

MORE THAN ONE BUSINESS

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

- the **Self-employment Pages, or the Partnership Pages, of your personal Tax Return, or**
- the **Partnership Tax Return**

if either you, or the partnership, carries on more than one business.

—Sole traders

You must send in a completed set of Self-employment Pages for each business you are involved in. You may also need to complete a set for each account that relates wholly or in part to your basis period for 1996/97. Read the Notes on Self-employment.

—Partners

If you carried on business in partnership you should complete the Partnership Pages of your Tax Return instead of the Self-employment Pages. Fill in a separate set of these Pages:

- for each partnership of which you were a member, **and**
- for each business the partnership carried on

—Partnerships

A separate set of Partnership Trading Pages should be completed for each business that the partnership carried on. You may also need to complete a set for each account that relates wholly or in part to the basis period for 1996-97. Read the notes in the Partnership Tax Return Guide.

There are special rules for dealing with Class 4 National Insurance Contributions (Class 4 NICs) if you have more than one business. These will also change the way you complete the Self-employment or Partnership Pages.

CALCULATING CLASS 4 NATIONAL INSURANCE CONTRIBUTIONS DUE (IF YOU HAVE MORE THAN ONE BUSINESS)

Use the Working Sheet overleaf if you had profits from more than one business (including partnership businesses) during 1996-97.

There is no need to complete the Working Sheet if you are exempted from paying Class 4 NICs on all of your business profits, or if the Contributions Agency has agreed that your Class 4 NICs may be deferred. Instead:

- tick box 3.90 (or box 4.20 of the Partnership Pages)
- enter '0' in boxes 3.91 and 3.92 (or boxes 4.21 and 4.22 of the Partnership Pages)
- explain in the 'Additional information' box that you are exempted or deferred, and give the reason.

How to fill in the Working Sheet

Complete one column in Section 1 for each business you carried on during 1996-97 (whether on your own or in partnership). Identify the business to which the details in each column relate. If you are exempted from paying Class 4 NICs on one of your businesses (for example, because you were a sleeping partner, diver or diving supervisor), do not enter any figures in Section 1 for this business.

If you carried on more than three businesses, use another Working Sheet or photocopy this one. Bring together all figures in boxes J to L into one Working Sheet (in Section 2 box M).

You normally pay Class 4 NICs on your total taxable profits for 1996-97. However, you may be able to make adjustments for any interest, annual payments or losses that fall within the following rules:

- **trading losses** that are allowable for tax are also treated as losses arising for the purposes of Class 4 NICs. They may be allowed for Class 4 NICs in the same way as losses are allowed for tax - explained in *Help Sheet IR227: Losses*.
- **interest** can be deducted in calculating Class 4 profits if it is incurred for the purposes of your business, but was not deducted in arriving at your taxable profits.

boxes D, E and F

Copy the figure for taxable profits for 1996-97 for each of your businesses (from box 3.89 on the Self-employment Pages or box 4.19 on the Partnership Pages).

boxes G, H and I

- Deduct:
- any losses that arose prior to 1996-97 not yet set against previous Class 4 profits. These can only be deducted from the profits of the same business that gave rise to them.
 - any interest from 1995-96 and earlier years that has not yet been set against previous Class 4 profits.

The figure of adjustments to profits to be entered at boxes G, H or I must not exceed the taxable profit figure for the relevant business at D, E or F. If, for example, Business 1 has taxable profits of £3,000 (figure entered in box D) and there are total deductions for losses and interest relating to that business of £3,500, then the amount to be entered at box G needs to be restricted to £3,000. A record should be kept of the unused deductions (£500). These can be set against profits of the same business for later years.

boxes J, K and L

Enter the profit for each business after the adjustments made to the profits of that business.

The amounts entered here cannot be less than zero - see the advice on boxes G, H and I above.

box M Enter the total adjusted profits for all your businesses.

box N Enter allowable losses of any of your businesses for 1996-97 (box 3.81 on the Self-employment Pages, or box 4.11 on the Partnership Pages) that you want to set against Class 4 profits.

Enter any interest you pay in 1996-97 for the purposes of any of your businesses and not deducted in arriving at your taxable profits.

boxes O to Q Enter in box O your total profits after deducting amounts entered in box N. Deduct £6,860 from box O, enter the balance up to a maximum of £16,800 at box P. This is charged at 6%. Enter in box Q the amount of Class 4 NICs that you are liable to pay. If you do not want to calculate your tax, you do not have to fill in box Q (or box 3.92 on the Self-employment Pages, or box 4.22 on the Partnership Pages).

If the Contributions Agency has agreed that your Class 4 contributions may be deferred, enter '0' in boxes P and Q. Explain this in the 'Additional information' box on the Self-employment Pages, or Partnership Pages, as appropriate.

Now:

- add together the adjustments included in boxes G, H, I and N and copy this figure to box 3.91 in the copy of the Self-employment Pages on which you have put information about Business 1
- copy the figure in box Q to box 3.92 in the copy of the Self-employment Pages on which you have put information about Business 1 (or box 4.22 on the Partnership Pages)
- enter 'multiple businesses' in the 'Additional information' box on page 1 of the Self-employment Pages for Business 1 (or in the 'Additional information' box on the appropriate Partnership Pages)

Leave boxes 3.91 and 3.92 blank on the copies of Self-employment Pages (boxes 4.21 and 4.22 in the Partnership Pages) you complete for Business 2 onwards.

Working Sheet (more than one business)

Section 1

| | Business 1 | Business 2 | Business 3 |
|---------------------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|
| Business name | A | B | C |
| Taxable profit (or share of taxable profit) | D £ | E £ | F £ |
| Adjustments to profits | G £ | H £ | I £ |
| Profits of each business after adjustments | J £ <small>box D minus box G</small> | K £ <small>box E minus box H</small> | L £ <small>box F minus box I</small> |

Section 2

| | |
|----------------------------------------------------|-------------------------------------------------------|
| Total business profits from Section 1 | M £ <small>box J plus box K plus box L</small> |
| Adjustments to total business profits | N £ |
| Chargeable profits for Class 4 National Insurance | O £ <small>box M minus box N</small> |
| Minus exempt threshold | £6,860 |
| Amount chargeable to Class 4 NIC (maximum £16,800) | P £ <small>box O minus £6,860</small> |
| Amount of Class 4 NIC due (maximum £1,008) | Q £ <small>box P x 6%</small> |

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

**NEW BUSINESSES STARTING ON OR AFTER
6 APRIL 1994**

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.

if your business, or the partnership's business, started on or after 6 April 1994.

Except where specifically noted in this Help Sheet the box numbers on the Trading Pages of the Partnership Tax Return follow those on the Self-employment Pages of the personal Tax Return.

This Help Sheet explains about:

- accounting periods
- how business profits are taxed
- cost of sales
- allowable business expenses
- basis periods
- overlap profits and relief.
- capital allowances and balancing charges.

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

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 to 3.5**

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 and your accounting date in box 3.5. 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 accountancy principles. The Notes for the Self-employment Pages 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's cash flow, but it would not normally 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 which 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 expenditure may be recognised which are not taxable, or tax deductible, and other special allowances may reduce the amount of profits which are taxable.

These guidance notes explain these principles as fully as possible, but they are not a comprehensive guide in all circumstances. If you are in doubt about the correct treatment of a particular item you should consult your Tax Office or tax adviser.

COST OF SALES

box 3.33 Show as cost of sales 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 obsolescent at their net realisable value where this is lower. The following Working Sheet will help you decide how much you can claim.

| | |
|---------------------------------------------------------------------|--------------------------|
| Goods and raw materials you bought this period | A £ |
| Plus stock and work in progress on hand at the start of this period | B £ |
| | box A plus box B |
| | C £ |
| Minus stock and work in progress on hand at the end of this period | D £ |
| | box C minus box D |
| Figure to enter in box 3.33 | E £ |

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 on these capital costs. Additionally you cannot deduct costs which are recoverable under an insurance.

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 Notes for the Self-employment Pages tell you where to include your expenses. There is a Table on page SEN5 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 car expenses

You may calculate your car expenses using a fixed rate per business mile provided that:

- the rate used does not exceed the appropriate Fixed Profit Car Scheme (FPCS) mileage rate for the car at the time it is used. These rates are published annually by the Inland Revenue. (The rates for 1996-97 were announced in a Press Release dated 8 November 1995 available from the Orderline), **and**
- the annual turnover of the business at the time the car is acquired does not exceed the VAT registration threshold (currently £47,000), **and**
- no other motoring expenses (other than interest on a loan used to purchase the car) are claimed and no capital allowances are claimed on the car (since the FPCS 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 car 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 does not apply to taxis and other cars used for hire, nor to vehicles other than cars.

If you have existing arrangements for the use of mileage rates other than those set out in this Help Sheet, your Tax Office 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 ask the Orderline for booklet SA-BK 3 *Self Assessment: A guide to keeping records for the self-employed*.

YOUR BASIS PERIOD FOR 1996-97

You pay tax for 1996-97 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.

