

SCHEDULES

SCHEDULE 15

Section 102

ACCOUNTANCY CHANGE: SPREADING OF ADJUSTMENT

PART 1

INCOME TAX

Application of this Part of this Schedule

- 1 (1) This Part of this Schedule applies where—
 - (a) there is a change of accounting approach from one period of account to the next in calculating the profits of a business for income tax purposes,
 - (b) the later period of account ends on or after 22nd June 2005 and the basis on which the profits for that period are calculated is in accordance with UK GAAP (including SSAP 9 and Application Note G as interpreted by UITF 40), and
 - (c) the earlier period of account ended before that date and the basis on which profits for that period were calculated was in accordance with UK GAAP (including SSAP 9 and Application Note G, but not as interpreted by UITF 40),and has effect in relation to any adjustment income under Chapter 17 of Part 2 of ITTOIA 2005 attributable to the change of basis from that mentioned in paragraph (c) to that mentioned in paragraph (b).
- (2) In relation to a period for which accounts are drawn up in accordance with international accounting standards, the references in sub-paragraph (1) to requirements of UK GAAP shall be read as references to the corresponding requirements of international accounting standards.
- (3) In sub-paragraph (1)—
 - “SSAP 9” means Statement of Standard Accounting Practice No.9 on Long-term contracts, issued by the Accounting Standards Board;
 - “Application Note G” means Application Note G to Financial Reporting Standard 5 issued by the Accounting Standards Board in November 2003;
 - “UITF 40” means Abstract No.40 on Revenue recognition and service contracts, issued by the Urgent Issues Task Force of the Accounting Standards Board on 10th March 2005.
- (4) Any reference in this Part of this Schedule to the date on which the change of accounting approach was adopted is to the first day of the first period of account for which it was adopted.

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- (5) To determine the amount of adjustment income attributable to the change of basis mentioned in the closing words of sub-paragraph (1), assume that there was no other change of accounting approach.

Spreading of adjustment income

- 2 (1) The adjustment income shall be spread in accordance with the following rules.
- (2) In each of the first three tax years beginning with that in which the whole amount of the adjustment income would otherwise be chargeable to tax, an amount equal to whichever is the less of—
- (a) one-third of the original amount of the adjustment income, and
 - (b) one-sixth of the profits of the business for that tax year,
- is treated as arising and charged to tax.
- (3) In the fourth and fifth tax years, if the whole of the adjustment income has not been charged to tax in previous tax years, an amount equal to whichever is the least of—
- (a) the amount remaining untaxed,
 - (b) one-third of the original amount of the adjustment income, and
 - (c) one-sixth of the profits of the business for that tax year,
- is treated as arising and charged to tax.
- (4) In the sixth tax year so much (if any) of the adjustment income as has not previously been charged to tax is treated as arising and is charged to tax.
- (5) For the purposes of this paragraph “the profits of the business” means the profits of the business as calculated for income tax purposes leaving out of account—
- (a) any adjustment expenses under Chapter 17 of Part 2 of ITTOIA 2005, and
 - (b) any allowances or charges under CAA 2001.
- (6) This paragraph has effect subject to—
- (a) paragraph 3 (effect of cessation of business), and
 - (b) paragraph 4 (election to accelerate charge).

Effect of cessation of business

- 3 If before the whole of the adjustment income has been charged to tax the person permanently ceases to carry on the business in question, paragraph 2 continues to apply but with the omission of the alternative limit in sub-paragraph (2)(b) and (3) (c) referring to the profits of the business.

Election to accelerate charge

- 4 (1) A person who under paragraph 2 is liable to tax for a tax year on an amount of adjustment income may elect for an additional amount to be treated as arising in that tax year.
- (2) The election must be made on or before the first anniversary of the normal self-assessment filing date for the tax year.

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- (3) The election must specify the amount to be treated as income arising in the tax year (which may be any amount up to the whole of the adjustment income not previously charged to tax).
- (4) If an election is made, paragraph 2 applies in relation to any subsequent tax year as if the original amount of adjustment income (as reduced by the previous application of this sub-paragraph) were reduced by the additional amount treated as arising in the tax year for which the election is made.

Liability of personal representatives

- 5 (1) This paragraph applies in the case of the death of a person who would otherwise have been liable to tax under this Part of this Schedule on adjustment income.
- (2) The tax under this Part of this Schedule for which the person would otherwise have been liable—
 - (a) shall be assessed and charged on the personal representatives, and
 - (b) is a debt due from and payable out of the deceased's estate.
- (3) The personal representatives may make any election under this Part of this Schedule that the deceased might have made.

Meaning of “business”

- 6 In this Part of this Schedule “business” means—
 - (a) a trade, profession or vocation, or
 - (b) a UK property business or overseas property business.

