SCHEDULES

SCHEDULE 1

Section 7

ABOLITION OF BASIS PERIODS

PART 1

MAIN AMENDMENTS OF ITTOIA 2005

1 Part 2 of ITTOIA 2005 (trading income) is amended as follows.

Chapter 2 (income taxed as trade profits)

2 (1) Section 7 (income charged) is amended as follows.

(2) In subsection (1), at the end insert "(including amounts treated as profits of the tax year under section 23E(1))".

(3) Omit subsections (2) and (3).

3 After section 7 insert—

"7A Apportionment etc of profits to tax year

(1) This section and sections 7B to 7D apply if a period of account of a person carrying on a trade ("the trader") does not coincide with a tax year.

(2) Any of the following steps may be taken if they are necessary in order to arrive at the profits or losses of the trade of the tax year—

(a) apportioning the profits or losses of a period of account to the parts of that period falling in different tax years, and

(b) adding the profits or losses of a period of account (or part of a period) to profits or losses of other periods of account (or parts).

(3) The steps must be taken by reference to the number of days in the periods concerned.

(4) But the trader may use a different way of measuring the length of the periods concerned if—

(a) it is reasonable to do so, and

(b) the way of measuring the length of periods is used consistently for the purposes of the trade.

(5) Sections 7B and 7C contain rules for the purpose of avoiding the need to apportion profits or losses under this section (and section 7D makes provision for the trader to elect for those rules not to apply).

(6) This section and sections 7B to 7D apply to professions and vocations as they apply to trades.

7B Rule if trader starts to carry on trade after 31 March

(1) This section applies if, in a tax year ("the relevant tax year"), the trader—

(a) starts to carry on the trade after 31 March, and

(b) does not permanently cease to carry on the trade.

(2) For the purposes of this Chapter—

(a) the profits or losses of the trade of the relevant tax year are treated as nil, and

(b) the actual profits or losses of the trade of the relevant tax year are treated as arising in the following tax year.

7C Rule if there is a late accounting date

(1) This section applies if, in a tax year ("the relevant tax year"), the trader—

(a) does not start to carry on the trade or does so before 1 April,

(b) does not permanently cease to carry on the trade, and

(c) has an accounting date that is 31 March or 1, 2, 3 or 4 April.

(2) For the purposes of this Chapter—

(a) the profits or losses of the trade of the period beginning immediately after the accounting date and ending with 5 April in the relevant tax year are treated as nil, and

(b) the actual profits or losses of the trade of that period are treated as arising in the following tax year.

(3) In this section, "accounting date" in relation to a tax year means—

(a) the date in the tax year to which accounts are drawn up, or

(b) if there are two or more such dates, the latest of them.

7D Election to disapply late accounting date rules

(1) The trader may make an election under this section in relation to the trade.

(2) If an election under this section has effect for a tax year, neither of sections 7B and 7C apply in relation to the trade for that tax year.

(3) An election under this section—

(a) must be made on or before the first anniversary of the normal self-assessment filing date for the first tax year for which it is to have effect, and

(b) has effect for that tax year and the four tax years following that tax year (subject to subsection (4)).

(4) If the trader permanently ceases to carry on the trade before the end of the last of the tax years mentioned in subsection (3)(b), the election has effect for each tax year up to and including the tax year immediately before the tax year in which the trader permanently ceases to carry on the trade."

Chapter 3A (trade profits: cash basis)

4 In section 31A (conditions to be met for profits to be calculated on cash basis), in subsection (5)(a), omit "the basis period for".

5 (1) Section 31B (relevant maximum for purposes of section 31A) is amended as follows.

(2) In subsection (6), for "where the basis period for a tax year is less than 12 months" substitute "where the trade, profession or vocation is carried on for only part of a tax year".

(3) In subsection (7), in the definition of "universal credit claimant", omit "the basis period for".

6 In section 31C (excluded persons for purposes of section 31A), in each of subsections (2)(b), (3), (4), (7), (8) and (9)(a), omit "the basis period for".

7 (1) Section 31E (calculation of profits on cash basis) is amended as follows.

(2) In subsection (2), in each of Steps 1 and 2, omit "the basis period for".