Your accounting period is the period your accounts cover; 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 1996-97 tax year is the 12 month period 1.1.96 to 31.12.96 and your accounting date is 31.12.96.

General rules for businesses still trading at 5 April 1997

If you started business during the period 6 April 1994 to 5 April 1995, your basis period is the 12 months to your accounting date in 1996-97 *unless you have changed accounting date during 1996-97 - see the 'Changes of basis period' section below.*

Example 1
You started your business on 1.1.95 and have drawn up accounts to 31.12.95 and 31.12.96. Your basis period is the 12 months 1.1.96 to 31.12.96.

If you started business during the period 6 April 1995 to 5 April 1996, your basis period is one of the following *unless you have changed accounting date during 1996-97 - see the 'Changes of basis period' section below.*

If your accounting date in 1996-97 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 1996-97 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 1996-97, your basis period is the 12 month period **6.4.96 to 5.4.97.**

Example 2
You started in business on 1.1.96.

- If your accounting date is 31.3.97, your basis period is 1.4.96 to 31.3.97.
- If your accounting date is 31.10.96, your basis period is 1.1.96 to 31.12.96.
- If your first accounting date is not until 30.4.97, your basis period is 6.4.96 to 5.4.97.
- If you drew up an account to 31.3.96 but did not draw up an account to 31.3.97, see the 'Changes of basis period' section in the next column.

If you started business during the period 6.4.96 to 5.4.97, your basis period is the period from the date you started to 5.4.97.

Example 3
You started in business on 1.7.96. Your basis period is 1.7.96 to 5.4.97.

Special rule for businesses which ceased during 1996-97

If your business ceased trading during the period 6.4.96 to 5.4.97, your basis period is the period between the end of the basis period for 1995-96 and the date on which your business ceased.

Example 4
Your business ceased to trade on 31.12.96. Your 1995-96 basis period ended on 30.4.96. Your basis period is the 20 month period 1.5.95 to 31.12.96.

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 1996-97 tax year, **or**
- you changed your accounting date last year, this was not accepted by the Tax Office, 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 normally 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 wish 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 your Tax Office or tax adviser for help.

If you started business in the 1995-96 tax year, your basis period is one of the following:

- if your accounting date in 1996-97 is more than 12 months after the end of the basis period for 1995-96, your basis period is the period between the end of the basis period for 1995-96 and the new accounting date.

Example 5

If the basis period for 1995-96 ended on 31.5.95, and the new accounting date is 31.8.96, your basis period is the 15 month period 1.6.95 to 31.8.96.

- if your accounting date in 1996-97 is less than 12 months after the end of the basis period for 1995-96, your basis period is the 12 months ending on the new accounting date.

Example 6

If the basis period for 1995-96 ended on 31.12.95, and the new accounting date is 31.7.96, your basis period is the 12 month period 1.8.95 to 31.7.96.

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

Your basis period for 1996-97 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 below if your accounting date falls between 31 March and 4 April.

Example 7

You commenced on 6 April 1996 and your basis period is the 12 months to 5.4.97. But your accounts are made up for the three months to 30.6.96 (profit £4,500) and the 12 months to 30.6.97 (profit £24,000). So your basis period covers three months of your 1996 accounts and nine months of your 1997 accounts.

The profit of the basis period will be:
 $£4,500 + (279/365 \times £24,000) = £22,500$

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 the profits arising in that tax year. So where a new business adopts an accounting date of 31 March and prepares its first trading accounts for a period of 12 months or less, it should in strictness:

- **if the business began on 6 April or later**, add on five days' worth of the profits of the following account in order to make up the full period to 5 April. There will therefore be an overlap of five days between the basis periods for Years 1 and 2, for which the 'overlap profit' should be calculated

- **if the business began on 1 to 5 April**, be taxed on one to five days' worth of the profits in Year 1. The basis period for Year 2 will be the first 12 months from commencement so that (except for businesses which began on 1 April) up to four days' worth of profits from the following account should be added on. There will again be overlaps between the basis periods for Years 1 and 2, and sometimes those for Years 2 and 3, for which the 'overlap profit' should be calculated.

However in either case, you can if you want, treat any apportionment of profit for a period of five days or less as zero (that is, all the profit will be treated as falling within the other part of the account). This will have the effect that:

- the profits of the account to 31 March each year will be taxed as though they were for the year 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
- there will be no 'overlap profits', and hence no overlap relief in any later year.

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

You may also treat a change of accounting date where the new date is 31 March 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 any doubt, ask your Tax Office or tax adviser for help.

OVERLAP PROFITS

It may be that your basis period for 1996-97 overlaps with the basis period for 1995-96. 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.

Example 8

Your business started on 1.1.96, and your first account is for the 12 months to 31.12.96. Your basis periods are:

- 1995-96: 1.1.96 to 5.4.96
- 1996-97: 1.1.96 to 31.12.96

The period of overlap is 1.1.96 to 5.4.96. So if the profit of the 12 months to 31.12.96 is £12,000, the overlap profit is $(96/366 \times £12,000) = £3,000$ (over 96 days). This is the same as the amount which was assessable for 1995-96.

If your basis periods for 1995-96 and 1996-97 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.

OVERLAP RELIEF

box 3.78 Include in the adjustments you make in box 3.78 any overlap relief you are allowed to deduct for 1996-97. The notes below will help you work out how much overlap relief to deduct.

Overlap profits which arose in 1995-96 or earlier years can be deducted as overlap relief in working out your taxable business profits for 1996-97 if:

- you sold or closed down your business in 1996-97. All the overlap profits brought forward should be entered at box 3.78, or
- your basis period for 1996-97 is more than 12 months long because you have changed your accounting date since last year. (This can only happen if you changed your basis period.) 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. The example below shows how this works.

Example 9
 You have overlap profit of £5,000 (over five months) from an earlier year. You change basis period. 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 basis period (that is, five months).
 So the relief is:
 $2/5 \times £5,000 = £2,000.$
 The balance of overlap profit £3,000 (over three months) is carried forward. You will claim this as overlap relief in a later year.

CAPITAL ALLOWANCES AND BALANCING CHARGES

In working out your business profits you must **not** deduct:

- the cost of buying, altering or improving fixed assets, or
- depreciation or any 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 arise when you sell an item, give it away or stop using it in your business.

Balancing charges must be added to arrive at your taxable profits. These notes explain how you can work out these capital allowances and balancing charges.

— 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 which belongs to you (see 'Plant and Machinery' below)
- agricultural buildings, industrial buildings and certain other buildings
- patents, certain specialist types of 'know-how', scientific research, mineral extraction and dredging. Your tax adviser will claim these for you, if they apply.

If you buy on hire purchase, you can claim capital allowances on the original cost of the item; the interest or other charges count as business expenses and should be deducted at box 3.48.

You cannot claim for anything you have bought solely for private use, or the cost of land even if it is used for your business.

Value Added Tax

The purchase price of an asset on which capital allowances can be claimed sometimes includes VAT. If you are registered for VAT and can offset that VAT against your output tax when you make your returns for VAT purposes, you should only claim capital allowances on the net cost of the asset. In all other cases, and particularly if you are not registered for VAT, the VAT paid should be included in the capital expenditure on which you claim capital allowances.

How to you make your claim

Enter in boxes 3.58 to 3.67 the amount you wish to claim. This should be the amount worked out from the rules set out in these notes. The examples show you what to do. If you need more help ask your Tax Office or tax adviser. You will also need to consult them 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.

Plant and Machinery

You can claim allowances for the cost of vans, cars, machines, scaffolding, ladders, tools, equipment, 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 - these should be claimed as business expenses.

Most plant and machinery you buy for your business can be lumped together in a single 'pool' of expenditure with just a single calculation no matter how many items are included. This is known as 'pooling'. (The types of plant and machinery which cannot be pooled are explained later in these notes.)

The allowances are known as writing down allowances. These are worked out at 25% of the cost of the item or 'pool' of items for each year. Example 10 shows how this works.

Example 10

Your accounts are drawn up to 5 April each year. You spend £800 on a new machine in the year ended 5 April 1996. You do not buy anything in the year ended 5 April 1997.

The writing down allowance you can claim for 1995-96 is:

| | |
|--------------------------------|-------------|
| Cost of machine | £800 |
| Writing down allowance @ 25% | <u>£200</u> |
| Value of pool to carry forward | £600 |

The writing down allowance you can claim for 1996-97 is:

| | |
|--------------------------------|-------------|
| Value of pool brought forward | £600 |
| Writing down allowance @ 25% | <u>£150</u> |
| Value of pool to carry forward | £450 |

If you buy something in the period covered by your accounts, the cost is added to the pool. You can also bring into the pool the value of any items which you used privately before using them in your business. If you sell something, the sale proceeds (or the value if you gave it away or started to use it for non-business purposes) are deducted from the pool. If the sale proceeds etc. are more than the original cost of the asset you should 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.

