

**1 Calculation of profits of property businesses**

Schedule 1 contains provision about the calculation of the profits of a property business, in particular the calculation of profits on the cash basis.

## SCHEDULES

### SCHEDULE 1

Section 1

#### CALCULATION OF PROFITS OF PROPERTY BUSINESSES

#### PART 1

#### AMENDMENTS OF ITTOIA 2005

- 1 ITTOIA 2005 is amended in accordance with paragraphs 2 to 27.
- 2 In Chapter 3 of Part 3 (profits of property businesses: basic rules), after section 271 insert –

*“Basis of calculation of profits*

#### **271A Basis of calculation of profits: GAAP required**

- (1) The profits of a property business for a tax year must be calculated in accordance with GAAP if condition A, B, C, D or E is met.
- (2) Condition A is that the business is carried on at any time in the tax year by –
  - (a) a company,
  - (b) a limited liability partnership,
  - (c) a corporate firm,
  - (d) the trustees of a trust, or
  - (e) the personal representatives of a person.
- (3) For the purposes of subsection (2) a firm is a “corporate firm” if a partner in the firm is not an individual.
- (4) Condition B is that the cash basis receipts for the tax year exceed £150,000.
- (5) In subsection (4) “the cash basis receipts for the tax year” means the total of the amounts that would be brought into account as receipts in calculating the profits of the property business for the tax year on the cash basis (see section 271D).
- (6) Condition C is that –
  - (a) the property business is carried on by an individual (“P”),
  - (b) a share of joint property income is brought into account in calculating the profits of the business for the tax year,
  - (c) a share of that joint property income is brought into account in calculating the profits for the tax year of a property

- business carried on by another individual (“Q’s property business”), and
- (d) the profits of Q’s property business for the tax year are calculated in accordance with GAAP.
- (7) In subsection (6) “joint property income” means income to which P and Q are treated for income tax purposes as beneficially entitled –
    - (a) in equal shares by virtue of section 836 of ITA 2007, or
    - (b) in unequal shares by virtue of section 837 of that Act.
  - (8) Condition D is that –
    - (a) an allowance under Part 3A of CAA 2001 (business premises renovation allowances) is made in calculating the profits of the property business, and
    - (b) there is a day in the tax year on which the occurrence of a balancing event (within the meaning of that Part) would give rise to a balancing adjustment for the tax year (see section 360M of that Act).
  - (9) Condition E is that an election under this subsection made by the person who is or has been carrying on the property business has effect in relation to the business for the tax year.
  - (10) An election under subsection (9) must be made to an officer of Revenue and Customs on or before the first anniversary of the normal self-assessment filing date for the tax year for which the election is made.
  - (11) The Treasury may by regulations –
    - (a) amend subsection (2);
    - (b) amend subsection (4) so as to substitute another sum for the sum for the time being specified in that subsection.
  - (12) A statutory instrument containing regulations under subsection (11) may not be made unless a draft of the instrument has been laid before, and approved by a resolution of, the House of Commons.
  - (13) Subsection (12) does not apply if the regulations omit one or more paragraphs of subsection (2) and make no other provision.

#### **271B Calculation of profits in accordance with GAAP**

- (1) In this Part, references to calculating the profits of a property business in accordance with GAAP are to calculating the profits in accordance with generally accepted accounting practice, subject to any adjustment required or authorised by law in calculating profits for income tax purposes.
- (2) A requirement under this Part to calculate profits in accordance with GAAP does not –
  - (a) require a person to comply with the requirements of the Companies Act 2006 or subordinate legislation made under that Act except as to the basis of calculation, or
  - (b) impose any requirements as to audit or disclosure.
- (3) See section 272 (application of trading income rules: GAAP) which applies only where profits are calculated in accordance with GAAP.

### 271C Basis of calculation of profits: cash basis required

The profits of a property business for a tax year must be calculated on the cash basis if none of conditions A, B, C, D or E in section 271A is met.

