



Income Tax (Trading and Other Income) Act 2005

2005 CHAPTER 5

[^{F1}PART 6A

INCOME CHARGED UNDER THIS ACT: TRADING AND PROPERTY ALLOWANCES

Textual Amendments

- F1** Pt. 6A inserted (16.11.2017) (with effect in accordance with Sch. 3 para. 13 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), [Sch. 3 para. 1](#)

CHAPTER 1

TRADING ALLOWANCE

Modifications etc. (not altering text)

- C1** Pt. 6A Ch. 1 excluded (22.7.2020) by [Finance Act 2020 \(c. 14\)](#), [Sch. 16 para. 4\(4\)](#)

Introduction

783A Relief under this Chapter

- (1) This Chapter gives relief to an individual on—
- (a) the income of a relevant trade (see section 783AA), and
 - (b) miscellaneous income (see section 783AB).

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- (2) If the individual qualifies for full relief (see section 783AE), the individual's relevant income (see section 783AC) is not charged to income tax (see sections 783AF and 783AG).
- (3) If the individual qualifies for partial relief (see section 783AH), the individual's relevant income is calculated by alternative methods (see sections 783AI to 783AK).
- (4) Any provision of this Chapter which gives relief is subject to sections 783AN to 783AQ, which specify circumstances in which relief under this Chapter is not given.

Basic definitions

783AA “Relevant trade” of an individual

- (1) For the purposes of this Chapter, a trade carried on by an individual is a “relevant trade” of the individual for a tax year if—
 - (a) the individual carries on the trade otherwise than in partnership, and
 - (b) the trade is not a rent-a-room trade in relation to the individual for the tax year.
- (2) For the purposes of subsection (1)(b) a trade is a “rent-a-room trade” in relation to an individual for a tax year if—
 - (a) the individual qualifies for rent-a-room relief for the tax year, and
 - (b) the individual has rent-a-room receipts for the tax year which would, apart from Chapter 1 of Part 7 (rent-a-room relief), be brought into account in calculating the profits of the trade.

See section 783AR for definitions relevant to this subsection.

- (3) In this Chapter references to a trade include references to a profession or vocation.

783AB “Miscellaneous income”

- (1) For the purposes of this Chapter, an individual's “miscellaneous income” for a tax year is all the income arising to the individual in the tax year which would be chargeable to income tax under Chapter 8 of Part 5 (income not otherwise charged) for the tax year.
- (2) But if—
 - (a) the individual qualifies for rent-a-room relief for the tax year, and
 - (b) the individual has rent-a-room receipts for the tax year which would, apart from Chapter 1 of Part 7, be chargeable to income tax under Chapter 8 of Part 5,
 the rent-a-room receipts are not miscellaneous income.
- (3) The reference in subsection (1) to the amount which would be chargeable to income tax under Chapter 8 of Part 5 is to the amount which would be so chargeable—
 - (a) apart from this Chapter, and
 - (b) if no deduction were made for expenses or any other matter.

783AC The individual's “relevant income”

- (1) For the purposes of this Chapter, an individual's “relevant income” for a tax year is the sum of the following—

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- (a) the receipts for the tax year of the individual's relevant trades for the tax year, and
 - (b) the individual's miscellaneous income for the tax year.
- (2) In subsection (1)(a) the reference to the receipts of a trade for a tax year is to all the amounts which would, apart from this Chapter, be brought into account as a receipt in calculating the profits of the trade for the tax year.

783AD The individual's trading allowance

- (1) For the purposes of this Chapter, an individual's trading allowance for a tax year is £1,000.
- (2) The Treasury may by regulations amend subsection (1) so as to substitute a higher sum for the sum for the time being specified in that subsection.

