How to offset tax when you sell shares

Capital Gains Tax on share sales can be as high as 33pc but there are ways to reduce the tax burden, so make sure you are clued up before you cash in

Martin O'Sullivan

Scarcely a month goes by that I don't have a query about the tax implications of selling shares.

Many farmers, particularly those in the Glanbia and Kerry Co-op regions, have had the good fortune to have acquire shares through the various patronage schemes and spin-outs arising from the co-op entities selling off part of their shareholdings in the plcs.

The option of selling some of these shares to bolster cash-flow may be very tempting. However, many of the shares have little or no base cost, and Capital Gains Tax arising on cashing them in can be up to 33pc of the sales proceeds.

I regularly get phone calls from people who mistakenly believe there are special reliefs available for disposal of Co-op shares, or where the proceeds are reinvested in the farm.

Roll-over relief existed in the dim and distant past but unfortunately it is long gone.

There are, however, a number of possible offsets that can be applied to reduce the tax.

Offsetting share losses

Many people may have acquired or inherited bank or other shares that have decreased substantially in value.

By disposing of these shares, you may realise a loss that can be offset against any gains made on shares you intend to sell.

The extent of the loss will depend on the base cost of the shares — their cost or value when you acquired them, and not the value that they had when they were at their peak at the height of the boom.

In cases where one spouse owns the plc/Co-op shares and the other spouse owns the shares on which a loss can be realised, the loss can be transferred from one spouse to the other.

Selling shares in order to realise a loss and then buying them back again in the hope that they might recover some of their lost value can be done, provided four weeks have elapsed between sale and re-purchase if you wish to offset the loss that was realised by selling them in the first place.

Milk quota losses

While milk quotas are long gone, those who acquired quota between 1983 and 2000 can claim loss relief on the amount that the quota cost or on the value of the quota if they acquired it by way of gift or inheritance during that period.

The significance of the year 2000 relates to the fact that tax relief in the form of capital allowances came into effect on April 1, 2000 on any purchases of milk quota — people who bought milk quota prior to date did not benefit from any tax relief.

Farm entitlements losses

Similar to milk quota, Single Farm Payment entitlements ceased to exist on the expiry of that scheme on December 31, 2014, when it was replaced by the Basic Payment Scheme.

Farmers who had acquired such entitlements by way of purchase or gift/ inheritance prior to that date are deemed to have incurred a loss amounting to the cost or valuation of such entitlements on the acquisition date.

Unlike milk quota, entitlements were not allowable against income tax, so any such losses are fully deductible against any capital gains in 2015 or subsequent years.

A similar situation will not apply in relation to the ending of the Basic Payment Scheme on December 31, 2022 as the same entitlements will be carried into the new BISS scheme.

Use of annual tax-free exemption

Everybody is entitled to an annual tax exemption of €1,270, which is available every year but cannot be carried forward from year to year.

In other words it is not cumulative and can only be used to offset a gain realised in any given year.

There is a mechanism known as 'Bed & Breakfast' where a person can make a disposal of a sufficient number of shares each tax year to give a gain of €1,270.

This can save €419 per year for an individual or €838 where the shares are in joint names. The same shares can be re-bought as part of the same transaction if you wish to retain ownership of them.

There will, however, be a cost for the transaction which will comprise the broker's commission in selling and re-purchasing the shares along with stamp duty on the re-purchase of 1pc.

While the entire cost can be significant in the context of such a small transaction, the net savings particularly in the case of jointly owned shares may be well worth the effort.

Gifting shares

Some people wrongly believe that gifting shares to family members is similar to gifting land and may have no tax implications.

This is not the case: gifting shares is treated the same as if you sold them and the same tax exposure applies.

The only exceptions to this rule are transfers between spouses, which are totally tax-free.

Capital Gains Tax returns & payment dates

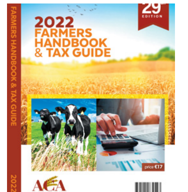
Capital Gains Tax returns are filed as part of your annual income tax return on or before October 31 in the year following the year in which you made the gain.

However, Capital Gains Tax has different payment dates to income tax — and it is important that tax is paid on time as interest at the rate of 8pc per annum is may be charged.

If a taxable gain is earned on shares sold before November 30, the tax is payable by December 15 in that same year.

If the shares are sold in December, the tax is payable before January 31 in the following year.

Martin O'Sullivan is the author of the ACA Farmers' Handbook and is a farm business and tax consultant based in Carrick-on-Suir; www.som.ie



Kicker-asfgg

xxxx