

CHAPTER 3 Corporation tax: loss relief

Relief for trading losses other than terminal losses. CTA76 s16(1) to (8) and (10); FA92 s46(1)(b); FA93 s22 396.—(1) Where in any accounting period a company carrying on a trade incurs a loss in the trade, the company may make a claim requiring that the loss be set off for the purposes of corporation tax against any trading income from the trade in succeeding accounting periods, and (so long as the company continues to carry on the trade) its trading income from the trade in any succeeding accounting period shall then be treated as reduced by the amount of the loss, or by so much of that amount as cannot, on that claim or on a claim (if made) under subsection (2) or section 455 (3), be relieved against income or profits of an earlier accounting period.

(2) Where in any accounting period a company carrying on a trade incurs a loss in the trade, then, subject to subsection (4), the company may make a claim requiring that the loss be set off for the purposes of corporation tax against profits (of whatever description) of that accounting period and, if the company was then carrying on the trade and the claim so requires, of preceding accounting periods ending within the time specified in subsection (3), and, subject to that subsection and to any relief for an earlier loss, the profits of any of those periods shall then be treated as reduced by the amount of the loss, or by so much of that amount as cannot be relieved under this subsection against profits of a later accounting period.

(3) The time referred to in subsection (2) shall be a time immediately preceding the accounting period first mentioned in subsection (2) equal in length to the accounting period in which the loss is incurred; but the amount of the reduction which may be made under that subsection in the profits of an accounting period falling partly before that time shall not exceed a part of those profits proportionate to the part of the period falling within that time.

(4) Subsection (2) shall not apply to trades within Case III of Schedule D.

(5) (a) Subject to paragraph (b), the amount of a loss incurred in a trade in an accounting period shall be computed for the purposes of this section in the like manner as trading income from the trade in that period would have been computed.

(b) Where expenses of management of an assurance company) are deductible under section 83 from the profits of the accounting period in which they were incurred, or of any accounting period subsequent to that period, those expenses shall not be taken into account in computing a loss incurred in a trade of the company.

(6) For the purposes of this section, “trading income”, in relation to any trade, means the income which is to be, or would be, included in respect of the trade in the total profits of the company; but where in an accounting period a company incurs a loss in a trade in respect of which it is within the charge to corporation tax under Case I or III of Schedule D, and in any later accounting period to which the loss or any part of the loss is carried forward under subsection (1) relief in respect of the loss or that part of the loss cannot be given, or cannot wholly be given, because the amount of the trading income of the trade is insufficient, any interest or dividends on investments which would be taken into account as trading receipts

in computing that trading income but for the fact that they have been subjected to tax under other provisions shall be treated for the purposes of subsection (1) as if they were trading income of the trade.

(7) Where in an accounting period the charges on income paid by a company—

(a) exceed the amount of the profits against which they are deductible, and

(b) include payments made wholly and exclusively for the purposes of a trade carried on by the company,

then, up to the amount of that excess or of those payments, whichever is the less, the charges on income so paid shall in computing a loss for the purposes of subsection (1) be deductible as if they were trading expenses of the trade.

(8) In this section, references to a company carrying on a trade are references to the company carrying on the trade so as to be within the charge to corporation tax in respect of the trade.

(9) A claim under subsection (2) shall be made within 2 years from the end of the accounting period in which the loss is incurred.