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Reform of Corporation Tax loss relief:

Overview: Introduction

What is it?

The reform of Corporation Tax loss relief will be introduced in [F(No 2)A17].

The reform has two aims:

- To restrict the amount of loss relief available to businesses with substantial profits, and
- To allow most carried-forward losses arising from 1 April 2017 to be used more flexibly against the total taxable profits, rather than particular types of profits, of a company and its group members.

Who is affected?

The rules apply to all companies and unincorporated associations that pay Corporation Tax (CT) and have carried-forward losses.

In practice, where a company or, if a company is in a group, the group of companies, has profits up to the level of the {deductions allowance}, they will be unaffected by the restriction but will still benefit from the relaxation.

When does it apply?

The rules apply from 1 April 2017.

Accounting periods straddling 1 April 2017 are subject to {commencement provisions}.

Reform of Corporation Tax loss relief:

Overview: Scope

The changes to relief for carried-forward losses in [F(No 2)A17] apply to all companies and unincorporated associations that pay Corporation Tax. Relief for in-year losses (such as group relief under CTA10/Part 5) and losses carried back from a later accounting period (such as trading losses under CTA10/S37(3)(b)) are not affected.

Carried forward losses affected

The {restriction} and {relaxation} apply to the following losses which are also known as {relevant deductions} (CTA10/S269ZD(3)):

- Non trading loan relationship deficits (NTRLRDs) carried forward (CTA09/S463G)
- Trade losses carried forward (CTA10/S45A)
- Non trading losses on intangible fixed assets carried forward (CTA09/S753)
- Management expenses carried forward (CTA09/S1219 and CTA09/1223)
- UK property business losses carried forward (CTA10/S62 and CTA10/S63)

The restriction (but not the relaxation) applies to the following types of loss:

- Pre-1 April 2017 trading losses (CTA10/S45(4))
- Post-1 April 2017 trading losses that can only be set against trading income (CTA10/S45B)
- Pre-1 April 2017 NTRLRDs and those that arise at any time to a company that is a charity (CTA09/S457(3))
- Post 1-April 2017 NTRLRDs that can be set only against non-trading profits (CTA09/S463H(5))

Exclusions and special rules

For Basic Life Assurance and General Annuity Businesses (BLAGABs), the policyholders' share of Basic Life Assurance and General Annuity Business profits is excluded from the loss restriction.

The loss relief rules are modified in the way in which they apply to qualifying production/development companies that fall within the scope of creative industry tax reliefs (CTA09/Parts 15 to 15E).

Special rules apply to losses arising from ring fence activities and oil contractor activities in relation to the North Sea oil and gas regime (CTA10/Part 8 and CTA10/Part 8ZA).

Northern Ireland

Devolution of power to the Northern Ireland Assembly allows the Northern Ireland Executive to set its own rate of Corporation Tax for trading profits arising in Northern Ireland. The rules will apply to the Northern Ireland regime (CTA10/Part 8B).

Reform of Corporation Tax loss relief: Overview: Restriction

CTA10/S269ZA to S269ZZB

With effect from 1 April 2017, companies with profits in excess of any {deductions allowance} (which is a maximum of £5 million) are no longer able to reduce profits to nil by using relief for carried-forward losses. Broadly, a company's profits after deduction of any {in-year reliefs} (such as group relief) and the deductions allowance can only be reduced by up to 50% by carried-forward losses.

For example, a company with £12 million profit remaining after in-year reliefs and that has access to the maximum £5m deductions allowance will be able to cover only a maximum of £8.5m profits by carried-forward losses (the £5m deductions allowance plus 50% of the remaining profits of £7m of profits). The result of this is that a company will pay tax on £3.5m.

Where a company is a member of a {group}, the deductions allowance is shared amongst the group members as they see fit. The allowance is allocated to companies that are members of the group by a nominated company.

There is no restriction if a company's profits are below the amount of the deductions allowance and as such, most small companies or groups are unlikely to be affected.

The restriction has effect for profits arising from 1 April 2017 but applies to all losses carried forward, including those carried forward at that date.

Reform of Corporation Tax loss relief: Overview: Relaxation

CTA09/S463A-I, CTA10/S45A-H

The loss relaxation applies for carried-forward losses sustained on or after 1 April 2017.

Five types of loss are affected. These are trade losses, non-trading loan relationship deficits (NTRLRDs), non-trading losses on intangible fixed assets (NTLIFAs), management expenses and UK property business losses.

Trade losses and NTRLRDs

In most cases, trade losses and NTRLRDs sustained from 1 April 2017 can be carried forward and set against total profits of the company (CTA09/S463G, CTA10/S45A). These losses may also be available for {group relief for carried-forward losses}.

However, in certain circumstances, companies continue to be more restricted.

Some trading losses carried forward are still only available for set off against profits of the same trade. This applies for all trading losses incurred in periods prior to 1 April 2017 and to losses of later periods in particular circumstances, for example, if the trade has become small or negligible (CTA10/S45A-E).

Similarly, some carried forward NTRLRDs are still only available for set off against non-trading profits. This applies for all deficits of periods prior to 1 April 2017 and to deficits of later periods if an investment business has become small or negligible (CTA09/S463H).

NTLIFAs, management expenses and UK property business losses

Companies continue to be able to set management expenses, UK property business losses and NTLIFAs against their total profits.

Losses of these types sustained from 1 April 2017 may also be available for group relief for carried-forward losses.

Flexibility

{New and altered claims procedures} for carried-forward trade losses, NTRLRDs, management expenses and UK property business losses mean that a company can choose whether and which losses to relieve in an accounting period.

No change has been made to claims procedures for carried-forward NTLIFAs, which companies were already able to choose to relieve in whole, in part or not at all (CTA09/S753(1)).

Previously, management expenses were deducted in priority to other deductions from total profits. However, this rule (which is in CTA09/1219(1A)) no longer applies to carried forward management expenses set against profits arising from 1 April 2017.

Application

The changes set out above apply for all companies and unincorporated associations within the scope of CT. Whereas the {deductions allowance} means that the {restriction on relief for losses carried forward} only affects groups or standalone companies with profits above a certain level, there are no minimum or maximum profit requirements for companies to benefit from the relaxation.

Reform of Corporation Tax loss relief: Overview: Group relief for carried-forward losses

CTA10/PART5A

From 1 April 2017, companies can surrender certain types of carried-forward losses to another company in the same group relief group ({CTM80151}).

Group relief for carried-forward losses is also available to {consortia}.

Conditions

Broadly, a company may be able to surrender a loss for group relief for carried-forward losses if:

- The loss was incurred in a period beginning on or after 1 April 2017 (CTA10/S188BB and BC), and
- It was carried forward to the surrender period under one of various provisions that allow a company to relieve losses against its total profits (CTA10/S188BB).

This is subject to the condition that, in any individual accounting period, a company can only surrender carried-forward losses that it is unable to deduct from its own profits during that accounting period (CTA10/S188BE). This means that a company must have used losses up to its {relevant maximum} before surrendering any remaining losses as group relief for carried-forward losses.

Similarly, a company can only claim group relief for carried-forward losses after it has used its own carried-forward losses to the full extent possible. A company cannot use group relief for carried-forward losses against any profits that it could relieve using carried-forward losses of its own (CTA10/S188CD).

The total amount of relief a company can obtain using carried-forward losses is limited by the {restriction on deductions}. This applies to group relief for carried-forward losses as well as to the company's own losses carried forward. A company cannot use group relief for carried-forward losses to obtain any additional relief, beyond the amount permitted by the restriction (CTA10/269ZD(3)(j)).

Losses available for surrender

CTA10/S188BB

For the purposes of group relief for carried-forward losses, a company may be able to surrender its losses incurred on or after 1 April 2017 and carried forward under any of the following provisions:

- Carry forward of post-1 April 2017 non-trading deficit from loan relationships (CTA09/S463G(6)),
- Carry forward of non-trading loss on intangible fixed assets (CTA09/S753(3)),
- Carry forward of expenses of management of investment business (CTA09/S1223)
- Carry forward of post-1 April 2017 trade loss (CTA10/S45A(4)),
- Carry forward of loss made in UK property business (CTA10/S62(5)(a) and CTA10/S63(3)(a).

Companies may also be able to surrender an amount for group relief for carried-forward losses where:

- CTA10/303C (excess carried forward non-decommissioning losses of ring fence trade: relief against total profits) applies in relation to the amount, or
- The amount is a BLAGAB trade loss made by an insurance company and carried forward under FA12/S124A(2) or FA12/S124C(3).
- Companies cannot surrender qualifying charitable donations carried forward to the surrender period under CTA09/S1223.

Reform of Corporation Tax loss relief:

Overview: Claims

This page provides a summary of claims and related procedures introduced as part of the reform of carried forward losses. Further details are available in the relevant section of the guidance. For example, further details on claims for group relief for carried forward losses are available in the section on {group relief for carried forward losses}. Links to relevant sections are provided within the text below.

Losses set against profits of the company

There are several changes in the way in which carried-forward losses are claimed for use against profits arising on or after 1 April 2017. Broadly, the claims procedure depends on whether the losses can be relieved against total profits.

Losses not set against total profits

Unrelieved trade losses arising before 1 April 2017 and certain trade losses of later periods are carried forward and {set against profits of the same trade only} (CTA10/S45, S45B).

Similarly, unrelieved non-trading loan relationship deficits arising before 1 April 2017 and certain deficits of later periods are carried forward and {set against non-trade profits only} (CTA09/S457, S463H).

In both cases, relief is automatic. However, the company can make a claim to prevent this. The claim can relate to all or part of the loss or deficit.

{Claims relating to trade losses set against profits of the same trade} are made under CTA10/S45(4A) or CTA10/S45B(5).

{Claims relating to non-trading loan relationship deficits set against non-trading profits} are made under CTA09/S458 or CTA09/S463H(7)

In either case, claims must be made within two years of the end of the period affected (CTA09/S458(2), CTA10/S45B(6)). That is, within two years of the period in which relief would otherwise be given. HMRC have the discretion to allow late claims under CTA10/S45B(6).

Losses set against total profits

Most carried forward losses within the scope of the loss reform arising after 1 April 2017 can be carried forward and set against total profits.

In these cases, the company must make a claim for the loss to be relieved.

It is not necessary for the loss to be used to the full extent possible. The company can specify the amount of the loss they want to relieve. The remainder will generally be carried forward to the subsequent period.

The specific provisions relating to the claims are:

- {Non-trading loan relationship deficits} (NLTLDs) (CTA09/S463G(7)).
- {Trade losses} (CTA10/S45A(5)).
- {Non-trading losses on intangible fixed assets} (CTA09/S753).
- {Management expenses} (CTA09/S1223(3B)).
- {Losses of a UK property business} (CTA10/S62(5A) and CTA10/S63(4)).

All of the above claims must be made within two years of the end of the accounting period of relief, or such further period as HMRC may allow (CTA09/s463G(10), CTA10/S45A(7), CTA09/S753(2), CTA09/S1223(3D), CTA10/S62(5C), CTA10/S63(6)).

Group relief for carried-forward losses

In addition, from 1 April 2017, companies can claim {group relief for carried-forward losses} (CTA10/PART5A).

A company within the {group} or {consortium} must have carried-forward losses available for the relief, and must give a {notice of consent} to surrender those losses to the claimant company (CTA10/S188BB, FA98/SCH18/PARA70-71A).

The claimant company must make a {claim for relief} in its tax return for the affected period (CTA10/S188CB-C, FA98/SCH18/PARA67-8).

The claim must be made in the return for the accounting period of relief or by an amendment to that return (FA98/SCH18/PARA67(2)). The notice of consent must be given at or before the time of the claim (FA98/SCH18/PARA70(3)).

Deductions allowance

A company or group does not need to make a claim in order to be entitled to a {deductions allowance}. The allowance increases the amount of losses a company may be able to relieve when it is subject to the {restriction on deductions for carried forward losses}.

However, there are a number of requirements a company or group must fulfil:

- The company tax return must {specify the amount of deductions allowance} (CTA10/S269ZZ(1)).

- Companies in a group must {nominate a company responsible for allocating the group deductions allowance} (CTA10/S269ZS).
- The nominated company must submit a {group allowance allocation statement} (CTA10/S269ZT-U).
- The deadline for HMRC to receive the group allowance allocation statement is the first anniversary of the filing date for the company tax return for the accounting period the statement relates to, or such further period as HMRC allows (s269ZT(4)-(5)).

Reform of Corporation Tax loss relief: Overview: Anti-avoidance

[F(No 2)A17/C2], CTA10/PART14, PART14A-B

Companies have {increased flexibility in the way they can use losses sustained from 1 April 2017}.

In addition, the overall amount of relief available for carried-forward losses sustained in any period against profits arising from 1 April 2017 is limited by the {loss restriction}.

These changes bring new opportunities for avoidance behaviour.

In order to protect the tax system, new legislation has been developed and existing legislation has been extended.

TAAR

The reform of carried forward losses includes a {targeted anti-avoidance rule} (TAAR) designed to counteract tax advantages that might arise from certain avoidance arrangements ([F(No 2)A17/C2]).

Acquisitions

CTA10/PART14 counters loss-buying, where a person buys a trading company wholly or partly for its unused losses rather than solely for the inherent value of its trade, business or assets ({CTM06305}).

CTA10/PART14A contains similar rules with regard to deduction buying, in order to restrict relief when a company with a latent loss is acquired. A latent loss will arise, for example, when expenditure is not recognised until a later period under normal commercial principles.

{These rules have been extended for circumstances where a change in company ownership occurs on or after 1 April 2017.}

- On a change of ownership, {pre-acquisition carried-forward losses cannot be surrendered into the new group for a period of five years} (CTA10/PART14/CH2C).
- The circumstances in which relief is restricted have been extended to include some {further cases involving a major change in the trade or business of a company} (CTA10/PART14/CH2A).
- The time limit has been extended for considering whether there has been a major change in a trade or business. Broadly, HMRC can now consider events up to five years from a change in company ownership. However,

the precise operation of these rules depends on the losses involved.
(CTA10/S676AA, S673, S677, S690, S692, S704, S705.)

Loss refresh

CTA10/PART14B contains provisions that prevent groups from entering into arrangements that turn carried-forward losses into in-year relief.

Prior to 1 April 2017, these rules applied only to trade losses, non-trading loan relationship deficits and management expenses.

From 1 April 2017, the rules have been extended to apply to losses of a UK property business and non-trading losses on intangible fixed assets (CTA10/S730F).

Reform of Corporation Tax loss relief: Overview: Commencement and apportionment

[F(No 2)A17/C1/PART12]

The loss restriction applies to all losses carried forward from 1 April 2017, not just those created after 1 April 2017.

The loss relaxation applies to losses that arise from 1 April 2017.

For companies with an accounting period that straddles 1 April 2017, the periods before and after 1 April 2017 are treated as separate accounting periods. This means that it is necessary to apportion profits and losses to arrive at the amounts that relate to these two periods. Apportionment is made on a time basis under CTA10/S1172. However, if this would produce an unjust or unreasonable result, an alternative just and reasonable basis may be used.

Companies affected by the Corporate Interest Restriction

Different commencement provisions apply where a company has an amount of interest that is restricted under the corporate interest restriction (TIOPA 2010/Part 10), which has effect from 1 April 2017. Those commencement provisions have the effect that any restricted interest is taken into account for the purposes of the loss reform in the deemed period beginning 1 April 2017.

If a company has made a profit in an accounting period and would have had a loss or a result of nil for the actual accounting period if it were not for the corporate interest restriction, the entire profit of the actual accounting period is treated for the purposes of the loss reform as arising in the deemed period beginning 1 April 2017.

If for the actual accounting period a company has made a profit which would have been less but for the corporate interest restriction, or has made a loss which would have been greater but for the corporate interest restriction, the company must establish what the result would have been but for the corporate interest restriction. This amount is called "the notional amount", while the actual result for the accounting period is called "the amount concerned". The company establishes what amount of the notional amount would have been apportioned to the period ending 31 March 2017 had the standard commencement provisions applied. This figure is called "the notional apportioned amount". If that amount is equal to or greater than the amount concerned, the whole of the amount concerned is apportioned to the first deemed accounting period. Otherwise, the notional apportioned amount is apportioned to the first accounting period and the remainder of the amount concerned is apportioned to the second deemed accounting period.

For example, a company with an accounting period 1 January to 31 December 2017 has a profit of £20m. Its interest restricted under Part 10 of TIOPA 2010 is £8m, meaning its profits would have been £12m if it had not been for the interest restriction. The company's amount concerned is £20m and its notional amount, the profit it would have had were it not for the interest restriction, is £12m. Apportioning the notional amount on a time basis does not give a result that is unjust or unreasonable, so £2,958,904 ($90/365 \times £12m$) of the notional amount would have been apportioned to the first deemed accounting period, meaning the notional apportioned amount is £2,958,904. This is less than the amount concerned of £20m and so £2,958,904 of the profit is apportioned to the first deemed accounting period. The remainder of the amount concerned is £17,041,096 and that is apportioned to the second deemed accounting period.

If, instead, the company had made a loss of £12m during an accounting period which would have been a loss of £96m but for a restriction of interest within Part 10 of TIOPA 2010 of £84m, the amount concerned is a loss of £12m and the notional amount is £96m. Using a time basis, the notional apportioned amount is £23,671,233 ($90/365 \times £96m$). This gives a notional apportioned amount that is greater than the amount concerned and so the entire amount concerned of £12m is apportioned to the first deemed accounting period. The second deemed accounting period will have a result of nil.

