

SCHEDULES

SCHEDULE 10

Section 16

CALCULATION OF TRADE PROFITS ETC

PART 1

MAIN PROVISIONS

Introduction of cash basis default

- 1 Chapter 3 of Part 2 of ITTOIA 2005 (trade profits: basic rules) is amended as follows.
- 2 After section 24 insert—

“Basis of accounting

24A Cash basis to apply by default

- (1) The profits of a trade for a tax year must be calculated on the cash basis, unless—
 - (a) the trade is an excluded trade in relation to the tax year (see [section 25B](#)), or
 - (b) an election under [section 25C\(1\)](#) has effect in relation to the trade for the tax year.
 - (2) In this Part—
 - (a) references to calculating the profits of a trade on the cash basis are references to doing so in accordance with this section, and
 - (b) references to a trade in relation to which the cash basis applies are to a trade the profits of which are required by virtue of [subsection \(1\)](#) to be calculated on the cash basis.
 - (3) Chapter 3A contains provision about the calculation of profits on the cash basis and the application of the rest of this Part in relation to the cash basis.
 - (4) Where the cash basis applies in relation to a trade, sections 27, 28 and 30 do not apply in relation to the calculation of the profits of the trade.
 - (5) This section does not affect provisions of the Income Tax Acts relating to the calculation of the profits of Lloyd's underwriters.”
- 3 In section 25 (generally accepted accounting practice)—
 - (a) in subsection (1), after “trade” insert “to which the cash basis does not apply”;
 - (b) omit subsection (3).

Status: This is the original version (as it was originally enacted).

- 4 Omit section 25A (cash basis for small businesses).
 5 Before section 26 insert—

“25C Election for profits to be calculated in accordance with GAAP

- (1) A person who is or has been carrying on a trade, other than an excluded trade, may elect for the profits of the trade to be calculated in accordance with generally accepted accounting practice (instead of on the cash basis).
- (2) An election made in relation to a trade under [subsection \(1\)](#) has effect—
 - (a) for the tax year for which it is made, and
 - (b) for every subsequent tax year (subject to [subsection \(3\)](#)).
- (3) An election made in relation to a trade under [subsection \(1\)](#) ceases to have effect if—
 - (a) the trade is an excluded trade in relation to a tax year, or
 - (b) the person who is or has been carrying on the trade, other than an excluded trade, elects to calculate its profits for a subsequent tax year on the cash basis.
- (4) [Subsection \(3\)](#) does not prevent an election being made under [subsection \(1\)](#) for any subsequent tax year.
- (5) For the meaning of “excluded trade”, see [section 25B](#).”

Removal of turnover restrictions etc

- 6 In Chapter 3A of Part 2 of ITTOIA 2005 (trade profits: cash basis) omit—
- (a) section 31A (conditions to be met for profits to be calculated on cash basis) and the italic heading before it,
 - (b) section 31B (relevant maximum), and
 - (c) section 31D (effect of election under section 25A) and the italic heading before it.

Removal of interest payments restriction

- 7 In Part 2 of ITTOIA 2005—
- (a) in Chapter 4 (trade profits: rules restricting deductions) omit section 51A (cash basis: interest payments on loans), and
 - (b) in Chapter 5 (trade profits: rules allowing deductions) omit section 57B (cash basis: interest payments on loans) and the italic heading before it.

Removal of loss restrictions

- 8 In ITA 2007—
- (a) in Chapter 2 of Part 4 (loss relief: trade losses) omit section 74E (no relief where cash basis used to calculate losses) and the italic heading before it, and
 - (b) in Chapter 1 of Part 8 (relief for interest payments), in section 384B(1) (restriction on relief where cash basis applies)—
 - (i) for the words from “has made” to “profits of” substitute “carried on”;

(ii) for “carried on by the partnership” substitute “the profits of which”.

PART 2

MINOR AND CONSEQUENTIAL AMENDMENTS

CHAPTER 1

AMENDMENTS OF ITTOIA 2005

Other amendments of Chapter 3 of Part 2

- 9 Chapter 3 of Part 2 of ITTOIA 2005 (trade profits: basic rules) is amended as follows.
- 10 Before section 24 insert the following italic heading—
- “Professions and vocations”.*
- 11 Before section 25C (inserted by [paragraph 5](#) of this Schedule) insert —