### 271D Calculation of profits on the cash basis

- (1) In this Part, references to calculating the profits of a property business on the cash basis are to doing so in accordance with subsections (2) and (3).
- (2) In calculating the profits, receipts of the business are brought into account at the time they are received, and expenses of the business are brought into account at the time they are paid.
- (3) Subsection (2) is subject to any adjustment required or authorised by law in calculating profits for income tax purposes.
- (4) For provisions of this Part which apply only where profits are calculated on the cash basis, see –
  - (a) section 272ZA (application of trading income rules: cash basis),
  - (b) section 307B (cash basis: capital expenditure),
  - (c) section 307C (cash basis: deduction for costs of loans),
  - (d) section 307D (cash basis: modification of deduction for costs of loans), and
  - (e) Chapter 7A (cash basis: adjustments for capital allowance).
- (5) For provision about the application of Chapter 4 (profits of property businesses: lease premiums etc) in relation to profits calculated on the cash basis, see section 276A.”

3 In the italic heading before section 272, at the end insert “: *application of trading income rules*”.

4 After that italic heading insert –

### “271E Profits of a property business: application of trading income rules

- (1) The profits of a property business are calculated in the same way as the profits of a trade.
  - (2) But this is subject to –
    - (a) section 272, which limits the rule in subsection (1) in relation to a property business whose profits are calculated in accordance with GAAP, and
    - (b) section 272ZA, which limits that rule in relation to a property business whose profits are calculated on the cash basis.”
- 5 (1) Section 272 (profits of a property business: application of trading income rules) is amended as follows.
- (2) For the heading substitute “Application of trading income rules: GAAP”.
  - (3) Omit subsection (1).
  - (4) In subsection (2), for the words before the table substitute “In relation to a property business whose profits are calculated in accordance with GAAP,

the provisions of Part 2 (trading income) which apply as a result of section 271E(1) are limited to the following –”.

- (5) In the table in subsection (2), omit the entry relating to section 25 (generally accepted accounting practice).

6 After section 272 insert –

**“272ZA Application of trading income rules: cash basis**

- (1) In relation to a property business whose profits are calculated on the cash basis, the provisions of Part 2 (trading income) which apply as a result of section 271E(1) are limited to the following –

<i>In Chapter 3 (basic rules) –</i>	
section 26	losses calculated on same basis as profits
section 28A	money’s worth
section 29	interest
<i>In Chapter 4 (rules restricting deductions) –</i>	
section 34	expenses not wholly and exclusively for trade and unconnected losses
sections 38 to 42 and 44	employee benefit contributions
sections 45 to 47	business entertainment and gifts
section 52	exclusion of double relief for interest
section 53	social security contributions
section 54	penalties, interest and VAT surcharges
section 55	crime-related payments
section 55A	expenditure on integral features
<i>In Chapter 5 (rules allowing deductions) –</i>	
section 57	pre-trading expenses
sections 58 and 59	incidental costs of obtaining finance
section 69	payments for restrictive undertakings
sections 70 and 71	seconded employees
section 72	payroll deduction schemes: contributions to agents’ expenses
sections 73 to 75	counselling and retraining expenses
sections 76 to 80	redundancy payments etc
section 81	personal security expenses

sections 82 to 86	contributions to local Enterprise organisations or urban Regeneration companies
sections 86A and 86B	contributions to flood and coastal erosion risk management projects
sections 87 and 88	scientific research
sections 89 and 90	expenses connected with patents, designs and trade marks
section 91	payments to Export Credits Guarantee Department
section 94A	costs of setting up SAYE option scheme or CSOP scheme
<i>In Chapter 6 (receipts) –</i>	
section 96	capital receipts
section 96A	cash basis: capital receipts
section 97	debts incurred and later released
section 104	distribution of assets of mutual concerns
section 105(1) and (2)(b) and (c)	industrial development grants
section 106	sums recovered under insurance policies etc
<i>In Chapter 6A (amounts not reflecting commercial transactions) –</i>	
section 106C	amounts not reflecting commercial transactions
section 106D	capital receipts
section 106E	gifts to charities etc
<i>In Chapter 7 (gifts to charities etc) –</i>	
section 109	receipt by donor or connected person of benefit attributable to certain gifts
<i>In Chapter 11 (other specific trades) –</i>	
section 155	levies and repayments under FISMA 2000

