

Part disposals (S.557)

Part 19-02-14

This document should be read in conjunction with section 557
of the Taxes Consolidation Act 1997

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Introduction

Section 557 of the Taxes Consolidation Act 1997 ("TCA 1997") provides that where only part of an asset is disposed of, only a portion of the cost is deductible in computing a chargeable gain or an allowable loss on the part disposal. Where the expenditure attributable to each part of the asset is known, the amount deductible is the expenditure attributable to the part disposed of. Where the expenditure cannot be so quantified, it is apportioned in accordance with the rules laid down in this section and only the amount apportioned to the part disposed of is deductible.

14.1 Part disposal

In the case of part disposals, the cost to be attributed to the part disposed of is the proportion of the total cost which the consideration received for the part disposed of bears to that consideration plus the market value of the remaining part. If a person receives compensation for damage to a chargeable asset the receipt of the capital sum is, by definition, a part disposal with a consequent chargeable gain or allowable loss.

14.2 Allocation of cost

Where there is a part disposal, the expenditure on the asset under **section 552(1)(a) and (b) TCA 1997** – see [Tax and Duty Manual \(TDM\) Part 19-02-10](#) – must be apportioned for the purpose of the computation of the gain or loss on the part disposed of and for the allocation of a figure of cost to the part retained.

The apportionment is to be made by reference to the disposal consideration and the value of the part retained at the time of the part disposal. This treatment does not, however, apply to sub-leases granted out of short leases (see [TDM Part 19-02-21](#)).

Where the asset disposed of was obtained with other assets on a composite acquisition (for example, a single contract of purchase at an inclusive price embracing more than one asset), the acquisition price should be apportioned to the respective assets broadly by reference to their market values at the date of acquisition.

14.3 Determining a disposal

In some circumstances it is necessary to decide what is the asset before determining whether a disposal is an entire or a part disposal.

"Asset" is not defined in the TCA 1997 and is, therefore, to be given its natural meaning subject, however, to the inference from **sections 552 and 557 TCA 1997** that the "asset" is whatever is covered by a specific item of expenditure on an acquisition, whether made by purchase or otherwise (such expenditure being allowable under **section 552(1)(a) TCA 1997** – see [TDM Part 19-02-10](#)). See, however, **para 14.12** as regards the practice under which a part disposal of land may, in certain circumstances, be regarded as a disposal of a separate asset.

14.4 Enhancement expenditure

Expenditure enhancing the value of an asset allowable under **section 552(1)(b) TCA 1997** may alter the character of the asset but does not create a new asset. Thus, the purchase by a bakery owner of an additional bread round which is merged with the main business is an addition to existing goodwill, not the acquisition of a separate asset.

14.5 Valuation of parts disposed

The following paragraphs and the guidance in **para 14.6 to 14.11** are based mainly on a strict interpretation of the law. To meet the difficulty of having to value the whole of the unsold portion of a property when part is sold, however, the practice described in **para 14.12** may, where appropriate, be adopted. See also [TDM Part 19-02-08](#), regarding small part disposals and the need for valuation reports.

Unless it appears from the facts at the time of the acquisition that more than one asset (given its natural meaning) was acquired, a single acquisition of land (with or without buildings), whether obtained by purchase under one contract at an inclusive price or by gift or inheritance, as a whole, should be regarded as a single asset (even though it comprises distinguishable elements such as a house and garden, farmhouses, buildings, woodlands, cottages, etc.).

In the case of acquisitions by purchase there may be contemporary evidence showing that the acquisition comprised more than one asset. For example, correspondence, etc. during the negotiations leading up to the purchase may show that the contract price was based upon the sum, rounded up or down, of a number of valuation units; the land may have been offered for sale by auction in lots; or the rent roll of an estate may show separate tenants paying substantial rents for individual properties. Purchasers acquiring estates of small let properties (for example, terraced urban dwelling houses) should normally be regarded as acquiring blocks of a size convenient to hold as investments but no objection need be made to the treatment of individual dwelling-houses as separate assets. Single buildings in multiple occupation such as blocks of flats or office suites should normally be regarded as single assets. No objection need, however, be made to the treatment of individual flats, etc., as separate assets if it appears that similar flats, etc., in the same ownership or in the locality have been commonly sold singly as independent dwellings.

