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## SCHEDULES

### SCHEDULE 2

#### TRADES AND PROPERTY BUSINESSES: CALCULATION OF PROFITS

#### PART 3

##### TRADES ETC: AMENDMENTS OF OTHER ACTS

###### *TMA 1970*

- 42 In section 42 of TMA 1970 (procedure for making claims etc), in subsection (7)(e), after “194” insert “, 271A(10)”.

###### *TCGA 1992*

- 43 TCGA 1992 is amended as follows.
- 44 In section 37 (consideration chargeable to tax on income), after subsection (1) insert—
- “(1A) There is to be excluded from the consideration for a disposal of an asset taken into account in the computation of the gain a sum equal to any amount that is taken into account by the person making the disposal as a receipt under section 96A or 307E of ITTOIA 2005 (capital receipts under, or after leaving, cash basis) as a result of the operation of any deemed disposal provision in relation to the asset.
- (1B) But subsection (1A) applies only to the extent that the sum has not been excluded from the consideration for an earlier disposal of the asset.
- (1C) The following are “deemed disposal provisions”—
- (a) in relation to trades, professions and vocations, subsections (4) and (5) of section 96A of ITTOIA 2005 (which provide for circumstances in which a person is to be regarded as disposing of an asset for the purposes of that section), and
  - (b) in relation to property businesses, section 307F of ITTOIA 2005 (which provides for circumstances in which a person is to be regarded as disposing of an asset for the purposes of section 307E of that Act).”
- 45 (1) Section 41 (restriction of losses by reference to capital allowances etc) is amended as follows.
- (2) In subsection (4), after paragraph (a) insert—
- “(zaa) any deduction allowable in respect of capital expenditure in calculating profits on the cash basis (see sections 33A and 307B of ITTOIA 2005).”

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- (3) After subsection (6) insert—
- “(6A) Where—
- (a) capital allowances have been made or may be made in respect of expenditure, and
- (b) the capital allowances include a deduction mentioned in subsection (4)(zaa),
- the capital allowances to be taken into account under this section are to be regarded as equal to the total amount of expenditure which has qualified for capital allowances less any balancing charge to which the person making the disposal is liable under the Capital Allowances Act.”
- (4) In subsection (7), after “Capital Allowances Act,” insert “ and subsection (6A) does not apply, ”.
- (5) After subsection (8) insert—
- “(9) In this section—
- (a) in relation to a trade, profession or vocation, references to calculating profits on the cash basis are to calculating the profits of a trade, profession or vocation in relation to which an election under section 25A of ITTOIA 2005 (cash basis for trades) has effect, and
- (b) in relation to a property business, references to calculating profits on the cash basis are to be construed in accordance with section 271D of that Act (calculation of profits of property businesses on the cash basis).
- (10) In this section—
- “capital expenditure” means expenditure of a capital nature incurred on, or in connection with, the creation, construction, acquisition, alteration or disposal of an asset, and
- “property business” means a UK property business or an overseas property business within the meaning of Part 3 of ITTOIA 2005 (see sections 264 and 265 of that Act).”
- 46 (1) Section 47A (exemption for disposals by persons using cash basis) is amended as follows.
- (2) For the heading substitute “ Exemption for certain disposals under, or after leaving, cash basis ”.
- (3) In subsection (1), for “A to D” substitute “ A, B and D ”.
- (4) For subsection (2) substitute—
- “(2) Condition A is that the asset is not land.”
- (5) In subsection (3), for “or vocation” substitute “ , vocation or property business ”.
- (6) Omit subsection (4).
- (7) For subsection (5) substitute—
- “(5) Condition D is that relevant disposal proceeds—
- (a) are brought into account as a receipt (whether or not on the cash basis) under section 96A(3I) of ITTOIA 2005 in calculating the

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profits of a trade, profession or vocation (capital receipts under, or after leaving, cash basis: trades, professions and vocations), or

- (b) are brought into account as a receipt (whether or not on the cash basis) under section 307E(12) of that Act in calculating the profits of a property business (capital receipts under, or after leaving, cash basis: property businesses).

