

Shares and Securities/Introductory

Part 19-04-01

This document should be read in conjunction with sections 5, 548, 580, 584, 585, 586 and 587 of the Taxes Consolidation Act 1997

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Introduction

When shares are sold, it is necessary to identify the shares sold so that the base cost and acquisition date can be determined for the purposes of calculating the amount of Capital Gains Tax (“CGT”) due in respect of those shares. **Section 580 of the Taxes Consolidation Act 1997 (“TCA 1997”)** contains rules for the identification of shares or securities of the same class or kind and other assets (for example, commodity futures) which are of such a nature that they can be dealt in without the necessity to identify the particular assets disposed of or acquired. Generally, where such assets are disposed of, they are to be identified with assets acquired on the principle of “first in, first out”.

1.1 Definitions

The following definitions set out the meanings to be assigned to such terms as shares, securities, etc., for the purpose of these instructions. These meanings are derived from CGT legislation and from the Companies Act 2014.

1.2 Shares of a company

The capital of a company is divided into units of a convenient size, each such unit constituting a “share”. A company may have two or more different classes of shares (e.g., ordinary, preference, second preference, deferred, founder), each with different rights as regards conditions of issue, voting power and entitlement to dividends or capital distributions on liquidation. Each share may or may not carry a registered number; the large majority do not.

1.3 Stock units

Section 5 TCA 1997 provides that “shares” includes stock. A stock unit (or simply “stock”) is essentially similar to a share but it is measured by the nominal amount of the issued capital which it represents. A company may, subject to certain formalities under the **Companies Act 2014**, permit the conversion of un-numbered shares into stock units, but this is a change in form only.

1.4 Debentures

The term “debentures” (e.g. in **sections 584(7), 586 or 587 TCA 1997**) is not defined for CGT purposes. Its ordinary meaning must, therefore, be applied and its meaning for the purposes of the Companies Act 2014 is relevant in this regard. **Section 2** of that Act provides that the term “debenture” includes debenture stock, bonds and any other securities of a company whether constituting a charge on the assets of the company or not.

Under **section 585(1) TCA 1997**, the term "security" includes any loan stock or similar security whether of the State or of any other government, or of any public or local authority or of any company, and whether secured or unsecured. It therefore includes debentures of companies.

1.5 Quoted and unquoted shares

For CGT purposes, the shares of companies can be classified into two broad categories:

- a) Shares (known as "quoted" shares) of a company whose name is included in a Stock Exchange's Official List of companies being shares or securities which the members of the Stock Exchange are permitted to deal in.
- b) Other shares (known as "unquoted" shares).

A company may have more than one class of share in issue, one or more being quoted and the others unquoted.

As regards unquoted shares held at 6 April, 1974, which subsequently became quoted shares, see [Tax and Duty Manual \(TDM\) Part 19-04-04](#).

1.6 Shares of the same class

Shares should be treated as being of the same "class" only if

- a) they are so treated by the practice of a Stock Exchange in the State or elsewhere; or
- b) in the case of "unquoted" shares they would be so treated if they were dealt with on such a Stock Exchange.

They should be so treated, i.e., as shares of the same class, notwithstanding that the individual shares are identifiable (e.g., by numbers).

Shares which are partly paid are not of the same class as those which are fully paid (see, however, [TDM Part 19-04-07](#)).

1.7 Bonus issue

A bonus (or scrip or capitalisation) issue is one in which reserves of a company are capitalised and each shareholder of a particular class (or classes) is given, without the shareholder making any payment, shares or securities of the same company in proportion to his or her holding of the qualifying shares (e.g., one debenture for every three ordinary shares held).

1.8 Rights issue

A rights issue is one in which a shareholder is given the right to subscribe, usually at a preferential price, for a new issue of shares or securities by the company in proportion to his or her holding of the qualifying shares.

1.9 Registered shares

Shares are usually allotted by means of provisional letters of allotment and, although they may already have been paid for in full, they remain in this form until the formalities of registration have been completed. They may be disposed of in this form but, because there is no stamp duty payable on such a disposal, their market value is different from the market value of any similar shares which have already been registered. They are therefore not of the same "class" as the similar shares already registered (see, however, [TDM Part 19-04-07](#)).

1.10 Shares and 6 April 1974

CGT is chargeable only on capital gains accruing on or after 6 April 1974. The rules for the determination of the market value of "quoted" shares and securities at that date, based on the figures in the Stock Exchange Official lists, are set out in **section 548(3) TCA 1997**. These rules are summarised in [TDM Part 19-04-02](#). The chargeable gain or allowable loss by reference to this market value must not, however, exceed the gain or loss by reference to the actual (or deemed) acquisition price; and where on one basis there is a gain but on the other a loss, the disposal is treated as resulting in neither gain nor loss.

1.11 Reorganisations

Particular rules govern reorganisations of share capital of companies, the most common forms of which are bonus and rights issues.

The special treatment of these and other reorganisation operations, including their effect on the values attributable to stocks and shares held at 6 April, 1974, is set out in [TDM Part 19-04-06](#).

1.12 Transfer of a business for shares

There are special rules for dealing with the transfer of a business to a company in exchange wholly or partly for shares issued by the company to the person transferring the business (see [TDM Part 19-06-04](#)).

1.13 Market value at 6 April 1974

For the purpose of valuing "unquoted" shares (e.g., at 6 April 1974, or on the occasion of a gift or on termination of a life interest in a settlement), the ordinary rule of "market value" applies, the value being computed on general principles.(see [TDM Part 19-02-08](#)).

1.14 Options

A person may grant to another person an option to buy or sell any asset which he or she is competent to dispose of or to acquire. A common form of option is the Stock Exchange option to buy or to sell stocks or shares - see [TDM Part 19-01-11](#), regarding the treatment of options for CGT purposes.