# SCHEDULES

#### **SCHEDULE 4**

Section 17

#### CASH BASIS FOR SMALL BUSINESSES

#### PART 1

#### MAIN PROVISIONS

Introductory 1 Part 2 of ITTOIA 2005 (trading income) is amended as follows. Eligibility to calculate profits on cash basis Chapter 3 (trade profits: basic rules) is amended as follows. 2 F13 **Textual Amendments** Sch. 4 para. 3 omitted (with effect for the tax year 2024-25 and subsequent tax years) by virtue of Finance Act 2024 (c. 3), Sch. 10 paras. 46(a), 47 (with Sch. 10 paras. 48-50) F24 **Textual Amendments** Sch. 4 para. 4 omitted (with effect for the tax year 2024-25 and subsequent tax years) by virtue of Finance Act 2024 (c. 3), Sch. 10 paras. 46(a), 47 (with Sch. 10 paras. 48-50)

5 After Chapter 3 insert—

#### "CHAPTER 3A

TRADE PROFITS: CASH BASIS

**Eligibility** 

# Conditions to be met for profits to be calculated on cash basis

31A(1) A person may make an election under section 25A for a tax year if conditions A to C are met.

- (2) Condition A is that the aggregate of the cash basis receipts of each trade, profession or vocation carried on by the person during that tax year does not exceed any relevant maximum applicable for that tax year (see section 31B).
- (3) Condition B is that, in a case where the person is either an individual who controls a firm or a firm controlled by an individual—
  - (a) the aggregate of the cash basis receipts of each trade, profession or vocation carried on by the individual or the firm during that tax year does not exceed any relevant maximum applicable for that tax year, and
  - (b) the firm or the individual (as the case may be) has also made an election under section 25A for that tax year.
- (4) Condition C is that the person is not an excluded person in relation to the tax year (see section 31C).
- (5) For the purposes of this section, the "cash basis receipts" of a trade, profession or vocation, in relation to a tax year, are any receipts that—
  - (a) are received during the basis period for the tax year, and
  - (b) would be brought into account in calculating the profits of the trade, profession or vocation for that tax year on the cash basis.

#### Relevant maximum

- 31B(1) For the purposes of section 31A there is a "relevant maximum" applicable for a tax year in relation to a trade, profession or vocation carried on by a person if any of conditions A to C is met.
  - (2) Condition A is that an election under section 25A did not have effect in relation to the trade, profession or vocation for the previous tax year.
  - (3) Condition B is that the aggregate of the cash basis receipts of each trade, profession or vocation carried on by the person during the previous tax year is greater than an amount equal to twice the VAT threshold for that previous tax year.
  - (4) Condition C is that, in a case where the person is either an individual who controls a firm or a firm controlled by an individual, the aggregate of the cash basis receipts of each trade, profession or vocation carried on by the individual or the firm during the previous tax year is greater than an amount equal to twice the VAT threshold for that previous tax year.
  - (5) If there is a relevant maximum applicable for a tax year, the amount of the relevant maximum is—
    - (a) the VAT threshold, or
    - (b) in the case where the person is an individual who is a universal credit claimant in the tax year, an amount equal to twice the VAT threshold.
  - (6) For the purposes of this section, where the basis period for a tax year is less than 12 months, the VAT threshold is proportionately reduced.
  - (7) In this section—
    - "universal credit claimant", in relation to a tax year, means a person who is entitled to universal credit under the relevant

legislation for an assessment period (within the meaning of the relevant legislation) that falls within the basis period for the tax year,

"the relevant legislation" means—

- (a) Part 1 of the Welfare Reform Act 2012, or
- (b) any provision made for Northern Ireland which corresponds to that Part of that Act, and

"the VAT threshold", in relation to a tax year, means the amount specified at the end of that tax year in paragraph 1(1)(a) of Schedule 1 to VATA 1994.

- (8) The Treasury may by order amend this section.
- (9) A statutory instrument containing an order under subsection (8) that restricts the circumstances in which an election may be made under section 25A may not be made unless a draft of the instrument containing the order has been laid before, and approved by a resolution of, the House of Commons.

# **Excluded persons**

- 31C(1) A person is an excluded person in relation to a tax year if the person meets any of conditions A to H.
  - (2) Condition A is that—
    - (a) the person is a firm, and
    - (b) one or more of the persons who have been partners in the firm at any time during the basis period for the tax year was not an individual at that time.
  - (3) Condition B is that the person was a limited liability partnership at any time during the basis period for the tax year.
  - (4) Condition C is that the person is an individual who has been a Lloyd's underwriter at any time during the basis period for the tax year.
  - (5) Condition D is that the person has made an election under Chapter 8 (trade profits: herd basis rules) that has effect in relation to the tax year.
  - (6) Condition E is that the person has made a claim under section 221 (claim for averaging of fluctuating profits) in relation to the tax year.
  - (7) Condition F is that, at any time within the period of 7 years ending immediately before the basis period for the tax year, the person obtained an allowance under Part 3A of CAA 2001 (business premises renovation allowances).
  - (8) Condition G is that the person has carried on a mineral extraction trade at any time during the basis period for the tax year.
    - In this subsection "mineral extraction trade" has the same meaning as in Part 5 of CAA 2001 (see section 394(2) of that Act).
  - (9) Condition H is that—
    - (a) at any time before the beginning of the basis period for the tax year the person obtained an allowance under Part 6 of CAA 2001

(research and development allowances) in respect of qualifying expenditure incurred by the person, and

(b) the person owns an asset representing the expenditure.

