
Changes to legislation: There are currently no known outstanding effects for the Finance Act 2022, PART 1. (See end of Document for details)

SCHEDULES

SCHEDULE 1

ABOLITION OF BASIS PERIODS

PART 1

MAIN AMENDMENTS OF ITTOIA 2005

1 Part 2 of ITTOIA 2005 (trading income) is amended as follows.

Chapter 2 (income taxed as trade profits)

2 (1) Section 7 (income charged) is amended as follows.

(2) In subsection (1), at the end insert “(including amounts treated as profits of the tax year under section 23E(1))”.

(3) Omit subsections (2) and (3).

3 After section 7 insert—

“7A Apportionment etc of profits to tax year

(1) This section and sections 7B to 7D apply if a period of account of a person carrying on a trade (“the trader”) does not coincide with a tax year.

(2) Any of the following steps may be taken if they are necessary in order to arrive at the profits or losses of the trade of the tax year—

(a) apportioning the profits or losses of a period of account to the parts of that period falling in different tax years, and

(b) adding the profits or losses of a period of account (or part of a period) to profits or losses of other periods of account (or parts).

(3) The steps must be taken by reference to the number of days in the periods concerned.

(4) But the trader 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) Sections 7B and 7C contain rules for the purpose of avoiding the need to apportion profits or losses under this section (and section 7D makes provision for the trader to elect for those rules not to apply).

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- (6) This section and sections 7B to 7D apply to professions and vocations as they apply to trades.

7B Rule if trader starts to carry on trade after 31 March

- (1) This section applies if, in a tax year (“the relevant tax year”), the trader—
- (a) starts to carry on the trade after 31 March, and
 - (b) does not permanently cease to carry on the trade.
- (2) For the purposes of this Chapter—
- (a) the profits or losses of the trade of the relevant tax year are treated as nil, and
 - (b) the actual profits or losses of the trade of the relevant tax year are treated as arising in the following tax year.

7C Rule if there is a late accounting date

- (1) This section applies if, in a tax year (“the relevant tax year”), the trader—
- (a) does not start to carry on the trade or does so before 1 April,
 - (b) does not permanently cease to carry on the trade, and
 - (c) has an accounting date that is 31 March or 1, 2, 3 or 4 April.
- (2) For the purposes of this Chapter—
- (a) the profits or losses of the trade of the period beginning immediately after the accounting date and ending with 5 April in the relevant tax year are treated as nil, and
 - (b) the actual profits or losses of the trade of that period are treated as arising in the following tax year.
- (3) In this section, “accounting date” in relation to a tax year means—
- (a) the date in the tax year to which accounts are drawn up, or
 - (b) if there are two or more such dates, the latest of them.

7D Election to disapply late accounting date rules

- (1) The trader may make an election under this section in relation to the trade.
- (2) If an election under this section has effect for a tax year, neither of sections 7B and 7C apply in relation to the trade for that tax year.
- (3) An election under this section—
- (a) must be made on or before the first anniversary of the normal self-assessment filing date for the first tax year for which it is to have effect, and
 - (b) has effect for that tax year and the four tax years following that tax year (subject to subsection (4)).
- (4) If the trader permanently ceases to carry on the trade before the end of the last of the tax years mentioned in subsection (3)(b), the election has effect for each tax year up to and including the tax year immediately before the tax year in which the trader permanently ceases to carry on the trade.”

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Chapter 3A (trade profits: cash basis)

- 4 In section 31A (conditions to be met for profits to be calculated on cash basis), in subsection (5)(a), omit “the basis period for”.
- 5 (1) Section 31B (relevant maximum for purposes of section 31A) is amended as follows.
- (2) In subsection (6), for “where the basis period for a tax year is less than 12 months” substitute “where the trade, profession or vocation is carried on for only part of a tax year”.
- (3) In subsection (7), in the definition of “universal credit claimant”, omit “the basis period for”.
- 6 In section 31C (excluded persons for purposes of section 31A), in each of subsections (2)(b), (3), (4), (7), (8) and (9)(a), omit “the basis period for”.
- 7 (1) Section 31E (calculation of profits on cash basis) is amended as follows.
- (2) In subsection (2), in each of Steps 1 and 2, omit “the basis period for”.
- (3) At the end insert—
- “(4) In determining the profits of a trade on the cash basis, section [7A\(2\)](#) applies as if the profits or losses of a period of account were determined in accordance with subsection (2) of this section (and for these purposes, references in subsection (2) of this section to a tax year are to be read as references to a period of account).”

Chapter 15 (basis periods)

- 8 Omit Chapter 15 (basis periods).

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