



Income Tax (Trading and Other Income) Act 2005

2005 CHAPTER 5

PART 2

TRADING INCOME

CHAPTER 12

TRADE PROFITS: VALUATION OF STOCK AND WORK IN PROGRESS [^{F1} ON CESSATION OF TRADE]

Textual Amendments

- F1** Words in Pt. 2 Ch. 12 heading inserted (with effect in accordance with s. 37(2) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 15 para. 3](#)

Valuation of trading stock

173 Valuation of trading stock on cessation

- (1) If a person permanently ceases to carry on a trade, in calculating the profits of the trade—
 - (a) trading stock belonging to the trade at the time of the cessation must be valued, and
 - (b) the value must be determined in accordance with sections 175 to 178 (bases of valuation).
- (2) But no valuation of the stock is required under this Chapter if [^{F2}section 147(3) or (5) of TIOPA 2010] (provision not at arm's length) has effect in relation to any provision which—

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- (a) is made or imposed in relation to the stock, and
- (b) has effect in connection with the cessation.

[^{F3}(2A) Subsection (2B) applies if—

- (a) by virtue of subsection (2), no valuation of the stock under this Chapter is required, and
- (b) the market value of the stock is greater than the Part 4 TIOPA amount.

(2B) An amount equal to the market value of the stock less the Part 4 TIOPA amount is to be brought into account in calculating the profits of the trade (in addition to the Part 4 TIOPA amount).

(2C) In subsections (2A) and (2B)—

“market value”, in relation to stock, is the value the stock would have been determined to have if it had been valued in accordance with sections 175 to 178, and

“Part 4 TIOPA amount” is the amount which, following the application of Part 4 of TIOPA 2010 in relation to the provision referred to in subsection (2), is brought into account in respect of that provision in calculating the profits of the trade.]

- (3) If there is a change in the persons carrying on a trade, no valuation of the stock is required under this Chapter so long as a person carrying on the trade immediately before the change continues to carry it on after the change.
- (4) If an individual carries on a trade alone, no valuation of the stock is required under this Chapter if the cessation is because of the individual's death.

Textual Amendments

- F2** Words in s. 173(2) substituted (1.4.2010) (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 122](#) (with [Sch. 9 paras. 1-9, 22](#))
- F3** [S. 173\(2A\)-\(2C\)](#) inserted (with application in accordance with s. 41(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\), s. 41\(2\)](#)

174 Meaning of “trading stock”

(1) In this Chapter “trading stock” means—

- (a) any property (whether land or other property) which is sold in the ordinary course of the trade or would be so sold if it were mature or its manufacture, preparation or construction were complete, or
- (b) materials used in the manufacture, preparation or construction of any property mentioned in paragraph (a).

(2) In this Chapter “trading stock” includes also any services performed in the ordinary course of the trade—

- (a) the performance of which is wholly or partly completed at the time of the cessation, and
- (b) for which it would be reasonable to expect that a charge would be made if there were no cessation and, in the case of partly completed services, their performance were fully completed,

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and any article produced, and any material used, in the performance of any such services.

- (3) In this Chapter references to the sale or transfer of trading stock include the sale or transfer of any benefits and rights which accrue, or might reasonably be expected to accrue, from the performance of any such services.

175 Basis of valuation of trading stock

- (1) The value of trading stock belonging to the trade at the time of the cessation is determined as follows.
- (2) If the stock is sold to a person who—
- (a) carries on, or intends to carry on, a trade^{F4}, profession or vocation] in the United Kingdom, and
 - (b) is entitled to deduct the cost of the stock as an expense in calculating the profits of that trade^{F5}, profession or vocation] for income or corporation tax purposes,
- the value is determined in accordance with section 176 (sale to unconnected person), 177 (sale to connected person) or 178 (election by connected persons).
- (3) But if section 127 (preventing abuse of the herd basis rules) applies—
- (a) the value is not determined in accordance with any of those sections, and
 - (b) the value is instead taken to be that given by section 127 (the price which the animals transferred would have fetched if sold in the open market at the time of the sale).
- (4) In any other case, the value is taken to be the amount which the stock would have realised if sold in the open market at the time of the cessation.