In this subsection "qualifying expenditure" has the same meaning as in Part 6 of CAA 2001.

- (10) The Treasury may by order amend this section.
- (11) A statutory instrument containing an order under subsection (10) that restricts the circumstances in which an election may be made under section 25A may not be made unless a draft of the instrument containing the order has been laid before, and approved by a resolution of, the House of Commons.

#### Elections under section 25A

#### Effect of election under section 25A

- 31D(1) An election made by a person under section 25A has effect—
  - (a) for the tax year for which it is made, and
  - (b) for every subsequent tax year.

This is subject to subsections (2) and (3).

- (2) An election made by a person under section 25A ceases to have effect if any of conditions A to C in section 31A is not met for a subsequent tax year.
- (3) An election made by a person under section 25A ceases to have effect if—
  - (a) there is a change of circumstances relating to any trade, profession or vocation carried on by the person which makes it more appropriate for its profits for a subsequent tax year to be calculated in accordance with generally accepted accounting practice, and
  - (b) the person elects to calculate those profits in that way.
- (4) Neither subsection (2) nor subsection (3) prevents the person making an election under section 25A for any subsequent tax year.
- (5) An election that—
  - (a) is made by a person under section 25A, and
  - (b) has effect for a tax year,

has effect in relation to every trade, profession or vocation carried on by the person during the tax year.

(6) For provision prohibiting a person who has made an election under section 25A from claiming any capital allowances (other than in respect of expenditure incurred on the provision of a car), see section 1(4) of CAA 2001.

# Calculation of profits on cash basis

# Calculation of profits on cash basis

31E (1) This section applies to professions and vocations as it applies to trades.

- (2) To determine the profits of a trade for a tax year on the cash basis—
  - Step 1 Calculate the total amount of receipts of the trade received during the basis period for the tax year.
  - Step 2 Deduct from that amount the total amount of expenses of the trade paid during the basis period for the tax year.
- (3) Subsection (2) is subject to any adjustment required or authorised by law in calculating profits for income tax purposes.

# Overview of rest of Part 2

# Overview of rest of Part 2 as it applies to cash basis

- 31F (1) For provision about the application of Chapters 4 to 6 (rules about deductions and receipts) in relation to the cash basis, see sections 32A, 56A and 95A.
  - (2) For provision about the application of Chapter 11 (trade profits: other specific trades) in relation to the cash basis, see section 148K.
  - (3) The following Chapters apply only where profits are calculated on the cash basis—

Chapter 6A (trade profits: amounts not reflecting commercial transactions),

Chapter 17A (cash basis: adjustments for capital allowances).

(4) The following Chapters do not apply in relation to the cash basis—

Chapter 8 (trade profits: herd basis rules),

Chapter 9 (trade profits: sound recordings),

Chapter 10 (trade profits: certain telecommunication rights),

Chapter 10A (leases of plant or machinery: special rules for long funding leases),

Chapter 11A (trade profits: changes in trading stock),

Chapter 13 (deductions from profits: unremittable amounts),

Chapter 14 (disposal and acquisition of know-how),

Chapter 16 (averaging profits of farmers and creative artists),

Chapter 16ZA (compensation for compulsory slaughter of animal),

Chapter 16A (oil activities)."

#### Rules restricting deductions

- 6 Chapter 4 (trade profits: rules restricting deductions) is amended as follows.
- 7 After section 32 insert—

#### "Cash basis accounting

#### 32A Application of Chapter to the cash basis

(1) The following sections do not apply in calculating the profits of a trade on the cash basis—

section 33 (capital expenditure), section 35 (bad and doubtful debts), sections 36 and 37 (unpaid remuneration), section 43 (employee benefit contributions: profits calculated before end of 9 month period), sections 48 to 50B (car hire).

(2) For rules restricting deductions that apply only where profits are calculated on the cash basis, see the following—

section 33A (cash basis: capital expenditure), section 51A (cash basis: interest payments on loans)."

8 After section 33 insert—

# "33A Cash basis: capital expenditure

- (1) In calculating the profits of a trade on the cash basis, no deduction is allowed for items of a capital nature, other than expenditure that—
  - (a) if it were not allowable as a deduction in calculating the profits of the trade, would be qualifying expenditure within the meaning of Part 2 of CAA 2001 (plant and machinery allowances), and
  - (b) is not expenditure incurred on the provision of a car.
- (2) In this section "car" has the same meaning as in Part 2 of CAA 2001 (see section 268A of that Act)."
- In section 38 (restriction of deductions in respect of employee benefit contributions), after subsection (2) insert—
  - "(2A) In calculating for income tax purposes the profits of a trade on the cash basis, this section has effect as if—
    - (a) in subsection (1), the words "or to be made" were omitted, and
    - (b) in subsection (2), the words "or within 9 months from the end of it" were omitted (in both places)."

