

How to calculate your taxable profits

i Contacts

Please phone:

- the number printed on page TR 1 of your Return
 - the Helpline on **0845 9000 444**
 - the Orderline on **0845 9000 404** for Help Sheets
- or go to www.hmrc.gov.uk

This Help Sheet gives you information to help you fill in boxes in:

- the *Self-employment* pages of your personal Tax Return, or
- the Trading Pages of the Partnership Tax Return and the *Partnership* pages of your personal Tax Return.

This Help Sheet explains:

- accounting periods
- how business profits are taxed
- cost of sales
- allowable business expenses
- basis periods
- overlap profits and relief
- capital allowances and balancing charges
- commencements and cessations
- losses
 - terminal loss relief
- partners' trading or professional profits
- provision of personal services through a partnership.

More detailed information is available if you need it. This Help Sheet also refers you to other sources of information.

You will come across the terms 'accounting period' and 'accounting date' in both the *notes* to the Tax Return and the Help Sheets. If you do not have accounts prepared for your business, you should read:

- 'accounting period' to mean the period for which you provide details of your business income and expenditure, and
- 'accounting date' to mean the date on which that period ends.

Accounting periods – boxes 3.4 and 3.5 of the Partnership Tax Return or boxes 8 and 9 of the *Self-employment (full)* pages

You will need to decide upon your accounting date - that is, the date to which your accounts are drawn up. Enter the first day covered by the accounts in box 3.4 (or 8) and your accounting date in box 3.5 (or 9). You can choose any convenient date, for example, the anniversary of the date you began your business or, in a seasonal business, a date when trade is slack and stocks are low. You are entitled to change to a different date if you want to. However, whatever date you choose, you will find your tax is easier to work out if you keep to it each year.

And if you have just started in business, you may find 5 April is the best date to choose as it keeps your tax calculation simple.

Even if you do not have accounts prepared for your business every year, your taxable profit should still be worked out using generally accepted accounting practices. The *Self-employment notes* and the following notes provide some practical advice on how to complete your Tax Return if you do not have accounts.

How business profits are taxed

Profits which arise from carrying on trades, professions and vocations cannot usually be worked out by simply adding together the cash receipts of the business and deducting expenses paid out. This would show the business' cash flow, but it would not usually be a proper measure of its profits.

To arrive at the profits it is necessary to draw up accounts using the methods which accountants have developed for dealing with income that has been earned but not received, expenses which have been incurred but not paid or paid but not fully used, and so on. And the profits arrived at using these methods (the commercial profits) have to be adjusted for tax purposes. This is because in arriving at the commercial profits some items of income or expense may be recognised as not taxable or tax deductible, and other special allowances may reduce the amount of profits which are taxable.

These guidance notes explain these practices as fully as possible, but they are not a comprehensive guide for all circumstances. If you are unsure about the correct treatment of a particular item you should ask us or your tax adviser.

Cost of sales – boxes 3.46 of the Partnership Tax Return or cost of goods bought for resale or goods used, box 16 of the *Self-employment (full)* page

This is the cost of raw materials and goods bought for resale which you used during this accounting period. Make sure you count creditors, that is items delivered to you but which you had not paid for at the end of the period. Do not count items you paid for in this period if they were included as creditors in your last accounts.

You should include the value of stock you had on hand and uncompleted work in progress at the start of the period (this must be the closing figure which you used in your last accounts), but exclude the value of stock and work in progress at the end.

Value your stocks for resale and your work in progress at their cost to you or, if this happens to be lower, at the net price they will fetch when sold in the normal course of your business. Value consumable stores at their cost to you, or if they have deteriorated or become obsolete, at their net realisable value where this is lower. The Working Sheet below will help you decide how much you can claim.

Working Sheet

Goods and raw materials you bought this period £

Stock on hand and work in progress at the start of this period £

Box A plus box B £

Stock on hand and work in progress at the end of this period £

Box C minus box D £

Copy the amount in box E to box 3.46 of the Partnership Tax Return or box 16 of the *Self-employment* page SEF 2.

Allowable business expenses

Broadly speaking, you can deduct from your turnover all the costs you incur for the sole purpose of earning business profits. But you cannot deduct costs which you incur for a non-business purpose, such as your own personal expenses or drawings. And you cannot deduct capital costs, that is, the cost of buying fixed assets or intangibles, such as goodwill, which last for several years (or losses you suffer when you sell them). But you may be able to claim capital allowances (see pages 8 to 19) for these capital costs. Additionally, you cannot deduct costs which are recoverable under an insurance policy.

Business expenditure is allowed in your accounts for a period if it was incurred in earning turnover in that period, even if you are not due to pay the money until later.

The amount to deduct is the amount of the expense which was used up during this period. This may not be the amount actually paid. For example, if you owe money at the end of the account - your trade creditors - it may be that this should be included in this account rather than later when it is paid. (Make sure you do not deduct any payments made in this account which you included as trade creditors in your last accounts.) But if you make a payment which is used up over two periods or more you should spread it in your accounts. For example, if halfway through the year you pay 12 months rent in advance for your business premises, only one half of the payment should be deducted this year and the other half next year.

The *Self-employment (full) notes* tell you where to include your expenses. There are Tables on pages SEFN 8 and SEFN 9 to help you decide which expenses can or cannot be claimed in working out business profits for tax purposes.

Use of mileage rates to calculate motor expenses

You may calculate your motor expenses using a fixed rate for each business mile, provided that:

- the rate used does not exceed the appropriate Approved Mileage Payments (AMAPs) mileage rate for the vehicle at the time it is used. We publish these rates annually
- the annual turnover of the business at the time the vehicle is acquired does not exceed the VAT registration threshold (currently £67,000), and
- no other motoring expenses (other than interest on a loan used to purchase the vehicle) are claimed and no capital allowances are claimed on the vehicle (since AMAPs rates already contain an element to allow for depreciation), and
- such a basis is applied consistently from year to year so that any change to or from an 'actual' basis (including one required by a change in turnover relative to the VAT registration threshold) takes place only when one vehicle is replaced by another.

The VAT registration threshold is used here purely as a convenient limit whose real value is regularly reviewed; this practice has no application to VAT accounting and does not affect existing VAT rules and practices.

This practice applies to cars, vans, motorcycles and bicycles. The AMAP's mileage rates vary between vehicles.

The amounts to use are:

- car or van 40 pence a mile for the first 10,000 miles
 25 pence a mile thereafter
- motorcycle 24 pence a mile
- cycle 20 pence a mile.

