



BUSINESS & PERSONAL TAX SUPPORT

# Best use of tax losses

Options for 2024-25

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 – carry forward against future trading profits***

Where you cannot relieve the loss under options 1 (or option 3 below), you can carry the loss forward and set it against future profits of the same trade. You may prefer this option if carrying the loss back would result in the loss of your personal allowance.

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 4).

### ***Option 3 – 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 4 – 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) are subject to a cap of £50,000 or 25% of your net income if higher.

## Companies

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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 – 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 carry 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

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

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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.

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