



Corporation Tax Act 2010

2010 CHAPTER 4

PART 2

CALCULATION OF LIABILITY IN RESPECT OF PROFITS

CHAPTER 1

INTRODUCTION

2 Overview of Part

- (1) This Part contains provisions that relate to the calculation of the corporation tax chargeable on a company's profits of an accounting period.
- (2) Chapter 2 is about the rates at which corporation tax on profits is charged.
- (3) Chapter 3 is about ascertaining the amount of a company's profits of an accounting period to which the rates of corporation tax applicable to the company are applied.
- (4) Chapter 4 makes provision about the currency in which a company must calculate and express its profits for corporation tax purposes.
- (5) For provision about the calculation of the corporation tax payable for an accounting period see paragraph 8 of Schedule 18 to FA 1998.

CHAPTER 2

RATES AT WHICH CORPORATION TAX ON PROFITS CHARGED

3 Corporation tax rates

- (1) Corporation tax is charged at the rate set by Parliament for the financial year ("the main rate").

Status: Point in time view as at 01/04/2010.

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- (2) Section 18 provides for tax to be charged at the small profits rate instead of the main rate in certain cases.
- (3) In this Act “the small profits rate” means a rate that is—
- (a) lower than the main rate, and
 - (b) set by Parliament as the small profits rate.

CHAPTER 3

CALCULATION OF AMOUNT TO WHICH RATES APPLIED

4 Amount of profits to which corporation tax rates applied

- (1) In the calculation under paragraph 8(1) of Schedule 18 to FA 1998 of the amount of corporation tax payable for an accounting period of a company, the first step is to apply the rate or rates of corporation tax applicable to the profits of the company of the period on which tax is chargeable.

- (2) The profits of a company of an accounting period on which corporation tax is chargeable (in this Act referred to as the company's taxable total profits of the period) are found as follows—

Step 1

Find the company's total profits of the period (see subsection (3)).

Step 2

Deduct from the result of Step 1 any amounts which can be relieved against the company's total profits of the period.

- (3) To find a company's total profits of an accounting period take the following steps.

Step 1

Find the amount in respect of which the company is chargeable for the period under the charge to corporation tax on income after any reduction required to give effect to relief from tax.

Step 2

Add to the result of Step 1 any amount to be included in respect of chargeable gains in the company's total profits of the accounting period (see section 8 of TCGA 1992) after any reduction required to give effect to relief from tax.

- (4) Subsections (2) and (3) are subject to the provisions of the Corporation Tax Acts.

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CHAPTER 4

CURRENCY

The currency to be used in tax calculations

5 Basic rule: sterling to be used

- (1) For corporation tax purposes the income and chargeable gains of a company for an accounting period must be calculated and expressed in sterling.
- (2) See the following sections for provision about the application of subsection (1) in certain cases where profits or losses fall to be calculated in accordance with generally accepted accounting practice—
 - section 6 (UK resident company operating in sterling and preparing accounts in another currency),
 - section 7 (UK resident company operating in currency other than sterling and preparing accounts in another currency),
 - section 8 (UK resident company preparing accounts in currency other than sterling),
 - section 9 (non-UK resident company preparing accounts in currency other than sterling).

6 UK resident company operating in sterling and preparing accounts in another currency

- (1) This section applies if, for a period of account, in accordance with generally accepted accounting practice, a UK resident company—
 - (a) prepares its accounts in a currency other than sterling, and
 - (b) in those accounts identifies sterling as its functional currency.
- (2) Profits or losses of the company for the period that fall to be calculated in accordance with generally accepted accounting practice for corporation tax purposes must be calculated in sterling as if the company prepared its accounts in sterling.

7 UK resident company operating in currency other than sterling and preparing accounts in another currency

- (1) This section applies if, for a period of account, in accordance with generally accepted accounting practice—
 - (a) a UK resident company prepares its accounts in one currency,
 - (b) in those accounts it identifies another currency as its functional currency, and
 - (c) that other currency is not sterling.
- (2) Profits or losses of the company for the period that fall to be calculated in accordance with generally accepted accounting practice for corporation tax purposes must be calculated in sterling as follows—

Step 1

Calculate those profits or losses in the functional currency as if the company prepared its accounts in that currency.

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Step 2

Take the sterling equivalent of those profits or losses (see section 11).

