

## Indexation

### Part 19-02-13

This document should be read in conjunction with section 556 of the Taxes Consolidation Act 1997

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## Introduction

**Section 556 of the Taxes Consolidation Act 1997 (“TCA 1997”)** is designed to provide a measure of relief for capital gains which are attributable purely to inflation. It provides that, in computing the chargeable gain on the disposal of an asset, the cost of acquisition of the asset (and any other expenditure allowable in computing the gain) are to be indexed, that is, they are to be adjusted by applying to it a multiplier based on the All Items Consumer Price Index as compiled by the Central Statistics Office. **However, for the year 2003 and subsequent years, indexation relief has been abolished.**

### 13.1 Application

**Section 556 TCA 1997** provides that in computing the chargeable gain on the disposal of an asset the cost of acquisition of the asset (and any other expenditure which is allowable in computing the gain, e.g., enhancement expenditure) is to be adjusted by applying to it a multiplier which, in the case of disposals occurring in 1997-98 and 2004 et seq is specified in the section and for other years is prescribed by regulations made by the Revenue Commissioners.

Where the asset was held on 6 April 1974, the market value as at that date is deemed to be the cost of acquisition and the multiplier is applied to this base “cost”. **Section 556(9) TCA 1997** provides that the market value of an asset as at 6 April 1974, is to be reduced by any expenditure on the asset which has been met directly by any government, statutory body or any public or local authority. It is the figure so reduced to which indexation is to be applied.

Where, for the purpose of computing chargeable gains, assets are deemed to have been sold and immediately reacquired (e.g., where liability is based upon market value at 6 April 1974) no incidental notional expenditure, such as would have been incurred in actual transactions (e.g. transfer fees), should be allowed.

**Indexation cannot operate to create artificial losses or to augment an actual monetary loss.**

**Example 1**

|                        |                 |                |
|------------------------|-----------------|----------------|
| Asset sold in 2006 for |                 | €100,000       |
| Bought in 1986-87 for  | €10,000         |                |
| Apply multiplier:      | €10,000 x 1.637 | <u>€16,370</u> |
| Chargeable gain        |                 | €83,630        |

The monetary gain is €90,000 (€100,000 - €10,000) but the chargeable gain is €83,630.

**Example 2**

|  |              |               |
|--|--------------|---------------|
| Asset sold in 2006 for   |              | €8,000        |
| Bought in 1973 for   | €4,000       |               |
| Value on 6 April 1974 is €500 ( <b>subsection (3)</b> applies) |              |               |
| Apply multiplier to €500                                       | €500 x 7.528 | <u>€3,764</u> |
| Indexed gain   |              | €4,236        |

A **smaller gain** accrues by not applying **subsections (2) and (3)** and by taking the base cost as €4,000, that is,

|                 |        |
|-----------------|--------|
| €8,000 - €4,000 | €4,000 |
|-----------------|--------|

The chargeable gain is therefore €4,000.

**Example 3**

|   |              |               |
|---|--------------|---------------|
| Asset sold in 2006 for  |              | €8,000        |
| Bought in 1973 for  | €8,400       |               |
| Value on 6 April 1974 was €500 ( <b>subsection (3)</b> applies) |              |               |
| Apply multiplier to €500  | €500 x 7.528 | <u>€3,764</u> |
| Indexed gain  |              | €4,236        |

But there is a monetary loss of €400 (original cost €8,400: sale price €8,000). In this case **subsection (4)(a)** applies to negate the operation of **subsections (2) and (3)** but as this would substitute a loss for an “indexed gain”, it is treated as a case of no gain, no loss.

**Example 4**

|                         |                |               |
|-------------------------|----------------|---------------|
| Asset sold in 2006 for  |                | €4,000        |
| Bought in 2000/2001 for | €4,200         |               |
| Apply multiplier:       | €4,200 x 1.144 | <u>€4,805</u> |
| Indexed loss            |                | €805          |

The monetary loss is €200. Indexation cannot operate so as to augment an actual loss. The allowable loss is, therefore, the monetary loss of €200, that is, the **smaller loss**.

**Example 5**

|                        |                |               |
|------------------------|----------------|---------------|
| Asset sold in 2006 for |                | €4,000        |
| Bought in 1986-87 for  | €2,800         |               |
| Apply multiplier:      | €2,800 x 1.637 | <u>€4,584</u> |
| Indexed loss           |                | €584          |

In this case there is a monetary gain of €1,200 but an indexed loss of €584. The case is accordingly treated as one of no gain, no loss.

**N.B. Indexation is not to be applied to allowable expenditure incurred within the twelve months ending with the date of the disposal.**

## 13.2 Restriction of relief for development land

For disposals of development land, **section 651 TCA 1997** restricts indexation relief to the current use value of the land at the date of acquisition, together with such proportion of the incidental costs of acquisition as are referable to that current use value.