Reform of Corporation Tax loss relief: Restriction

[{Reform of Corporation Tax loss relief: Restriction: General}](#)

[{Reform of Corporation Tax loss relief: Restriction: Modified total profits}](#)

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[{Reform of Corporation Tax loss relief: Restriction: Deductions allowance for company in a group for part of an accounting period}](#)

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[{Reform of Corporation Tax loss relief: Restriction: Group deductions allowance}](#)

[{Reform of Corporation Tax loss relief: Restriction: Group allowance allocation statement}](#)

[{Reform of Corporation Tax loss relief: Restriction: Maximum deductions allowance that can be allocated to a company}](#)

[{Reform of Corporation Tax loss relief: Restriction: Excessive group deductions allowance allocated}](#)

[{Reform of Corporation Tax loss relief: Restriction: Deductions allowance company tax return}](#)

{Reform of Corporation Tax loss relief: Restriction: Example of company using only pre-1 April 17 trading losses and non-trading loan relationship deficits}

{Reform of Corporation Tax loss relief: Restriction: Example of company using both Pre-1 April 17 and Post-1 April 17 Losses}

{Reform of Corporation Tax loss relief: Restriction: Example of company using Post-1 April 17 Losses only}

Reform of Corporation Tax loss relief: Restriction: General

CTA10/S269ZA to S269ZZB

The use of certain carried-forward losses against profits arising from 1 April 2017 is restricted. The restriction applies to all losses carried forward, both pre-1 April 2017 and post-1 April 2017 losses.

Broadly, companies are prevented from utilising carried-forward losses to reduce their taxable profits to nil to the extent their profits exceed the amount of the {deductions allowance}. A company's profits after deduction of any in-year reliefs (such as group relief) and the deductions allowance can only be reduced by up to 50% by carried-forward losses.

The total amount of profits against which losses can be set is known as the {relevant maximum}.

Losses incurred on or after 1 April 2017 can be used more flexibly (referred to as {relaxation}). In most cases, carried-forward losses incurred after 1 April 2017 will be available to set against a company's total profits or surrender to another group to set against its total profits. However, some types of loss can only be set against certain types of profits (for example, trade losses incurred on or after 1 April 2017 where the trade subsequently becomes small or negligible can only be set against trading profits).

In cases where not all the carried-forward losses can be set against total profits, the relevant maximum needs to be computed for trading and non-trading profits separately.

To calculate the relevant maximum, the amounts listed below have to be computed in the following order:

- {Modified total profits} (CTA10/S269ZF(3) step 1)
- {Trade profits} and {non-trade profits} (CTA10/S260ZF(3) step 3)
- {In-year reliefs} (CTA10/S260ZF(3) steps 2 and 4)
- {Qualifying trading profits} and {qualifying non-trading profits} (CTA10/S260ZF(3) step 5)
- {Relevant trading profits} {relevant non-trading profits and {relevant profits} (CTA10/S269ZF(1), (2) and S269ZD(5)).
- Relevant maximum for trading, non-trading and total profits (CTA10/S269ZB(5), CTA10/S269ZC(3) CTA10/S269ZD(4)).

The following pages explain how each of the above is computed.

Reform of Corporation Tax loss relief: Restriction: Modified total profits

CTA10/S269ZF(3) and (4)

The {modified total profits} are the starting point for calculating a company's {qualifying trading profits} and {qualifying non-trading profits}.

To calculate the modified total profits, the amount of total profits is calculated in accordance with Step 1 of CTA10/S4, with the following modifications (S269ZF(4)):

1. Exclude any income from distributions within the scope of CTA09/Part 9A. Where this income constitutes trading income within CTA09/Part 3, it is not within the scope of Part 9A and will not be excluded from total profits for the purposes of computing the carried-forward losses the company can use.
2. Exclude ring fence profits of oil and gas companies as defined in CTA10/S276
3. Exclude oil contractor's ring fence profits as defined in CTA10/S356LD.
4. If a company is a life insurance company, exclude any 'I minus E' profit within FA12/S141(2)
5. Exclude deductions for trade losses that are carried forward and set against subsequent trade profits under CTA10/S45(4)(b) and CTA10/S45B other than the following for which relief is allowed without restriction:
 - Losses of a film trade (CTA09/1209(3), CTA09/1210(5A) and CTA09/1211(7A))
 - Losses of a television programme trade (CTA09/1216DA(3), CTA09/S1216DB(5A) and CTA09/S1216DC(7A))
 - Losses of a video game trade (CTA09/1217DA(3), CTA09/S1217DB(5A) and CTA09/S1217DC(7A))
 - Losses of a theatrical trade (CTA09/S1217MA(3) and CTA09/S1217MC(9))
 - Losses of an orchestral trade (CTA09/S1217SA(3) and CTA09/1217SC(9))
 - Losses of a museum or gallery exhibition trade (CTA09/S1218ZDA(3) and CTA09/S1218ZDC(9))

- Losses of a UK or EEA furnished holiday lettings business (CTA10/65(4B) and CTA10/S67A(5A))
 - Insurance companies' shock losses (CTA10/S269ZI(1))
 - Losses of oil and gas ring fence trades that are unrestricted (CTA10/S304(7))
 - Pre-1 April 2017 losses from oil contractor activities (CTA10/S356NJ(2))
6. Exclude any restricted carried-forward oil and gas ring fence losses that are set against profits from related activities under CTA10/S303B(4) or CTA10/S303D(5)
 7. Exclude carried-forward non trading loan relationship deficits that can be set only against non-trading income under CTA09/S457(3) or 463H(4).

The result is the modified total profits.

If the result of these modifications is a figure of nil or less than nil, the company is treated as having {qualifying trading profits} and {qualifying non-trading profits} of nil. There is no need to follow any further steps to calculate the qualifying trading and non-trading profits.

If the company has modified total profits greater than nil, the next step is divide the profits into {trading and non-trading profits}.

Reform of Corporation Tax loss relief: Restriction: Trading and non-trading profits

CTA10/S269ZF(3)

Most losses incurred in accounting periods beginning on or after 1 April 2017 can be set against total profits. However, certain losses can only be set against certain types of profits. For example, post-1 April 2017 trading losses where the trade subsequently becomes small or negligible can only be set against trading income.

In order to ensure that these losses are allocated correctly when the overall restriction on relief for carried-forward losses is applied, {modified total profits} must be divided into trade and non-trade profits. If there are no losses of the type that must be set only against certain types of profit and all losses can be deducted from total profits, this step is not needed and the following steps can be carried out based on total profits.

The trade profits are profits of a trade of a company. The non-trade profits are all other profits, including gains.

Once modified total profits have been divided into trade and non-trade, the next step is to allocate and deduct the {in-year reliefs}.

Reform of Corporation Tax loss relief: Restriction: In year reliefs

CTA10/S269ZF(3)

{In-year reliefs} are deducted from {modified total profits} when calculating {qualifying profits}.

In-year reliefs are any amounts that can be set against a company's total profits under step 2 of CTA 10/S4 except {excluded deductions}. (CTA10/S269ZF(3) Step 2 and CTA10/S269ZF(5)).

If the company has losses that can only be set against certain types of income (for example, pre-1 April 2017 trading losses that can only be set against trading income) the in-year reliefs must be allocated to the {trading and non-trading profits}. The company may choose how these reliefs are allocated i.e. to trading profits, non-trading profits or both. However, these cannot be deducted in a way that reduces either the trading profits or non-trading profits below nil. Allocation of in-year reliefs in this way allows companies to utilise the more restricted reliefs most effectively.

If there are no losses of the type that can only be set against certain types of income, allocation of the in-year reliefs between trading and non-trading profits is not needed.

Excluded deductions

Excluded deductions for an accounting period are deductions:

- that are a {relevant deduction} for the purposes of CTA10/S269ZD(3). These are carried-forward losses that would otherwise be deducted from a company's total profits and that are subject to the restriction. For example, carried-forward trade losses that are set against total profits under CTA10/S45A.
- for trading losses carried back from a later accounting period under CTA10/S37
- for terminal losses carried forward under CTA10/S45F
- for excess capital allowances for special leasing carried back from a later accounting period under CAA2001/S260(3)
- for non-trading loan relationship deficits carried back from a later accounting period under CTA09/S463E

Reform of Corporation Tax loss relief: Restriction: Qualifying profits

CTA10/S269ZF

Qualifying Profits

Qualifying trading and non-trading profits are the result of the following steps:

- First, calculate {modified total profits} (CTA10/S269F(3) step 1)
- Next, separate the modified total profits into {trading and non-trading profits.} (CTA10/S269F(3) step 3)
- Finally, deduct the {in-year reliefs} such as group relief, but not {excluded deductions}. These can be set against trading and non-trading profits as chosen by the company. However these cannot be reduced below zero. (CTA10/S269F(3) Steps 2 and 4)

If there are no losses of the type that can only be set against certain types of income and the profits have not therefore been divided into trading and non-trading profits, it isn't necessary to calculate qualifying trading and non-trading profits separately. Instead, it is only necessary to compute the qualifying profits which will be the amount of the modified total profits minus the total in-year reliefs.

Reform of Corporation Tax loss relief: Restriction: Relevant profits

CTA10/S269ZF (1) and (2) and CTA10/S269ZD(5)

Relevant Profits

Relevant profits are calculated by deducting the amount of the {deductions allowance} from {qualifying profits}. However, because certain types of carried-forward losses can only be used against certain types of profit, it may be first necessary to compute the relevant trading profits and the relevant non-trading profits separately.

The relevant trading profits are the qualifying trading profits minus the allocated trading deductions allowance. (CTA10/S269ZF(1))

The relevant non-trading profits are the qualifying non-trading profits minus the allocated non-trading deductions allowance. (CTA10/S269ZF(2))

For companies that are not life insurance companies, the relevant profits are the sum of the relevant trading profits and the relevant non-trading profits (CTA10/S269ZD(5)). For life insurance companies, the relevant profits are the sum of the relevant trading profits, the relevant non-trading profits and the relevant BLAGAB trade profits.

The overall deductions allowance set against qualifying trading and non-trading profits cannot exceed the total amount of the deductions allowance. (CTA10/S269ZB(8) and CTA10/S269ZC(6))

When to use relevant trading profits and relevant non-trading profits.

Certain types of carried-forward loss can only be set against certain types of profit. For example:

- Trade losses carried-forward at 1 April 2017 are available only to set against trading profits. (CTA10/S45)
- Trade losses incurred on or after 1 April 2017 are available only to set against trade profits where the trade becomes small or negligible in the accounting period in which the loss arose or from which the loss is carried forward. (CTA10/S45B, S45D and S45E)
- Non-trading loan relationship deficits (NLRDs) arising before 1 April 2017 or at any time to a company that is a charity can be set only against non-trading profits. (CTA09/Part5/Chapter16)
- NLRDs incurred on or after 1 April 2017 are only available to set against non-trading profits where the investment business becomes small or

negligible in the accounting period in which the deficit arose or from which the deficit is carried forward. (CTA10/S463H)

In such cases, in order to calculate the amount of the restricted losses that may be allowed, the relevant trading profits and relevant non-trading profits must be calculated.

If there are no carried-forward losses that can only be set against certain types of profit, and all the carried forward losses can be set against total profits, the relevant trading profits and relevant non-trading profits need not be calculated.

Instead only the relevant profits need to be calculated. In accordance with the legislation, the relevant profits are equal to the sum of the relevant trading profits and relevant non-trading profits. However, the amount of the relevant profits can also be calculated by taking:

- the sum of the {qualifying trading and non-trading profits} and
- deducting the amount of the {deductions allowance}

Reform of Corporation Tax loss relief: Restriction: Relevant maxima

CTA10/S269ZB (5), CTA10/S269ZC(3) and CTA10/S269ZD(4)

The {relevant maximum} for trading profits, non-trading profits and total profits is the maximum amount of those profits that can be covered with carried-forward losses. As with the computations of {relevant trading profits} and {relevant non-trading profits}, the relevant maximum for the trading and non-trading profits need only be calculated where there are carried-forward losses of the type that can only be set against certain types of profits (for example, trading losses carried forward at 1 April 2017 that can only be set against trading profits).

Relevant maximum for trading profits and when to use it

CTA10/S269ZB(5)

This is the sum of:

- 50% of the relevant trading profits, and
- The trading profits {deductions allowance}

This needs to be calculated where the company has carried-forward losses of the types that can only be set against trading profits. It sets the upper limit for the amount of trading profits that can be covered with these losses.

For example, a company has pre-1 April 2017 trading losses carried forward of £10 million, relevant trading profits of £3 million and a deductions allowance of £5 million. The company is not a life insurance company. The maximum amount of carried-forward trading losses that can be set against the trading profits is $(£3 \text{ million} \times 50\%) + £5 \text{ million} = £6.5 \text{ million}$. The unused trading losses are carried forward and set against trading profits of the next accounting period.

The types of loss that are available only to set against trading profits are:

- Pre-1 April 2017 trading losses (CTA10/S45(4)(b))
- Post-1 April 2017 trading losses that can only be set against trading profits, for example where the trade becomes {small or negligible}(CTA10/S45B)
- Certain oil and gas ring fence losses that are restricted under CTA10/S303B(4) and CTA/S303D(5)

These trading losses are carried forward and set off in the next accounting period without a {claim}. However, for profits arising from 1 April 2017, the company may make a claim that the loss is not used in the next accounting period or is not used to cover fully the relevant maximum profits. The unused loss is instead carried forward to the following accounting period. (CTA10/S45(4A) to (4C) and CTA10/S45(B)(5) and (6))

Other types of carried-forward loss can be set against total profits, for example post 1-April 2017 trading losses set off under CTA10/S45A and management expenses under CTA09/S1223(3). If the company does not use trading losses up to the relevant maximum limit for trading profits, any capacity remaining is included in the amount of the relevant maximum for total profits. The relevant maximum for total profits is the amount of profits against which relief can be allowed for losses that are of the types that can be set against total profits.

Relevant maximum for non-trading profits and when to use it

CTA10/S269ZC(3)

This is the sum of:

- 50% of the relevant non-trading profits, and
- the non-trading profits deductions allowance

This needs to be calculated where the company has carried-forward non-trading loan relationship deficits (NLRDs) of the type that can only be set against non-trading profits. It sets the upper limit for the amount of non-trading profits that can be covered with these NLRDs.

For example, a company has pre-1 April 2017 NLRDs carried forward of £12 million, relevant non-trading profits of £8 million and a deductions allowance of £5 million. The company is not a life insurance company. The maximum of carried-forward NLRDs that can be set against the non-trading profits are (£8 million x 50%) + £5 million = £9 million. The unused NLRDs are carried forward and set against non-trading profits of the next accounting period.

The types of NLRDs that are available only to set against non-trading profits are:

- Pre-1 April 2017 NLRDs and NLRDs arising at any time to a company that is a charity (CTA09/S457(3))
- Post-1 April 2017 NLRDs that can be set only against non-trading profits for example where the investment business becomes small or negligible (CTA09/S463H(5))

{Non-trading profits} are the company's profits that do not consist of trading income for the purposes of CTA10/S37 (trading losses deducted from total profits). (CTA09/S457(5) and CTA09/S463H(10))

These NTLRDs are carried forward and set off in the next accounting period without a {claim}. However, for profits arising from 1 April 2017, the company may make a claim that the NTLRDs are not used in the next accounting period or are not used to cover fully the relevant maximum profits. The unused NTLRDs are then carried forward to the following accounting period. (CTA09/S458 and CTA09/S463H(7).)

Other types of carried-forward NTLRDs can be set against total profits, for example post-1 April 2017 NTLRDs set off under CTA09/S463G(7). If the company does not use NTLRDs up to the relevant maximum limit for non-trading profits, any capacity remaining is included in the amount of the relevant maximum for total profits. The relevant maximum for total profits is the amount of profits against which relief can be allowed for losses that are of the types that can be set against total profits.

Relevant maximum for total profits and when to use it

CTA10/S269ZD(4)

This is the sum of:

- 50% of the relevant profits, and
- The total deductions allowance

This sets an overriding upper limit for the amount of trading profits, non-trading profits and total profits that can be covered by any type of carried-forward loss that is subject to the loss restriction. It needs to be calculated where the company has any carried-forward losses that can be set against total profits.

In the same way as the maximum amount of profits against which certain types of trading and non-trading losses can be set has to be calculated, so too is the maximum amount of profits that can be covered by the type of losses that can be set against total profits. This is the relevant maximum for total profits less the amount of any:

- Carried-forward trading losses that can only be set against trading income (CTA10/S269ZB(3)) and
- Carried-forward NTLRDs that can only be set against non-trading profits (CTA10/S269ZC(2))

Example 1

A company has post-1 April 2017 non-trading loan relationship deficits (NTLRDs) carried forward under CTA09/S463G(6) of £15 million, relevant

total profits of £10 million and a deductions allowance of £5 million. The company is not a life insurance company. The maximum amount of carried-forward NTLRDs that can be set against the total profits is (£10 million x 50%) + £5 million = £10 million. The unused NTLRDs are available to carry forward and set against total profits of the next accounting period or to be surrendered as {group relief for carried forward losses}.

Example 2

The facts here are the same as for example 1 except that additionally, the company has pre-1 April 2017 trading losses of £1 million carried-forward. It has relevant trading profits of £5 million and £1 million of the deductions allowance has been specified as the trading profits deductions allowance.

The amount of the relevant maximum for trading profits is (£5 million x 50%) + £1 million = £3.5 million. This is the maximum amount of the pre-1 April 2017 trading losses that can be used. The company can therefore use the £1m trading losses in full.

The relevant maximum for total profits is (£10 million x 50%) + £5 million = £10 million. The amount of carried-forward NTLRDs that can be used are (£10 million - £1 million) = £9 million.

The types of carried-forward losses that are available to set against total profits are known as {relevant deductions} (CTA10/S269ZD(3).)

