

Extended loss carry-back for stand-alone companies

(Lecture B1282 – 16.04 minutes)

Case study A

Russell (Financial) Ltd has a 31 March year end. The company's results for recent accounting periods have been:

		£
Year ended 31 March 2021	Trading loss	(3,400,000)
Year ended 31 March 2020	Total profits	1,100,000
Year ended 31 March 2019	Total profits	1,750,000
Year ended 31 March 2018	Total profits	1,250,000

The existing rules which allow £1,100,000 of the trading loss from the year ended 31 March 2021 to be carried back against the total profits of the previous year remain unaffected and are uncapped. Therefore, if the total profits for the year ended 31 March 2020 had instead been £2,500,000, full relief would have been available.

The legislative changes in FB 2021 allow Russell (Financial) Ltd to carry back £1,750,000 of the current year's trading loss against the total profits of the year ended 31 March 2019 and £250,000 of the same trading loss against the total profits of the year ended 31 March 2018. Notice that the second carry-back claim has been restricted to the unused amount of the annual £2,000,000 limit. Both these claims exceed the de minimis of £200,000 and must therefore be made in a corporation tax return.

The remaining £300,000 of the company's trading loss will be carried forward for relief under Ss45A and 45B CTA 2010.

Case study B

Fagerson Industries plc has been particularly badly hit by the COVID-19 pandemic. The company's recent results have been:

		£
Year to 31 December 2020	Trading loss	(2,150,000)
Year to 31 December 2019	Total profits	1,200,000
Year to 31 December 2018	Total profits	3,250,000
Year to 31 December 2017	Total profits	1,400,000

The existing rules allow £1,200,000 of the trading loss from the year ended 31 December 2020 to be carried back against the total profits of the year ended 31 December 2019. The remaining £2,150,000 – £1,200,000 = £950,000 can be carried back under Para 4 Sch 2 FB 2021 against the total profits of the year ended 31 December 2018, leaving £2,300,000 in the charge to tax for that year.

Unfortunately, for the year ended 31 December 2021, Fagerson Industries plc suffers an even larger loss than in the previous year of £5,600,000. This cannot be carried back to 2020 because there are no profits for that year.

However, FB 2021 allows the loss of £5,600,000 to be carried back further against the profits of 2019 and 2018 in that order. The profits of the year ended 31 December 2019 have already been relieved in full by the earlier loss claim and so the only remaining period which may have 2021's losses offset against it is the year ended 31 December 2018.

The profits for the year ended 31 December 2018 currently stand at £2,300,000. Therefore, a maximum of £2,000,000 can be relieved under Para 4 Sch 2 FB 2021 for that accounting period. £300,000 remains chargeable to corporation tax.

As far as the year ended 31 December 2021 is concerned, an unrelieved loss of £5,600,000 – £2,000,000 = £3,600,000 will be carried forward for relief under Ss45A and 45B CTA 2010.

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