- (2) In those provisions, the expression “this Part” is to be read as a reference to those provisions as applied by subsection (1) and to the other provisions of Part 3.
- (3) For the purposes of its application to property businesses whose profits are calculated on the cash basis, section 96A (cash basis: capital receipts) has effect as if –
- (a) for subsection (1)(b) there were substituted –

- “(b) the whole or part of any such expenditure would have been so brought into account if the profits of the property business had been calculated on the cash basis (see section 271D) at the time the expenditure was paid.”, and
- (b) after subsection (3) there were inserted –
- “(3A) If the bringing into account of the expenditure in respect of the asset would be disallowed, under section 307B(5), if it were incurred in a subsequent tax year (“a relevant tax year”), the person is to be regarded for the purposes of this section as disposing of the asset for an amount equal to the market value amount on the last day of the tax year immediately preceding the first tax year which is a relevant tax year.”
- 7 After section 272ZA insert –
- “Calculation of profits: other general rules”.*
- 8 In section 272A (restricting deductions for finance costs related to residential property), after subsection (6) insert –
- “(7) See also section 307D (cash basis: modification of deduction for costs of loans).”
- 9 (1) Section 274 (relationship between rules prohibiting and allowing deductions) is amended as follows.
- (2) In subsection (1)(b) –
- (a) after “section 272” insert “, or sections 38 and 55 as applied by section 272ZA”, and
- (b) after “(finance costs)” insert “and section 307D (cash basis: modification of deduction for costs of loans)”.
- (3) In subsection (3) –
- (a) after “section 272” insert “, or sections 38 and 55 as applied by section 272ZA”, and
- (b) for “section 272A” insert “sections 272A and 307D”.
- (4) In subsection (4), after “section 272” insert “or 272ZA”.
- 10 In section 276(5) (introduction: profits of property businesses: lease premiums etc), after “292” insert “; but see also section 276A”.
- 11 After section 276 insert –
- “276A Application of Chapter to property businesses using cash basis**
- The following provisions of this Chapter do not apply in calculating the profits of a property business on the cash basis –
- (a) sections 291 to 294 (tenants under taxed leases: deductions), and
- (b) sections 296 and 298 (ICTA modifications).”
- 12 In Chapter 5 of Part 3 (profits of property businesses: other rules about receipts and deductions), after the Chapter heading insert –

*“Property businesses using cash basis*

**307A Application of Chapter to property businesses using cash basis**

The following provisions of this Chapter apply only where the profits of a property business are calculated on the cash basis—

- (a) section 307B (cash basis: capital expenditure),
- (b) section 307C (cash basis: deduction for costs of loans), and
- (c) section 307D (cash basis: modification of deduction for costs of loans).