14.6 Separate assets

Where a disposal of land includes the whole or part of two or more separate assets, separate computations for the separate assets are required. This ensures that indexed losses (see [TDM Part 19-02-13](#)) on one asset are not inadvertently allowed against gains arising on other assets contained in the composite disposal.

Where separate computations are required on a composite disposal, the disposal consideration should be apportioned to the several assets.

14.7 Calculating the value of the part retained

The original cost of the asset should be apportioned by reference to the disposal consideration and the value of the part retained at the time of the part disposal. The remainder of the expenditure ranks as the amount allowable on a future disposal of the part retained. See, however, [TDM Part 19-04-06](#), where a part disposal of a holding of shares follows the re-organisation or reduction of a company's share capital.

Example 1

In May 1995, A buys an asset for €20,000 and in 2021, sells a part of it for €45,000 at a time when the value of the remainder of the asset is €135,000.

The computation is then as follows:

Part cost apportioned to the disposal:

| | | | | | |
|-------------------|---------|---|--------------------------------------|---|---------|
| Disposal price | | | | | €45,000 |
| Cost | €20,000 | x | $\frac{€45,000}{€45,000 + €135,000}$ | = | €5,000 |
| Indexation factor | €5,000 | x | 1.277 | = | €6,385 |
| Chargeable gain | | | | | €38,615 |

The adjusted "cost" of the remainder of the asset (for the purposes of any later disposal) is €20,000 less €5,000, that is, €15,000.

14.8 Recognisable fraction

Where the amounts involved are not large and the part sold is clearly a recognisable fraction of the whole and all the allowable expenditure falls under **section 552(1)(a) TCA 1997**, ([TDM Part 19-02-10](#)), the allowable expenditure may, in practice, be divided in accordance with that fraction in order to avoid unnecessary work on valuation. Thus, in the case of a disposal of part of an asset, for say €10,000, it is clear that the proceeds represent 25% of the value of the whole asset, the same fraction (that is, 25%) of the original cost may be taken as the cost for the purpose of the computation. This method is not statutory but, in practice, it gives a very close approximation and should be adopted unless the taxpayer objects.

14.9 Allowable expenditure

Allowable expenditure which is wholly attributable to the part which is disposed of, or to the part which remains undisposed of, should be so allocated and not subjected to the apportionment formula. The formula should be applied only to common expenditure and the following example illustrates this treatment.

Example 2

In July 1990 B buys 50 acres of farmland with no house or buildings for €150,000. In July 1992, they buy a further 10 acres for €40,000. In 2021, they sell an 8 acre field from the original 50 acres for €360,000. Since the land sold is part of the July 1990 purchase, the cost of the land bought in 1992 is not brought into the computation of the gain on the sale in 2021. On the assumption that the 42 acres retained out of the original purchase are worth €1,600,000 in 2021, the computation (subject to expenses) is –

Part cost apportioned to the disposal:

| | | | | | |
|-------------------|----------|---|-----------------------|---|----------|
| Sale price | | | | | €360,000 |
| Cost | €150,000 | x | €360,000 | = | €27,551 |
| | | | €360,000 + €1,600,000 | | |
| Indexation factor | €27,551 | x | 1.442 | = | €39,728 |
| Chargeable gain | | | | | €320,272 |

14.10 Capital allowances

In the case of an asset subject to capital allowances, the apportionment under **para 14.7** should be made first and capital allowances taken into account under [TDM Part 19-02-12](#), to the extent only that they relate to the part being disposed of. If there has been a previous part disposal at a loss and on that disposal capital allowances have been used to restrict the allowable loss, then only the balance of the capital allowances should be used to restrict any further loss on the disposal of the asset in full or in part.

Example 3

C buys a building for €200,000 and makes additions for €100,000 on which they become entitled to industrial buildings allowance of €2,000 per year. After 4 years they sell a part of the building for €50,000, incurring expenses of €5,000 on the disposal. The value of the remainder of the building at the time of sale was €250,000.

