



Finance Act 1985

1985 CHAPTER 54

PART II

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER III

CAPITAL GAINS

68 Modification of indexation allowance

- (1) Subject to subsection (2) below, with respect to disposals of assets on or after 6th April 1985 or, in the case of disposals by companies, 1st April 1985, the provisions of Chapter III of Part III of the Finance Act 1982 shall have effect subject to the amendments in Part I of Schedule 19 to this Act, being amendments designed—
 - (a) to remove the twelve month qualifying period for the indexation allowance; and
 - (b) to extend the indexation allowance to cases where there is a loss on a disposal; and
 - (c) to make provisions supplementary to those matters.
- (2) In the case of securities within the meaning of Chapter IV of this Part of this Act, the amendments in Part I of Schedule 19 to this Act —
 - (a) shall not have effect with respect to disposals of gilt edged securities as defined in Schedule 2 to the Capital Gains Tax Act 1979 or qualifying corporate bonds as defined in section 64 of the Finance Act 1984 ; and
 - (b) shall have effect with respect to disposals of other securities on or after 28th February 1986.
- (3) In Schedule 19 to this Act—
 - (a) Part II shall have effect with respect to holdings of securities to which Part II of Schedule 13 to the Finance Act 1982 applied (share pools in existence on 1st or 6th April 1982);

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- (b) Part III shall have effect with respect to other holdings of securities held on or acquired after the 1985 date;
- (c) Part IV shall have effect with respect to the identification of securities disposed of on or after the 1985 date;
- (d) Part V has effect with respect to securities in respect of which elections have been or could be made under Schedule 6 to the Finance Act 1983 ; and
- (e) Part VI contains consequential provisions relating to assets forming part of a premiums trust fund ;

and in that Schedule and paragraphs (b) and (c) above "the 1985 date" means 1st April 1985 in the case of holdings or disposals by companies and 6th April 1985 in any other case.

- (4) For the purpose of computing the indexation allowance on a disposal of an asset to which this subsection applies where, on 31st March 1982, the asset was held by the person making the disposal, it shall be assumed that on that date the asset was sold by the person making the disposal and immediately reacquired by him at its market value on that date.
- (5) Subsection (4) above applies to a disposal—
 - (a) which occurs on or after 6th April 1985 or, in the case of a disposal by a company, 1st April 1985; and
 - (b) in respect of which a claim is made that subsection (4) above should apply ;
 and a claim under paragraph (b) above shall be made within the period of two years beginning at the end of the year of assessment or accounting period in which the disposal occurs or within such longer period as the Board may by notice in writing allow.
- (6) Where, after 31st March 1982, an asset which was held on that date has been merged or divided or has changed its nature or rights in or over the asset have been created, then, subject to subsection (5) above, subsection (4) above shall have effect to determine for the purposes of section 36 of the Capital Gains Tax Act 1979 (assets derived from other assets) the amount of the consideration for the acquisition of the asset which was so held.
- (7) Subsection (8) below applies to a disposal of an asset which is not a no gain/no loss disposal if—
 - (a) the person making the disposal acquired the asset after 31st March 1982; and
 - (b) the disposal by which he acquired the asset and any previous disposal of the asset after 31st March 1982 was a no gain/no loss disposal;
 and for the purposes of this subsection a no gain /no loss disposal is one on which, by virtue of section 267 or section 273 of the Taxes Act, section 44 of the Capital Gains Tax Act 1979, section 148 of the Finance Act 1982 or section 7(4) of the Finance (No. 2) Act 1983, neither a gain nor a loss accrues to the person making the disposal.
- (8) Where this subsection applies to a disposal—
 - (a) the person making the disposal shall be treated for the purpose referred to in subsection (4) above as having held the asset on 31st March 1982; and
 - (b) for the purpose of determining any gain or loss on the disposal, the consideration which, apart from this subsection, that person would be treated as having given for the asset shall be taken to be reduced by deducting therefrom any indexation allowance brought into account by virtue of Part

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I of Schedule 13 to the Finance Act 1982 on any disposal falling within subsection (7) (b) above.

- (9) In paragraphs (b) and (c) of subsection (3) above and in Parts III and IV of Schedule 19 to this Act " securities " does not include relevant securities as defined in section 88(9) of the Finance Act 1982 (as amended by paragraph 3(3) of Schedule 19 to this Act) but, subject to that, means—
- (a) shares or securities of a company; and
 - (b) any other assets where they are of a nature to be dealt in without identifying the particular assets disposed of or acquired.
- (10) Shares or securities of a company shall not be treated for the purposes of subsection (9) above or Part III of Schedule 19 to this Act as being of the same class unless they are so treated by the practice of the Stock Exchange or would be so treated if dealt with on the Stock Exchange.