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#### **Textual Amendments**

- F3 Sch. 4 para. 10 omitted (with effect for the tax year 2024-25 and subsequent tax years) by virtue of Finance Act 2024 (c. 3), Sch. 10 paras. 46(a), 47 (with Sch. 10 paras. 48-50)
- 11 (1) Section 55A (expenditure on integral features) is amended as follows.
  - (2) The existing provision becomes subsection (1).
  - (3) After that subsection insert—
    - "(2) But section 33A(3) of CAA 2001 does not apply in calculating the profits of a trade on the cash basis."

#### Rules allowing deductions

12 Chapter 5 (trade profits: rules allowing deductions) is amended as follows.

#### 13 After section 56 insert—

# "Cash basis accounting

# 56A Application of Chapter to the cash basis

(1) The following sections do not apply in calculating the profits of a trade on the cash basis—

sections 60 to 67 (tenants under taxed leases), section 68 (replacement and alteration of trade tools).

(2) For rules allowing deductions that apply only where profits are calculated on the cash basis, see the following—

section 57B (cash basis: interest payments on loans).

(3) In calculating the profits of a trade on the cash basis, any reference in this Chapter to the incurring of expenses is to be read as a reference to the paying of expenses."

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#### **Textual Amendments**

F4 Sch. 4 para. 14 omitted (with effect for the tax year 2024-25 and subsequent tax years) by virtue of Finance Act 2024 (c. 3), Sch. 10 paras. 46(a), 47 (with Sch. 10 paras. 48-50)

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#### **Textual Amendments**

- Sch. 4 para. 15 omitted (with effect for the tax year 2024-25 and subsequent tax years) by virtue of Finance Act 2024 (c. 3), Sch. 10 paras. 46(a), 47 (with Sch. 10 paras. 48-50)
- In section 72 (payroll deduction schemes: contributions to agents' expenses), after subsection (2) insert—
  - "(2A) In calculating the profits of the employer's trade on the cash basis, subsection (2) has effect as if paragraph (b) were omitted."
- In section 94A (costs of setting up SAYE option scheme or CSOP scheme), after subsection (4) insert—
  - "(5) But subsection (4) does not apply in calculating the profits of a trade on the cash basis."

# Receipts

- 18 Chapter 6 (trade profits: receipts) is amended as follows.
- 19 After section 95 insert—

#### "Cash basis accounting

# 95A Application of Chapter to the cash basis

For rules about receipts that apply only for the purpose of calculating profits on the cash basis, see the following—

section 96A (cash basis: capital receipts), section 97A (cash basis: value of trading stock on cessation of trade), section 97B (cash basis: value of work in progress on cessation of profession or vocation)."

#### 20 After section 96 insert—

# "96A Cash basis: capital receipts

- (1) This section applies if—
  - (a) the whole or part of any expenditure incurred in acquiring, creating or improving an asset has been brought into account in calculating the profits of a trade of a person on the cash basis, or
  - (b) the whole or part of any such expenditure would have been so brought into account if an election under section 25A had had effect in relation to the trade at the time the expenditure was paid.
- (2) The following amounts are to be brought into account as a receipt in calculating the profits of the trade on the cash basis—
  - (a) any proceeds arising from the disposal of the asset or any part of it;
  - (b) any proceeds arising from the grant of any right in respect of, or any interest in, the asset;
  - (c) any amount of damages, proceeds of insurance or other compensation received in respect of the asset.
- (3) In a case where only part of the expenditure incurred in acquiring, creating or improving an asset has been, or would have been, brought into account as mentioned in subsection (1), the amount brought into account under subsection (2) is proportionately reduced.
- (4) If—
  - (a) at any time the person ceases to use the asset or any part of it for the purposes of the trade, but
  - (b) the person does not dispose of the asset (or that part) at that time, the person is to be regarded for the purposes of this section as disposing of the asset (or that part) at that time for an amount equal to the market value amount.
- (5) If at any time there is a material increase in the person's non-business use of the asset or any part of it, the person is to be regarded for the purposes of this section as disposing of the asset (or that part) at that time for an amount equal to the relevant proportion of the market value amount.
- (6) For the purposes of subsection (5)—

- (a) there is an increase in a person's non-business use of an asset (or part of an asset) if—
  - (i) the proportion of the person's use of the asset (or that part) that is for the purposes of the trade decreases, and
  - (ii) the proportion of the person's use of the asset (or that part) that is for other purposes (the "non-business use") increases;
- (b) "the relevant proportion" is the difference between—
  - (i) the proportion of the person's use of the asset (or part of the asset) that is non-business use, and
  - (ii) the proportion of the person's use of the asset (or that part) that was non-business use before the increase mentioned in subsection (5).
- (7) In this section "the market value amount" means the amount that would be regarded as normal and reasonable—
  - (a) in the market conditions then prevailing, and
  - (b) between persons dealing with each other at arm's length in the open market."