If you have existing arrangements for the use of mileage rates other than those set out in this Help Sheet, we will expect that on the next change of vehicle, these arrangements are replaced either by claims to actual expenses or (where the conditions in this Help Sheet are satisfied) by claims in accordance with the practice set out in this Help Sheet.

Whatever your business and however you work out your motoring expenses, you must keep adequate records to back up your Tax Return. For more information please phone the Helpline on **0845 9000 444**.

Your basis period for 2008-09

You pay tax for 2008-09 according to the profits or losses for your basis period. After the first year or two in business, your basis period will be the 12 month period you use for your accounts, except if you change your accounting date. However, you should check the following rules which enable you to work out your basis period. (Partnerships do not have basis periods. But the rules for changes of accounting dates apply. For information about partner's own basis periods, see page 22.)

Your accounting period is the period your accounts cover and your accounting date is the last day of your accounts. For example, if you draw up accounts each year to 31 December, your accounting period for the 2008-09 tax year is the 12 month period 1 January 2008 to 31 December 2008 and your accounting date is 31 December 2008.

General rules for businesses started in 2006-07 or earlier

If you started in business before 6 April 2007 and you were still in business at 5 April 2009 your basis period is the 12 months to your accounting date in 2008-09, unless you have changed accounting date during 2008-09 (see 'Changes of basis period' on pages 5 and 6).

Example 1

You started your business on 1 January 2006 and have drawn up accounts to 31 December 2006, 31 December 2007 and 31 December 2008. Your basis period for 2008-09 is the 12 months 1 January 2008 to 31 December 2008.

Commencement

Business started in 2007-08

If you started in business during the period 6 April 2007 to 5 April 2008, your basis period is one of the following, unless you have changed accounting date during 2008-09 (see 'Changes of basis period' on pages 5 and 6).

If your accounting date in 2008-09 is 12 months or more after the date on which you started in business, your basis period is the 12 months to your accounting date.

If your accounting date in 2008-09 is less than 12 months after the date on which you started in business, your basis period is the 12 months beginning on the date you started.

If you do not have an accounting date in 2008-09, your basis period is the 12 month period 6 April 2008 to 5 April 2009.

Example 2

You started in business on 1 January 2008.

- If your accounting date is 31 March 2009, your basis period is 1 April 2008 to 31 March 2009.
- If your accounting date is 31 October 2008, your basis period is 1 January 2008 to 31 December 2008.
- If your first accounting date is not until 30 April 2009, your basis period is 6 April 2008 to 5 April 2009.
- If you drew up an account to 31 March 2008 but did not draw up an account to 31 March 2009, see 'Changes of basis period' below).

Business started in 2008-09

If you started in business during the period 6 April 2008 to 5 April 2009, your basis period is the period from the date you started to 5 April 2009.

Example 3

You started in business on 1 July 2008. Your basis period is 1 July 2008 to 5 April 2009.

Cessations

If you ceased in business during the period 6 April 2008 to 5 April 2009, your basis period is the period between the end of the basis period for 2007-08 and the date on which your business ceased.

Example 4

Your business ceased to trade on 31 December 2008. Your 2007-08 basis period ended on 30 April 2007. Your basis period is the 20 month period 1 May 2007 to 31 December 2008.

Changes of accounting date

There is a change of accounting date if:

- you have drawn up your accounts to a date which is not the same as the date used for tax purposes last year, or
- you intend to draw up accounts for more than 12 months and no accounting date falls in the 2008-09 tax year, or
- you changed your accounting date last year, this was not accepted by us, and you have drawn up your accounts to the same date this year. (But if you have changed back to your old date this is not treated as a change of accounting date.)

You will usually want your new accounting date to count for tax, otherwise your basis period will not end on the same date as your accounts. However, if you intend this to be only a temporary change, you may want to ignore it for tax purposes. You can then work out your tax using the same basis period as last year.

Changes of basis period – special rules which apply if you change your accounting date

The notes above explain when a change of accounting date takes place for tax purposes. If you are in any doubt whether your accounting date has changed according to these rules, you should contact us or your tax adviser for help.

When you change accounting date and you want it to count for tax purposes, then your basis period will be given by one of two rules:

- if your accounting date in 2008-09 is more than 12 months after the end of the basis period for 2007-08, your basis period is the period between the end of the basis period for 2007-08 and the new accounting date

Example 5

If the basis period for 2007-08 ended on 31 May 2007 and the new accounting date is 31 August 2008, your basis period is the 15 month period 1 June 2007 to 31 August 2008.

- if your accounting date in 2008-09 is less than 12 months after the end of the basis period for 2007-08, your basis period is the 12 months ending on the new accounting date.

Example 6

If the basis period for 2007-08 ended on 31 December 2007 and the new accounting date is 31 July 2008, your basis period is the 12 month period 1 August 2007 to 31 July 2008. (See also the section on overlap profit.)

Time limit for notifying the change of accounting date

If you want a change of accounting date to count for tax purposes, you are required to let us know in your Tax Return and give the reasons why the change has been made (box 3.12 on the Partnership Tax Return or box 10 on page SEF 1 is provided for you to notify the change).

One of the conditions for changing your basis period is that your Tax Return is sent back by the relevant filing date. If you fail to do this, the change of accounting date will not count for tax purposes.

What to do if your basis period is not the same as your period of account

Your basis period for 2008-09 may be different from the period (or periods) for which your accounts are made up. If so, you must calculate the profit of the basis period by adding together and/or dividing the periods for which you have accounts. But see the note on page 7 if your accounting date falls between 31 March and 4 April.

Example 7

Your business started on 6 April 2008 and your basis period is the 12 months to 5 April 2009. But your accounts are made up for the three months to 30 June 2008 (profit £4,500) and the 12 months to 30 June 2009 (profit £24,000). So your basis period covers three months of your 2008 accounts and nine months of your 2009 accounts.

The profit of the basis period will be:

$$£4,500 + \left(\frac{280}{366} \times £24,000\right) = £22,860.$$

These calculations should strictly be made in days, but weeks, months or fractions of years may be used instead.

Accounting dates between 31 March and 4 April

The basis of assessment for the tax year in which a business commences (Year 1) is usually the profits arising in that tax year. But where a new business chooses an accounting date between 31 March and 4 April the accounts for the opening years are treated, unless you elect otherwise, as though they were prepared to the 5 April. This will have the effect that:

- the profits of the account to 31 March or 1, 2, 3 or 4 April each year will be taxed as though they were for the period to the following 5 April. Over the lifetime of the business, the full profits must, of course, be taxed
- for businesses which commence in the period 1 to 5 April, the taxable profits for Year 1 will be zero.

