These notes refer to the Corporation Tax Act 2009 (c.4) which received Royal Assent on 26 March 2009

CORPORATION TAX ACT 2009

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Part 3: Trading income

Overview

Chapter 3: Trade profits: basic rules

Section 46: Generally accepted accounting practice

202. This section sets out the starting point for the calculation of trade profits. It is based on section 42 of FA 1998. The corresponding rule for income tax is in section 25 of ITTOIA.

203. *Subsection (1)* is the general rule that requires profits to be calculated "in accordance with generally accepted accounting practice", an expression defined in section 50 of FA 2004. In particular, such practice generally requires account to be taken of debtors and creditors and of the value of stock. The general rule is subject to any special rule of law whether expressed in statute or explained by the courts.

204. The relevant statutory laws are mainly those that are rewritten in this Part. But there are also provisions not included in Part 3 of this Act which may affect the calculation of profits: for example, the pension contributions deductions provisions in FA 2004 and some anti-avoidance provisions in ICTA that apply to all income types.

205. *Subsection (2)* makes clear that subsection (1) does not bring with it any of the other accounting requirements, such as a formal audit.

206. *Subsection (3)* sets out exceptions to the general rule in subsection (1). Lloyd's underwriters have their own special rules (mostly in Chapter 3 of Part 2 of FA 1993); there are special rules for insurance companies (mostly in Chapter 1 of Part 12 of ICTA and Chapter 1 of Part 2 of FA 1989); and tonnage tax companies (see Schedule 22 to FA 2000) are subject to "special rules" for the calculation of profits.

Section 47: Losses calculated on same basis as profits

207. This section ensures that profits and losses are calculated on a consistent basis. It is based on section 46 of FA 1998. The corresponding rule for income tax is in section 26 of ITTOIA.

Section 48: Receipts and expenses

208. This section is based on section 46 of FA 1998. The corresponding rule for income tax is in section 27 of ITTOIA.

Section 49: Items treated as receipts and expenses

209. This section signposts rules affecting trade profits that are elsewhere in the Corporation Tax Acts. It is new. The corresponding rule for income tax is in section 28 of ITTOIA.

210. In particular the CAA rules override the rules against the inclusion of capital items in sections 53 and 93 of this Act.

Section 50: Animals kept for trade purposes

211. This section contains the basic rule for the corporation tax treatment of animals. It is based on paragraphs 1, 7 and 9 of Schedule 5 to ICTA. The corresponding rule for income tax is in section 30 of ITTOIA. The animals are treated as trading stock unless a herd basis election is made under Chapter 8 of this Part.

Section 51: Relationship between rules prohibiting and allowing deductions

212. This section makes clear the interaction between those provisions that allow a deduction and those provisions that prohibit a deduction. It is new. See *Change 7* in Annex 1. The corresponding rule for income tax is in section 31 of ICTA.

213. The general principle is that a rule allowing a deduction takes priority over a rule prohibiting a deduction. But this is subject to a number of exceptions.

Section 52: Apportionment etc of profits and losses to accounting period

214. This section provides for apportionment of profits and losses when a company's period of account does not coincide with an accounting period. It is based on section 72 of ICTA. That section is rewritten for income tax purposes in sections 203 and 871 of ITTOIA.

215. This section does not carry over the rewrite change in sections 203(4) and 871(5) of ITTOIA whereby apportionment is permitted by a measure of time other than the days permitted by section 72(2) of ICTA. HMRC has a long-established view that days cannot be split into accounting periods. That helps prevent exploitation of the wider range of reliefs available in the rather different context of corporation tax.