

# Temporary Extension to Carry Back Loss Relief

In a bid to assist businesses who have been severely impacted by the COVID-19 pandemic, it was announced in the Budget that those who have suffered recent trading losses will be able to carry those losses back and offset them against profits made in the previous three years.

This article focuses on the rules for incorporated businesses (i.e. companies) but there are similar provisions available for losses made by unincorporated businesses such as sole traders or partnerships.

## What's changing?

As you may be aware a company can currently elect to carry back trading losses for one year to its previous accounting period.

The extended rules allow trading losses made during accounting periods ending between 1<sup>st</sup> April 2020 and 31<sup>st</sup> March 2022 to be carried back for up to three years.

## How does the relief work?

Losses must be carried back on a last in, first out basis i.e. losses must be used against profits arising in the latest year first before they can be used in earlier periods.

### Example:

Company A makes a trading loss of £1,000,000 for the accounting period ended 31<sup>st</sup> March 2021. Its historic results have been as follows:

	Profit
Year ended 31 <sup>st</sup> March 2020	£500,000
Year ended 31 <sup>st</sup> March 2019	£200,000
Year ended 31 <sup>st</sup> March 2018	£400,000

Using the extended loss carry back rules, Company A can carry back its losses as follows:

	Profit	Loss	Remaining Profit
Year ended 31 <sup>st</sup> March 2020	£500,000	£500,000	Nil
Year ended 31 <sup>st</sup> March 2019	£200,000	£200,000	Nil
Year ended 31 <sup>st</sup> March 2018	£400,000	£300,000	£100,000

As a result of the loss carry back claim Company A can obtain corporation tax relief of £190,000 (£1m x 19%). In the absence of these rules, immediate relief for only £500,000 of these losses would have been available so taking advantage of the extension to the rules is significantly beneficial.

## Are there any restrictions on the relief?

Trading losses carried back for one year can continue to be relieved on an unrestricted basis as normal.

The amount of trading losses that can be carried back to the two preceding accounting periods are subject to a £2m cap for each loss making year. This cap applies at group level so larger groups with significant losses will need to ensure that they are allocating this cap between them as appropriate.

Groups making smaller losses may not be subject to the cap at all. If the losses of each company within a group do not exceed £200,000, no restriction is applicable to the loss relief available even if the total loss claims exceed £2m.

The extension of relief only applies to trading losses – losses made by property letting businesses, capital losses and other non-trading losses remain subject to the normal rules.

### How do I make a claim?

A loss relief claim is ordinarily made within a corporation tax return and must be made within 2 years of the end of an accounting period.

However, the rules permit claims for losses not exceeding £200,000 to be made outside of the tax return so it may be possible to obtain relief without having to wait to submit a company tax return for the period in which the loss is incurred. We can assist you to make these earlier claims as appropriate.

**At the time of writing, HMRC have confirmed that they will be unable to give effect to claims or make corporation tax repayments which have arisen as a result of the extended loss carry back rules until Finance Bill 2021 receives Royal Assent. The Bill is expected to be passed before parliamentary recess in July but no firm timescales are currently available. Although no changes to the legislation are anticipated, claims cannot be made until the law has been changed.**

**It is still worth understanding how these rules can apply to your business and the relief that can be obtained but tax repayments will not be available until later this year.**

### Is a claim right for my company?

The extension of the loss relief rules should provide a welcome cash-flow benefit to businesses that have been impacted by the COVID-19 pandemic so making a claim for early loss relief is likely to be an exercise that will be worthwhile for many.

Whilst the loss relief extension may, depending on circumstances, provide immediate relief, we shouldn't forget that the rate of corporation tax is due to increase from 19% to 25% with effect from April 2023. Depending on a company's historic and anticipated results and its cash-flow requirements, it may well be worthwhile

holding on to trading losses and carrying them forward if they can be used in an accounting period ended after April 2023 as tax relief can be obtained at a higher rate.

In most cases it's likely that obtaining immediate relief will be the best option but the impact of the rate change is certainly something that should not be overlooked.

*If you have any queries regarding the changes to the loss relief rules and how they might benefit your business, please do not hesitate to contact us.*

### Contact us



#### Stephanie Hurst

Senior Corporate Tax Manager

E: [stephanie.hurst@monahans.co.uk](mailto:stephanie.hurst@monahans.co.uk)

T: 01793 818 300

[monahans.co.uk](http://monahans.co.uk)



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