Example 11

Suppose that the value of the pool brought forward at the beginning of 1996-97 was £450; you bought two new machines in your accounting period for 1996-97 for £2,000 and £500; and you sold a machine on which you are claiming capital allowances for £150 in your accounting period for 1996-97. The writing down allowance you can claim for 1996-97 is:

| | |
|--------------------------------|---------------|
| Value of pool brought forward | £450 |
| New expenditure | <u>£2,500</u> |
| Total | £2,950 |
| Minus sold | <u>£150</u> |
| Value of pool this year | £2,800 |
| Writing down allowance @ 25% | <u>£700</u> |
| Value of pool to carry forward | £2,100 |

If your business ceases you should deduct from the value of the pool the sale prices 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 precise way the allowances 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.

— Expensive cars

For cars which cost more than £12,000, the 25% writing down allowance is restricted to £3,000 a year for each car. This amount is then restricted further if the car is used partly for private motoring. A separate calculation must be made for each car - they are not 'pooled'. When you sell the car, the difference between the sale price and the value brought forward is, after restricting for private use, allowable as a balancing allowance (added to other capital allowances for the year) or taxable as a balancing charge.

Example 12

Your accounts are drawn up for the year to 5 April 1997. You spend £15,000 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 | £15,000 |
| Writing down allowance @ 25% (restricted) | <u>£3,000</u> |
| Value to carry forward | £12,000 |

The writing down allowance you can claim is £1,000 (£3,000 x 1/3 (one-third of mileage on business)).

— Other cars

For cars which cost less than £12,000 and are used solely for business, separate calculations are not necessary. Instead, all expenditure and sales are dealt with in a single pool, separate from the pool of other capital expenditure. There is no restriction of the writing down allowance to £3,000. The calculation is as shown at Example 11.

Any sales proceeds are deducted from the pool in the normal way. The pool continues until the last car in it is sold. When that happens no more writing down allowances are calculated but there is a balancing charge or balancing allowance.

— Plant and Machinery used only partly for business purposes

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 12) but there is no £3,000 restriction on the writing down allowance.

The 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 13

Your accounts are drawn up to 31 December each year. You buy a car for £8,000 in 1994 and sell it for £5,000 in 1995. You use it 50% for business. The calculation is:

1994-95

| | |
|---------------------------------------------------------------------------------|---------------|
| Cost of car | £8,000 |
| Writing down allowance @ 25% | <u>£2,000</u> |
| Value to carry forward | £6,000 |
| The writing down allowance which can be claimed is (£2,000 x 50% business use). | £1,000 |

1995-96

| | |
|------------------------------------------------------------------------------|---------------|
| Value brought forward | £6,000 |
| Price when sold | <u>£5,000</u> |
| 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 normal way. Further information is available from your Tax Office.

—Assets leased out

You can claim capital allowances for assets you own and lease out to other users. Capital allowances on these assets should be claimed in the same way as for assets you use in your business. However, if the asset is used by a person who is not resident in the UK, you will need to discuss with your tax adviser what allowances are due.

Buildings

You can claim capital allowances for the cost of constructing agricultural or industrial buildings, industrial and commercial buildings in enterprise zones and certain types of hotel.

You can claim industrial buildings allowance if you buy or construct a building which is used for the purposes of a qualifying trade. Manufacturing is a qualifying trade, so are processing trades and there are certain others. You cannot claim industrial buildings

allowance on buildings such as houses, showrooms, offices and shops even if they are used for the purposes of a qualifying trade, or for the land on which the building stands. You should consult your Tax Office or tax adviser if you think you may be able to make a claim.

You can claim capital allowances at a special rate on industrial and commercial buildings in enterprise zones. You can also claim capital allowances for the cost of constructing a qualifying hotel or buying a qualifying hotel constructed on or after 12 April 1978. Ask your Tax Office or tax adviser if you need help.

LOSSES

If your business made a loss in any of the first four tax years in which it was carried on, you should ask for a copy of *Help Sheet IR227: Losses*. You may be able to claim to carry the loss back for up to three years from the year in which the loss arose and set it against your other income.

PARTNERS

These notes only apply if you were a member of a new partnership - see page PN2 of the Notes for the Partnership Pages and the notes above. 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 **business which you carried on alone**, as a sole trader.

That business 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 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, on the date you cease to carry on that business).

Example 14: Basis period rules for partners

The partnership commenced business on 1 October 1994 and makes up its account each year to 30 September. You cease to be a partner on 31 December 1996. Your share of trading profits as shown in the Partnership Tax Return are as follows:

| | | |
|----|---------|-------------|
| ye | 30.9.95 | £12,000 |
| ye | 30.9.96 | £18,000 (A) |
| ye | 30.9.97 | £7,000 (B) |

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

| | | | | |
|---------|---------------------|----------------------|---------|-----------|
| 1994-95 | 1.10.94 to 5.4.95 | profits | £6,000 | |
| 1995-96 | 1.10.94 to 30.9.95 | profits | £12,000 | |
| | | (overlap profits) | £6,000 | |
| 1996-97 | 1.10.95 to 31.12.96 | profits | £25,000 | (A) + (B) |
| | | minus overlap relief | £6,000 | (C) |
| | | Taxable profit | £19,000 | (D) |

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

RENT A ROOM FOR TRADERS

This Help Sheet explains how the Rent a Room scheme works. If your trade involves providing furnished accommodation, the notes below will help you to fill in the Self-employment Pages of your Tax Return to take account of the scheme (if it applies to you).

If your provision of furnished rooms does not amount to a trade, do not include the letting income in the Self-employment Pages. Ask the Orderline for the Land and Property Pages, and include the income there.

RENT A ROOM SCHEME

Rent a Room applies only to owner-occupiers and tenants who receive rent from letting furnished accommodation in their only or main home. In general, gross annual receipts (including sums paid in respect of meals, goods and services provided in connection with the use of accommodation) and balancing charges from that sort of letting that do not exceed £3,250 in total will be exempt from Income Tax altogether. However, if you wish you can opt out of this exemption. You might want to do so if you have made losses and want to claim relief for them.

If you receive gross annual receipts in excess of £3,250 you can choose between paying tax on:

- your gross receipts (plus any balancing charges) minus £3,250 without any separate tax relief for allowable expenses or capital allowances, **or**
- your actual profit from letting worked out in the normal way (that is, gross rents minus actual expenses and capital allowances).

The limit of £3,250 is reduced to £1,625 if during the basis period for the year, someone else received income from letting accommodation in the same property. Rent a Room does not apply to income from accommodation used as an office or for business purposes (other than by genuine lodgers such as students who are provided with study facilities in their lodgings).

Rent a Room relief applies to a tax year. To decide whether the Rent a Room conditions are satisfied and, therefore, whether the relief applies, you must look at what happened in the basis period for the tax year. You will need to get advice from your Tax Office or tax adviser if the income from this source is not for:

- a period of 12 months, **or**
- a period from the date of the commencement of the source to 5 April 1997, **or**
- a period from 6 April 1996 to the date of cessation of the source.

You should enter the following details on the Self-employment Pages:

- **if your gross receipts including balancing charges are less than £3,250 (or £1,625) and you want to claim exemption from tax on them**
 - enter 'Rent a Room' in box 3.2
 - leave the rest of the Self-employment Pages blank.
- **if your gross receipts excluding balancing charges exceed £3,250 (or £1,625) and you wish to claim Rent a Room relief**
 - enter 'Rent a Room' in box 3.2 and fill in boxes 3.3 to 3.10 as appropriate
 - enter the gross receipts (including sums received for meals, goods and services but excluding any balancing charges) in box 3.16
 - enter £3,250 (or £1,625 if appropriate) in box 3.50. Do not fill in boxes 3.17 to 3.49 or boxes 3.53 to 3.56
 - you will need to work out the amount of any balancing charges. Ask the Orderline for *Help Sheet IR222: New businesses starting on or after 6 April 1994* and enter any balancing charge in box 3.73 or 3.76 as appropriate
- **if you do not want to claim Rent a Room relief**
 - fill in the Self-employment Pages by entering your gross receipts, expenses, capital allowances and balancing charges in the normal way.

Further information about the Rent a Room scheme can be obtained by requesting leaflet *IR150: A Guide to Property Income* from the Orderline.

Summary

Under Rent a Room you can be exempt from Income Tax on profits from furnished accommodation in your only or main home if the gross receipts you get (that is, before expenses) are £3,250 or less. But you cannot then claim any of the expenses of the letting.

In addition, receipts over the £3,250 exemption limit can be taxed on an alternative basis, which may produce a lower tax bill. Briefly, the excess of the gross receipts over the exemption limit is treated as the taxable rental income, instead of the actual profit. But you cannot then claim any of the expenses of the letting.

For the purposes of the Rent a Room scheme, gross receipts include not only rents but also payments made to you for the provision of any other goods or services (such as meals, cleaning, laundry etc.) in connection with the letting. The £3,250 limit may be halved if someone else gets rents from letting in your home.

The Rent a Room scheme applies to ordinary lettings of living accommodation in your own home. It does not apply to rooms let as an office or for other business purposes. But the scheme applies to genuine lodgers who study in your home or who do some of their business work in your home in the evenings or at weekends.