Full relief

783AE Full relief: introduction

- (1) An individual qualifies for full relief for a tax year if—
- (a) the individual has relevant income for the tax year,
 - (b) the relevant income does not exceed the individual's trading allowance for the tax year, and
 - (c) no election by the individual under section 783AL has effect for the tax year (election for full relief not to be given).
- (2) An individual also qualifies for full relief for a tax year if—
- (a) the individual has relevant income for the tax year which consists of or includes receipts of one or more relevant trades,
 - (b) the relevant income exceeds the individual's trading allowance for the tax year,
 - (c) the conditions mentioned in subsection (3) are met,
 - (d) no election by the individual under section 783AL has effect for the tax year, and
 - (e) no election by the individual under section 783AM has effect for the tax year (election for partial relief).
- (3) The conditions are that—
- (a) no election by the individual under section 25A (cash basis for trades) has effect for the tax year,
 - (b) the individual's relevant income would not exceed the individual's trading allowance for the tax year if it were to be assumed that an election by the individual under section 25A had effect for the tax year,
 - (c) the individual is eligible to make an election under section 25A (see section 31A) for the tax year, and
 - (d) if any trade carried on by the individual in the tax year was carried on in the immediately preceding tax year—
 - (i) an election by the individual under section 25A had effect for that preceding tax year, or
 - (ii) the individual was eligible to make such an election for that preceding tax year.

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783AF Full relief: trade profits

- (1) This section applies if—
 - (a) an individual qualifies for full relief for a tax year, and
 - (b) the individual's relevant income for the tax year consists of or includes receipts of one or more relevant trades.
- (2) The profits or losses of each such trade for the tax year are treated as nil.

783AG Full relief: miscellaneous income

- (1) This section applies if—
 - (a) an individual qualifies for full relief for a tax year, and
 - (b) the individual's relevant income for the tax year consists of or includes miscellaneous income.
- (2) The amount of—
 - (a) the miscellaneous income arising in the tax year, less
 - (b) any expenses associated with that income,
 is treated as nil.

Partial relief

783AH Partial relief: alternative calculation of profits: introduction

An individual qualifies for partial relief for a tax year if—

- (a) the individual has relevant income for the tax year,
- (b) the relevant income exceeds the individual's trading allowance for the tax year, and
- (c) an election by the individual under section 783AM has effect for the tax year (election for partial relief).

783AI Partial relief: alternative calculation of trade profits

- (1) This section applies if—
 - (a) an individual qualifies for partial relief for a tax year, and
 - (b) the individual's relevant income for the tax year consists of or includes receipts of one or more relevant trades.
- (2) The profits or losses for the tax year of each of the individual's relevant trades are given by taking the following steps—
 - Step 1* Calculate the total of all the amounts which would, apart from this Chapter, be brought into account as a receipt in calculating the profits of the trade for the tax year.
 - Step 2* Subtract the deductible amount.
 - Step 3* Subtract from the amount given by step 2 any deduction for overlap profit allowed in calculating the profits of the trade for the tax year under section 205 (deduction for overlap profit in final tax year) or section 220 (deduction for overlap profit on change of accounting date).

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- (3) Subject to section 783AK, the deductible amount is equal to the individual's trading allowance for the tax year.
- (4) “Overlap profit” has the same meaning in this section as it has in Chapter 15 of Part 2 (see sections 204 and 204A).

783AJ Partial relief: alternative calculation of chargeable miscellaneous income

- (1) This section applies if—
 - (a) an individual qualifies for partial relief for a tax year, and
 - (b) the individual's relevant income for the tax year consists of or includes miscellaneous income.
- (2) The amount of miscellaneous income chargeable to income tax for the tax year is—
 - (a) the miscellaneous income for the tax year, less
 - (b) the deductible amount.
- (3) Subject to section 783AK, the deductible amount is equal to the individual's trading allowance for the tax year.

783AK Deductible amount: splitting of trading allowance

- (1) This section applies where the individual's relevant income for the tax year includes—
 - (a) receipts of a relevant trade, and
 - (b) receipts of any other relevant trade or miscellaneous income (or both).
- (2) The references in section 783AI and (where it applies) section 783AJ to the deductible amount are to amounts which, in total, equal the individual's trading allowance for the tax year.
- (3) The question of how to allocate the individual's trading allowance for the tax year for the purposes of subsection (2) is to be decided by the individual, subject to subsections (4) and (5).
- (4) The deductible amount in respect of a relevant trade must not be such that the amount given by step 2 of section 783AI(2) is negative.
- (5) The deductible amount in respect of miscellaneous income must not be such as to result in the individual making a loss in the transactions giving rise to the miscellaneous income.