This treatment will not affect any other matters which depend upon the date, or tax year which the business commences.

You may also treat a change of accounting date where the new date is 31 March or 1, 2, 3 or 4 April as though it was a change to 5 April. All previous overlap profits will accordingly be deductible in the year the change takes effect for tax purposes. If you are in doubt, ask us or your tax adviser for help.

Overlap profits

It may be that your basis period for 2008-09 overlaps with the basis period for 2007-08. Such overlaps can occur in the first three years after a business starts up or in a year in which there is a change of basis period (because your accounting date has changed).

Example 8

Your business started on 1 January 2008 and your first account is for the 12 months to 31 December 2008. Your basis periods are:

2007-08: 1 January 2008 to 5 April 2008

2008-09: 1 January 2008 to 31 December 2008.

The period of overlap is 1 January 2008 to 5 April 2008. So, if the profit of the 12 months to 31 December 2008 is £12,000, the overlap profit is $(\frac{96}{366} \times £12,000) = £3,147$ (over 96 days). This is the same as the amount which was assessable for 2007-08.

If your basis periods for 2007-08 and 2008-09 overlap, you should keep a record of both the overlap profit and the overlap period. Any overlap profit you have is carried forward until such a time as you can claim overlap relief. The amount of your overlap profit to be carried forward should be entered in box 69 on page SEF 4 (or box 13 of the *Partnership* pages).

Overlap relief – box 68 on the *Self-employment (full)* pages (or box 12 of the *Partnership* pages)

Enter in box 68 on page SEF 4 (or box 12 of the *Partnership* pages) any overlap relief you are allowed to deduct for 2008-09. The notes below will help you work out how much overlap relief to deduct.

Overlap profits which arose in 2007-08 or earlier years can be deducted as overlap relief in working out your taxable business profits for 2008-09 if:

- you sold or closed down your business in 2008-09. All the overlap profits brought forward should be entered at box 68 (or box 12), or
- your basis period for 2008-09 is more than 12 months long because you have changed your accounting date since last year. The amount of overlap profits allowed as overlap relief is in proportion to the length of your basis period in excess of 12 months and the length of your overlap period from earlier years. Example 9 shows how this works.

Capital allowances and balancing charges

Example 9

You have overlap profit of £5,000 (over five months) from an earlier year. You change your accounting date. Your basis period is 14 months and you are therefore entitled to overlap relief. There are five months of overlap profit available. The relief is in proportion to the number of months by which the basis period exceeds 12 months (that is, two months) and the length of the overlap period (that is, five months).

So the relief is:

$$\frac{2}{5} \times £5,000 = £2,000.$$

The balance of overlap profit, £3,000 (over three months), is carried forward. You will claim this as overlap relief in a later year.

In working out your business profits you should not deduct the cost of buying or improving items such as the car, equipment and other tools that you use in your business or the depreciation or any other losses which arise when you sell them. Instead, you can claim tax allowances called capital allowances. These are deducted to arrive at your taxable profits.

An adjustment, known as a balancing charge, may also arise when you sell an item, give it away or stop using it in your business. Balancing charges must be added back to arrive at your taxable profits.

How to make your claim

The amount you want to claim should be the amount worked out from the rules set out in these notes. These notes explain how you can work out these allowances. If you need more help, or if:

- you do not want to claim the full amount of allowances, or
- someone else pays part of the cost (for example, by giving you a grant), or
- you had purchases from, or sales to, members of your family or other connected persons

please contact us or your tax adviser.

Partnership Tax Return

The partnership can claim capital allowances on assets owned by the partnership. It can also claim capital allowances on plant and machinery owned by one of the partners but which is used in the partnership's business.

What can you claim capital allowances on?

You can claim capital allowances for the cost of:

- plant and machinery such as vehicles, tools, ladders, computers and business furniture and other equipment which belong to you
- agricultural buildings, industrial buildings and certain other buildings (see 'Special rules for particular items' on page 16).

You can also claim allowances for patents, certain specialist types of 'know-how', research and development, mineral extraction and dredging. To see if you are eligible for these allowances, see the Capital Allowances Manual available at www.hmrc.gov.uk.

The following advice is written initially on the basis that you have a 'standard' accounting period of 6 April 2008 to 5 April 2009. If your accounting period is different, the procedures you need to follow are explained starting on page 12.

What if I bought machinery on hire purchase?

If you bought items, such as a van, to use in your business on hire purchase or an alternative finance method, you can only claim capital allowances on the original cost of the item. The interest or other charges count as business expenses.

Value Added Tax (VAT)

The purchase price of an asset on which you can claim capital allowances sometimes includes VAT. If you are registered for VAT and can offset that VAT against your output tax when you make your VAT returns, you should only claim capital allowances on the net cost of the asset.

If you are registered for the VAT Flat Rate Scheme and enter details of your income and expenses net of VAT (that is, with the VAT taken off), you should only claim capital allowances on the net cost of the asset.

If you are not registered for VAT or can only claim an element of the VAT you have incurred, for example, because you are partially exempt, include the irrecoverable VAT paid in the capital costs on which you claim capital allowances.

What if I use an item partly for private purposes?

If you use an item of equipment for both business and private purposes, the allowances you claim should be reduced by the amount of your private use. This is explained in the section headed 'Special rules for particular items'.

Allowances for equipment and tools

You can claim allowances, called Plant and Machinery Allowances, for the cost of vans, cars, machines, scaffolding, ladders, tools, furniture, computers and similar items which you use in your business. Do not claim for the things it is your trade to buy and sell as these should be claimed as business expenses.

From 6 April 2008 the following plant and machinery allowances are available:

- Annual Investment Allowance (AIA)
- writing down allowances (WDA) - these are annual allowances, normally calculated at 20% a year, which reduce, or 'write down' any balance (or 'pool') of capital expenditure on equipment ('plant and machinery'), not already relieved by others allowances
- small pools allowance - an alternative to the normal WDA, which can write-off the whole balance in a pool, where this is not more than £1000.
- 100% first year allowances, for example for investments in 'green technologies'.
- balancing adjustments - which can be either an allowance or charge. These can arise when your business ceases or you sell an asset for more or less than the total written down value of the pool.