## 21 After section 97 insert—

"Cash basis: value of stock and work in progress on cessation

# 97A Cash basis: value of trading stock on cessation of trade

- (1) This section applies if—
  - (a) a person permanently ceases to carry on a trade in a tax year, and
  - (b) an election under section 25A (cash basis for small businesses) has effect in relation to the trade for the tax year.
- (2) The value of any trading stock belonging to the trade at the time of the cessation is brought into account as a receipt in calculating the profits of the trade for the tax year.
- (3) The value is to be determined on a basis that is just and reasonable in all the circumstances.
- (4) If there is a change in the persons carrying on a trade, subsection (2) does not apply in relation to the trade so long as a person carrying on the trade immediately before the change continues to carry it on after the change.
- (5) In this section "trading stock" has the same meaning as in Chapter 12 (see section 174).
- (6) This section does not apply to professions or vocations.

# 97B Cash basis: value of work in progress on cessation of profession or vocation

- (1) This section applies if—
  - (a) a person permanently ceases to carry on a profession or vocation in a tax year, and

- (b) an election under section 25A (cash basis for small businesses) has effect in relation to the profession or vocation for the tax year.
- (2) The value of any work in progress at the time of the cessation is brought into account as a receipt in calculating the profits of the profession or vocation for the tax year.
- (3) The value is to be determined on a basis that is just and reasonable in all the circumstances.
- (4) If there is a change in the persons carrying on a profession, subsection (2) does not apply in relation to the profession so long as a person carrying on the profession immediately before the change continues to carry it on after the change.
- (5) In this section "work in progress" has the same meaning as in Chapter 12 (see section 183)."
- 22 (1) Section 105 (industrial development grants) is amended as follows.
  - (2) In subsection (2), at the end of paragraph (a) insert " (but see subsection (2A))".
  - (3) After that subsection insert—
    - "(2A) Subsection (2)(a) is to be disregarded in calculating the profits of a trade on the cash basis."

Amounts not reflecting commercial transactions

23 After Chapter 6 insert—

#### "CHAPTER 6A

TRADE PROFITS: AMOUNTS NOT REFLECTING COMMERCIAL TRANSACTIONS

#### **Professions and vocations**

106A The provisions of this Chapter apply to professions and vocations as they apply to trades.

#### **Application of Chapter**

106B This Chapter applies in calculating the profits of a person's trade for a period on the cash basis.

# Amounts not reflecting commercial transactions

106(1) This section applies if—

- (a) the person does anything in relation to the trade ("the relevant act"),
- (b) there is a difference between—
  - (i) the amount (if any) that, as a result of the relevant act, would (apart from this section) be brought into account in calculating the profits of the trade for the period, and

- (ii) the amount (if any) that would have been so brought into account had the relevant act consisted of a transaction between the person and another person dealing with each other at arm's length in the open market ("the arm's length amount"), and
- (c) the profits of the trade for the period are less than they would have been if the arm's length amount had been so brought into account.
- (2) The amount to be brought into account in calculating the profits of the trade for the period is an amount that is just and reasonable in all the circumstances.

# Capital receipts

Section 106C does not apply in relation to the relevant act if subsection (4) or (5) of section 96A (cash basis: capital receipts) applies in relation to that act.

#### Gifts to charities etc

106E Section 106C does not apply in relation to the relevant act if any of the provisions of Chapter 7 (trade profits: gifts to charities etc) applies in relation to that act."

#### Herd basis rules

In Chapter 8 (trade profits: herd basis rules), after section 111 insert—

#### "111A Herd basis rules not to apply where cash basis used

Nothing in this Chapter applies in calculating the profits of a trade on the cash basis."

# Sound recordings

25 In Chapter 9 (trade profits: sound recordings), after section 130 insert—

#### "130A Chapter not to apply where cash basis used

Nothing in this Chapter applies in calculating the profits of a trade on the cash basis."

#### Telecommunication rights

In Chapter 10 (trade profits: certain telecommunication rights), before section 145 insert—

# Chapter not to apply where cash basis used

"144A Nothing in this Chapter applies in calculating the profits of a trade on the cash basis."

#### Long funding leases

In Chapter 10A (leases of plant or machinery: special rules for long funding leases), before section 148A (and the italic heading preceding it) insert—

# "Application of Chapter

# Chapter not to apply where cash basis used

148ZA Nothing in this Chapter applies in calculating the profits of a trade on the cash basis."

#### Specific trades

In Chapter 11 (trade profits: other specific trades), before section 149 (and the italic heading preceding it) insert—

# "Cash basis accounting

# Application of Chapter to the cash basis

148K The following sections do not apply in calculating the profits of a trade, profession or vocation on the cash basis—

sections 149 to 154A (dealers in securities etc),

section 157 (relief in respect of mineral royalties),

section 158 (lease premiums etc: reduction of receipts),

section 159 (ministers of religion),

section 161 (mineral exploration and access),

section 162 (payments by persons liable to pool betting duty),

sections 163 and 164 (intermediaries treated as making employment payments),

section 164A (managed service companies),

sections 165 to 168 (waste disposal),

sections 169 to 172ZE (cemeteries and crematoria)."