Part cost apportioned to the disposal:

| | | | | | |
|------------------|----------|---|--------------------|---|---------|
| Sale price | | | | | €50,000 |
| Cost | €300,000 | x | €50,000 | = | €50,000 |
| | | | €50,000 + €250,000 | | |
| | | | | | Nil |
| Expenses of sale | | | | | €5,000 |
| Loss | | | | | €5,000 |

It must now be considered whether this loss is allowable.

For the purposes of loss restriction, the adjusted allowable cost becomes €200,000 (being the original €200,000 plus the addition of €100,000 but less the capital allowances made or which may be made - €100,000).

The proportion allowable is:

| | | | | | |
|------|----------|---|--------------------|---|---------|
| Cost | €200,000 | x | €50,000 | = | €33,334 |
| | | | €50,000 + €250,000 | | |

that is an exclusion of the amount of €16,666 (€50,000 less €33,334).

This would result in a gain so that the restriction is reduced to €5,000 and the loss of €5,000 is not allowable.

Assuming that the remainder of the building is sold for €200,000 and €50,000 expenses of sale were incurred the computation is –

| | | |
|--|--|----------|
| Sale price | | €200,000 |
| Balance of cost from the part disposal computation | | |
| (€200,000 + €100,000 - €50,000) | | €250,000 |
| Loss | | €50,000 |
| Expenses of sale | | €50,000 |
| Total loss | | €100,000 |

That loss is to be allowed only to the extent that it exceeds the capital allowances given as reduced by the amount restricted on the part disposal. The capital allowances with balancing allowance amount to €100,000 and taking off the €5,000 restricted in the part disposal computation the amount to be set against the loss of €100,000 is €95,000. The final allowable loss will, therefore, be €5,000. This agrees with the overall position which is as follows:

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| | | |
|--|----------|----------|
| Total sale price (€50,000 part + €200,000 balance) | €250,000 | |
| Cost (€200,000 + €100,000) | €300,000 | |
| Expenses of sale (€5,000 part + €50,000) | €55,000 | €355,000 |
| Loss | | €105,000 |
| Allowed against income as capital allowance | | €100,000 |
| Balance due | | €5,000 |

14.11 Land acquired at different times and part disposals

Where a physical part (or an interest in, or right over, a part) of an area of land comprising a number of acquisitions is disposed of, the rules for part disposals should be applied to the smallest separate acquisition or number of acquisitions out of which the part disposal is made.

Example 4

Suppose that over a period of years, X acquires land as follows:

- Inherits a farm.
- Buys adjacent land to extend the farm.
- Inherits a house and garden on the farm following the death of their mother or father.

The whole is farmed as one unit.

X later sells a strip of land to a local authority for road making. The strip crosses the land in (b) and cuts a corner off the garden in (c).

In computing the chargeable gain or allowable loss on the disposal of the land, the consideration for the disposal should be apportioned to the units represented by acquisitions (b) and (c) respectively, and the rules for part disposal applied to each acquisition.

For the purposes of valuation on 6 April 1974 each of the units of valuation (and the land within acquisition (a)) should be treated as a separate asset.

14.12 Part disposal and apportionment

In calculating the Capital Gains Tax liability on the disposal of part of an asset, the whole of the unsold portion has, in strictness, to be valued. Where there is a part disposal of land, however, the practice described below may, if the conditions are satisfied, be adopted. This practice, which in effect regards the unit of disposal as being also the unit of acquisition, is not to be applied in any case where the taxpayer wishes to adhere to the strict interpretation of the law (**para 14.5 et seq.**).

Where the entire interest in what is recognisably a separate asset is disposed of, the amount to be allowed under **section 552(1)(a) TCA 1997** ([TDM Part 19-02-10](#)) may, if the taxpayer agrees and subject to **para 14.13**, be ascertained by a just and reasonable apportionment of the expenditure made, or deemed to have been incurred, when the asset was acquired as part of a larger bargain. This apportionment follows the basis in **section 544(5) TCA 1997**.