A {claim} is needed before carried-forward losses can be set against total profits. The company may choose the type of loss it wants to use and specify how much. It need not use the loss to the full amount of the relevant maximum. Any loss that is unused is carried forward to the next accounting period. The claim must be made within 2 years after the end of the accounting period in which the loss is to be used or such further period as HMRC allows. (CTA10/S45A(5) trade losses; CTA09/S463G(7) NTLRDs; CTA10/S62(5A) and CTA10/S63(4) UK property business losses; CTA09/S1223(3B) management expenses; CTA09/S753(1) non-trading losses on intangible fixed assets)

Reform of Corporation Tax loss relief: Restriction: Deductions allowance general

CTA10/S269(ZA) to CTA10/S269(ZZB)

Each company or, if a member of a {group}, the group will be entitled to a deductions allowance.

The amount of the deductions allowance is included in the computation of the {relevant maximum} which is the amount of profits against which carried-forward losses may be set. This is broadly 50% of the profits for the accounting period (after {in-year reliefs} such as group relief have been deducted) plus the amount of the deductions allowance. It follows therefore that if a company has profits that are lower than the amount of the deductions allowance, carried-forward losses may be set against those profits without restriction.

Because relief for certain types of carried-forward losses can only be set against particular types of profits (for example, pre-1 April 2017 trading losses can only be set against trading profits), the relevant maximum must in cases using such losses be computed separately for trading profits and non-trading profits. The company may decide how its deductions allowance should be allocated between trading and non-trading profits. (CTA10/S269ZB(7) and CTA10/S269ZC(5))

The allowance given depends on whether the company is a member of a {group for the whole} or {part of the accounting period} or {is not} a member of a {group}.

Reform of Corporation Tax loss relief: Restriction: Deductions allowance for company not in a group

CTA10/S269ZW

If a company is not a member of a {group} the {non-group deductions allowance} for the accounting period is £5 million. If however the accounting period is less than 12 months, this amount is reduced proportionally.
(CTA10/S269ZW)

Reform of Corporation Tax loss relief: Restriction: Deductions allowance for company in a group for part of an accounting period

CTA10/S269ZR

If a company is a member of a {group} for part of an accounting period, it is entitled to:

- An {appropriate part} of the {non-group deductions allowance} for the period when it was not a member of the group, and
- any {group deductions allowance} allocated to it for the remainder of the accounting period.

An appropriate part of the non-group deductions allowance for the period is:

$$\text{DNG} / \text{DAC} \times \text{£}5,000,000$$

DNG is the number of days in the period on which the company is not a member of a group, and

DAC is the total number of days in the period.

The appropriate part of the non-group deductions allowance is reduced proportionately if the accounting period is less than 12 months.
(CTA10/S269ZR(4)(a))

A company that is a member of a group for part of an accounting period can have a maximum deductions allowance of £5 million in that accounting period. That amount is reduced proportionately if the accounting period is less than 12 months. (CTA10/S269ZR(2) and (4)(b))

Reform of Corporation Tax loss relief: Restriction: Deductions allowance for company in a group throughout an accounting period

CTA10/S269ZS to CTA10/S269ZV

A group of companies has a single deductions allowance known as the {group deductions allowance} and can allocate this to any company or companies in the group as it chooses. This is done through a {nominated company}. The maximum amount of the allowance that is available to be shared amongst all group companies is £5 million.

Reform of Corporation Tax loss relief: Restriction: Deductions allowance definition of group

CTA10/S269ZZB

A {group} for the purposes of the {deductions allowance} means 2 or more companies where one company is the {ultimate parent} of each of the other companies and is not the ultimate parent of any other company. (CTA/S269ZZB(2))

A company (A) is the ultimate parent of another (B) if A is the parent of B and no company is the parent of both A and B. (CTA/S269ZZB(3))

A is the parent of B if:

- B is a 75% {subsidiary} of A,
- A is beneficially entitled to at least 75% of any {profits available for distribution} to {equity holders} of B, or
- A would be beneficially entitled to at least 75% of {assets of B distributed} to equity holders in the event of a winding up

(CTA/S269ZZB(4))

For example; company A owns 100% of the shares in company B and B owns 100% shares in company C. Here A is the ultimate parent and B is a 75% direct subsidiary and C a 75% indirect subsidiary. The group therefore comprises A, B and C. A and B cannot form a separate group because whilst A is the ultimate parent of B, it is also the ultimate parent of C.

(CTA10/S269ZZB(2)) B and C cannot form a separate group because whilst B is the parent of C, it is not the ultimate parent as A is the parent of both B and C. (CTA10/S269ZZB(3)) It follows that there will be a single group deductions allowance to be shared amongst A, B and C.

CTA10/S1154 applies for the purposes of determining who the subsidiary companies are. In applying CTA10/S1154:

- share capital of a registered society is to be treated as if it were ordinary share capital, and
- shares owned directly in another company are ignored if a profit on their sale would be a trading receipt.

(CTA10/S269ZZB(6))

Chapter 6 of Part 5 (which covers the group relief rules) applies for the purposes of defining equity holders and profits or assets available for distribution. (CTA10/S269ZZB(5))

When applying Chapter 6 of Part 5 and CTA10/S1154, the following modifications are to be made to ensure that:

- they apply to a company which does not have share capital and to holders of corresponding ordinary holdings in such a company in a way which corresponds to the way they apply to companies with ordinary share capital and holders of ordinary shares in such companies,
- they apply to a company which is an unincorporated association in a way which corresponds to the way they apply to companies which are bodies corporate,
- they apply in relation to ownership through an entity (other than a company), or any trust or other arrangement, in a way which corresponds to the way they apply to ownership through a company, and
- for the purposes of the above profits or assets are attributed to holders of corresponding ordinary holdings in unincorporated associations, entities, trusts or other arrangements in a manner which corresponds to the way profits or assets are attributed to holders of ordinary shares in a company which is a body corporate.

(CTA10/S269ZZB(7))

- Corresponding ordinary holding in an unincorporated association, entity, trust or other arrangement means a holding or interest which provides the holder with economic rights corresponding to those provided by a holding of ordinary shares in a body corporate. (CTA10/S269ZZB(8))

Reform of Corporation Tax loss relief: Restriction: Deductions allowance nominated companies

CTA10/S269ZS

A {nominated company} is responsible for allocating the {group deductions allowance} to companies that are members of a {group} and are within the charge to Corporation Tax.

The nomination must be made by all the companies in the group that are within the charge to Corporation Tax (CTA10/S269ZS(1)) and must state the date the nomination takes effect, which may be before the date the nomination is made. (CTA10/S269ZS(5))

The nomination must be signed by an appropriate person on behalf of each company that is a member of the group and within the charge to Corporation Tax when the nomination is made. (CTA10/S260ZS(5) and (6))

An appropriate person is a proper officer of the company or another person who has the authority of the company to act on its behalf. Proper officer takes the meaning defined in TMA70/S108(3) & (4).

Nominations cease to have effect when:

- a new group allowance nomination takes effect
- the nomination is revoked in writing by an appropriate person of a group company, or
- the nominated company ceases to be a company within the charge to Corporation Tax or ceases to be a member of the group.

(CTA10/S260ZS(7))

Reform of Corporation Tax loss relief: Restriction: Group deductions allowance

CTA10/S269ZS

The {group deductions allowance} is calculated and allocated by reference to the nominated company's accounting period, or part of the accounting period where the nomination takes effect part way through.

The group is entitled to a maximum group deductions allowance of £5 million for each of the nominated company's accounting periods for which the nomination is in effect.

If a group's nomination takes effect or ceases to have effect part way through the nominated company's accounting period, the group deductions allowance for that period is:

$$DN / DAC \times \text{£}5,000,000$$

Where

DN is number of days in the accounting period where the nomination for the nominated company has effect

DAC is the total number of days in the accounting period.

(CTA10/S269ZS(3))

If the nominated company's accounting period is less than 12 months the group deductions allowance for that period is proportionately reduced.

(CTA10/S269ZS(4))

Reform of Corporation Tax loss relief: Restriction: Group allowance allocation statement

CTA10/S269ZT and CTA10/S269ZU

Submission of statement

CTA10/S269ZT

The {nominated company} is responsible for submitting a {group allowance allocation statement} for each of its accounting periods for which it is the nominated company.

It is not required to do so if it ceases to be the nominated company before the statement has been submitted. In that instance the new nominated company is required to do so. However, if the statement was submitted before the date of a nomination that was retrospective and came into effect before the submission, the statement is still valid.

The statement must be received by HMRC before the first anniversary of the filing date for the nominated company's return for the accounting period to which the statement relates, or a later period if HMRC allows it.

For example, Company A is a member of a group, is within the charge to Corporation Tax and has an accounting date of 31 December. In its accounting period ended 31 December 2019, it is nominated by all the other companies that are members of the group and within the charge to Corporation Tax. The nomination takes effect from 1 October 2019. Company A must submit a group allowance allocation statement for its accounting period ended 31 December 2019 (the nominee's accounting period). This must be done before the period that ends 12 months from the filing date for the company tax return for the same period, in this instance 31 December 2021.

Company A is replaced by company B as the nominee on 30 November 2020 which is before the group allowance allocation statement is submitted. Company B must therefore submit the statement for the accounting period ending 31 December 2019 before 31 December 2021.

As the nomination was in effect from only 1 October 2019, the group deductions allowance for the nominee's accounting period that can be allocated to other group companies is $273/365 \times \text{£}5,000,000 = \text{£}3,739,726$. This amount can be allocated as the nominated company chooses, subject to the {maximum deductions allowance that can be allocated} to a particular company.

Submission of revised statement

CTA10/S269ZU

A {revised group allowance allocation statement} can be submitted for an accounting period of a company that is or was a {nominated company}. This accounting period is known as the {nominee's accounting period}.
(CTA10/S269ZU(1))

If the nominated company for the group has since changed, the revised statement for the nominee's accounting period must be submitted by the new nominee.

If a new group allowance nomination takes effect before the nomination is made, any revised statement submitted by the previous nominated company before the date of the new nomination is still valid.

The time limit to submit a revised statement is the later of:

- first anniversary of the filing date for the company tax return for the nominee's accounting period,
- 30 days after any enquiry into a relevant return under FA98/SCH18 is completed,
- 30 days after any notice of an amendment is issued by HMRC under FA98/PARA34(2) following an enquiry into a relevant return, and
- 30 days after any appeal into such an amendment is finally determined.
- Or at a later time if HMRC allows.
- A relevant return is one submitted for an accounting period for which an amount of the deductions allowance was or could have been allocated in a previous statement in respect of the nominee's accounting period.
(CTA10/S269ZU(6))
- An enquiry does not include one resulting from an amendment where the scope of the enquiry is limited under FA98/SCH18/PARA25(2) and relates only to the allocation of the deductions allowance for the nominee's accounting period. (CTA/S269ZU(7))

Statements and revised statements: requirements

CTA10/S269ZV(1) to (3)

All statements must:

- be signed by the {appropriate person} of the company giving the statement
- identify the group it relates to

- specify the accounting period of the company that is or was the {nominated company} for the period to which the statement relates. This is the {nominee's accounting period}.
- state whether the company was nominated for the whole of the nominee's accounting period or, if not, specify the days of the accounting period the nomination was in effect for
- state the amount of the {group deductions allowance} the group has for the nominee's accounting period
- list one or more of the companies that were members of the group and within the charge to Corporation Tax in the nominees' accounting period, These are referred to as {listed companies}.
- allocate amounts of the group deductions allowance to the listed companies
- state the accounting periods of the listed companies that have been allocated any of the allowance.

Reform of Corporation Tax loss relief: Restriction: Maximum deductions allowance that can be allocated to a company

CTA10/S269ZV(4) to (6)

A {listed company's} accounting period for which part of the {group deductions allowance} has been allocated must fall wholly or partly into the {nominee's accounting period}.

The maximum amount of group deductions allowance that can be allocated by the statement to a listed company is calculated by using the following formulae:

$DAP / DNAP \times GSA$

Where

DAP is the number of:

- days that are common to the listed company's accounting period and the nominee's accounting period, and
- days the listed company was a member of the group.

DNAP is number of days in the nominee's accounting period, and

GSA is the group's deductions allowance for the nominee's accounting period.

For example, company A has an accounting date of 31 March. On 1 September 2019, it joins a group. The nominated company's accounting period is the 12 months to 31 December 2019 and it was nominee for the whole of this period. The maximum that can be allocated to company A for the 12 months to 31 December 2019 is calculated as follows:

- The number of days that are common to company A's accounting period and the nominee's accounting period and that company A was a member of the group are 122 (period from 1 September 2019 to 31 December 2019)
- The number of days in the nominee's accounting period are 365
- The group deductions allowance for the period is £5 million
- The maximum that can be allocated to company A for the period is $122/365 \times £5,000,000 = £1,671,232$.

It follows therefore that it does not matter if the listed company and the nominated company have different accounting periods. The maximum amount that a listed company can be allocated is the amount of the allowance that relates to the period that is common to the accounting periods of both the listed company and the nominated company and that the listed company is a member of the group.

Reform of Corporation Tax loss relief: Restriction: Excessive group deductions allowance allocated

CTA10/S269ZV(7) to CTA10/S269ZV(11)

The sum of the amounts allocated to each {listed company} by the group allowance allocation statement cannot exceed the {group deductions allowance} for the {nominee's accounting period}.

If the statement:

- includes an amount that exceeds the {maximum deductions allowance that can be allocated} to a listed company, or
- allocates an amount that in total exceeds the group deductions allowance due for the nominee's accounting period,
- the company that is for time being the nominated company must submit a revised group allocation statement that is fully compliant within 30 days of the submission of the non-compliant statement, or any further period that HMRC allows.(CTA10/S269/ZV(7))
- Similarly, if a statement was compliant at the time it was submitted but subsequently ceases to be so, a revised statement must be submitted within 30 days of the statement ceasing to comply, or any further period that HMRC allows. (CTA10/S269ZV(8))

If a company fails to submit a revised statement when required in the above circumstances, an officer of HMRC may by written notice amend the statement as he or she sees fit, in order to make it compliant. At the same time as the notice is issued, HMRC must also send a copy of the notice to each of the {listed companies}. (CTA10/S269ZV(9) and (10))

Time limits for an amendment of a return do not apply to an amendment made to the extent that it is made as a consequence of the submission of a statement or revised statement. (CTA10/S269ZV(11))

Reform of Corporation Tax loss relief: Restriction: Deductions allowance company tax return

CTA10/S269ZZ and CTA10/S269ZZA

A company's tax return must specify the amount of deductions allowance it is entitled to for the period unless it is not claiming relief for any carried-forward losses to which the restriction applies. (CTA10/S269/ZZ(2))

It is most unlikely that a company that is a member of a group that is not making a claim for restricted carried-forward losses will be allocated any part of a {group deductions allowance}. However, a company that is not a member of a group will be entitled to a {non-group deductions allowance} whether or not it claims relief for carried-forward losses. Where there is no relief claimed for restricted carried-forward losses the deductions allowance need not be specified in the company's return.

The entry in the company's tax return is needed even if a company is a member of a group and the nominated company has submitted a group deductions allowance allocation statement.

If the company is making a claim for relief for carried-forward losses that can only be set against trading profits, it must specify the amount of any deductions allowance that it wants to use as the {trading profits deduction allowance}. (CTA10/S269ZB(7)) The amount of the trading profits deductions allowance is then included in calculating the {relevant maximum} for trading profits.

Similarly, if the company is making a claim for relief for carried-forward losses that can only be set against non-trading profits, it must specify the amount of any deductions allowance that it wants to use as the {non-trading profits deduction allowance}. (CTA10/S269ZC(5)) This is then included in calculating the {relevant maximum} for non-trading profits.

Excessive specification

CTA10/S269ZZA

If a company's tax return for an accounting period specifies an excessive amount as the {deductions allowance}, the {trading profits deductions allowance} or the {non-trading profits deductions allowance} the company must, if it is in time to do so, amend the tax return so that the amount specified is not excessive. (CTA10/S269ZZA(1) and (2))

If an officer of HMRC considers that excessive relief has been given as a consequence of the amount specified being excessive, he or she may make an assessment to tax in the amount which in his or her opinion ought to be

charged. This is without prejudice to the power to make a discovery assessment under FA98/SCH18/PARA41. (CTA10/S269ZZA(3) and (5))

If an amount becomes excessive as a consequence of an alteration to the group deductions allowance allocated to the company and the company has failed, or is unable, to amend its return, an assessment by HMRC will not be out of time if made within 12 months of the date of the alteration.
(CTA10/S269ZZA(4))

Reform of Corporation Tax loss relief: Restriction: Example of company using only pre-1 April 17 trading losses and non- trading loan relationship deficits

Trading losses and non-trading loan relationship deficits (NLRDs) that arise before 1 April 2017 will be subject to the restriction, but will not be relaxed. These will therefore continue to be set against only trading profits and non-trading profits as before.

Additionally, some post 1-April 2017 trading losses and NLRDs will be available only to be set against trading income and non-trading income respectively. This will be the case for example where a trade or investment business becomes {small or negligible}. It is therefore necessary to calculate the maximum amount of trading profits or non-trading profits that these losses can be set against.

The following example sets out the steps to take where a company uses only pre-1 April 2017 trading losses and NLRDs.

Example 1

Company A has trading profits of £20 million and non-trading profits of £8 million. It has in-year NLRDs of £2 million and group relief of £5 million. It has been allocated £3 million of its group deduction allowance and it chooses to set £2 million against trading profits and £1 million against non-trading profits. The company is not a life insurance company.

The company has carried forward pre-1 April 2017 trading losses of £14 million and pre-1 April 2017 NLRDs of £1 million.

