CTM04880: CT loss reform: commencement and apportionment

F(No2)A17/SCH4/PART12/PARA190-192

Introduction

The amendments to legislation made by Schedule 4 Finance Act (No 2) 2017 (which contains provisions relating to relief for losses carried forward) have effect from 1 April 2017 (Para 190(1)).

For the purposes of applying those amendments, where a company has an accounting period that straddles 1 April 2017, the periods falling before and after that date are treated as separate accounting periods (Para 190(2)).

In some circumstances, it may be necessary to apportion profits, losses or deductions (described in Para 190(2) as amounts) of the straddling accounting period in order to determine how much of these amounts fall before and after 1 April 2017.

Additional rules apply to companies affected by the corporate interest restriction at TIOPA10/PART10 and where both sets of provisions require apportionments to be made, consistency is expected. You can find details at CTM04890. For general guidance on the corporate interest restriction, which also took effect from 1 April 2017, see CFM95000+.

Meaning of apportionment

Where apportionment is necessary, the apportionment should be made on a time basis in accordance with CTA10/S1172. However, if time apportionment produces a result that is not just and reasonable, an alternative just and reasonable basis may be used. The alternative basis that may be used will depend on the precise circumstances and whether the outcome produces a result that is just and reasonable.

Apportionment means distributing or allotting an amount into its proper shares or portions. This will mean that shares of the amount will be allotted to the appropriate deemed accounting periods. This could, depending on the circumstances, result in all of the amount being allocated to one period and nil profit/loss to the other. It does not though include creating a profit in one period and a loss that is larger than the amount being apportioned in the other (or vice versa).

HMRC's view is that the ordinary meaning of the word apportionment does not include, for example, creating a negative portion of a positive item. Apportionment can only involve allotting an amount into portions of that amount.

For example, a company incurs a non-trading loan relationship deficit of £120,000 in the straddling accounting period from 1 October 2016 to 30 September 2017 that is available to carry forward. This amount needs to be apportioned to the periods falling before and after 1 April 2017. Apportioning on a time basis, the amounts are carried forward from the following periods:

	£
1/10/16 to 31/3/17	£60,000
1/4/17 to 30/9/17	£60,000

However, in some circumstances, an alternative basis may be appropriate. For example, as above, a company makes an overall non-trading loan relationship deficit of £120,000 in its accounting period from 1 October 2016 to 30 September 2017. The deficit was entirely and properly attributable to a particular event that occurred in the period from 1 October 2016 to 31 March 2017, and this gave rise to a non-trading loan relationship deficit of £140,000 in this period and a non-trading loan relationship credit of £20,000 in the period from 1 April 2017 to 30 September 2017.

As the overall deficit for the accounting period was £120,000, on an alternative just and reasonable basis, apportionment of the loss carried forward would be as follows:

	£
1/10/16 to 31/3/17	(120,000)
1/4/17 to 30/9/17	nil

The company does not recognise the full £140,000 deficit attributable to the first notional period, as this would leave a £20,000 profit in the second notional period, even though there was an overall deficit in the straddling period as a whole. Instead, the full amount of the overall £120,000 deficit is apportioned to the period in which the loss-making event occurred.

In both of the above examples, apportionment on a time basis has been made by reference to months. In practice, this should normally be made by reference to days.

The guidance at {CTM80260} provides some examples of situations where an alternative basis might be used.

Extent of apportionment

Apportionment of profits, losses and deductions is only required to the extent necessary to allow the amendments made by Schedule 4 to be implemented.

Companies are not required to apportion amounts to any greater extent than is necessary for these purposes.

This is because the legislation at F(No2)A17/Sch4/Para190 specifies that, 'for the purposes of those amendments', where a company has an accounting period that straddles 1 April 2017, then this period should be treated as two separate accounting periods, one ending immediately before 1 April 2017 and the second beginning on that date, with amounts apportioned between these two notional periods. The amendments in question are those made by Parts 1 to 9 and 11 of F(No2)A17/Sch4, which introduce the CT loss reform. Para190 requires amounts to be apportioned for the purposes of those amendments, and not for any broader purposes.

In practice, this means that the extent to which a company with a straddling period will need to apportion amounts depends on their particular situation in that period.

Where the company has losses or other amounts that arise in the straddling period and will be carried forward to later periods, apportionment is required to determine how much of each loss or amount should be treated as arising before 1 April 2017 and how much on or after that date.

Where the company has profits in the straddling period and wishes to relieve these using losses carried forward from previous periods, the loss restriction (CTM05000) will have effect. This means that the company will need to apportion both profits and losses and other amounts arising in the period in order to find:

- The amount of losses carried forward as at 1 April 2017,

- The amount of profits arising on or after 1 April 2017, for which relief is affected by the loss restriction, and

- The amount of losses and other amounts attributable to the period after 1 April 2017, to allocate against profits arising on or after that date when the company calculates the loss restriction, or to carry forward as post-1 April 2017 losses where relief for these amounts is not claimed in-year.