Elections

783AL Election for full relief not to be given

- (1) An individual may elect not to be given full relief for a tax year (see sections 783AF and 783AG).
- (2) An election must be made on or before the first anniversary of the normal self-assessment filing date for the tax year for which the election is made.

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783AM Election for partial relief

- (1) An individual may elect for partial relief to be given for a tax year if the individual's relevant income for the tax year exceeds the individual's trading allowance for the tax year (see sections 783AI and 783AJ).
- (2) An election must be made on or before the first anniversary of the normal self-assessment filing date for the tax year for which the election is made.

Exclusions from relief

783AN Exclusion from relief: expenses deducted against rent-a-room receipts

- (1) No relief under this Chapter is given to an individual for a tax year if—
 - (a) the individual qualifies for rent-a-room relief for the tax year,
 - (b) the individual has rent-a-room receipts mentioned in subsection (2) for the tax year, and
 - (c) condition A or B is met.
- (2) The rent-a-room receipts mentioned in subsection (1) are—
 - (a) rent-a-room receipts which would, apart from Chapter 1 of Part 7 (rent-a-room relief), be brought into account in calculating the profits of a trade, or
 - (b) rent-a-room receipts which would, apart from Chapter 1 of Part 7, be chargeable to income tax under Chapter 8 of Part 5 (income not otherwise charged).
- (3) Condition A is that—
 - (a) the individual's total rent-a-room amount for the tax year does not exceed the individual's limit for the tax year (see section 783AR), and
 - (b) an election by the individual under section 799 has effect to disapply full rent-a-room relief for the tax year.
- (4) Condition B is that—
 - (a) the individual's total rent-a-room amount for the tax year exceeds the individual's limit for the tax year, and
 - (b) no election by the individual under section 800 has effect to apply the alternative method of calculating profits for the tax year.

783AO Exclusion from relief: payments by employer

No relief under this Chapter is given to an individual for a tax year if—

- (a) the individual has relevant income for the tax year, and
- (b) the income includes a payment made by, or on behalf of, a person at a time when the individual is—
 - (i) an employee of the person, or
 - (ii) the spouse or civil partner of an employee of the person.

783AP Exclusion from relief: payments by firm

No relief under this Chapter is given to an individual for a tax year if—

- (a) the individual has relevant income for the tax year, and

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- (b) the income includes a payment made by, or on behalf of, a firm at a time when the individual is—
 - (i) a partner in the firm, or
 - (ii) connected with a partner in the firm.

783AQ Exclusion from relief: payments by close company

- (1) No relief under this Chapter is given to an individual for a tax year if—
 - (a) the individual has relevant income for the tax year, and
 - (b) the income includes a payment made by, or on behalf of, a close company at a time when the individual is—
 - (i) a participator in the close company, or
 - (ii) an associate of a participator in the close company.
- (2) In this section “associate” and “participator” have the same meanings as in Part 10 of CTA 2010 (see sections 448 and 454).

Interpretation

783AR Interpretation of this Chapter

In this Chapter—

- (a) “rent-a-room relief”, “rent-a-room receipts” and “total rent-a-room amount” have the same meanings as in Chapter 1 of Part 7 (rent-a-room relief: see sections 784, 786 and 788), and
- (b) references to “the individual's limit” are to be construed in accordance with section 789 (the individual's limit for the purposes of rent-a-room relief).

CHAPTER 2

PROPERTY ALLOWANCE

Introduction

783B Relief under this Chapter

- (1) This Chapter gives relief to an individual on certain income of a relevant property business (see sections 783BA and 783BB).
- (2) The form of relief depends on whether the individual's relevant property income exceeds the individual's property allowance (see sections 783BC and 783BD).
- (3) If the individual's relevant property income does not exceed the individual's property allowance, the income is not charged to income tax (unless the individual elects otherwise) (see sections 783BE and 783BF).
- (4) If the individual's relevant property income does exceed the individual's property allowance, the individual may elect for an alternative method of calculating the income (see sections 783BG to 783BI).

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- (5) Any provision of this Chapter which gives relief is subject to sections 783BL to 783BP, which specify circumstances in which relief under this Chapter is not given.