“25B Excluded trades

- (1) A trade is an excluded trade in relation to a tax year if the trade meets any of conditions A to G.
- (2) Condition A is that—
 - (a) the person who is or has been carrying on the trade is a firm, and
 - (b) one or more of the persons who have been partners in the firm at any time during the tax year was not an individual at that time.
- (3) Condition B is that the person who is or has been carrying on the trade was a limited liability partnership at any time during the tax year.
- (4) Condition C is that an election under Chapter 8 (trade profits: herd basis rules) has effect in relation to the trade for the tax year.
- (5) Condition D is that a claim under Chapter 16 (claim for averaging of fluctuating profits) has been made in relation to the trade for the tax year.
- (6) Condition E is that, at any time within the period of 7 years ending immediately before the tax year, the person who is or has been carrying on the trade obtained an allowance under Part 3A of CAA 2001 (business premises renovation allowances) in relation to the trade.
- (7) Condition F is that the trade is or was at any time during the tax year a mineral extraction trade within the meaning of Part 5 of CAA 2001 (see section 394(2) of that Act).
- (8) Condition G is that—
 - (a) at any time before the beginning of the tax year the person who is or has been carrying on the trade obtained an allowance under Part 6 of CAA 2001 (research and development allowances) in respect

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of qualifying expenditure incurred by the person in relation to the trade, 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.

- (9) The Treasury may by regulations amend this section.

- (10) A statutory instrument containing regulations under [subsection \(9\)](#) that restricts the circumstances in which an election may be made under [section 25C](#) may not be made unless a draft of the instrument containing the regulations has been laid before, and approved by a resolution of, the House of Commons.”

- 12 Before section 27 insert the following italic heading—

“Rules relating to calculation of profits”.

- 13 Before section 30 insert the following italic heading—

“Animals kept for trade purposes”.

- 14 Before section 31 insert the following italic heading—

“Rules relating to deductions”.

Amendments of other provisions

- 15 ITTOIA 2005 is amended as follows.

- 16 Omit section 31C (excluded persons) (but see [paragraph 11](#), which inserts substantially similar provision).

- 17 In section 32A (application of Chapter 4 of Part 2 to the cash basis), in subsection (2)

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- (a) omit “the following—”, and
- (b) omit the words from “section 51A” to the end.

- 18 In section 56A (application of Chapter 5 of Part 2 to the cash basis), omit subsection (2).

- 19 In section 58 (incidental costs of obtaining finance), in subsection (5) omit paragraph (a) (including the “and” at the end).

- 20 In section 94E (excluded vehicles), in subsection (3)(b), for “25A” substitute “[24A](#)”.

- 21 (1) Section 96A (capital receipts under, or after leaving, cash basis) is amended as follows.

- (2) In subsection (3), for “an election under section 25A (cash basis for trades) has effect” substitute “the cash basis applies”.

- (3) In subsection (3A), in paragraph (b), for the words “for which no election under section 25A had effect” substitute “in which the cash basis did not apply”.

- (4) In subsection (3C)—
- (a) in paragraph (a), for “no election under section 25A has effect” substitute “the cash basis does not apply”;
 - (b) in paragraph (b), for “such an election had had effect” substitute “the cash basis did apply”.
- (5) In subsection (3D)—
- (a) in paragraph (a), for “an election under section 25A had effect” substitute “the cash basis applied”;
 - (b) in paragraph (c), for “an election under section 25A had not had effect” substitute “the cash basis had not applied”.
- (6) In subsection (3E), in paragraph (a), for “for which no election under section 25A had effect” substitute “in which the cash basis did not apply”.
- 22 Section 96B (section 96A: supplementary provision), in subsection (3)—
- (a) in paragraph (a), for “an election under section 25A has effect” substitute “the cash basis applies”;
 - (b) in paragraph (b), for “no such election had effect” substitute “the cash basis did not apply”.
- 23 In section 97A (cash basis: value of trading stock on cessation of trade), in subsection (1)(b), for “an election under section 25A (cash basis for small business) has effect” substitute “the cash basis applies”.
- 24 In section 97B (cash basis: value of work in progress on cessation of profession or vocation), in subsection (1)(b), for “an election under section 25A (cash basis for small business) has effect” substitute “the cash basis applies”.
- 25 In section 227A (application of Chapter 17 of Part 2 where cash basis used), in subsection (1)—
- (a) for paragraph (a) substitute—
 - “(a) the cash basis does apply in relation to a trade for a tax year but does not apply in relation to the trade for the following tax year.”
 - (b) for paragraph (b) substitute—
 - “(b) the cash basis does not apply in relation to a trade for a tax year but does apply in relation to the trade for the following tax year.”
- 26 In section 227B (cash basis treatment: full relief under Chapter 1 of Part 6A (trading allowance)), in subsection (2), for “an election under section 25A is to be treated as having effect” substitute “the cash basis is to be treated as not applying”.
- 27 In section 239A (spreading on leaving cash basis), in subsection (1)—
- (a) in paragraph (a), for “an election under section 25A (cash basis for small businesses) has effect” substitute “the cash basis applies”;
 - (b) in paragraph (b), for “no such election has effect” substitute “the cash basis does not apply”.
- 28 In section 240B (meaning of “entering the cash basis”)—
- (a) in paragraph (a), for “an election under section 25A has effect” substitute “the cash basis applies”;