Apportionment generally applies only for these purposes, and does not affect, for example, surrenders of losses as group relief, which are made by reference to the straddling period overall. It may however affect the amount claimed as group relief (CTM04950).

The only situation where apportionment could apply more broadly, for example with reference to amounts surrendered as group relief, is where the company {chooses to apportion its non-trading loan relationship deficits (NTLRDs) arising in the straddling period to a greater extent than is required}.

No apportionment is necessary if:

- The company does not have any losses or other amounts to carry forward from the straddling period, and
- The company does not set any carried-forward losses against profits of the straddling period.

Companies whose use of carried-forward losses is not limited by the loss restriction

A company may find, after apportioning amounts, that its qualifying profits for the post-1 April 2017 part of a straddling period are equal to or lower than the amount of its deductions allowance for that notional period, with the result that the company's use of carried-forward losses in the straddling period is not limited by the loss restriction (CTM05000). Alternatively, a company may find, after apportioning amounts, that losses carried forward at the beginning of the notional period ending on 31 March 2017 are all relieved in that period, and that there are no losses to carry forward to the post-1 April 2017 period. Again, the result is that the company’s use of carried-forward losses in the straddling period is not in practice limited by the loss restriction. In either of these circumstances, HMRC accept that it is just and reasonable for the company to calculate the amount of in-year relief (CTM05060) it can claim with reference to its result for the whole of the straddling period, and apportion this amount to the pre and post 1-April 2017 periods in a manner that achieves this outcome.

This means that a company whose use of carried-forward losses is not, in practice, limited by the loss restriction should not have the amount of in-year relief it can claim (including group relief) inadvertently affected by the method of apportionment. This is set out in the example at CTM04960.

Non trading loan relationship deficits

As set out above, apportionment of profits, losses and deductions is only required to the extent necessary to allow the amendments made by Schedule 4 to be implemented.

Although these amendments include new legislation at CTA09/PART5/CH16A governing set off of non-trading loan relationship deficits against profits of the deficit or earlier periods (CTA09/S463B-F), these sections duplicate the operation of equivalent sections in CTA09/PART5/CH16 (CTA09/S45-462). The underlying rules relating to set off of deficits against profits of the same or earlier periods have not changed.

For this reason, HMRC accept apportionment of NTLRDs on the same basis as for other losses and do not require NTLRDs to be apportioned beyond the extent necessary to determine:

- What amount of any NTLRDs arising in the straddling period and carried forward should be treated as arising before 1 April 2017, and what amount should be treated as arising on or after that date, and

- The amount of restricted NTLRDs that may be allowed in the period beginning on or after 1 April 2017.

This is subject to the caveat that there should be consistency with the approach adopted in making any necessary apportionments for the purposes of the corporate interest restriction, see CTM04890.

However, since the whole of Chapter 16A falls within the amendments made by Schedule 4, Part 12 of FA(No2)17, companies are able, if they wish, to apportion NTLRDs into pre- and post-1 April 2017 periods for the purposes of claiming in-year relief, group relief under CTA10/PART5 and relief against profits of previous periods.

If a company chooses this second approach, HMRC expect them to apply it consistently in the way they treat all NTLRDs of the straddling period. A company that, for example, treats its NTLRDs as arising in two separate accounting periods, falling before and after 1 April 2017, for the purposes of surrendering amounts as group relief, must also treat its NTLRDs as arising in those two separate periods for the purposes of in-year relief and relief against profits of previous periods.

Either approach is acceptable and companies have free choice in which to use.

CTM04920 provides an example of a company that chooses the second approach, and also sets out the implications for amounts surrendered as group relief.

CTM04890 CT loss reform: commencement: companies affected by the corporate interest restriction

F(No2)A17/SCH4/PARA191-192

The way in which commencement provisions apply in general is set out at CTM04880.

These are modified by Para191-192 where a company has an amount of interest that is restricted under the corporate interest restriction (TIOPA10/PART10), which also has effect from 1 April 2017. The modifications have the result that, for the purposes of the loss reform, the effects of the interest restriction are taken into account in the deemed period beginning 1 April 2017. For general guidance on the corporate interest restriction ('CIR') see CFM95000+.

These provisions refer to a company with an accounting period beginning before and ending after 1 April 2017 that needs to apportion an amount between two notional periods falling before and after that date, in accordance with F(No2)A17/SCH4/PARA190.

The provisions apply when that amount (the amount concerned) is

1. An amount chargeable to Corporation Tax which would have been less if not for the corporate interest restriction (for example, where a non-trading loan relationship (NTLR) profit would have been smaller if not for the interest restriction),

   or,

2. An amount for which relief from Corporation Tax is available, and this relief would have been greater if not for the corporate interest restriction (for example, where an NTLRD would have been greater if not for the interest restriction),

   or,

3. An amount chargeable to Corporation Tax which would not have arisen if not for the corporate interest restriction (for example, where a NTLR profit would not have arisen, and the company would instead have incurred an NTLRD, if not for Part 10).