- (3) If this section applies, assume that any sterling amount mentioned in the Corporation Tax Acts is its equivalent expressed in the functional currency of the company.

8 UK resident company preparing accounts in currency other than sterling

- (1) This section applies if, for a period of account—
- (a) a UK resident company prepares its accounts in a currency other than sterling (the “accounts currency”), and
 - (b) neither section 6 nor section 7 applies.
- (2) Profits or losses of the company for the period that fall to be calculated in accordance with generally accepted accounting practice for corporation tax purposes must be calculated in sterling as follows—

Step 1

Calculate those profits or losses in the accounts currency.

Step 2

Take the sterling equivalent of those profits or losses (see section 11).

- (3) If this section applies, assume that any sterling amount mentioned in the Corporation Tax Acts is its equivalent expressed in the accounts currency of the company.

9 Non-UK resident company preparing return of accounts in currency other than sterling

- (1) This section applies if—
- (a) a non-UK resident company carries on a trade in the United Kingdom through a permanent establishment in the United Kingdom, and
 - (b) for a period of account, the company prepares its return of accounts in a currency other than sterling (the “accounts currency”).
- (2) Profits or losses of the company for the period that fall to be calculated in accordance with generally accepted accounting practice for corporation tax purposes must be calculated in sterling as follows—

Step 1

Calculate those profits or losses in the accounts currency.

Step 2

Take the sterling equivalent of those profits or losses (see section 11).

- (3) If this section applies, assume that any sterling amount mentioned in the Corporation Tax Acts is its equivalent expressed in the accounts currency of the company.
- (4) The reference in subsection (1) to the company's “return of accounts” is to a return of such accounts of its permanent establishment in the United Kingdom as may be required under paragraph 3 of Schedule 18 to FA 1998 (company tax returns).

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Translating amounts into other currencies

10 The equivalent in another currency of a sterling amount

- (1) Subsection (2) applies if, for the purposes of calculating the profits or losses of a company arising in an accounting period, section 7(3), 8(3) or 9(3) requires a sterling amount to be translated into its equivalent expressed in another currency.
- (2) The translation must be made by reference to—
 - (a) the average exchange rate for the accounting period, or
 - (b) the rate mentioned in subsection (3).
- (3) That rate is—
 - (a) if the amount to be translated relates to a single transaction, an appropriate spot rate of exchange for the transaction, or
 - (b) if the amount to be translated relates to more than one transaction, a rate of exchange derived on a just and reasonable basis from appropriate spot rates of exchange for those transactions.

11 Sterling equivalents: basic rule

- (1) Subsection (2) applies if, for the purposes of calculating the profits or losses of a company arising in an accounting period, section 7(2), 8(2) or 9(2) requires a profit or loss to be translated into its sterling equivalent.
- (2) The translation must be made by reference to—
 - (a) the average exchange rate for the accounting period, or
 - (b) the rate mentioned in subsection (3).
- (3) That rate is—
 - (a) if the amount to be translated relates to a single transaction, an appropriate spot rate of exchange for the transaction, or
 - (b) if the amount to be translated relates to more than one transaction, a rate of exchange derived on a just and reasonable basis from appropriate spot rates of exchange for those transactions.
- (4) Subsection (2) is subject to sections 12 and 13 (special rules where the translation is for the purpose of calculating carried-forward or carried-back amounts).

12 Sterling equivalents: carried-back amounts

- (1) This section applies if, for the purpose of calculating a carried-back amount in respect of a company, a loss (“the loss”) is required by section 7(2), 8(2) or 9(2) to be translated into its sterling equivalent.
- (2) The translation must be made in accordance with whichever of the rules 1, 2 and 3 is applicable (see the table below).

Rule 1 applies if the later tax calculation currency is the same as the earlier tax calculation currency.	Rule 1 is that the loss must be translated into its sterling equivalent by reference to the same rate of exchange as that at which the profit against which the carried-back
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amount is to be set off is required to be translated under section 11.

Rule 2 applies if—

- (a) the later tax calculation currency is not the same as the earlier tax calculation currency, and
- (b) the earlier tax calculation currency is sterling.

Rule 2 is that the loss must be translated into its sterling equivalent by reference to the spot rate of exchange for the last day of the relevant accounting period.