Annual Investment Allowance

You can claim a new capital allowance called an 'Annual Investment Allowance' (AIA) if you bought equipment (but not cars) on or after 6 April 2008 up to an annual amount of £50,000. This allowance has replaced the 50% and 40% first year allowances that were available on the cost of equipment in previous years to small and medium sized businesses (see page 12). Add the cost of all the equipment together and, if the total cost is £50,000 or less, you can claim 100% of that whole amount as your AIA.

Writing down allowances

Where you have spent more than £50,000 in a year on equipment, or have purchased a car that cost £12,000 or less (for cars costing more see 'Special rules for particular items' at page 16), add all the expenditure together to make a 'main pool' of costs. Deduct any Annual Investment Allowance (AIA) up to £50,000 that you are claiming (exclude cars which are not eligible for AIA). You can then claim a writing down allowance of 20% of the remaining pool value (unless the expenditure is 'special rate' expenditure - see page 10).

Example 10

You have spent £70,000 on general equipment and the total expenditure is pooled. You can claim £50,000 of this as an Annual Investment Allowance. The balance of £20,000 qualifies for 20% writing down allowance, which is £4,000. The amount remaining in the pool (£16,000) should then be carried forward to the next year.

Small pools of less than £1,000

If the balance of the cost, after claiming AIA, together with any balance carried forward from any previous year, less the proceeds from any items you may have sold, is £1,000 or less at the end of a 12 month chargeable period, you may claim that whole amount as a 'small pools allowance' instead of the 20% writing down allowance.

Example 11

- 1 Paul spent £50,500 on equipment during 2008-09. The total expenditure is pooled. He claims the full £50,000 Annual Investment Allowance and, as the amount remaining is less than £1,000, he can claim the remaining £500 as a small pools allowance.
- 2 John spent £1,500 on equipment and brought forward a pool of £700 from 2007-08. He can claim the full £1,500 as AIA and the £700 pool brought forward as a small pools allowance.

100% first year allowance

You can claim 100% capital allowance for:

- designated energy-saving or water-efficient equipment used in your business,
- equipment for refuelling vehicles with natural gas, biogas or hydrogen fuel, even if you have otherwise used up your Annual Investment Allowance,
- new cars with low CO₂ emissions of not more than 110gm a km driven (even if the car costs more than £12,000). Cars are not eligible for the Annual Investment Allowance.

For more information see www.eca.gov.uk or the Capital Allowances Manual available at www.hmrc.gov.uk

Special rate expenditure

Certain items of equipment such as:

- thermal insulation that you may have added to an existing building
- integral features (for example, electrical systems, cold water systems, lifts, escalators and moving walkways), and
- long-life assets (equipment with a planned life of over 25 years)

qualify for special rate allowances at 10% a year. You may use your £50,000 AIA wholly or partly against this expenditure, in preference to expenditure that qualifies at the 20% rate. Any balance of expenditure after the AIA has been taken off will be included in the 'special rate pool' and will qualify for allowances at 10%.

Alternatively, if the balance after claiming the AIA, together with any balance carried forward from any previous period, less the proceeds from any 'special rate' expenditure is £1,000 or less at the end of a 12 month chargeable period, you may claim that whole amount as a 'small pools allowance', instead of a 10% special rate allowance.

Example of a capital allowances computation

Example 12

Jack Green is a painter and decorator. He started working for himself on 6 April 2008 and decides to draw up his accounts to 5 April each year (5 April becomes his accounting date). When he started he bought ladders for £2,000 and specialist equipment for £18,000 and then on 1 December 2008 he bought a van to use in the business for £36,000. The ladders, specialist equipment and van together make a 'pool' of cost or value. In 2008-09 the pool qualifies for Annual Investment Allowance and the expenditure over that amount for 20% writing down allowance.

Period ended 5 April 2009

Cost of ladders	£ 2,000
Specialist equipment	£18,000
Van cost	£36,000
Total capital expenditure	£56,000

What can be claimed?

Annual Investment Allowance	£50,000
20% writing down allowance (£6,000 x 20%)	£ 1,200
Total amount to be entered in capital allowance boxes	£51,200
Pool value to be carried forward to 2010	£ 4,800

Year ended 5 April 2010

Value brought forward	£ 4,800
Writing down allowance (£4,800 x 20%)	£ 960
Pool value to be carried forward	£ 3,840

£960 goes into the capital allowances boxes on the 2009-10 Tax Return.

Accounting periods that do not correspond with the tax year

If your accounting period does not correspond with the tax year of 6 April 2008 to 5 April 2009, for example, if it runs from 1 September 2007 to 31 August 2008, or perhaps is shorter or longer than 12 months, the capital allowances you are entitled to are calculated differently. For example:

- AIA applies only to expenditure incurred on or after 6 April 2008. Where your accounting period started before this date your AIA will be proportionately reduced
- if your Accounting period is longer or shorter than a year, your AIA may be proportionately increased or reduced
- for expenditure made prior to 6 April 2008 a special first year allowance allowed small businesses to claim 50% allowances on their initial investments in equipment and machinery, excluding cars, long life assets or leased machinery. Medium sized businesses could claim 40%. For more information, see the Capital Allowances Manual.

A business is 'small' or 'medium-sized' if it satisfies at least two of the following conditions for the period of account, or preceding period of account:

	small business	medium-sized business
Annual turnover: not more than	£5.6m	22.8m
Assets: not more than	£2.8m	£11.4m
Employees: not more than	50	250

- The rate of writing down allowance (WDA) for business expenditure on plant and machinery changed from 6 April 2008:
 - from 25 to 20% for general plant and machinery, and
 - from 6 to 10% for long-life plant and machinery.

For non-standard accounting periods that started before 6 April 2008 and ended on or after 6 April, a hybrid rate of writing down allowances applies.

The examples below explain how to apply these new rules to your circumstances. Additionally, an online ready reckoner is available to help you calculate your hybrid rate of writing down allowances (go to www.hmrc.gov.uk and look for *ready reckoner* within the *Search* facility).

Example 13

A business draws up accounts for the year to 30 April 2008. Because these accounts are not a standard accounting period, they are subject to special rules because they begin on or before 5 April 2008 and end on or after 6 April 2008.

In order to work out the capital allowances due for the year ended 30 April 2008 you need to:

Step 1

Determine when the capital expenditure was incurred.

