FALKLAND ISLANDS GOVERNMENT TAXATION OFFICE

SALE OF A BUSINESS

WHAT YOU NEED TO DO FOR TAX PURPOSES

Introduction

This leaflet is aimed at the seller and explains the details required for tax purposes and the tax processes involved when a business is sold.

Final Set of Accounts

A final set of accounts for the business will need to be submitted. These accounts should follow on from the business's previous account period and run to the final trading date of the business, therefore this set of accounts may be for a period less than 12 months.

The deadline for submission of the final set of accounts remains the same as with other account periods i.e. 9 months after the account period end for company accounts, and for non-limited businesses 31st July of the year following the year in which the account period ends. However, we may ask for the Apportionment of Sale (see below) to be submitted at an earlier date in order to agree the buyer's accounts.

Apportionment of Sale

You will also need to submit with your final set of accounts an Apportionment of Sale for the business. This should show the total sale price and then provide a breakdown to show the separate values for items included in the sale e.g. land, stock, buildings, plant and machinery.

We will also request an Apportionment of Purchase from the buyer. The values will need to agree between the seller and buyer as these values will be used for any assets the buyer wishes to bring into their depreciation schedule. If there are any differences in values then we will ask both parties to try and agree. If however, agreement cannot be reached then we will determine values we believe to be correct for depreciation allowance purposes. We therefore suggest that at the time of sale or soon after, both parties meet to agree values which they can then each submit to our office to avoid any disputes at a later date.

It may be difficult to put a value on an asset, for example, farm land will depend on the location, quality of grass etc, but in the end the value should represent the amount a buyer is prepared to pay. You may wish to seek professional advice to assist and/or prepare an Apportionment of Sale.

Tax Treatment of Assets

On agreement of asset values in the Apportionments of Sale/Purchase, we will check these assets against the business's depreciation records to identify any assets that have had depreciation claimed against them.

If you sell an asset upon which depreciation has been claimed for more than the Written Down Value (WDV) at the start of that accounting period then a **balancing charge** will be incurred. A balancing charge is a claw-back of depreciation allowances.

An example of a balancing charge calculation:
A vehicle is purchased for £6,000 and depreciation is claimed at 40% on a reducing value basis over 3 years. At the end of year 3 the WDV equals £1,296. The vehicle is then sold for £3,000. Because the vehicle is sold for an amount in excess of the WDV a balancing charge must be calculated (if it was sold for less than the WDV, say £1,200, then no balancing charge would be imposed – see *balancing allowance* below).

The balancing charge must be the lesser of the difference between the sale proceeds of the asset and it's WDV (£3,000 - £1,296 = £1,704) and the total amount of depreciation claimed during the ownership by the business of the vehicle (the total depreciation claimed is £6,000 - £1,296 = £4,704). The result of this comparison is that the difference between the sale proceeds and the WDV is the smaller amount. When you submit your accounts to our office you should therefore include a computation showing £1,704 added to the taxable income arising to the business.

If the vehicle was sold for less than the WDV then a **balancing allowance** will arise. In the previous example if the vehicle sold for £1,200 the taxable income of the business would be reduced by £96 (£1,296 WDV - £1,200 sale price).

You will not receive a balancing charge over the original asset value. For example, a shed purchased for £5,000 which over the years has had a total of £2,000 depreciation allowances claimed, has a WDV of £3,000. The shed is then sold for £6,000. In this case we take the original cost of the shed to arrive at a balancing charge of £2,000 (£5,000 - £3,000). The difference between the original value and the sale price, £1,000, is a capital gain and is not subject to tax.

Buildings Occupied as a Residence

Although we still require an agreed value in the apportionment of sale, no balancing charge arises on such buildings e.g. farm house, any property rented for residential use. (Only applies to accounting periods commencing before 1 January 2011, contact our office for further details.)

Please Note

This paper is intended to give only broad guidance, and is not intended as a statement of law.
The points covered in this paper reflect current tax practice at the time of writing.
Special rules exist to deter tax advantages being gained by dealings between connected parties.

Questions & Further Information

If you have any questions or need more information on this subject, or any aspect of Falklands tax, then please contact or visit the Taxation Office. Alternatively you may wish to seek professional advice e.g. from a lawyer or accountant.

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Opening hrs: Mon to Fri, 8am–12noon & 1pm–4.30pm (closed 9-10am Tues)