(3) At the end insert—

> "(4) In determining the profits of a trade on the cash basis, section 7A(2) applies as if the profits or losses of a period of account were determined in accordance with subsection (2) of this section (and for these purposes, references in subsection (2) of this section to a tax year are to be read as references to a period of account)."

Chapter 15 (basis periods)

8 Omit Chapter 15 (basis periods).

PART 2

OTHER AMENDMENTS OF ITTOIA 2005

9 ITTOIA 2005 is amended as follows.

Part 2 (trading income)

10 (1) Section 17 (effect of becoming or ceasing to be a UK resident) is amended as follows.

(2) In subsection (1), for "otherwise than in partnership" substitute "(alone or in partnership)".

(3) Omit subsection (5).

11 In section 47 (business gifts: exceptions), in subsection (3)(b), for "basis period" substitute "tax year".

12 In section 133 (meaning of "relevant period" for purposes of Chapter 9), in paragraph (b) omit "the basis period for".

13 (1) Section 154A (certain non-UK residents with interest on 3.5% War Loan 1952 Or After) is amended as follows.

(2) In subsection (3)—

(a) in Step 1, omit "the basis period for";
(b) in each of Steps 3, 4 and 5, for "basis period" substitute "tax year".

(3) In subsection (4)—
(a) for "basis period", in each place those words occur, substitute "tax year";
(b) for "that period" substitute "that tax year".

(4) In subsection (5), for "basis period" substitute "tax year".

14 (1) Section 225ZD (compensation for compulsory slaughter of animals: effect of claim for spreading profits) is amended as follows.

(2) In subsection (1), in each of Steps 2 and 3, for "whose basis period", in each place those words occur, substitute "which".

(3) Omit subsection (2).

15 In section 240B ("entering the cash basis"), in paragraph (b), omit "the basis period for".

16 In section 240C (unrelieved qualifying expenditure: Parts 2, 7 and 8 of CAA 2001), in subsection (1)(b)—
(a) omit "the basis period for";
(b) for "with that basis period" substitute "in that tax year".

17 In section 240D (assets not fully paid for), in subsection (1)(b), omit "the basis period for".

18 In section 240E (effect of election where predecessor and successor are connected persons), in subsection (1)(c), omit "the basis period for".

19 In section 246 (basic meaning of "post-cessation receipt"), in subsection (3)—
(a) at the end of paragraph (a), insert "and";
(b) omit paragraph (c) and the "and" before it.

Part 5 (miscellaneous income)

20 In section 613 (films and sound recordings: application of trading income rules to non-trade businesses), omit paragraph (a) and the "and" at the end of that paragraph.

Part 6A (income charged under ITTOIA 2005: trading and property allowances)

21 (1) Section 783AI (partial relief: alternative calculation of trade profits) is amended as follows.

(2) In subsection (2), omit Step 3.

(3) Omit subsection (4).

Part 7 (rent-a-room and qualifying care relief)

22 (1) Section 786 (meaning of "rent-a-room receipts") is amended as follows.

(2) In subsection (1)(b), for "subsections (3) and (4)" substitute "subsection (4)".

(3) Omit subsection (3).

(4) In subsection (4), in the words before paragraph (a), omit "Otherwise".

23 (1) Section 805 (meaning of "qualifying care receipts") is amended as follows.

(2) In subsection (1)(b), for "subsections (2) and (3)" substitute "subsection (3)".

(3) Omit subsection (2).

(4) In subsection (3), omit "Otherwise".

24 Omit section 828 (overlap profit).

Part 9 (partnerships)

25 Omit sections 852 to 856 (firms with trading income).

26 In section 857 (partners to whom the remittance basis applies), in subsection (2), for "856" substitute "851".

27 In section 860 (adjustment income), in subsection (7), for "856" substitute "851".

Part 10 (general provisions)

28 In section 867 (business entertainment and gifts: non-trades and non-property businesses), in subsection (5), omit "(but as if the reference to a basis period were to a tax year)".

Schedule (abbreviations and defined expressions)

29 Part 2 of Schedule 4 (index of defined expressions) is amended as follows—

(a) omit the entry for "accounting date";
(b) omit the entry for "overlap period";
(c) omit the entry for "overlap profit".

