

## Losses

### **Contacts**

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to

**www.hmrc.gov.uk**

This helpsheet tells you what you can do if:

- you have made a loss in your trade, profession or vocation (hereafter shortened to trade), or
- you are entitled to a share of the loss made by a partnership of which you are a member

and includes a Working Sheet (page 5) to assist you in keeping track of your losses.

Trade losses can be relieved in a number of ways:

- by reducing your income for the year ended 5 April 2012 and if your income is nil or less than the loss
- by reducing your capital gains for the year ended 5 April 2012
- by claiming for relief to be calculated by reference to your income for earlier years or your capital gains for the year ended 5 April 2011
- by claiming for relief to be calculated by reference to profit of the same trade taxed in earlier years
- by carry forward against future profits of the same trade or income from the company (where you transfer your trade to a company in exchange for shares in that company), or post cessation receipts.

You will find more information on each type of claim and the claim time limit on pages 2 to 4. Claims must be made within the time limit shown. Late claims will only be considered in exceptional circumstances.

For further guidance, contact us or your tax adviser.

You cannot claim only part of the loss. This may mean your personal allowances cannot be fully used. And you can only claim relief once for each pound of loss. But if you make a claim and your income, gains or profits are not enough to use the whole of the loss, the balance of the loss can be claimed in another way.

If relief is by reference to income, profit, or gains of more than one year, you should provide information on how the losses are to be allowed in box 102, the 'Any other information' box on the *Self-employment* page or on the tax return.

### **Claims not made in a tax return**

Not all claims to loss relief must be made in a tax return or amended tax return. Some claims may be made in advance of the tax return for the year of loss, for example, claims to include the loss in your PAYE code for the year of loss, or claims for the loss to be relieved by reference to income, profit or capital gains of earlier years. Some claims may be made after the time for amending the tax return has expired. Please write a letter telling us the name of your trade, how much the loss is and for what period, and say how you want the relief to be given. Any repayment due as a result of a claim for relief by reference to earlier year's income, profit or capital gains relates to the year of the loss, even though the relief is calculated by reference to your income, profit or capital gains and circumstances of the earlier year(s).

## Claims made in a tax return

### ***Sole traders***

You can claim tax relief for a loss you made in your trade by filling in boxes 32 to 34 on your *Self-employment (short)* pages or boxes 77 to 79 on your *Self-employment (full)* pages. (These pages will be referred to as the 'short' and 'full' pages respectively from now on.)

### ***Partners***

If you are a member of a partnership, you can claim tax relief for your share of the partnership losses by filling in boxes 20 to 22 on your *Partnership* pages.

Your share of the loss will be treated as having arisen from a trade that you carried on alone. That trade will be regarded as having **started** on the date you became a partner (unless you previously carried on the trade on your own account when it will be regarded as having commenced on the date you started the trade) and to have **ceased** on the date on which you ceased to be a partner (or if you carry on the trade thereafter as a sole trader, the date on which the trade ceased).

If relief is by reference to income, profit or gains of an earlier year, you should provide the following information on how the loss is to be allowed in the 'Any other information' box on the *Self-employment* page or on the tax return:

- the earlier year, and if the loss is carried back to more than one earlier year
- the amount of loss to be deducted in calculating your net income for each earlier year.

The following paragraphs describe the different options and the conditions that must be satisfied.

## Relief against income or gains for 2011–12

You can claim relief for the loss by reducing your income for 2011–12. The loss you claim in box 32 on the *short* pages, box 77 on the *full* pages or box 20 on the *Partnership* pages will normally be the whole of the loss. But if the allowable loss is more than your income, or if your income is nil (or does not include any income from which the 2011–12 loss can be deducted), enter the figure of income (or nil) in boxes 32, 77 or 20 as appropriate.

You can claim the balance of the loss against your capital gains for 2011–12 by completing box 14 on the *Capital gains summary* page. The amount of loss to set off against your capital gains for 2011–12 will be the lower of:

- the amount of the chargeable gains for 2011–12 (after reliefs and the deduction of allowable capital losses) but without taking account of the annual exempt amount due for the year, or
- the 2011–12 loss less the figure entered in box 32 on the *short* pages, box 77 on the *full* pages or box 20 on the *Partnership* pages.

If your 2011–12 loss was included in your PAYE code, please include the amount of the loss in box 32 on the *short* pages or box 77 on the *full* pages or box 20 on the *Partnership* pages.

The time limit for this claim is **31 January 2014**.

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## Relief calculated by reference to income or gains of earlier years

You can claim to have the loss in 2011–12 relieved by reference to:

- income or gains in 2010–11
- income in up to three years before 2011–12.

These claims all relate to 2011–12 even though they are calculated by reference to your income or capital gains and circumstances of the earlier years.

You can claim relief for the loss to be calculated by reference to your income for 2010–11. If the allowable loss is more than your 2010–11 income, you can, if you want, claim relief for the balance of the loss to be calculated by reference to your capital gains for 2010–11.