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- (b) in paragraph (b), for “such an election does not have effect” substitute “the cash basis does not apply”.
- 29 In section 246 (basic meaning of “post-cessation receipt”), in subsection (2A), for “an election under section 25A (cash basis for small businesses) has effect” substitute “the cash basis applies”.
- 30 In section 254 (allowable deductions), for subsection (2A) substitute—
“(2A) If, immediately before the person permanently ceases to carry on the trade, the cash basis applies in relation to the trade, assume for the purposes of subsection (2) that the cash basis applies in relation to the trade.”
- 31 In section 783AE (full relief: introduction), in subsection (3)—
(a) for paragraph (a) substitute—
“(a) the cash basis applies for the tax year in relation to one or more of the trades mentioned in subsection (2)(a).”;
(b) in paragraph (b)—
(i) for “25A” substitute “25C(1)”;
(ii) at the end insert “in relation to one or more of the trades mentioned in paragraph (a).”;
(c) omit paragraphs (c) and (d).
- 32 In section 786 (meaning of “rent-a-room receipts”), in subsection (5), for paragraph (b) substitute—
“(b) the profits of the trade are required under [section 24A](#) to be calculated on the cash basis.”
- 33 In section 805 (meaning of “qualifying care receipts”), in subsection (4), for paragraph (b) substitute—
“(b) the profits of the trade are required under [section 24A](#) to be calculated on the cash basis.”
- 34 In section 820 (periods of account not ending on 5 April), in subsection (2), for “an election under section 25A (cash basis for small businesses) has effect in relation to the trade” substitute “the profits of the trade are required under [section 24A](#) to be calculated on the cash basis”.
- 35 In Part 2 of Schedule 4 (index of defined expressions), in the entry for “the cash basis (in Part 2)”, for “section 25A” substitute “[section 24A](#)”.

CHAPTER 2

AMENDMENTS OF OTHER ACTS

TMA 1970

- 36 In section 42(7)(e) of TMA 1970 (procedure for making claims etc), for “25A” substitute “[25C](#)”.

TCGA 1992

- 37 In section 41(9)(a) of TCGA 1992 (restriction of losses by reference to capital allowances and renewals allowances), for the words from “calculating”, in the

second place it occurs, to “effect” substitute “be construed in accordance with Part 2 of ITTOIA 2005 (see [section 24A](#) of that Act)”.

CAA 2001

- 38 CAA 2001 is amended as follows.
- 39 (1) Section 1A (capital allowances and charges: cash basis) is amended as follows.
- (2) In subsection (9)—
- (a) in paragraph (a), for “an election under section 25A of ITTOIA 2005 (cash basis for trades) has effect” substitute “the cash basis applies”;
- (b) in paragraph (b), for “no such election has effect” substitute “the cash basis did not apply”.
- (3) In subsection (11)—
- (a) before paragraph (a) insert—
- “(za) references to a trade, profession or vocation in relation to which the cash basis applies are to a trade, profession or vocation the profits of which are required by virtue of [section 24A\(1\)](#) of ITTOIA 2005 to be calculated on the cash basis.”;
- (b) in paragraph (a), for the words from “calculating”, in the second place it occurs, to “effect” substitute “doing so in accordance with [section 24A](#) of ITTOIA 2005”.
- 40 In section 4(2ZA)(a) (capital expenditure)—
- (a) for “an election under section 25A of ITTOIA 2005 has effect” substitute “the cash basis applies”;
- (b) at the end insert “(see [section 24A](#) of ITTOIA 2005)”.
- 41 In section 66A(6) (persons leaving cash basis)—
- (a) in paragraph (a), for “an election under section 25A had effect” substitute “the cash basis applied”;
- (b) in paragraph (b), for “such an election does not have effect” substitute “the cash basis does not apply”.
- 42 (1) Section 431D (persons leaving cash basis) is amended as follows.
- (2) In subsection (1)—
- (a) in paragraph (b), for “an election under section 25A of ITTOIA 2005 (cash basis for trades) has effect” substitute “the cash basis applies”;
- (b) in paragraph (d), for “an election under section 25A of that Act had not had effect” substitute “the cash basis had not applied”.
- (3) In subsection (4)—
- (a) in paragraph (a), for “an election under section 25A of ITTOIA 2005 had effect” substitute “the cash basis applied”;
- (b) in paragraph (b), for “such an election does not have effect” substitute “the cash basis does not apply”.
- (4) After subsection (4) insert—

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“(4A) Subsection (11)(za) of section 1A (capital allowances and charges: cash basis) applies for the purposes of this section as it applies for the purposes of that section.”