## Appendix to Tax and Duty Manual 19-02-13

## Adjustment of allowable expenditure by reference to consumer price index



| CAPITAL GAINS TAX         |   | Multipliers  |              |              |              |              |                       |             |             |                     |
|---------------------------|---|--------------|--------------|--------------|--------------|--------------|-----------------------|-------------|-------------|---------------------|
| Year Expenditure Incurred | Multipliers for Disposals in Year Ended |              |              |              |              |              |                       |             |             |                     |
|                           | 5 April 1996                            | 5 April 1997 | 5 April 1998 | 5 April 1999 | 5 April 2000 | 5 April 2001 | Short Y/e 31 Dec 2001 | 31 Dec 2002 | 31 Dec 2003 | 31 Dec 2004 et seq/ |
| 1974/75                   | 5.899                                   | 6.017        | 6.112        | 6.215        | 6.313        | 6.582        | 6.930                 | 7.180       | 7.528       | 7.528               |
| 1975/76                   | 4.764                                   | 4.860        | 4.936        | 5.020        | 5.099        | 5.316        | 5.597                 | 5.799       | 6.080       | 6.080               |
| 1976/77                   | 4.104                                   | 4.187        | 4.253        | 4.325        | 4.393        | 4.580        | 4.822                 | 4.996       | 5.238       | 5.238               |
| 1977/78                   | 3.518                                   | 3.589        | 3.646        | 3.707        | 3.766        | 3.926        | 4.133                 | 4.283       | 4.490       | 4.490               |
| 1978/79                   | 3.250                                   | 3.316        | 3.368        | 3.425        | 3.479        | 3.627        | 3.819                 | 3.956       | 4.148       | 4.148               |
| 1979/80                   | 2.933                                   | 2.992        | 3.039        | 3.090        | 3.139        | 3.272        | 3.445                 | 3.570       | 3.742       | 3.742               |
| 1980/81                   | 2.539                                   | 2.590        | 2.631        | 2.675        | 2.718        | 2.833        | 2.983                 | 3.091       | 3.240       | 3.240               |
| 1981/82                   | 2.099                                   | 2.141        | 2.174        | 2.211        | 2.246        | 2.342        | 2.465                 | 2.554       | 2.678       | 2.678               |
| 1982/83                   | 1.765                                   | 1.801        | 1.829        | 1.860        | 1.890        | 1.970        | 2.074                 | 2.149       | 2.253       | 2.253               |
| 1983/84                   | 1.570                                   | 1.601        | 1.627        | 1.654        | 1.680        | 1.752        | 1.844                 | 1.911       | 2.003       | 2.003               |
| 1984/85                   | 1.425                                   | 1.454        | 1.477        | 1.502        | 1.525        | 1.590        | 1.674                 | 1.735       | 1.819       | 1.819               |
| 1985/86                   | 1.342                                   | 1.369        | 1.390        | 1.414        | 1.436        | 1.497        | 1.577                 | 1.633       | 1.713       | 1.713               |
| 1986/87                   | 1.283                                   | 1.309        | 1.330        | 1.352        | 1.373        | 1.432        | 1.507                 | 1.562       | 1.637       | 1.637               |
| 1987/88                   | 1.241                                   | 1.266        | 1.285        | 1.307        | 1.328        | 1.384        | 1.457                 | 1.510       | 1.583       | 1.583               |
| 1988/89                   | 1.217                                   | 1.242        | 1.261        | 1.282        | 1.303        | 1.358        | 1.430                 | 1.481       | 1.553       | 1.553               |
| 1989/90                   | 1.178                                   | 1.202        | 1.221        | 1.241        | 1.261        | 1.314        | 1.384                 | 1.434       | 1.503       | 1.503               |
| 1990/91                   | 1.130                                   | 1.153        | 1.171        | 1.191        | 1.210        | 1.261        | 1.328                 | 1.376       | 1.442       | 1.442               |
| 1991/92                   | 1.102                                   | 1.124        | 1.142        | 1.161        | 1.179        | 1.229        | 1.294                 | 1.341       | 1.406       | 1.406               |
| 1992/93                   | 1.063                                   | 1.084        | 1.101        | 1.120        | 1.138        | 1.186        | 1.249                 | 1.294       | 1.356       | 1.356               |
| 1993/94                   | 1.043                                   | 1.064        | 1.081        | 1.099        | 1.117        | 1.164        | 1.226                 | 1.270       | 1.331       | 1.331               |
| 1994/95                   | 1.026                                   | 1.046        | 1.063        | 1.081        | 1.098        | 1.144        | 1.205                 | 1.248       | 1.309       | 1.309               |
| 1995/96                   | -                                       | 1.021        | 1.037        | 1.054        | 1.071        | 1.116        | 1.175                 | 1.218       | 1.277       | 1.277               |
| 1996/97                   | -                                       | -            | 1.016        | 1.033        | 1.050        | 1.094        | 1.152                 | 1.194       | 1.251       | 1.251               |
| 1997/98                   | -                                       | -            | -            | 1.017        | 1.033        | 1.077        | 1.134                 | 1.175       | 1.232       | 1.232               |
| 1998/99                   | -                                       | -            | -            | -            | 1.016        | 1.059        | 1.115                 | 1.156       | 1.212       | 1.212               |
| 1999/00                   | -                                       | -            | -            | -            | -            | 1.043        | 1.098                 | 1.138       | 1.193       | 1.193               |
| 2000/01                   | -                                       | -            | -            | -            | -            | -            | 1.053                 | 1.091       | 1.144       | 1.144               |
| 2001                      | -                                       | -            | -            | -            | -            | -            | -                     | 1.037       | 1.087       | 1.087               |
| 2002                      | -                                       | -            | -            | -            | -            | -            | -                     | -           | 1.049       | 1.049               |
| 2003 et seq.              | -                                       | -            | -            | -            | -            | -            | -                     | -           | -           | 1.000               |

Figure 1: Adjustment of allowable expenditure by reference to consumer price index

**NOTE:** The year 1974/75 means the year commencing on 6 April 1974 and ending on 5 April 1975. Other years are described similarly. All periods to be taken as year ended 5 April, except for the period from 6/4/2001 to 31/12/2001. This adjustment was made to align with the new calendar tax year basis from 1 January 2002.