

Corporate gains – end of indexation allowance

To date, companies have been able to benefit from relief for inflationary gains in the form of indexation allowance when they dispose of an asset. The indexation relief is deducted in computing the chargeable gain or allowable loss.

However, it was announced at the time of the Autumn 2017 Budget that the relief is to be frozen – the effect being that no relief will be available for inflationary gains arising on or after 1 January 2018. Where an asset is disposed of on or after 1 January 2018, the indexation allowance will only be calculated up to December 2017. Where an asset is acquired after December 2017, no indexation allowance will be available to mitigate any gain on disposal.

The freezing of indexation allowance will bring the position of companies more closely into line with that of individuals. Individuals have not received relief for inflationary gains since the ending of taper relief in April 2008.

Nature of indexation allowance

Indexation allowance is deducted when working out the gain chargeable to corporation tax. The indexation allowance is based on movements in the retail prices index (RPI) between the month in which the asset was acquired and the month in which the asset was disposed of. HMRC publish indexation allowance tables each month.

Indexation allowance – date of disposal is before 1 January 2018

Where the disposal takes place before 1 January 2018, the indexation allowance is computed by reference to the actual month in which the disposal took place.

Example

Snowdrop Ltd sold a capital asset for £100,000 in November 2017. The asset was acquired in February 2015 for £80,000.

Using HMRC's indexation allowance table for November 2017 (see www.gov.uk/government/publications/corporation-tax-on-chargeable-gains-indexation-allowance-2017/indexation-allowance-november-2017), the indexation factor for February 2015 is 0.074.

The indexation allowance is found by multiplying the indexation factor by the cost of the asset.

The indexation allowance is, therefore, $£80,000 \times 0.074 = £5,920$.

The gain chargeable to corporation tax is, therefore, $£100,000 - (£80,000 + £5,920) = £14,080$.

Indexation allowance – date of disposal on or after 1 January 2018

Where an asset is disposed of after 2018, the indexation allowance is calculated by reference to the indexation factor for December 2017, regardless of the actual date of disposal. This means that the indexation allowance for an asset acquired before 1 January 2018 will be the same, regardless of whether it is disposed of in January 2018 or December 2018. No relief is given for inflation beyond 31 December 2017.