# Changes in trading stock

29 In Chapter 11A (trade profits: changes in trading stock), after section 172A insert—

# "172AA Chapter not to apply where cash basis used

Nothing in this Chapter applies in calculating the profits of a trade on the cash basis."

#### Unremittable amounts

In Chapter 13 (deductions from profits: unremittable amounts), after section 188 insert—

#### "188A Chapter not to apply where cash basis used

Nothing in this Chapter applies in calculating the profits of a trade on the cash basis."

# Disposal and acquisition of know-how

In Chapter 14 (disposal and acquisition of know-how), before section 192 insert—

# Chapter not to apply where cash basis used

"191A Nothing in this Chapter applies in calculating the profits of a trade on the cash basis."

Averaging profits of farmers and creative artists

In Chapter 16 (averaging profits of farmers and creative artists), after section 221 insert—

#### "221A Claim not available where cash basis used

Nothing in this Chapter applies in calculating the profits of a trade on the cash basis."

Compensation for compulsory slaughter of animal

In Chapter 16ZA (compensation for compulsory slaughter of animal), after section 225ZA insert—

# "225ZAA Chapter not to apply where cash basis used

Nothing in this Chapter applies in calculating the profits of a trade on the cash basis."

#### Oil activities

In Chapter 16A (oil activities), before section 225A (and the italic heading preceding it) insert—

"Application of Chapter

# Chapter not to apply where cash basis used

225ZH Nothing in this Chapter applies in calculating the profits of a trade on the cash basis."

#### Adjustment income

- 35 Chapter 17 (adjustment income) is amended as follows.
- 36 After section 227 insert—

#### "227A Application of Chapter where cash basis used

- (1) This Chapter applies if—
  - (a) an election under section 25A (cash basis for small businesses) has effect in relation to a trade for a tax year but no such election has effect in relation to the trade for the following tax year, or
  - (b) no such election has effect in relation to a trade for a tax year but such an election has effect in relation to the trade for the following tax year.
- (2) But this Chapter does not apply to income which is charged in accordance with section 832."
- 37 After section 239 insert—

"Spreading of adjustment income on leaving cash basis

# 239A Spreading on leaving cash basis

- (1) This section applies if—
  - (a) an election under section 25A (cash basis for small businesses) has effect in relation to a trade for a tax year, and
  - (b) no such election has effect in relation to the trade for the following tax year.
- (2) Any adjustment income is spread over 6 tax years as follows.
- (3) In each of the 6 tax years beginning with that in which the whole amount of the adjustment income would otherwise be chargeable to tax, an amount equal to one-sixth of the amount of the adjustment income is treated as arising and is charged to tax.
- (4) This section is subject to any election under section 239B (election to accelerate charge).

# 239B Election to accelerate charge under section 239A

- (1) A person who under section 239A is liable to tax for a tax year on an amount of adjustment income may elect for an additional amount to be treated as arising in the tax year.
- (2) The election must be made on or before the first anniversary of the normal self-assessment filing date for the tax year.
- (3) The election must specify the amount to be treated as income arising in the tax year (which may be any amount of the adjustment income not previously charged to tax).
- (4) If an election is made, section 239A applies in relation to any subsequent tax year as if the amount of adjustment income (as reduced by any previous application of this section) were reduced by the amount given by the following formula—

$$A \times \frac{6}{T}$$

where—

A is the additional amount treated as arising in the tax year for which the election is made, and

T is the number of tax years remaining after that tax year in the period of 6 tax years referred to in section 239A."

Adjustments for capital allowances

38 After Chapter 17 insert—

#### "CHAPTER 17A

CASH BASIS: ADJUSTMENTS FOR CAPITAL ALLOWANCES

#### Introduction

#### **Professions and vocations**

240A The provisions of this Chapter apply to professions and vocations as they apply to trades.

Adjustments on entering cash basis

#### "Entering the cash basis"

- 240B For the purposes of this Chapter a person carrying on a trade enters the cash basis for a tax year if—
  - (a) an election under section 25A has effect in relation to the trade for the tax year, and
  - (b) immediately before the beginning of the basis period for the tax year, such an election does not have effect in relation to the trade.

# Unrelieved qualifying expenditure

240(1) This section applies if—

- (a) a person carrying on a trade enters the cash basis for a tax year ("the current tax year"), and
- (b) at the end of the basis period for the previous tax year, the person has unrelieved qualifying expenditure to carry forward from the chargeable period ending with that basis period.
- (2) But this section does not apply if section 240D (assets not fully paid for) applies.

- (3) In calculating the profits of the trade for the current tax year, a deduction is allowed for the relevant portion of the expenditure.
- (4) The "relevant portion" of the expenditure means the amount of the expenditure for which a deduction would be allowed in calculating the profits of the trade on the cash basis for a period if the expenditure was paid during that period.
- (5) The relevant portion of the expenditure is to be determined on such basis as is just and reasonable in all the circumstances.
- (6) Section 59(1) and (2) of CAA 2001 (unrelieved qualifying expenditure) has effect for the purposes of this section.