If your trade was set up and commenced trading on or after 6 April 2008, you can claim early trade losses relief calculated by reference to your income (but not capital gains) of the three years 2008–09 to 2010–11. The loss is first relieved by reference to your 2008–09 income. If there is any balance of loss left, this is relieved by reference to your 2009–10 income. Finally, any remainder is relieved by reference to your 2010–11 income.

The time limit for claims is **31 January 2014**.

If you want to claim relief in your tax return, enter the total loss to be relieved by reference to earlier years' income and gains in box 33 on the *short* pages, box 78 on the *full* pages or box 21 on the *Partnership* pages, and provide details of the amount claimed for each year in the 'Any other information' box.

If you claimed loss relief under this heading before we sent your tax return, please include the amount of the loss in box 33 on the *short* pages or box 78 on the *full* pages or box 21 on the *Partnership* pages.

## Tax adjustments for earlier years

If you claimed relief for your loss in 2011–12 by reference to earlier year(s) income or gains, you must also:

- calculate the difference between the actual liability for the earlier year(s) and the liability that would have arisen for the earlier year(s) if the relief you are now claiming had been included in the tax return for the earlier year(s). Do not include any 2011–12 losses for which you have previously claimed relief. Please contact us if you need help in calculating your tax liability
- enter this difference, that is, the decrease in tax due, in box 14 on the *Tax calculation summary* pages (if you file on paper) or the 'decrease in tax due because of adjustment to an earlier year' box (if you file online) to give effect to the loss relief claim.

## Relief against income or gains: restrictions

You should only claim relief for your loss if you ran your trade commercially for profit. If not, for example, because your trade is run as a hobby, you can only claim to set the losses against profits made in your trade.

If you are a farmer or market gardener, you cannot normally claim your losses against income or gains in 2011–12 or 2010–11 if you also made losses (computed for this purpose only before capital allowances are taken into account) in each of the previous five tax years.

Your loss relief may be restricted if you worked on average for less than 10 hours a week on commercial activities of the trade or if you are a Limited Partner or a member of a Limited Liability Partnership. The restrictions do not apply to professions or vocations. If you are in any doubt about this, ask us or your tax adviser.

Tax-generated losses cannot usually be claimed against income or chargeable gains of the same year or earlier years. The losses must be carried forward and used against profit of the same trade in later years. If you are in any doubt about this, ask us or your tax adviser.

If your trade is carried on wholly overseas, you can only claim losses in your overseas trade as a deduction from your overseas income (but not capital gains).

If you need help or further information ask us or your tax adviser.

### Carry forward against future profits

You can carry your loss forward to set against future profits from the same trade. Deduct the loss from your profits in the first and each subsequent profitable year until it is used up.

The time limit for a claim is **5 April 2016**.

Enter in box 34 on the *short* pages, box 79 on the *full* pages or box 22 on the *Partnership* pages the amount of your 2011–12 loss that you want to claim in this way. Include the amount of any losses you sustained in 2010–11 and earlier years which you have not yet used.

Include in box 28 on the *short* pages, box 73 on the *full* pages or box 15 on the *Partnership* pages unused losses from the trade in earlier years that you are using against 2011–12 profits.

### Losses on cessation of trade

If your trade ceased in 2011–12, you can claim relief against profits from the same trade in 2011–12 and by reference to any profits from the same trade which were taxed in 2008–09, 2009–10 or 2010–11 for the loss of your final 12 months of trading. Helpsheet 222 *How to calculate your taxable profits* explains this.

Any tax adjustment due as a result of these claims relates to 2011–12, even though it is calculated by reference to the profits and your circumstances for the earlier years.

The time limit for a claim is **5 April 2016**.

### Summary of how allowable loss is to be relieved

You may find it useful to summarise your loss relief claims in the Working Sheet on the next page. This will allow you to keep track of your losses and make sure you do not forget to claim relief for any of them.

If you have losses from more than one trade, complete a separate Working Sheet for each of them.

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## Working Sheet

Allowable loss for 2011-12

*(From box 31 on the short, box 76 on the full or box 19 on the Partnership page)*

A £

### Loss relief utilised

Year Amount

2011-12

B £

*(From box 32 on the short, box 77 on the full, box 20 on the Partnership or box 14 on the Capital gains summary pages)*

2010-11

C £

2009-10

D £

2008-09

E £

*(Total of boxes C, D and E should equal box 33 on the short, box 78 on the full or box 21 on the Partnership pages)*

Total losses claimed in this way *(total of boxes B to E)*

F £

Balance of allowable loss for 2011-12 *(A minus F)*

G £

### Earlier years' losses

Losses brought forward from earlier years

H £

Losses brought forward from earlier years used this year

*(From box 28 on the short, box 73 on the full or box 15 on the Partnership pages)*

I £

Balance of earlier years' losses not yet allowed *(H minus I)*

J £

Loss carried forward to next year *(box G + box J)*

*(Enter in box 34 on the short, box 79 on the full or box 22 on the Partnership pages)*

K £

Please note that the total losses to be set against income, profit or gains for a year cannot exceed the income profit or gains of that year.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any rights of appeal. Any subsequent amendments to these notes can be found at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)