(5A) “Relevant disposal proceeds” means disposal proceeds as mentioned in section 96A(3F) of ITTOIA 2005 or (as the case may be) section 307E(9) of that Act which arise from the disposal mentioned in subsection (1).”

(8) For subsection (6) substitute—

“(6) Subsection (7) applies in the case of the disposal of, or of an interest in, an asset—

- (a) which, in the period of ownership of the person making the disposal—
- (i) has been used partly for the purposes of the trade, profession or vocation and partly for other purposes, or
  - (ii) has been used for the purposes of the trade, profession or vocation for part of that period, or
- (b) expenditure on which by the person has qualified in part only for capital allowances.”

(9) In subsection (7)—

- (a) in paragraph (a), for “was, or (as the case may be)” to the end substitute “qualified for capital allowances”, and
- (b) in paragraph (c), at the end insert “, or to the expenditure qualifying for capital allowances.”

(10) After subsection (7) insert—

“(8) In this section “property business” means a UK property business or an overseas property business within the meaning of Part 3 of ITTOIA 2005 (see sections 264 and 265 of that Act).”

47 Section 47B (disposals made by persons after leaving cash basis) is omitted.

#### CAA 2001

48 CAA 2001 is amended as follows.

49 In section 1 (capital allowances), omit subsections (4) and (5).

50 After section 1 insert—

#### “1A Capital allowances and charges: cash basis

- (1) This section applies in relation to a chargeable period for which the profits of a trade, profession, vocation or property business (“the relevant activity”) carried on by a person are calculated on the cash basis.
- (2) The person is not entitled to any allowance or liable to any charge under this Act except as provided by subsections (4) and (7).

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- (3) No disposal value is to be brought into account except as provided by subsections (5) and (8).
- (4) If, apart from subsection (2), the person would be entitled to an allowance in respect of expenditure incurred on the provision of a car or liable to a charge in connection with such an allowance, the person is so entitled or (as the case may be) so liable.
- (5) If, apart from subsection (3), a disposal value would be brought into account in respect of a car, the disposal value is brought into account in respect of the car.
- (6) Subsections (7) and (8) apply if—
  - (a) a person carrying on a relevant activity incurs qualifying expenditure relating to an asset at a time when the profits of that activity are not calculated on the cash basis,
  - (b) after incurring the expenditure, the person enters the cash basis for a tax year, and
  - (c) no deduction would be allowed in respect of the expenditure in calculating the profits of the relevant activity on the cash basis for that tax year, on the assumption that the expenditure was paid in that tax year.
- (7) If, apart from subsection (2), the person would be liable to a charge in connection with allowances in respect of the qualifying expenditure mentioned in subsection (6), the person is so liable.
- (8) If, apart from subsection (3), a disposal value would be brought into account in respect of the asset mentioned in subsection (6), the disposal value is brought into account in respect of the asset.
- (9) For the purposes of this section a person carrying on a trade, profession or vocation “enters the cash basis” for a tax year if—
  - (a) an election under section 25A of ITTOIA 2005 (cash basis for trades) has effect in relation to the trade, profession or vocation for the tax year, and
  - (b) no such election has effect in relation to the trade, profession or vocation for the previous tax year.
- (10) For the purposes of this section a person carrying on a property business “enters the cash basis” for a tax year if the profits of the business are calculated—
  - (a) on the cash basis for the tax year (see section 271D of ITTOIA 2005), and
  - (b) in accordance with GAAP (see section 271B of that Act) for the previous tax year.
- (11) In this section—
  - (a) references to calculating the profits of a trade, profession or vocation on the cash basis are to calculating the profits of a trade, profession or vocation in relation to which an election under section 25A of ITTOIA 2005 has effect, and

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- (b) references to calculating the profits of a property business on the cash basis are to be construed in accordance with section 271D of that Act (calculation of profits of property businesses on the cash basis).

(12) In this section—

“car” has the same meaning as in Part 2 (see section 268A);

“disposal value” means—

- (a) a disposal value for the purposes of Part 2, 4A, 5, 6, 7, 8 or 10, or
- (b) proceeds from a balancing event for the purposes of Part 3 or 3A;

“qualifying expenditure” means qualifying expenditure within the meaning of any Part of this Act.”