The amount of trading losses that can be used is computed as follows:

1. Calculate total {modified profits} (CTA10/S269ZF(3) step 1). This is the total profits of £28 million before deduction of the in-year NLRDs and group relief.
2. Compute the {in-year reliefs} (CTA10/S269ZF(3) step 2). These are amounts that can be deducted from total profits but not {excluded deductions}. These will be the £2 million NLRDs and the £5 million group relief, giving a total of £7 million.
3. Divide the total profits into {trading and non-trading profits} (CTA10/S269ZF(3) step 3). The trading profits are £20 million and the non-trading profits £8 million.

4. Allocate the in-year reliefs between trading and non-trading profits (CTA10/S269ZF(3) step 4). The company chooses to allocate £5 million to trading profits and £2 million to non-trading profits.
5. Compute the qualifying trading profits (CTA10/S269ZF(3) step 5). The qualifying trading profits are the trading profits of £20m minus the £5m of in-year relief allocated to trading profits which is £15m.
6. Compute the {relevant trading profits} (CTA10/S269ZF(1)). These are the £15 million qualifying trading profits minus the £2 million trading deductions allowance which gives £13 million.
7. In this case, there is no need to calculate the relevant profits as there are no carried-forward losses that can be set against total profits ({relevant deductions}).
8. Calculate the {relevant maximum} for trading profits. This is 50% of the relevant trading profits plus the trading profits deduction allowance (£13 million x 50%) + £2 million = £8.5 million. This is the maximum amount of pre-1 April 2017 trading losses that can be used. Trading losses of this amount will be set off against the trading profits (unless the company makes a claim for the losses not to be so used). The unused losses of £5.5 million will be carried forward to a later accounting period.

The amount of NTLRDs that can be used is computed as follows:

9. Calculate total {modified profits} (CTA10/S269ZF(3) step 1). This is the total profits of £28 million before deduction of the in-year NTLRDs and group relief.
10. Compute the {in-year reliefs} (CTA10/S269ZF(3) step 2). These are amounts that can be deducted from total profits but which are not {excluded deductions}. These will be the £2 million NTLRDs and the £5 million group relief, giving a total of £7 million.
11. Divide the total profits into {trading and non-trading profits} (CTA10/S269ZF(3) step 3). The trading profits are £20m and the non-trading profits £8m.
12. Allocate the in-year reliefs between trading and non-trading profits (CTA10/S269ZF(3) step 4). The company chooses to allocate £5 million to trading profits and £2 million to non-trading profits.
13. Compute the qualifying non-trading profits (CTA10/S269ZF(3) step 5). These are the non-trading profits of £8 million minus the in-year reliefs allocated to non-trading profits of £2 million which is £6 million.
14. Compute the {relevant non-trading profits} (CTA10/S269ZF(2)). These are the £6 million qualifying non-trading profits minus the £1 million non-trading deductions allowance which gives £5 million.

15. Calculate the relevant maximum for non-trading profits. This is 50% of the relevant non-trading profits plus the non-trading deductions allowance (£5 million x 50%) + £1 million = £3.5 million. This is that maximum amount of pre-1 April 2017 NTLRDs that can be set off. The £1 million NTLRDs will be set against non-trading profits unless the company makes a claim specifying that the NTLRDs should not be set off in this accounting period.
16. The overall result is that the total amount of profits that will be subject to tax is £11.5 million, £6.5 million trading profits and £5 million non-trading profits.
17. There are £5.5 million of pre 1-April 2017 trading losses to carry forward and nil pre 1-April 2017 non-trading losses to carry forward.

Reform of Corporation Tax loss relief: Restriction: Example of company using both Pre-1 April 17 and Post-1 April 17 Losses

Most losses arising after 1 April 2017 will benefit from the {relaxation rules} which allow carried-forward losses to be set against total profits of the company.

Trading losses and non-trading loan relationship deficits (NLRDs) that arise before 1 April 2017 and some that arise after can only be set against trading profits and non-trading profits respectively. For example, pre 1-April 2017 trading losses or NLRDs or those that arise after 1 April 2017 when a trade or investment business becomes small or negligible.

In a case that has both losses that can be set only against trading or non-trading profits and those that can be set against total profits, it is necessary to calculate the maximum amount that may be allowed for each type of loss separately.

The following example sets out the steps to be taken for each type of loss.

Example 1

A company has trading profits of £35 million and non-trading profits of £15 million. It has in-year NLRDs of £5 million and group relief of £2 million, giving total in-year reliefs of £7 million. The company is not a life insurance company.

The company has a £5 million deductions allowance which it allocates to trading profits.

It chooses to allocate £3 million of the in-year reliefs against trading profits and £4 million against non-trading profits.

The company has £15 million pre-1 April 2017 trading losses carried forward, £8 million post-1 April 2017 trading losses carried forward, £1 million pre-1 April 2017 NLRDs carried forward and £2 million post-1 April 2017 NLRDs carried forward.

The amount of the pre-1 April 2017 trading losses that may be used is computed as follows:

1. Calculate the {modified profits} (CTA10/S269ZF(3) step 1). This is the total profits of £50 million before deduction of the in-year NLRDs and group relief.

2. Compute the {in-year reliefs} (CTA10/S269ZF(3) step 2). These are amounts that can be deducted from total profits but not {excluded deductions}. These will be the £5 million NTLRDs and the £2 million group relief.
3. Divide the total profits into {trading and non-trading profits} (CTA10/S269ZF(3) step 3). The trading profits are £35 million and the non-trading profits £15 million.
4. Allocate the in-year reliefs between trading and non-trading profits (CTA10/S269ZF(3) step 4.) The company chooses to allocate £3 million to trading profits and £4 million to non-trading profits.
5. Compute the {qualifying trading profits} (CTA10/S269ZF(3) step 5). The qualifying trading profits are the trading profits of £35 million minus the £3 million NTLRDs which is £32 million.
6. Compute the {relevant trading profits} (CTA10/S269ZF(1)). These are the £32 million qualifying trading profits minus the £5 million trading deductions allowance which gives £27 million.
7. Calculate the {relevant maximum} for trading profits. This is 50% of the relevant trading profits plus the trading profits deduction allowance ($£27 \text{ million} \times 50\%$) + £5 million = £18.5 million. This is the maximum amount of pre-1 April 2017 trading losses that can be used. The company may use all of the pre-April 2017 trading losses of £15 million.

The amount of the pre-1 April 2017 NTLRDs that may be used is computed as follows:

8. Follow steps 1 to 4 above to determine the amount of the non-trading profits and the in-year reliefs that can be set against these.
9. Compute the qualifying non-trading profits (CTA10/S269ZF(3) step 5). The qualifying non-trading profits are the non-trading profits of £15 million minus the in-year reliefs allocated to non-trading profits of £4 million which is £11 million.
10. Compute the {relevant non-trading profits} (CTA10/S269ZF(1)). There is no deductions allowance available to set against the qualifying non-trading profits, since the company chose to allocate the deductions allowance to trading profits, and so the amount of the relevant non-trading profits is £11 million.
11. Calculate the {relevant maximum} for non-trading profits. As there is no non-trading deductions allowance, the relevant maximum is equal to 50% of the relevant non-trading profits which is £5.5 million. This is the maximum amount of pre-1 April 2017 NTLRDs that can be used. The company may use all the pre-1 April 2017 NTLRDs of £1 million.

The amount of post-1 April 2017 losses {relevant deductions} that may be used is computed as follows:

12. Calculate the {relevant profits} (CTA10/S269ZD(5)). This is the sum of the relevant trading profits and the relevant non-trading profits (£27 million + £11 million = £38 million). In a case where there are no losses that can only be set against either trading or non-trading income, relevant profits can be calculated by deducting the amount of the deductions allowance from the qualifying profits.
13. Calculate the [relevant maximum] (CTA10/S269ZD(4)). This is 50% of the relevant profits plus the amount of the deductions allowance (£38 million x 50%) + £5 million = £24 million.
14. This is the maximum amount of carried-forward losses that can be set off for the accounting period. As there are some pre-1 April 2017 trade losses and NTLRDs that have been used, these are deducted from the relevant maximum in order to calculate the amount of {relevant deductions} that can be set off. This is £24 million - (£15 million + £1 million) which is £8 million.
15. The company has £8 million post-1 April 2017 trading losses and £2 million post-1 April 2017 NTLRDs. It will therefore need to make a claim to specify how much of each of this type of loss it wants relief for. In this case, the company makes claims for relief for £2 million carried-forward NTLRDs and £6 million carried-forward trading losses.

The overall result is that the company will be chargeable to CT on £19 million and will have no pre-1 April 2017 trading losses or NTLRDs to carry forward. It will have £2 million post-1 April trading losses to carry forward.

The above assumes that the company chooses to use the maximum amount of losses possible at the earliest opportunity. For the pre-1 April 2017 trading losses and NTLRDs, the company may make a claim for the whole or part of these not to be deducted but instead carried forward to a later accounting period (CTA10/S45(4B) to (4C), CTA10/S45B(5), CTA09/S458 and CTA09/S463H(7)).

For the post-1 April 2017 trading losses and NTLRDs, the company may choose to claim only part or none of the losses. Any balance unused will be carried forward to the next accounting period. (CTA10/S45A(5) trade losses; CTA09/S463G(7) NTLRDs; CTA10/S62(5A) and CTA10/S63(4) UK property business losses; CTA09/S1223(3B) management expenses; CTA09/S753(1) non-trading losses on intangible fixed assets.)

Reform of Corporation Tax loss relief: Restriction: Example of company using Post-1 April 17 Losses only

The following examples show the steps taken in computing the amount of losses that can be used in a case with only post-1 April 2017 losses of the types that can be set against total profits.

Example 1

In the year to 31 March 2020, Company A makes profits of £25 million, with £20 million of trading profits and £5 million of non-trading profits. It has in-year non-trading loan relationship deficits (NLTLDs) of £4 million and £15 million of post-1 April 2017 trading losses carried forward. The company has a deductions allowance of £5 million. The company is not a life insurance company.

1. Compute the {modified total profits} (CTA10/S269ZF(3) step 1). These are the company's total profits of £25 million for the accounting period, before deduction of the in-year NLTLDs of £4 million.
2. Compute the {in-year reliefs} (CTA10/S269ZF(3) step 2). These are amounts that can be deducted from total profits but which are not {excluded deductions}. These therefore include the £4 million NLTLDs but exclude the £15 million trading losses carried forward.
3. Divide the total profits into {trading and non-trading profits} (CTA10/S269ZF(3) step 3). In this case, there are no pre-2017 trading losses or NLTLDs and no post-2017 trading losses or NLTLDs of the type that can only be set against trading and non-trading profits. Therefore, this step is not required.
4. Allocate the in-year reliefs between trading and non-trading profits (CTA10/S269ZF(3) step 4). As the profits have not been divided between trading and non-trading profits, it is not necessary to allocate the in-year reliefs between trading and non-trading profits. The total NLTLDs of £4 million can be deducted from the total profits of £25 million because the company makes a claim to set these against total profits.
5. Compute the qualifying trading and non-trading profits (CA10/S269ZF(3) step 5). Here, as the profits have not been divided between trading and non-trading profits, it's not necessary to compute qualifying trading and non-trading profits separately. Only the figure for qualifying profits is needed and this is calculated by deducting the total NLTLDs of £4 million from the total profits of £25 million. The qualifying profits are therefore £21 million.

6. Compute the {relevant trading profits}, {relevant non-trading profits} and {relevant profits} (CTA10/S269ZF(1) and (2) and CTA10/S269ZD(5)). As it is not necessary in this example to calculate the relevant trading profits and relevant non-trading profits separately, only the relevant profits need be calculated. This can be calculated by deducting the amount of the deductions allowance of £5 million from the qualifying profits of £21 million. The relevant profits are therefore £16 million.
7. Calculate the [relevant maximum] (CTA10/S269ZD(4)). This is 50% of the relevant profits plus the amount of the deductions allowance (£16 million x 50%) + £5 million = £13 million.
8. Calculate the amount of {relevant deductions} that can be allowed (CTA10/S269ZD(2)). This is the relevant maximum less any trade losses or NTLRDs that can only be set against trading or non-trading income and which the company has already used. In this case, there are no such losses and so the company may claim to use £13 million of its £15 million post-1 April 2017 trading losses carried forward against total profits. The balance of £2 million of trading losses is carried forward to the following year. The remaining profits chargeable are £8 million.

Example 2

Company B has trading profits of £20 million, non-trading profits of £5 million, in-year NTLRDs of £1 million and group relief of £3 million. The company has £10m of carried-forward post-1 April 17 trade losses and has been allocated £2 million of its group's £5m deductions allowance. The company is not a life insurance company.

1. The company's total {modified profits} for the accounting period are £25 million.
2. The total amount of in-year reliefs that the company claims a deduction for are group relief of £3 million and NTLRDs of £1 million. These amounts are deducted from the modified total profits to arrive at the {qualifying profits} of £21 million.
3. Deduct the company's allocated deductions allowance of £2 million to arrive at the {relevant profits} of £19 million.
4. Calculate the {relevant maximum} by adding 50% of the relevant profits to the deductions allowance (£19 million x 50%) + £2 million = £11.5 million.

The company can make a claim for relief for the full £10 million carried-forward trading losses and is charged to tax on a total of £11 million. The company could have had a maximum of £11.5 million relieved by carried-forward losses if they were available.

Reform of Corporation Tax loss relief: Relaxation of trade losses

[{Reform of Corporation Tax loss relief: Relaxation of trade losses: Summary}](#)

[{Reform of Corporation Tax loss relief: Relaxation of trade losses: Amount available for carry-forward}](#)

[{Reform of Corporation Tax loss relief: Relaxation of trade losses: Carry-forward against Total Profits}](#)

[{Reform of Corporation Tax loss relief: Relaxation of trade losses: Carry-forward against profits of the same trade only}](#)

[{Reform of Corporation Tax loss relief: Relaxation of trade losses: Subsequent periods}](#)

[{Reform of Corporation Tax loss relief: Relaxation of trade losses: Terminal losses}](#)

[{Reform of Corporation Tax loss relief: Relaxation of trade losses: Claims}](#)

Reform of Corporation Tax loss relief: Relaxation of trade losses: Summary

CTA10/S45, CTA10/S45A-H

The treatment of carried-forward trade losses incurred on or after 1 April 2017 depends on:

- The period in which they were sustained, and
- Certain characteristics of the trade.

Companies can {set off most trade losses incurred from 1 April 2017 against total profits}.

Companies may also be able to claim or surrender losses incurred from 1 April 2017 as {group relief for carried-forward losses}.

Trade losses incurred before 1 April 2017 and certain trade losses incurred at a later date are available for {set off against profits of the same trade only}.

Reform of Corporation Tax loss relief: Relaxation of trade losses: Amount available for carry-forward

CTA10/S45A-B

This applies when a company sustains a trade loss on or after 1 April 2017.

The amount of that loss potentially available to carry forward to the next accounting period for relief against total profits, under s45A, is (s45A(1)(b)):

- The loss sustained,

less

- Any part of that amount for which relief has been allowed under CTA10/S37 or which has been surrendered as group relief under CTA10/Part 5.

Similarly, the amount of that loss potentially available to carry forward to the next accounting period for relief against profits of the same trade, under s45B, is (s45B(1)(b)):

- The loss sustained,

less

- Any part of that amount for which relief has been allowed under CTA10/S37 or CTA10/S42 or which has been surrendered as group relief under CTA10/Part 5.

Although s45A does not refer to relief allowed under s42, the effect is the same. This is because relief under s42 is only available for certain losses of an oil and gas ring-fence trade for which relief under s45A, by carry-forward against total profits, is not available.

Reform of Corporation Tax loss relief: Relaxation of trade losses: Carry-forward against Total Profits

CTA10/S45A

Unrelieved trade losses incurred on or after 1 April 2017 can be carried forward and relieved against total profits of the next accounting period under s45A.

This is subject to a number of conditions (s45A(1)-(3)):

- The company must continue to carry on the trade in the next accounting period,
- The trade must not be an oil and gas ring-fence trade (CTA10/S277),
- The trade must not have become small or negligible in the loss-making period,
- The trade must be commercial or be carried on for statutory functions (CTA10/S44), in both the loss-making period and the period of relief,
- If the company is an insurance company, the loss must not be a shock loss (defined at CTA10/S269ZK) and the later period must not be an excluded accounting period of a general insurance company.

In addition, where relief has been unavailable under s37 due to any of the following provisions, relief will likewise be unavailable under s45A:

- The trade was carried on wholly outside the United Kingdom during the loss-making period (CTA10/S37(5)),
- The loss was made in a trade of farming or market gardening and the company has made losses for the previous five or more years (CTA10/S48) ({CTM40200}, {BIM85620}),
- The loss was made in a trade of dealing in commodity futures that falls under CTA10/S52,
- The loss was made in a pre-completion period of a separate film trade, separate programme trade, separate video game trade, separate theatrical trade, separate orchestral trade or separate exhibition trade. (CTA09/S1209, CTA09/S1216DA, CTA09/S1217DA, CTA09/1217MA, CTA09/1217SA, CTA09/1218ZDA.) Note that {special rules applying to creative industries} mean that when the relevant creative project, for example the film, is completed or abandoned, certain of these losses may

become available for relief against total profits (CTA09/S1210, S1216DB, S1217DB, S1217MB, S1217SB, S1218ZDB).

In some circumstances, where a company is unable to carry forward a trade loss under s45A, for relief against total profits, it will be able to carry forward that loss under CTA10/S45B, for relief against profits of the same trade.

This will not be the case if relief is unavailable under s45A because the trade has ceased. A company cannot carry forward losses of a trade that has ceased.

However, if relief under s45A is unavailable for any of the other reasons given above, relief will be available under s45B provided the relevant conditions in s45B are met.

Reform of Corporation Tax loss relief: Relaxation of trade losses: Carry-forward against profits of the same trade only

CTA10/S45, CTA10/S45B

Unrelieved trade losses incurred before 1 April 2017 are carried forward and set against profits of the same trade only (s45).