The amount will not always be an NTLR profit or deficit. If the company has trading loan relationships, the amount in question may be a trading loss or profit. However, it should not strictly be a notional net profit for the period, since, as set out above, such an amount is not amongst the amounts apportioned for the purposes of the CT loss reform (CTM04880).

It should be noted that the core calculations under the CIR are made at group level by reference to 'periods of account' of the 'worldwide group'. The calculations require amounts to be derived from the computations of 'UK group companies' for accounting periods that coincide with or overlap the worldwide group period of account ('relevant accounting periods'). At the end of the process, 'interest restrictions', or 'interest reactivations' may be allocated to accounting periods of UK group companies. (For a glossary of terms used in the CIR legislation and guidance see CFM95190.)

The commencement rules for the CIR provide that where, for instance, a worldwide group draws up 'consolidated financial statements' for a period straddling 1 April 2017, it will have a CIR period of account beginning on 1 April 2017 and ending on the date to which the consolidated financial statements are drawn up. No time interval before 1 April 2017 can be included in a CIR period of account.

The CIR has detailed rules dealing with non-coincidence of UK group company account periods and worldwide group periods of account. In particular in computing the amounts of a company's 'tax-interest expense' TIOPA10/S382(7), 'tax interest income' S385(8), and 'tax-EBITDA' S406(6), for a company accounting period that are taken into account in the group level calculations for the worldwide group period of account require amounts arising to a company for a 'disregarded period' to be left out of account. The legislation, for instance in S382(8) requires the amounts arising to a company for its entire accounting period to be reduced by such amount as is referable, on a just and reasonable basis, to the disregarded period. See CFM95620.

These apportionments need to be made as part of the process of applying the CIR and will therefore have been taken into account before the results for a company accounting period are determined. Where the apportionments described below are made in a manner inconsistent with those applied in the CIR calculations, they (or the CIR apportionments) will not be regarded as having been made on just and reasonable basis.

Note also that not all amounts taken into account under the loan relationships provisions will be included in 'tax-interest', notably foreign exchange differences - for which a time-based apportionment might sometimes be inappropriate.

The effect of F(2)A17/SCH4/PARAS191-192 is as follows:

Situations 1 and 2

In situations one and two, if for the actual accounting period the amount concerned is a profit which would have been less but for the corporate interest restriction, or 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 (the result that would have arisen if not for the interest restriction) is called the notional amount. The actual result for the accounting period is called the amount concerned.

- The company establishes what portion of the notional amount would have been attributed to the period ending 31 March 2017 if the corporate interest restriction had not affected the profit or loss of the period. This figure is called the notional apportioned amount.

- If the notional apportioned 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.

Example
For example, a company with an accounting period 1 January to 31 December 2017 has an NTLR profit of £20m. Its non-trading interest restricted under Part 10 of TIOPA 2010 is £8m, meaning its NTLR profits would have been £12m if it had not been for the interest restriction.

It is assumed in these examples that the calculation of disregarded amounts of tax-interest expense, tax-interest income and tax-EBITDA under the CIR legislation were calculated by time apportionment and that, in the circumstances, it was just and reasonable to use this method.

- The company’s amount concerned is £20m.

- The notional amount, the NTLR 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 x £12m) of the notional amount would have been apportioned to the first deemed accounting period if not for the interest restriction, 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 NTLR 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.

Example
- If, instead, the company had made a trading loss of £12m during an accounting period which would have been a loss of £96m but for a

restriction of trading amounts 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 x £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.

Situation 3

In situation three, where an amount is in profit for the accounting period (applying the corporate interest restriction) and would have had been 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.

Example
For example, a company has an NTLR profit of £10 million for the actual accounting period. If not for the interest restriction, the result for the period would have been NTLRD of £1 million. The company therefore apportions the entire £10 million NTLR profit to the deemed period beginning 1 April 2017.

Further guidance

CTM04960 provides a more detailed example showing how the commencement provisions apply to companies affected by the corporate interest restriction.

CTM04900: CT loss reform: commencement: note concerning examples

The following examples, at CTM04910 to CTM04970, show when apportionment is necessary, and what types of amounts should be apportioned.

For the purposes of simplicity, unless otherwise stated, in all of the examples below:

- Apportionment on a time basis has been made by reference to months. In practice, this should normally be made by reference to days.
- It is assumed that apportioning on a time basis gives a just and reasonable result.
- The deductions allowance available to groups when calculating the loss restriction has been treated as being nil.
- It is assumed that all necessary claims have been made to set off losses and other amounts to the full extent possible. This applies for both amounts incurred in and carried forward to the straddling period.
- NTLRDs are apportioned only to the extent necessary, as set out above.

CTM04910: CT loss reform: commencement: example 1: Company makes an overall loss in the accounting period straddling 1 April 2017

Before reading this example, please check the note concerning examples at CTM04900, which sets out the key assumptions made.