51 (1) Section 4 (capital expenditure) is amended as follows.

(2) In subsection (2)—

- (a) omit “or” at the end of paragraph (a), and
- (b) after paragraph (a) insert—

“(aa) any cash basis expenditure, other than expenditure incurred on the provision of a car, or”.

(3) After subsection (2) insert—

“(2ZA) In subsection (2)(aa)—

“cash basis expenditure” means any expenditure incurred—

- (a) in the case of a trade, profession or vocation, at a time when an election under section 25A of ITTOIA 2005 has effect in relation to the trade, profession or vocation, or
- (b) in the case of a property business, in a tax year for which the profits of the business are calculated on the cash basis (see section 271D of that Act); and

“car” has the same meaning as in Part 2 (see section 268A).”

52 (1) Section 59 (unrelieved qualifying expenditure) is amended as follows.

(2) In subsection (4), for “no amount may be carried forward as unrelieved qualifying expenditure” substitute “ any cash basis deductible amount may not be carried forward as unrelieved qualifying expenditure in a pool for the trade, profession or vocation ”.

(3) After subsection (4) insert—

“(4A) If a person carrying on a property business enters the cash basis for a tax year, any cash basis deductible amount may not be carried forward as unrelieved qualifying expenditure in a pool for a relevant qualifying activity from the chargeable period which is the previous tax year.”

(4) Omit subsection (5).

(5) After subsection (5) insert—

“(5A) A “cash basis deductible amount” means any amount of unrelieved qualifying expenditure for which a deduction would be allowed in

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calculating the profits of the trade, profession, vocation or property business (as the case may be) on the cash basis on the assumption that the expenditure was paid in the tax year for which the person enters the cash basis.”

(6) In subsection (6), for “the amount of unrelieved qualifying expenditure incurred on the provision of a car” substitute “ any cash basis deductible amount ”.

(7) For subsection (7) substitute—

“(7) Subsections (9), (10) and (11) of section 1A (capital allowances and charges: cash basis) apply for the purposes of this section as they apply for the purposes of that section.

(7A) In subsection (4A) “relevant qualifying activity” means—

- (a) in relation to a UK property business, an ordinary UK property business and a UK furnished holiday lettings business, and
- (b) in relation to an overseas property business, an ordinary overseas property business and an EEA furnished holiday lettings business.”

53 (1) Section 66A (persons leaving cash basis) is amended as follows.

(2) For subsection (1) substitute—

“(1) This section applies if—

- (a) a person carrying on a trade, profession, vocation or property business (“the business”) leaves the cash basis in a chargeable period,
- (b) the person has incurred expenditure at a time when the profits of the business are calculated on the cash basis,
- (c) some or all of the expenditure was brought into account in calculating the profits of the business on the cash basis, and
- (d) the expenditure would have been qualifying expenditure if the profits of the business had not been calculated on the cash basis at the time the expenditure was incurred.”

(3) In subsection (2)(a)—

- (a) for “amount of that expenditure for which” substitute “ higher of the following ”,
- (b) in sub-paragraphs (i) and (ii), at the beginning insert “ the amount of that expenditure for which ”, and
- (c) in both places, for “or vocation” substitute “ , vocation or property business ”.

(4) After subsection (6) insert—

“(7) For the purposes of this section a person carrying on a property business leaves the cash basis in a chargeable period (“tax year X”) if the profits of the business are calculated—

- (a) in accordance with GAAP (see section 271B of ITTOIA 2005) for tax year X, and
- (b) on the cash basis (see section 271D of that Act) for the previous tax year.

(8) Subsection (11) of section 1A (capital allowances and charges: cash basis) applies for the purposes of this section as it applies for the purposes of that section.”

