

## Appropriations to and from stock in trade

### Part 19-06-01

This document should be read in conjunction with section 596 of the Taxes Consolidation Act 1997

Document last reviewed July 2019

---

Does not reflect current Revenue position.

## Executive summary

Where a person appropriates an asset as trading stock of a trade carried on by the person, the asset is deemed to have been disposed of for its market value at the time of appropriation. If such an appropriation gives rise to a chargeable gain, then, instead of paying the tax on the gain, the person may elect to deduct the gain from the market value in determining the value of the asset to be brought into trading stock for income tax purposes. In this way, the gain is effectively charged as part of the profits of the trade and not as a capital gain.

### 1.1 Appropriations to stock in trade

Where an asset (which was acquired by a person otherwise than as trading stock) is subsequently appropriated for use as trading stock in the person's trade, the asset is deemed to have been disposed of by sale at market value with a consequent chargeable gain or allowable loss.

A trader may, however, make an election under **section 596(3)**, in which case there will be no chargeable gain on the appropriation of the asset to his trade as stock in trade. Instead, in the computation of the profit or loss of his trade, the market value of the asset will be reduced by the amount of the chargeable gain. The effect of this is that the profit or loss for income tax or corporation tax purposes will be increased (profit) or reduced (loss) by the amount of the chargeable gain.

Where the trade is carried on by a partnership, the election must be made by all the partners.

Such an election cannot be made in respect of an allowable loss arising on a disposal of stock.

### 1.2 Appropriations from stock in trade

Where an asset forming part of the trading stock of a person's trade is appropriated by him for any other purpose, or is retained by him on ceasing to carry on the trade, any gain or loss attributable to it during the period when it was trading stock will be included in profits or losses of the trade computed under the rules of Case I of Schedule D; it is, therefore, provided that the value at which the asset is taken out of the trading account should be taken as its acquisition price for Capital Gains Tax purposes.

### 1.3 Application of section 596(1)

It has been suggested that the wording of subsection (1) made it unclear as to whether the section only had application where a single trade was carried on, i.e. that the subsection might not apply where an asset was held as a capital asset (e.g. farmland) of a trade already carried on by a person where that person commences to carry on another trade (e.g. builder/land developer) into which he appropriates the farmland as stock in trade of the new trade. Revenue's view is that the reference in the subsection to "the trade" is a reference to the trade into which the asset has been appropriated so that the fact that the asset was held as a capital asset in another trade carried on by that person does not affect the application of the section. Accordingly, the subsection does apply where an asset already held as a capital asset in one trade is appropriated to a new trade. For completeness, it should be mentioned that a measure of relief from the deemed disposal is provided for in **section 596(3)**.

Does not reflect current Revenue position.