



Income Tax (Trading and Other Income) Act 2005

2005 CHAPTER 5

PART 2

TRADING INCOME

CHAPTER 15

BASIS PERIODS

Special rules if accounting date changes

220 Deduction for overlap profit on change of accounting date

- (1) This section applies for the purpose of calculating the profits of a trade of a tax year if—
 - (a) a change of accounting date occurs in the tax year, and
 - (b) the basis period for the tax year is longer than 12 months.
- (2) A deduction must be made for overlap profit.
- (3) The amount of the deduction is calculated as follows.

Step 1

Add together the overlap profit arising in all overlap periods ending before the end of the tax year.

Step 2

Subtract from that any deductions made under this section for previous tax years.

The balance is “the remaining overlap profit”.

Changes to legislation: There are outstanding changes not yet made by the legislation.gov.uk editorial team to Income Tax (Trading and Other Income) Act 2005. Any changes that have already been made by the team appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes

Step 3

Add together the number of days in all overlap periods ending before the end of the tax year.

Subtract from that the total number of days given by Step 5 on any previous occasions on which a deduction was made under this section.

The balance is “the number of days on which the remaining overlap profit arises”.

Step 4

Divide the remaining overlap profit by the number of days on which the remaining overlap profit arises.

The result of this step is “one day's worth of remaining overlap profit”.

Step 5

Subtract the number of days in the tax year from the number of days in the basis period.

The balance is “the number of days' worth of overlap profit that may be deducted on this occasion”.

Step 6

Multiply one day's worth of remaining overlap profit (see Step 4) by the number of days' worth of overlap profit that may be deducted on this occasion (see Step 5).

The result of this step is the amount of the deduction.

- (4) The above steps are expressed in terms of numbers of days in periods, but the person carrying on the trade may use a different way of measuring the length of the periods concerned if—
- (a) it is reasonable to do so, and
 - (b) the way of measuring the length of periods is used consistently for the purposes of the trade.
- (5) If the accounting date in the tax year is 31st March or 1st, 2nd, 3rd or 4th April, the person carrying on the trade may treat the basis period for the tax year as ending on 5th April for the purpose of calculating the amount of the deduction.
- (6) If a period used in calculating the amount of the deduction contains a 29th February and—
- (a) the accounting date in the tax year is 5th April, or
 - (b) the basis period for the tax year is treated under subsection (5) as ending on 5th April,

the person carrying on the trade may ignore the 29th February for the purpose of calculating the amount of the deduction.

Modifications etc. (not altering text)

- C1** Pt. 2 Ch. 15 applied (with application in accordance with Sch. 1 para. 62 of the amending Act) by Finance Act 2022 (c. 3), **Sch. 1 para. 63**
- C2** Pt. 2 Ch. 15 applied (with application in accordance with Sch. 1 para. 64 of the amending Act) by Finance Act 2022 (c. 3), **Sch. 1 para. 65**

Changes to legislation: *There are outstanding changes not yet made by the legislation.gov.uk editorial team to Income Tax (Trading and Other Income) Act 2005. Any changes that have already been made by the team appear in the content and are referenced with annotations. (See end of Document for details) [View outstanding changes](#)*

C3 S. 220 excluded (with application in accordance with [Sch. 1 para. 77](#) of the amending Act) by [Finance Act 2022 \(c. 3\)](#), [Sch. 1 para. 79](#)

Changes to legislation:

There are outstanding changes not yet made by the legislation.gov.uk editorial team to Income Tax (Trading and Other Income) Act 2005. Any changes that have already been made by the team appear in the content and are referenced with annotations.

[View outstanding changes](#)

Changes and effects yet to be applied to the whole Act associated Parts and Chapters:

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 7A-7D inserted by [2022 c. 3 Sch. 1 para. 3](#)
- s. 31E(4) inserted by [2022 c. 3 Sch. 1 para. 7\(3\)](#)
- s. 649(1A)(1B) inserted by [2023 c. 30 Sch. 2 para. 11\(2\)](#)
- s. 679(3A) inserted by [2023 c. 30 Sch. 2 para. 11\(5\)\(b\)](#)
- s. 679A(3A) inserted by [2023 c. 30 Sch. 2 para. 11\(6\)\(b\)](#)
- s. 680(1A) inserted by [2023 c. 30 Sch. 2 para. 11\(7\)\(a\)](#)