Unrelieved trade losses incurred after 1 April 2017 will generally be available for set off against total profits under s45A. However, where this is unavailable, relief may be available against profits of the same trade only under s45B.

This will be the case if relief was unavailable under s45A due to

- Certain {conditions of that section},

or

- Restrictions on losses attributable to certain tax reliefs for creative industries (CTA09/S1210(5), CTA09/S1216DB(5), CTA09/S1217DB(5)).

However, if relief is unavailable under s45A because the trade has ceased, relief will similarly be unavailable under s45B.

If the trade is an oil and gas ring-fence trade, relief for post-1 April 2017 trade losses is only available under s45B to the extent that they are not non-decommissioning losses (CTA10/S303A). Non-decommissioning losses are dealt with in CTA10/S303A-D.

Reform of Corporation Tax loss relief: Relaxation of trade losses: Subsequent periods

CTA10/S45A-E

S45A and s45B allow a company to carry forward trade losses from the period in which they are incurred to the next accounting period.

In many cases, where those losses are not fully relieved in the next accounting period, the company will continue to be able to carry forward the unrelieved amount.

However, there are circumstances where relief will cease to be available, or the form of relief available will change.

Amount available to carry forward

The unrelieved amount of any loss previously carried forward under s45A is the amount of that loss, less

- Any amounts already relieved under that section,

and

- Any amounts surrendered for {group relief for carried-forward losses} under CTA10/Part5A.

The unrelieved amount of any loss previously carried forward under s45B is the amount of that loss, less any amounts already relieved under that section.

Trade ceases

Trade losses cannot be carried forward under s45A or s45B to any periods in which the company does not continue to carry on the trade. (S45C(1)(c), s45D(1)(c), s45E(1)(c).)

This does not prevent companies from carrying forward losses to the period of cessation itself. However, it does mean that losses of the trade cannot be carried forward to any subsequent periods.

Provided the trade has not ceased, relief is available for unrelieved amounts as follows:

Relief against total profits

If a company has unrelieved amounts carried forward under s45A, it will generally continue to be allowed to carry those losses forward under s45A, for relief against total profits. This is subject to certain conditions (s45C).

The conditions are that:

- In the period of relief, the trade is commercial or is carried on for statutory functions (CTA10/S44),

and

- In the preceding period, the trade did not become small or negligible.

Where the conditions are met, the company can make a {claim for relief} under s45A(5).

Note that the two conditions refer to two different periods. The first, relating to s44, looks at the trade as it is carried on in the period of relief. The second, relating to whether the trade is small or negligible, looks at the preceding period, from which the loss will be carried forward.

Relief no longer available against total profits

A company may not meet the conditions to continue to carry forward unrelieved amounts under s45A, against total profits. Where this is the case, the losses are instead carried forward for relief against profits of the same trade, under s45B and s45D.

Once this change has been made, the company will not be able to carry the affected losses forward for relief under s45A in any subsequent accounting periods. Relief for those losses will only be available against profits of the same trade, under s45B.

For example:

- In an accounting period ending 31 December 2020, a company sustains loss L in a trade, trade T. It is able to carry forward loss L under s45A to the next accounting period.
- In the next accounting period, ending 31 December 2021, the company is potentially able to use loss L against its total profits. In fact, the company has losses across its business and so does not use loss L.
- In addition, in that same accounting period ending 31 December 2021, trade T becomes small or negligible. For this reason, the company can only carry forward loss L to the next accounting period under s45B.
- The next accounting period ends on 31 December 2022. The company can use loss L only against profits of the same trade, trade T, in this period, under s45B.
- The company will only be able to carry unused parts of loss L forward to subsequent accounting periods under s45B.

Relief against profits of the same trade

Where a company has unrelieved amounts carried forward under s45B, they will continue to be carried forward for relief against profits of the same trade, under s45B and s45E.

Relief under s45B is automatic. The company will therefore need to {make a claim} if it wishes to prevent amounts carried forward under this section from being relieved to the full extent possible. This applies even in cases where the losses had previously been carried forward under s45A, if they are now carried forward under s45B.

Reform of Corporation Tax loss relief: Relaxation of trade losses: Terminal losses

CTA10/S45F-H

When a trade ceases, the company may be able to claim terminal loss relief under s45F for carried forward losses of that trade.

This only applies for trade losses carried forward to the period of cessation under CTA10/S45, CTA10/S45A or CTA10/S45B.

Where certain conditions are met, the relief allows these losses to be set against profits of the three years ending with the end of the period of cessation without being subject to the loss restriction.

The extent to which losses can be relieved under s45F depends on whether they were previously carried forward under s45, s45A or s45B.

Losses carried forward to the period of cessation under s45A, against total profits, can be relieved against total profits under s45F.

Losses carried forward to the period of cessation under s45 or s45B, against profits of the same trade, can likewise only be relieved against profits of the same trade under s45F.

There is no equivalent relief for non-trading losses.

Restriction on deductions

A company may have profits in the final three years of the trade which it has been unable to fully relieve due to the {restriction on deductions for carried forward losses} or the {restriction on deductions for banking companies}.

However, these restrictions do not apply for losses relieved under s45F. Neither includes relief under s45F amongst the deductions it restricts.

When a trade ceases, a company may therefore be able to get relief for carried forward losses using s45F in periods where this would otherwise have been prevented.

Conditions

(s45F(4))

Relief is only available for periods beginning on or after 1 April 2017.

Relief is not available against profits of

- The period in which the loss to be used was originally sustained, or

- Any preceding periods.

That is, relief under s45F is only available in periods subsequent to the original, loss-making period. S45F extends a company's use of losses carried forward, but does not allow any additional in-year relief or carried-back relief for a company's losses.

Order of relief

(s45F(5))

Losses relieved under s45F should always be deducted from profits of a later period first, to the full extent possible, before they are deducted from profits of any earlier periods.

Profits of the period of cessation itself should therefore be given priority and relieved to the full amount possible before any profits of the preceding period are relieved.

Three year period

(s45F(3))

Relief is available for the three years ending with the end of the period of cessation (s45F(3)). For example, if a trade ceases in a period ending on 31 December 2020, relief will be available under s45F against the profits of the three years from 1 January 2018 to 31 December 2020.

Note that the three year period used for relief under s45F is not the same as the three year period for relief under CTA10/S39. Relief under s39 is for trade losses incurred in the final twelve months of a trade and is discussed at {CTM04520}.

Apportionment

(s45G)

In some circumstances, an accounting period will fall partly within and partly outside the three years whose profits can be relieved under s45F. The company will be able to get relief under s45F for a proportion only of the profits of the affected period.

To calculate the amount of profits it can relieve, the company should follow these steps:

1. Calculate the proportion of the accounting period falling within the three years.
2. Find the trade profits and total profits of the accounting period.

3. Apply the proportion calculated at step one to the trade profits. This gives the maximum amount of trade profits of the affected period that the company can potentially relieve using losses previously carried forward against profits of the same trade, under s45 or s45B.
4. Apply the proportion calculated at step one to the total profits. This gives the maximum amount of total profits of the affected period that the company can potentially relieve using losses previously carried forward against total profits, under s45A.

For example (with figures rounded to the nearest whole number):

1. 272 days in a 365 day accounting period fall within the three years. The proportion is therefore $272/365$.
2. The trade profits of the period are £100,000. The total profits are £120,000.
3. $272/365 \times £100,000 = £74,521$ of trade profits can potentially be relieved by losses previously carried forward under s45 or s45B, now utilised under s45F.
4. $272/365 \times £120,000 = £89,425$ of total profits can potentially be relieved by losses previously carried forward under s45A, now utilised under s45F.

In many cases, the above calculation will not be necessary. A company will have to have relieved profits of all later periods, up to and including the period of cessation, to the full extent possible under s45F, before it can relieve profits of a period falling partly outside the relevant three years. This is because relief under s45F is always given against profits of a later period first.

Transfers of trade

(s45H)

S45H is an anti-avoidance rule. Where both of the following conditions are met, relief is unavailable under s45F:

- When the company ceased to carry on the trade, any of the activities of the trade began to be carried on by a person not within the charge to Corporation Tax. Alternatively the trade began to be carried on by a number of persons, any one of whom was not within the charge to Corporation Tax.
- The company's ceasing to carry on the trade was part of a scheme or arrangement. The main purpose or one of the main purposes of the scheme was to secure relief under s45F by reason of the cessation.

Reform of Corporation Tax loss relief: Relaxation of trade losses: Claims

CTA10/S45, CTA10/S45A-B, CTA10/S45F

Companies can choose whether and which of their trade losses carried forward are used in subsequent periods.

Relief against total profits

Where a company has a trade loss carried forward under s45A, it will only be relieved if the company makes a claim under s45A(5).

It is not necessary for the loss to be used to the full extent possible. The company can specify the amount of the loss they want to relieve. The remainder will generally be {carried forward to the subsequent period}.

Claims must be made within two years of the end of the period affected or such further period as HMRC allows (s45A(7)).

The period affected is the period in which relief for profits will be affected by the claim. It is not the loss-making period but the period in which the company is claiming to use, or not to use, the loss.

Relief against profits of the same trade

Where a company has a trade loss carried forward under s45 or s45B, the loss will automatically be set against profits of the same trade.

However, the company can make a claim to prevent this. They can do so where losses are carried forward under either section and would be set against profits arising from 1 April 2017.

For losses carried forward under s45, the claim is made under s45(4A). For losses carried forward under s45B, the claim is made under s45B(5).

The company can claim for none of the loss under the relevant section to be relieved. They can also claim for a part of the loss to be relieved. The remainder will generally be {carried forward to the subsequent period}.

Claims must be made within two years of the end of the period affected or such further period as HMRC allows (s45(4C), s45B(6)).

Terminal relief for carried forward losses

When a trade ceases, a company may claim {terminal relief for carried forward losses} under s45F(2).

Relief under s45F will not be given unless the company makes such a claim.

In contrast to s45, s45A and s45B, claims for relief under s45F must be made within two years of the end of the period in which the trade ceased or such further period as HMRC allows.

Reforms to Corporation Tax loss relief: Targeted anti-avoidance rule

[{Reforms to Corporation Tax loss relief: Anti-avoidance: Targeted anti-avoidance rule: Summary}](#)

[{Relief for losses carried forward: Anti-avoidance: Targeted anti-avoidance rule: Key terms}](#)

[{Relief for losses carried forward: Anti-avoidance: Targeted anti-avoidance rule: Commencement}](#)

Reforms to Corporation Tax loss relief: Targeted anti-avoidance rule: Summary

[F(No 2)A17/C2]

The reforms to carried forward losses include a targeted anti-avoidance rule (TAAR) to counteract tax advantages that might arise from certain avoidance arrangements.

The TAAR is designed to target particular types of arrangement that seek to circumvent or exploit the rules. Such arrangements might for example seek to increase the amount of losses a company can use under the {loss restriction} by manipulating group structures or artificially increasing profits. Or arrangements might seek to gain a tax advantage in another way that results from a deduction or increased deduction under any of a number of {relevant provisions}.

Conditions

For arrangements to be relevant to this TAAR, they must meet two conditions, A and B:

Condition A ([F(No 2)A17/C2(4)]): the purpose or one of the main purposes of the arrangements must be to obtain a {loss-related tax advantage}.

Condition B ([F(No 2)A17/C2(5)]): It must also be reasonable to regard the arrangements as

- Circumventing the intended limits of relief under any of the relevant provisions, or
- Otherwise exploiting shortcomings in those provisions.

In condition B, relevant provisions refers to the legislation listed at [F(No 2)A17/C2(8)] and set out on the {key terms} page of this guidance.

In forming a view on whether the circumvention or exploitation condition is met, HMRC would take account of all the relevant circumstances.

Relevant circumstances is not defined. So relevant circumstances might relate to the arrangements, or to the tax advantage. Relevant circumstances that relate to the particular arrangements may include contrived or abnormal steps, the absence of a genuine commercial purpose, or whether the substantive results are inconsistent with any principles of the relevant legislation.

A claim for loss relief or capital allowances, or a claim, for example under CTA10/S45B(5), to reduce or prevent relief for losses in a particular period, will not be based on arrangements that meet the conditions of the TAAR

simply because it creates an advantageous result for the company. Arrangements will only meet the conditions of the TAAR where it is reasonable to conclude that they circumvent intended reliefs or exploit shortcomings in the rules.

The TAAR is only applied where the ordinary legislation cannot defeat the arrangements. If the tax advantage that might arise from an arrangement is neutralised by the legislation those arrangements target, or under other tax rules, then the TAAR will not apply. For example, it is possible that the deduction-buying rules in CTA10/PART14 would apply in certain circumstances where changes of ownership of a company would otherwise create a loss-related tax advantage.

Counteraction

Arrangements that meet the conditions of the TAAR should be counteracted by making just and reasonable adjustments. The adjustments could be made by

- An assessment,
- The modification of an assessment,
- Amendment or disallowance of a claim, or
- Another method.

Relief for losses carried forward: Targeted anti-avoidance rule: Key terms

[F(No 2)A17/C2]

Arrangements

For the purposes of the TAAR, the term arrangements includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable).

Tax advantage

The term tax advantage has the meaning given in CTA10/S1139. Any of the following would be a tax advantage:

- Relief from tax or increased relief from tax,
- A repayment of tax or increased repayment of tax,
- The avoidance or reduction of a charge to tax or an assessment to tax,
- The avoidance of a possible assessment to tax,
- The avoidance or reduction of a charge or assessment to a charge under TIOPA10/PART9A (controlled foreign companies),
- The avoidance or reduction of a charge or assessment to the bank levy under FA11/SCH19 (the bank levy), or
- The avoidance or reduction of a charge to diverted profits tax.

Loss-related tax advantage and relevant provisions

The term loss-related tax advantage uses the meaning of tax advantage given above. A tax advantage will be a loss-related tax advantage if it results from a deduction or increased deduction under any relevant provisions. The relevant provisions are as follows:

- CTA09/S457, S459, S461, S462, S463B, S463G and S463H (non-trading deficits from loan relationships)
- CTA09/S753 (non-trading losses on intangible fixed assets),
- CTA09/S1219 (management expenses etc.),
- CTA10/S37, s45, s45A, s45B and s45F (deductions in respect of trade losses),

- CTA10/S62(3) (losses of a UK property business),
- CTA10/PART5 (group relief),
- CTA10/PART5A (group relief for carried-forward losses),
- CTA10/S303B, 303C and 303D (non-decommissioning losses of oil and gas ring-fence trades),
- FA12/S124A, S124B, S124C (excess carried-forward BLAGAB trade losses).

These are also the relevant provisions for the purposes of Condition B of the TAAR, which relates to circumvention or exploitation of these provisions.

Purpose

The legislation applies only to arrangements where the purpose or one of the main purposes is to secure a tax advantage. The legislation does not define what is meant by purpose or main purposes. These expressions are to be given their normal meaning. They have to be applied objectively, having regard to the full context and facts.

It will usually be clear whether trying to obtain a tax advantage is the purpose or one of the main purposes of a particular arrangement. Such would be the case, for example, where the arrangement would not have been carried out at all were it not for the opportunity to obtain the tax advantage, or where any non-tax purpose was equal to or secondary to the purpose of obtaining the tax advantage.

Relief for losses carried forward: Targeted anti-avoidance rule: Commencement

[F(No 2)A17/C2(10) to (12)]

In most cases, the TAAR has effect from 1 April 2017. This means that it can counter tax advantages that arise on or after that date.

It does not matter when the arrangements were made. The TAAR can apply to arrangements entered into before the commencement date if both of its conditions are met. That is, if the purpose, or one of the main purposes, of the arrangements is to obtain a loss-related tax advantage, and it is reasonable to regard the arrangements as circumventing the intended limits of relief under the relevant provisions or otherwise exploiting shortcomings in the relevant provisions.

Where the tax advantage would result from a deduction or increased deduction under one of several provisions, there is a different commencement date of 13 July 2017. The provisions for which this different commencement date applies are:

- CTA09/S463H (non-trading deficits from loan relationships: where an investment business becomes small or negligible)
- CTA10/S62(3) (losses of a UK property business),
- CTA10/S303B, 303C and 303D (non-decommissioning losses of oil and gas ring-fence trades),
- FA12/S124A, S124C (excess carried-forward BLAGAB trade losses).

Straddling periods

[F(No 2)A17/C2(11) provides for a situation where the tax advantage in question relates to an accounting period that begins before and ends after the commencement date.

The legislation divides the accounting period into two parts, treated as two separate periods:

- The part of the accounting period that falls before the commencement date, and
- The part that falls on or after the commencement date.

This allows amounts to be apportioned between the two periods. The TAAR has effect only for amounts apportioned to the second period.

Apportionments should be made on a time basis according to the respective lengths of the periods (CTA10/S1172) unless this produces an unjust or unreasonable result. In that case, another method should be used to apportion amounts on a just and reasonable basis.

Reforms to Corporation Tax loss relief: Loss buying

[{Reforms to Corporation Tax loss relief: Loss buying: Introduction}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Modification of pre-existing provisions}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Provisions introduced in \[F\(No 2\)A17\]}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Change in company ownership}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Change in ownership occurs mid-accounting period}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Five year period ends mid-accounting period}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Related companies and co-transferred companies}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Assets transferred between companies}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Transfer of trade}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Extended time limit for assessment}](#)

Reforms to Corporation Tax loss relief: Loss buying: Introduction

CTA10/PART14, PART14A-B

As of 1 April 2017, the existing loss-buying rules in Parts 14 to 14B have been extended.

Certain pre-existing provisions have been [{modified}](#).

In addition, a number of [{new provisions}](#) have been introduced at CTA10/PART14/CH2A-E.

