HMRC - OT26108 - Conditions For Relief - Outline

CTA2010\S308

A company can claim RFES only if it is a ‘qualifying company’. This is defined in CTA2010\S308 as a company which is carrying on a ring fence trade or engaged in any activity with a view to carrying on a ring fence trade (which is explained at OT21002 onwards).

A qualifying company can claim RFES in respect of

qualifying expenditure incurred before the ring fence trade is set up and commenced,

ring fence trade losses, and

some or all of the supplement (RFES and EES) allowed for earlier periods.

RFES increases the value of unused expenditure carried forward from one period to another (see OT26110). At introduction the rate of RFES (the ‘relevant percentage’) was 6 precent per annum. The rate increased to 10 percent for accounting periods beginning on or after 1 January 2012. RFES can be claimed in respect of not more than six accounting periods, but these need not be consecutive (see OT26120).

The time limits for making RFES claims are the same as time limits for claiming group relief, as set out in FA98\Sch18\para74 (generally within 12 months of the filing date for the company’s tax return).

There are separate rules for pre-commencement expenditure (see OT26130) and for losses arising after the ring fence trade has started (see OT26155).

For pre-commencement supplement, a ‘mixed pool’ is set up which includes qualifying pre-trading expenditure and any amounts carried forward by the company from its EES mixed pool (which is broadly, qualifying E&A expenditure and any pre-commencement EES already claimed). Cumulative RFES can be claimed on the pooled amount in the first year of ring fence trading. The pre-commencement rules also contain special provisions to deal with disposals of assets for which allowances under CAA2001 are due before trading begins.

For post-commencement supplement, a ‘ring fence pool’ is set up, which includes unrelieved ring fence losses and amounts of E&A expenditure that qualified for EES. Supplement can be claimed on the pooled amount, and the supplement is carried forward as a ring fence trading loss.

In either case, if the company is part of a group, the pooled expenditure or losses must be reduced by any unrelieved ring fence profits of other members of the group (see OT26125). The scheme is designed so that losses arising from expenditure that does not qualify for RFES are set against profits before losses arising from qualifying expenditure, to maximise the potential RFES available.

Previous page