



Tax Losses – how to make the most of them

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A claim to set off losses has to be “all or nothing”. For example, in setting a £10,000 loss against income of £10,000, the claimant would probably prefer to claim only £5,000 of relief, as the remaining income would be covered by his personal allowances and therefore not taxable. This would preserve some loss to carry forward and set against the profits of a later year. Such a partial claim is not possible. Once a decision about loss relief claims has been made, then either the full amount of the loss or the full amount of the income (if the loss is greater) will be used.

Pension contributions – Don’t forget that if you reduce your taxable income by utilising tax losses you are also reducing your income for pension purposes.

Carry forward against future profits of the same trade - This is normally regarded as the relief of last resort, as it delays loss relief recovery. Losses are set against the first available profits, provided the same trade is carried on, and cannot be “disclaimed” to preserve personal allowances. If the business ceases, then subject to terminal loss relief rules (see below) any remaining losses are lost forever.

Set off against other income of the year and the preceding year - More immediate relief for the loss is available by claiming relief against “other income”. Relief is given by setting the loss against other income of the year of the loss, or the preceding year.

Extending claims to capital gains – It is possible to extend a loss relief claim to set the trading loss off against the capital gains of the year of the loss and the preceding year. There are a number of potential disadvantages to this form of loss relief recovery. They include loss of taper relief for CGT purposes and loss of personal allowances.

Losses in the early years of trade - When businesses incur losses in the first four tax years in which the trade is carried on, special relief is available to allow the loss to be carried back three years and set against the total income of those years.

Terminal losses - The loss sustained in the last 12 months of trade of a business is available for terminal loss relief. Relief is given against the **trading profits** (not other income) of the last three fiscal years of the business, taking later (most recent) years first.