

## **Company losses and what to do with them**

Although it is clearly preferable to make a profit rather than a loss, this is not always possible. Where a loss arises, from a tax perspective, decisions have to be made as to how that loss can be utilised and, where there is more than one option, which is the best possible use of the loss.

### **Trading loss**

A trading loss is worked out in the same way as a trading profit by making the usual adjustments to the accounting profit or loss to arrive at the tax figures.

There are various ways in which the loss can be relieved.

### **Same accounting period**

It may be possible to relieve the loss in the same accounting period by setting it against other gains or income of that period. This may be the case if the company makes a trading loss but disposes of an asset or assets and has a gain chargeable to corporation tax, or if the company receives interest payments, which can mop up some or all of the loss.

### **Carry back**

The trading loss can also be carried back and set against the profits of the preceding 12-month period. This can be a useful option, as it will generate a repayment of corporation tax previously paid – something that may provide a welcome cashflow boost to a struggling company. With falling corporation tax rates, carrying back rather than forward may give a higher rate of relief.

### **Example**

ABC Ltd prepares accounts to 31 March each year. In the year to 31 March 2017, it realises a loss of £15,000. In the year to 31 March 2016, it made a profit of £12,000, on which corporation tax of £2,400 was paid.

The company elects to carry back £12,000 of the loss of £15,000 to set against the profits of the year to 31 March 2016, triggering a refund of the corporation tax paid of £2,400 (plus repayment supplement). The balance of the loss of £3,000 is available to carry forward.

### **Carry forward**

The loss can also be carried forward and set against profits of future accounting periods from the same trade. This may be the only option if there has also been a loss in the previous accounting period so carry back is not possible.

### **Terminal losses**

If the company stops trading, a claim for terminal loss relief may be possible. This allows a loss made in the final 12 months to be carried back against total profits of the previous three years. It is not possible to tailor how the loss is used – it must be set against the profits of a later year before an earlier year.

### **Claims**

Claims for relief will normally be made in the corporation tax return, but can also be made by letter.