HMRC - OT26100 - Post Commencement EES Pools - Straddling Periods

ICTA88\Sch19B\para18A(1)

RFES takes over from EES with effect from 1 January 2006. Where a company has an accounting period that begins before 1 January 2006 and ends on or after that date, the straddling period is divided into two separate accounting periods. The special rules apply to calculate the amounts of qualifying E&A loss and non-qualifying loss for the deemed accounting period ending 31 December 2005.

Qualifying E&A loss

Instead of starting with the losses of the deemed accounting period, the calculations begin with the ring fence trade losses of the straddling period. The same assumptions about the company making every claim possible in respect of the straddling period apply, again regardless of whether any such claims are in fact made. This produces the ‘ring fence loss’ for the deemed accounting period.

That ring fence loss is then compared with the R&D allowances claimed in respect of qualifying E&A expenditure of the deemed accounting period. If it is greater than the R&D allowances claimed in respect of the qualifying E&A expenditure, the ‘qualifying E&A loss’ of the deemed accounting period is the amount of the allowances.

If the ring fence loss is less than the R&D allowances claimed in respect of the qualifying E&A expenditure, the ‘qualifying E&A loss’ of the deemed accounting period is limited to the amount of the ring fence loss.

Non-qualifying loss

The balance of the ring fence losses of the straddling period are the non-qualifying losses of the deemed accounting period. With the introduction of RFES, supplement can be claimed on all ring fence losses that arise on or after 1 January 2006. The amount that goes into the non-qualifying pool at 31 December 2005 is therefore reduced to exclude losses arising in the second deemed accounting period (i.e. the one beginning on 1 January 2006 and ending on the company’s next accounting date). The rules for calculating how much of the losses of the straddling period are attributable to the second deemed accounting period are in ICTA88\Sch19C\para18 - see OT26165 The non-qualifying loss remaining at the end of the first deemed accounting period then becomes the ‘non-qualifying Schedule 19B amount’ that forms the basis of the ‘non-qualifying pool’ for RFES purposes (see OT26170).

Previous page