Disposal of shares

Part 19-04-06A

This document should be read in conjunction with chapter 4 part 19 of the Taxes Consolidation Act 1997

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Executive summary

This Chapter provides special rules for the capital gains tax treatment of shares and securities. The Chapter covers such matters as the identification of shares (sections 580 and 581), calls on shares (section 582), capital distributions (section 583), reorganisation of share capital (section 584), conversion of securities (section 585), company reconstructions and amalgamations (sections 586 and 587), demutualisation of assurance companies (section 588), close companies transferring assets at undervalue (section 589), attribution to shareholders of gains accruing to non-resident companies (section 590), rollover relief on reinvestment of proceeds of disposals of shares (section 591) and the reduced rate of tax for individuals on disposals of certain shares (section 592).

6A.1 Introduction

The following notes and examples demonstrate the method of calculating the capital gains/losses in various scenarios.

6A.2 Calculation of Gain - General

Like any other capital gains tax computation, a chargeable gain on the disposal of company shares is arrived at by deducting the cost of the shares (adjusted for inflation, as appropriate) from the net consideration received for the disposal of the shares.

The calculation is relatively straightforward where a person acquires one block of shares and at a later date, without there having been any changes in the number or type etc. of the shares held, sells all or part of that holding.

6A.2.1 Calculation of gain*

Bought	100 Ordinary €1 shares for €2 per share in 2005
Sold	50 Ordinary €1 shares for €3 per share in 2018
Gain is:	Proceeds €150, less cost €100 (50 x €2) = Gain of €50

*(ignoring expenses of sale and personal exemption for ease of illustration)

Often, however, there will be increases in the shareholding, either because a person purchases additional shares of the same type or they receive additional shares under bonus or rights issues. There are special capital gains tax rules for these situations.

6A.3 First In - First Out (or "FIFO" rule)

Where a person holds shares of the same class which have been acquired at different dates, the shares acquired at the earlier time are deemed to be disposed of first. For example:

2002	bought	1,000 Ordinary €1 shares in X Ltd. for €1 per share
2003	bought	200 Ordinary €1 shares in X Ltd. for €1.50 per share
2005	bought	500 Ordinary €1 shares in X Ltd. for €2 per share
2018	sold	1,500 Ordinary €1 shares in X Ltd. for €3 per share

Sold 1,500 shares for €4,500 in 2018

Allowable cost - before indexation

FIFO

1,000	@	€1.00	€1,000
200	@	€1.50	€300
300	@	€2.00	€600
1,500			

Remaining shares:

200 €1 Ord. in X Ltd. acquired in 2005 costing €2 per share. **See Example 1**.

6A.3.1 Disposal of shares within four weeks of acquisition

The FIFO rules are modified in any case where shares of the same class are bought and sold within a period of four weeks. Where shares are sold within four weeks of acquisition the shares sold are identified with the shares acquired within that period. Furthermore, where a loss accrues on the disposal of shares and shares of the same class are acquired within a four week period, the loss is not available for offset against any other gains arising and instead is only available for set off against any gain that might arise on the subsequent disposal of the shares so acquired in the four week period - this provision does not apply where there is a gain on the disposal.

6A.3.2 Bonus / Rights Issues

Sometimes the holder of a class of shares will receive additional shares, being either a bonus issue (no additional cost) or a rights issue (for a cost which is usually less than open market value), in respect of their holding. In these situations, despite the fact that the new shares are actually acquired at a later date, they are deemed to have been acquired at the date the original shares giving rise to the bonus or rights issue were acquired. Thus, if a person acquired, say, 100 shares in company X Ltd in 2014 and in 2016 received 50 shares as part of a bonus or rights issue they will be deemed to have held the entire holding of 150 shares from 2014.

Furthermore, there is no question of imputing a notional cost or value for the new shares acquired but the actual price paid to acquire the shares under a rights issue is allowed as enhancement expenditure.

6A.3.3 Bonus Issue

The effect of the above on a bonus issue is that the original cost is diluted between the original shares and the new shares acquired, for example:

2014 acquired 100 Ordinary €1 shares in X Ltd. for say €300 (€3 per share).