- Qualifying expenditure incurred before 6 April 2008 will, where appropriate, qualify for Small and Medium-sized Enterprise FYAs, that is, the 50% or 40%.
- Qualifying expenditure incurred on or after 6 April 2008 will qualify for the 100% Annual Investment Allowance but because this is a non-standard accounting period the AIA is restricted at $\frac{25}{366}$ of £50,000 (£3,415).
- Qualifying expenditure incurred on or after 6 April 2008 in excess of the restricted AIA can be allocated to the relevant pool and qualify for the hybrid rate of writing down allowances.

Step 2

All unrelieved expenditure from the year ended 30 April 2007 will qualify for writing down allowances at the hybrid rate. In this instance the hybrid rate will be:

$$\left(\frac{341}{366} \text{ days before 6 April 2008 @ 25}\right) + \left(\frac{25}{366} \text{ days after 5 April 2008 @ 20}\right) = 24.66\%$$

If your accounting period is less than a calendar year your AIA and writing down allowance is reduced accordingly.

Example 14

If your period of account is 1 October 2008 to 5 April 2009, the rate of Annual Investment Allowance is restricted to $\frac{187}{365} \times £50,000 = £25,617$

Your writing down allowance is restricted as follows:

If your expenditure qualifying for writing down allowance is £2,000, you should multiply it by 20% (the writing down rate for that period) = £400.

You then restrict it as follows $\frac{187}{365} \times £400 = £204.94$.

£205 is the amount of writing down allowance you can claim.

What if my accounting period is 18 months or less?

If your accounting period is more than a calendar year but less than 18 months AIA and writing down allowance is increased accordingly.

Example 15

Your period of account is 1 September 2007 to 31 December 2008 (488 days). You brought forward a pool of £30,000 and spent £40,000 on equipment between 6 April 2008 and 31 December 2008.

First, you need to break your period of account into the periods before and after 6 April 2008. These are as follows:

- 1 September 2007 to 5 April 2008 = 218 days
- 6 April 2008 to 31 December 2008 = 270 days

To work out your Annual Investment Allowance the calculation is:
 $\frac{270}{365} \times £50,000 = £36,987$ (rounded up to the nearest pound).

This is because only 270 days qualified for AIA. The remaining £3,013 is eligible for writing down allowance.

Writing down allowance is calculated as follows:

Step 1

pool brought forward £30,000 + eligible £3,013	= £33,013
period before 6 April 2008: $\frac{218}{488} \times £33,013 \times 25\%$	= £3,687
period on/after 6 April 2008: $\frac{270}{488} \times £33,013 \times 20\%$	= £3,654
Total	= £7,341

Step 2

Because your accounting period is longer than a year you should multiply the total at Step 1 by the number of days in the accounting period and divide the result by 365 to calculate the WDA due:

$£7,341 \times \frac{488}{365} = £9,815$ writing down allowance.

Example 16

If your period of account had been 6 April 2008 to 31 August 2009 (513 days), your Annual Investment Allowance would be $\frac{513}{365} \times £50,000 = £70,274$ (rounded up to the nearest pound).

Commencing your business

What if my accounting period is longer than 18 months?

If your accounting period is longer than 18 months you should split it into shorter periods and make separate capital allowance calculations for each of them.

The first 12 months will form a period and each subsequent 12 month period, or period of less than 12 months, will form further periods. For example, if the period of accounts is the 20 months from 1 January 2008 to 31 August 2009 you should split it into 12 months to 31 December 2008 and 8 months to 31 August 2009 and apply the rules above.

Gaps and overlapping accounting periods

If there is a gap between two periods of account you should add it to the first period of account. For example, if accounts are drawn up for the year to 31 December 2008 and the period 1 April 2009 to 31 December 2009, you should add the period from 1 January 2009 to 31 March 2009 to the year ended 31 December 2008.

If there is an overlap between two periods of account, treat the overlap period as part of the first period of account only. For example, if accounts are drawn up for the 15 months to 31 March 2009 and for the year ended 31 December 2009, treat the period 1 January 2009 to 31 March 2009 as being part of the 15 months to 31 March 2009 only.

If you started in business between 6 April 2008 and 5 April 2009, your Annual Investment Allowance and writing down allowances are calculated for the period of accounts which starts on the date that your business began.

Example 17

Bob starts business on 1 December 2008. He draws up his accounts to 5 April 2009 (126 days). On 1 January 2009 he buys a van for £24,000. He buys no other business assets.

His capital allowance computation for the period of account ended 5 April 2009 is:

Cost of van	£24,000
Minus	
Annual Investment Allowance $\frac{126}{365} \times £50,000$ (rounded up)	£17,261
	<hr/>
	£ 6,739
Writing down allowance $£6,739 \times 20\% = £1,348$ (rounded up)	
$£1,348 \times \frac{126}{365}$ (rounded up)	£ 466
Total capital allowances (£17,261 + £466)	£17,727
Value to carry forward to 2009-10 (£6,739 minus £466)	£ 6,273

Disposals of equipment

If you sell or dispose of something, the sale proceeds, or the market value if you gave it away or stopped using it in the business, is deducted from the pool. If there is nothing in the pool, the amount deducted will give rise to a balancing charge. If the sale proceeds etc are more than the original cost of the asset, you

should only deduct the original cost, unless you acquired the asset from a connected person. If you did, you should deduct the greater of the cost to them and your cost if both of them are less than the sale proceeds. Once these adjustments have been made, your writing down allowance for those accounts is calculated. If the sale price is more than the value of the pool, the difference is a balancing charge and should be included in your taxable profits.

Example 18

Graham has a pool brought forward of £10,000 for 2008-09. He sells a lathe for £11,000. His capital allowance computation for 2008-09 is:

Value brought forward	£10,000
Minus	
Disposal proceeds	£11,000
Balancing charge	£ 1,000

Often you will be disposing of items and purchasing new items, which qualify for allowances, in the same year. The following example explains how to calculate your allowances.

Example 19

Jim has a plumbing business. For 2008-09 Jim brings forward a balance of £900 in his main pool of expenditure from the previous year. He spends £55,000 on two new vans and some new tools and sells his old van for £5,000. For 2008-09 Jim is entitled to claim both a £50,000 AIA and a £900 small pools allowance, as follows:

Main pool balance carried forward	£900
Add	
New expenditure on van and tools	£55,000
Minus	
AIA for new expenditure	(£50,000)
Proceeds from sale	(£5,000)
Unrelieved balance	£900
Minus	
Small pools allowance	(£900)
Balance	Nil

Ceasing your business

If your business ceases you should deduct from the value of the pool the sale proceeds for any items you sell, or their values if you keep them. If these are more than the value of the pool, the difference is a balancing charge. If there is any value remaining in the pool, do not work out a writing down allowance but claim the value remaining as a balancing allowance instead.