PART 3

AMENDMENTS OF OTHER ACTS

Taxes Management Act 1970

30 TMA 1970 is amended as follows.

31 In section 8 (personal return), in subsection (1C), omit "or its basis period".

32 In Schedule A1 (as inserted by section 60(3) of F(No.2)A 2017), in paragraph 8 (end of period statement)—

(a) for sub-paragraph (2) substitute—

"(2) "Relevant period" means a tax year.";

(b) omit sub-paragraph (6)(b).

Capital Allowances Act 2001

33 CAA 2001 is amended as follows.

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

(2) In subsection (4), for "with the basis period for the previous tax year" substitute "in the previous tax year (or, if there is more than one such period, the latest of them)".

(3) In subsection (8)(b)—

(a) omit "the basis period for";

(b) for "with that basis period" substitute "in that tax year (or, if there is more than one such period, the latest of them)".

35 In section 419A (unrelieved qualifying expenditure: entry to cash basis), in subsection (1), for "with the basis period for the tax year", in both places, substitute "in the tax year (or, if there is more than one such period, the latest of them)".

36 In section 461A (unrelieved qualifying expenditure: entry to cash basis), in subsection (1), for "with the basis period for the previous tax year" substitute "in the previous tax year (or, if there is more than one such period, the latest of them)".

37 In section 475A (unrelieved qualifying expenditure: entry to cash basis), in subsection (1), for "with the basis period for the previous tax year" substitute "in the previous tax year (or, if there is more than one such period, the latest of them)".

Income Tax Act 2007

38 ITA 2007 is amended as follows.

39 In section 24A (limit on Step 2 deductions), omit subsection (7)(c).

40 In section 60 (overview of Chapter), in subsection (3), omit paragraph (b) and the "and" before it.

41 Omit sections 61 and 62 (losses of a tax year of persons carrying on trades etc).

42 (1) Section 66 (restriction on relief unless trade is commercial) is amended as follows.

(2) In subsection (2), omit "the basis period for".

(3) In subsection (5), for "basis period", in each place, substitute "tax year".

43 (1) Section 70 (determining losses in previous tax years) is amended as follows.

(2) Omit subsection (2).

(3) In subsection (3), in the words before paragraph (a), for "This loss" substitute "The loss".

(4) In subsection (4), in the words after paragraph (b)—

(a) for "203(2)", in both places, substitute "7A(2)";

(b) omit "to basis periods are read as references to tax years and references".

(5) In subsection (5), for "203(3) or (4)" substitute "7A(3) or (4)".

44 In section 74 (restrictions on relief unless trade is commercial etc), in subsection (2) —

(a) in the words before paragraph (a), omit "the basis period for";

(b) in paragraph (b), for "basis period" substitute "tax year".

45 (1) Section 74C (meaning of "non-active capacity" for purposes of section 74A etc) is amended as follows.

(2) For subsection (3) substitute—

"(3) For this purpose "the relevant period" means—

(a) where the individual first started to carry on the trade less than six months before the end of the tax year, the period of six months beginning with the date on which the individual first started to carry on the trade;

(b) where the individual permanently ceased to carry on the trade less than six months after the start of the tax year, the period of six months ending with the date on which the individual permanently ceased to carry on the trade;

(c) in any other case, the tax year."

(3) Omit subsection (4).

46 (1) Section 75 (trade leasing allowances given to individuals) is amended as follows.

(2) In subsection (5)—

(a) omit "the basis period for";

(b) omit "("the loss-making basis period")".

(3) In subsection (6), in each of paragraphs (a) and (b), for "loss-making basis period" substitute "tax year".

47 In section 83 (carry forward against subsequent trade profits), in subsection (6)(f), for "sections 17(3) and 852(7)" substitute "section 17(3)".

48 (1) Section 90 (losses that are "terminal losses") is amended as follows.

(2) In subsection (4)—

(a) for "203(3) and (4)" substitute "7A(3) and (4)";

(b) for "203(2)" substitute "7A(2)".

(3) Omit subsection (5).

49 (1) Section 103B (meaning of "non-active partner" etc) is amended as follows.

(2) For subsection (3) substitute—

"(3) For this purpose "the relevant period" means—

(a) where the individual first started to carry on the trade less than six months before the end of the tax year, the period of six months beginning with the date on which the individual first started to carry on the trade;

(b) where the individual permanently ceased to carry on the trade less than six months after the start of the tax year, the period of six months ending with the date on which the individual permanently ceased to carry on the trade;

(c) in any other case, the tax year."

