annual exemption is on a “use it or lose it” basis, it makes sense to make sufficient gains each tax year to use it up.

Ken sells his holding of 10,000 shares for £22,000 on **March 31 2023** having bought them for £11,000 in 2020. The gain is £11,000 and if this is his only gain in the tax year no tax is payable. (the annual exemption was £12,300 in 22/23)

Ken believes there are good growth prospects for the shares so on **May 3 2023** he buys the same number of shares in the same company for £21,000. This becomes the new acquisition price for future disposals.

This is good practice as he has used his 22/23 annual exemption, which was higher than in 23/24, and reset a higher acquisition price. However, if Ken had bought the shares within 30 days of March 31 2021 the calculation is different. (assume the acquisition price is still £21,000)

Ken would still have received £22,000 but the shares sold on March 31 would be matched with the shares he purchased in the next 30 days. The result would be that he made a gain of £1,000 (£22,000 less £21,000). More significantly the acquisition value for future disposals remains £11,000 because the shares purchased within 30 days never entered the share pool.

This rule applies when following a sale, **shares in the same company are bought in the next 30 days**. HMRC and textbooks use the term **matching**, but all that means is the gain on the sold shares is:

Value of shares sold less value of shares bought in the following 30 days.

Here are two examples to illustrate the point.

Ben has 20,000 shares with an acquisition price of 100p a share or £20,000
The price has risen to 150p giving a total value of £30,000

On October 1 he sells all the shares and he can use the annual exemption of £6,000 (assuming this is his only transaction in the tax year.)

On November 4 he buys 20,000 shares in the same company for 160p a share so the new acquisition cost for future sales is £32,000

Zoe also has 20,000 shares with an acquisition price of £20,000. She sold them on October 1 and received £30,000 The share price falls to 120p and she thinks this represents good value and decides to reinvest in the company.

On October 10 she buys 20,000 shares at a cost of £24,000

These shares sold for £30,000 on October 1 are matched with the shares purchased on October 10 rather than the original price of 100p a share or £20,000.

The result that she still owns 20,000 shares. She has made a small gain of £6,000 (£30,000 less £24,000) but the acquisition price for all future transactions is 100p a share or £20,000

The easiest way to avoid this problem is to be out of the market for 30 days before buying the shares as in the first example. The acquisition value for future disposals will be the cost of the **new** purchase. This is not without risk as the price may rise in the 30 days meaning that the proceeds of the sale won't buy as many shares.

There are three other ways to get round this problem.

- "Bed and ISA"
- "Bed and SIPP"
- "Bed and spouse"

With bed and ISA, the investments are sold and then repurchased but within an ISA wrapper. The same exercise can be done with a SIPP.

With bed and spouse, the investments are sold, the proceeds passed to the seller's spouse who buys the same investments in his or her own name.

A further alternative is to buy investments with a similar profile. This can be useful with unit trusts or OEICS.

Greg has a substantial holding in a FTSE tracker fund with ABC managers. He sells sufficient to use up his annual exemption and buys a FTSE tracker fund with XYZ managers.

Further calculations

In the previous examples the number of repurchased shares was the same as the number that were sold but sometimes the numbers will be different.

This can get complicated so you should focus on how many shares are in the pool after the transactions have been completed.

Sean has a pool of 15,000 shares. 5,000 shares were sold on June 1 and 3,000 shares in the same company are bought on June 15.

This means he now owns 13,000 shares

The 3000 shares purchased on June 15 are matched with 3,000 of the 5,000 sold on June 1. The other 2,000 are matched with the pool shares.

Following the basic rule, as no new shares have been added to the pool, the acquisition/base value will remain the same.

Should an individual buy back more shares than they sell, the number of shares in the pool will increase.

Tamsin had a pool of 20,000 shares. She sold 5,000 and then within 30 days bought 8,000.

There are now 23,000 shares in the pool.

5,000 of the new purchase will be matched with the 5,000 sold.

The other 3,000 are added to the pool so the acquisition cost will also change.

