

NEGLIGIBLE VALUE CLAIMS



Whitepaper

If, as an individual, you sell an asset (such as shares and securities, land and property etc.) then you will incur a taxable capital gain or loss on that disposal, calculated in short as the difference between the amount you sold it for and the amount you originally paid for it.



If you make a gain on the disposal then there may be reliefs and allowances that can minimise or even eliminate any tax chargeable. If you make a loss then that will usually only be available to offset against other gains in that year or to carry forward and offset against gains in future years.



But what if the asset has become worthless or next to worthless and you can't find anyone to sell it to. In that scenario you can't crystallise the loss and so in normal circumstances you can't offset it against your gains.

This paper outlines how such losses may be utilised by making a **"negligible value claim"**.

WHAT IS NEGLIGIBLE VALUE CLAIM?

A negligible value claim is a claim to treat an asset that is worth **"next to nothing"** as having been sold and then immediately re-acquired at its current value. To make a negligible value claim:

- 1. You must still own the asset when you make the claim**
- 2. The asset must have become of negligible value while you owned it**

As an illustration, imagine you bought £10,000 of shares in a company three years ago and that those shares now have a value of just £10. You can make a claim to treat the shares as having been disposed of for £10 (thus crystallising a £9,990 loss) and then re-acquired at the same value (£10).



3 years later



WHAT CAN I DO WITH THE LOSS ONCE I'VE MADE THE CLAIM?

Once you've made the claim, the loss should be available to offset against gains in the current tax year or carried forward and offset against gains in future tax years. So using the example in the section above ("What is a negligible value claim"), let's say that in the same tax year that you make the negligible value claim you have taxable gains from the disposal of other assets that (after the deduction of other reliefs and allowances) total £15,000. The **£9,990 loss** crystallised by the negligible value claim can offset these gains, reducing the amount on which capital gains tax will be payable to **£5,010**.



Additionally, you can apply for the loss crystallised by the negligible value claim to be treated as if it had arisen in either of the two preceding tax years. So if you make the claim in the 2019/20 tax year but you had taxable gains in the 2017/18 year then you can still treat the loss as arising in 2017/18 and offset the gains from that year.

Further, under certain circumstances a loss arising from a negligible value claim (or from an actual disposal) may be treated as an income loss and set against income from the current or preceding tax year (as covered in technical paper "Setting Capital Losses Against Income")

WHAT IF THE ASSET GOES BACK UP IN VALUE AFTER MAKING THE CLAIM?

You'll note from the example in the section above ("What is a negligible value claim") that the mechanism of making the claim means that the asset is treated as having been immediately reacquired at its negligible value on the date you make the claim. In that example this is £10 and so if you later dispose of the asset for say £5,000 then you will realise a taxable gain on that disposal of £4,990. If you have already offset the whole of the loss arising from the original claim against other gains then this gain will be potentially taxable if it can't be offset by allowances, reliefs or other capital losses.

HOW DO I DECIDE WHETHER AN ASSET IS OF NEGLIGIBLE VALUE?

This could be relatively straightforward (e.g. if a company that you hold shares in has gone into administration and you have a letter from the administrators confirming that the shares are next to worthless) but valuation of assets (particularly unlisted shares) can be tricky and so you need to be confident that you can justify a negligible valuation. HMRC offer a check on such valuations in this and similar circumstances using **form CG34**.

For formerly listed shares the Shares and Assets Valuation Office publishes a **list** of shares or securities formerly quoted on the London Stock Exchange, which have been officially declared of negligible value.

If you are unsure about how to value an asset we suggest you contact **Edward Sanford** who can advise you on suggested methodologies and, if necessary, provide a professional valuation.



HOW DO I MAKE A CLAIM?



Claims would normally be made through your self-assessment tax return. If you want to treat the loss as arising in a previous tax year for which a return has already been submitted then this should be actioned through an amendment to that year's tax return.

If you have any assets that you believe you could make a negligible value claim against or want to discuss the potential benefits of making such a claim then give Rachel Dale a call on **01483 802895** or email us on **rachel.dale@chadsan.com**.