Rent a Room applies to people who let a room in a home they rent as well as to people who own their homes. It is not relevant for tax but you may want to check whether:

- your lease allows you to take in a lodger (where you rent your home)
- your lender has any objection to your taking in a lodger (where you have a mortgage on your home);
- your insurance company is content; your cover may not be adequate if circumstances have changed.

Details of the Rent a Room exemption limits

The exemption limit of £3,250 is reduced to £1,625 if during the tax year to 5 April, someone else received income from letting accommodation in the same property. This might happen where you own your home jointly with another person.

If the period of letting is less than 12 months, the limit of £3,250 is reduced to £1,625 if some other person lets accommodation in the same residence at any time in any period of 12 months that includes your less-than-12-month period.

— You move home during the year

The Rent a Room rules apply to the total gross furnished letting receipts for the tax year from your own home. If you move home, and lettings in both your old and new home qualify for Rent a Room relief during the same year, you must add together the rents from both to find the total receipts.

— You move abroad

If you let your home in the United Kingdom while you live abroad, you will not normally be within Rent a Room. This is because the let property will not usually be a residence of yours at any time during the basis period for the letting. Ask your Tax Office or your tax adviser for advice.

— You are below the exemption limit

Where you are below the exemption limit you are automatically exempt from tax. But you can ask to be taxed in the normal way - that is, on your receipts less expenses. This may be to your advantage where, for example, you have a loss and you would like to use that loss. A similar point may arise where you are taxed on the excess of your receipts over the exemption limit but you actually made a loss.

Lodger provided with services that amount to a trade - basis period

Some lettings may amount to a trade. This is likely to happen where you run a guest house or bed and breakfast business, or if you provide material services, for example, meals and cleaning. If your lettings amount to a trade, Rent a Room relief may still be claimed, but you should exclude any assessable profits from your rental business and return them as trading profits.

The basis period for a property business must be the tax year itself (the year to 5 April) or the actual period of letting in the tax year if this is shorter. But if your letting activity amounts to a trade, you can choose a different annual period (generally a period of one year ending on a date in the tax year). You will usually find your tax calculations easier if you stick to a 5 April year end.

Two Rent a Room methods for receipts above exemption limit

The Rent a Room scheme provides two ways to work out your tax when your receipts are above the exemption limit of £3,250 (or £1,625 if someone else also had income from the same property in the same period). You can choose which of the following two methods is best for you:

- A paying tax on the profit you make from letting, worked out in the normal way for a rental business (that is, rents received minus expenses), **or**
- B paying tax on the gross amount of your receipts (including receipts for any related services you provide) minus the £3,250 (or £1,625) exemption limit.

Method A applies automatically unless you tell your Tax Office within the time limit (see page 3) that you want method B.

Once you have elected for method B it continues to apply in the future until you tell your Tax Office you want method A. You must tell your Tax Office within the time limit if you decide you no longer want method B to apply. You may want to do this where the taxable profit is less under method A or where expenses are more than the rents (so there is a loss).

For example, your gross receipts may be £4,000 but your expenses are £5,000 so you have a loss of £1,000. Unless you opt out of method B, you will still be taxable on the excess of the gross receipts of £4,000 over the exemption limit of £3,250; that is, the taxable profit from letting in your own home will be £750.

Example where method B is better - Florence

Florence lets out a room in her own home for £100 a week. Nobody else lets a room in the house. Her gross receipts for the year are £5,200. She is not exempt from tax because her gross receipts exceed the exemption limit of £3,250. She has expenses of £1,000 so her profit is £4,200. The excess of her receipts over £3,250 is £1,950 (£5,200 less £3,250).

- Using method A, she pays tax on her actual profit of £4,200.
- Using method B, she pays tax on a profit of £1,950.

In Florence's case, method B is better and she elects for it. The profit of £1,950 is included in Florence's overall business calculation if she has other rental business income from lettings outside her home. The profit of £1,950 will be the only rental business profit if Florence has no other letting income.

Example where method A is better - John

John lets out a room in his own home for a rent of £100 a week plus contributions to the heating and lighting. His total letting receipts for the year from letting the room are £5,200 rent plus £200 for light and heating = £5,400. He has expenses of £3,500 so his profit is £1,900. The excess of his gross receipts over £3,250 is £2,150 (£5,200 less £3,250).

- John pays tax on his actual profit of £1,900 if he uses method A.
- John pays tax on a profit of £2,150 if he uses method B.

In John's case, method A is better. Therefore he either does not elect for method B or, if he has already done so, he tells his Tax Office that he no longer wants it to apply. The profit of £2,150 is included in John's overall business calculation if he has other rental business income from lettings outside his home. The profit of £2,150 will be the only rental business profit if John has no other letting income.

— Changing from method A to method B and vice versa

You can change from method A to method B (or vice versa) from year to year. But each time you want to change you must tell your Tax Office within the time limit.

Method B will automatically cease if the rent you get drops below the exemption limit of £3,250 (or £1,625). You will then be automatically exempt from tax on this rental income unless you ask within the time limit for your actual profit or loss to be taken into account. If, in the following year, your gross receipts go up and you want to use method B again, you must tell your Tax Office within the time limit. Otherwise you are automatically taxable on the normal rental business basis (receipts less expenses).

Rent a Room and losses

Losses cannot be created under the Rent a Room scheme. So, if you are under the exemption limit or you are taxable under method B, any actual loss you make cannot be relieved unless you tell your Tax Office within the time limit that you do not want Rent a Room to apply.

Any losses outstanding from earlier years when your rents were not within the Rent a Room scheme are not wasted. They are dealt with as follows:

- suppose your gross receipts from letting in your own home in the current year are no more than £3,250 (or £1,625) and you therefore have no tax to pay on that income. Here the full amount of any losses from an earlier year can be brought forward and set against any other rental business profits of the current year. If there are no other rental business profits in the current year, the losses can go forward to be set against the first rental business profits of a later year. The losses are not reduced because Rent a Room exempts or reduces your tax bill for the year
- suppose your gross receipts from letting in your own home are more than £3,250 (or £1,625). Here the earlier losses can be set against your net rental profits in the normal way (however the taxable profits are calculated). That is, whether the income from letting in your own home is calculated under method A or B, and whether or not there is any other letting. For example, suppose you have no other lettings and you chose method B. Here your rental business profits will be the excess over £3,250 (or £1,625) and it is this excess amount that will absorb any losses. Any remaining losses will then be allowable against the taxable rental business profit of the following or later year, however calculated.

Interest and Rent a Room

Interest paid on a loan used to buy a property cannot be claimed as a deduction in your rental business if Rent a Room applies during a year. That is, if:

- your receipts from letting a room in your own home are below the exemption limit and you have not opted out of Rent a Room, **or**
- you elect for method B, where the tax is simply based on the excess of receipts over the exemption limit.

This is the same treatment as applies to any other expenses.

Relief under the MIRAS arrangements will not normally be affected unless you let more than one third of your home.

Rent a Room time limits

There are time limits within which you must tell your Tax Office if:

- you do not want to be exempt when your gross receipts are below the exemption limit of £3,250 (or £1,625), or
- you want method B to apply, or want it to stop applying.

The time limits are:

- just under 22 months from the end of the tax year for 1996-97 and later years, **and**
- 12 months from the end of the tax year for 1995-96 and earlier years.

— Extension of time limits for Rent a Room

The time limits for letting your Tax Office know what you want done are strictly applied. But we may extend the time limits in certain exceptional circumstances; for example, where you have been seriously ill for some time and it was impossible for you to deal with your tax affairs. The limits are unlikely to be extended if you leave everything to the last minute and then have a minor illness. If you have, for some good reason, missed a time limit, please explain the circumstances to your Tax Office.

FARMERS AND MARKET GARDENERS

This Help Sheet gives you information about special rules which can apply to farmers and market gardeners:

- farmers' averaging relief
- herd basis
- agricultural buildings allowance
- losses
- the treatment of compensation for compulsory slaughter
- some aspects of information from accounts in addition to those covered in *Help Sheet IR229: Information from your accounts*.

FARMERS' AVERAGING 1996-97 AND 1995-96

Provided certain conditions are met, a special relief is available to farmers and market gardeners under which they can claim to add together their profits from farming or market gardening for two years and be taxable on half the total for each of the two years. This helps to even out fluctuating results. (Farming includes the intensive rearing of livestock or fish on a commercial basis for the production of food for human consumption - Extra Statutory Concession A29.)

Who can claim?

Claims can be made by:

- sole traders
- partnerships which commenced for tax purposes before 6 April 1994 ('old' partnerships)
- partners in partnerships which commenced for tax purposes on or after 6 April 1994 ('new' partnerships) except people who joined or left the partnership in 1995-96 or 1996-97.

For guidance on whether your partnership is an 'old' or a 'new' partnership, see 'What are 'old' and 'new' partnerships?' on page PN2 of the Notes to the Partnership Pages.