Application of provisions to partnerships

- 7 (1) This paragraph applies where the business is carried on by the person in partnership.
- (2) The amounts chargeable to tax under this Part of this Schedule for any tax year are calculated as if the partnership were an individual resident in the United Kingdom.
- (3) The person's share of the amount charged to tax is determined—
 - (a) for the first tax year, according to the profit-sharing arrangements for the twelve months ending immediately before the date on which the change of accounting practice was adopted;
 - (b) for any subsequent tax year, according to the profit-sharing arrangements for the twelve months immediately following the twelve months used to determine the person's share for the previous year.

An election under paragraph 4 (election to accelerate charge) in relation to a tax year must be made jointly by all the persons who have been members of the partnership in the relevant twelve month period and are chargeable to income tax.

- (4) If paragraph 3 applies (effect of cessation of business), each partner's share of any amount charged to tax on or after the cessation is determined as follows—
 - (a) if the cessation occurs on the date on which the change of accounting approach was adopted, according to the profit-sharing arrangements for the twelve months ending immediately before that date;

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- (b) if the cessation occurs after that date, but on or before the first anniversary of that date, according to the profit-sharing arrangements for the period between that date and the date of cessation;
- (c) if the cessation occurs after the first anniversary of the date on which the change of accounting approach was adopted, according to the profit-sharing arrangements for the period between the immediately preceding anniversary of that date and the date of cessation.

An election under paragraph 4 after the cessation must be made by each former partner separately.

- (5) For the purposes of this paragraph “profit-sharing arrangements” means the rights of the partners to share in the profits of the business for the period in question.
- (6) In the case of a business carried on by a limited liability partnership the operation of this Part of this Schedule is not affected by the partnership’s ceasing to be one carrying on a trade, profession or other business with a view to profit.

Cases where spreading already available

- 8 This Part of this Schedule does not apply to adjustment income to which section 238 of that Act applies (spreading on ending of special provision for barristers and advocates in early years of practice).

PART 2

CORPORATION TAX

Application of this Part of this Schedule

- 9 (1) This Part of this Schedule applies where—
 - (a) there is a change of accounting approach from one period of account to the next in calculating the profits of a business for corporation tax purposes,
 - (b) the later period of account ends on or after 22nd June 2005 and the basis on which the profits for that period are calculated is in accordance with UK GAAP (including SSAP 9 and Application Note G as interpreted by UITF 40), and
 - (c) the earlier period of account ended before that date and the basis on which profits for that period were calculated was in accordance with UK GAAP (including SSAP 9 and Application Note G, but not as interpreted by UITF 40),

and has effect in relation to any positive adjustment under section 64 of and Schedule 22 to FA 2002 attributable to the change of basis from that mentioned in paragraph (c) to that mentioned in paragraph (b).

- (2) In relation to a period for which accounts are drawn up in accordance with international accounting standards, the references in sub-paragraph (1) to requirements of UK GAAP shall be read as references to the corresponding requirements of international accounting standards.
- (3) In this paragraph—

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“SSAP 9” means Statement of Standard Accounting Practice No.9 on Long-term contracts, issued by the Accounting Standards Board;

“Application Note G” means Application Note G to Financial Reporting Standard 5 issued by the Accounting Standards Board in November 2003;

“UITF 40” means Abstract No.40 on Revenue recognition and service contracts, issued by the Urgent Issues Task Force of the Accounting Standards Board on 10th March 2005.

- (4) Any reference in this Part of this Schedule to the date on which the change of accounting approach was adopted is to the first day of the first period of account for which it was adopted.
- (5) To determine the amount of positive adjustment attributable to the change of basis mentioned in the closing words of sub-paragraph (1), assume that there was no other change of accounting approach.

Spreading of adjustment

- 10 (1) The adjustment shall be spread in accordance with the following rules.
- (2) In each of the first three accounting periods beginning with that in which the whole of the adjustment would otherwise be charged to tax, an amount equal to whichever is the less of—
- (a) one-third of the amount of the original adjustment, and
 - (b) one-sixth of the profits of the business for that period,
- is treated as arising and charged to tax.
- (3) In the fourth and fifth accounting periods, if the whole of the adjustment has not been charged to tax in the previous periods, an amount equal to whichever is the least of—
- (a) the amount remaining untaxed,
 - (b) one-third of the amount of the original adjustment, and
 - (c) one-sixth of the profits of the business for that period,
- is treated as arising and charged to tax.
- (4) In the sixth accounting period so much (if any) of the adjustment as has not previously been charged to tax is treated as arising and is charged to tax.
- (5) For the purposes of this paragraph “the profits of the business” means the profits of the business as calculated for corporation tax purposes leaving out of account—
- (a) any adjustment under Schedule 22 to FA 2002, and
 - (b) any allowances or charges under CAA 2001.
- (6) This paragraph has effect subject to—
- (a) paragraph 11 (accounting periods of less than twelve months),
 - (b) paragraph 12 (effect of other events bringing accounting period to an end), and
 - (c) paragraph 13 (election to accelerate charge).