Broadly, these changes comprise an extended time limit for considering whether loss buying conditions have been met, and a number of new restrictions designed to counter misuse of [{group relief for carried-forward losses}](#) and the [{relaxations on relief}](#) for carried-forward losses against a company's total profits.

All of Chapters 2A-E concern situations where there is a change in ownership of a company, C, which occurs on or after 1 April 2017.

[{Chapter 2A}](#) restricts relief for losses and other amounts carried forward in a situation where there has been a change the business of company C.

[{Chapters 2B and 2D}](#) restrict relief for certain losses carried forward in situations where a chargeable gain is effectively transferred to C from another company within the same capital gains group.

[{Chapter 2C}](#) restricts the amounts company C can surrender as group relief for carried-forward losses.

[{Chapter 2E}](#) restricts reliefs available following a transfer of trade.

Reforms to Corporation Tax loss relief: Loss buying: Modification of pre-existing provisions

CTA10/PART14, PART14A-B

As of 1 April 2017, the existing loss-buying provisions at Parts 14 to 14B have been modified to extend time limits, reflect other changes to the CT loss relief regime and in certain cases to expand restrictions on relief.

Extended time limits

A number of provisions have been modified in order to extend the time limit for considering whether the loss buying conditions have been met. These conditions may involve a major change in a trade or business, or may involve the transfer of an asset.

Broadly, HMRC can now consider events up to five years from a change in company ownership. However, the precise operation of the time limit depends on the losses involved.

The modified time limits only have effect where both the {change in ownership} and, where relevant, the change in the trade or business that brings a restriction into effect, occur on or after 1 April 2017.

The provisions affected are as follows:

- Disallowance of trading losses (CTA10/S673),
- Restrictions on relief for companies with investment business (CTA10/S677, S690),
- Restrictions on relief for companies with investment business: asset transferred within group (CTA10/S692),
- Restrictions on relief for companies with UK property business (CTA10/S704),
- Restrictions on relief for companies with overseas property business (CTA10/S705).

However, the extension of s673 is disapplied in certain cases involving {non-decommissioning losses} of oil and gas ring-fence trades (CTA10/S303C). In these circumstances, the time limit for considering whether loss buying conditions have been met remains three years following a change in ownership (CTA10/S674A).

Some provisions enable HMRC to consider a period prior to a change in ownership, for example to determine whether restrictions relating to a major change in a trade should apply (s673). The period of time prior to a change in ownership that HMRC can potentially consider remains unchanged.

Expansion of restrictions

Part 14B contains provisions that prevent groups from entering into arrangements that turn carried-forward losses into in-year losses. Prior to 1 April 2017, these rules applied only to trade losses, non-trading loan relationship deficits and management expenses. From 1 April 2017, the rules have been extended to apply to losses of a UK property business and non-trading losses on intangible fixed assets (CTA10/S730F).

In addition, the coverage of CTA10/PART14/CH4 has been expanded. This chapter restricts the way companies can use losses against certain gains following a change in ownership. Where a company changes ownership on or after 1 April 2017, the gains affected include those reallocated to the company using an election under TCGA92/S171A.

Consequential amendments

A number of provisions within Parts 14 to 14B have been expanded so that restrictions and apportionment rules cover {group relief for carried-forward losses} and amounts carried forward under provisions introduced as part of the {relaxation of relief} for carried-forward losses, as appropriate.

The affected provisions are:

- Disallowance of trading losses (CTA10/S674),
- Apportionment of amounts (CTA10/S685),
- Restriction of debits to be brought into account (CTA10/S696),
- Apportionment of amounts (CTA10/S702),
- Disallowance of deductible amounts (CTA10/S730C),
- Meaning of relevant carried-forward loss (CTA10/S730F).

Reforms to Corporation Tax loss relief: Loss buying: Provisions introduced in [F(No 2)A17]

CTA10/PART14/CH2A-E

Chapters 2A to 2E extend pre-existing rules found in CTA10/PART14 and CTA10/PART14A to counter loss buying in a number of circumstances.

These chapters only apply where there has been a {change in company ownership} on or after 1 April 2017. Their effect is to restrict the ways in which that company can use losses and other amounts incurred before the change.

{Chapter 2A} extends the restrictions on relief where there is a {major change in the business of a company} in addition to the change in ownership.

{Chapter 2B and Chapter 2D} extend restrictions on relief in situations where an asset has been transferred to the company following a change in ownership.

{Chapter 2C} restricts {group relief for carried-forward losses} following a change in ownership.

{Chapter 2E} restricts relief for trading losses in situations where there has been a change in ownership and a transfer of trade ({CTM06005}).

Reforms to Corporation Tax loss relief: Loss buying: Change in company ownership

CTA10/PART14/CH7

Broadly, the rules introduced at CTA10/PART14/CH2A-E use the same definition of a change in company ownership as the pre-existing loss buying rules ({CTM06340}).

However, for the purposes of these chapters, there is also a change in the ownership of a company if the following conditions are met (CTA10/S719):

1. A person acquires ordinary share capital of a company, C,
2. As a result, company C and another company, A, meet the group condition for the purposes of {group relief for carried-forward losses} (CTA10/S188CE, S188FB, CTA10/PART5/CH5), and
3. Company C and company A did not meet the group condition before the acquisition at 1.

This does not apply for loss buying rules in other chapters of CTA10/PART14, for example at CTA10/PART14/CH2 and CH3.

Note that the legislation refers specifically to the group condition. This means that, for the purposes of Chapters 2A-E, there will be a change in the ownership of a company, C, if

1. Companies A and C meet one of the {consortium conditions} but do not meet the group condition,
2. A person acquires ordinary share capital of company C, and
3. As a result, companies C and A meet the group condition.

Reforms to Corporation Tax loss relief: Loss buying: Change in ownership occurs mid-accounting period

CTA10/S676AD, S676BB, S676CB, S676DB, S676EB- EC)

A {change in ownership} may occur after the beginning and before the end of an accounting period of the company. Where this is the case, the accounting period during which the change occurs should be treated as two separate, notional accounting periods.

- The first notional period begins with the beginning of the actual accounting period and ends on the day of the change in ownership.
- The second notional period begins on the day immediately following the change in ownership and ends with the end of the actual accounting period.

The company should apportion any profits, losses and other amounts relating to the actual accounting period between the two notional periods, following the appropriate method set out in legislation (see below).

Amounts apportioned to the first notional period will be treated as arising before the change in ownership for the purposes of the loss buying rules. Losses and debits apportioned to this period will therefore potentially be restricted.

Amounts apportioned to the second notional period will be treated as arising after the change in ownership. The company may therefore be unable to set certain losses against these profits in accordance with one of the restrictions.

The method of apportionment used depends on the restriction that applies.

- For the purposes of the {restriction following a change in the ownership and the business of a company} under CTA10/PART14/CH2A, the company should apportion amounts in accordance with CTA10/S685 (s676AD).
- For the purposes of a {restriction relating to a transferred asset} under CTA10/PART14/CH2B or CH2D, the company should apportion amounts in accordance with CTA10/S702 (s676BB, s676DB).
- For the purposes of the {restriction on group relief for carried-forward losses} under CTA10/PART14/CH2C, or for the purposes of the {restriction following a transfer of trade} under CTA10/PART14/CH2E, the company should apportion amounts in a time basis. The apportionment

should reflect the respective lengths of the two notional periods. However, if this produces an unjust or unreasonable result, the company should use another method that will produce a just and reasonable result.
(S676CB(5)-(7), s676CC(9)-(10), s676EB(4), (6)-(7), s676EC(6), (8)-(9).)

Reforms to Corporation Tax loss relief: Loss buying: Five year period ends mid- accounting period

CTA10/S676AE, S676CG, S676EB-EC

The restrictions at CTA10/PART14/CH2A, CH2C and CH2E affect the relief a company can obtain against profits of the five year period following a {change in ownership}.

The company whose ownership has changed therefore needs to know whether profits fall within that period.

In addition, Chapters 2C and 2E affect relief available to companies in the same {group} for the purposes of {group relief for carried-forward losses} as the company whose ownership has changed. This means that any company in the same group may need to know whether profits fall within the five year period.

This could be straightforward if a company has an accounting period that ends on exactly the same date as the five year period. However, a company may have an accounting period that begins before and ends after this date.

In these circumstances, the profits of that accounting period should be apportioned to determine the amounts affected by the restriction.

The apportionment should generally be made on a time basis, to reflect the proportion of the accounting period that falls within five years of the change in ownership. Thus if 272 days of a 365 accounting period fall within those five years, 272/365 of the profits will be affected by the restriction.

However, if this method of apportionment produces an unjust or unreasonable result, another method should be used that will produce a just and reasonable result. (S676AE(3)-(5), s676CG(3)-(5), s676EB(5)-(7), s676EC(7)-(9).)

Restrictions involving the transfer of an asset

CTA10/PART14/CH2B and CH2D also affect relief for the five years following a change in ownership. However, these chapters specifically restrict relief against gains on the disposal of certain assets. This means that whether or not relief is restricted will depend on whether the disposal date falls within or outside the five year period. Apportionment along the lines set out above will not be necessary.

Reforms to Corporation Tax loss relief: Loss buying: Related companies and co- transferred companies

CTA10/S676AA, S676AL, S676CB, S676CI, S676EC, S676EE

The restrictions in CTA10/PART14/CH2A, CH2C and CH2E use the concepts of related and co-transferred companies

Related company

For the purposes of Chapters 2A, 2C and 2E, two companies are related to one another at any time when they meet

- The group condition for group relief for carried-forward losses (CTA10/S188CE, S188FB, CTA10/PART5/CH5), or
- Any of the {consortium conditions} at CTA10/S188CF-CI.

It does not matter which would be the surrendering company and which would be the claimant company in an actual claim for relief. So long as the companies meet one of the conditions above, they are related (s676AL, s676CI).

Co-transferred company

The restrictions in CTA10/PART14/CH2A, CH2C and CH2E operate to restrict relief in certain situations involving co-transferred companies as well as companies that have themselves been transferred through a {change in ownership} (s676AA, s676CB, s676EC).

A co-transferred company is any company that was related to the transferred company both immediately before and immediately after the change in ownership.

In practice, a co-transferred company will also be a transferred company. The term is required to prevent certain surrenders of losses as group relief for carried-forward losses from one transferred company to another, in situations involving a {[major change in the business of a transferred company](#)} or a {[transfer of trade](#)}.

Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company

[{Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company: Introduction}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company: Definition of a major change}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company: Required period}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company: Affected profits}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company: Restriction of losses}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company: Restriction of debits}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company: Priority of provisions}](#)

Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company: Introduction

CTA10/PART14/CH2A

Chapter 2A restricts relief for losses and other amounts carried forward, in a situation where there has been a change in both the ownership and the business of a company.

The way the restriction operates is summarised as follows. However, this summary should be read alongside the rest of the guidance in this section for a full understanding of the rules.

- Both the change in ownership and the change in the business must occur on or after 1 April 2017.
- The change in the business must be a {major change}.
- The change in the business must occur within a {required period}. In general, the restriction does not apply if the change in the business occurs more than three years before or five years after the change in ownership.
- Where these conditions are met, the company cannot set {certain carried-forward losses} incurred before the change in ownership against its {affected profits}. Broadly, the affected profits are profits that relate to the major change in the business and arise during the first five years following the change in ownership.
- In addition, the company is prevented from bringing into account {certain debits} relating to periods before the change in ownership, beyond a limited amount. This applies indefinitely, without reference to the company's affected profits.

Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company: Major change

(CTA10/S676AC)

For the purposes of CTA10/PART14/CH2A, a major change in the business of a company includes any of the following (s676AC(1) and (2)):

- A major change in the type of property dealt in, or services or facilities provided in the trade or business concerned,
- A major change in customers, outlets or markets of the trade or business concerned,
- A major change in the nature of the investments held by the company for the purposes of an investment business,
- Any other major change in the nature or conduct of any trade or business carried on by the company,
- A major change in the scale of any trade or business carried on by the company,
- Beginning or ceasing to carry on a particular trade or business.
- A major change in the business includes a change that was the result of a gradual process which began before the {required period} (s676AC(3)).
- Where two companies were {related} immediately before the change in ownership, HMRC will take this into account. Any transfers of a trade, business, or any property between the two companies, at a time when they are still related, will be disregarded for the purposes of determining whether there has been a major change in the business of either (s676AC(4)).
- A trade includes an office for the purposes of this test (CTA10/S676AA(5)).
- Further guidance on major changes in the nature or conduct of a trade, specifically, is provided at {CTM06370}.

Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company: Required period (CTA10/S676AA)

For the restriction at CTA10/PART14/CH2A to apply, there must be a {major change} in the business of a company as well as a change in the company's ownership.

The change in the business must occur within a required period. However, the exact character of the required period depends on the type of loss Chapter 2A is used to restrict.

Where the restriction applies to prevent relief for carried-forward trade losses, the required period is:

- A period of five years,
- Beginning no later than the change in ownership, and
- Beginning no earlier than three years before the change in ownership.

Where the restriction applies to prevent relief for other amounts, the required period is:

- A period of eight years,
- Beginning three years before the change in ownership.

In both cases, a change in the business that occurs entirely over a space of time more than five years after the change in ownership, or more than three years before, will not bring the restriction into effect.

Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company: Affected profits

(CTA10/S676AE)

The restriction applies to profits that arise within the five years following the {change in ownership}.

However, these profits are only affected if they are related to the {major change} in the company's business. To decide this, HMRC look at the activities or other sources of income that have resulted in that change or have partly contributed to bring the change about.

Profits that can fairly and reasonably be attributed to these activities or sources of income are affected by the restriction at CTA10/PART14/CH2A.

For example, if there has been a major change because the company began to carry on a new trade, profits that can fairly and reasonably be attributed to the new trade are affected by the restriction. The company will not be able to set {restricted losses, incurred before the change in ownership}, against profits of the new trade that arise in the five years following the change in ownership.

However, the company may have other profits which do not relate to the major change. For example, the company may make profits in a trade which it has carried on in much the same way both before and after the change in ownership, even though there has been a major change in another of its trades or a part of its business. Chapter 2A does not prevent the company from setting carried forward losses against these unaffected profits.

If the company has an accounting period that begins before and ends after the date of the fifth anniversary, it will need to {apportion amounts relating to that period}.

Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company: Restriction of losses

(CTA10/S676AF, S676AH-AK)

Where the restriction under CTA10/PART14/CH2A applies, a company is prevented from setting certain losses and other amounts against its {affected profits}.

Losses are only restricted if they are incurred

- Before the {change in ownership}, and
- On or after 1 April 2017.

This means that the company will need to {apportion amounts if it has an accounting period that begins before and ends after the change in ownership}.

The company is prevented from deducting restricted losses from affected profits under any of the following provisions:

- Post-April 2017 trade losses carried forward against total profits (CTA10/S45A(5)),
- Terminal relief for trade losses carried forward (CTA10/S45F(3)),
- Excess carried-forward non-decommissioning losses of oil and gas ring fence trades (CTA10/S303C(3)),
- Excess carried-forward BLAGAB trade losses (FA12/S124B(3)),
- Non-trading deficits from loan relationships carried forward against total profits (CTA09/S463G),
- Non-trading losses on intangible fixed assets carried forward (CTA09/S753(3)),
- Expenses of management carried forward (CTA09/S1219, S1223),
- Allowances treated as expenses of management under CAA01/S253 and CTA09/S1233 and carried forward as above,
- UK property business losses carried forward (CTA10/S62(5), S63(3)).

The restriction also prevents the company from bringing {certain debits} into account.

Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company: Restriction of debits

CTA10/S676AG

In addition to the {restriction of losses}, where a company meets the conditions of CTA10/PART14/CH2A, its ability to bring relevant non-trading debits into account under the loan relationship rules at CTA09/PART5 is also restricted.

Broadly, these are debits that relate the periods before the change in ownership but have not been brought into account at the time the change occurs. The amounts are defined at CTA10/S730.

The restriction on debits applies indefinitely, beyond the five years for which the restriction on losses applies and without reference to the {affected profits}.

However, the restriction does not necessarily prevent the company from bringing all of its relevant non-trading debits into account. The company can get relief for these debits up to the amount of its profits for the accounting period ending with the change in ownership. This may in practice be a notional accounting period, if the {change in ownership occurs after the beginning and before the end of an actual accounting period of the company}.

If the company has already brought some relevant non-trading debits into account in periods following the change in ownership, the amount of relief it can obtain in subsequent accounting periods is adjusted accordingly.

For example:

- A company changes ownership on 30 June 2020. It meets the conditions of chapter 2A.
- The company has an accounting period ending 31 December, so it has a six month notional period from 1 January to 30 June 2020. The company's profits in the notional period ending 30 June 2020 are £50,000.
- The company will be able to bring into account relevant non-trading debits in subsequent accounting periods up to a limit of £50,000.
- In an accounting period ended 31 December 2021, the company brings into account £30,000 relevant non-trading debits. This may be, for example, because it makes a payment of interest it was not previously able to deduct from its profits to the operation of CTA10/S373 (late interest treated as not accruing until paid in some cases).

- The new limit on the amount of relevant non-trading debits the company can bring into account is £50,000 - £30,000 = £20,000.
- In the next accounting period, the company makes another payment of late interest for which deductions have previously been disallowed under s373. The payment is £40,000, and, if not for the restriction, the company would be in a position to bring this into account.
- Due to the provisions of chapter 2A, the company is only able to bring £20,000 of these debits into account.
- The company will not be able to bring any further relevant non-trading debits into account in any future accounting periods. It has already obtained relief for these debits up to the full amount of the limit set by s676AG.

Reforms to Corporation Tax loss relief: Loss buying: Major change in the business of a transferred company: Priority of provisions

CTA10/S676AB

The provisions of CTA10/PART14/CH2A do not apply where CTA10/PART14/CH2 or CH3 can be used instead.

