

Share Identification Rules - Examples

Base Facts

Fred buys ordinary shares in X plc as follows:

Date of Acquisition	Number of shares acquired	Price per share	Total cost
31 January 2014	1,000	£1	£1,000
1 March 2015	2,000	£1.50	£3,000
1 March 2015	1,000	£1.60	£1,600

Section 104 Holding

Assuming no shares are sold before 1 April 2015 then Fred's Section 104 Holding comprises of 4,000 shares with a total base cost of £5,600 (being £1.40 per share).

Example 1- Same Day Rule (s 105(1) TCGA)

- Fred sells 1,500 shares on 1 March 2015 at £1.75 per share.
- These shares are matched (under the Same Day Rule) with the shares Fred acquired on 1 March 2015.
- The shares acquired on 1 March 2015 are treated as one transaction (under the Same Day Rule) i.e. 3,000 shares acquired at a total cost of £4,600 (being £1.53 per share).
- Therefore Fred's gain (before exemptions and reliefs) is:

	£	
Proceeds:	2,625	(1,500 shares @ £1.75)
Less base cost:	<u>(2,295)</u>	(1,500 shares @ £1.53)
	330	

Example 2 - Same Day Rule with exercise of EMI Option (s 105(4)/(5) TCGA)

Same Base Facts except that Fred also exercises an EMI option and acquires 500 relevant EMI shares on 1 March 2015 at an exercise price of £1 per share. No income tax arises on the exercise of the EMI option.

EMI shares are treated as a separate holding

- Fred sells 1,500 shares on 1 March 2015 at £1.75 per share.
- The EMI shares are automatically treated as a single acquisition separate from the other shares acquired on the same day and as disposed of after the other (non-EMI) shares acquired on the same day (s 105(5) TCGA).
- Therefore the acquisitions Fred made on 1 March 2015 are treated as two transactions:

Number of shares acquired	Price per share	Total Cost
<i>Non EMI shares</i>		
2,000	£1.50	£3,000
1,000	£1.60	£1,600
3,000	£1.53	£4,600
<i>EMI shares</i>		
500	£1.00	£500

- The 1,500 shares sold by Fred on 1 March 2015 are identified with the pool of non-EMI shares acquired on the same day. Therefore his gain will be as calculated under Example 1 above.

EMI shares do not form part of the s 104 Holding

The remaining non-EMI shares become part of the s 104 Holding together with the shares acquired on 31 January 2014. Fred's s 104 Holding now comprises 2,500 shares (the £1,000 purchased in January 2014 together with the remaining 1,500 purchased in March 2015) with a base cost per share of @ £1.32 ((1000 x £1) + (1,500 x £1.53)/2,500).

The EMI shares not identified under the same day rule (or the anti-bed and breakfast rules) cannot form part of the s 104 Holding. Instead disposals of company shares are identified with EMI shares before other shares and on a first in/first out basis (s106A (6A) TCGA).

- Fred now holds a total of 3,000 shares in X plc. For share identification purposes these are comprised in two holdings as follows:

Holding	Number of shares	Base Cost per share
s 104 Holding	2,500	£1.32
EMI Shares	500	£1
	3,000	£1.60

- On 16 October 2015 Fred sells 1,000 shares. He does not purchase shares on the same day or within 30 days of the sale.
- 500 of the shares sold are identified with the 500 EMI shares acquired in March 2015. The remaining 500 shares are identified with shares held within the s 104 Holding.

Example 3 – Same Day Rule with exercise of CSOP option

Same Base Facts except that Fred also exercises a CSOP option in tax advantaged circumstances and acquires 500 shares on 1 March 2015 at an exercise price of £1 per share.

Fred sells 1,500 shares on 1 March 2015 at £1.75 per share

Fred does not make a s 105A election

- Fred does not enter into a s 105A election. The shares he sells are therefore matched with the shares acquired on 1 March 2015 under the Same Day Rule.

Number of shares acquired	Price per share	Total Cost
2,000	£1.50	£3,000
1,000	£1.60	£1,600
500	£1.00	£500
3,500		£5,100

The shares he sells are therefore identified with 1,500 shares with a base cost of @ £1.46 per share. This gives him a gain of approximately £435.

Fred makes a Section 105A election.

Fred makes an election by 31 January 2017. As a consequence of making the election:

- Fred is treated as acquiring his shares under two separate transactions even though they are acquired on the same day. One transaction relates to the non-CSOP shares and the other to the CSOP shares.
- Fred is treated as disposing of his non-CSOP shares in priority to his CSOP shares. Therefore Fred's gain would be exactly the same as Example 1.

Example 4 - The 30 Day Rule (s 106A(5) TCGA)

Same Base Facts but Fred sells 4,000 shares on 1 March 2015 at £1.75 per share and buys a further 1,000 ordinary shares in X plc on 15 March 2015 at £1.50 per share (total cost £1,500). As Fred has acquired shares within 30 days of disposing of shares on 1 March 2015, the shares he disposed of are matched as follows:

- The first 3,000 shares disposed of are matched using the Same Day Rule:

Proceeds:	£ 5,250	(3,000 shares @ £1.75)
Less base cost:	£(4,600)	(3,000 shares @ £1.53)
Gain	<u>£650</u>	

- Under the 30 Day Rule the remaining 1,000 shares disposed of are matched with the shares he acquired on 15 March rather than the share acquired on 31 January 2014. Therefore the gain on these shares (before exemptions and reliefs) is:

Proceeds:	£ 1,750	(1,000 shares @ £1.75)
Less base cost:	£(1,500)	(1,000 shares @ £1.50)
Gain	<u>£250</u>	

15 June 2015