**307B Cash basis: capital expenditure**

- (1) This section applies in relation to the calculation of the profits of a property business on the cash basis.
- (2) No deduction is allowed for an item of a capital nature incurred on, or in connection with, the acquisition or disposal of a business or part of a business.
- (3) No deduction is allowed for an item of a capital nature incurred on, or in connection with, education or training.
- (4) Subsection (5) applies in calculating the profits of the property business for a tax year if—
  - (a) the business carried on in the tax year consists of or includes an ordinary property business, and
  - (b) the ordinary property business is carried on in relation to land consisting of, or consisting of an estate, interest or right in or over, a dwelling-house or part of a dwelling-house (“the dwelling-house”).
- (5) No deduction is allowed for an item of a capital nature incurred on, or in connection with, the provision, alteration or disposal of—
  - (a) land mentioned in subsection (4)(b),
  - (b) an asset which, in being provided, is installed or otherwise fixed to the dwelling-house so as to become, in law, part of the dwelling-house, or
  - (c) an asset for use in the dwelling-house.
- (6) For the purposes of this section, an “ordinary property business” is so much of the property business as does not consist of the commercial letting of furnished holiday accommodation (within the meaning of Chapter 6) in the UK or in another EEA state.
- (7) If there is a letting of accommodation only part of which is furnished holiday accommodation, just and reasonable apportionments are to be made for the purposes of subsection (5).
- (8) If an asset is provided partly for use in the dwelling-house and partly for other purposes, such apportionment of the expenditure incurred on, or in connection with, the provision, alteration or disposal of the asset is to be made for the purposes of subsection (5)(c) as is just and reasonable.
- (9) No deduction is allowed for an item of a capital nature incurred on, or in connection with, the provision, alteration or disposal of—



- (a) any asset that is not a depreciating asset (see subsections (11) and (12)),
  - (b) any asset not acquired or created for use on a continuing basis in the property business,
  - (c) a car (see subsection (20)),
  - (d) relevant land (see subsection (13)),
  - (e) a non-qualifying intangible asset (see subsections (14) to (17)), or
  - (f) a financial asset (see subsection (18)).
- (10) But subsection (9)(d) does not prevent a deduction being made for expenditure that –
- (a) is incurred on the provision of a depreciating asset which, in being provided, is installed or otherwise fixed to relevant land so as to become, in law, part of the land, but
  - (b) is not incurred on, or in connection with, the provision of –
    - (i) a building,
    - (ii) a wall, floor, ceiling, door, gate, shutter or window or stairs,
    - (iii) a waste disposal system,
    - (iv) a sewerage or drainage system, or
    - (v) a shaft or other structure in which a lift, hoist, escalator or moving walkway may be installed.
- (11) An asset is a “depreciating” asset if, on the date the item of a capital nature is incurred, it is reasonable to expect that before the end of 20 years beginning with that date –
- (a) the useful life of the asset will end, or
  - (b) the asset will decline in value by 90% or more.
- (12) The useful life of an asset ends when it could no longer be of use to any person for any purpose as an asset of a business.
- (13) In relation to the calculation of profits for a tax year, “relevant land” means land other than land –
- (a) mentioned in subsection (4)(b), and
  - (b) in relation to which an ordinary property business is carried on in the tax year.
- (14) “Intangible asset” means anything that is capable of being an intangible asset within the meaning of FRS 105 and, in particular, includes –
- (a) an internally-generated intangible asset, and
  - (b) intellectual property.
- (15) An intangible asset is “non-qualifying” unless, by virtue of having a fixed maximum duration, it must cease to exist before the end of 20 years beginning with the date on which the item of a capital nature is incurred.
- (16) An intangible asset is “non-qualifying” if it consists of a right, whether conditional or not, to obtain an intangible asset without a fixed maximum duration by virtue of which that asset must, assuming the right is exercised at the last possible time, cease to exist

before the end of 20 years beginning with the date on which the item of a capital nature is incurred.