You cannot claim if your business ceased in 1996-97 or if it commenced in 1996-97 or 1995-96. Nor can you claim in the unlikely event that you have already made a claim to average 1996-97 with 1997-98.

How to claim

— Sole traders

- If you commenced for tax purposes before 6 April 1994, claim in box 3.72 in the Self-employment Pages.
- If you commenced for tax purposes between 6 April 1994 and 5 April 1995, claim in box 3.79 in the Self-employment Pages.

— Old partnerships

Claim in box 3.72 in the Partnership Trading Pages.

— Partners in new partnerships

Claim in box 4.9 in your Partnership Pages. If you wish to claim averaging, you are entitled to do so even if your partners decide not to claim.

What are the conditions?

The difference between the profits for the two years must be at least 30% of the profits of the year with the better result. To help people where the results are not quite so different, relief is also available on a special tapering scale where the difference is between 30% (full relief available) and 25% (no relief). Below 25% claims may not be made.

If you claim averaging and calculate your tax, you must also calculate the increase or decrease in your Income Tax and Class 4 NIC for 1995-96. Make the alteration for 1995-96 by adjusting your 1996-97 tax. This table shows where you must enter the adjustments.

| | If the adjustment is an increase | If the adjustment is a decrease |
|------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| Sole traders | box 18.4 on page 7 of your Tax Return | box 18.5 on page 7 of your Tax Return |
| Old partnerships | You should have received a 1996-97 partnership assessment. This will be amended to the correct figures (including the adjustment for the 1995-96 tax) once the Inspector has the information to do so. Advise your Tax Office of the amount of the adjustment to be taken into account in the 1996-97 Partnership Assessment using the 'Additional information' box on the Partnership Pages. | |
| Partners in new partnerships | box 18.4 on page 7 of your Tax Return | box 18.5 on page 7 of your Tax Return |

What is meant by profit?

These notes cannot give detailed guidance on every situation. If you read these notes but cannot then calculate your profits for 1996-97 or 1995-96, ask your Tax Office or tax adviser for further help.

— Sole traders who commenced for tax purposes before 6 April 1994 and old partnerships
Profit means profit before capital allowances and balancing charges. Losses count as zero. For 1996-97 your profit is the figure in box 3.71 in the Self-employment Pages of your personal Tax Return (or box 3.71 of the Partnership Tax Return). If you have already claimed to average 1995-96 with 1994-95, then the profit for 1995-96 is the average profit assessed as a result of last year's claim.

— Sole traders who commenced for tax purposes after 5 April 1994 and before 6 April 1995
Profit means profits after capital allowances and balancing charges. Losses count as zero. For 1996-97 your profit is the figure in

box 3.75 on the Self-employment Pages, adjusted by any amounts in boxes 3.76, 3.77 and 3.78.

— Partners in new partnerships

Your profit for 1996-97 is the figure in box 4.7 of your Partnership Pages, adjusted by the figure (if any) in box 4.8.

Examples of averaging where profits differ by more than 30%

Example 1

John's results are as follows:

1996-97 profit £10,000

1995-96 profit £40,000

If averaging is claimed the profit for each year becomes:

$$\frac{(\pounds 10,000 + \pounds 40,000)}{2} = \pounds 25,000$$

This applies even if the £40,000 for 1995-96 was the result of an averaging claim for 1995-96 and 1994-95.

John's 1996-97 profit is increased by £15,000 and this increase must be entered in box 3.72 or 3.79 as appropriate.

Example 2

Ian's results are as follows:

1996-97 profit £32,000

1995-96 loss £20,000

The loss counts as zero when averaging is computed so the average result for each year is:

$$\frac{(\pounds 32,000 + 0)}{2} = \pounds 16,000$$

Ian's 1996-97 profit is decreased by £16,000 and this decrease must be entered in box 3.72 or 3.79 as appropriate.

What if the profits differ by between 30% and 25% of the profit for the year with the better result?

In that situation you can claim to have a special sum deducted from the profit for the higher year and added to the profit for the lower year. This sum is computed by multiplying the difference by 3 and subtracting 75% of the profit for the higher year.

Example where profits differ by between 30% and 25%

Example 3

Liz's results are as follows:

1996-97 profit £50,000

1995-96 profit £36,000

The difference is £14,000 which is between £15,000 (30% of the higher figure) and £12,500 (25% of the higher figure) so Liz can reduce the higher figure and increase the lower figure by:

$$(3 \times \pounds 14,000) - (75\% \times \pounds 50,000) = \pounds 4,500$$

The reduction of £4,500 to Liz's 1996-97 profit must be entered, in brackets, in box 3.72 or 3.79, as appropriate.

How final is a claim?

Making a claim does not commit you to averaging. If you change your mind, you can withdraw the claim within the time limit for amending your Tax Return.

What if my profits change?

Any averaging claim you have made in your Tax Return will lapse if your profits for either 1996-97 or 1995-96 change. Provided the time limit for amending your Tax Return has not expired, you can make a claim by amending your Tax Return, whether or not you originally made a claim.

Even if the time limit for amending your Tax Return has expired, you can still make a claim if you used averaging to compute your taxable profit before the profits changed. You cannot amend the Tax Return yourself but you should write to your Tax Office to ask for any necessary adjustments to be made. Do not delay writing because there is a time limit.

What about the change in the tax due for 1995-96?

A claim to averaging for 1996-97 and 1995-96 changes your income for 1995-96. If, as a result, you wish to change other claims to relief for 1995-96, you can do so when making the averaging claim. Whether or not you decide to change other claims for 1995-96, the tax due for that year will change because of the averaging claim.

If you claim averaging and you calculate your tax and Class 4 NIC, you must also calculate the increase or decrease in your tax for 1995-96 and enter the adjustment in your Tax Return. The table in column 2 on page 1 shows where to enter the adjustment.

STOCK VALUATION

Partners can ignore this section when completing the Partnership Pages.

Help Sheet IR232: Farm stock valuation explains the methods of farm stock valuation which are acceptable to the Inland Revenue. Ask the Orderline for a copy if you need one.

There is only space to enter a single figure for stock in box 3.96 of your personal or Partnership Tax Return. The example at the end of this Help Sheet includes a breakdown of this figure in the 'Additional information' space on Page SE4 between:

- livestock
- growing crops
- harvested crops
- deadstock and consumable stores.

Providing this information with your Tax Return may help avoid enquiries.

THE HERD BASIS

Partners can ignore this section when completing the Partnership Pages.

What is the herd basis?

The herd basis is a special method of calculating profits or losses which may be used by people who keep production livestock. If you use the herd basis you will need to keep records so that you can identify the figures to be used when applying the special rules.

As a normal rule, farm animals are dealt with as trading stock. However some farm animals - those which are kept by farmers not primarily for resale but for the sake of the products (for example, milk or eggs) or offspring (for example, lambs or piglets) which they produce - are in many ways more like capital assets of the farmer's business. Tax law recognises this by giving farmers the option of dealing with such 'production animals' under the herd basis. It provides a set of rules whereby a herd or flock of production animals is excluded from trading stock and treated, in most but not all circumstances, like a capital asset.

A farmer must elect for the herd basis; otherwise the animals are treated as trading stock. The election must specify the class of animals concerned and, once it has been made, the herd basis must be used for as long as the farmer continues to keep animals of that class. The election has to be made soon after the farmer first starts keeping animals of that class, and then the herd basis applies to those animals from the outset. There is a further opportunity to elect to use the herd basis if a herd or a substantial part of it (20% or more) is compulsorily slaughtered.

What is the effect of electing for the herd basis?

Where a herd basis election is in force, the treatment for the purpose of computing farming profits of the herd or herds covered by the election is governed by the special rules. Very briefly they are:

- the initial cost of the herd is not an allowable deduction, nor is the cost of any subsequent increase in herd size
- the net cost of replacing animals in the herd (but not any element of improvement) is an allowable deduction
- where the odd animal, or just a few animals (amounting to less than 20% of the herd), are sold from the herd and not replaced, the resulting profit or loss is taken into account in arriving at the farming profits. The profit or loss is the difference between the proceeds of sale of the animal and the cost of the original animal it replaced or its own cost if it was not a replacement
- where the whole herd, or a substantial part (20% or more) of the herd, is sold and not replaced, the resulting profit or loss is not taken into account.

Although the herd basis legislation refers only to animals and not to shares in animals, Extra Statutory Concession B37 provides that in practice the herd basis may be applied to a share in an animal in the same way as if the share were a whole animal. This enables the herd basis to be applied to share farming where herds are jointly owned.

There are further special rules for particular situations.

— Adjustments to be made in the Self-employment Pages of your personal Tax Return or the Partnership Tax Return

If you have made a herd basis election then you should include the herd in box 3.95 in your Balance Sheet Summary.

The example at the end of this Help Sheet includes in the 'Additional information' box a breakdown of the figures showing the number and cost of the animals. You may find it useful to provide that information there in order to clarify your figures. Similarly, the 'Additional information' box may be used to show how any herd basis adjustments in your accounts or in the tax adjustments on Page SE2 (or page 3 of the Partnership Tax Return) are calculated. Providing this information with your Tax Return may help avoid enquiries.