This is achieved through priority rules, which operate where a loss or other amount meets the conditions of CTA10/PART14/CH2A but could also be restricted under any of the following provisions:

- Disallowance of trading losses (CTA10/PART14/CH2/S674),
- Restrictions on relief for companies with investment business (CTA10/PART14/CH3/S679-683).

In these circumstances, the provision in Chapter 2A that would otherwise restrict the loss does not apply. The available provision of Chapter 2 or Chapter 3 is used instead.

Reforms to Corporation Tax loss relief: Loss buying: Assets transferred between companies

[{Reforms to Corporation Tax loss relief: Loss buying: Assets transferred between companies: Introduction}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Assets transferred between companies: Transfer of asset or gain}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Assets transferred between companies: Assets treated as transferred}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Assets transferred between companies: Profits representing the gain}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Assets transferred between companies: Restriction of reliefs}](#)

Reforms to Corporation Tax loss relief: Loss buying: Assets transferred between companies: Introduction

CTA10/PART14/CH2B, CH2D

Chapters 2B and 2D apply in situations where a company, C, has {changed ownership}. The change in ownership must take place on or after 1 April 2017.

Broadly, these chapters {restrict relief for certain losses carried forward} in situations where a {chargeable gain is effectively transferred} to C from another company within the same capital gains group.

This could be because an asset has been transferred on a no gain/no loss or tax neutral basis and has subsequently been sold. It could also be because companies have made an election to transfer a chargeable gain.

The restrictions only apply in situations where C realises a gain on a transferred asset, or where a gain is transferred to C. Gains realised by other companies that have not changed ownership are not affected, even if the asset or gain in question is transferred from company C.

Gains are only affected if they arise within five years of the change in ownership.

The transfer itself must take place after and not before the change in ownership, and no more than five years after the change.

The effect of the restrictions is to prevent company C from obtaining relief for certain carried-forward losses against {profits that represent the transferred gain}. Chapters 2B and 2D do not prevent relief against other profits that are unrelated to transferred assets or gains. However, {other restrictions following a change in ownership} may apply.

Chapter 2B restricts relief for trade losses carried forward.

Chapter 2D restricts {group relief for carried-forward losses}.

CTA10/PART14/CH4, introduced at an earlier date, restricts relief for other losses and amounts in circumstances involving the transfer of an asset.

Unlike CTA10/PART14/CH2A, which restricts the use of losses where there has been a major change in a company's business, Chapters 2B and 2D apply even if company C's business is unchanged.

Reforms to Corporation Tax loss relief: Loss buying: Assets transferred between companies: Transfer of asset or gain

CTA10/S676BA, S676DA

Profits relating to a transfer of an asset or gain will fall under the restrictions at CTA10/PART14/CH2B or CH2D in one of three possible sets of circumstances.

No gain/no loss transfer

This applies where

- There has been a {change in ownership} of a company,
- Following the change in ownership, an asset is transferred to the company on a no gain/no loss basis under TCGA92/S171 ({CG45300}), and
- The company realises a chargeable gain on that asset within the five years following the change in ownership.

Tax-neutral transfer

This applies where

- There has been a change in ownership of the company,
- Following the change in ownership, an asset is transferred to the company on a tax-neutral basis under CTA09/S775 ({CIRD40200}), and
- The company realises a non-trading chargeable realisation gain on that asset within the five years following the change in ownership.
- For these purposes, a non-trading chargeable realisation gain is a chargeable realisation gain which is a non-trading credit for the purposes of CTA09/PART8.

Transfer of gain

This applies where

- There has been a change in ownership of the company, and
- Within five years of the change in ownership, a chargeable gain or part of a gain is treated as accruing to the company due to an election under TCGA92/S171A ({CG45355}).

Reforms to Corporation Tax loss relief: Loss buying: Assets transferred between companies: Assets treated as transferred

CTA10/S676BA, S676DA

CTA10/PART14/CH2B and CH2D allow HMRC to treat an asset, Q, as if it were the same as another asset, P.

This applies if

- Asset P was {transferred to the company in one of the situations covered by Chapters 2B and 2D}, and
- Asset Q derives its value wholly or partly from asset P.
- This means that if the company realises a gain on disposal of asset Q, the disposal may be subject to the restrictions in Chapters 2B and 2D. It does not matter that asset Q was not itself transferred to the company because asset Q's value is derived from asset P.
- The legislation specifies that this will apply in particular if
- Asset Q is a freehold,
- P was a leasehold, and
- The company, as lessee, has acquired the reversion.

Reforms to Corporation Tax loss relief: Loss buying: Assets transferred between companies: Profits representing the gain

CTA10/S676BE, S676DE

CTA10/PART14/CH2B and CH2D restrict relief only against profits representing a {transferred gain or a gain on a transferred asset}.

The amount of profit affected is determined as follows:

1. Find the amount of the relevant gain (amount Y). This will be either the gain that has been transferred, or the gain realised on the transferred asset.
2. Find amount Z for the accounting period in which the relevant gain arises.
3. If the relevant gain is a chargeable gain, amount Z is the total amount included in respect of chargeable gains for the accounting period.
4. If the relevant gain is a non-trading chargeable realisation gain, amount Z is the total amount included in respect of non-trading chargeable realisation gains for the accounting period.
5. If Z is greater than or equal to Y, the amount of profit affected is equal to amount Y. That is, relief is restricted under Chapters 2B and 2D on profits equal to the amount of the relevant gain.
6. If Y is greater than Z, the amount of profit affected is equal to amount Z. That is, relief is restricted under Chapters 2B and 2D on profits equal to the amount of chargeable gains of the period, or the amount of non-trading chargeable realisation gains, as appropriate.

In certain circumstances, the {change in company ownership} that brings the restrictions into effect could occur after the beginning and before the end of an accounting period of the company. This creates the possibility of a gain arising after the change in ownership but before the end of the accounting period.

In these circumstances, the company will need to {apportion amounts between two notional accounting periods}, one before and one after the change in ownership (CTA10/S676BB, S676DB). Amount Z will be the total amount included in respect of either chargeable gains or non-trading chargeable realisation gains, as appropriate, for the notional period following the change in ownership.

Reforms to Corporation Tax loss relief: Loss buying: Assets transferred between companies: Restriction of reliefs

CTA10/S676BC, S676DC

Where a gain meets the conditions of CTA10/PART14/CH2B and CH2D, the company is prevented from setting certain losses against {profits representing a transferred gain or gain on a transferred asset}.

Only losses incurred before the {change in company ownership} are restricted. This means that if the company has an accounting period that begins before and ends after the change in ownership, it will need to {apportion amounts following the method set out in legislation} to determine the amount of losses affected by the restriction.

Profits that do not relate to the gain are not affected by Chapters 2B and 2D. The restriction only applies to profits representing the gain.

Disallowance of relief for trade losses

Chapter 2B restricts relief for trading losses under the following provisions (s676BC):

- Post-April 2017 trade losses carried forward against total profits (CTA10/S45A),
- Terminal relief for trade losses carried forward (CTA10/S45F),
- Excess carried-forward non-decommissioning losses of ring fence trades (CTA10/S303C),
- Excess carried-forward BLAGAB trade losses (FA12/S124B).

Disallowance of group relief for carried-forward losses

Chapter 2D restricts {group relief for carried-forward losses} under CTA10/PART5A/CH3 for losses carried forward under any of the following provisions:

- Non-trading deficits from loan relationships carried forward against total profits (CTA09/S463G(6)),
- Non-trading losses on intangible fixed assets carried forward (CTA09/S753(3)),
- Expenses of management carried forward (CTA09/S1223),

- Post-April 2017 trade losses carried forward against total profits (CTA10/S45A(3)),
- UK property business losses carried forward (CTA10/S62(5)(b), S63(3)(a)),
- Excess carried-forward non-decommissioning losses of oil and gas ring fence trades (CTA10/S303B(2), S303D(3)),
- Excess carried-forward BLAGAB trade losses (FA12/S124A(2), S124C(3)).

Other reliefs

CTA10/PART14/CH4, introduced at an earlier date, restricts relief for other losses and amounts in circumstances involving the transfer of an asset.

Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses

[{Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses: Introduction}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses: Restriction of reliefs}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses: Consortia}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses: Claimant company previously owned by a consortium}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses: Surrendering company previously owned by a consortium}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses: Changes in a trade or business}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses: Affected profits}](#)

Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses: Introduction

CTA10/PART14/CH2C

Chapter 2C restricts {group relief for carried-forward losses} following a {change in company ownership}. The change in ownership must take place on or after 1 April 2017.

The restriction applies both to the company whose ownership has changed (the transferred company) and to any {co-transferred companies}. It applies only to {losses incurred before the change in ownership} (CTA10/S676CH).

The general rule is that these losses cannot be surrendered for group relief for carried-forward losses against any profits that arise within five years of the change in ownership (CTA10/S676CB, S676CE).

However, other companies within the group are not prevented from surrendering losses incurred in any period to transferred or co-transferred companies.

Companies may need to apportion amounts in order to determine the losses restricted by Chapter 2C and the profits affected. They should do so following the method set out in legislation for each of the following two periods:

- {The accounting period in which the change in ownership occurs.}
- {The accounting period in which the fifth anniversary of the change in ownership occurs.}
- Note that, unlike CTA10/PART14/CH2A, which restricts the use of losses where there has been a major change in a company's business, Chapter 2C applies even if the transferred company's business is unchanged.

Companies in the same group before the change in ownership

CTA10/S676CE

In most circumstances, the restriction does not apply to companies that met the group relief group condition (CTA10/S188CE, S188FB, CTA10/PART5/CH5), immediately before the change in ownership occurred.

These companies were already able to surrender or claim losses to or from one another before the change. Chapter 2C does not prevent companies from obtaining group relief for carried-forward losses in a way that was available to them before the change in ownership.

For example:

- On 1 December 2020, companies A and B are in the same group for the purposes of group relief for carried-forward losses. Each is able to surrender losses to the other for this relief.
- On 2 December 2020, both companies are acquired by company Z.
- For the five years to 2 December 2025, neither company A nor company B will be able to surrender losses incurred before the change in ownership, on 2 December 2020, to company Z.
- However, companies A and B are still able to surrender losses incurred before the change to one another.

This is subject to further restrictions in Chapter 2C, which apply if there is a major change in the trade or business of a transferred or co-transferred company (in this case, either or both of companies A and B).

Note that nothing in Chapter 2C prevents companies A and B from surrendering losses incurred after the change to company Z. Nor does Chapter 2C prevent company Z from surrendering losses incurred in any period to either of companies A and B.

Consortia

CCTA10/S676CC-CD

Companies that were able to surrender losses to one another for group relief for carried-forward losses because they met one of the {consortium conditions} (S676CC-CD) immediately before the change in ownership, and did not meet the group condition, are subject to {specific rules}.

These control the amount of relief a transferred company, previously owned by a consortium, can claim and surrender as group relief for carried-forward losses following the change in ownership.

Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses: Restriction of reliefs

CTA10/S676CH

CTA10/PART14/CH2C restricts reliefs for losses and other amounts incurred before the {change in ownership} and carried forward under the following provisions:

- Non-trading deficits from loan relationships carried forward against total profits (CTA09/S463G(6)),
- Non-trading losses on intangible fixed assets carried forward (CTA09/S753(3)),
- Expenses of management carried forward (CTA09/S1223),
- Post-April 2017 trade losses carried forward against total profits (CTA10/S45A(3)),
- UK property business losses carried forward (CTA10/S62(5)(b), S63(3)(a)),
- Excess carried-forward non-decommissioning losses of oil and gas ring fence trades (CTA10/S303B(2), S303D(3)),
- Excess carried-forward BLAGAB trade losses (FA12/S124A(2), S124C(3)).

Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses: Consortia

CTA10/S676CC-CD

S676CC-CD are concerned with situations where there has been a change in company ownership and, immediately before that change, the transferred company was owned by a consortium.

Prior to the change in ownership, the transferred company, C, and another company, X, may have met one of the {consortium conditions}. As a result, they may have been able to surrender or claim losses to or from another for group relief for carried-forward losses (CTA10/PART5A).

In some circumstances, the change in ownership may effectively sever the relationship between the company and the consortium for the purposes of Part 5A. Once its ownership has changed, C may no longer be in a position where it might potentially surrender or claim losses to or from company X or any other company with which it previously met one of the consortium conditions. In these circumstances, s676CC-CD have no application.

However, this will not always be the case. For example, companies C and X may meet a consortium condition before the change and the group relief group condition (CTA10/S188CE, S188FB, CTA10/PART5/CH5), after the change in ownership.

If

- Immediately before the change in ownership, companies C and X meet one of the consortium conditions, and
- Following the change in ownership, companies C and X are still in a position where one might potentially surrender or claim losses to or from the other under Part 5A,
- Then s676CC-CD control the reliefs available.
- In these circumstances,
- {S676CC concerns the amount of relief the transferred company is able to claim}, and
- {S676CD concerns the amount of relief the transferred company is able to surrender}.
- Only the {reliefs restricted more generally by Chapter 2C} are affected. Broadly, these are reliefs for losses incurred before the change in

ownership and carried forward under one of a number of provisions (CTA10/S676CH).

- Losses incurred after the change in ownership are not restricted by either of s676CC-CD.

Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses: Claimant company previously owned by a consortium

CTA10/S676CC

When, immediately before a {change in ownership} of a company,

- The transferred company, C, was owned by a consortium, and
- As a result, company C and another company, X, met either {consortium condition 1} or {consortium condition 2} (CTA10/S188CF-CG),

Then s676CC controls the amount of relief company C can claim from company X as {group relief for carried-forward losses} (CTA10/PART5A).

In practice, this will only apply in circumstances where the change in ownership does not effectively sever the relationship between companies C and X for the purposes of Part 5A.

The precise way in which s676CC operates depends on which of the two consortium conditions was met.

Companies previously met consortium condition 1

Broadly, consortium condition 1 is met if the claimant company is owned by a consortium and the surrendering company is a member of that consortium.

Where companies C and X met this condition immediately before the change in ownership of C, then following the change, s676CC(1)-(4) restrict the amount of relief C can claim from X under Part 5A.

The restriction applies only to profits of the first five years following the change in ownership. The amount of relief C can claim against profits arising after the fifth anniversary of the change in ownership is not affected by s676CC.

Relief is only restricted so far as it relates to losses incurred before the change in ownership and carried forward under one of the {provisions specified} in CTA10/PART14/CH2C (CTA10/S676CH).

The extent of the restriction depends on the relationship between companies C and X at the time immediately before the change in ownership of company C. This gives the maximum amount of relief that C can obtain for restricted losses claimed from X in any particular claim period, up to the fifth anniversary of the change in ownership.

The maximum amount is the amount of relief that would be available for a claim based on consortium condition 1, where the ownership proportion (CTA10/S188DH-DI) was equal to the lowest of four proportions.

Note, however, that this is a maximum, and that claims based on consortium condition 1 or consortium condition 2 are subject to further limitations at CTA10/PART5A/CH4. These include limitations specific to claims based on consortium condition 1 or 2, found at CTA10/S188DH-DL.

The claim should use the lowest of the four following ownership proportions:

- A. The proportion of the ordinary share capital of the transferred company, company C, that was beneficially owned by the surrendering company, company X, immediately before the change in ownership,
- B. The proportion of any profits available for distribution to equity holders of company C to which the company X was beneficially entitled at that time,
- C. The proportion of any assets of company C available for distribution to such equity holders on a winding up to which company X would be beneficially entitled (as determined at that time), and
- D. The proportion of the voting power in company C that was directly possessed by company X at that time.

For example:

- Company C is owned by a consortium.
- For this reason, companies C and X meet consortium condition 1.
- There is a change in ownership in company C.
- Immediately before the change, the lowest of proportions A to D was A, the proportion of ordinary share capital in company C that was owned by company X. This is 15%.
- Following the change in ownership, companies C and X meet the group relief group condition (CTA10/S188CE, S188FB, CTA10/PART5/CH5).
- In a subsequent period that falls within the five years following the change, company C wishes to claim losses from company X under Part 5A. The losses in question were incurred before the change in ownership, and are restricted under s676CC.
- The amount of relief that company C would be able to obtain by claim from company X in a claim based on consortium condition 1, using a 15% ownership proportion, is, for example, £5 million.

- In the period in question, the maximum amount that company C may be able to claim from company X, in respect of restricted losses incurred before the change in ownership, is therefore £5 million. However, this will be subject to limitations set out in Part 5A, Chapter 4.

Companies previously met consortium condition 2

Broadly, consortium condition 2 is met if

- A claimant company, company C, is owned by a consortium,
- Another company, the link company, is a member of that consortium, and
- A third company, company Y, is a member of the same group of companies as the link company.

Where companies C and Y met this condition immediately before a change in ownership of company C, s676CC(5)-(8) control the amount of relief that C can claim from Y under Part 5A, in respect of restricted losses incurred by Y before the change.

These provisions operate in largely the same way as s676CC(1)-(4), above. However, the maximum amount is determined with reference to the link company's ownership proportion, rather than that of company Y.

For example:

- Company C is owned by a consortium.
- A link company, L, is a member of the consortium.
- Company Y is a member of the same group as company L.
- For this reason, companies C and Y meet consortium condition 2.
- There is a change in ownership in company C.
- Immediately before the change, the lowest of proportions A to D was A, the proportion of ordinary share capital in company C that was owned by company L, the link company. This is 30%.
- Following the change in ownership, companies C and Y meet the group condition.
- In a subsequent period that falls within the five years following the change, company C wishes to claim losses from company Y under Part 5A. The losses in question were incurred before the change in ownership, and are restricted under s676CC.