- (17) Where –
- (a) the person carrying on the property business (“P”) has an intangible asset, and
  - (b) P grants a licence or any other right in respect of that asset to another person,
- any intangible asset that consists of a licence or other right granted to P in respect of the intangible asset mentioned in paragraph (a) is “non-qualifying”.
- (18) A “financial asset” means any right under or in connection with –
- (a) a financial instrument, or
  - (b) an arrangement that is capable of producing a return that is economically equivalent to a return produced under any financial instrument.
- (19) A reference to acquisition, provision, alteration or disposal includes potential acquisition, provision, alteration or (as the case may be) disposal.
- (20) In this section –
- “arrangement” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable);
  - “building” includes any fixed structure;
  - “car” has the same meaning as in Part 2 of CAA 2001 (see section 268A of that Act);
  - “financial instrument” has the same meaning as in FRS 105;
  - “FRS 105” means Financial Reporting Standard 105 (the Financial Reporting Standard applicable to the Micro-entities Regime), issued by the Financial Reporting Council in July 2015;
  - “intellectual property” means –
    - (a) any patent, trade mark, registered design, copyright or design right, plant breeders’ rights or rights under section 7 of the Plant Varieties Act 1997,
    - (b) any right under the law of a country or territory outside the United Kingdom corresponding or similar to a right within paragraph (a),
    - (c) any information or technique not protected by a right within paragraph (a) or (b) but having industrial, commercial or other economic value, or
    - (d) any licence or other right in respect of anything within paragraph (a), (b) or (c);
  - “provision” includes creation, construction or acquisition.

### **307C Cash basis: deduction for costs of loans**

- (1) Section 307D applies in calculating the profits of a property business for a tax year if conditions A to C are met.
- (2) Condition A is that the profits of the business are calculated on the cash basis for the tax year.

- (3) Condition B is that, apart from section 272A (restricting deductions for finance costs related to residential property) and section 307D (cash basis: modification of deduction for costs of loans), a deduction for costs of a loan would be allowed in calculating the profits of the business for the tax year.

In this section and in section 307D such a loan is referred to as a “relevant loan”.

- (4) Condition C is that –

$$L > V$$

where –

L is the total loan amount for the tax year (see subsections (5) and (6)), and

V is the sum of the values of all the properties involved in the property business on the last day of the tax year (see subsections (7) and (8)).

- (5) The “total loan amount for the tax year” –
- (a) if there is only one relevant loan, is the business amount of that loan, and
  - (b) if there are two or more relevant loans, is found by calculating the business amount of each of those loans and adding those business amounts together.
- (6) The “business amount” of a relevant loan is given by –

$$\frac{X}{Y} \times A$$

where –

A is the amount borrowed by way of the loan,

X is the amount of the deduction for costs of the loan that would be allowed, apart from sections 272A and 307D, in calculating the profits of the business for the tax year, and

Y is the amount of the deduction for costs of the loan that would be allowed, apart from the wholly and exclusively rule and sections 272A and 307D, in calculating the profits of the business for the tax year.

- (7) The “value” of a property is the total of –
- (a) the market value of the property at the time that it is first involved in the property business, and
  - (b) such amount of any expenditure of a capital nature incurred by the person carrying on the business in respect of the property as is not brought into account in calculating the profits of the business for the tax year or any previous tax year.
- (8) A property is “involved in the property business” if it is a property whose exploitation forms the whole or part of the business.
- (9) “Costs”, in relation to a loan, means –

- (a) interest on the loan, or
  - (b) incidental costs of obtaining finance by means of the loan.
- (10) Section 58(2) to (4) (meaning of “incidental costs of obtaining finance”) apply for the purposes of subsection (9)(b).
- (11) In this section –
- “market value”, in relation to a property, means the price which the property might reasonably be expected to fetch on a sale in the open market,
  - “property” means an estate, interest or right in or over land, and
  - “the wholly and exclusively rule” means the rule in section 34 (expenses not wholly and exclusively for trade and unconnected losses), as applied by section 272ZA (application of trading income rules: cash basis).

**307D Cash basis: modification of deduction for costs of loans**

- (1) Where section 307C provides that this section applies in calculating the profits of a property business for a tax year, the amount which is allowed as a deduction for costs of a relevant loan in calculating the profits for the tax year is the non-adjusted deduction multiplied by the relevant fraction.
- This is subject to section 272A (restricting deductions for finance costs related to residential property).
- (2) “The non-adjusted deduction” means the deduction for costs of the relevant loan that would be allowed, apart from section 272A and this section, in calculating the profits of the business for the tax year.
- (3) “The relevant fraction” means –

$$\frac{V}{L}$$

where V and L have the same meaning as in section 307C.”