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54 After section 419 insert—

**“419A Unrelieved qualifying expenditure: entry to cash basis**

- (1) If a person carrying on a mineral extraction trade enters the cash basis for a tax year, for the purpose of determining the person's unrelieved qualifying expenditure for the chargeable period ending with the basis period for the tax year and subsequent chargeable periods (see section 419), only the non-cash basis deductible portion of qualifying expenditure incurred before the chargeable period ending with the basis period for the tax year is to be taken into account.
- (2) The “non-cash basis deductible portion” of qualifying expenditure means the amount of qualifying expenditure for which no deduction would be allowed in calculating the profits of the trade on the cash basis on the assumption that the expenditure was paid in the tax year for which the person enters the cash basis.
- (3) Subsections (9) and (11) of section 1A (capital allowances and charges: cash basis) apply for the purposes of this section as they apply for the purposes of that section.”

55 After section 431C insert—

**“431D Persons leaving cash basis**

- (1) This section applies if—
  - (a) a person carrying on a mineral extraction trade leaves the cash basis in a chargeable period,
  - (b) the person has incurred expenditure at a time when an election under section 25A of ITTOIA 2005 (cash basis for trades) has effect in relation to the trade,
  - (c) some or all of the expenditure was brought into account in calculating the profits of the trade on the cash basis, and
  - (d) the expenditure would have been qualifying expenditure if an election under section 25A of that Act had not had effect at the time the expenditure was incurred.
- (2) In this section—
  - (a) the “relieved portion” of the expenditure is the higher of the following—
    - (i) the amount of that expenditure for which a deduction was allowed in calculating the profits of the trade, or
    - (ii) the amount of that expenditure for which a deduction would have been so allowed if the expenditure had been incurred wholly and exclusively for the purposes of the trade;
  - (b) the “unrelieved portion” of the expenditure is any remaining amount of the expenditure.
- (3) An amount of the expenditure equal to the amount (if any) by which the unrelieved portion of the expenditure exceeds the relieved portion of the expenditure is to be regarded as qualifying expenditure incurred by the person in the chargeable period.

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- (4) For the purposes of this section a person carrying on a trade leaves the cash basis in a chargeable period if—
- (a) immediately before the beginning of the chargeable period an election under section 25A of ITTOIA 2005 had effect in relation to the trade, and
  - (b) such an election does not have effect in relation to the trade for the chargeable period.”

56 After section 461 insert—

**“461A Unrelieved qualifying expenditure: entry to cash basis**

- (1) If a person carrying on a trade enters the cash basis for a tax year, any cash basis deductible amount may not be carried forward as unrelieved qualifying expenditure in the pool for the trade from the chargeable period ending with the basis period for the previous tax year.
- (2) A “cash basis deductible amount” means any amount of unrelieved qualifying expenditure for which a deduction would be allowed in calculating the profits of the trade on the cash basis on the assumption that the expenditure was paid in the tax year for which the person enters the cash basis.
- (3) Any cash basis deductible amount is to be determined on such basis as is just and reasonable in all the circumstances.
- (4) Subsections (9) and (11) of section 1A (capital allowances and charges: cash basis) apply for the purposes of this section as they apply for the purposes of that section.”

57 After section 462 insert—

**“462A Persons leaving cash basis**

- (1) This section applies if—
  - (a) a person carrying on a trade leaves the cash basis in a chargeable period,
  - (b) the person has incurred expenditure at a time when an election under section 25A of ITTOIA 2005 (cash basis for trades) has effect in relation to the trade,
  - (c) some or all of the expenditure was brought into account in calculating the profits of the trade on the cash basis, and
  - (d) the expenditure would have been qualifying expenditure if an election under section 25A of that Act had not had effect at the time the expenditure was incurred.
- (2) In this section the “relieved portion” of the expenditure is the higher of the following—
  - (a) the amount of that expenditure for which a deduction was allowed in calculating the profits of the trade, or
  - (b) the amount of that expenditure for which a deduction would have been so allowed if the expenditure had been incurred wholly and exclusively for the purposes of the trade.



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- (3) For the purposes of determining the person's available qualifying expenditure in the pool for the trade for the chargeable period (see section 456)—
  - (a) the whole of the expenditure must be allocated to the pool for the trade in that chargeable period, and
  - (b) the available qualifying expenditure in that pool is reduced by the relieved portion of that expenditure.
- (4) For the purposes of determining any disposal values (see section 462), the expenditure incurred by the person is to be regarded as qualifying expenditure.
- (5) For the purposes of this section a person carrying on a trade leaves the cash basis in a chargeable period if—
  - (a) immediately before the beginning of the chargeable period an election under section 25A of ITTOIA 2005 had effect in relation to the trade, and
  - (b) such an election does not have effect in relation to the trade for the chargeable period.”