(3) Omit subsection (4).

50 In section 104 (restriction on reliefs for limited partners), in subsection (4), in the words after paragraph (b), omit "the basis period for".

51 In section 107 (restriction on reliefs for members of LLPs), in subsection (5), in the words after paragraph (b), omit "the basis period for".

52 In section 110 (restriction on reliefs for non-active partners in early tax years), in subsection (4), in the words after paragraph (b), omit "the basis period for".

53 In section 113 (unrelieved losses brought forward), in subsection (7), omit paragraph (b) and the "and" before it.

54 (1) Section 525 (meaning of "charitable trade") is amended as follows.

(2) In subsection (1), in the words before paragraph (a), omit "the basis period for".

(3) Omit subsection (5).

55 In section 528 (condition as to trading and miscellaneous incoming resources), in subsection (2)(a), omit "the basis period for".

56 In section 544 (section 543: supplementary), omit subsection (4).

57 In section 681AD (relevant income tax relief: deduction not to exceed commercial rent), in subsection (2)(a)(ii), omit "the basis period of".

58 In section 681CC (tax deduction not to exceed commercial rent), in subsection (2)(a)(ii), omit "the basis period of".

59 (1) Section 795 (meaning of "post-1 December 2004 loss") is amended as follows.

(2) In subsection (1), in each of paragraphs (a) and (b), omit "the basis period for".

(3) In subsection (2)(b), omit "the basis period for".

(4) Omit subsection (4).

Taxation (International and Other Provisions) Act 2010

60 In TIOPA 2010, omit sections 22 to 24 (credit for foreign tax on overlap profit if credit for that tax already allowed).

PART 4

COMMENCEMENT

61 (1) Subject to sub-paragraph (3), the amendments made by Parts 1 to 3 of this Schedule have effect for the tax year 2024-25 and subsequent tax years.

(2) The amendments of section 70 of ITA 2007 (which applies for determining losses in previous tax years for certain purposes), made by paragraph 43 of this Schedule, have effect where the "tax year before the current tax year" mentioned in that section is the tax year 2024-25 or a subsequent tax year.

(3) In addition to the commencement provision made by sub-paragraph (1), sections 7B to 7D of ITTOIA 2005, inserted by paragraph 3 of this Schedule, have effect in relation to a person who—

(a) starts to carry on a trade, profession or vocation in the tax year 2023-24, and

(b) does not permanently cease to carry on the trade, profession or vocation in that tax year.

(And see Part 5 of this Schedule for further transitional provision in relation to such persons.)

PART 5

TRANSITIONAL PROVISION: NEW TRADES ETC

Application of this Part of this Schedule

62 (1) This Part of this Schedule applies in relation to a person ("the trader") who—
(a) starts to carry on a trade (alone or in partnership) in the tax year 2023-24, and
(b) does not permanently cease to carry on the trade in that tax year.

(2) This Part of this Schedule applies to professions and vocations as it applies to trades.

Basis period for the tax year 2023-24

63 (1) Chapter 15 of Part 2 of ITTOIA 2005 (basis periods) applies as if sections 208 to 210 of that Act (rules where first accounting date shortly before end of tax year) were disregarded.

(2) Accordingly, the basis period for the tax year 2023-24, determined in accordance with section 199 of ITTOIA 2005, ends with 5 April 2024.

PART 6

TRANSITIONAL PROVISION: CONTINUING TRADES ETC

Application of this Part of this Schedule

64 (1) This Part of this Schedule applies in relation to a person ("the trader") who—
(a) carries on a trade (alone or in partnership) in the tax year 2023-24,
(b) does not start to carry on the trade in that tax year, and
(c) does not permanently cease to carry on the trade in that tax year.

(2) This Part of this Schedule applies to professions and vocations as it applies to trades.

Basis period for tax year 2023-24

65 (1) Chapter 15 of Part 2 of ITTOIA 2005 (basis periods) applies as if—
(a) the basis period for the tax year 2023-24 were, instead of the period determined in accordance with that Chapter, the period—
(i) beginning immediately after the end of the basis period for the tax year 2022-23 (determined in accordance with that Chapter as it applies in relation to that tax year), and
(ii) ending with 5 April 2024;
(b) section 220 of that Act were disregarded.

