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*Status: Point in time view as at 07/04/2005.*

*Changes to legislation: There are currently no known outstanding effects for the Finance Act 2002, Part 2. (See end of Document for details)*

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## SCHEDULES

### SCHEDULE 22

#### COMPUTATION OF PROFITS: ADJUSTMENT ON CHANGE OF BASIS

#### PART 2

#### GENERAL RULES

##### *Calculation of adjustment*

2 The amount of the adjustment is calculated as follows:

##### *First step*

Add together any amounts representing the extent to which, comparing the two bases, profits were understated (or losses overstated) on the old basis:

1. Receipts which on the new basis would have been brought into account in computing the profits of a period of account before the change of basis, to the extent that they were not so brought into account.
2. Expenses which on the new basis fall to be brought into account in computing the profits of a period of account after the change, to the extent that they were brought into account in computing the profits of a period of account before the change of basis.
3. Deductions in respect of opening trading stock or opening work in progress in the first period of account on the new basis, to the extent that they—
  - (a) are not matched by credits in respect of closing trading stock or closing work in progress in the last period of account before the change, or
  - (b) are calculated on a different basis that if used to calculate those credits would have given a higher figure.
4. Amounts recognised for accounting purposes in respect of depreciation in the last period of account before the change, to the extent that they were not the subject of an adjustment for [<sup>F1</sup>corporation tax purposes], where such an adjustment would be required on the new basis.

##### *Second step*

Then deduct any amounts representing the extent to which, comparing the two bases, profits were overstated (or losses understated) on the old basis:

1. Receipts which were brought into account in a period of account before the change, to the extent that they would not have been so brought into account if the profits had been computed on the new basis.
2. Expenses which were not brought into account in computing the profits of a period of account before the change, to the extent that they—

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- (a) would have been brought into account for a period of account before the change if the profits had been computed on the new basis, and
  - (b) would have been brought into account for a period of account after the change if the profits had continued to be computed on the old basis.
3. Credits in respect of closing trading stock or closing work in progress in the last period of account before the change of basis, to the extent that they—
- (a) are not matched by deductions in respect of opening trading stock or opening work in progress in the first period of account on the new basis, or
  - (b) are calculated on a different basis that if used to calculate those deductions would have given a lower figure.

An amount so deducted may not be deducted again in computing the profits of a period of account.

**Textual Amendments**

**F1** Words in Sch. 22 para. 2 substituted (6.4.2005) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\), s. 883\(1\), Sch. 1 para. 578\(2\)](#) (with Sch. 2)

*Meaning of items being brought into account*

- 3 (1) The references in paragraph 2 to items being brought into account in a period of account before the change of basis are to their being brought into account—
- (a) in computing the profits of the same trade, profession or vocation, and
  - (b) in accordance with the law or practice then applicable.
- (2) For the purposes of sub-paragraph (1)(a) a trade [<sup>F2</sup>is not regarded as the same if section 337(1) of the Taxes Act 1988 applies (companies beginning or ceasing to carry on trade).]
- (3) For the purposes of sub-paragraph (1)(b) the practice applicable in any case means the accepted practice in cases of that description as to how profits should be computed for the purposes of Case I or II of Schedule D.

**Textual Amendments**

**F2** Words in Sch. 22 para. 3(2) substituted (6.4.2005) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\), s. 883\(1\), Sch. 1 para. 578\(3\)](#) (with Sch. 2)

*Giving effect to positive adjustment*

- [<sup>F3</sup>4 If the amount of the adjustment is positive, it is chargeable to corporation tax and is treated as receipt of the trade, profession or vocation arising on the [<sup>F4</sup>first day] of the first period of account for which the new basis is adopted.]

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**Textual Amendments**

- F3** Sch. 22 para. 4 substituted (6.4.2005) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\), s. 883\(1\)](#), [Sch. 1 para. 578\(4\)](#) (with [Sch. 2](#))
- F4** Words in [Sch. 22 para. 4\(3\)](#) substituted (with effect in accordance with s. 81(3) of the amending Act) by virtue of [Finance Act 2005 \(c. 7\), s. 81\(2\)](#)

*Giving effect to negative adjustment*

- 5 (1) If the amount of the adjustment is negative, it is allowed as a deduction in computing profits.
- (2) An amount so allowed as a deduction in computing profits is treated as an expense of the trade, profession or vocation arising on the [<sup>F5</sup>first day] of the first period of account for which the new basis is adopted.

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**Textual Amendments**

- F5** Words in [Sch. 22 para. 5\(2\)](#) substituted (with effect in accordance with s. 81(3) of the amending Act) by [Finance Act 2005 \(c. 7\), s. 81\(2\)](#)

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