



Capital Gains Tax Reliefs: Holdover Relief and Rollover Relief

It is possible via the operation of holdover and rollover relief to defer gains that may arise on disposal of certain assets.

Holdover Relief



This relief applies to gifts of business assets, that is assets used in a trading business, or shares in an unquoted trading company. On a gift of a business asset, the transferor and transferee of the asset can jointly elect within two years of the gift of the asset to “holdover” any gains arising. Effectively the person receiving the asset as a gift agrees to accept any chargeable gains that have arisen during the period of ownership of the person giving the asset. When the person receiving the asset disposes of it, the chargeable gains that arose during the previous owner’s period of ownership and any chargeable gains arising during the person who has received the asset’s period of ownership are charged to capital gains tax.

This relief is particularly useful in succession planning, where perhaps parents wish to pass the assets used in a sole trader business or partnership or the shares in an unquoted trading company to the next generation, such as their children or other family members.

In addition, gifts of assets to beneficiaries from a trust can also be subject to holdover relief claims, so when the beneficiary finally disposes of the asset, they will be liable to capital gains tax on gains that have arisen in their period of ownership and the trust’s period of ownership. Holdover relief can also be claimed where business assets are gifted into trust.

Where a sole trader or partnership decides to incorporate their business, but wishes to retain some of the assets, it is possible for the individual(s) and the company to holdover any gains. The company will then be charged to corporation tax on capital gains on these gains, plus any gains arising during the company’s period of ownership on an ultimate disposal of the asset by the company.

To ensure the relief applies, and to ascertain the capital gains treatment of such gifts, we would strongly recommend that advice is taken where any transactions are undertaken.



Rollover Relief



Rollover relief is fundamentally different from holdover relief. It allows for the deferral of capital gains tax and requires the disposal of a certain type of asset, such as certain land and buildings used for a trade, or certain fixed plant and machinery and the reinvestment of the PROCEEDS received for the disposal must also be within certain asset classes. The disposal of the original asset is treated as a disposal at no gain no loss and on a disposal of the new asset the cost of that asset is reduced by the amount of the proceeds received for the old asset less the no gain no loss figure.

Therefore all the proceeds of disposal must be reinvested in the new asset to obtain full rollover relief. Any proceeds not reinvested will be charged to capital gains tax, with the base cost of the asset disposed of apportioned to the proceeds reinvested and the proceeds not reinvested.

Rollover relief on the disposal of an asset is available to “rollover” the proceeds into new assets purchased twelve months before or three years after the asset disposed of. Where assets are depreciating assets, such as a lease that decreases in value over time, the rollover may only be effective for a limited period and this should be borne in mind.

The assets that proceeds can be rolled into are limited to broadly the following categories:

- Certain land and buildings used for the purposes of a trade
- Fixed plant and machinery
- Ships, aircraft, hovercraft, satellites, space stations and space craft
- Certain types of agricultural quotas

As with holdover relief, rollover relief only applies to the disposal of certain assets and acquisition of certain other assets, and therefore we would strongly recommend that advice is sought prior to undertaking any asset disposals to ensure rollover relief is available.



Further Information

For more information please contact Dominic Bourquin who will be pleased to help on 01225 472800 or e-mail dominic.bourquin@monahans.co.uk