(2) In this Part of this Schedule, the "standard part" of the basis period for the tax year 2023-24 is the period of 12 months beginning with the start of that basis period (determined in accordance with sub-paragraph (1)(a)(i)).

(3) If the standard part of the basis period for the tax year 2023-24 ends before 31 March 2024 (or where an election under paragraph 67(3) has effect), there is a "transition part" of that basis period which—

(a) begins immediately after the end of the standard part, and

(b) ends with the date given by sub-paragraph (4).

(4) The date given by this sub-paragraph is—

(a) if the date (or the latest of the dates) to which accounts are drawn up in that tax year is 31 March or 1, 2, 3 or 4 April 2024, that date;

(b) in any other case (or where an election under paragraph 67(3) has effect), 5 April 2024.

Relevant maximum for purposes of cash basis election

66 (1) Sub-paragraph (2) applies if the basis period for the tax year 2023-24 (determined in accordance with paragraph 65(1)(a)), is longer than 12 months.

(2) For the purposes of section 31B of ITTOIA 2005 (relevant maximum for purposes of cash basis election), the amounts specified in subsections (3), (4) and (5) of that section, and the VAT threshold (within the meaning given by subsection (7) of that section), are proportionately increased.

Late accounting date rules

67 (1) This paragraph applies if—

(a) the standard part of the basis period for the tax year 2023-24, or

(b) any transition part of that basis period,

ends with 31 March or 1, 2, 3 or 4 April 2024 ("the late accounting date").

(2) For the purposes of Chapter 2 of Part 2 of ITTOIA 2005—

(a) treat the profits or losses of the period beginning immediately after the late accounting date and ending with 5 April, as nil, and

(b) treat the actual profits or losses of that period as arising in the tax year 2024-25.

(3) The trader may, on or before the first anniversary of the normal self-assessment filing date for the tax year 2023-24, elect for sub-paragraph (2) not to apply.

(4) If an election under sub-paragraph (3) has effect—

(a) there is a transition part of the basis period for the tax year 2023-24 (whether or not there would otherwise be such a part), and

(b) that transition part ends on 5 April 2024 (instead of the date on which it would otherwise end).

Deductions for overlap profit allowed under this Part of this Schedule

68 References in this Part of this Schedule to a "deduction for overlap profit allowed under this Part of this Schedule" are to—

(a) any deduction for overlap profit that would be allowed under section 205 of ITTOIA 2005 (deduction for overlap profit in final tax year), were the trader to have permanently ceased to carry on the trade on 5 April 2024, or

(b) any deduction for overlap profit allowed under section 220 of that Act (deduction for overlap profit on change of accounting date) for a tax year before the tax year 2023-24 but not made for that earlier tax year (or any amount of such a deduction not made).

Trade profits if there is no transition part of the basis period for the tax year 2023-24

69 (1) Sub-paragraph (2) applies if there is no transition part of the basis period for the tax year 2023-24 (because the standard part ends on or after 31 March 2024 and there is no election under paragraph 67(3)).

(2) In calculating the profits of the tax year 2023-24 for the purposes of Chapter 2 of Part 2 of ITTOIA 2005, make any deduction for overlap profit allowed under this Part of this Schedule (see paragraph 68).

Trade profits if there is a transition part of the basis period for the tax year 2023-24

70 (1) Sub-paragraph (2) applies if there is a transition part of the basis period for the tax year 2023-24 (see paragraphs 65(3) and 67(4)(a)).

(2) In calculating the profits of the tax year 2023-24 for the purposes of Chapter 2 of Part 2 of ITTOIA 2005, take the following Steps.

Step 1

Determine the amount of the profits of the tax year 2023-24 attributable to the standard part of the basis period for that tax year.

To do this, apply Chapter 2 of Part 2 of ITTOIA 2005 as if references in that Act to the basis period for the tax year 2023-24 were to the standard part of the basis period for that tax year.

Step 2

Determine the amount of the profits of the tax year 2023-24 attributable to the transition part of the basis period for that tax year.

To do this, apply Chapter 2 of Part 2 of ITTOIA 2005 as if references in that Act to the basis period for the tax year 2023-24 were to the transition part of the basis period for that tax year.

Step 3

Deduct from the amount given by Step 2 the amount of any deduction for overlap profit allowed under this Part of this Schedule (see paragraph 68).

