

## LOSSES

**This Help Sheet tells you what you can do if:**

- **you have made a loss in your business, or**
- **you are entitled to a share of the loss made by a partnership of which you are a member.**

### — Sole traders

You can claim tax relief for a loss you made in your business by filling in boxes 3.85 to 3.89 in your Self-employment Pages.

You do not have to make your claims immediately; if you prefer, you may wait and claim relief later. But make your claims within the time limits shown below. Late claims will only be considered in exceptional circumstances (for further guidance, contact your local HM Revenue & Customs office or your tax adviser).

Business losses can be relieved in a number of ways:

- by reducing your income for the year ended 5 April 2006 (boxes 3.85 or 3.89 in the Self-employment Pages)
- by reducing your capital gains for the year to 5 April 2006 (box 8.5 in the Capital Gains Pages)
- by claiming for relief to be calculated by reference to your income or capital gains for earlier years (box 3.86 in the Self-employment Pages)
- by claiming for relief to be calculated by reference to your business profits taxed in earlier years (box 3.86 in the Self-employment Pages) following cessation
- by carry forward against future profits from your business (box 3.87 in the Self-employment Pages and box 15.8 on page 5 of the Tax Return where you transfer your business to a company in exchange for shares in that company).

You cannot claim only part of the loss. This may mean your personal allowances cannot be fully used. And you can only claim relief once for each pound of loss. But if you make a claim and your income, gains or profits are not enough to use the whole of the loss, the balance of the loss can be claimed in another way.

You can claim loss relief as soon as you know how big the loss is, normally when the accounts have been prepared (though you cannot anticipate a loss that you think you will make, by, for example, claiming before the end of the accounting period for which you expect a loss to arise). If you want to claim loss relief as a deduction from your income or gains for the year ended 5 April 2006 you should make your claim in your 2005-06 Tax Return. If your business makes a loss in future, you can claim tax relief as a deduction against your income of the same year as the loss arose as soon as you know how big the loss is. We cannot, normally, give the relief until you have sent your Tax Return for that year. But if you have income from employment then you can claim for your loss relief to be included in your tax code for the year of the loss.

If your claim is for the loss to be relieved by reference to earlier years' income or capital gains, you can claim as soon as you know how big the loss is. This may mean that you claim relief even before you have been sent a Tax Return. If you want to claim relief before you have been sent a Tax Return, write a letter telling us the name of your business, how much the loss is and for what period and say how you want relief to be given. Any repayment due as a result of your claim relates to 2005-06 even though it is calculated by reference to your income or capital gains and circumstances of the earlier years.

### — Partners

If you are a member of a partnership you can claim tax relief for your share of the partnership losses by filling in boxes 4.15 to 4.19 in your Partnership Pages.

Your share of the loss will be treated as having arisen from a business that you carried on alone. That business will be regarded as having **started** on the date you became a partner (unless you previously carried on the business on your own account when it will be regarded as having commenced on the date you started the business) and to have **ceased** on the date on which you ceased to be a partner (or if you carry on the business thereafter as a sole trader the date on which the business ceased).

The previous notes on 'Sole traders' also apply to your share of partnership losses. The boxes referred to on this Help Sheet are generally those on the Self-employment Pages. The equivalent boxes on the Partnership Pages in your Tax Return are as follows:

Box 3.85 is equivalent to box 4.15

Box 3.86 is equivalent to box 4.16

Box 3.87 is equivalent to box 4.17

Box 3.88 is equivalent to box 4.18

Box 3.89 is equivalent to box 4.19.

The following paragraphs describe the different options and the conditions that must be satisfied.

### Relief against income or gains for 2005-06

You can claim relief for the loss by reducing your income for 2005-06. If the allowable loss is more than your income, you can claim the balance of the loss against your capital gains for 2005-06.

The loss you claim in box 3.85 will normally be the whole of the loss. But your total income minus deductions cannot be reduced below zero. So, the figure you put in box 3.85 should be no higher than your total income minus deductions.

If you wish you may claim to have the balance of the loss set against your capital gains for 2005-06. The amount of the unrelieved loss set off will be the higher of:

- the amount of the chargeable gains for the year (after reliefs and the deduction of allowable capital losses) but without taking account of any taper relief or annual exempt amount due for the year, **or**
- if the unrelieved loss is less than the chargeable gains for the year (after reliefs and the deduction of allowable capital losses) but without taking account of any taper relief or annual exempt amount due for the year, the amount of the unrelieved loss available.

Include the amount of the loss you are claiming as a deduction from your chargeable gains in box 8.5 on the Capital Gains Pages.

If there is a balance of loss after setting it against your income (and capital gains if you choose) then it can be claimed in another way.

The time limit for this claim is **31 January 2008**.