To get to the taxable profit, special adjustments may be needed to the profits shown by the accounts. This will depend upon the way the herd is accounted for. You should deal with these adjustments by making entries in boxes 3.17 to 3.32 to remove profits or losses which have been included but which are not taxable, and/or expenses which have been included but which are not allowable. If a sum which is not taxable has been included in your business turnover in box 3.16, then the adjustment should be made in box 3.56.

For example:

- an animal dies and is replaced by a better animal costing £200 more than a replacement of the same quality as the one that died. Because of the way the accounts are prepared, the cost of the replacement is included in box 3.33. The £200 which is not allowable should be included in box 3.17
- a substantial part of a herd is sold and the profit of £10,000 is included in box 3.49. It is not taxable so it should be adjusted by a negative entry in box 3.31. If the profit had been included in business turnover at box 3.16 then the adjustment would be in box 3.56
- the following year the herd in the previous example is replaced. The cost of the replacements is included in box 3.33. The proceeds of sale of the herd sold the previous year now becomes taxable and must be added to the profit. Make the adjustment in box 3.54 and put a note in the 'Additional information' box to explain the adjustment

- a home bred dairy cow is added to a herd. The cost of breeding it is included in the various expenses in the accounts. The farmer's records are not adequate to calculate the cost accurately. The cost is estimated at 60% of market value (see *Help Sheet IR232: Farm stock valuation*). If the sum to be disallowed has been included in sales, then no further adjustment is required. Otherwise the sum to be disallowed should be included in box 3.19.

If an adjustment is needed but you are not sure where to put it, please include it where you think best and use the 'Additional information' box to say what you have done.

If you would like further information about the herd basis, ask your Tax Office or tax adviser.

LOSSES

If you made a loss then special rules may prevent you from claiming it against your other income. Please refer to *Help Sheet IR227: Losses before making a claim*. If these rules apply to prevent you claiming loss relief and you are an owner-occupier, you may still be able to claim some relief under Extra Statutory Concession B5. For further information, ask your Tax Office or tax adviser.

COMPULSORY SLAUGHTER

Compensation for compulsory slaughter is normally treated as sale proceeds whether or not the animal concerned is part of a production herd accounted for on the herd basis. Where the animals slaughtered are not on the herd basis and could not be (even with the fresh opportunity to elect for herd basis following compulsory slaughter of more than 20% of a herd) you can use Extra Statutory Concession B11 to remove the profit arising from the year of slaughter and bring it in in equal instalments over the next three years. Use box 3.56 to show profits removed and box 3.54 to show profits brought back in and put an explanation in the 'Additional information' box.

The way in which ESC B11 operates is complicated for 1996-97 because of the special rules for the transition to self assessment.

For further help, ask your Tax Office or tax adviser.

BSE

The special tax treatment for compensation for compulsory slaughter referred to in the previous paragraph applies to compensation paid under:

- the BSE Suspects Schemes
- the BSE Selective Cull where the animal slaughtered was born on or after 15 October 1990.

The special tax treatment for compensation for compulsory slaughter does not apply to sums paid under:

- the Calf Processing Scheme
- the Over Thirty Month Scheme
- the BSE Selective Cull where the animal slaughtered was born before 15 October 1990.

Payments under these schemes should be dealt with in the same way as if the compensation was received from the ordinary commercial sale of the animal(s) concerned.

STANDARD ACCOUNTS INFORMATION

General guidance on the completion of Pages SE2 and SE4 of the Self-employment Pages (or pages 3 and 5 of the Partnership Tax Return) is contained in the Notes to those Pages. *Help Sheet IR229: Information from your accounts*, gives further advice on transferring figures from accounts to the Tax Return and includes two examples of a general nature.

The accounts produced for farming businesses have traditionally included more detail than those for other businesses of a comparable size. Examples on pages 5 to 8 show how the figures from one such set of accounts could be used to complete the standard accounts information sections of the Self-employment Pages or Partnership Tax Return.

The accounts are intended to be broadly realistic, but figures are illustrative only. They do not necessarily reflect the Inland Revenue's views on what may or may not be acceptable in any particular case.

For most businesses the information on the Self-employment Pages or Partnership Tax Return, together with any entries in the 'Additional information' box considered necessary, will enable a full and fair picture of your business to be presented.

In some larger or more complex businesses, this may not, on its own, provide an adequate means of disclosure. The submission of further information including, where necessary, accounts and supporting calculations should be considered where:

- a large farming business has a substantial turnover
- the farming business is complex (perhaps because it is highly specialised or diversified)
- accounts and/or a note of the calculations are required for a proper understanding of the figures.

The standard accounts information sections of the Tax Return should also be completed as usual unless you are a partnership with a turnover of £15 million or more in which case you should only complete boxes 3.16 and 3.57.

AGRICULTURAL BUILDINGS

You can claim agricultural buildings allowance for the cost of constructing farm buildings, barns, cottages, farm houses and similar works. You cannot claim for the cost of the land on which the building stands. The allowance is given at the yearly rate of 4% of the construction cost, so the construction expenditure is written off over 25 years.

Example 4

A barn costs £50,000 to construct during the year ended 5.4.97. The agricultural buildings allowances is £2,000 for each of the years ended 5.4.97 to 5.4.22.

If your accounts are for more or less than a year, the 4% rate is adjusted.

Example 5

You spent £10,000 on a cowshed in 1988. The allowances are due at £400 a year. You draw up accounts for nine months from 1.4.96 to 31.12.96. You can claim agricultural buildings allowance in this account of £300 (£400 × ¾).

Some buildings do not qualify in full for agricultural buildings allowance. If a building is a farmhouse, the maximum expenditure qualifying for agricultural buildings allowance is one-third of the construction expenditure. If the accommodation and the amenities of the farmhouse are out of due proportion to the nature and extent of the farm, the expenditure which qualifies is less than one-third.

Example 6

You construct a farmhouse at a cost of £150,000. The maximum expenditure qualifying for agricultural buildings allowance is £50,000 (⅓ × £150,000).

If a building which is not a farmhouse is used partly for non-agricultural purposes, only part of the expenditure qualifies for agricultural buildings allowance.

Example 7

You construct a barn for £60,000. This has three sections of which you use two for your farm and one for private storage. The expenditure qualifying for agricultural buildings allowance is £40,000 (⅔ × £60,000) and the allowances due are £1,600 (4% of £40,000) each year for 25 years.

The allowance for each agricultural building is calculated separately.

There are special rules if you sell an agricultural building or if you buy an agricultural building on which somebody else has been claiming allowances. Your tax adviser will be able to give you advice about these.

Example 8

Trading and Profit & Loss Account for the y/e 31 March 1999

| | | | |
|------------------------------|---------------|----------------|----------|
| Sales of livestock | £14,800 | | |
| Transfers to herd (Note 1) | <u>1,200</u> | 16,000 | Box 3.16 |
| Sales of produce: | | | |
| • crops and subsidies | 42,163 | | |
| • milk | 68,337 | | |
| • straw | <u>50</u> | 110,550 | Box 3.16 |
| Miscellaneous receipts | 650 | | Note 2 |
| Sheep grazing | <u>950</u> | <u>1,600</u> | Box 3.37 |
| | | 128,150 | |
| Opening valuation | 42,500 | | |
| Feeds, seeds & fertilisers | <u>42,800</u> | | |
| | 85,300 | | |
| Closing valuation | <u>44,200</u> | <u>41,100</u> | Box 3.33 |
| GROSS PROFIT | | 87,050 | Note 3 |
| Rent (Note 4) | 2,350 | | Box 3.39 |
| Rates and water (Note 4) | 1,700 | | Box 3.39 |
| Wages | 14,125 | | Box 3.38 |
| Insurance | 1,205 | | Note 5 |
| Equipment and vehicle exp. | 15,923 | | Note 6 |
| Light & Heat (Note 7) | 3,779 | | Box 3.39 |
| Telephone (Note 7) | 759 | | Box 3.41 |
| Contracting and plant hire | 1,991 | | Note 8 |
| Lease of milk quota | 4,620 | | Box 3.35 |
| Haulage | 365 | | Box 3.35 |
| Veterinary expenses (Note 9) | 1,215 | | Box 3.45 |
| Bank charges | 2,273 | | Note 10 |
| Hire purchase interest | 1,274 | | Box 3.48 |
| Silage wrapping | 1,592 | | Box 3.35 |
| Accountancy | 923 | | Box 3.45 |
| Valuation charges | 175 | | Box 3.45 |
| Miscellaneous expenses | 1,297 | | Box 3.50 |
| Depreciation | <u>6,292</u> | | Box 3.49 |
| | | <u>61,858</u> | |
| NET PROFIT | | <u>£25,192</u> | |