Rule 3 applies if—

- (a) the later tax calculation currency is not the same as the earlier tax calculation currency, and
- (b) the earlier tax calculation currency is a currency other than sterling.

Rule 3 is that the loss must be translated into its sterling equivalent by—

- (a) being translated into the earlier tax calculation currency by reference to the spot rate of exchange for the last day of the relevant accounting period, and
- (b) then being translated into sterling by reference to the same rate of exchange as that at which the profit against which the carried-back amount is to be set off is required to be translated under section 11.

(3) In the table in subsection (2)—

“the earlier tax calculation currency” means the tax calculation currency of the company in the accounting period to which the carried-back amount is to be carried back,

“the later tax calculation currency” means the tax calculation currency of the company in the accounting period in which the loss arises, and

“the relevant accounting period” means the latest accounting period of the company that both—

- (a) ends before the accounting period in which the loss arises, and
- (b) is a period in which the tax calculation currency of the company is the same as the earlier tax calculation currency.

13 Sterling equivalents: carried-forward amounts

(1) This section applies if, for the purpose of calculating a carried-forward amount in respect of a company, a loss (“the loss”) is required by section 7(2), 8(2) or 9(2) to be translated into its sterling equivalent.

(2) The translation must be made in accordance with whichever of rules 1, 2 and 3 is applicable (see the table below).

Rule 1 applies if the earlier tax calculation currency is the same as the later tax calculation currency.

Rule 1 is that the loss must be translated into its sterling equivalent by reference to the same rate of exchange as that at which the profit against which the carried-forward amount is to be set off is required to be translated under section 11.

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| <p>Rule 2 applies if—</p> <ul style="list-style-type: none">(a) the earlier tax calculation currency is not the same as the later tax calculation currency, and(b) the later tax calculation currency is sterling. <p>Rule 3 applies if—</p> <ul style="list-style-type: none">(a) the earlier tax calculation currency is not the same as the later tax calculation currency, and(b) the later tax calculation currency is a currency other than sterling. | <p>Rule 2 is that the loss must be translated into its sterling equivalent by reference to the spot rate of exchange for the first day of the relevant accounting period.</p> <p>Rule 3 is that the loss must be translated into its sterling equivalent by—</p> <ul style="list-style-type: none">(a) being translated into the later tax calculation currency by reference to the spot rate of exchange for the first day of the relevant accounting period, and(b) then being translated into sterling by reference to the same rate of exchange as that at which the profit against which the carried-forward amount is to be set off is required to be translated under section 11. |
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- (3) In the table in subsection (2)—
- “the earlier tax calculation currency” means the tax calculation currency of the company in the accounting period in which the loss arises,
 - “the later tax calculation currency” means the tax calculation currency of the company in the accounting period to which the carried-forward amount is to be carried forward, and
 - “the relevant accounting period” means the earliest accounting period of the company that both—
 - (a) begins after the accounting period in which the loss arises, and
 - (b) is a period in which the tax calculation currency of the company is the same as the later tax calculation currency.

Adjustment of sterling losses

14 Carried-back amounts

- (1) This section applies if conditions A, B and C are met.
- (2) Condition A is that, in accordance with generally accepted accounting practice, a UK resident company—
 - (a) prepares its accounts for a period of account in sterling, or
 - (b) prepares its accounts for a period of account in a currency other than sterling and in those accounts identifies sterling as its functional currency.
- (3) Condition B is that a loss of the company for that period (“the loss”) which falls to be calculated in accordance with generally accepted accounting practice for corporation tax purposes is to be a carried-back amount.
- (4) Condition C is that the tax calculation currency of the company in the accounting period to which the loss is to be carried back (“the earlier tax calculation currency”) is a currency other than sterling.

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- (5) The loss must be adjusted by—
 - (a) first being translated into the earlier tax calculation currency by reference to the spot rate of exchange for the last day of the relevant accounting period, and
 - (b) then being translated into sterling by reference to the same rate of exchange as that at which the profit against which the carried-back amount is to be set off is required to be translated under section 11.
- (6) In this section “the relevant accounting period” means the latest accounting period of the company that both—
 - (a) ends before the accounting period in which the loss arises, and
 - (b) is a period in which the tax calculation currency of the company is the currency mentioned in subsection (4).

