

Extended loss carry-back for unincorporated businesses (Lecture B1273 – 12.26 minutes)

Price, who has been a self-employed consultant for several years, found that the fortunes of his business dropped sharply when the COVID-19 pandemic arrived. His recent adjusted trading results have been:

| | £ |
|--------------------------|-----------|
| Year ended 31 March 2021 | (160,000) |
| Year ended 31 March 2020 | 48,000 |
| Year ended 31 March 2019 | 72,000 |
| Year ended 31 March 2018 | 55,000 |

Price's other income for the last four years was:

| | <u>2020/21</u> | <u>2019/20</u> | <u>2018/19</u> | <u>2017/18</u> |
|-----------|----------------|----------------|----------------|----------------|
| | £ | £ | £ | £ |
| Property | 9,000 | 9,000 | 8,500 | 8,500 |
| Dividends | 4,600 | 6,000 | 7,400 | 6,100 |

Because Price's trading loss arose in 2020/21, he decided not to make a sideways claim under S64 ITA 2007 for that year, given that he could utilise his personal allowance (£12,500) and his dividend tax allowance (£2,000) against his other income. However, he made a S64 ITA 2007 claim against his total income for 2019/20.

Price falls into Para 1 Sch 2 FB 2021, in view of the fact that he has:

- (i) made a loss in 2020/21; and
- (ii) satisfied condition A.

His tax position for 2020/21 and 2019/20 is:

2020/21

| | £ | <u>Loss</u> £ |
|-----------|---------------|------------------|
| Trading | – | (160,000) |
| Property | 9,000 | |
| Dividends | <u>4,600</u> | |
| | <u>13,600</u> | |

2019/20

| | £ | £ |
|---------------------|-----------------|-----------------|
| Loss b/f | | 160,000 |
| Trading | 48,000 | |
| Property | 9,000 | |
| Dividends | <u>6,000</u> | |
| | 63,000 | |
| Less: | | |
| S64 ITA 2007 relief | <u>(63,000)</u> | <u>63,000</u> |
| | <u>£Nil</u> | |
| DEDUCTIBLE AMOUNT | | <u>(97,000)</u> |

Price has a deductible amount of £97,000 which can be carried back under the extended loss relief regime to 2018/19 and then to 2017/18. However, it is only set against his trading profits (and not his total income) for those two earlier tax years.

2018/19

| <u>Loss</u> | £ | £ |
|-----------------------------------|-----------------|-----------------|
| Loss available | | (97,000) |
| Trading | 72,000 | |
| Less: Para 1 Sch 2 FB 2021 relief | <u>(72,000)</u> | <u>72,000</u> |
| | | — |
| Property | 8,500 | |
| Dividends | <u>7,400</u> | |
| | <u>15,900</u> | <u>(25,000)</u> |

2017/18

| | £ | £ |
|--------------------------------------|-----------------|---------------|
| Loss available | | (25,000) |
| Trading | 55,000 | |
| Less: Para 1 Sch 2 FB 2021 relief | <u>(25,000)</u> | <u>25,000</u> |
| | 30,000 | |
| Property | 8,500 | |
| Dividends | <u>6,100</u> | |
| | <u>44,600</u> | |
| No loss remaining for carry forward. | | <u>Nil</u> |

Note: The extended loss relief rules produce a satisfactory result for Price.

For 2018/19, his personal allowance (£11,850) and his dividend tax allowance (£2,000) will cover most of his income so that he will only have a small residual tax charge of 7.5%.

For 2017/18, his personal allowance (£11,500) and his dividend tax allowance (£5,000) will ensure that he is a basic rate taxpayer for that tax year. Price must make his claim under Para 1 Sch 2 FB 2021 by 31 January 2023.

Contributed by Robert Jamieson