Introduction

Losses and amounts incurred in the straddling period and carried forward to subsequent periods will need to be apportioned to determine pre- and post-1 April 2017 amounts. This applies for losses within the scope of the amendments in Schedule 4, such as trading losses, non-trading loan relationship deficits (NTLRDs), non-trading losses on intangible fixed assets (NTLIFAs), management expenses and UK property business losses. It does not apply to losses such as allowable capital losses that are outside the scope of the amendments.

Where a company makes an overall loss for the straddling period and that loss is available to carry forward (after deduction of current year losses from total profits and group relief surrendered), apportionment of that loss is necessary (either on a time basis or other just and reasonable basis) to determine how much is to be treated as arising before 1 April 2017 and how much on or after that date.

Example

In its accounting period from 1 January 2017 to 31 December 2017, Company A has:

- Property business profits of £800,000
- Trading losses of £1,000,000.

£800,000 of the trading losses are deducted from the profits, leaving an excess of £200,000 available to carry forward.

Apportionment of the £200,000 is necessary to establish how much of the amount carried forward relates to the period before 1 April 2017 and how much on or after.

Apportioning on a time basis, the amounts are treated as available to carry forward from the following periods:

	£
1/1/17 to 31/3/17	£50,000
1/4/17 to 31/12/17	£150,000

Apportionment of the gross amount of trading losses of £1,000,000 is not necessary because £800,000 of these are set against the profits of the period, and the amendments in Schedule 4 do not apply to current year losses. The amendments, and therefore apportionment, apply only to the carried forward losses of £200,000.

CTM04920: CT loss reform: commencement: example 2: alternative treatment of NTLRDs arising in the accounting period straddling 1 April 2017

Before reading this example, please check the note concerning examples at CTM04900, which sets out the key assumptions made.

Introduction

In Example 1 (CTM04910), if instead of trading losses the company had NTLRDs, it has the option to apportion to a greater extent (CTM04880). This is set out below.

Example

In its accounting period from 1 January 2017 to 31 December 2017, Company B has:

- Property business profits of £800,000
- NTLRDs of £1,000,000.

Here, the company has the option of apportioning only the carried-forward NTLRDs as in Example 1. However, as relief for NTLRDs against profits of the period in which they arise is included in Schedule 4, the company may instead apportion all the NTLRDs and profits of the period to the pre- and post-1 April 2017 periods under Para 190(2)(a):

1/1/17 to 31/3/17	£
Property business profits	200,000
NTLRDs arising, set against profits of the notional period	(200,000)
Unused pre-1 April 2017 NTLRDs	(50,000)
1/4/17 to 31/12/17	
Non-trading profits	600,000

NTLRDs arising, set against profits of the notional period	(600,000)
Unused post-1 April 2017 NTLRDs	(150,000)

Para 190(2)(a) treats the periods to 31 March 2017 and from 1 April 2017 as separate accounting periods. The unused NTLRDs for the period to 31 March 2017 may be:

- Carried forward automatically under CTA09/S457(3), if the company makes no claim for the deficit to be used in another way, and set against non-trade profits of later accounting periods, beginning with the notional period from 1 April 2017 to 31 December 2017 (subject to the restriction in CTA10/S269ZC),

- Carried back under CTA09/S459 and set against profits chargeable under CTA09/PART 5 arising in the 12 months ending 31 December 2016,

- Surrendered for relief under CTA10/S99(1)(c), or

- Some combination of the above (e.g. £20,000 surrendered as group relief and the remaining £30,000 carried back).

The unused NTLRDs from the period beginning 1 April 2017 may be:

- Carried forward automatically under CTA09/S463G(6), if the company makes no claim for the deficit to be used in another way, and set against total profits of a later accounting period under s463G(7) (subject to the restriction in CTA10/S269ZD),

- Carried back under CTA09/S463B(1)(b) and set against profits chargeable under CTA09/PART 5 arising in the 12 months ending 31 March 2017,

- Surrendered as group relief under CTA10/S99(2), or

- Some combination of the above.

Where amounts are surrendered as group relief from one notional period only, the surrender period (s99(7)) is the same as the notional period. This is because Para190(2)(a) treats the notional periods as separate accounting periods.

However, this does not apply for the surrender of other losses and similar amounts incurred in the straddling period, and will only apply to NTLRDs if the company chooses to take the above approach, apportioning beyond the extent required for the loss restriction and determining whether amounts carried forward are pre- or post-1 April 2017 amounts.

In {Example 1}, if the company chose to surrender £100,000 trade losses, the surrender period would be 1 January 2017 to 31 December 2017. The same would apply if the company had treated NTLRDs in the same manner as the trading losses in Example 1.

If the company treats its NTLRDs as set out in {Example 2}, and, for example, chooses to surrender £20,000 from the first notional period beginning 1 January 2017 and ending 31 March 2017, the surrender period will be 1 January 2017 to 31 March 2017.

