**INCOME TAX**

**LECTURE 6 – LOSS RELIEF**

**SLIDE 1**

Hello my name is Sarah Brooks. This online lecture relates to the subject area of taxation and is the sixth online lecture relating to income tax.

**SLIDE 2 – OUTCOMES**

In this sixth and final online lecture relating to income tax I am going to be talking about losses. I am going to explain the different types of loss relief that are available, how they work and how they can be used to reduce an individual’s income tax liability.

**SLIDE 3 – LOSSES**

In the previous online lecture I talked about how a business can calculate its trading profits. It is possible though that upon doing that calculation it turns out that the business has in fact made a business loss rather than a profit. In that situation then there are provisions which allow the individual to use that loss to set off against any other income that they may have and therefore reduce their overall tax liability. It is then up to the individual to choose the most beneficial loss provision to either reduce their current income tax liability, reduce their future income tax liability or allow them to gain a repayment of income tax that they have already paid.

**SLIDE 4 – LOSSES**

Loss reliefs that are available to an individual are set out in the Income Tax Act 2007 and a start up relief, carry across relief, carry forward relief, carry back of terminal losses and carry forward on incorporation. It is up to the individual then to decide which of those loss reliefs or combination of loss reliefs is most beneficial to them.

**SLIDE 5 – START UP RELIEF – S72-81**

Start up relief, also known as Early Trade Losses Relief, applies when a business makes a loss in the first four years of its trading only. If that is the case then the individual is allowed to use that loss to set off against their total income. In other words they can use that loss to set off against any other income that the individual may have had in the previous three years. However, the individual has to set off the loss against earlier year’s income first.

**SLIDE 6 – CARRY ACROSS RELIEF – S64-71**

If you make a loss in a current tax year carry across relief, also known as Trade Loss Relief against general income, allows you to set that loss off against any other income that you have made in that year or the preceding year. If as a result of using carry across relief your total income is reduced down to zero you can then use any excess of that loss to set off against any capital gains that you have made in that year.

**SLIDE 7 – CARRY FORWARD RELIEF – S83-85**

If you decide to use carry forward relief this means that a loss you have made in the current year can be used to reduce your income tax liability in future years. However, it is very important to note here that unlike the previous reliefs we have talked about which can be set off against any other kind of income you may have. If you use carry forward relief you can only set off the loss against income that you have receive from the same trade. In other words, if you have made a loss on a trading profit you can’t use it to set off against any income that you may have received, say from interest on savings or from any other employment that you may have. You can only use the loss to set off against income you receive in that same business in future years. Again, with carry forward relief you have to set off the loss against earlier years first.

**SLIDE 8 – CARRY BACK OF TERMINAL LOSSES – S89-94**

Carry back of terminal losses then applies when a business makes a trading loss in its last twelve months of trading. If that is the case, then that loss can be set off only against any previous profits that have been made from that same business in the previous three years. In this case then your trading loss is used to set off against a profit made from later years first rather than earlier years as we saw with the previous reliefs.

**SLIDE 9 – CARRY FORWARD ON INCORPORATION – S86**

Maybe that you currently run your business by way of a partnership and for whatever reason you decide to incorporate that partnership business into a private limited company. You will transfer the assets of your partnership business to the company. If the consideration that you receive for transferring the partnership business to the company is wholly or mainly for shares in that company, and by wholly and mainly we mean 80% of the consideration is shares, then any loss you may have incurred as a result of the partnership business can then be set off against any income that you receive at the later date from the company.

This is now the end of the sixth and final lecture on Income Tax. Please ensure then that now you have listened to these online lectures you undertake all the preparation set out in the Small Group Session description in readiness for the income tax SGS.