Basic definitions

783BA “Relevant property business” of an individual

- (1) Subject to subsection (3), for the purposes of this Chapter an individual's property business is a “relevant property business” for a tax year if the business is not a rent-a-room property business in relation to the individual for the tax year.
- (2) For the purposes of subsection (1) a property business is a “rent-a-room property business” in relation to an individual for a tax year if—
 - (a) the individual qualifies for rent-a-room relief for the tax year, and
 - (b) all the receipts which would, apart from Chapter 1 of Part 7 (rent-a-room relief), be brought into account in calculating the profits of the business, are rent-a-room receipts.

See section 783BQ for definitions relevant to this subsection.

- (3) If an individual receives—
 - (a) property income distributions which are treated as profits of a UK property business by virtue of regulation 69Z18(1) or (2) of the AIF Regulations (property AIF distributions: liability to tax), or
 - (b) distributions which are treated as profits of a UK property business by virtue of section 548(6) of CTA 2010 (REIT distributions: liability to tax),
 that separate property business (see regulation 69Z18(6) of the AIF Regulations and section 549(5) of CTA 2010) is not a relevant property business of the individual.
- (4) In subsection (3) “the AIF Regulations” means the Authorised Investment Funds (Tax) Regulations 2006 (S.I. 2006/964).

783BB “Relievable receipts” of a property business

- (1) For the purposes of this Chapter, the “relievable receipts” of an individual's relevant property business for a tax year are all the amounts which would, apart from this Chapter, be brought into account as a receipt in calculating the profits of the business for the tax year.

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

- (2) If—
 - (a) the individual qualifies for rent-a-room relief for the tax year, and
 - (b) the individual has rent-a-room receipts for the tax year which would, apart from Chapter 1 of Part 7, be brought into account in calculating the profits of the property business,
 the rent-a-room receipts are not relievable receipts of the business.
- (3) Non-relievable balancing charges in respect of the property business for the tax year are not relievable receipts of the business.

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- (4) In subsection (3) “non-relievable balancing charges”, in respect of a property business for a tax year, means balancing charges falling to be made for the tax year under Part 2 of CAA 2001 which do not relate to a business or transaction which is carried on, or entered into, for the purpose of generating receipts which are relievable receipts of the property business.

783BC The individual's “relevant property income”

For the purposes of this Chapter, an individual's “relevant property income” for a tax year is the relievable receipts for the tax year of the individual's relevant property businesses for the tax year.

783BD The individual's property allowance

- (1) For the purposes of this Chapter, an individual's property allowance for a tax year is £1,000.
- (2) The Treasury may by regulations amend subsection (1) so as to substitute a higher sum for the sum for the time being specified in that subsection.

Relief if relevant property income does not exceed property allowance

783BE Full relief: introduction

An individual qualifies for full relief for a tax year if—

- (a) the individual has relevant property income for the tax year,
- (b) the relevant property income does not exceed the individual's property allowance for the tax year, and
- (c) no election by the individual under section 783BJ has effect for the tax year (election for full relief not to be given).

783BF Full relief: property profits

- (1) If an individual qualifies for full relief for a tax year, this section applies in relation to the calculation of the profits of the individual's relevant property business for the tax year or, where the individual's relevant property income for the tax year consists of the relievable receipts of two relevant property businesses, the profits of each property business for the tax year.
- (2) The following are not brought into account—
- (a) the relievable receipts of the property business for the tax year, and
 - (b) any expenses associated with those receipts.

Relief if relevant property income exceeds property allowance

783BG Partial relief: alternative calculation of property profits: introduction

An individual qualifies for partial relief for a tax year if—

- (a) the individual has relevant property income for the tax year,

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- (b) the relevant property income exceeds the individual's property allowance for the tax year, and
- (c) an election by the individual under section 783BK has effect for the tax year (election for partial relief).

783BH Partial relief: alternative calculation of property profits

- (1) If an individual qualifies for partial relief for a tax year, this section applies in relation to the calculation of the profits of the individual's relevant property business for the tax year or, where the individual's relevant property income for the tax year consists of the relievable receipts of two relevant property businesses, the profits of each property business for the tax year.
- (2) The relievable receipts of the property business for the tax year are brought into account.
- (3) No relevant expenses are brought into account.
- (4) The deductible amount is brought into account.
- (5) Subject to section 783BI, the deductible amount is equal to the individual's property allowance for the tax year.
- (6) In subsection (3) “relevant expenses” means all the amounts—
 - (a) which would, apart from this section, be brought into account as a deduction in calculating the profits of the business for the tax year, and
 - (b) which are associated with the relievable receipts.