Balance Sheet at 31 March 1999

| | | |
|----------------------------|----------------|-----------|
| <u>Fixed assets</u> | | |
| Land | 200,269 | Box 3.95 |
| Buildings | 125,694 | Box 3.95 |
| Machinery | 32,578 | Box 3.94 |
| Milk quota | 9,520 | Box 3.95 |
| Dairy herd (herd basis) | <u>17,700</u> | Box 3.95 |
| | 385,761 | |
| <u>Current assets</u> | | |
| Valuation | | Note 11 |
| growing crops | 12,200 | |
| livestock | 14,750 | |
| produce | 14,050 | |
| deadstock | <u>3,200</u> | |
| | 44,200 | Box 3.96 |
| Debtors and prepayments | <u>14,770</u> | Box 3.97 |
| | 58,970 | |
| <u>Current liabilities</u> | | |
| Creditors | 16,021 | Box 3.101 |
| Overdraft | 11,565 | Box 3.102 |
| HP account | <u>25,641</u> | Box 3.103 |
| | <u>53,227</u> | Box 3.104 |
| <u>Net current assets</u> | <u>5,743</u> | |
| <u>Net assets</u> | <u>391,504</u> | Box 3.105 |
| Represented by: | | |
| • Capital Account | | |
| • Balance at 1/4/98 | 384,623 | Box 3.106 |
| • Net profit | <u>25,192</u> | Box 3.107 |
| | 409,815 | |
| • Less drawings | <u>18,311</u> | Box 3.109 |
| | <u>391,504</u> | Box 3.110 |

Note 1

Herd basis adjustment to exclude the cost of home-bred additions to the herd. Following the suggestions in this Help Sheet, the herd basis reconciliation is included in the 'Additional information' box.

Note 2

Miscellaneous receipts comprise haulage (£401) and wayleaves (£249). Haulage has been included as an item of business income in box 3.16. The wayleaves are shown in the accounts net of tax deducted by the payer. These are entered in box 3.37. The wayleave income is deducted at box 3.56 and the gross amount, together with tax, will need to be included in the Land and Property Pages.

Note 3

In this example, the figure of gross profit in the accounts will be different from the figure in box 3.36 because some expenditure has been included as direct costs of the business.

Note 4

The private proportions of rent and of rates and water are respectively £475 and £200. These amounts need to be disallowed in arriving at the profit for tax purposes and are included in box 3.21.

Note 5

There are several figures making up the overall insurance expense. £210 relates to motor vehicles partly used for private purposes. This amount is included in the entry in box 3.42 (see Note 6 below). There is a choice as far as the balance is concerned. That part relating to the premises and property could be included in the entry in box 3.39; but it would also be reasonable to enter the full amount of the balance in box 3.41 on a consistent basis from year to year. The latter approach is adopted here.

Note 6

The equipment and vehicle expenditure comprises the following: tractor/combine repairs, £6,351, tractor/combine diesel, £5,102 and motor car expenses, £4,470. This latter figure, together with the motor insurance costs, is entered in box 3.42. Of the total motoring costs of £4,680 (£4,470 + £210) 30% are for private use and are disallowed by entering the private proportion, £1,404, in box 3.24. The tractor/combine expenditure has been treated as a direct cost of production and included in the entry in box 3.35, although it would be equally acceptable to separate the repairs expenditure and enter it in box 3.40.

Note 7

The private proportions of light and heat and of telephone are respectively £650 and £150. To arrive at the profit for tax purposes, these amounts have to be disallowed and are included in the entries for boxes 3.21 and 3.23 respectively.

Note 8

Contracting and plant hire comprises costs of a ditching contractor £1,767 and plant hire, £224. The expenditure all relates to maintenance of the farm and has been entered in box 3.40. Had the contracting been in respect of contract milkers or contract harvesters, for example, it would have been entered in box 3.35 as a direct cost of production.

Note 9

Veterinary expenses includes £177 for treatment to a privately owned pony. This has been disallowed by including the amount in the entry in box 3.27. All associated expenses of upkeep of the pony have been met privately or charged to drawings.

Note 10

Bank charges includes £701 interest charges which is entered separately in box 3.47.

Note 11

Details of the valuation at the year end are included in the 'Additional information' box to help clarify the figure shown in box 3.96. It is not necessary for a professional valuation to be obtained but the likely reliability of the valuation will be one of the factors the Inland Revenue will consider in deciding whether to open an enquiry.

Income and expenses - annual turnover £15,000 or more

You must fill in this Page if your annual turnover is £15,000 or more - read the Notes, page SEN2

If you were registered for VAT, do the figures in boxes 3.16 to 3.51, include VAT? **3.14** or exclude VAT? **3.15**

| | Disallowable expenses included in boxes 3.33 to 3.50 | Total expenses | Sales/business income (turnover) |
|---------------------------------------------|--------------------------------------------------------------|-----------------------------------------------|--------------------------------------------------------|
| • Cost of sales | 3.17 £ | 3.33 £ 41,100 | 3.16 £ 126,951 |
| • Construction industry subcontractor costs | 3.18 £ | 3.34 £ | |
| • Other direct costs | 3.19 £ | 3.35 £ 18,030 | |
| | | | box 3.16 minus (box 3.33 + box 3.34 + box 3.35) |
| | | | 3.36 £ 67,821 |
| | | | Other income/profits 3.37 £ 1,199 |
| • Employee costs | 3.20 £ | 3.38 £ 14,125 | |
| • Premises costs | 3.21 £ 1,325 | 3.39 £ 7,829 | |
| • Repairs | 3.22 £ | 3.40 £ 1,991 | |
| • General administrative expenses | 3.23 £ 150 | 3.41 £ 1,754 | |
| • Motor expenses | 3.24 £ 1,404 | 3.42 £ 4,680 | |
| • Travel and subsistence | 3.25 £ | 3.43 £ | |
| • Advertising, promotion and entertainment | 3.26 £ | 3.44 £ | |
| • Legal and professional costs | 3.27 £ 177 | 3.45 £ 2,313 | |
| • Bad debts | 3.28 £ | 3.46 £ | |
| • Interest | 3.29 £ | 3.47 £ 701 | |
| • Other finance charges | 3.30 £ | 3.48 £ 2,846 | |
| • Depreciation and loss/(profit) on sale | 3.31 £ 6,292 | 3.49 £ 6,292 | |
| • Other expenses | 3.32 £ | 3.50 £ 1,297 | |
| | Put the total of boxes 3.17 to 3.32 in box 3.53 below | Total expenses 3.51 £ 43,828 | total of boxes 3.38 to 3.50 |
| | | | boxes 3.36 + 3.37 minus box 3.51 |
| | | Net profit/(loss) 3.52 £ 25,192 | |

Includes £1,200 herd basis adjustment (Note 1).

Cost of sales comprises the feeds, seeds and fertilizers used in the year.

Sheep grazing and wayleaves.

Other direct costs includes:
Tractor/combine running costs 11,453
Lease of milk quota 4,620
Silage wrapping 1,592
Haulage 365

Expenditure which is not allowable for tax purposes is entered in the appropriate box in the left hand column. The total is entered in box 3.53 and added to the net profit in box 3.52 to arrive at the taxable profit for the business.

Tax adjustments to net profit or loss

| | | |
|--------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------------------------------------|
| • Disallowable expenses | total of boxes 3.17 to 3.32 | 3.53 £ 9,348 |
| • Goods etc. taken for personal use and other adjustments (apart from disallowable expenses) that increase profits | | 3.54 £ |
| Total additions to net profit (deduct from net loss) | | box 3.53 + box 3.54 |
| | | 3.55 £ 9,348 |
| • Deductions from net profit (add to net loss) | | 3.56 £ 249 |
| Net business profit for tax purposes (put figure in brackets if a loss) | | boxes 3.52 + 3.55 minus box 3.56 |
| | | 3.57 £ 34,291 |

The wayleaves in box 3.37 are deducted from taxable profits at box 3.56 and will be included elsewhere in the Tax Return. See Note 2.

Extract from Page SE4 of the Self-employment Pages

The dairy herd is dealt with on the herd basis and therefore included with other fixed assets in box 3.95.