Textual Amendments

- F4** Words in s. 175(2)(a) inserted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\), s. 1329\(1\), Sch. 1 para. 605\(a\)](#) (with [Sch. 2 Pts. 1, 2](#))
- F5** Words in s. 175(2)(b) inserted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\), s. 1329\(1\), Sch. 1 para. 605\(b\)](#) (with [Sch. 2 Pts. 1, 2](#))

176 Sale basis of valuation: sale to unconnected person

- (1) The value of trading stock is determined in accordance with this section if—
- (a) it is sold to a person who carries on, or intends to carry on, a trade^{F6}, profession or vocation] in the United Kingdom and is entitled to deduct the cost of the stock as an expense in calculating the profits of that trade^{F6}, profession or vocation] for income or corporation tax purposes, and
 - (b) the buyer is not connected with the seller.
- (2) The value is taken to be the amount in fact realised on the sale.
- (3) If the stock is sold together with other assets, so much of the amount realised on the sale as, on a just and reasonable apportionment, is properly attributable to each asset is treated as the amount realised on the sale of that asset.

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Textual Amendments

- F6** Words in s. 176(1)(a) inserted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 606** (with Sch. 2 Pts. 1, 2)

177 Sale basis of valuation: sale to connected person

- (1) The value of trading stock is determined in accordance with this section if—
- it is sold to a person who carries on, or intends to carry on, a trade^{F7}, profession or vocation] in the United Kingdom and is entitled to deduct the cost of the stock as an expense in calculating the profits of that trade^{F7}, profession or vocation] for income or corporation tax purposes,
 - the buyer is connected with the seller, and
 - no election is made under section 178 (election by connected persons).
- (2) The value is taken to be the amount which would have been realised if the sale had been between independent persons dealing at arm's length.

Textual Amendments

- F7** Words in s. 177(1)(a) inserted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 607** (with Sch. 2 Pts. 1, 2)

178 Sale basis of valuation: election by connected persons

- (1) The value of trading stock is determined in accordance with this section if—
- it is sold to a person who carries on, or intends to carry on, a trade^{F8}, profession or vocation] in the United Kingdom and is entitled to deduct the cost of the stock as an expense in calculating the profits of that trade^{F8}, profession or vocation] for income or corporation tax purposes,
 - the buyer is connected with the seller, and
 - an election is made under this section.
- (2) The parties to the sale may make an election under this section if the value of the stock determined under section 177 exceeds both—
- its acquisition value, and
 - the amount in fact realised on the sale.
- (3) If an election is made, the value is taken to be—
- its acquisition value, or,
 - if greater, the amount in fact realised on the sale.
- (4) An election under this section must be made by both parties on or before the first anniversary of the normal self-assessment filing date for the tax year in which the cessation occurred.
- (5) The “acquisition value” of trading stock means the amount which would have been deductible as representing its acquisition value, in calculating the profits of the trade, on the following assumptions—

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- (a) that the stock had been sold in the course of the trade, immediately before the cessation, for a price equal to the value of the stock determined under section 177, and
 - (b) that the period for which those profits were to be calculated began immediately before the sale.
- (6) If the stock is sold together with other assets, so much of the amount realised on the sale as, on a just and reasonable apportionment, is properly attributable to each asset is treated as the amount realised on the sale of that asset.

Textual Amendments

- F8** Words in s. 178(1)(a) inserted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), s. 1329(1), **Sch. 1 para. 608** (with [Sch. 2 Pts. 1, 2](#))

179 Connected persons

For the purposes of sections 175 to 178 two persons are connected with each other if any of the following tests is met—

- (a) they are connected with each other within the meaning of [^{F9}section 993 of ITA 2007] ,
- (b) one of them is a firm and the other has a right to a share of the assets or income of the firm,
- (c) one of them is a body corporate and the other has control over that body,
- (d) both of them are firms and some other person has a right to a share of the assets or income of both of them, or
- (e) both of them are bodies corporate, or one of them is a firm and the other is a body corporate, and in either case some other person has control over both of them.

Textual Amendments

- F9** Words in s. 179(a) substituted (6.4.2007 with effect as stated in [s. 1034\(1\)](#) of the amending Act) by [Income Tax Act 2007 \(c. 3\)](#), ss. 1027, 1034, **Sch. 1 para. 501** (with transitional provisions and savings in [Sch. 2](#))

180 Cost to buyer of stock valued on sale basis of valuation

- (1) This section applies for the purpose of calculating the profits of the trade[^{F10}, profession or vocation] carried on by the buyer of trading stock.
- (2) If the value of the stock is determined in accordance with—
 - (a) section 175(3) or sections 176 to 178 (sale basis of valuation), or
 - (b) [^{F11}section 164(3) or sections 165 to 167 of CTA 2009] (corresponding corporation tax rules),
 the cost of the stock to the buyer is taken to be the value as so determined.

