Income Tax (Trading and Other Income) Act 2005

2005 CHAPTER 5

PART 2

TRADING INCOME

CHAPTER 15

BASIS PERIODS

Special rules if accounting date changes

214 When a change of accounting date occurs

(1) If there is a change from one accounting date ("the old accounting date") to another accounting date ("the new accounting date"), the change of accounting date occurs—

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

(b) if earlier, in the first tax year in which accounts are not drawn up to the old accounting date.

(2) A change from a date determined under section 211 to an actual accounting date is taken to be a change from one accounting date to another, even if the two dates are the same.

(3) If, because of subsection (1)(b), a change of accounting date occurs in a tax year in which there is no actual accounting date, the date corresponding to the new accounting date is treated as the accounting date in that tax year for the purpose of determining—

(a) the basis period for that tax year, and

(b) if section 219 applies, the basis period for the following tax year.

Modifications etc. (not altering text)

C1 Pt. 2 Ch. 15 applied (with application in accordance with Sch. 1 para. 62 of the amending Act) by Finance Act 2022 (c. 3), **Sch. 1 para. 63**

C2 Pt. 2 Ch. 15 applied (with application in accordance with Sch. 1 para. 64 of the amending Act) by Finance Act 2022 (c. 3), **Sch. 1 para. 65**

215 Change of accounting date in third tax year

(1) This section applies if—

(a) a change of accounting date occurs in the third tax year in which a person carries on a trade,

(b) the person does not permanently cease to carry on the trade in that tax year, and

(c) the accounting date in that tax year falls more than 12 months after the end of the basis period for the second tax year in which the person carries on the trade.

(2) The basis period—

(a) begins immediately after the end of the basis period for the second tax year in which the person carries on the trade, and

(b) ends with the accounting date in the third tax year in which the person carries on the trade.

216 Change of accounting date in later tax year

(1) This section applies if—

(a) a change of accounting date occurs in a tax year in which a person carries on a trade,

(b) the tax year is later than the third tax year in which the person carries on the trade, and

(c) the person does not permanently cease to carry on the trade in the tax year.

(2) If—

(a) the conditions in section 217 are met (conditions for basis period to end with new accounting date), and

(b) the new accounting date falls less than 12 months after the end of the basis period for the previous tax year,

the basis period is that given by the general rule in section 198.

(3) If—

(a) the conditions in section 217 are met, and

(b) the new accounting date falls more than 12 months after the end of the basis period for the previous tax year,

the basis period begins immediately after the end of the basis period for the previous tax year and ends with the accounting date.

(4) If the conditions in section 217 are not met, the basis period for the tax year is the period of 12 months ending with the old accounting date.

217 Conditions for basis period to end with new accounting date

(1) The conditions in this section are met if—

(a) the person carrying on the trade gives appropriate notice of the change of accounting date to **[**[F1]an officer of Revenue and Customs**]**(see subsection (2)),

(b) the 18 month test is met (see subsection (3)), and

(c) either condition A or B is met (see subsections (4) to (6)).

(2) Appropriate notice of the change of accounting date is given to **[**[F1]an officer of Revenue and Customs**]** if (and only if) the notice is given—

(a) in a return under the provision of TMA 1970 that applies to the person carrying on a trade (see section 8, 8A or 12AA of that Act), and

(b) on or before the day on which the return is required to be made and delivered under that provision.

(3) The 18 month test is met if the period of account ending—

(a) with the new accounting date in the tax year in which the change of accounting date occurs, or

(b) if there is no new accounting date in that tax year, with the new accounting date in the first tax year in which accounts are drawn up to the new accounting date,

is not longer than 18 months.

(4) Condition A is that, in the 5 tax years immediately before the tax year in which the change of accounting date occurs, there has been no change of accounting date that counts for the purposes of this condition.

(5) A change of accounting date counts for the purposes of condition A if it results in the basis period for the tax year in which the change occurs ending with the accounting date in that tax year.

(6) Condition B is that—

(a) the change of accounting date is made for commercial reasons (see section 218), and

(b) the notice under subsection (2) sets out the reasons for the change.

Textual Amendments

F1 Words in s. 217(1)(2) substituted (18.4.2005) by Commissioners for Revenue and Customs Act 2005 (c. 11), ss. 50, 53(1), **Sch. 4 para. 132(1)**; S.I. 2005/1126, **art. 2(h)**

218 Commercial reasons for change of accounting date

(1) If the Inland Revenue **[**[F2]does**]** not give notice under this section to the person carrying on the trade, a change of accounting date is treated for the purposes of condition B in section 217 as made for commercial reasons.

(2) If the Inland Revenue **[**[F2]does**]** give notice under this section to the person carrying on the trade, a change of accounting date is treated for the purposes of condition B in section 217 as made for reasons which are not commercial.

(3) The notice must—

(a) state that **[**[F3]the officer is not**]** satisfied that the change of accounting date is made for commercial reasons, and

(b) be given within the period of 60 days beginning with the date on which the notice under section 217(2) is received.