- 13 In section 311A (replacement domestic items relief), in subsection (15) –
- (a) for the definition of “the capital expenditure rule” substitute –
    - ““the capital expenditure rule” means –
    - (a) in relation to a property business whose profits are calculated in accordance with GAAP, the rule in section 33 (capital expenditure), as applied by section 272, and
    - (b) in relation to a property business whose profits are calculated on the cash basis, any of the rules in section 307B (cash basis: capital expenditure);”;
  - (b) in the definition of “the wholly and exclusively rule”, after “section 272” insert “or 272ZA”.
- 14 In section 315 (deduction for expenditure on sea walls), after subsection (6) insert –

- “(7) In calculating the profits of a property business on the cash basis, any reference in this section to the incurring of expenditure is to the paying of expenditure.”
- 15 In section 322 (commercial letting of furnished holiday accommodation), after paragraph (za) in subsections (2) and (2A) insert –  
“(zaa) section 307B (cash basis: capital expenditure),”.
- 16 After section 329 insert –

### **“329A Application of Chapter where cash basis used**

- This Chapter applies if –
- (a) the profits of a property business are calculated –
    - (i) on the cash basis for a tax year (see section 271D), and
    - (ii) in accordance with GAAP (see section 271B) for the following tax year, or
  - (b) the profits of a property business are calculated –
    - (i) in accordance with GAAP for a tax year, and
    - (ii) on the cash basis for the following tax year.”
- 17 In section 331 (income charged) –
- (a) the existing text becomes subsection (1), and
  - (b) after that subsection insert –  
“(2) This is subject to section 334A (spreading on leaving cash basis and related election).”
- 18 After section 334 insert –

#### *“Spreading of adjustment income on leaving cash basis*

### **334A Spreading on leaving cash basis and related election**

Sections 239A (spreading on leaving cash basis) and 239B (election to accelerate charge under section 239A) apply for the purposes of this Chapter as they apply for the purposes of Chapter 17 of Part 2, but as if –

- (a) for section 239A(1) there were substituted –
  - “(1) This section applies if the profits of a property business are calculated –
    - (a) on the cash basis for a tax year (see section 271D), and
    - (b) in accordance with GAAP (see section 271B) for the following tax year.”, and
  - (b) any reference to section 239A were to that section as applied by this section.

## **CHAPTER 7A**

### **CASH BASIS: ADJUSTMENTS FOR CAPITAL ALLOWANCE**

#### **334B “Entering the cash basis”**

For the purposes of this Chapter, a person carrying on a property business enters the cash basis for a tax year if the profits of the business are calculated –

- (a) on the cash basis for the tax year (see section 271D), and
- (b) in accordance with GAAP (see section 271B) for the previous tax year.

### **334C Cash basis: adjustments for capital allowance**

- (1) Section 240C (unrelieved qualifying expenditure) applies in relation to a property business as it applies in relation to a trade, but as if –
    - (a) for subsection (1)(b) there were substituted –
      - “(b) the person has unrelieved qualifying expenditure to carry forward from the chargeable period which is the previous tax year.”, and
    - (b) the reference to section 240D were to that section as applied by this section.
  - (2) Section 240D (assets not fully paid for) applies in relation to a property business as it applies in relation to a trade, but as if in subsection (1)(b) for “the beginning of the basis period for that tax year” there were substituted “the end of the chargeable period which is the previous tax year”.
  - (3) Section 240E (effect of election where predecessor and successor are connected persons) applies in relation to a property business as it applies in relation to a trade, but as if in subsection (1)(c) “the basis period for” were omitted.”
- 19 In section 786 (meaning of “rent-a-room receipts”), after subsection (6) insert –
- “(6A) Subsections (6B) and (7) apply if –
- (a) the receipts would otherwise be brought into account in calculating the profits of a UK property business, and
  - (b) the profits are calculated on the cash basis (see section 271D).
- (6B) Any amounts brought into account under section 96A (capital receipts), as applied by section 272ZA, as a receipt in calculating the profits of the property business are to be treated as receipts within paragraph (a) of subsection (1) above.”
- 20 In section 860 (adjustment income), in subsection (5), after “Chapter 17 of Part 2” insert “, or under section 239B as applied to property businesses by section 334A,”.
- 21 In section 866 (employee benefit contributions: non-trades and non-property businesses), in subsection (7)(b), for “section 272” substitute “sections 272 and 272ZA”.
- 22 In section 867 (business entertainment and gifts: non-trades and non-property businesses), in subsection (7)(b), for “section 272” substitute “sections 272 and 272ZA”.
- 23 In section 868 (social security contributions: non-trades etc), in subsection (6)(b), for “section 272” insert “sections 272 and 272ZA”.
- 24 In section 869 (penalties, interest and VAT surcharges: non-trades etc), in subsection (6)(b), for “section 272” substitute “sections 272 and 272ZA”.