#### Assets not fully paid for

240DI) This section applies if—

- (a) a person carrying on a trade enters the cash basis for a tax year,
- (b) at any time before the beginning of the basis period for that tax year the person has obtained capital allowances in respect of expenditure on the provision of plant or machinery ("the relevant expenditure"), and
- (c) not all of the relevant expenditure has actually been paid by the person.
- (2) If the amount of the relevant expenditure that the person has actually paid exceeds the amount of capital allowances given in respect of the relevant expenditure, the difference is to be deducted in calculating the profits of the trade for the tax year.
- (3) If the amount of the relevant expenditure that the person has actually paid is less than the amount of capital allowances given in respect of the relevant expenditure, the difference is to be treated as a receipt in calculating the profits of the trade for the tax year.
- (4) The amount of any capital allowance obtained in respect of expenditure on the provision of any plant or machinery is to be determined on such basis as is just and reasonable in all the circumstances.
- (5) If the amount of capital allowances given in respect of the relevant expenditure has been reduced under section 205 or 207 of CAA 2001 (reduction where asset provided or used only partly for qualifying activity), the amount of the relevant expenditure that the person has actually paid is to be proportionately reduced for the purposes of this section.
- (6) This section does not apply where the relevant expenditure was incurred on the provision of a car.
  - In this subsection "car" has the same meaning as in Part 2 of CAA 2001 (see section 268A of that Act).

Successions where predecessor and successor are connected persons

# Effect of election where predecessor and successor are connected persons

240(1) This section applies if—

- (a) a person carrying on a trade enters the cash basis for a tax year,
- (b) the person is the successor for the purposes of section 266 of CAA 2001, and
- (c) as a result of an election under section 267 of that Act, relevant plant or machinery is treated as sold by the predecessor to the successor at any time during the basis period for the tax year.
- (2) The provisions of this Chapter have effect in relation to the successor as if everything done to or by the predecessor had been done to or by the successor.
- (3) Any expenditure actually incurred by the successor on acquiring the relevant plant or machinery is to be ignored for the purposes of calculating the profits of the trade for the tax year.
- (4) In this section "the predecessor" and "relevant plant or machinery" have the same meaning as in section 267 of CAA 2001."

#### Post-cessation receipts

- 39 (1) Chapter 18 (post-cessation receipts) is amended as follows.
  - (2) In section 246 (basic meaning of "post-cessation receipt"), after subsection (2) insert—
    - "(2A) If, immediately before a person permanently ceases to carry on a trade, an election under section 25A (cash basis for small businesses) has effect in relation to the trade, a sum is to be treated as a post-cessation receipt only if it would have been brought into account in calculating the profits of the trade on the cash basis had it been received at that time."

#### **Textual Amendments**

F6 Sch. 4 para. 39(3) omitted (with effect for the tax year 2024-25 and subsequent tax years) by virtue of Finance Act 2024 (c. 3), Sch. 10 paras. 46(a), 47 (with Sch. 10 paras. 48-50)

#### Rent-a-room relief

- In Chapter 1 of Part 7 of ITTOIA 2005 (rent-a-room relief), in section 786 (meaning of "rent-a-room receipts"), after subsection (4) insert—
  - "(5) Subsections (6) and (7) apply if—
    - (a) the receipts would otherwise be brought into account in calculating the profits of a trade, and

- (b) an election under section 25A (cash basis for small businesses) has effect in relation to the trade.
- (6) Any amounts brought into account under section 96A (capital receipts) as a receipt in calculating the profits of the trade are to be treated as receipts within paragraph (a) of subsection (1) above.
- (7) The reference in subsection (1)(b) to receipts that accrue to an individual during the income period for those receipts is to be read as a reference to receipts that are received by the individual during that period."

# Qualifying care relief

- 41 Chapter 2 of Part 7 of ITTOIA 2005 (qualifying care relief) is amended as follows.
- In section 805 (meaning of "qualifying care receipts"), after subsection (3) insert—
  - "(4) Subsections (5) and (6) apply if—
    - (a) the receipts would otherwise be brought into account in calculating the profits of a trade, and
    - (b) an election under section 25A (cash basis for small businesses) has effect in relation to the trade.
  - (5) Any amounts brought into account under section 96A (capital receipts) as a receipt in calculating the profits of the trade are to be treated as receipts within paragraph (a) of subsection (1) above.
  - (6) The reference in subsection (1)(b) to receipts that accrue to an individual during the income period for those receipts is to be read as a reference to receipts that are received by the individual during that period."
- 43 In section 820 (periods of account not ending on 5th April)—
  - (a) the existing provision becomes subsection (1), and
  - (b) after that subsection insert—
    - "(2) Where an election under section 25A (cash basis for small businesses) has effect in relation to the trade, any reference in this section or sections 821 to 823 to the period of account in which receipts accrue is to be read as a reference to the period of account in which receipts are received."