43 (1) Section 462A (persons leaving cash basis) is amended as follows.

(2) In subsection (1)—

- (a) in paragraph (b), for “an election under section 25A of ITTOIA 2005 (cash basis for trades) has effect” substitute “the cash basis applies”;
- (b) in paragraph (d), for “an election under section 25A of that Act had not had effect” substitute “the cash basis had not applied”.

(3) In subsection (5)—

- (a) in paragraph (a), for “an election under section 25A of ITTOIA 2005 had effect” substitute “the cash basis applied”;
- (b) in paragraph (b), for “such an election does not have effect” substitute “the cash basis does not apply”.

(4) After subsection (4) insert—

“(4A) Subsection (11)(za) of section 1A (capital allowances and charges: cash basis) applies for the purposes of this section as it applies for the purposes of that section.”

44 (1) Section 477A (persons leaving cash basis) is amended as follows.

(2) In subsection (1)—

- (a) in paragraph (b), for “an election under section 25A of ITTOIA 2005 (cash basis for trades) has effect” substitute “the cash basis applies”;
- (b) in paragraph (d), for “an election under section 25A of that Act had not had effect” substitute “the cash basis had not applied”.

(3) In subsection (5)—

- (a) in paragraph (a), for “an election under section 25A of ITTOIA 2005 had effect” substitute “the cash basis applied”;
- (b) in paragraph (b), for “such an election does not have effect” substitute “the cash basis does not apply”.

(4) After subsection (5) insert—

“(5A) Subsection (11)(za) of section 1A (capital allowances and charges: cash basis) applies for the purposes of this section as it applies for the purposes of that section.”

ITA 2007

45 (1) ITA 2007 is amended as follows—

(2) In section 64(8) (deduction of losses from general income), omit paragraph (bb).

(3) In section 72(5) (relief for individuals for losses in first 4 years of trade), omit paragraph (bb).

Consequential repeals

- 46 In consequence of the repeals made by this Schedule, omit the following provisions (which insert or amend provisions repealed by this Schedule)—
- (a) in Part 1 of Schedule 4 to FA 2013, paragraphs 3, 4, 10, 14, 15 and 39(3),
 - (b) in Part 2 of that Schedule, paragraphs 44 and 54, and
 - (c) paragraph 6 of Chapter 3A of Part 1 of Schedule 1 to FA 2022.

PART 3

COMMENCEMENT AND TRANSITIONAL PROVISION

Commencement

- 47 The amendments made by this Schedule have effect for the tax year 2024-25 and subsequent tax years.

Transitional provision

- 48 (1) This paragraph has effect for the purposes of construing references in the Income Tax Acts to the cash basis in relation to the calculation of the profits of a trade (but not a property business) for a tax year before 2024-25.
- (2) Any reference to calculating the profits of a trade on the cash basis is to be read as a reference to doing so in accordance with section 25A of ITTOIA 2005.
- (3) Any reference to the cash basis applying (or not applying) in relation to a trade for the tax year is to be read as a reference to an election under section 25A of ITTOIA 2005 having effect (or not having effect) in relation to the trade for the tax year.
- 49 (1) This paragraph has effect for the purposes of construing references in the Income Tax Acts to a change in the basis of calculation of the profits of a trade (but not a property business) for the tax year 2024-25.
- (2) A person carrying on a trade “enters the cash basis” in relation to the trade in the tax year 2024-25 if—
- (a) the cash basis applies in relation to the trade for the tax year 2024-25, and
 - (b) no election under section 25A of ITTOIA 2005 had effect in relation to the trade for the tax year 2023-24,
- and related expressions are to be construed accordingly.
- (3) A person carrying on a trade “leaves the cash basis” in relation to the trade in the tax year 2024-25 if—
- (a) an election under section 25A of ITTOIA 2005 had effect in relation to the trade for the tax year 2023-24, and
 - (b) the cash basis does not apply in relation to the trade for the tax year 2024-25,
- and related expressions are to be construed accordingly.
- (4) For the purposes of this paragraph, the cash basis applies to a trade in relation to a tax year if the profits of the trade for the tax year are required by virtue of [section 24A\(1\)](#) of ITTOIA 2005 to be calculated in accordance with that section.
- 50 Paragraphs [48](#) and [49](#) apply to professions and vocations as they apply to trades.