Apportionment of NTLRDs to this extent is entirely optional and is not required by HMRC.

CTM04930: CT loss reform: commencement: example 3: Company makes an overall profit in the accounting period straddling 1 April 2017: no carried-forward losses relieved in the period

Before reading this example, please check the note concerning examples at CTM04900, which sets out the key assumptions made.

Introduction

If the company makes an overall profit and there are no carried-forward losses that can be relieved in the straddling accounting period, the commencement provisions do not apply. This is because those provisions are relevant only for the purposes of applying Schedule 4.

This may occur because:

- There is no loss carried forward at the beginning of the period, or
- Any loss carried forward cannot be set against the profits of the straddling period.

Example

In its accounting period from 1 January 2017 to 31 December 2017, Company C has:

- £1,000,000 trade losses carried forward under CTA10/S45 from previous accounting periods,
- £100,000 trade losses incurred in the accounting period,
- £500,000 property business profits, and
- No non-trading profits.

The company sets the £100,000 losses of the period against its property business profits, leaving a net profit of £400,000.

The company does not have any losses of the period remaining to carry forward to subsequent accounting periods, so there is no reason to apportion amounts for this purpose.

The company cannot use its carried-forward trading losses in this period because it has no trading profits to set them against. It has no other losses carried forward from previous periods, so there is no need to calculate the loss restriction or apportion amounts for this purpose.

The unused trade losses carried forward from previous periods are carried forward once again to the accounting period immediately following the straddling period as pre-1 April 2017 trade losses, under s45.

CTM04940: CT loss reform: commencement: example 4: company makes an overall profit in the accounting period straddling 1 April 2017: carried-forward losses relieved in the period

If there are carried-forward losses that can be used in the straddling accounting period, it is necessary to apportion profits, losses and deductions into the two pre- and post-1 April 2017 periods in order to calculate the amount of losses that may be allowed in the straddling period overall, and the amount of any pre- and post-1 April 2017 losses available to carry forward from that accounting period.

Example

In its accounting period from 1 January 2017 to 31 December 2017, Company D has:

- Non-trade profits of £2,500,000,
- UK property business losses of £1,000,000,
- Trading losses of £1,000,000, and
- UK property business losses carried forward from previous periods of £600,000.

The loss restriction limits the amount of relief available for the property business loss carried forward in the post-1 April period. In order to calculate this correctly, the company must apportion the non-trade profits, UK property business losses and trading losses arising in the year.

Step 1
Apportion in-year profits, losses and other amounts to two notional periods, the first beginning 1 January 2017 and ending 31 March 2017, the second beginning 1 April 2017 and ending 31 December 2017.

1/1/17 to 31/3/17	£
Non-trade profits	625,000
Property business loss arising	(250,000)
Trade loss arising	(250,000)

1/4/17 to 31/12/17	
Non-trade profits	1,875,000
Property business loss arising	(750,000)
Trade loss arising	(750,000)

There is no need to apportion amounts carried forward from previous periods. These are carried forward against profits of the first notional period, with any balance remaining carried forward against profits of the second notional period.

Step 2
Calculate the net result for the first notional period.

1/1/17 to 31/3/17	£
Non-trade profits	625,000
Less:	
Property business loss arising	(250,000)
Trade loss arising	(250,000)
Property business loss brought forward and used in this notional period	(125,000)
Net profits	nil
Remaining property business loss brought forward, carried forward to next notional period	(475,000)

The property business loss arising, trade loss arising and property business loss brought forward are all amounts which can be relieved against the company's total profits of the period, under CTA10/S4(2) Step 2. There is no set order in which these particular reliefs should be given in relation to one another.

In this instance, the company has chosen to relieve its trade and property business losses arising before its property business loss brought forward.

Step 3
Calculate the relevant maximum for the second notional period, in accordance with the loss restriction.

1/4/17 to 31/12/17	
Modified total profits (CTA10/S269ZF(3) step 1)	1,875,000
Less amounts deducted from total profits (excluding brought forward property losses) (S269ZF(3) steps 2 and 4):	
Property business loss arising	(750,000)
Trade loss arising	(750,000)
Qualifying non-trading profits (S269ZF(3) step 5)	375,000
Relevant non-trading profits and relevant profits (S269ZF(2) CTA10/S269ZD(5)) (assume no deductions allowance)	375,000
Relevant maximum (S269ZD(4))	187,500

The relevant maximum gives the total amount of profits that can be relieved using losses brought forward, with the exception of losses such as allowable capital losses that are outside the scope of the loss restriction.

There is no need to calculate trade and non-trade relevant maxima (CTA10/S269ZB(5), S269ZC(3)) since all of the company's losses brought forward are available for relief against total profits.

Step 4
Calculate the net result for the second notional period.