The example below shows how this is done. If you sell any items for more than you paid for them, or their value if you keep them is more than you paid for them, you should deduct only the amount you paid for those items from the pool, and not the sale proceeds or value. If you acquired the item from a connected person, you should deduct the greater of the cost to them and your cost if both are less than the sale proceeds.

Example 20

Jackson has been in business for many years. He draws up his accounts to 5 April each year. At 5 April 2008 the value in the pool is £10,000. He stops trading on 1 July 2008. He keeps a word processor with a market value at 1 July 2008 of £2,000. He sells the other business assets for £7,000. His capital allowance computation for 2008-09 is:

Value brought forward	£10,000
Minus	
Disposal proceeds (£7,000 + £2,000)	£ 9,000
Balancing allowance	£1,000

Special rules for particular items

The precise way that the allowances for plant and machinery are worked out depends on the type of item and whether you use it privately as well as for business. The following rules will help you work out how much to claim under each of the headings in the *Self-employment* pages.

Cars costing more than £12,000

For cars which cost more than £12,000, the 20% writing down allowance is restricted to £3,000 a year for each car (cars do not qualify for AIA). This amount is then restricted further if the car is used partly for private motoring. A separate calculation, as shown in Example 23, must be made for each car - they are not included in the pool. If you sell the car, you do not get writing down allowances for the period of account in which the sale took place. Instead, you should calculate a balancing allowance or balancing charge. This is done in the same way as described in the sections on ceasing your business.

Example 21

Your accounts are drawn up for the year to 5 April 2009. You spend £16,000 in that year on a car which is driven 12,000 miles a year including 8,000 private miles. The calculation is:

Cost of car	£16,000
Minus	
Writing down allowance (£16,000 x 20%) but restricted to	£3,000
Value to carry forward	£13,000

The writing down allowance you can claim is £1,000

(£3,000 x 4,000/12,000 = £1,000 to take into account business mileage).

Plant and machinery used only partly for business purposes

Annual Investment Allowance, writing down allowance, and any balancing allowance or charge when the item is sold, should be reduced so that only the business use proportion is taken into account.

Example 22

Your accounts are drawn up to 5 April each year. You run a business of leasing caravans and buy a new caravan for £75,000 which you hire out for 90% of the year and use privately for the remaining 10%. The internal decor is damaged so you decide to sell it in 2009-10 for £15,000.

The calculation is:

	<i>Total (less total allowances)</i>	<i>Business use (90%)</i>	<i>Private use (10%)</i>
<i>Year 2008-09</i>			
Expenditure on caravan	£75,000	£67,500	£7,500
<i>Minus</i>			
AIA for 2008-09	(£50,000)	(£45,000)	(£5,000)
Balance in single asset pool	£25,000	£22,500	£2,500
<i>Minus</i>			
WDA at 20%	(£5,000)	(£4,500)	(£500)
Value carried forward	£20,000	£18,000	£2,000
Total capital allowance (AIA + WDA)		£49,500	
<i>Year 2009-10</i>			
Balance brought forward	£20,000	£18,000	£2,000
<i>Minus</i>			
Sale price	£15,000	£13,500	£1,500
Balancing allowance	(£5,000)	£4,500	Nil

The balancing allowance that can be claimed is £4,500 as this reflects the amount of business use.

Private use of cars

This category includes any cars costing less than £12,000 which are not used solely for business. These items should not be included in any pool. Instead, the allowances on each item should be worked out separately (in the same way as Example 21). There is no £3,000 restriction on the writing down allowance for cars that cost less than £12,000, but they do not qualify for AIA.

Example 23

Your accounts are drawn up to 5 April each year. You buy a car for £8,000 in 2008-09 and sell it for £5,000 in 2009-10. You use it 50% for business.

The calculation is:

2008-09

Cost of a car	£8,000
---------------	--------

Minus

Writing down allowance (£8,000 x 20%)	£1,600
---------------------------------------	--------

Value to carry forward	£6,400
------------------------	--------

The writing down allowance which can be claimed is (£1,600 x 50% business use) £800

2009-10

Value brought forward	£6,400
-----------------------	--------

Minus

Sale price	£5,400
------------	--------

Difference	£1,000
------------	--------

The balancing allowance which can be claimed is (£1,000 x 50% business use) £500

Short life assets

There are special rules if you intend to keep the item of equipment for only a short time or you think it will wear out quickly. If you acquire an item (other than a car) which you expect to dispose of within five years of the date you acquired it, you may elect to have the capital allowances calculated separately from your main pool.

You should make the election for this no later than the first anniversary of 31 January following the end of the tax year in which you acquired the item. You cannot withdraw an election. The separate calculation of capital allowances means that when the asset is sold the allowances given can be adjusted by way of a balancing allowance or charge to bring them in line with the actual depreciation.

If the item has not been sold or disposed of by the end of the five year period, the balance in the 'separate pool' for that item is added to the 'main pool', then dealt with in the usual way. If you need more information, please ask us or your tax adviser.

Long life assets

A long life asset is an asset whose expected working life when new is more than 25 years. Long life assets should be included in the special rate pool of 10%. If you work full time in your business and the amount you spend on long life assets is less than £100,000, the reduced rate of writing down allowances does not apply.

Assets leased out

You can claim capital allowances for assets you own and lease out under a lease that is not a long funding lease to other users. A lease that began before 1 April 2008 cannot be a long funding lease. You should consult us or your tax adviser if you think a lease is a long funding lease. Claim capital allowances on these assets in the same way as for assets you use in your business. But first year allowance is not normally available on assets leased out apart from cars with low

CO₂ emissions and, in some cases, designated energy-saving or water efficient plant or machinery where it forms part of the energy or water supply for a building and is leased with the building to which it relates. If you think allowances may be due, discuss this with your tax adviser.

Buildings

You can claim capital allowances for the cost of:

- constructing or altering agricultural or industrial buildings (including certain types of hotels) and for expenditure incurred in certain Enterprise Zones. Further information about agricultural buildings allowance and industrial buildings allowance can be found in the Capital Allowances Manual available from www.hmrc.gov.uk
- renovation or conversion of vacant or underused space above shops and other commercial premises to provide flats for rent. Further information about Flat Conversion Allowance can be found in the Capital Allowances Manual.
- renovation or conversion of business premises that have been empty for over a year in Assisted Areas in order to bring them back into business use. Further information about Business Premises Renovation Allowance can be found in the Capital Allowances Manual.

