HMRC - CH82343 - Example - Overstatement Of Losses Creates An Aggregate Loss

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Company D, E, F and G are a group of companies.

Their returned results are

Company F’s return is found to contain a careless inaccuracy of £40,000. Its true loss is £160,000.

Company F must amend its Group Relief surrenders. It can and does withdraw its Group Relief surrender to Company E and makes a new surrender to Company E of £50,000.

Company G can and does withdraw its surrender to Company E and makes a new surrender to Company E of £85,000.

The inaccuracy has the effect of creating the aggregate loss recorded for the group and the potential lost revenue (PLR) is calculated using the rules for losses, see CH82341.

The losses rules apply to the amount of Company F’s overstated loss and the PLR for the inaccuracy is calculated in the context of the aggregate loss position of the group.

Under the normal rules for calculating PLR, all of Company F’s wrongly recorded loss would be treated as used to reduce Company D’s tax liability and Company F’s PLR would be calculated ignoring the additional Group Relief surrendered to Company D by Company F.

Assuming liability at the small companies rate the PLR would be £40,000 x 21% = 8,400

Instead the inaccuracy is considered in the context of the aggregate loss for the group.

The whole of the amount has not been used to reduce the amount of tax payable because £15,000 of it created an unused aggregate loss for the group.

The normal rule (but including Group Relief) applies to £25,000 and the unused loss rule applies to £15,000.

The PLR for Company F’s penalty is

Total PLR for Company F’s penalty = 5,250 + 1,500 = 6,750

In this example, at the time that the penalty is to be imposed, G has not made use of the surplus loss of £15,000 in a later or earlier period, so the PLR in respect of the £15,000 is calculated under the unused loss rule.

If Company G had used the surplus loss to reduce tax liability in another period, the PLR would be the additional tax due and payable when that loss was withdrawn.

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