## Relief calculated by reference to income or gains for earlier years

You can claim to have the loss relieved by reference to income for an earlier year. There are two ways of doing this:

- if your business was set up and commenced trading on or after 6 April 2002, you can claim relief for the loss calculated by reference to your income (but not capital gains) of the three years 2002-2003 to 2004-05. The loss is first relieved by reference to your 2002-2003 income. If there is any balance of loss left, this is relieved by reference to your 2003-04 income. Finally, any remainder is relieved by reference to your 2004-05 income, **or**
- you can claim relief for the loss to be calculated by reference to your income for 2004-05. If the allowable loss is more than your 2004-05 income, you can, if you wish, claim relief for the balance of the loss to be calculated by reference to your capital gains for 2004-05. This option is available to any business.

These claims relate to 2005-06 even though they are calculated by reference to your income or capital gains and circumstances of the earlier years. The time limit for claims is **31 January 2008**.

If you want to claim relief in your Tax Return, enter the total loss to be relieved by reference to earlier years' income and gains in box 3.86, and provide details of the amount for each year in the 'Additional information' box on Page SE4. You can use the Working Sheet on page 3 to keep track of your losses. Enter the amount of your allowable loss for 2005-06 (box 3.84) in box A. Enter in each of the boxes B, C, D and E the amount of the loss that is relieved by reference to the years shown.

If you claimed loss relief under this heading before your Tax Return was sent to you, please remember to include the amount of the loss in box 3.86 of the Self-employment Pages.

If you calculate your tax and Class 4 NICs you must also:

- calculate the difference between the actual liability for the earlier year and the liability that would have arisen for the earlier year if the loss you are now claiming had been included in the return for that year (do not include any 2005-06 losses for which you have previously claimed relief)
- enter the amount in box 18.5 on your Tax Return.

## Relief against income and gains: restrictions

You should only claim relief for your loss if you ran your business commercially for profit. If not, for example, because your business is run as a hobby, you can only claim to set the losses against profits made in your business. And if you are a farmer or market gardener, you cannot normally claim your losses in this way if you also made losses (computed for this purpose only before capital allowances are taken into account) in each of the previous five tax years. If you are a Limited Partner or a member of a Limited Liability Partnership, or became a partner in a general trading partnership on or after 6 April 2002 and worked on average for less than 10 hours a week in the partnership, your loss relief may be restricted. If you are in any doubt about this, ask us or your tax adviser. If your business is carried on wholly overseas, you can only claim your losses as a deduction from your income which comes from abroad.

If you need any help or further information about any of these circumstances ask your tax adviser or us.

## Carry forward against future profits

You can carry your loss forward to set against future profits from the same business. Deduct the loss from your profits in the first and each subsequent profitable year until it is used up. The time limit for a claim is **31 January 2012**.

Enter in box 3.87 the amount of your 2005-06 loss which you wish to claim in this way. Enter in box 3.88 the amount of any losses you sustained in 2004-05 and earlier years which you have not yet used, and include in box 3.89 losses used against 2005-06 profits.

## LOSSES ON CESSATION OF BUSINESS

If your business ceased in 2005-06, you can claim relief against profits from the same business in 2005-06 and by reference to any profits from the same business which were taxed in 2002-2003, 2003-04 or 2004-05 for the loss of your final 12 months of trading. *Help Sheet IR222: How to calculate your taxable profits* explains this.

Any tax adjustment due as a result of these claims relates to 2005-06 even though it is calculated by reference to the profits and your circumstances for the earlier years.

## LOSSES FROM MORE THAN ONE BUSINESS OR PARTNERSHIP

If you have losses from more than one business or partnership, complete a separate Working Sheet for each of them. The Working Sheet is below.

The total losses to be set against income or gains for a year cannot exceed the income or gains of that year. Your tax adviser or we will tell you what to do.

## SUMMARY OF HOW ALLOWABLE LOSS IS TO BE RELIEVED

You may find it useful to summarise your loss relief claims in the Working Sheet below. This will enable you to keep track of your losses and make sure you do not forget to claim relief for any of them.

### Working Sheet

Allowable loss for 2005-06  
(from box 3.84) **A** £

| Year                  | Loss relief utilised            |
|-----------------------|---------------------------------|
| 2005-06<br>(box 3.85) | <b>B</b> £ <input type="text"/> |
| 2004-05               | <b>C</b> £ <input type="text"/> |
| 2003-04               | <b>D</b> £ <input type="text"/> |
| 2002-03               | <b>E</b> £ <input type="text"/> |

(Total of boxes C, D, and E should equal box 3.86)

Total losses claimed in this way **F** **total of boxes B to E** £

Balance of allowable loss for 2005-06 **G** **box A minus box F** £

Losses brought forward from earlier years (box 3.88) **H** £

Losses brought forward from earlier years used this year (box 3.89) **I** £

Not yet allowed **J** **box H minus box I** £

Loss carried forward to next year **K** **box G + box J** £

*These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.*