Losses – terminal relief

If your business ceased in 2008-09 and you made a loss in your final 12 months of trading, you can claim 'terminal loss relief' against any profits from the same business taxed in 2008-09 and up to three earlier years.

The time limit for this claim is January 2015.

This is an alternative to the other ways in which losses can be relieved. For information on losses generally ask the Orderline for Help Sheet 227 *Losses*. However, make sure that you do not claim the same loss twice.

How to calculate your terminal loss

You should refer to the examples and Working Sheet on the following pages to calculate your terminal loss. Typically, if your 2008-09 accounts cover a period of:

- 12 months, the terminal loss is the allowable loss plus any unused overlap relief
- more than 12 months, the terminal loss is a 12 month proportion of the allowable loss, plus any unused overlap relief
- less than 12 months, the terminal loss is the loss of the period 6 April 2008 to the date the business ceased plus any unused overlap relief and any loss in the period starting 12 months before the business ceased to 5 April 2008.

In each of the following examples, unused overlap relief is assumed to be £2,000.

Example 24

Your accounts covered 15 months to your cessation of trading on 31 October 2008, and the allowable loss is £5,000. Your terminal loss is:

Loss for the period 6 April 2008 to 31 October 2008:

$\frac{7}{15} \times £5,000$	£2,333
------------------------------	--------

Plus

overlap relief	£2,000
----------------	--------

Loss for the period 1 November 2007 to 5 April 2008:

$\frac{5}{15} \times £5,000$	£1,667
------------------------------	--------

Terminal loss	£6,000
---------------	--------

If your 2008–09 accounts cover a period of less than 12 months, you need to add on part of the allowable loss (if any) from the 2007–08 accounts to make the terminal loss up to 12 months.

Example 25

Your accounts covering six months to your cessation of trading on 30 September 2008 show a loss of £8,000. You had a loss of £7,500 in your accounts for the nine months to 31 March 2008. You need to add six months to bring your terminal loss to 12 months:

Loss for the period 6 April 2008 to September 2008	£8,000
Plus	
Overlap relief	£2,000
Loss for the period 1 October 2007 to 31 March 2008 - $\frac{6}{9} \times £7,500$	£5,000
Terminal loss	£15,000

If your 2008–09 accounts cover a period of less than 12 months, and the 2007–08 accounts show a profit, you need to calculate the loss or profit for the part of the final 12 months of trading that falls in the tax year when you permanently cease the trade and the loss or profit for the part of the final 12 months of trading that falls in the previous tax year.

Example 26

Your accounts covering eight months to your cessation of trading on 30 September 2008 show a loss of £8,000. You had a profit of £7,500 in your accounts for the 12 months to 31 January 2008. The position is as follows:

Loss for the period 6 April 2008 to 30 September 2008 - $\frac{6}{8} \times £8,000$	£6,000
Plus	
Overlap release	£2,000
Loss for the period 1 February 2008 to 5 April 2008 - $\frac{2}{8} \times £8,000$	£2,000
Profit for the period 1 October 2007 to 31 January 2008 - $\frac{4}{12} \times £7,500$	(£2,500)
Net profit	(£500) treat as nil
Terminal loss	£8,000

In each of these examples the unused overlap relief enhanced the terminal loss. The Working Sheet on page 21 will help you work out your terminal loss.

Allowable loss for 2008-09

Unused overlap relief

A £

Add either:

if this account is more than 12 months, deduct a proportion of the loss to leave 12 months' worth of loss

B £

or

if this account is less than 12 months, add part of the allowable loss (if any) from earlier accounts to make up the 12 month period to the date your business ceased

C £

or

if this account is less than 12 months and there is a net business profit in the final accounts or in the previous accounts, add the allowable loss (if any) relating to the part of the final 12 months trading falling in the tax year 2008-09 to the allowable loss (if any) relating to the part of the final 12 months trading falling in the tax year 2007-08

D £

Terminal loss (box A + box B or box C or box D)

E £

If you have already claimed relief for any part of the loss above, then you must reduce the terminal loss by the amount of relief that you have already claimed. This is because you can only have relief once for each £1 of loss.

Your terminal loss must be set against any profits (after deducting losses brought forward) from the same business taxed in 2008-09. If these are zero, it must be set against profits from the same business taxed in 2007-08. Once these have been reduced to zero any balance of the terminal loss must be set against the profits of the same business taxed in 2006-07. Finally, if there is still a balance, this must be set against the profits of the same business taxed in 2005-06.

Enter the amount of terminal loss relief you are claiming against your 2008-09 profits at box 73 on page SEF 4 or box 15 on the *Partnership* pages as a loss brought forward and used this year. This is in addition to any other losses you are bringing forward from earlier years, but make sure you do not count the same loss twice. Enter the total amount of terminal loss relief for 2007-08, 2006-07 or 2005-06 in box 78 on page SEF 4 or box 21 on the *Partnership* pages and give details of the amount carried back to each year in the 'Any other information' box on page SEF 6 of your *Self-employment (full)* pages or in the 'Any other information' box on your Tax Return.

If you have been sent your Tax Return for the year in which your business ceased then you must make your terminal loss relief claim in your Tax Return. If you have not been sent your Tax Return yet then you can claim terminal loss relief as soon as you know how big the loss is, usually when the final accounts have been prepared for the business. If you want to claim terminal loss relief before you receive your Tax Return, write to us.

Your letter should include:

- the name of your business

- that you want to claim terminal loss relief
- the date your business ceased
- the profit or loss of the business from the end of the last basis period to the date the business ceased, calculated in accordance with the guidance in the *Self-employment notes* and elsewhere in this Help Sheet
- the terminal loss that you have calculated following the above guidance.

Partners' trading or professional profits

The basis period and overlap rules detailed above are applied to your share of the partnership's trading and professional profits (or losses) as if that income had arisen to you from a trade which you carried on alone, as a sole trader.

That trade will be deemed to have commenced on the date you became a partner (unless you previously carried on the business on your own account when it will be deemed to have commenced on the date you started the business) and deemed to have ceased on the date on which you ceased to be a partner (or if you carry on the trade thereafter as a sole trader, on the date you cease to carry on that trade).