14.13 Part disposal formula

If on an occasion before a disposal to which the practice set out in **para 14.12** can be applied, the formula in **section 557 TCA 1997**:

$$\text{i.e. } \frac{A}{A + B}$$

where A is the consideration for the part disposed of, and B is the market value of the part retained, has been applied to the original expenditure, then technically it could be argued that **section 544(5) TCA 1997** cannot be applied because it has already been accepted that there was only a single asset. In practice, however, the procedure in **para 14.12** may be adopted, with part of the original cost, etc., being ascertained and allowed.

For this purpose, the original cost should be increased by a suitable proportion of any additional expenditure and reduced by an appropriate part of any expenditure allowed on a previous part disposal which was not in respect of an identifiable physical part of the original asset.

Since the taxpayer is always free to require that the

$$\frac{A}{A + B}$$

formula should be applied, the **para 14.12** procedure should only be granted where a written undertaking is given that a similar basis of apportionment will be applied on the occasion of all subsequent disposals by him or her out of that "single asset".

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14.14 Total cost of the parts must equal the cost of the whole

When a computation based on the practice in **para 14.12** is received, it should be examined and if the apportionment made by the taxpayer or their agent seems reasonable, it should be accepted. In examining the computation, consideration should be given to the total of the block of expenditure out of which the disposal is made and to the extent of the disposal. The Inspector should ensure that a realistic part of the whole expenditure is apportioned to each disposal. In the end, the total cost of the parts must equal the cost of the whole or the market value of the whole as at 6 April 1974, as the case may be. Branches should maintain a record in each case to ensure that the original cost (or the market value) of the whole of the land is not exceeded.

In strictness, any apportionment should be made by reference to the values at the time of acquisition. In practice, however, where, for example, a block of flats or tenements or terraced houses is involved, the initial "cost" may be ascertained on the basis of current valuations for rating purposes.

14.15 Absence of agreement on allowable cost

Where it is not found possible to agree the apportionment of the "cost" with the taxpayer, and an appeal hearing is necessary, the appeal will have to be taken in the normal way on the statutory basis, i.e. by applying the formula described in **section 557 TCA 1997**.

The appeal will concern the value of land and will not be an apportionment problem as such.

14.16 Part disposal and development land

For disposals of development land **section 651 TCA 1997** provides that indexation is applied only to that part of the allowable cost of acquiring the land as is equal to its current use value at the date of acquisition, together with such proportion of the incidental costs of acquisition as are referable to that current use value. Where the part disposal rules apply to such a disposal, the application of the part disposal formula may result in a disproportionate allocation of cost being applied to the part sold. Revenue will accept that the treatment set out in the following example is to be applied.

Example 5

Y acquired 50 acres of land for €100,000 on 1 December 1995 (€2,000 per acre). In 2021, 10 acres are sold for €4m and the value of the remaining 40 acres is €200,000.

Part cost apportioned to the disposal:

| | | | | | |
|-------------------|----------|---|--|---|------------|
| Sale price | | | | | €4,000,000 |
| Cost | €100,000 | x | $\frac{€4,000,000}{€4,000,000 + €200,000}$ | = | €95,238 |
| Indexation factor | €95,238 | x | 1.277 | = | €121,619 |
| Chargeable gain | | | | | €3,878,381 |

In this example €95,238 is clearly greater than the current use value of the land disposed of, at the time of its acquisition (€20,000). Where land is acquired at current use value and a part of that land is subsequently disposed of as development land, the allowable cost, determined by the part disposal formula, should be viewed as an allocation of the original cost rather than the market value of that part of the land at the time of its acquisition.

This original cost represents current use value, at the time of acquisition and any allocation of this amount should consequently be indexed, without restriction. On a subsequent disposal of the remaining 40 acres, the base cost of the land disposed of, will be the original cost less the base cost allocated to this disposal, that is, €100,000 - €95,238 = €4,762.

A similar situation arises on the disposal of a site, which was part of the garden of a principal private residence (see [TDM Part 19-07-03](#)).