1/4/17 to 31/12/17	£
Non-trade profits	1,875,000
Less:	
Property business loss arising	(750,000)
Trade loss arising	(750,000)

Property business loss brought forward and used in this notional period (subject to the relevant maximum, calculated above)	(187,500)
Net profits	187,500
Remaining property business loss brought forward, carried forward to the accounting period beginning 1 January 2018	(287,500)

Step 5
Compute the profits chargeable to Corporation Tax for the straddling accounting period.

1/1/17 to 31/12/17	£
Non-trade profits	2,500,000
Property business loss arising	(1,000,000)
Trade loss arising	(1,000,000)
Property business loss brought forward	(312,500)
Profits chargeable to Corporation Tax	187,500

The remaining £287,500 property business loss brought forward is carried forward to the next accounting period as a pre-1 April 2017 property business loss.

CTM04950: CT loss reform: commencement: example 5: company makes an overall profit in the accounting period straddling 1 April 2017: carried forward losses relieved in the period and losses carried forward from the period

Before reading this example, please check the note concerning examples at CTM04900, which sets out the key assumptions made.

Example

In its accounting period from 1 January 2017 to 31 December 2017, Company E has:

- Trade profits of £1,000,000,
- Property business losses arising of £200,000
- Non-trading losses on intangible fixed assets (NTLIFAs) brought forward of 200,000
- Management expenses brought forward of £400,000.

Step 1
Apportion in-year profits, losses and other amounts to two notional periods, the first beginning 1 January 2017 and ending 31 March 2017, the second beginning 1 April 2017 and ending 31 December 2017.

1/1/17 to 31/3/17	£
Trade profits	250,000
Property business loss arising	(50,000)
1/4/17 to 31/12/17	
Trade profits	750,000
Property business loss arising	(150,000)

There is no need to apportion amounts brought forward from previous periods. These are carried forward against profits of the first notional period, with any balance remaining carried forward against profits of the second notional period.

Step 2
Calculate the net result for the first notional period.

1/1/17 to 31/3/17	£
Trade profits	250,000
Management expenses brought forward and used in this notional period*	(250,000)
Net profits	nil
Remaining management expenses brought forward, carried forward to next notional period	(150,000)
NTLIFAs brought forward and carried forward to next notional period	(200,000)
Property business loss arising, carried forward to period commencing 1 January 2018 as a pre-1 April 2017 loss**	(50,000)

*For periods prior to 1 April 2017, deductions for management expenses are made before any other deduction in the calculation of total profits (CTA09/S1219(1A)). From 1 April 2017, this only applies to management expenses incurred in the period in which the deduction is made, and not to management expenses carried forward.

**Although the property business loss is apportioned in order to calculate the loss restriction and determine how much was incurred pre- and how much post-1 April 2017, in-year relief under CTA10/S62 relates to the straddling period as a whole. Any surplus is therefore carried forward from the straddling period to the accounting period commencing 1 January 2018.

Step 3
Calculate the relevant maximum for the second notional period, in accordance with the loss restriction.

1/4/17 to 31/12/17	
Modified total profits (CTA10/S269ZF(3) step 1)	750,000

Less amounts deducted from total profits (excluding brought forward property losses) (S269ZF(3) steps 2 and 4):	
Property business loss arising	(150,000)
Qualifying trade profits (S269ZF(3) step 5)	600,000
Relevant trade profits and relevant profits (S269ZF(2) CTA10/S269ZD(5)) (assume no deductions allowance)	600,000
Relevant maximum (S269ZD(4))	300,000

The relevant maximum gives the total amount of profits that can be relieved using losses brought forward, with the exception of losses such as allowable capital losses that are outside the scope of the loss restriction.

There is no need to calculate trade and non-trade relevant maxima (CTA10/S279ZB(5), S279ZC(3)) since all of the company's losses brought forward are available for relief against total profits.

Step 4
Calculate the net result for the second notional period.

1/4/17 to 31/12/17	£
Trade profits	750,000
Less:	
Property business loss arising	(150,000)
NTLIFAs brought forward (set against 200,000 of the 300,000 relevant maximum)	(200,000)
Management expenses brought forward (set against the remaining 100,000 of the relevant maximum)	(100,000)
Net profits	300,000
Remaining management expenses brought forward, carried forward to the accounting period beginning 1 January 2018	(50,000)

Step 5
Compute the profits chargeable to Corporation Tax for the straddling accounting period.

1/1/17 to 31/12/17	£
Trade profits	1,000,000
Property business loss arising	(150,000)
NTLIFAs brought forward	(200,000)
Management expenses brought forward	(350,000)
Profits chargeable to Corporation Tax	300,000

The following amounts are carried forward to the period commencing 1 January 2018. Both are pre-1 April 2017 losses.

- £50,000 unused management expenses brought forward from previous periods, and
- £50,000 property business loss arising in the first notional period.

CTM04960: CT loss reform: commencement: company makes an overall profit in the accounting period straddling 1 April 2017: carried forward losses relieved in the period and group relief

Before reading this example, please check the note concerning examples at CTM04900, which sets out the key assumptions made.