# PART 2

CONSEQUENTIAL AMENDMENTS

TMA 1970

F744

#### **Textual Amendments**

F7 Sch. 4 para. 44 omitted (with effect for the tax year 2024-25 and subsequent tax years) by virtue of Finance Act 2024 (c. 3), Sch. 10 paras. 46(b), 47 (with Sch. 10 paras. 48-50)

#### TCGA 1992

#### 45 After section 47 of TCGA 1992 insert—

## "Cash basis accounting

# 47A Exemption for disposals by persons using cash basis

- (1) No chargeable gain shall accrue on the disposal of, or of an interest in, an asset if conditions A to D are met in relation to the asset.
- (2) Condition A is that the asset is—
  - (a) tangible movable property, and
  - (b) a wasting asset.
- (3) Condition B is that, at any time during the period of ownership of the person making the disposal, the asset has been used for the purposes of a trade, profession or vocation carried on by the person.
- (4) Condition C is that an election under section 25A of ITTOIA 2005 (cash basis for small businesses) has effect in relation to the trade, profession or vocation at the time of the disposal.
- (5) Condition D is that—
  - (a) any expenditure attributable to the asset or interest under paragraph (a) or (b) of section 38(1) has been brought into account in calculating the profits of the trade, profession or vocation on the cash basis, or
  - (b) any of that expenditure would have been so brought into account if an election under section 25A of ITTOIA 2005 had had effect in relation to the trade, profession or vocation at the time the expenditure was paid.
- (6) Subsection (7) applies in the case of the disposal of, or of an interest in, an asset which, in the period of ownership of the person making the disposal—
  - (a) has been used partly for the purposes of the trade, profession or vocation and partly for other purposes, or
  - (b) has been used for the purposes of the trade, profession or vocation for part of that period.

#### (7) In such a case—

- (a) the consideration for the disposal, and any expenditure attributable to the asset or interest by virtue of section 38(1)(a) and (b), shall be apportioned by reference to the extent to which that expenditure was, or (as the case may be) would have been, brought into account as mentioned in subsection (5) above,
- (b) the computation of the gain shall be made separately in relation to the apportioned parts of the expenditure and consideration, and
- (c) subsection (1) above shall apply to any gain accruing by reference to the computation in relation to the part of the consideration apportioned to use for the purposes of the trade, profession or vocation.

# 47B Disposals made by persons after leaving cash basis

- (1) This section applies where—
  - (a) a person disposes of, or of an interest in, an asset that has been used for the purposes of a trade, profession or vocation carried on by the person, and
  - (b) conditions A and B are met in relation to the trade, profession or vocation.
- (2) Condition A is that—
  - (a) any expenditure attributable to the asset or interest under paragraph (a) or (b) of section 38(1) was incurred at a time when an election under section 25A of ITTOIA 2005 (cash basis for small businesses) had effect in relation to the trade, profession or vocation, and
  - (b) that expenditure ("the relevant expenditure") has been brought into account in calculating the profits of the trade, profession or vocation on the cash basis.
- (3) Condition B is that no such election has effect in relation to the trade, profession or vocation at the time of the disposal.
- (4) Section 39 (exclusion of expenditure by reference to tax on income) does not apply in relation to the relevant expenditure.
- (5) Section 41 (restriction of losses by reference to capital allowances and renewals allowances) has effect as if—
  - (a) the election mentioned in subsection (2)(a) above had not had effect at the time the relevant expenditure was incurred, and
  - (b) the reference in subsection (7) to qualifying expenditure included a reference to expenditure which, if that election had not had effect at that time, would have been qualifying expenditure.
- (6) Section 45 (exemption for certain wasting assets) and section 47 (wasting assets qualifying for capital allowances) have effect as if the election mentioned in subsection (2)(a) above had not had effect at the time the relevant expenditure was incurred.

Accordingly, any reference in those sections to expenditure qualifying for capital allowances is to be read as a reference to expenditure that would, in the absence of the election, have qualified for such allowances."

# CAA 2001

- 46 In section 1 of CAA 2001 (capital allowances), after subsection (3) insert—
  - "(4) But a person is not entitled to any allowance or liable to any charge under this Act in calculating the profits of a trade, profession or vocation of the person in relation to which an election under section 25A of ITTOIA 2005 (cash basis for small businesses) has effect, other than an allowance in respect of expenditure incurred on the provision of a car (or a charge in connection with such an allowance).

- (5) In subsection (4) "car" has the same meaning as in Part 2 (see section 268A)."
- In section 59 of CAA 2001 (unrelieved qualifying expenditure), after subsection (3) insert—
  - "(4) If a person carrying on a trade, profession or vocation enters the cash basis for a tax year, no amount may be carried forward as unrelieved qualifying expenditure from the chargeable period ending with the basis period for the previous tax year.
  - (5) But subsection (4) does not apply to unrelieved qualifying expenditure incurred on the provision of a car.
  - (6) Where a person has unrelieved qualifying expenditure to carry forward from a chargeable period that is not expenditure allocated to a single asset pool, the amount of unrelieved qualifying expenditure incurred on the provision of a car is to be determined on such basis as is just and reasonable in all the circumstances.
  - (7) Section 240B of ITTOIA 2005 (meaning of "entering the cash basis") applies for the purposes of this section as it applies for the purposes of Chapter 17A of Part 2 of that Act."
- In Chapter 5 of Part 2 of CAA 2001 (plant and machinery allowances and charges), after section 66 insert—