- The amount of relief that company C would be able to obtain from company Y in a claim based on consortium condition 2, using a 30% ownership proportion, is, for example, £7 million.
- In the period in question, the maximum amount that company C can claim from company Y, in respect of restricted losses incurred before the change in ownership, is therefore £7 million.
- However, as above, note that claims based on consortium condition 1 or consortium condition 2 are subject to further limitations at Part 5A, Chapter 4. These include limitations specific to claims based consortium condition 1 or 2, found at s188DH-DL.

Apportionment

Companies may need to apportion amounts in order to determine the amounts of losses restricted and profits affected. They should do so following the method set out in legislation for each of the following two periods:

- [{The accounting period in which the change in ownership occurs}](#) (on page 83), and
- [{The accounting period in which the fifth anniversary of the change in ownership occurs}](#) (on page 85).

Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses: Surrendering company previously owned by a consortium

CTA10/S676CD

When, immediately before a {change in ownership} of a company,

- The transferred company, C, was owned by a consortium, and
- As a result, company C and another company, X, met either {consortium condition 3} or {consortium condition 4} (CTA10/S188CF-CG),

Then s676CD controls the amount of relief company X can claim from company C as {group relief for carried-forward losses} (CTA10/PART5A).

In practice, this will only apply in circumstances where the change in ownership does not effectively sever the relationship between companies C and X for the purposes of Part 5A.

Availability of relief

The general rule is that company C cannot surrender {restricted losses incurred before the change in ownership} to company X (CTA10/S676CB).

However, s676CD modifies this to allow company C to surrender losses incurred in certain, specified accounting periods.

If companies C and X met consortium condition 3 or consortium condition 4 throughout a period which

- Begins before or during the loss-making accounting period, period L, and
- Ends with or after the time when the change in ownership occurred,

Then company C is able to surrender amounts attributable to period L to company X for group relief for carried-forward losses.

The relief must be claimed under CTA10/S188CC and will be subject to {specific limitations} under CTA10/PART5A/CH5.

If period L begins before and ends after consortium condition 3 or 4 was met, relief is still available, but will be proportionately restricted (CTA10/S188EH).

It does not matter if there is a change in which of the two conditions the companies meet. However, the companies must meet one of conditions 3 and 4 for the whole of a space of time, without interruption, that begins during if not before period L and ends with or after the change in ownership.

Claiming provisions

If company X claims relief for losses of period L, the claim must be made under s188CC.

This is unlike most claims for group relief for carried-forward losses, which are made under CTA10/S188CB and do not need to refer to a particular loss-making period.

S188CC allows {claims in relation to surrenderable amounts attributable to a specified accounting period}, in circumstances where group relief for carried-forward losses is not available more generally under s188CB.

For these purposes, companies C and X do not need to meet Requirement 3 of S188CC. This means that the companies do not need to meet consortium condition 3 or consortium condition 4 at any point in the overlapping period (CTA10/S188DG) for which relief is given, so long as they meet the group relief group condition (CTA10/S188CE, S188FB, CTA10/PART5/CH5), instead.

Be aware that claims for relief under s188CC are subject to specific limitations under Part 5A, Chapter 5.

Consortium conditions

Broadly, the companies will meet

- Consortium condition 3 if company C is owned by a consortium and company X is a member of the consortium (CTA10/S188CH), and
- Consortium condition 4 if company C is owned by a consortium and company X is in the same group as a member of the consortium (CTA10/S188CI).

Apportionment

Companies may need to apportion amounts in order to determine the amounts of losses restricted and profits affected. They should do so following the method set out in legislation for each of the following two periods:

- [{The accounting period in which the change in ownership occurs}](#) (on page 83), and
- [{The accounting period in which the fifth anniversary of the change in ownership occurs}](#) (on page 85).

Note that where s676CD applies, the appropriate method is the method set out for CTA10/PART14/CH2C generally.

Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses: Changes in a trade or business

CTA10/S676CF

In most circumstances, the restriction under CTA10/PART14/CH2C does not apply to companies that were able to surrender amounts to one another for group relief for carried-forward losses immediately before the {change in ownership} occurred.

Chapter 2C also does not generally prevent other companies within the group from surrendering losses to the company whose ownership has changed (the transferred company) or to a {co-transferred company}.

However, where there is a major change in the trade or business of a transferred or co-transferred company, these exceptions may not apply. This will be the case if the change {meets certain conditions} set out in CTA10/PART14/CH2, CH2A or CH3.

In these circumstances, the company is prevented from obtaining group relief for carried-forward losses

- For losses incurred before the change in ownership that have been carried forward under any of the {provisions specified in Chapter 2C at CTA10/S676CH},
- Against any of the company's {affected profits}. Broadly, these are profits connected with the change in the company's business that arise in the period of five years following the change in ownership.

Losses incurred after the change in ownership and profits that have no relation to the change in trade or business are not affected.

Major change in a trade or business

S676CF will only restrict a company's relief for losses if:

- Disallowance of trading losses (Chapter 2) applies because there has been a major change in the nature or conduct of a trade carried on by the transferred company (condition A of CTA10/S673) ({CTM06300}),
- The {restriction on relief following a major change in the business} (Chapter 2A) applies to the transferred company or a co-transferred company, or

- Restrictions on relief for companies with investment business (Chapter 3) apply due to a major change in the nature or conduct of a business carried on by the transferred company (condition B of CTA10/S677) (CTM08700).

Where Chapter 2 could apply because of a condition other than condition A, or Chapter 3 could apply because of a condition other than condition B, s676CF will not place any additional restrictions on reliefs. For example, if Chapter 3 applies due to a significant increase in the amount of the company's capital (s677(2)), this will not bring s676CF into effect.

Chapter 2A restricts relief for transferred companies only. However, s676AA(3) and s676CF operate together so that the restriction in s676CF can also apply to a co-transferred company where there has been a major change in that company's business.

Change in ownership

CTA10/S719

An {expanded definition of a change in ownership} applies for CTA10/PART14/CH2A-E. Broadly, this allows a company to meet the change in ownership condition for any of those chapters if, as a result of changes in its ownership, it is newly able to meet the group condition for group relief for carried-forward losses (CTA10/S188CE, S188FB, CTA10/PART5/CH5).

In general, this expanded definition is not used for the purposes of Chapters 2 and 3. A change of company ownership only occurs for the purposes of these chapters if another condition of s719 is met.

However, for the purposes of s676CF, to determine whether an additional restriction on group relief for carried-forward losses applies, the expanded definition of a change in ownership is used.

For example:

- There is a change in the ownership of a company that meets the expanded definition of a change in ownership, but not the definition usually in place for the purposes of Chapters 2 and 3.
- There is also a major change in the company's trade that meets the conditions of Chapter 2.
- For most purposes, Chapter 2 does not apply since its change in ownership condition has not been met.
- However, for the purposes of s676CF, the company is treated as if Chapter 2 did apply. This means that the company's ability to claim group relief for carried-forward losses is restricted by s676CF.

Required period

The additional restrictions at s676CF only apply in specific circumstances set out in Chapters 2, 2A and 3. This will be the case if there has been a change in ownership and, within a required period, a major change in the trade or business of the transferred company.

For the purposes of Chapter 2, and for Chapter 2A where the restriction applies to prevent relief for carried-forward trade losses, the required period is:

- A period of five years,
- Beginning no later than the change in ownership, and
- Beginning no earlier than three years before the change in ownership.

For the purposes of Chapter 3, and for Chapter 2A where the restriction applies to prevent relief for other amounts, the required period is:

- A period of eight years,
- Beginning three years before the change in ownership.

In both cases, a change in the business that occurs entirely over a space of time more than five years after the change in ownership, or more than three years before, will not bring the restriction into effect.

Chapters 2 and 3 do not require the change in the trade or business to occur before 1 April 2017. However, s676CF will only apply if the change in ownership occurs on or after 1 April 2017 (CTA10/S676CA).

Apportionment

Relief is only restricted for losses incurred before the change in company ownership. A company in the same group with an accounting period that begins before and ends after the change in ownership may wish to surrender losses as group relief for carried-forward losses to a transferred or co-transferred company to which the restriction at s676CF applies.

If this is the case, the surrendering company will need to [{apportion amounts using the method set out in legislation}](#) (on page 83) to determine the amount of losses affected by the restriction.

Reforms to Corporation Tax loss relief: Loss buying: Restriction of group relief for carried-forward losses: Affected profits

CTA10/S676CG

A company will only need to know its affected profits for the purposes of CTA10/PART14/CH2C if its ability to claim {group relief for carried-forward losses} has been {restricted due to a change in its trade or business} (CTA10/S676CF).

The restriction at s676CF prevents the company from claiming relief for profits that arise within the five years following the {change in ownership}.

However, these profits are only affected if they are related to the major change in the company's trade or business that has caused s676CF to apply. To decide this, HMRC look at the activities or other sources of income that have resulted in that change or have partly contributed to bringing the change about.

Only profits that can fairly and reasonably be attributed to these activities or sources of income are affected by the restriction at s676CF.

If the company has an accounting period that begins before and ends after the date of the fifth anniversary, it will need to {apportion amounts relating to that period}.

Reforms to Corporation Tax loss relief: Loss buying: Transfer of trade

[{Reforms to Corporation Tax loss relief: Loss buying: Transfer of trade: Introduction}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Transfer of trade: Restriction of relief against total profits}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Transfer of trade: Restriction of group relief for carried-forward losses}](#)

[{Reforms to Corporation Tax loss relief: Loss buying: Transfer of trade: Subsequent transfers of the trade}](#)

Reforms to Corporation Tax loss relief: Loss buying: Transfer of trade: Introduction

CTA10/PART14/CH2E

In many situations where a trade is transferred between companies in common ownership, CTA10/PART22/CH1 allows losses to be carried forward from periods before the transfer and relieved in periods following the transfer ({CTM06005}).

However, Chapter 2E, Part 14 restricts companies' ability to obtain relief for these losses in certain circumstances following a change in company ownership. The effect is to prevent groups from using the transfer of a trade to bypass other loss buying rules, such as the {restriction on group relief for carried-forward losses} at CTA10/PART14/CH2C.

There are two restrictions on the successor company's ability to use losses of the transferred trade:

- A restriction on relief against total profits (s676EB), and
- A restriction on surrendering losses for group relief for carried-forward losses (s676EC).

The restriction on relief against total profits applies where (CTA10/S676EB):

- There is a {change in ownership of a company} which occurs on or after 1 April 2017,
- The company whose ownership has changed transfers a trade to another company (the successor company),
- The trade is transferred at a time no more than three years before or five years after the change in ownership, and
- Chapter 1, Part 22 applies to the transfer.

The restriction on surrendering losses for group relief for carried-forward losses applies in the same circumstances. However, it also applies where the predecessor company, whose trade is transferred to the successor company, is not the transferred company but is a {co-transferred company}.

This restriction does not affect the successor company's ability to surrender any losses of the transferred trade back to the predecessor company for group relief for carried-forward losses. Group relief for carried-forward losses is only restricted when the claimant company is another company, other than the predecessor company (s676EC(1)(c)).

- The restrictions continue to apply in certain circumstances where the {successor company transfers the trade to another company}.
- The restrictions apply only to losses of the transferred trade. Losses of other trades or of other parts of either the predecessor or the successor company's business are not restricted by Chapter 2E.
- The definitions of transfer of trade, predecessor and successor used in Chapter 2E, Part 14 are the same as those in Chapter 1, Part 22 (CTA10/676EE, S940B).

Reforms to Corporation Tax loss relief: Loss buying: Transfer of trade: Restriction of relief

CTA10/S676EB-EC

Where CTA10/PART14/CH2E applies, there are two restrictions on the successor company's ability to use the losses of the transferred trade.

Restriction on relief against total profits

The restriction on relief against total profits at s676EB restricts the company's ability to obtain relief for losses of the transferred trade under either of the following provisions:

- Post-April 2017 trade losses carried forward against total profits (CTA10/S45A), or
- Excess carried-forward non-decommissioning losses of oil and gas ring fence trades (CTA10/S303C).

Restriction on group relief for carried-forward losses

- The second restriction, at s676EC, restricts the successor company's ability to surrender losses carried forward under either of the above provisions (s45A and s303C) for group relief for carried-forward losses.

General application

The restrictions are not absolute. They apply only to losses incurred before the {change of company ownership} that has caused Chapter 2E to apply. Losses incurred after this change are not restricted even if they are incurred before the trade itself is transferred.

In addition, the restrictions only prevent relief against profits of the first five years following the change of company ownership. Profits that arise after this five year period are not affected.

Finally, the restriction does not prevent relief against any profits that can fairly and reasonably be attributed to the successor company carrying on the transferred trade.

The overall effect, broadly summarised, is therefore to prevent relief and group relief for

- Carried-forward losses of the transferred trade,
- Incurred before the change in ownership,

- against
- Profits of the following five years,
- Except so far as those are profits of the same trade.

Exemption: relief against total profits

The restriction on relief against total profits does not apply if the transferred company, whose ownership has changed, and the successor company are related to one another both (s676EB(1)(c)):

- Immediately before the change in ownership of the transferred company, and
- At the time when the trade is transferred.

Exemption: group relief for carried-forward losses

A similar but not identical exemption applies for the restriction on group relief for carried-forward losses following the transfer of a trade (s676EC(5)).

The exemption is determined by looking at the relationship between two companies:

- The transferred company, whose ownership has changed, and
- A claimant company, whose profits could potentially be relieved by losses surrendered by the successor company.
- The exemption applies if, immediately before the change in ownership, these two companies met the group relief group condition (CTA10/S188CE, S188FB, CTA10/PART5/CH5).

In these circumstances, the restriction is lifted with regard to the particular claimant company in question. That is, the successor company is not prevented by Chapter 2E from surrendering losses of the transferred trade to that company.

The successor company may still be restricted from surrendering losses of the transferred trade to other companies in the group.

This is because the exemption operates individually with reference to each potential claimant company. It is concerned with these companies' ability to claim losses of the transferred trade. It cannot exempt a successor company from the restriction on surrendering losses in any more general way that would apply for any claimant.

For example:

- Two companies, C and D, are acquired by group G on 1 January 2020.

- Group G includes companies X, Y and Z.
- Company C transfers a trade, T, to company X.
- The situation meets the general conditions of Chapter 2E.
- Company X cannot surrender losses of trade T incurred before 1 January 2020 to companies Y and Z.
- However, companies C and D met the group condition immediately before 1 January 2020.
- As a result, the restriction does not prevent company X from surrendering losses of trade T to company D.
- Company X is also able to surrender losses of trade T to company C, the predecessor company. This is possible without any specific exemption. The restriction on group relief for carried-forward losses in Chapter 2E only applies when the claimant company is another company, other than the predecessor company (CTA10/S676EC(1)(c)).
- Note that the restriction in s676EC can apply when the predecessor company is a co-transferred company, as well as when the predecessor company and transferred company are one and the same. However, the exemption from the restriction on relief against total profits is concerned only with the relationship between the successor company and the transferred company.

Apportionment

Companies may need to apportion amounts in order to determine the amounts of losses restricted and profits affected. They should do so following the method set out in legislation for each of the following two periods:

- [{The accounting period in which the change in ownership occurs}](#) (on page 83), and
- [{The accounting period in which the fifth anniversary of the change in ownership occurs}](#) (on page 85).

Reforms to Corporation Tax loss relief: Loss buying: Transfer of trade: Subsequent transfers of the trade

CTA10/S676ED

S676ED ensures that the restrictions under CTA10/PART14/CH2E continue to apply in situations where a trade is transferred through several companies.

If:

- There is a {change in ownership of a company}, C,
- Company C or a {co-transferred company} transfers a trade, T, to another company, Y, and
- Company Y transfers trade T to another company, Z,

Then, for the purposes of Chapter 2E, there is a deemed transfer from company C, or from the co-transferred company, to company Z. This deemed transfer is treated as taking place on the date of the original transfer to company Y.

In addition, if CTA10/PART22/CH1 applies to the second transfer, from Y to Z, then Chapter 2E operates as if Chapter 1, Part 22 applied to the deemed transfer as well. This means that the deemed transfer will meet one of the {conditions for the restrictions in Chapter 2E, Part 14} to apply. The actual relationship between companies C and Z does not matter.

If the other conditions of Chapter 2E are met, company Z's ability to relieve or surrender losses of the transferred trade will be restricted in accordance with CTA10/S676EB-EC.

The deemed transfer creates the conditions for the same rules to apply again for any subsequent transfers of the trade.

Composite trades

In certain circumstances, the transferred trade might be combined with another trade before a subsequent transfer. If:

- There is a {change in ownership of a company}, company C,
- Company C transfers a trade, T, to another company, Y,
- Company Y includes the activities of trade T in the activities of another trade (the composite trade), and

- Company Y subsequently transfers the composite trade to another company, Z,

Then the composite trade is treated in the same way as trade T in the first example, above.

There is still a deemed transfer between companies C and Z on the date of the first transfer, between C and Y.

If Chapter 1, Part 22 applied to the second transfer, between Y and Z, then Chapter 2E, Part 14 will operate as if it applied to the deemed transfer.

Reforms to Corporation Tax loss relief: Loss buying: Extended time limit for assessment

(CTA10/S727)

S727 extends the time limit for HMRC to raise assessments in situations where any of the loss buying rules at CTA10/PART14/CH2-6 apply.

As of 1 April 2017, there has been a change in this provision relating to the circumstances or events from which the time limit is calculated.

The time limit is calculated with reference to the date of any circumstances or events that

- Are required for any of the provisions and Chapters 2 to 6 to operate,
- Occur after a {change in company ownership}, and
- As of 1 April 2017, occur within five years of the change in ownership. For prior periods, however, the circumstances or events must occur within three years of the change in ownership.

The extended time limit is six years from the date of the latest of these circumstances or events.