

Assets derived from other assets (S.559)

Part 19-02-15

This document should be read in conjunction with section 559 of the Taxes Consolidation Act 1997

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Introduction

Section 559 of the Taxes Consolidation Act 1997 (“TCA 1997”) provides that expenditure can be followed through changes in the form or nature of assets due to the merging of assets, the creation of rights in or over assets or the extinction of rights in or over assets.

15.1 Application

In order to determine what is the appropriate expenditure to set against the consideration received on the disposal of any asset, the allowable expenditure on any asset or assets from which that asset is derived should, where necessary, be traced through the various transactions in parts of (or interest or rights in or over) those other assets, notwithstanding changes in the form or nature of the assets or assets derived from them.

As regards the merger of short leaseholds into freeholds or other leases, see [Tax and Duty Manual Part 19-02-21](#).

15.2 Apportionment

The basis of apportionment by reference to which expenditure is to be attributed to an asset derived from another asset is set out in **section 559(2) TCA 1997**. The apportionment is to be made by reference to the following factors at the time of disposal:

- consideration received (a), and
- market value of asset or interest retained (b).

The fraction of the original expenditure to be deducted in computing the gain on the disposal is –

$$\frac{(a)}{(a) + (b)}$$

Thus, shares acquired under a rights issue or as bonus shares are derived from the original shares, and an apportionment of the cost of the original shares is to be made in the event of a disposal of the rights or shares.

Example 1

A bought 600 shares costing €600 in May 2016. In January 2021 A becomes entitled to rights to subscribe at €2 a share for one share for every 3 shares A holds. A is entitled to purchase an additional 200 shares at €2 a share. A decides not to purchase any additional shares; instead A decides to dispose of their rights for €1 per share (€200) and at that time the market value of the shares is €3 each.

The disposal of the rights to buy additional shares is considered a part disposal.

Calculation of gain	€
Consideration	200
The cost of the rights is, by apportionment	= €600 x $\frac{€200}{€200 + €1,800}$ = 60
Chargeable gain	140

The cost of these shares to the recipient of the rights when they have exercised those rights will be €200 plus the subscription of €2 per share or €400 – total €600. The cost of A's remaining interest (600 shares) is €600 less €60, that is, €540.