Share matching rules

Key takeaways:
- Learn how the share matching rules are applied
- Understand how capital gains tax relates to the disposal of shares or funds
- Understand the planning implications of the share matching rules

Category: Investment and tax

A summary of the share matching rules and how they eliminated the "bed and breakfast" CGT planning advantage

Attempting to balance risk and return is an age-old dilemma, but it is generally accepted that a degree of investment risk is required to gain returns in excess of the 'risk-free' returns available from cash deposits.

Investment risk can lead to a complete loss of capital, but often risk is the way we refer to volatility. In other words, the fluctuations in investment performance over time, resulting in positive and negative price movements.

While volatility can be unsettling, it does provide opportunity for planning and positive engagement with clients at difficult times.

Bed and breakfasting

One of the ways that investors used to attempt to manage the tax liability of their investments was 'bed and breakfasting'. It is a strategy of selling shares or funds when the price had risen, followed by immediately re-investing the gains into the same shares or funds, so as to realise a capital gain within the available capital gains tax (CGT) allowance, without incurring market timing risk (the risk of the price going up while you are disinvested). This strategy could also be used to crystallise losses.

This would allow investors to effectively lower the eventual tax liability that would arise when they decided to sell the shares or funds to realise their returns.

It is, of course, still possible to do this, but the CGT advantage is mitigated by share matching rules.

The share matching rules apply where a purchase of shares in a company:

- is made by the same person (in the same capacity*),
- within 30 days of that person making a disposal of shares in that company where,
- the shares sold and the shares purchased are of the same class.

Shares include shares in OEICs and investment trusts, as well as unit holdings in unit trusts (under the Taxation of Chargeable Gains Act (TCGA) 1992, S99).

*A person may be acting in a different capacity where, for example, they sell shares they own in a private capacity, then purchase the shares in their capacity as a trustee.

Same day or within 30 days

All purchases of shares in the same company – and of the same class – on the same day are treated as a single transaction. Similarly, all disposals of shares in the same company – and of the same class – are treated as a single transaction.

Where shares in a company are disposed of and purchased by the same person on the same day, the shares that have been disposed of are identified, or matched, first with the shares purchased on the same day.

If more shares are disposed of than purchased, the excess are matched with shares purchased within 30 days following the disposal (if any). If more shares are disposed of than are purchased on the same day and within the following 30 days, the excess are matched against the S104 pool.

Case study

Rowena bought 10,000 shares in Risky Business plc for £10,000, or £1 per share,10 years ago. The shares are now worth £20,000, or £2 per share. Rowena sells her 10,000 shares on 1 July 2019 for £20,000.

Scenario 1:

Rowena has realised a £10,000 capital gain (ignoring brokerage/dealing costs) which is within her annual CGT exemption.

On 1 August the share price has increased from £2 to £2.10. Rowena uses her £20,000 sale proceeds to repurchase 9,524 shares in Risky Business plc.

For CGT purposes:

- She has realised a capital gain of £10,000 and now has an acquisition cost of £20,000 in respect of her new holding. This reduces potential future capital gains, but her holding is now 476 shares less than previously.
- She has been exposed to market timing risk.

Scenario 2:

Fearing the share price is about to rise significantly, Rowena purchases another 10,000 shares in Risky Business plc for £20,000 on 1 July – the same day that she sold 10,000 shares.

For CGT purposes:

- The 10,000 shares she sold for £20,000 on 1 July are treated, for tax purposes, as the same shares she acquired for £20,000 on 1 July.
- The disposal and acquisition are matched, and she has not realised a gain or a loss.

Scenario 3:

Rowena has noticed the share price has begun to rise. Fearing she may lose out, she decides to use her £20,000 to repurchase shares in Risky Business PLC at £2.05 per share.

She acquires 9,756 shares on 15 July, two weeks after the disposal, and she does not buy any more shares in Risky Business.

For CGT purposes:

- 9,756 of the shares she sold for £2 each are matched against the 9,756 shares she has re-purchased at £2.05.
- She has made a loss of £0.05 per share x 9,756 shares => loss £488.
- The other 244 shares she sold are matched against her S104 pool.
- She sold them at an average price of £2 per share, having acquired them at an average price of £1. She has made £1 gain per share x 244 shares => gain £244.

Scenario 4:

Rowena immediately regrets selling her entire holding in Risky Business, so she repurchased 1,000 shares on 1 July at £2 per share. On 15 July, fearing the share price is going to continue to rise and she is going to miss an opportunity, she repurchases a further 8,000 shares at £2.05 per share.

On 20 September she buys a further 1,000 shares at £2.10 per share.

For CGT purposes:

- 1,000 of the shares she sold on 1 July at £2 per share are matched against 1,000 of the shares she acquired on the same day at £2.
- The disposal and acquisition are matched, and she has not realised a gain or a loss on these 1,000 shares.
- 8,000 of the shares she sold on 1 July (at £2 per share) are now matched against the 8,000 shares she acquired on 15 July at £2.05 per share.
- She has made a loss of £0.05 per share x 8,000 shares => loss £400.
- The remaining 1,000 of the shares sold on 1 July are matched against her S104 pool, and not against the shares purchased on 20 September. This is because 20 September is more than 30 days after the disposal.
- In respect of these 1,000 shares she has made a gain of £1 per share x 1,000 = gain £1,000.

Share matching rules do not eliminate losses or gains

As is evident from the above, it is possible that the share price may move within a 30-day period, or indeed on the same day as the disposal. Essentially, the share matching rules eliminate the CGT planning advantage by matching shares sold to shares – of the same company and class – re-purchased on the same day or within 30 days.

The share matching rules can still result in gains or losses being realised. However, as shares repurchased on the same day or within 30 days are likely to have experienced smaller fluctuations in price than shares that have been held for longer periods, there is less scope for CGT planning.

In order to crystallise gains or losses that have developed over longer periods, it is therefore necessary to stay disinvested for 30 days, increasing the market timing risk.

The share matching rules apply to the sale and repurchase of shares in the same company and class within 30 days and in an 'unwrapped' environment, i.e. investments in a portfolio that is directly held or in a General Investment Account (GIA). They do not apply to shares of a different class or to shares sold under a GIA, but re-purchased in a different tax wrapper, such as an ISA, an investment bond or a pension.

Important information

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