If there is more than one disposal in the 30 days, shares are matched in the following order:

1. Disposals matched with acquisitions on the same day
2. Disposals matched with acquisitions in the next 30 days on a “first in first out” basis.
3. Pool shares

The following two calculations are more complex than are likely to be tested in the exam but they should help you to reinforce the principles.

Martin has a pool of 10,000 shares with a base cost of £16,000 (160p per share). On June 1 he sells 5,000 for £20,000 (400p) and on June 15 buys 3,000 shares for £11,400. (380p)

Calculate the gain and the number of shares held and their base cost after this transaction.

As more shares were sold than repurchased, the number of shares in the pool will fall and the average price per share in the pool will not change. The final number of shares will be 8,000 (10,000 less 5,000 + 3,000)

Step 1 Match the shares sold

The 5,000 shares sold on June 1 are matched:

- 3,000 shares bought within 30 days
- 2,000 **from** the pool

This means the gain (or loss) must be calculated for both matches.

Step2 Allocate the sales proceeds

5,000 shares were sold for £20,000. These are split'

30 days: $3,000/5,000 \times £20,000 = £12,000$ (or $3,000 @ 400p = £12,000$)

Pool: $2,000/5,000 \times £20,000 = £8,000$ (or $2,000 @ 400p = £8,000$)

Step 3 Calculate the gain on the 30 day allocation

Proceeds	£12,000
Acquisition (3,000 @380p)	<u>£11,400</u>
	£600

Step 4 Calculate the base cost and gain of the pool shares sold.

The acquisition cost is number of shares/acquisition cost.

$£16,000/100,000 = 160p$ a share.

2,000 shares @ 160p = £3,200

Proceeds (from step 2)	£8,000
Acquisition	<u>£3,200</u>
Gain	£4,800

Total gain is therefore

30 day shares	£600
Pool	<u>£4,800</u>
Total	£5,400

Step 5 Take the shares from the pool

	Number of shares	Base value
Original Pool	10,000	£16,000
Shares from pool	(2,000)	£3,200
Remaining	8,000	£12,800

The base value going forward remains at 160p (£12,800/8,000)

Let's see what happens if more shares are purchased than sold.

Janet has a pool of 10,000 shares with a base cost of £16,000. (160p) On June 1 she sells 3,000 shares for £11,400 (380p) and on June 15 buys 5,000 shares for £20,000. (400p)

Calculate the gain or loss and the number of shares held after these transactions together with the new base cost.

At the end of the calculation there will be 12,000 shares in the pool so the acquisition value will change.

The first step is to match the shares:

- The 3,000 sold shares are matched with the 3,000 shares bought on June 15
- The 2,000 shares bought on June 15 are added to the pool

This means only the gain or loss on the 3,000 shares needs to be calculated. We know they were sold for £11,400 but their acquisition value has to be ascertained.

The acquisition value (based on the 3,000 shares purchased on June 15) is $3,000/5,000 \times £20,000 = £12,000$ (or $3,000 \times 400p$)

Therefore loss = £11,400 less £12,000 = £600

Calculation of pool

Cost of 20,000 added shares: $2,000/5,000 \times £20,000 = £8,000$ (2,000 @ 400p)

	Number of shares	Base value
Original Pool	10,000	£16,000
Shares added	2,000	£8,000
Remaining	12,000	£24,000

Average price per share $£24,000/12,000 = 200p$

That concludes this part and you should now know:

- Understand why there are special rules for share sales.
- Understand the concept of share pools and the calculation of acquisition value.
- Be able to accurately calculate the liability when shares are repurchased within 30 days.

It also completes the CGT section so if you are confident you can move on the IHT.

Sources and further reading

<https://www.gov.uk/hmrc-internal-manuals/capital-gains-manual/cg51560>

<https://www.oldmutualwealth.co.uk/Adviser/literature-and-support/knowledge-direct/individual-taxation/capital-gains-tax/30-day-bed-and-breakfast-rules-and-cgt/>

<https://www.fool.co.uk/investing-basics/how-shares-are-taxed-2/cgt-share-matching-rules/>