Introduction

The following example shows how a claim to group relief for losses arising in the year other than NTLRDs (CTM04920) is treated where the company makes an overall profit and there are losses brought forward.

Because there are losses brought forward, the profits and reliefs for losses arising in the straddling period need to be apportioned in order to determine the amount of the brought forward losses unused at 31 March 2017 and the amount that can be used in the part of the accounting period that falls from 1 April 2017.

Except in the case of NTLRDs arising, a claim for group relief for losses arising in the accounting period has to be made for the entire straddling accounting period. In a situation where the profits of the pre-1 April 2017 period are relieved in full by the brought forward losses, it won't be possible to use group relief in that part of the accounting period. Only relief that is apportioned to the post-1 April 2017 period will be effective.

A claim for group relief for the straddling accounting period would usually be apportioned to the pre- and post-1 April 2017 periods on a time basis, resulting in the amount apportioned to the pre-1 April 2017 period remaining unused. HMRC accept that this may produce a result that is unjust or unreasonable and where this occurs, an alternative basis for apportionment may be used that produces a result that is just and reasonable. In these circumstances, HMRC will accept that a group relief claim made for the straddling accounting period in an amount up to a certain limit can be apportioned entirely to the post 1-April 2017 period. The limit is that part of the surrenderable amount for the period that if apportioned on a time basis would be apportioned to the second notional period. The following example demonstrates the point.

Example

In its accounting period from 1 January 2017 to 31 December 2017, Company F has:

- Trade profits of £24,000,000,
- Trade losses brought forward of £16,000,000

Company F also wishes to claim group relief from a group company, Company Z. Company Z has the same accounting period as company F and its surrenderable amount for the accounting period is £16,000,000.

Step 1
Apportion in-year profits to two notional periods, the first beginning 1 January 2017 and ending 31 March 2017, the second beginning 1 April 2017 and ending 31 December 2017. At this stage, group relief has not been apportioned to the notional periods as it isn't known if apportionment on a time basis produces a result that is unjust or unreasonable.

1/1/17 to 31/3/17	£
Trade profits	6,000,000
1/4/17 to 31/12/17	
Trade profits	18,000,000

Step 2
Calculate the net result for the first notional period.

1/1/17 to 31/3/17	£
Trade profits	6,000,000
Trading losses brought forward and used in this notional period	(6,000,000)
Net profits	nil

Company Z has the same accounting period as company F and its surrenderable amount for the accounting period is £16,000,000. If this amount was surrendered to company F and apportioned on a time basis, the amount allocated to the first notional period would be £4,000,000 and the amount to the second notional period £12,000,000.

As the trade profits for the first notional period will be reduced to nil by trade losses brought forward, the group relief can not be used in that period. HMRC accepts that this is a result that is unjust or unreasonable. Instead, company F claims group relief for the part of the surrenderable amount that can be used in the second notional period, £12,000,000. HMRC accepts that this can all be apportioned to the second notional period as this produces a result that is just and reasonable.

Step 3
Calculate the relevant maximum for the second notional period, in accordance with the loss restriction.

1/4/17 to 31/12/17	
Modified total profits (CTA10/S269ZF(3) step 1)	18,000,000
Less amounts deducted from total profits (excluding brought forward property losses) (S269ZF(3) steps 2 and 4):	
Group relief	(12,000,000)
Qualifying trade profits (S269ZF(3) step 5)	6,000,000
Relevant trade profits and relevant profits (S269ZF(2) CTA10/S269ZD(5)) (assume no deductions allowance)	6,000,000
Relevant maximum (S269ZD(4))	3,000,000

Step 4
Calculate the net result for the second notional period.

1/4/17 to 31/12/17	£
Trade profits	18,000,000
Less:	

Trade losses	(3,000,000)
Group relief	(12,000,000)
Net profits	3,000,000

Step 5
Compute the profits chargeable to Corporation Tax for the straddling accounting period.

1/1/17 to 31/12/17	£
Trade profits	24,000,000
Less	
Trade losses	(9,000,000)
Group relief	(12,000,000)
Profits chargeable to Corporation Tax	3,000,000

Trade losses of £7,000,000 are carried forward to the period commencing 1 January 2018. These are pre-1 April 2017 losses.

CTM04970: CT loss reform: commencement: company makes an overall profit due to the effects of the corporate interest restriction

Before reading this example, please check the note concerning examples at CTM04900, which sets out the key assumptions made.

Introduction

Different commencement provisions apply where a company has an amount of interest that is restricted under the corporate interest restriction at TIOPA10/PART10, which has effect from 1 April 2017 (CTM04890).

The company's profits relate to a trade and a property business, but the effect of the interest restriction has been to reduce the company's NTLRDs, meaning that there is an amount in respect of which corporation tax relief is available which would have been greater but for Part 10 of TIOPA 2010 (para 191(1)(c)(ii)).