Summary of balance sheet

Leave these boxes blank if you do not have a balance sheet

| | | | | | |
|----------|-------------------------------------------------------------|------|---|------------------------------------|------------------------|
| ■ Assets | ● Plant, machinery and motor vehicles | 3.94 | £ | 32,578 | |
| | ● Other fixed assets (premises, goodwill, investments etc.) | 3.95 | £ | 353,183 | |
| | ● Stock and work in progress | 3.96 | £ | 44,200 | |
| | ● Debtors/prepayments/other current assets | 3.97 | £ | 14,770 | |
| | ● Bank/building society balances | 3.98 | £ | | |
| | ● Cash in hand | 3.99 | £ | | |
| | | | | total of boxes 3.94 to 3.99 | 3.100 £ 444,731 |

| | | | | | |
|---------------|-------------------------------------|-------|---|--------------------------------------|-----------------------|
| ■ Liabilities | ● Trade creditors/accruals | 3.101 | £ | 16,021 | |
| | ● Loans and overdrawn bank accounts | 3.102 | £ | 11,565 | |
| | ● Other liabilities | 3.103 | £ | 25,641 | |
| | | | | total of boxes 3.101 to 3.103 | 3.104 £ 53,227 |

| | | | | | |
|----------------------------------------------------------------------------------------|--|--|--|---------------------------------------------|------------------------|
| ● Net business assets (put the figure in brackets if you had net business liabilities) | | | | total of boxes 3.100 minus box 3.104 | 3.105 £ 391,504 |
|----------------------------------------------------------------------------------------|--|--|--|---------------------------------------------|------------------------|

■ Net business assets represented by

Capital Account

| | | | | | |
|-------------------------------|-------|---|---------|------------------------------------------------------|------------------------|
| ● Balance at start of period* | 3.106 | £ | 384,623 | | |
| ● Net profit/(loss)* | 3.107 | £ | 25,192 | | |
| ● Capital introduced | 3.108 | £ | | | |
| ● Drawings | 3.109 | £ | 18,311 | | |
| | | | | total of boxes 3.106 to 3.108 minus box 3.109 | 3.110 £ 391,504 |
| ● Balance at end of period* | | | | | |

* If the Capital Account is overdrawn, or the business made a net loss, show the figure in brackets.

| | | | | | |
|-----------------------------------------------------------------|---------|-------------------------------------------------------|-----------|---------|--------|
| Additional information | | 2. Herd Basis reconciliation | | | |
| 1. Details of the professional valuation in box 3.96 are | | | | | |
| Growing crops | 12,200 | Opening herd | 20 @ £200 | 4,000 | |
| Livestock (not herd basis) | 14,750 | | 25 @ £500 | 12,500 | 16,500 |
| Produce | 14,050 | Additions | 2 @ £600 | | 1,200 |
| Deadstock | 3,200 | | @ 31/3/99 | £17,700 | |
| | £44,200 | Additions adjusted in box 3.16 to exclude cost £1,200 | | | |

Now fill in any other supplementary Pages that apply to you. Otherwise, go back to Page 2 of your Tax Return and finish filling it in.

An analysis of the valuation is included in the additional information section to help clarify the figure in box 3.96 (Note 11).

Details of the herd reconciliation are included in the additional information section.

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

LOSSES

This Help Sheet tells you what you can do if:

- **you have made losses 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

The box numbers mentioned below refer to boxes in the Self-employment Pages of your Tax Return.

You can claim tax relief for your losses by filling in boxes 3.82 to 3.86 in your Self-employment Pages. You do not have to make your claims immediately; if you prefer, you may wait and claim them later. But remember to make your claims within the time limits shown below. Late claims cannot normally be accepted.

The different ways you can claim tax relief for your losses are:

- as a deduction from your income for this year (boxes 3.82 or 3.86 in the Self-employment Pages)
- as a deduction from your capital gains for this year (box 8.5 in the Capital Gains Pages)
- as a deduction from your income or capital gains for earlier years (box 3.83 in the Self-employment Pages).
- by reducing your business profits taxed in earlier years (box 3.86) following cessation (ask for *Help Sheet IR228: Cessation*)
- by carry forward against future profits from your business (box 3.84 in the Self-employment Pages).

You cannot claim only part of the loss. 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 do not need to wait to claim relief for losses until you are ready to send in your completed Tax Return. And if your business incurs losses in future you can claim as soon as you know how big the loss is, normally when the accounts have been prepared.

This may mean that you claim relief even before you have been sent a Tax Return. If you want to claim relief before your Tax Return has been sent, write a letter telling us the name of your business, how much the loss is and for what period, and say what year you wish relief to be given.

There are different rules depending upon whether your business was set up and commenced on or after 6 April 1994 or before that date.

— 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 4.12 to 4.16 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 boxes referred to on this Help Sheet are those shown on the Self-employment Pages. The equivalent boxes on the Partnership Pages in your Tax Return are as follows:

Box 3.82 is equivalent to box 4.12

Box 3.83 is equivalent to box 4.13

Box 3.84 is equivalent to box 4.14

Box 3.85 is equivalent to box 4.15

Box 3.86 is equivalent to box 4.16

BUSINESSES SET UP AND COMMENCED PRIOR TO 6 APRIL 1994

When you calculated your taxable profits for 1996-97 it may have involved a calculation for two separate periods: one ending in 1995-96 and one ending in 1996-97. For example:

- the period of 12 months to your accounting date in 1996-97
- a 'relevant period' of the 12 months to your accounting date in 1995-96.

If the result of either period is a loss then you can claim tax relief by carry forward against future profits (**see section overleaf**). Alternatively you may be able to claim relief in one of the other ways described above. If you wish to claim relief other than by carrying forward the losses of either period against future profits you must contact your professional adviser or your Tax Office who will advise you about how much of your loss you can claim under the different options.

There are time limits for all of these claims. If you wish to claim loss relief, you should contact your Tax Office or tax adviser in good time. The earliest of these limits expires on 5 April 1998; this is if you want to set a loss for 1995-96 against other income or gains of that year. Late claims will not normally be accepted.

Carry forward the losses against future profits

Help Sheet IR230: Transitional rules for old businesses will help you work out any losses available to be carried forward and set against future profits. Such losses will then be deducted from your profits in the first and each subsequent profitable year until they are used up.

BUSINESSES SET UP AND COMMENCED ON OR AFTER 6 APRIL 1994

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

Deduction from income or gains for 1996-97

You can claim relief for the loss as a deduction from your income for 1996-97. If the allowable loss is more than your income, you can claim the balance of the loss as a deduction from your capital gains for 1996-97.

The loss you claim in box 3.82 will normally be the whole of the loss. But your total income less deductions cannot be reduced below zero. So, the figure you put in box 3.82 should be no higher than your total income less deductions.

If you wish to claim the balance of the loss against your capital gains for 1996-97, enter in box 8.5 on the Capital Gains Pages the balance of your loss or, if this is more than your total gains for 1996-97, enough of the loss to reduce the gains to zero. 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 1999**.

Deduction from income or gains for earlier years

You can claim relief for the loss as a deduction from your income for an earlier year. There are two ways of doing this:

- the deduction may be claimed against your 1995-96 income. If the allowable loss is more than your 1995-96 income, you can if you wish claim the balance of the loss as a deduction from your capital gains for 1995-96
- the deduction may be claimed against income (but not capital gains) of the three years 1993-94 to 1995-96. The loss is firstly deducted from your 1993-94 income. If there is a balance of the loss, this is deducted from your 1994-95 income. Finally, any remainder is deducted from your 1995-96 income.

The time limit for claims is **31 January 1999**.

You do not need to wait to claim relief for losses until you are ready to send your completed Tax Return. And if your business incurs losses in future you can claim as soon as you know how big the loss is, normally when the accounts have been prepared.

This may mean that you claim relief even before you have been sent your Tax Return. If you wish to claim relief before your Tax Return has been sent to you then write a letter telling us how much the loss is and for what period and which year you wish relief to be given. If you claim relief in this way, you must remember to include the amount of relief claimed in box 3.83 in the Self-employment Pages.

If you want to claim relief in your Tax Return, enter the total to be carried back in box 3.83, and provide details of the amount carried back to 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. The first entry will normally be the whole of your allowable loss for 1996-97 (box 3.81). But if your total income for this year is less than the loss, it will be the amount of your income. You may then complete the second line in the same way, and so on.

Deduction from income and gains: restrictions

You should only claim relief for your loss as a deduction against your income or capital gains of 1996-97 or an earlier year 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 in each of the previous five tax years. If your business is carried on wholly overseas, you can only claim your losses as a deduction from your income or capital gains which come from abroad. Your tax adviser or Tax Office will tell you what to do.

Carry forward against future profits

You can carry your loss forward to set against future profits from the same business. It will then be deducted 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 2003**.

Enter in box 3.84 the amount of your 1996-97 loss which you wish to claim in this way. Enter in box 3.85 the amount of any losses you sustained in 1995-96 and earlier years which you have not yet used, and include in box 3.86 losses used against 1996-97 profits.

REDUCTION OF BUSINESS PROFITS TAXED IN EARLIER YEARS

If your business ceased in 1996-97, you can set the loss of your final 12 months of trading against any profits from the same business which were taxed in 1993-94, 1994-95, 1995-96 or 1996-97. *Help Sheet IR228: Cessation* explains this.

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 1996-97 (from box 3.81) | A £ <input type="text"/> |
| Loss relief claimed against other taxable income or capital gains for: | |
| 1996-97 | B £ <input type="text"/> |
| 1995-96 | C £ <input type="text"/> |
| 1994-95 | D £ <input type="text"/> |
| 1993-94 | E £ <input type="text"/> |
| Total losses claimed in this way | F total boxes B to E £ <input type="text"/> |
| Balance of allowable loss for 1996-97 | G box A minus box F £ <input type="text"/> |
| Loss brought forward from last year | H £ <input type="text"/> |
| Loss allowed this year (box 3.86) | I £ <input type="text"/> |
| Not yet allowed | J box H minus box I £ <input type="text"/> |
| Loss carried forward to next year | K box G + box J £ <input type="text"/> |