2016 acquired 50 Ordinary €1 shares in X Ltd. for no cost (bonus issue 1 for 2).

All 150 shares are deemed to have been acquired in 2014 for a total cost of €300.

The revised cost per share is €2 (i.e. all 150 shares are deemed to have been acquired in 2004 for a total cost of €300 which "dilutes" the allowable cost per share to €2, €300 allowable cost 150 shares). *See Example 2.*

6A.3.4 Rights Issue

The treatment for shares acquired under a rights issue is the same as for a bonus issue except that an allowance has to be made for the amount paid to acquire the additional shares. Such payments are treated as enhancement expenditure, so that on the subsequent disposal of any of the shares, part of the cost of the rights issue will be attributed to the shares sold. Thus, using the same figures from the example immediately above, but assuming the additional shares acquired represented a rights issue for which a payment of, say, €150 was made (€3 per share in rights issue) the resulting position would be as follows:

Again, all 150 shares are deemed to have been acquired in 2014 for a cost of €300 i.e. cost of €2 per share in 2014. They are also deemed to have a further additional cost (enhancement expenditure) of €150 in 2016. This enhancement expenditure ('EE') is again divided equally between the total number of shares held (i.e. €150¸ 150 shares or €1 per share EE). In simple terms, then, each share is deemed to have been held since 2014 and each has an allowable cost of €2 paid in 2014 and further enhancement expenditure of €1 paid in 2016. *See Example 3.*

6A.3.5 Shares of a different class

Occasionally the shares received in a bonus or rights issue will be shares of a different class to the shares held e.g. one new Preference share for every two Ordinary shares held and so on. Where this happens the position is essentially the same as above except that it is necessary to apportion the allowable cost - including enhancement expenditure in the case of rights issues - between the different classes of shares. In the case of quoted shares this apportionment is done on the basis of the first day price of the respective shareholdings after the bonus/rights issue is made (for unquoted shares this apportionment is done by reference to the respective values of the shares at the date of disposal). *See Example 4.*

6A.4 Examples

Example 1 - Liability on shares including FIFO rule

In July 2001 a single individual bought 2,000 ordinary shares in a quoted company at a total cost of €2,540 (i.e. €1.27 per share).

In 2002 the same person bought a further 3,000 ordinary shares in the same company at a total cost of €4,500 (i.e. €1.50 per share).

In 2004, 2,500 shares were sold and the proceeds (after expenses of sale) amounted to €5,000.

The individual had no other chargeable gain in the tax year 2004.

In 2018 the remaining 2,500 shares were sold and the proceeds (after expenses of sale) amounted to €6,000.

The individual had no other chargeable gains in the tax year 2018.

Calculation of gain		2004
		€
Proceeds		€5,000
Deduct		
2000 shares *		
Cost in 1999 adjusted for inflation i.e. €2,540 x 1.087 =	€2,761	
500 shares		
Cost in 2002 i.e. €500 @ €1.50 per share	€750	
		€3,511
Chargeable Gain		€1,489
Personal exemption		€1,270
Taxable		€219
Tax due @ 20%		€43.80

* For the purpose of identifying what shares are sold, a “First in - First out” rule applies. This means that the shares acquired in July 2001 are all deemed to have been sold in 2004 in this example.

	2018
Proceeds	€6,000
Deduct	
2,500 shares	
Cost in 2002 i.e. 2,500 @ €1.50 per share	€3,750
Chargeable Gain	€2,250
Personal exemption	€1,270
Taxable	€980
Tax due @ 33%	€323.40

Example 2 - Bonus Issue of Shares

An individual has the following share transactions:

January 2001	Purchased 1,000 shares in X Ltd. at €2.54 each
2002	Bonus Issue of 1 for 5
2003	Bonus Issue of 2 for 3
2004	Purchased further 500 shares in X Ltd. at €4 each
2005	Bonus Issue of 1 for 4
2018	Sold 2,500 shares for €12,500 (€5 each)

The original shares and bonus shares are treated as the one holding and the original cost is spread over the entire holding.