- 25 In section 870 (crime-related payments: non-trades and non-property businesses), in subsection (4)(b), for “section 272” substitute “sections 272 and 272ZA”.
- 26 In section 872 (losses calculated on same basis as miscellaneous income), in subsection (4)(b), for “section 272” substitute “sections 272 and 272ZA”.
- 27 In Part 2 of Schedule 4 (index of defined expressions), at the appropriate place insert –

“the cash basis (in Part 3)	section 271D
in accordance with GAAP (in Part 3)	section 271B”.

PART 2

AMENDMENTS OF OTHER ACTS

TMA 1970

- 28 In section 42 of TMA 1970 (procedure for making claims etc), in subsection (7)(e), after “194” insert “, 271A(9)”.

TCGA 1992

- 29 (1) Section 47A of TCGA 1992 (exemption for disposals by persons using cash basis) is amended as follows.
- (2) In subsection (3), after “vocation” insert “or property business”.
- (3) In subsection (4), at the end insert “, or (as the case may be) that the profits of the property business are calculated on the cash basis (see section 271D of that Act) at the time of the disposal.”
- (4) In subsection (5) –
- (a) in paragraph (a), after “vocation” insert “or property business”, and
- (b) in paragraph (b), after “vocation” insert “, or (as the case may be) if the profits of the property business had been calculated on the cash basis,”.
- (5) In subsection (6), after “vocation”, in both places, insert “or property business”.
- (6) In subsection (7)(c), after “vocation” insert “or property business”.
- (7) After subsection (7) insert –
- “(8) In this section and in section 47B, “property business” means a UK property business or an overseas property business within the meaning of Part 3 of ITTOIA 2005.”
- 30 (1) Section 47B of TCGA 1992 (disposals made by persons after leaving cash basis) is amended as follows.

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- (2) In subsection (1), in both places, after “vocation” insert “or property business”.
- (3) In subsection (2) –
- (a) in paragraph (a), after “vocation,” insert “or, in the case of a property business, at a time when the profits of the business were calculated on the cash basis (see section 271D of that Act),”,
  - (b) in paragraph (b), after “vocation” insert “or property business”.
- (4) For subsection (3) substitute –
- “(3) Condition B is that –
- (a) in the case of a trade, profession or vocation, no election under section 25A of ITTOIA 2005 has effect in relation to the trade, profession or vocation at the time of the disposal, or
  - (b) in the case of a property business, the profits of the business are not calculated on the cash basis at the time of the disposal.”
- (5) In subsection (5) –
- (a) in paragraph (a), for “the election mentioned in subsection (2)(a) above had not had effect” substitute “the profits of the trade, profession, vocation or property business had not been calculated on the cash basis”, and
  - (b) in paragraph (b), for “that election had not had effect” substitute “the profits had not been calculated on the cash basis”.
- (6) In subsection (6) –
- (a) for “the election mentioned in subsection (2)(a) above had not had effect” substitute “the profits of the trade, profession, vocation or property business had not been calculated on the cash basis”, and
  - (b) for “in the absence of the election” substitute “if the profits had not been calculated on the cash basis”.