Example 27 Basis period rules for partners

The partnership commenced trading on 1 October 2006 and makes up its account each year to 30 September. You cease to be a partner on 31 December 2008. Your share of trading profits as shown in the Partnership Tax Returns is as follows:

year ended 30 September 2007	£12,000
year ended 30 September 2008	£18,000 (A)
year ended 30 September 2009	£ 7,000 (B)

Your basis periods for each fiscal year and the overlap relief to which you are entitled are as follows:

2006-07: 1 Oct 2006 to 5 April 2007	profits £ 6,000
2007-08: 1 Oct 2006 to 30 Sept 2007	profits £12,000
	(overlap profits £ 6,000)
2008-09: 1 Oct 2007 to 31 Dec 2008	profits £25,000 (A) + (B)

Minus

overlap relief	£ 6,000 (C)
Taxable profit	£19,000 (D)

In the *Partnership* pages, enter £18,000 in box 7, £7,000 in box 8, £6,000 in box 12 and £19,000 in boxes 14, 16 and 18.

If, as a partner, you are unsure how the basis rules apply to you, ask us or your tax adviser for help.

Other partnership income

The basis period rules to be applied to your share of the partnership's non-trading or professional income are as follows:

- If the partnership carried on a trade or profession in 2008-09 then the basis period will depend on whether tax has been deducted from that income.

Your share of the partnership's non-trading or professional income from which no UK tax has been deducted, 'untaxed income', is treated as having been derived from a 'notional' business which you carried on alone. The same basis period and overlap rules which are applied to your share of the partnership's trading or professional profits are applied to the 'notional' business which is treated as carrying on. But for this purpose the 'notional' business is deemed always to have

The provision of personal services through a partnership – deemed employment payment

commenced on the date you became a partner and to have ceased on the date you ceased to be a partner.

Any overlap relief to which you may be entitled from your 'notional' business is first to be relieved against any other untaxed income (regardless of the source from which it is derived) and the balance is to be given as a deduction against any other income of that year.

For your share of the partnership's non-trading or professional income from which UK tax has been deducted, 'taxed income', your basis period is the tax year. This is the period 6 April 2008 to 5 April 2009.

- If the partnership did not carry on a trade or profession in 2008-09 then your basis period for both 'untaxed' and 'taxed' income is the tax year 6 April 2008 to 5 April 2009.

If the partnership provides a partner's services or the services of others to clients, then new rules about tax and National Insurance contributions (NICs) introduced from 6 April 2000 may apply. The rules will apply to the partner and the partnership if they can answer 'yes' to both the following questions:

- would the partner be an employee if they worked for the client directly and not through the partnership?
- does the partnership the partner works through meet the conditions set out below?

The following conditions have to be met before the new rules can apply:

- the partner (or their family) is entitled to 60% or more of the profits of the partnership, or
- all or most of the partnership's profits come from providing services to a single client, or
- the profit sharing arrangements in the partnership are designed to ensure that the partner receives an amount based upon the amounts received for their services to clients.

If the rules apply then the partner may have to pay an additional amount of tax and NICs, based on the payments received by the partnership for the partner's services, at the end of the tax year or earlier if the partner ceases to be a partner during the year. This additional amount, which is known as a deemed payment, is treated as income from employment with the partnership. The partnership will have to apply PAYE and deduct NICs from this deemed payment. The partner will have to return this amount on a set of *Employment* pages in box 1, and record any tax deducted in box 2.

If the rules apply to the partnership then, in calculating its profits for tax purposes, a deduction is allowed for:

- the amount of the deemed payment, and
- the amount of any secondary Class 1 NICs paid on it.

The deduction is allowed once as a tax adjustment in calculating the taxable income of the partnership. Relief is given against the profits for the accounting period in which the deemed payment is treated as made (this will normally be 5 April) and is not to be apportioned between the partnership's accounting periods where the partnership makes up its accounts to a date other than 5 April.

The amount of the deduction allowed in calculating the profits is limited to the amount that reduces those profits to nil. Therefore a deemed payment and the secondary NICs on that payment cannot create a loss.

Where the partnership expenses incurred for the relevant engagements exceed the sum of:

- the expenses allowable in calculating the deemed payment, and
 - the 5% flat rate allowance allowable in calculating the deemed payment
- then the excess amount is left out of account in calculating the taxable profits.

The adjustment for disallowable expenses should be made at box 3.66 of the Partnership Tax Return. The amount of the deemed payment and any secondary Class 1 National Insurance contributions should be included at box 3.71 of the Partnership Tax Return (if a deduction has already been made for any secondary Class 1 National Insurance contributions in the accounts, for example under employee costs, then that amount should be included in the figure at box 3.66). You should explain how you arrived at these figures in the 'Additional information' box, box 3.116, on page 3 of the Partnership Tax Return.

i Go to www.hmrc.gov.uk for further guidance on the new rules or contact us.

Example 28 Deemed payment calculation

Mr and Mrs Jones carry on trade in partnership and make up their accounts to 5 April 2009. All the partnership's income is derived from contracts covered by the new rules. Profits are split equally but Mrs Jones performs the services.

Partnership Accounts year ended 5 April 2009

Income	£20,000
Expenses (A)	£ 5,000
<hr/>	
Profit	£15,000

Allocated Mrs Jones £7,500 and Mr Jones £7,500

Of the partnership's expenses, only £2,000 of the £5,000 would be allowable under employment income rules.

Calculation of deemed payment on 5 April 2009

Income from relevant engagements	£20,000
Minus	
5% flat rate allowance (£20,000 x 5%) (B)	£ 1,000
Employee expenses (C)	£ 2,000
Secondary Class 1 NICs on deemed payment	£ 1,374
<hr/>	
Deemed payment	£15,626

Recalculation of partnership's taxable profit

Partnership profit (enter at box 3.65)	£15,000
--	---------

Add

Disallowed expenses (A) minus (B + C)	
£5,000 minus (£1,000 + £2,000)	£ 2,000
<hr/>	
(enter at box 3.66)	£17,000

Please note: The disallowed expenses are the excess of the partnership expenses in the accounts (A) over the sum of the 5% flat rate allowance (B) and employee expenses (C).

Minus

Secondary Class 1 NICs on deemed payment	£ 1,374	
Deemed payment (enter at box 3.71)	£15,626	£17,000
<hr/>		
Taxable trading profit (enter at box 3.73)		0

Please note: The deemed payment amount is always restricted to an amount that reduces the trading profit to nil.

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