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Textual Amendments

- F10** Words in s. 180(1) inserted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 609(2)** (with Sch. 2 Pts. 1, 2)
- F11** Words in s. 180(2)(b) substituted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 609(3)** (with Sch. 2 Pts. 1, 2)

181 Meaning of “sale” and related expressions

- (1) In sections 175 to 178 (except in section 178(5)) references to a sale include a transfer for valuable consideration.
- (2) In relation to a transfer which is not a sale—
- “amount realised on the sale” means the value of the consideration given for the transfer,
 - “buyer” means the person to whom the transfer is made, and
 - “seller” means the person who makes the transfer.

Valuation of work in progress

182 Valuation of work in progress on cessation

- (1) If—
- (a) a person permanently ceases to carry on a profession or vocation, and
 - (b) the work in progress is valued in calculating the profits of the profession or vocation,
- the value must be determined in accordance with section 184 (basis of valuation of work in progress) or 185 (election for valuation at cost).
- (2) If there is a change in the persons carrying on a profession, subsection (1) does not apply so long as a person carrying on the profession immediately before the change continues to carry it on after the change.
- (3) If an individual carries on a profession alone or a vocation, subsection (1) does not apply if the cessation is because of the individual's death.

183 Meaning of “work in progress”

- (1) In this Chapter “work in progress” means services performed in the ordinary course of the profession or vocation—
- (a) the performance of which is wholly or partly completed at the time of the cessation, and
 - (b) for which it would be reasonable to expect that a charge would be made if there were no cessation and, in the case of partly completed services, their performance were fully completed,
- and includes any article produced, and any material used, in the performance of any such services.

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- (2) In this Chapter references to the transfer of work in progress include the transfer of any benefits and rights which accrue, or might reasonably be expected to accrue, from the performance of any such services.

184 Basis of valuation of work in progress

- (1) If the work in progress is transferred for money or other valuable consideration to a person who—
- (a) carries on, or intends to carry on, a [^{F12}trade,] profession or vocation in the United Kingdom, and
 - (b) is entitled to deduct the cost of the work as an expense in calculating the profits of that [^{F13}trade,] profession or vocation for income or corporation tax purposes,
- the value of the work is taken to be the amount paid or other consideration given for the transfer.
- (2) In any other case, the value of the work is taken to be the amount which would have been paid for a transfer of the work at the time of the cessation as between independent parties dealing at arm's length.
- (3) These rules are subject to any election under section 185 (election for valuation at cost).

Textual Amendments

- F12** Word in s. 184(1)(a) inserted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\), s. 1329\(1\), Sch. 1 para. 610\(a\)](#) (with [Sch. 2 Pts. 1, 2](#))
- F13** Word in s. 184(1)(b) inserted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\), s. 1329\(1\), Sch. 1 para. 610\(b\)](#) (with [Sch. 2 Pts. 1, 2](#))

185 Election for valuation at cost

- (1) The person who was carrying on the profession or vocation immediately before the cessation may elect that—
- (a) the value of work in progress brought into account in calculating the profits of the period immediately before the cessation is to be the actual cost of the work, and
 - (b) the amount by which any sums received for the transfer of the work exceed the actual cost of the work is to be treated as a post-cessation receipt (see Chapter 18).
- (2) An election under this section must be made on or before the first anniversary of the normal self-assessment filing date for the tax year in which the cessation occurred.

Supplementary

186 Determination of questions ^{F14}...

- (1) Any question arising under—

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- (a) section 175(3) or sections 176 to 178 (sale basis of valuation of trading stock),
or
 - (b) section 184(1) (valuation of work in progress transferred for valuable consideration),
- must be determined ^{F15}... in the same way as an appeal.

^{F16}(2)

^{F16}(3)

^{F16}(4)

Textual Amendments

- F14** Words in s. 186 heading omitted (1.4.2009) by virtue of [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 439(2)**
- F15** Words in s. 186(1) omitted (1.4.2009) by virtue of [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 439(3)**
- F16** S. 186(2)-(4) omitted (1.4.2009) by virtue of [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 439(4)**

Status:

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