#### CAA 2001

- 31 CAA 2001 is amended as follows.
- 32 In section 1 (capital allowances), for subsection (4) substitute –
- “(4) But a person is not entitled to any allowance or liable to any charge under this Act –
- (a) in calculating the profits of a trade, profession or vocation of the person for a tax year for which an election under section 25A of ITTOIA 2005 (cash basis for trades) has effect, or
  - (b) in calculating the profits of a property business of the person for a tax year for which the profits are calculated on the cash basis (see section 271D of that Act),
- other than an allowance in respect of expenditure incurred on the provision of a car (or a charge in connection with such an allowance).”
- 33 (1) Section 59 (unrelieved qualifying expenditure) is amended as follows.
- (2) After subsection (4) insert –



- “(4A) If a person carrying on a property business enters the cash basis for a tax year, no amount may be carried forward as unrelieved qualifying expenditure from the chargeable period which is the previous tax year.”
- (3) In subsection (5), for “subsection (4) does not apply” substitute “subsections (4) and (4A) do not apply”.
- (4) In subsection (7), at the end insert “(adjustments for capital allowance: trades using cash basis), and section 334B of that Act applies for the purposes of this section as it applies for the purposes of Chapter 7A of Part 3 of that Act (adjustments for capital allowance: property businesses using cash basis).”
- 34 (1) Section 66A (persons leaving cash basis) is amended as follows.
- (2) In subsection (1) –
- (a) in paragraph (a), after “vocation” insert “or property business”, and
- (b) for paragraph (b) substitute –
- “(b) the person has at any time incurred expenditure which would have been qualifying expenditure if –
- (i) in the case of a trade, profession or vocation, an election under section 25A of ITTOIA 2005 (cash basis for trades) had not had effect at that time, or
- (ii) in the case of a property business, if the profits of the business had been calculated in accordance with GAAP at that time (see section 271B of that Act).”
- (3) In subsection (2), in both places, after “vocation” insert “or property business”.
- (4) After subsection (6) insert –
- “(6A) For the purposes of this section a person carrying on a property business leaves the cash basis in a chargeable period (“tax year X”) if the profits of the business are calculated –
- (a) in accordance with GAAP (see section 271B of ITTOIA 2005) for tax year X, and
- (b) on the cash basis (see section 271D of that Act) for the previous tax year.”

#### ITA 2007

- 35 ITA 2007 is amended as follows.
- 36 In Part 4 (loss relief), in section 59 (overview of Part), in subsection (3)(b) –
- (a) for “section 272” substitute “sections 272 and 272ZA”, and
- (b) for “applies” substitute “apply”.
- 37 (1) Chapter 4 of Part 4 (losses from property businesses) is amended as follows.
- (2) In section 120 (deduction of property losses from general income), in subsection (7), at the end insert “and section 127BA (restriction of relief: cash basis)”.
- (3) After section 127B insert –

**“127BA Restriction of relief: cash basis**

- (1) This section applies if—
  - (a) in a tax year a person makes a loss in a UK property business or overseas property business (whether carried on alone or in partnership), and
  - (b) the profits of the business are calculated on the cash basis for the tax year (see section 271D of ITTOIA 2005).
- (2) No property loss relief against general income may be given to the person for the loss.”

38 In Chapter 1 of Part 8 (relief for interest payments), in section 384B(1) (restriction on relief for interest payments where cash basis applies), after “for the tax year” insert “or if the profits of a UK property business or overseas property business carried on by the partnership are calculated on the cash basis for the tax year (see section 271D of ITTOIA 2005).”

PART 3

COMMENCEMENT

39 The amendments made by this Schedule have effect for the tax year 2017-18 and subsequent tax years.