



# Income Tax (Trading and Other Income) Act 2005

## 2005 CHAPTER 5

### PART 2

#### TRADING INCOME

#### [<sup>F1</sup>CHAPTER 11A

#### TRADE PROFITS: CHANGES IN TRADING STOCK

##### Textual Amendments

- F1** Pt. 2 Ch. 11A inserted (with effect in accordance with s. 37(2) of the amending Act) by [Finance Act 2008 \(c. 9\), Sch. 15 para. 2](#)

#### *Introduction*

#### **172A** Meaning of “trading stock”

- (1) In this Chapter “trading stock”, in relation to a trade, means anything (whether land or other property)—
- (a) which is sold in the ordinary course of trade, or
  - (b) which would be so sold if it were mature or its manufacture, preparation or construction were complete.
- (2) It does not include—
- (a) materials used in the manufacture, preparation or construction of any such thing,
  - (b) any services performed in the ordinary course of the trade, or

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- (c) any article produced, or any material used, in the performance of any such services.

**Chapter not to apply where cash basis used**

**F2 172AA** Nothing in this Chapter applies in calculating the profits of a trade on the cash basis.]

**Textual Amendments**

**F2** S. 172AA inserted (with effect in accordance with Sch. 4 paras. 56, 57 of the amending Act) by Finance Act 2013 (c. 29), **Sch. 4 para. 29**

*Transfers of trading stock between trade and trader*

**172B Trading stock appropriated by trader**

- (1) This section applies if trading stock of a person's trade is appropriated by the person for any other purpose.
- (2) In calculating the profits of the trade—
  - (a) the amount which the stock appropriated would have realised if sold in the open market at the time of the appropriation is brought into account as a receipt, and
  - (b) the value of anything in fact received for it is left out of account.
- (3) The receipt is treated as arising on the date of the appropriation.

**172C Trading stock supplied by trader**

- (1) This section applies if something that—
  - (a) belongs to a person carrying on a trade, but
  - (b) is not trading stock of the trade,
 becomes trading stock of the trade.
- (2) In calculating the profits of the trade—
  - (a) the cost of the stock is taken to be the amount which it would have realised if sold in the open market at the time it became trading stock of the trade, and
  - (b) the value of anything in fact given for it is left out of account.
- (3) The cost is treated as being incurred on the date it became trading stock of the trade.

*Other disposals not made in the course of trade*

**172D Disposals not made in the course of trade**

- (1) This section applies if—
  - (a) trading stock of a trade is disposed of otherwise than in the course of a trade, and
  - (b) section 172B does not apply.

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- (2) In calculating the profits of the trade—
  - (a) the amount which the stock disposed of would have realised if sold in the open market at the time of the disposal is brought into account as the receipt, and
  - (b) any consideration obtained for it is left out of account.
- (3) The receipt is treated as arising on the date of the disposal.
- (4) This section is subject to section 172F.

### **172E Acquisitions not made in the course of trade**

- (1) This section applies if—
  - (a) trading stock of a trade has been acquired otherwise than in the course of trade, and
  - (b) section 172C does not apply.
- (2) In calculating the profits of the trade—
  - (a) the cost of the stock is taken to be the amount which it would have realised if sold in the open market at the time of the acquisition, and
  - (b) the value of anything in fact given for it is left out of account.
- (3) The cost is treated as being incurred on the date of the acquisition.
- (4) This section is subject to section 172F.

#### *Relationship with transfer pricing rules*

### **172F Transfer pricing rules to take precedence**

- (1) Section 172D or 172E does not apply if the relevant consideration—
    - (a) falls to be adjusted for tax purposes under [<sup>F3</sup>Part 4 of TIOPA 2010], or
    - (b) falls within [<sup>F4</sup>that Part] without falling to be so adjusted.
- [ Subsection (1B) applies in relation to a disposal or acquisition if—
- <sup>F5</sup>(1A) (a) by virtue of subsection (1), section 172D or 172E does not apply, and
- (b) the market value amount is greater than the Part 4 TIOPA amount.
- (1B) An amount equal to the market value amount less the Part 4 TIOPA amount is to be brought into account in calculating the profits of the trade (in addition to the Part 4 TIOPA amount).
- (1C) In subsections (1A) and (1B)—
- “market value amount” means the amount referred to in section 172D(2) (a) or 172E(2)(a);
- “Part 4 TIOPA amount” means the amount which, following the application of Part 4 of TIOPA 2010 to the relevant consideration, is brought into account in respect of the relevant consideration in calculating the profits of the trade.]
- (2) For the purposes of subsection (1)(b), the relevant consideration falls within [<sup>F6</sup>Part 4 of TIOPA 2010 without falling to be adjusted under that Part] if—
    - [<sup>F7</sup>(a) the condition in section 147(1)(a) of TIOPA 2010 is met, and
    - (aa) the participation condition is met (see subsection (2B)), but

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(b) either—

- (i) one of the conditions in section 147(1)(c) and (d) of TIOPA 2010 is not met, or
- (ii) one of the exceptions mentioned in subsection (2A) applies.]

[ The exceptions are those in—

- <sup>F8</sup>(2A) (a) section 447(5) of CTA 2009 (exchange gains or losses from loan relationships),
- (b) section 694(8) of CTA 2009 (exchange gains or losses from derivative contracts),
- (c) section 213 of TIOPA 2010 (saving for provisions relating to capital allowances), and
- (d) section 214 of TIOPA 2010 (saving for provisions relating to chargeable gains).

(2B) Section 148 of TIOPA 2010 (when the participation condition is met) applies for the purposes of subsection (2)(aa) as it applies for the purposes of section 147(1)(b) of TIOPA 2010.]

(3) In this section “relevant consideration” means—

- (a) in relation to section 172D, the consideration for the disposal of the stock, and
- (b) in relation to section 172E, the consideration for the acquisition of the trading stock.]

#### Textual Amendments

- F3** Words in s. 172F(1)(a) substituted (1.4.2010) (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 121\(2\)](#) (with [Sch. 9 paras. 1-9, 22](#))
- F4** Words in s. 172F(1)(b) substituted (1.4.2010) (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 121\(3\)](#) (with [Sch. 9 paras. 1-9, 22](#))
- F5** S. 172F(1A)-(1C) inserted (with application in accordance with s. 40(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\), s. 40\(2\)](#)
- F6** Words in s. 172F(2) substituted (1.4.2010) (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 121\(4\)](#) (with [Sch. 9 paras. 1-9, 22](#))
- F7** S. 172F(2)(a)(aa)(b) substituted (1.4.2010) for s. 172F(2)(a)(b) (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 121\(5\)](#) (with [Sch. 9 paras. 1-9, 22](#))
- F8** S. 172F(2A)(2B) inserted (1.4.2010) (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 121\(6\)](#) (with [Sch. 9 paras. 1-9, 22](#))

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**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. 24A and cross-heading inserted by [2024 c. 3 Sch. 10 para. 2](#)
- s. 25B inserted by [2024 c. 3 Sch. 10 para. 11](#)
- s. 25C inserted by [2024 c. 3 Sch. 10 para. 5](#)
- 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\(7\)\(a\)](#)