

Transfers of trading stock within group

Part 20-01-05

This document should be read in conjunction with section 618
of the Taxes Consolidation Act 1997

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Introduction

Section 618 of the Taxes Consolidation Act 1997 (“TCA 1997”) provides for the tax treatment of transfers of trading stock within a group. Specifically, it deals with two circumstances; firstly, where non-trading stock is transferred within a group for use as trading stock, and secondly the reverse of that situation.

5.1 Application of general rules of appropriation

Section 618 TCA 1997 applies to groups of companies the general rules governing appropriation to and from stock in trade as provided for in **section 596 TCA 1997** (see [Tax and Duty Manual \(TDM\) Part 19-06-01](#)).

5.2 Residency

The section applies to trades carried on in the State by companies which are resident in EU Member States or in European Economic Area Member States with which Ireland has a tax treaty provided that they are either Irish resident companies or companies resident in other Member States which trade in Ireland through a branch or agency.

5.3 Group member acquiring trading stock

Where a company which is a member of a group of companies acquires as trading stock an asset from another member of the same group in whose hands the asset was not trading stock, the company acquiring the asset is to be treated as having acquired it otherwise than as trading stock and as having immediately appropriated it to use as trading stock.

5.4 Disposal of the asset

The result is that the company disposing of the asset is treated as having made neither gain nor loss on the disposal, while the company acquiring the asset is treated as having acquired it at the price at which the other company is deemed to have disposed of it and as having immediately disposed of it to itself at market value. This provision recognises the fact that appropriation to trading stock takes the asset out of the scope of Capital Gains Tax.

Example 1

A Ltd. and B Ltd. are both members of the same group. B Ltd. is a company dealing in land. On 1 January 2018, A Ltd. acquires a building for €500,000 and later, when its market value is €600,000 sells it to B Ltd. for €550,000.

A Ltd. is deemed to have sold the building to B Ltd. for €500,000, while B Ltd. is deemed to have acquired the building for €500,000 with a consequent chargeable gain of €100,000. The cost of the asset for the purposes of the trading account of B Ltd. will be €600,000.

B Ltd. may, however, elect not to be charged to Corporation Tax on the capital gain but to treat the cost of the building for the purposes of its trading account as €500,000 (see [TDM Part 19-06-01](#)) so that any profit or gain accruing on the ultimate disposal will be included in the trading profit and not as a capital gain.

5.5 Disposal of trading stock within the group

Where a company which is a member of a group of companies disposes of an asset which is trading stock in its hands to another member of the same group in whose hands it will not be trading stock, the company disposing of the asset is to be treated as having, immediately before the disposal, appropriated the asset for some purpose other than the use of it as trading stock (see [TDM Part 19-06-01](#)).