15 Carried-forward amounts

- (1) This section applies if conditions A, B and C are met.
- (2) Condition A is that, in accordance with generally accepted accounting practice, a UK resident company—
 - (a) prepares its accounts for a period of account in sterling, or
 - (b) prepares its accounts for a period of account in a currency other than sterling and in those accounts identifies sterling as its functional currency.
- (3) Condition B is that a loss of the company for that period (“the loss”) which falls to be calculated in accordance with generally accepted accounting practice for corporation tax purposes is to be a carried-forward amount.
- (4) Condition C is that the tax calculation currency of the company in the accounting period to which the loss is to be carried forward (“the later tax calculation currency”) is a currency other than sterling.
- (5) The loss must be adjusted by—
 - (a) first being translated into the later tax calculation currency by reference to the spot rate of exchange for the first day of the relevant accounting period, and
 - (b) then being translated into sterling by reference to the same rate of exchange as that at which the profit against which the carried-forward amount is to be set off is required to be translated under section 11.
- (6) In this section “the relevant accounting period” means the earliest accounting period of the company that both—
 - (a) begins after the accounting period in which the loss arises, and
 - (b) is a period in which the tax calculation currency of the company is the currency mentioned in subsection (4).

Interpretation

16 Sections 13(2) and 15(5): profit against which carried-forward amount to be set off

- (1) This section is about the interpretation of the references in sections 13(2) and 15(5) to the profit against which a carried-forward amount is to be set off, in a case where the carried-forward amount—

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- (a) is one that is treated as arising in an accounting period later than that in which it in fact arises, and
 - (b) is accordingly deductible in calculating a profit for that later period.
- (2) In such a case, the references are to be read as references to the profit in calculating which the amount is deductible, disregarding the deduction.

17 Interpretation of Chapter

- (1) References in this Chapter to the accounts of a UK resident company are to—
- (a) the annual accounts of the company required by Part 15 of the Companies Act 2006, or
 - (b) if the company is not required to prepare such accounts, the accounts which it is required to keep under the law of the territory under whose laws the company is incorporated, or
 - (c) if the company is not required to keep accounts as mentioned in paragraph (a) or (b), those accounts of the company that most closely correspond to accounts which it would have been required to prepare if the provisions of Part 15 of the Companies Act 2006 applied to it.
- (2) In this Chapter “carried-back amount” means—
- (a) an amount carried back under section 37 (relief for trade losses against total profits),
 - (b) an amount carried back under section 389(2) of CTA 2009 (deficits of insurance companies), or
 - (c) an amount carried back by virtue of a claim under section 459(1)(b) of CTA 2009 (non-trading deficits from loan relationships).
- (3) In this Chapter “carried-forward amount” means—
- (a) an amount carried forward under section 45 (carry forward of trade loss against subsequent trade profits),
 - (b) an amount carried forward under section 62(5) (UK property business losses),
 - (c) an amount carried forward under section 63(3) (company with investment business ceasing to carry on a UK property business),
 - (d) an amount carried forward under 66(3) (overseas property business losses),
 - (e) an amount carried forward under section 91(6) (losses from miscellaneous transactions),
 - (f) an amount carried forward under section 76(12) or (13) of ICTA (certain expenses of insurance companies),
 - (g) an amount carried forward under section 436A(4) of ICTA (insurance companies: losses from gross roll-up business),
 - (h) an amount carried forward under section 391(2) of CTA 2009 (deficits of insurance companies),
 - (i) an amount carried forward under section 457(3) of CTA 2009 (non-trading deficits from loan relationships),
 - (j) an amount carried forward under section 753(3) of CTA 2009 (non-trading loss on intangible fixed assets),
 - (k) an amount carried forward under section 925(3) of CTA 2009 (patent income: relief for expenses), or

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- (l) an amount carried forward under section 1223 of CTA 2009 (expenses of management and other amounts).
- (4) References in this Chapter to a company's functional currency are to the currency of the primary economic environment in which the company operates.
- (5) References in this Chapter to the tax calculation currency of a company in an accounting period are to the currency in which profits or losses of the company arising in that period that fall to be calculated in accordance with generally accepted accounting practice for corporation tax purposes are required to be calculated by virtue of section 5(1), section 6(2), Step 1 of section 7(2), Step 1 of section 8(2) or Step 1 of section 9(2).

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