Accounting periods of less than twelve months

- 11 (1) This paragraph applies where by reason of—
- (a) a change of accounting date,

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- (b) the company entering administration (see section 12(7ZA) of ICTA), or
- (c) an insurance business transfer scheme (see section 12(7A) and (7B) of that Act),

an accounting period to which paragraph 10 applies is a period of less than twelve months (a “short period”).

- (2) In relation to a short period the references in that paragraph to one-third of the amount of the original adjustment shall be read as references to the proportion of that amount that the period bears to twelve months.
- (3) Where any of the accounting periods of the company falling within the period of six years following the change of accounting approach is a short period—
 - (a) the rule in paragraph 10(3) applies in relation to every accounting period after the third and before that in which the sixth anniversary of the change of accounting approach falls, and
 - (b) the rule in paragraph 10(4) applies in relation to the accounting period in which that anniversary falls.

Effect of other events bringing accounting period to an end

- 12 (1) If before the whole of the adjustment has been charged to tax an accounting period of the company ends by reason of—
- (a) the company ceasing to be within the charge to corporation tax,
 - (b) the commencement of winding-up proceedings in respect of the company (see section 12(7) of ICTA),
- the rule in paragraph 10(4) applies in relation to that accounting period.
- (2) If the company permanently ceases to carry on the business in question (without there being any event within sub-paragraph (1) above), paragraph 10 continues to apply but with the omission of the alternative limit in sub-paragraph (2)(b) and (3) (c) referring to the profits of the business.

Election to accelerate charge

- 13 (1) A company that under paragraph 10 is liable to tax for an accounting period on any amount may elect for an additional amount to be treated as arising in that period.
- (2) The election must be made on or before the first anniversary of the filing date for the company’s company tax return for the accounting period for which the election is made.
- (3) The election must specify the amount to be treated as arising in the accounting period (which may be any amount up to the whole of the adjustment not previously charged to tax).
- (4) If an election is made, paragraph 10 applies in relation to any subsequent accounting period as if the amount of the original adjustment (as reduced by any previous application of this sub-paragraph) were reduced by the additional amount treated as arising in the accounting period for which the election is made.

Meaning of “business” etc

- 14 (1) In this Part of this Schedule “business” means—

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- (a) a trade or vocation, or
- (b) a Schedule A business or overseas property business.

Application of provisions to partnerships

- 15 (1) This paragraph applies where the business is carried on by the company in partnership.
- (2) The amounts chargeable to tax under this Part of this Schedule are calculated as if the partnership were a company resident in the United Kingdom.
- (3) The company's share of any such amount is determined by reference to the profit-sharing arrangements for the previous accounting period.

An election under paragraph 13 (election to accelerate charge) must be made jointly by all the persons who have been members of the partnership in the previous accounting period and are chargeable to corporation tax.

- (4) If paragraph 12(2) applies (effect of cessation of business), each partner's share of any amount charged to tax on or after the cessation is determined as follows—
- (a) if the cessation occurs on the date on which the change of accounting approach was adopted, according to the profit-sharing arrangements for the twelve months ending immediately before that date;
 - (b) if the cessation occurs after that date, but on or before the first anniversary of that date, according to the profit-sharing arrangements for the period between that date and the date of cessation;
 - (c) if the cessation occurs after the first anniversary of the date on which the change of accounting approach was adopted, according to the profit-sharing arrangements for the period between the immediately preceding anniversary of that date and the date of cessation.

An election under paragraph 13 after the cessation must be made by each former partner separately.

- (5) For the purposes of this paragraph “profit-sharing arrangements” means the rights of the partners to share in the profits of the business for the period in question.
- (6) A change in the persons carrying on a business does not constitute the permanent cessation of the business for the purposes of this Part of this Schedule so long as a person carrying on the business immediately before the change continues to carry on the business immediately after the change.
- (7) In the case of a business carried on by a limited liability partnership the operation of this Part of this Schedule is not affected by the partnership's ceasing to be one carrying on a trade, profession or other business with a view to profit.
- (8) Nothing in this paragraph shall be read as affecting the operation of—
- (a) paragraph 19 of Schedule 9 to FA 1996 (loan relationships), or
 - (b) paragraph 49 of Schedule 26 to FA 2002 (derivative contracts),
- (under which certain debits and credits are not to be brought into account as if the partnership were a company).