Step 4

Calculate the sum of the amounts given by Steps 1 and 3.

If the amount given by either or both of—

(a) Step 3, and

(b) this Step,

is nil, or less than nil, the profits of the tax year 2023-24 for the purposes of Chapter 2 of Part 2 of ITTOIA 2005 is the amount given by this Step (and see paragraph 71 for the treatment of a loss, or an increased loss, for the tax year 2023-24 arising from this Step).

Otherwise, proceed to Steps 5 and 6.

Step 5

For the purposes of Step 6, and paragraphs 72 to 75, the amount of the trader's "transition profits" for the tax year 2023-24 is the lesser of—

(a) the amount given by Step 3, and

(b) the amount given by Step 4.

Step 6

The amount of the profits of the tax year 2023-24 for the purposes of Chapter 2 of Part 2 of ITTOIA 2005 is—

(a) if the amount given by Step 1 is nil, or less than nil, such amount of the transition profits for the tax year 2023-24 as is treated (in accordance with paragraphs 72 and 73) as arising in that tax year;

(b) if the amount given by Step 1 is more than nil, the sum of that amount and such amount of the transition profits for the tax year 2023-24 as is treated (in accordance with paragraphs 72 and 73) as arising in that tax year.

Treatment of losses arising from deduction for overlap profit

71 (1) This paragraph applies if, by virtue of a deduction for overlap profit allowed and made under this Part of this Schedule (see paragraphs 68 and 69(2) and Step 3 of the calculation in paragraph 70(2))—

(a) the trader makes a loss for the tax year 2023-24 where the trader would (but for the deduction) have made a profit, or

(b) the trader makes a loss for the tax year 2023-24 that is greater than it would have been had the deduction not been made.

(2) Sections 89 to 91 of ITA 2007 (terminal trade loss relief) apply in relation to the trader as if—

(a) the trader had permanently ceased to carry on the trade on 5 April 2024, and

(b) the amount of the loss mentioned in sub-paragraph (1)(a), or the amount by which the loss mentioned in sub-paragraph (1)(b) is increased as a result of the deduction being made, were a terminal loss made in the trade in the final tax year.

(3) Nothing in this paragraph is to be taken to affect the further application of sections 89 to 91 of ITA 2007 in relation to the trade.

Spreading of transition profits

72 (1) This paragraph applies if the trader has transition profits for the tax year 2023-24 (see Step 5 of the calculation in paragraph 70(2)).

(2) The amount of the transition profits is spread over five tax years as follows.

(3) In each of the four tax years beginning with the tax year 2023-24, an amount equal to 20% of the amount of the transition profits is treated as arising and chargeable to income tax under Chapter 2 of Part 2 of ITTOIA 2005.

(4) In the fifth tax year, the balance of the amount of the transition profits is treated as arising and chargeable to income tax under Chapter 2 of Part 2 of ITTOIA 2005.

(5) Sub-paragraph (6) applies if, before the whole of the amount of the transition profits has been charged to income tax, the trader permanently ceases to carry on the trade.

(6) The balance of the amount of the transition profits is treated as arising, and chargeable to income tax under Chapter 2 of Part 2 of ITTOIA 2005, for the tax year in which the trader permanently ceases to carry on the trade.

Election to accelerate charge

73 (1) If the trader is liable to a charge to income tax for a tax year on an amount of the transition profits for the tax year 2023-24 (see Step 5 of the calculation in paragraph 70(2) and paragraph 72), the trader may elect for an additional amount of those profits to be treated as arising in the 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 to which it relates.

(3) The election must specify the amount of the transition profits to be treated as arising in the tax year (which may be any amount of those profits not previously charged to tax).

(4) If an election is made, paragraph 72 applies in relation to any subsequent tax year as if the amount of the transition profits (as reduced by any previous application of this paragraph) were reduced by the amount given by the following formula—

$$A \times \frac{5}{T}$$

where—

A is the additional amount of the transition profits treated as arising in the tax year for which the election is made;

T is the number of tax years remaining after that tax year in the period of five tax years referred to in paragraph 72.