"Application of Chapter to person leaving cash basis

#### 66A Persons leaving cash basis

- (1) This section applies if—
  - (a) a person carrying on a trade, profession or vocation leaves the cash basis in a chargeable period, and
  - (b) the person has at any time incurred expenditure which, if an election under section 25A of ITTOIA 2005 (cash basis for small businesses) had not had effect at that time, would have been qualifying expenditure.
- (2) In this section—
  - (a) the "relieved portion" of the expenditure is the amount of that expenditure for which—
    - (i) a deduction was allowed in calculating the profits of the trade, profession or vocation, or
    - (ii) a deduction would have been so allowed if the expenditure had been incurred wholly and exclusively for the purposes of the trade, profession or vocation;
  - (b) the "unrelieved portion" of the expenditure is any remaining amount of the expenditure.
- (3) For the purposes of determining any entitlement of the person to an annual investment allowance or a first-year allowance, the person is to be treated as incurring the unrelieved portion of the expenditure in the chargeable period.

- (4) For the purposes of determining the person's available qualifying expenditure in a pool for the chargeable period (see section 58)—
  - (a) the whole of the expenditure must be allocated to the appropriate pool (or pools) in that chargeable period, and
  - (b) the available qualifying expenditure in a pool to which the expenditure (or some of it) is allocated is reduced by the relieved portion of that expenditure.
- (5) For the purposes of determining any disposal receipts (see section 60), the expenditure incurred by the person is to be regarded as qualifying expenditure.
- (6) For the purposes of this section a person carrying on a trade, profession or vocation leaves the cash basis in a chargeable period if—
  - (a) immediately before the beginning of the chargeable period an election under section 25A had effect in relation to the trade, profession or vocation, and
  - (b) such an election does not have effect in relation to the trade, profession or vocation for the chargeable period."

#### ITTOIA 2005

- In section 31 of ITTOIA 2005 (relationship between rules prohibiting and allowing deductions), in subsection (2), omit the "or" at the end of paragraph (b) and after paragraph (c) insert "or
  - (d) Chapter 17A,".
- In section 56 of ITTOIA 2005 (rules allowing deductions: professions and vocations), after "marks)" insert " and section 97A (cash basis: value of trading stock on cessation of trade)".
- Omit section 160 of ITTOIA 2005 (cash basis of calculation for barristers and advocates in early years of practice).
- 52 (1) Chapter 17 of Part 2 of ITTOIA 2005 (adjustment income) is amended as follows.
  - (2) In section 229(2)(a), for "sections 237 to 239" substitute "sections 237 to 239B".
  - (3) Omit sections 238 and 239 (spreading of adjustment income: barristers and advocates).
- In Part 2 of Schedule 4 to ITTOIA 2005 (index of defined expressions), at the appropriate place insert—

"the cash basis (in Part 2)	section 25A";
"entering the cash basis (in Chapter 17A of Part 2)	section 240B".

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<sup>F8</sup>54 .....

#### **Textual Amendments**

- F8 Sch. 4 para. 54 omitted (with effect for the tax year 2024-25 and subsequent tax years) by virtue of Finance Act 2024 (c. 3), Sch. 10 paras. 46(b), 47 (with Sch. 10 paras. 48-50)
- 55 (1) Chapter 1 of Part 8 of ITA 2007 (relief for interest payments) is amended as follows.
  - (2) In section 383(5), after paragraph (a) insert—
    - "(aa) section 384B (restriction on relief where cash basis applies),".
  - (3) After section 384A insert—

# "384B Restriction on relief where cash basis applies

- (1) Relief is not to be given under this Chapter for a tax year for interest paid by a person on a relevant loan if the partnership to which the loan relates has made an election under section 25A of ITTOIA 2005 (cash basis for small businesses) for the tax year.
- (2) A loan is a "relevant loan" if—
  - (a) it is a loan to which section 388 applies (loan to buy plant or machinery for partnership use), or
  - (b) it is a loan to which section 398 applies (loan to invest in partnership) and which is not used for purchasing a share in a partnership."

#### PART 3

#### COMMENCEMENT AND TRANSITIONAL PROVISION

- Subject to paragraph 57, the amendments made by this Schedule have effect for the tax year 2013-14 and subsequent tax years.
- 57 (1) In a case where—
  - (a) the profits of a barrister or advocate in independent practice for a period of account ending in the tax year 2012-13 have been calculated in accordance with section 160 of ITTOIA 2005 (barristers and advocates: alternative basis of calculation in early years of practice), and
  - (b) if that section had not been repealed by this Schedule, the profits of the barrister or advocate for any subsequent period of account could have been calculated in accordance with that section,

the profits of the barrister or advocate for that subsequent period of account may be calculated in accordance with that section.

(2) The repeal of sections 238 and 239 of ITTOIA 2005 (spreading of adjustment income: barristers and advocates) does not have effect in relation to any individual whose profits for a period of account ending in or before the tax year 2012-13 have been calculated in accordance with section 160 of ITTOIA 2005.

# **Changes to legislation:**

There are currently no known outstanding effects for the Finance Act 2013, SCHEDULE 4.