



Income Tax (Trading and Other Income) Act 2005

2005 CHAPTER 5

PART 2

TRADING INCOME

[^{F1}CHAPTER 17A

CASH BASIS: ADJUSTMENTS FOR CAPITAL ALLOWANCES

[^{F1}Adjustments on entering cash basis

Textual Amendments

- F1** Pt. 2 Ch. 17A inserted (with effect in accordance with Sch. 4 paras. 56, 57 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 4 para. 38](#)

240B “Entering the cash basis”

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.

240C [^{F2}Unrelieved qualifying expenditure: Parts 2, 7 and 8 of CAA 2001]

- (1) This section applies if—

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- (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 [^{F3}relating to the trade] 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 [^{F4}any cash basis deductible amount of the expenditure].
- [^{F5}(4) A “cash basis deductible amount” of the expenditure means any amount of the expenditure for which a deduction would be allowed in calculating the profits of the trade on the cash basis on the assumption that the expenditure was paid in the current tax year.]
- (5) [^{F6}Any cash basis deductible amount] of the expenditure is to be determined on such basis as is just and reasonable in all the circumstances.
- [^{F7}(5A) For the purposes of subsection (1)(b), in determining the unrelieved qualifying expenditure the person has to carry forward, disregard sections 59(4), 461A(1) and 475A(1) of CAA 2001 (which provide that an amount is not to be carried forward as unrelieved qualifying expenditure when a person enters the cash basis).]
- [^{F8}(6) In this section “unrelieved qualifying expenditure” means unrelieved qualifying expenditure for the purposes of—
- (a) Part 2 of CAA 2001 (see section 59(1) and (2) of that Act),
 - (b) Part 7 of that Act (see section 461 of that Act), or
 - (c) Part 8 of that Act (see section 475 of that Act).]

Textual Amendments

- F2** S. 240C heading substituted (16.11.2017) (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 7\(2\)](#)
- F3** Words in s. 240C(1)(b) inserted (16.11.2017) (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 7\(3\)](#)
- F4** Words in s. 240C(3) substituted (16.11.2017) (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 7\(4\)](#)
- F5** S. 240C(4) substituted (16.11.2017) (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 7\(5\)](#)
- F6** Words in s. 240C(5) substituted (16.11.2017) (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 7\(6\)](#)
- F7** S. 240C(5A) inserted (16.11.2017) (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 7\(7\)](#)
- F8** S. 240C(6) substituted (16.11.2017) (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 7\(8\)](#)

^{F9}240CA **Unrelieved qualifying expenditure: Part 5 of CAA 2001**

- (1) This section applies if a person carrying on a mineral extraction trade enters the cash basis for a tax year (“the current tax year”).
- (2) But this section does not apply if section 240D applies.

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- (3) In calculating the profits of the trade for the current tax year, a deduction is allowed for any amount of expenditure—
- (a) which would, apart from section 419A(1) of CAA 2001, have been unrelieved qualifying expenditure for the current tax year, and
 - (b) for which a deduction would be allowed in calculating the profits of the trade on the cash basis on the assumption that the expenditure was paid in the current tax year.
- (4) In this section—
- “mineral extraction trade” has the meaning given in section 394 of CAA 2001;
 - “unrelieved qualifying expenditure” means unrelieved qualifying expenditure for the purposes of Part 5 of CAA 2001 (see section 419 of that Act).]]

Textual Amendments

- F9** S. 240CA inserted (16.11.2017) (with effect in accordance with Sch. 2 para. 64 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 2 para. 8**

240D Assets not fully paid for

- (1) 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 [^{F10}incurred relevant expenditure, and]
 - (c) not all of the relevant expenditure has actually been paid by the person.
- [^{F11}(1A) “Relevant expenditure” means expenditure—
- (a) for which a deduction would be allowed in calculating the profits of the trade on the cash basis on the assumption that the expenditure was paid in the tax year, and
 - (b) in respect of which the person has obtained capital allowances under Part 2, 5, 6, 7 or 8 of CAA 2001.]
- (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) [^{F12}Any question as to whether or to what extent expenditure is relevant expenditure, or as to whether or to what extent any capital allowance obtained is in respect of relevant expenditure,] is to be determined on such basis as is just and reasonable in all the circumstances.
- (5) If the amount of capital allowances given [^{F13}under Part 2 of CAA 2001] 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

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of the relevant expenditure that the person has actually paid is to be proportionately reduced for the purposes of this section.

^{F14}(6)

Textual Amendments

- F10** Words in s. 240D(1)(b) substituted (16.11.2017) (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 9\(2\)](#)
- F11** [S. 240D\(1A\)](#) inserted (16.11.2017) (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 9\(3\)](#)
- F12** Words in s. 240D(4) substituted (16.11.2017) (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 9\(4\)](#)
- F13** Words in s. 240D(5) inserted (16.11.2017) (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 9\(5\)](#)
- F14** [S. 240D\(6\)](#) omitted (16.11.2017) (with effect in accordance with Sch. 2 para. 64 of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 9\(6\)](#)

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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. 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\(7\)\(a\)](#)