	January 2001		2004	
	No.	Cost	No.	Cost
Shares Purchased	1,000	€2,540	500	€2,000
Bonus Issue 2002 [1:5]	200	-		
	1,200	€2,540		
Bonus Issue July 2003 [2:3]	800	-		
	2,000	€2,540	500	€2,000
Bonus Issue Aug. 2005 [1:5]	400		100	
	2,400	€2,540	600	€2,000
Disposal 2018 - FIFO rules	2,400	€2,540	100	€334*
Shares retained after disposal (+remaining cost)	-	-	500	€1,666

Calculation of gain 2018

Sale Proceeds			€12,500
Less			
2,400 shares (all deemed acquired in Jan. 2001):	€2,540 x 1.144 =	€2,906	
100 shares acquired in 2004.	€2,000 x 100/600 =		
		€334	€3,240
Chargeable Gain			€9,260
Personal exemption			€1,270
Taxable			€7,990
Tax Due @ 33%			€2,636.70

Example 3 - Rights Issue of Shares

An individual has the following share transactions:

January 2001	Acquired 100 shares in X Ltd. at €5 per share
February 2003	Rights Issue of 1 for 2 at cost of €4 per share
June 2018	Sold 90 shares at €25 per share

As for bonus shares the original shares and the rights shares are treated as the one holding and the original cost is spread over the entire holding. However, unlike bonus issue the shareholder will pay to take up the additional shares. This outlay is treated as enhancement expenditure (EE) and is also spread over the entire holding.

	No.	Original Cost (Jan. 2001)	EE (Feb. 2003)
Purchase (Jan. 2001)	100	€500	
Rights Issue; Feb. 2003 [1:2]	50		€200
Disposal 2018	150	€500	€200
	90	€300*	€120
Shares retained after disposal + remaining cost	60	€200	€80

Calculation of gain 2018

Proceeds			€2,250
Less			
(1) original cost (Jan. 2001)			
€500 x $\frac{90}{150}$	= €300* x 1.144 =	€343	
(2) enhancement expenditure (Feb. 2003)			
€200 x $\frac{90}{150}$	=	<u>€120</u>	<u>€463</u>
Chargeable Gain			€1,787
Personal exemption			<u>€1,270</u>
Taxable			€517
Tax due @ 33%			€170.61

Example 4 - Rights issue / Shares of a different class

An individual has the following share transactions:

January 2001	Acquired 1,000 ordinary shares in X Ltd at €5 per share (X Ltd is a ‘quoted’ company)
February 2003	Rights Issue of 1 new Preference for every 2 ordinary held at cost of €4 per share i.e. acquired 500 Preference Shares (market value of the ordinary shares at the time was €20 per share while the market value of the Preference shares was €10 per share)
June 2018	Sold 400 Preference shares at €15 per share

- All the shares (Ord. and Pref.) are deemed to have been acquired in Jan. 2001
- The total allowable cost of the shares is €5,000 (Jan. 2001) + €2,000 enhancement expenditure (Feb. 2003)
- The allowable cost has to be divided between the Ordinary and Preference shares having regard to the respective values of the shares at the time the new shares were acquired as follows:

Ordinary shares

1,000 shares

Original Cost x $\frac{\text{Market value of Ord. at Feb 2003}}{\text{Market value of Ord. shares + Pref Shares at Feb 2003}}$

i.e. $\frac{€5,000 \times €20,000}{€25,000}$ = €4,000

Enhancement Expenditure

$\frac{€2,000 \times €20,000}{€25,000}$ = €1,600

Preference shares

500 shares

Original Cost x $\frac{\text{Market value of Pref. at Feb 2003}}{\text{Market value of Ord. shares + Pref Shares at Feb 2003}}$

i.e. $\frac{€5,000 \times €5,000}{€25,000}$ = €1,000

Enhancement Expenditure

$\frac{€2,000 \times €5,000}{€25,000}$ = €400

Calculation of 2018 gain

Proceeds			€6,000
Less			
(1) original cost (Jan. 2001)			
€1,000 x $\frac{400}{500}$	= €800 x 1.144 =	€915	
(2) enhancement expenditure (Feb. 2003)			
€400 x $\frac{400}{500}$	=	€320	€1,235
Chargeable Gain			€4,765
Personal exemption			€1,270
Taxable			€3,495
Tax due @ 33%			€1,153.35