58 After section 475 insert—

**“475A Unrelieved qualifying expenditure: entry to cash basis**

- (1) If a person carrying on a trade enters the cash basis for a tax year, any cash basis deductible amount may not be carried forward as unrelieved qualifying expenditure in the pool for the trade from the chargeable period ending with the basis period for the previous tax year.
- (2) A “cash basis deductible amount” means any amount of unrelieved qualifying expenditure for which a deduction would be allowed in calculating the profits of the trade on the cash basis on the assumption that the expenditure was paid in the tax year for which the person enters the cash basis.
- (3) Any cash basis deductible amount is to be determined on such basis as is just and reasonable in all the circumstances.
- (4) Subsections (9) and (11) of section 1A (capital allowances and charges: cash basis) apply for the purposes of this section as they apply for the purposes of that section.”

PROSPECTIVE

59 After section 477 insert—

**“477A Persons leaving cash basis**

- (1) This section applies if—
  - (a) a person carrying on a trade leaves the cash basis in a chargeable period,

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- (b) the person has incurred expenditure at a time when an election under section 25A of ITTOIA 2005 (cash basis for trades) has effect in relation to the trade,
  - (c) some or all of the expenditure was brought into account in calculating the profits of the trade on the cash basis, and
  - (d) the expenditure would have been qualifying trade expenditure if an election under section 25A of that Act had not had effect at the time the expenditure was incurred.
- (2) In this section the “relieved portion” of the expenditure is the amount of that expenditure for which a deduction was allowed in calculating the profits of the trade.
- (3) For the purposes of determining the person's available qualifying expenditure in the pool for the trade for the chargeable period (see section 470)—
- (a) the whole of the expenditure must be allocated to the pool for the trade in that chargeable period, and
  - (b) the available qualifying expenditure in that pool is reduced by the relieved portion of that expenditure.
- (4) For the purposes of determining any disposal receipts (see section 476), the expenditure incurred by the person is to be regarded as qualifying trade expenditure.
- (5) For the purposes of this section a person carrying on a trade leaves the cash basis in a chargeable period if—
- (a) immediately before the beginning of the chargeable period an election under section 25A of ITTOIA 2005 had effect in relation to the trade, and
  - (b) such an election does not have effect in relation to the trade for the chargeable period.”

#### *ITA 2007*

- 60 ITA 2007 is amended as follows.
- 61 In Part 4 (loss relief), in section 59 (overview of Part), in subsection (3)(b)—
- (a) for “section 272” substitute “ sections 272 and 272ZA ”, and
  - (b) for “applies” substitute “ apply ”.
- 62 (1) Chapter 4 of Part 4 (losses from property businesses) is amended as follows.
- (2) In section 120 (deduction of property losses from general income), in subsection (7), at the end insert “ and section 127BA (restriction of relief: cash basis) ”.
- (3) After section 127B insert—

#### “127BA Restriction of relief: cash basis

- (1) This section applies if—
- (a) in a tax year a person makes a loss in a UK property business or overseas property business (whether carried on alone or in partnership), and

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(b) the profits of the business are calculated on the cash basis for the tax year (see section 271D of ITTOIA 2005).

(2) No property loss relief against general income may be given to the person for the loss.”

63 In Chapter 1 of Part 8 (relief for interest payments), in section 384B(1) (restriction on relief for interest payments where cash basis applies), after “for the tax year” insert “or if the profits of a UK property business or overseas property business carried on by the partnership are calculated on the cash basis for the tax year (see section 271D of ITTOIA 2005).

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**Changes and effects yet to be applied to the whole Act associated Parts and Chapters:**

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- Sch. A1 para. 8(6)(b) omitted by [2022 c. 3 Sch. 1 para. 32\(b\)](#)
- Sch. A1 para. 8(2) substituted by [2022 c. 3 Sch. 1 para. 32\(a\)](#)