(4) A person to whom notice is given under this section may appeal against it within the period of 30 days beginning with the date on which it is given.

(5) On an appeal **[**[F4]that is notified to the tribunal**]** —

(a) if the **[**[F5]tribunal is**]** satisfied that the change is made for commercial reasons, **[**[F6]the tribunal**]** may set aside the notice, and

(b) if **[**[F7]the tribunal is**]** not satisfied that the change is made for commercial reasons, **[**[F8]the tribunal may**]** confirm the notice.

(6) For the purposes of this section obtaining a tax advantage is not a commercial reason.

(7) Part 5 of TMA 1970 (appeals against assessments to tax), apart from section 50, applies in relation to an appeal under this section as it applies in relation to an appeal against an assessment to tax.

Textual Amendments

F2 Words in s. 218(1)(2) substituted (18.4.2005) by Commissioners for Revenue and Customs Act 2005 ss. 50, 53(1), {Sch. 4 para. 133(2)(a)}; S.I. 2005/1126, **art. 2(h)**

F3 Words in s. 218(3)(a) substituted (18.4.2005) by Commissioners for Revenue and Customs Act 2005 ss. 50, 53(1), {Sch. 4 para. 133(2)(b)}; S.I. 2005/1126, **art. 2(h)**

F4 Words in s. 218(5) inserted (1.4.2009) by The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 (S.I. 2009/56), art. 1(2), **Sch. 1 para. 440(2)(a)**

F5 Words in s. 218(5)(a) substituted (1.4.2009) by The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 (S.I. 2009/56), art. 1(2), **Sch. 1 para. 440(2)(b)(i)**

F6 Words in s. 218(5)(a) substituted (1.4.2009) by The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 (S.I. 2009/56), art. 1(2), **Sch. 1 para. 440(2)(b)(ii)**

F7 Words in s. 218(5)(b) substituted (1.4.2009) by The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 (S.I. 2009/56), art. 1(2), **Sch. 1 para. 440(2)(c)(i)**

F8 Words in s. 218(5)(b) substituted (1.4.2009) by The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 (S.I. 2009/56), art. 1(2), **Sch. 1 para. 440(2)(c)(ii)**

219 The year after an ineffective change of accounting date

(1) This section applies to a tax year in which a person carries on a trade if—

(a) the tax year falls immediately after a tax year in which a change of accounting date occurs, and

(b) the basis period for the tax year in which the change occurs ends with the old accounting date.

(2) If the accounting date in the tax year is the new accounting date, a change of accounting date is treated as occurring in that tax year for the purposes of sections 216 to 220 (including this section).

(3) If the accounting date in the tax year reverts to the old accounting date, that change of accounting date is ignored for the purposes of—

(a) section 214, and

(b) sections 216 to 220 (including this section).

220 Deduction for overlap profit on change of accounting date

(1) This section applies for the purpose of calculating the profits of a trade of a tax year if—

(a) a change of accounting date occurs in the tax year, and

(b) the basis period for the tax year is longer than 12 months.

(2) A deduction must be made for overlap profit.

(3) The amount of the deduction is calculated as follows.

Step 1

Add together the overlap profit arising in all overlap periods ending before the end of the tax year.

Step 2

Subtract from that any deductions made under this section for previous tax years.

The balance is "the remaining overlap profit".

Step 3

Add together the number of days in all overlap periods ending before the end of the tax year.

Subtract from that the total number of days given by Step 5 on any previous occasions on which a deduction was made under this section.

The balance is "the number of days on which the remaining overlap profit arises".

Step 4

Divide the remaining overlap profit by the number of days on which the remaining overlap profit arises.

The result of this step is "one day's worth of remaining overlap profit".

Step 5

Subtract the number of days in the tax year from the number of days in the basis period.

The balance is "the number of days' worth of overlap profit that may be deducted on this occasion".

Step 6

Multiply one day's worth of remaining overlap profit (see Step 4) by the number of days' worth of overlap profit that may be deducted on this occasion (see Step 5).

The result of this step is the amount of the deduction.

(4) The above steps are expressed in terms of numbers of days in periods, but the person carrying on the trade 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) If the accounting date in the tax year is 31st March or 1st, 2nd, 3rd or 4th April, the person carrying on the trade may treat the basis period for the tax year as ending on 5th April for the purpose of calculating the amount of the deduction.

(6) If a period used in calculating the amount of the deduction contains a 29th February and—

(a) the accounting date in the tax year is 5th April, or

(b) the basis period for the tax year is treated under subsection (5) as ending on 5th April,

the person carrying on the trade may ignore the 29th February for the purpose of calculating the amount of the deduction.

Modifications etc. (not altering text)

C3 S. 220 excluded (with application in accordance with Sch. 1 para. 77 of the amending Act) by Finance Act 2022 (c. 3), **Sch. 1 para. 79**

Status:
Point in time view as at 06/04/2023.

Changes to legislation:
There are currently no known outstanding effects for the Income Tax (Trading and Other Income) Act 2005, Cross Heading: Special rules if accounting date changes.