Example

In its accounting period from 1 January 2017 to 31 December 2017, Company G has:

- £3,300,000 property business profits,
- £2,000,000 NTLRDs, and
- £3,000,000 property business losses brought forward from previous accounting periods.

The company's interest restricted under TIOPA10/PART10 is £1,500,000. This relates entirely to NTLRDs. But for the corporate interest restriction, the company's NTLRDs arising in this period would have been £3,500,000. In computing the corporate interest restriction, any apportionments made in computing amounts relating to disregarded periods have been made on a time basis and, in the circumstances, this approach was considered to be just and reasonable (see CTM04890).

Step 1
Apportion in-year profits, losses and other amounts to two notional periods, the first beginning 1 January 2017 and ending 31 March 2017, the second beginning 1 April 2017 and ending 31 December 2017.

An amount in respect of which relief is available (the NTLRDs) has been made smaller due to the effects of the interest restriction. Therefore, the company calculates the apportionment of NTLRDs that would have arisen if the interest restriction had not applied. This would have meant apportioning a total of £3,500,000 NTLRDs: £875,000 to the first notional period and £2,625,000 to the second period.

Due to the interest restriction, in practice, the company only has £2,000,000 NTLRDs. The company still apportions £875,000 NTLRDs to the first notional period, as the interest restriction was not in effect before 1 April 2017. The company apportions the remaining NTLRDs, £1,125,000, to the second notional period.

The remaining amounts are unaffected by the interest restriction.

1/1/17 to 31/3/17	£
Property business profits	825,000
NTLRDs arising	(875,000)
1/4/17 to 31/12/17	
Property business profits	2,475,000
NTLRDs arising	(1,125,000)

There is no need to apportion amounts brought forward from previous periods. These are carried forward against profits of the first notional period, with any balance remaining carried forward against profits of the second notional period.

Step 2
Calculate the net result for the first notional period.

1/1/17 to 31/3/17	£
Property business profits	825,000
NTLRDs arising, set against profits of the notional period	(825,000)
Net profits	nil

NTLRDs arising, carried forward to period commencing 1 January 2018 as a pre-1 April 2017 loss*	(50,000)
Property business loss brought forward and carried forward to next notional period	(3,000,000)

*Although the NTLRDs are apportioned in order to calculate the loss restriction and determine what amounts were incurred pre- and post-1 April 2017, in-year relief relates to the straddling period as a whole. Any surplus is therefore carried forward from the straddling period to the accounting period commencing 1 January 2018.

However, the company may choose an alternative treatment of its NTLRDs, as set out at CTM04880. Technically, in-year relief for NTLRDs arising before 1 April 2017 is claimed under CTA09/S461, whereas in-year relief for NTLRDs arising from that date is claimed under CTA09/S463B. The company can therefore choose to treat the NTLRDs arising as apportioned to the pre- and post-1 April 2017 periods for purposes beyond calculating the effects of the loss reform, and could, for example, treat them as carried forward from the deemed period to 31 March 2017 into the deemed period beginning 1 April 2017.

In this case, the company does not make this choice. An example of a company that does choose the alternative treatment is available at CTM04920.

This alternative treatment is only available for NTLRDs, due to the introduction of CTA09/PART5/CH16A for periods from 1 April 2017.

Step 3
Calculate the relevant maximum for the second notional period, in accordance with the loss restriction.

1/4/17 to 31/12/17	
Modified total profits (CTA10/S269ZF(3) step 1)	2,475,000
Less amounts deducted from total profits (excluding brought forward property losses) (S269ZF(3) steps 2 and 4):	

NTLRDs arising	(1,125,000)
Qualifying trading profits (S269ZF(3) step 5)	1,350,000
Relevant trading profits and relevant profits (s269ZF(1) and s269ZD(5)) (assume no deductions allowance)	1,350,000
Relevant maximum (S269ZD(4))	675,000

The relevant maximum gives the total amount of profits that can be relieved using losses brought forward, with the exception of losses such as allowable capital losses that are outside the scope of the loss restriction.

There is no need to calculate trade and non-trade relevant maxima (CTA10/S269ZB(5), S269ZC(3)) since all of the company's losses brought forward are available for relief against total profits.

Step 4
Calculate the net result for the second notional period.

1/4/17 to 31/12/17	£
Property business profits	2,475,000
Less NTLRDs arising	(1,125,000)
Less property business loss brought forward	(675,000)
Net profits	675,000
Remaining property business loss brought forward, carried forward to the accounting period beginning 1 January 2018	(2,325,000)

Step 5
Compute the profits chargeable to Corporation Tax for the straddling accounting period.

1/1/17 to 31/12/17	£

Property business profits	3,300,000
NTLRDs arising	(1,950,000)
Property business loss brought forward	(675,000)
Profits chargeable to Corporation Tax	675,000

The following amounts are carried forward to the period commencing 1 January 2018. Both are pre-1 April 2017 losses.

- £2,325,000 unused property business loss brought forward from previous periods, and
- £50,000 NTLRDs arising in the first notional period.