



BUSINESS & PERSONAL TAX SUPPORT

# Best use of tax losses

Options for 2023-24



**Grant Considine Chartered Accountants**

46 High Street, Banchory, AB31 5SR

**T:** 01330 823333 **E:** [info@grantconsidine.com](mailto:info@grantconsidine.com)

**If you have suffered losses, you may be able to claim tax relief for those losses, and possibly generate a tax repayment in the process. The options for relieving losses will depend on whether you operate your business as an unincorporated business, or whether you operate through a limited company. You will also need to consider where you are in your company's lifecycle. If you are an unincorporated business, the available options will further depend on whether you use cash basis accounting.**

When looking to optimise the relief for a loss, as a general rule you should try to obtain relief for the loss as early as possible and at the highest possible rate. You may need to choose which of these takes priority.

## Unincorporated businesses

---

If you run an unincorporated business as a sole trader or a partner in a partnership, there are various ways in which you can obtain tax relief for a trading loss.

### ***Option 1 – against general income of current and/or previous year***

If you prepare your accounts using the accruals basis and realise a trading loss, you can claim relief against your total income of the year of the loss and/or the previous tax year. This is useful if you have other income. The claim can also be extended to capital gains in certain circumstances.

Where the loss is carried back and set against income of a previous year, this may trigger a repayment of tax already paid.

If, however, you prepare accounts using the cash basis, sideways loss relief (against other income) is not available, nor is relief against capital gains.

Claims cannot be tailored to preserve your personal allowance – the loss must be set in full against the income of the year for which relief is claimed. This may result in your personal allowance being fully or partially lost.

### ***Option 2 – extended carry-back for 2020/21 and 2021/22 losses***

A temporary measure allowed losses for 2020/21 and 2021/22 to be carried back and set against your trading profits for the previous three years regardless of whether you prepare accounts under the accrual's basis or the cash basis.

The deadline for claiming relief for a 2020/21 loss under this provision was 31 January 2023 and has now passed. However, a claim to carry-back a 2021/22 loss under these rules can be made until 31 January 2024. You can carry back a loss for 2021/22 which has not been fully utilised under option 1 above, against trading profits of 2019/20 and 2018/19. Where a claim has been made under option 1 above for any year, this takes precedence.

If, however, you use the cash basis to prepare your accounts, a claim is not permitted under option 1 and you can make use of the extended carry back rules to carry a trading loss back and set against trading profits from the previous three years, setting the loss against profits of a later year before an earlier year. The claim cannot be tailored to preserve personal allowances. Where a loss is made for 2021/22, this can be set against any trading profits for 2020/21, 2019/20 and 2018/19.

Losses you can carry back under these rules are capped at £2 million a year.

Carrying the loss back may generate a welcome tax repayment.

### ***Option 3 – carry forward against future trading profits***

Where you cannot relieve the loss under options 1 and 2 above (or option 4 below), you can carry the loss forward and set it against future profits of the same trade. You may prefer this option if carrying

---

We have used reasonable care and skill in assembling the information in this update. However, the information presented cannot be tailored to personal circumstances or particular situations. There may also be factors relevant to you which fall outside the scope of this publication. Accordingly, the material presented does not constitute personal or business advice. You should not rely solely on this update to make (or refrain from making) any decision or take (or refrain from taking) any action.

---

the loss back would result in the loss of your personal allowance.

Apart from the extended carry back rules (outlined in option 2 and applying only to losses for 2020/21 and 2021/22), if you use the cash basis and make a loss, you can only carry this loss forward against future profits of the same trade (unless the loss is a terminal loss: see option 5).

#### **Option 4 – loss in the early years**

If your business is new and you make a loss in the year in which start your trade or any of the following three years, you can set the loss of your net income of the three previous tax years, using the losses of the earliest year first. However, this option is not available if you prepare your accounts using the cash basis.

#### **Option 5 – terminal loss**

If you stop trading and you make a loss in the final 12 months of your trade, you can carry the loss back against the profits of the same trade for the period of the loss and the previous three tax years. This option is available regardless of whether you prepare your accounts using the accruals basis or the cash basis.

#### **Losses cap**

If you prepare your accounts under the accrual's basis, any losses that you relieve under options 1 (excluding any extension to capital gains) and 3 are subject to a cap of £50,000 or 25% of your net income if higher.

If you make a claim under the extended carry back rules, which are available for 2020/21 and 2021/22 losses (as outlined in option 3), the loss that can be relieved for each year under these rules is capped at £2 million.

## **Companies**

---

If you run your business as a limited company, there are various options available for relieving the loss.

Carrying a loss back may generate a much-needed tax repayment.

#### **Option 1 – against total profits of the same accounting period**

You can relieve a trading loss in an accounting period against total profits, including chargeable gains, of the same accounting period. If you have made a trading loss but also realised chargeable gains in the same period, you can relieve the loss against those gains.

#### **Option 2 – against profits of a preceding period**

If you are unable to fully relieve a loss under option 1 above, you can carry the loss back against profits of the previous accounting period. This will generate a useful tax repayment and will often be preferable where this is an option rather than carrying the loss forward.

#### **Option 3 – extended carry back**

Companies that incurred losses in accounting periods ending between 1 April 2020 and 31 March 2022 could benefit from an extended carry back period. Under these rules you can carry the loss back (to the extent it cannot be relieved under option 1) against the profits of the same trade for the preceding three accounting periods. The loss is set against profits of a later year before an earlier year. Losses for an accounting period which can be carried back under these rules are capped at £2 million.

Claims to carry back losses under these rules for an accounting period ending between 1 April 2020 and 31 March 2021 had to be made by 31 March 2023. However, the relief can still be claimed in respect of losses for accounting periods ending between 1 April 2021 and 31 March 2022 as long as the claim is made by 31 March 2024.

---

We have used reasonable care and skill in assembling the information in this update. However, the information presented cannot be tailored to personal circumstances or particular situations. There may also be factors relevant to you which fall outside the scope of this publication. Accordingly, the material presented does not constitute personal or business advice. You should not rely solely on this update to make (or refrain from making) any decision or take (or refrain from taking) any action.

---

#### ***Option 4 – carry forward against future profits***

Losses can be carried forward and set against trading profits of the same trade. While the above options will normally be used in preference to carrying a loss forward, where your company is a standalone company and your profits are in excess of £50,000, the rate at which you pay corporation tax will increase from 1 April 2023. Consequently, carrying the loss forward may provide relief at a higher rate, albeit later.

#### ***We can help***

---

We can help you formulate a tax-efficient strategy for claiming loss relief in the most effective way.

---

We have used reasonable care and skill in assembling the information in this update. However, the information presented cannot be tailored to personal circumstances or particular situations. There may also be factors relevant to you which fall outside the scope of this publication. Accordingly, the material presented does not constitute personal or business advice. You should not rely solely on this update to make (or refrain from making) any decision or take (or refrain from taking) any action.

---