

## Time to Think About Tax Losses

With the end of the tax year approaching and trading conditions having been tough, there will no doubt be many businesses thinking about how to deal with their tax losses (trading losses as adjusted for tax purposes).

This is by no means an easy question in many cases.

Losses may be used in many ways, but in most cases, trading losses incurred by an individual may be:

- carried back to set against profits of an earlier period;
- set off against other income in the same tax year; or
- carried forward without limit to be set off against future profits arising from the same trade.

When choosing how to make use of tax losses, the following should be borne in mind:

- Your level of taxable income in the year in which the loss is to be offset – a carry-forward to 2010/2011 may look attractive if you will be a higher-rate taxpayer then;
- Whether or not you pay Class 4 National Insurance Contributions (C4NICs) – a set-off against other income which does not carry C4NICs may cost you 8 per cent of the loss;
- Whether future taxable income is certain – if a bird in the hand is worth two in the bush, getting sure tax relief now as opposed to probable (but not certain) tax relief in the future may be sensible; and
- Your cash-flow. Carrying forward losses means no boost to your cash-flow until the loss is relieved in the future.

There are further complications because losses can be added to by capital allowances and some elections are 'all or nothing' ones, which may mean that the losses are not used efficiently – for example, a claim may 'waste' personal allowances (i.e. take taxable income after the loss is relieved to below that at which any tax is paid, wasting tax relief on the difference between the residual taxable income and the level at which tax becomes payable).

**If you have tax losses, take professional advice on what to do.**

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