



Income Tax Act 2007

2007 CHAPTER 3

PART 4

LOSS RELIEF

CHAPTER 2

TRADE LOSSES

Early trade losses relief

72 Relief for individuals for losses in first 4 years of trade

- (1) An individual may make a claim for early trade losses relief if the individual makes a loss in a trade—
 - (a) in the tax year in which the trade is first carried on by the individual, or
 - (b) in any of the next 3 tax years.
- (2) The claim is for the loss to be deducted in calculating the individual's net income for the 3 tax years before the one in which the loss is made (see Step 2 of the calculation in section 23).
- (3) The claim must be made on or before the first anniversary of the normal self-assessment filing date for the tax year in which the loss is made.
- (4) This section applies to professions and vocations as it applies to trades.
- (5) This section needs to be read with—
 - (a) section 73 (how relief works),
 - (b) section 74 (restrictions on the relief [^{F1}unless trade is commercial etc]),
 - [^{F2}(ba) sections [^{F3}74ZA] to 74D (general restrictions on relief),]
 - (c) sections 75 to 79 (restrictions on the relief and trade loss relief against general income in relation to capital allowances), [^{F4} and]

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Changes to legislation: There are currently no known outstanding effects for the Income Tax Act 2007. Cross Heading: Early trade losses relief. (See end of Document for details)

- (d) section 80 (restrictions on those reliefs in relation to ring fence income),
- ^{F5}(e)
- ^{F6}(f)

Textual Amendments

F1 Words in s. 72(5)(b) inserted (21.7.2008 with effect in accordance with Sch. 21 paras. 6, 7 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 21 para. 5(a)**

F2 S. 72(5)(ba) inserted (21.7.2008 with effect in accordance with Sch. 21 paras. 6, 7 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 21 para. 5(b)**

F3 Word in s. 72(5)(ba) substituted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), **Sch. 3 para. 4(a)**

F4 Word in s. 72(5)(c) inserted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), **Sch. 3 para. 4(b)**

F5 S. 72(5)(e) omitted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by virtue of [Finance Act 2010 \(c. 13\)](#), **Sch. 3 para. 4(c)**

F6 S. 72(5)(f) and word omitted (21.7.2008 with effect in accordance with s. 66(8) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), **s. 66(4)(1)(ii)**

73 How relief works

This section explains how the deductions are made for the 3 tax years mentioned in section 72(2). The amount of the loss to be deducted at any step is limited in accordance with section 25(4) and (5).

Step 1

Deduct the loss in calculating the individual's net income for the earliest of the 3 tax years.

Step 2

Deduct any part of the loss not deducted at Step 1 in calculating the individual's net income for the next tax year.

Step 3

Deduct any part of the loss not deducted at Step 1 or 2 in calculating the individual's net income for the latest of the 3 tax years.

Other claims

If the loss has not been deducted in full at Steps 1 to 3, the individual may use the part not so deducted in giving effect to any other relief under this Chapter (depending on the terms of the relief).

74 Restrictions on relief unless trade is commercial etc

- (1) Early trade losses relief for a loss made by an individual in a trade in a tax year is not available unless the trade is commercial.
- (2) The trade is commercial if it is carried on throughout the basis period for the tax year—
 - (a) on a commercial basis, and

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- (b) in such a way that profits of the trade could reasonably be expected to be made in the basis period or within a reasonable time afterwards.
- (3) If the trade forms part of a larger undertaking, the reference to profits of the trade is to be read as a reference to profits of the undertaking as a whole.
- (4) Early trade losses relief for a loss made by an individual is not available if—
 - (a) the individual first carries on the trade at a time when the individual has a spouse or civil partner and is living with the spouse or civil partner,
 - (b) the spouse or civil partner previously carried on the trade, and
 - (c) the loss is made in a tax year falling after the relevant 4 year period.
- (5) The relevant 4 year period comprises—
 - (a) the tax year in which the spouse or civil partner first carried on the trade, and
 - (b) the next 3 tax years.
- (6) This section applies to professions and vocations as it applies to trades.

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