

INCOME TAX (TRADING AND OTHER INCOME) ACT 2005

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Part 2: Trading income

Chapter 18: Post-cessation receipts

Section 252: Transfer of trading stock or work in progress

1004. This section excludes from the charge on post-cessation receipts sums arising from the transfer of stock and work in progress. It is based on sections 103(3)(c), 104(6) and 110(6) of ICTA.
1005. *Subsection (1)* makes explicit the general rule that there is no tax charge on a post-cessation receipt arising from trading stock or work in progress.
1006. The policy is that stock and work in progress should be valued at cessation in accordance with the rules in Chapter 12 of this Part. Once that has been done there is no need to charge tax on any sums arising from the disposal or realisation of stock and work in progress.
1007. In the case of stock, section 173 of this Act requires a valuation on cessation in all cases. It follows that its value is taken into account in calculating the profits before the cessation. But the valuation rules apply to work in progress only “if ... the work in progress is valued” (section 182 of this Act). Such a valuation is made only by businesses whose accounts are drawn up on the earnings basis.
1008. When the charge on post-cessation receipts was extended to non-earnings basis cases in 1968 the exclusion for work in progress often did not apply because in many of those cases closing work in progress was not valued. The policy was to tax post-cessation receipts arising from work in progress (under section 104 of ICTA). Nowadays non-earnings basis cases are much rarer.
1009. A valuation of work in progress is not required for barristers and advocates within section 160 of this Act. So, in these non-earnings basis cases, receipts from work in progress after the cessation are charged to tax.
1010. *Subsection (2)* is a signpost to the rule that allows a taxpayer to value work in progress at cost and to have the profit element of a sum received later for work in progress taxed as a post-cessation receipt.