783BI Deductible amount: splitting of property allowance

- (1) This section applies where the individual's relevant property income for the tax year consists of the relievable receipts of two relevant property businesses.
- (2) The references in section 783BH to the deductible amount are to amounts which, in total, equal the individual's property allowance for the tax year.
- (3) The question of how to allocate the individual's property allowance for the tax year for the purposes of subsection (2) is to be decided by the individual, subject to subsection (4).
- (4) The deductible amount in respect of a relevant property business must not be such as to result in a loss of the business.

Elections

783BJ Election for full relief not to be given

- (1) An individual may elect not to be given full relief for a tax year (see section 783BF).
- (2) An election must be made on or before the first anniversary of the normal self-assessment filing date for the tax year for which the election is made.

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783BK Election for partial relief

- (1) An individual may elect for partial relief to be given for a tax year if the individual's relevant property income for the tax year exceeds the individual's property allowance for the tax year (see section 783BH).
- (2) An election must be made on or before the first anniversary of the normal self-assessment filing date for the tax year for which the election is made.

Exclusions from relief

783BL Exclusion from relief: tax reduction under section 274A

No relief under this Chapter is given to an individual for a tax year if, in calculating the individual's liability to income tax for the tax year, a tax reduction under section 274A (property business: relief for non-deductible costs of a dwelling-related loan) is applied at Step 6 of the calculation in section 23 of ITA 2007.

783BM Exclusion from relief: expenses deducted against rent-a-room receipts

- (1) No relief under this Chapter is given to an individual for a tax year if—
 - (a) the individual qualifies for rent-a-room relief for the tax year,
 - (b) the individual has rent-a-room receipts for the tax year which would, apart from Chapter 1 of Part 7 (rent-a-room relief), be brought into account in calculating the profits of a property business, and
 - (c) condition A or B is met.
- (2) Condition A is that—
 - (a) the individual's total rent-a-room amount for the tax year does not exceed the individual's limit for the tax year (see section 783BQ), and
 - (b) an election by the individual under section 799 has effect to disapply full rent-a-room relief for the tax year.
- (3) Condition B is that—
 - (a) the individual's total rent-a-room amount for the tax year exceeds the individual's limit for the tax year, and
 - (b) no election by the individual under section 800 has effect to apply the alternative method of calculating profits for the tax year.

783BN Exclusion from relief: payments by employer

No relief under this Chapter is given to an individual for a tax year if—

- (a) the individual has relevant property income for the tax year, and
- (b) the income includes a payment made by, or on behalf of, a person at a time when the individual is—
 - (i) an employee of the person, or
 - (ii) the spouse or civil partner of an employee of the person.

783BO Exclusion from relief: payments by firm

No relief under this Chapter is given to an individual for a tax year if—

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- (a) the individual has relevant property income for the tax year, and
- (b) the income includes a payment made by, or on behalf of, a firm at a time when the individual is—
 - (i) a partner in the firm, or
 - (ii) connected with a partner in the firm.

783BP Exclusion from relief: payments by close company

- (1) No relief under this Chapter is given to an individual for a tax year if—
 - (a) the individual has relevant property income for the tax year, and
 - (b) the income includes a payment made by, or on behalf of, a close company at a time when the individual is—
 - (i) a participator in the close company, or
 - (ii) an associate of a participator in the close company.
- (2) In this section “associate” and “participator” have the same meanings as in Part 10 of CTA 2010 (see sections 448 and 454).

Interpretation

783BQ Interpretation of this Chapter

In this Chapter—

- (a) “rent-a-room relief”, “rent-a-room receipts” and “total rent-a-room amount” have the same meanings as in Chapter 1 of Part 7 (rent-a-room relief: see sections 784, 786 and 788), and
- (b) references to “the individual's limit” are to be construed in accordance with section 789 (the individual's limit for the purposes of rent-a-room relief).]

Changes to legislation:

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