

## **Corporation tax and trading losses**

Relief may be available where you operate your business through a company and you make a loss. The loss may be set against total profits of the current or previous accounting periods or may be carried forward and set against future trading income from the same trade.

### **Computing the trading loss**

A trading loss is computed in the same way as a trading profit and normal rules apply. However, it should be noted that trading income does not include any chargeable gains, so chargeable gains are not taken into account in computing the loss.

The loss may be augmented by capital allowances and reduced by any balancing charges.

### **Entitlement to relief**

A company can only obtain relief for a loss while the company carrying on the trade is within the charge to corporation tax in respect of that trade. This is the case where the company is either resident in the UK or resident abroad and carrying on a trade in the UK through a branch or agency.

### **Relief against total profits of same period**

The first way in which relief for a trading loss may be given is against total profits of the accounting period for which the loss was incurred. Chargeable gains are not included in the computation of the trading loss, so if the company has chargeable gains in the period in which the loss was incurred, these can be sheltered by the loss.

### **Relief against total profits of a previous period**

Once a claim has been made to set a trading loss against total profits of the period in which the loss was incurred, the balance of the loss can be carried back and set against the total profits of previous accounting periods to the extent that they fall within the period of 12 months immediately preceding the start of the loss-making accounting period. It is only possible to carry a loss back once it has been set against total profits of the period of the loss. However, any loss remaining after set-off against current year profits does not have to be carried back – it can go forward.

### **Carry forward against future trading profits**

The loss may also be carried forward against future trading profits from the same trade. Note that any losses carried forward can be set only against trading profits and not against future chargeable gains.

A loss can be carried forward without the need first to make a claim against total profits of the current period. Where losses remain after carrying back to a previous period, these too can be carried forwards against future trading profits from the same trade.

### **Group relief**

Where the company is a member of a group, losses may be able to be surrendered to other companies in the group.

### **Terminal loss**

A loss in the last 12 months of trading (a terminal loss) can be carried back against total profits of the preceding three years.

**Anti-avoidance – beware**

There are a number of anti-avoidance provisions that apply to prevent abuse of the loss relief rules, including restrictions where there is a change in the nature of the trade and where losses are uncommercial.

**Planning**

In general, the aim is to obtain relief sooner rather than later, but at the highest possible rate. Speak to your adviser as to what is best for you.