Transition profits ignored in averaging of profits of farmers and creative artists

74 No amount of the transition profits for the tax year 2023-24 treated as arising and chargeable to income tax in a tax year (see Step 5 of the calculation in paragraph 70(2) and paragraphs 72 and 73) is to be taken into account in determining "the relevant profits" for the purposes of Chapter 16 of Part 2 of ITTOIA 2005 (averaging profits of farmers and creative artists).

Calculation of income tax liability on amount of transition profits

75 (1) This paragraph applies for determining the trader's liability to income tax for a tax year in which an amount of the transition profits for the tax year 2023-24 is chargeable to income tax under Chapter 2 of Part 2 of ITTOIA 2005 (see Step 5 of the calculation in paragraph 70(2) and paragraphs 72 and 73).

(2) To find the trader's liability to income tax for the tax year, section 23 of ITA 2007 applies as if—

(a) the amount of the transition profits chargeable to income tax were a separate component of total income ("the transition component"),

(b) the transition component were relieved in accordance with Step 2,

(c) the amount of the transition component left after Step 2 were left out of the calculation of net income (and subsequent Steps), and

(d) for the purposes of Steps 5 to 7, the amount (if any) given by sub-paragraph (3) were treated as an amount of tax calculated at Step 4.

(3) The amount given by this sub-paragraph is the difference between—

(a) the total amount of tax that would be calculated at Step 5 if Steps 1 to 4 were applied in accordance with sub-paragraph (2)(a) to (c) (ignoring sub-paragraph (2)(d)), and

(b) the total amount of tax that would be calculated at Step 5 if Steps 1 to 4 were applied in accordance with sub-paragraph (2)(a) and (b) (ignoring sub-paragraph (2)(c) and (d)).

(4) The Steps mentioned in sub-paragraphs (2) and (3) are Steps of the calculation in section 23 of ITA 2007.

Other modifications

76 (1) For the purposes of this Part of this Schedule, the following provisions apply subject to the following modifications.

(2) Section 24A of ITA 2007 (limit on deductions at Step 2 of the calculation in section 23) applies as if, in subsection (7)(c), the reference to a deduction allowed under section 205 or 220 of ITTOIA 2005 includes a deduction made under paragraph 69(2), or Step 3 of the calculation in paragraph 70(2), of this Schedule.

(3) Section 24 of TIOPA 2010 (claw-back of relief under section 22(2)) applies as if, in subsections (1)(b) and (3), references to an amount deducted under section 205 or 220 of ITTOIA 2005 included an amount deducted under paragraph 69(2), or Step 3 of the calculation in paragraph 70(2), of this Schedule.

PART 7

TRANSITIONAL PROVISION: NOTIONAL BUSINESSES

Application of this Part of this Schedule

77 This Part of this Schedule applies in relation to a partner in a firm who—

(a) is treated, in accordance with sections 854 to 855A of ITTOIA 2005, as carrying on a notional business in the tax year 2023-24, and

(b) is not treated as having started or permanently ceased to carry on the notional business in that tax year.

Basis period for tax year 2023-24

78 The basis period for the partner's notional business for the tax year 2023-24 is the same as the basis period for the partner's notional trade for that tax year given by paragraph 65(1)(a) of this Schedule.

Deductions for overlap profit allowed under this Part of this Schedule

79 (1) In calculating the profits of the notional business of the tax year 2023-24 for the purposes of Part 3, 4 or 5 of ITTOIA 2005—

(a) ignore section 220 of that Act,

(b) make any deduction for overlap profit that would be allowed under section 205 of that Act (deduction for overlap profit in final tax year), were the partner treated as having permanently ceased to carry on the notional business on 5 April 2024, and

(c) make any deduction for overlap profit allowed under section 220 of that Act (deduction for overlap profit on change of accounting date) for a tax year before the tax year 2023-24 but not made for that earlier tax year (or any amount of such a deduction not made).

Deducted overlap profits in excess of other profits of tax year 2023-24

80 (1) Sub-paragraph (2) applies where—

(a) a deduction is to be made under paragraph 79, and

(b) the amount to be deducted (or the sum of the amounts to be deducted) exceeds the amount which would otherwise be the amount of the profits of the notional business of the tax year 2023-24.

(2) The amount of the excess is to be deducted in calculating the partner's income for the tax year 2023-24.

Changes to legislation:
There are currently no known outstanding effects for the Finance Act 2022, SCHEDULE 1.