



E-Update: November 2009

This month Robert Bradley takes a look at making use of personal losses in a company.

Making use of personal losses in a company

If a business makes a loss, the H M Revenue & Customs allows you to deduct it from your other income and so reduce your tax bill. At first sight the rules appear generous, allowing carry forward, carry back and even sideways loss relief. One proviso to this is that if your business ceases and you haven't been able to get tax relief for all your losses, he won't let you carry them forward to another business. There is, however, a little known exception to the rule.

Company Income

Before forming a company you might have started off business life as a sole trader or partnership. When trade improved you formed a company but were left with some losses from the "old business" you couldn't get tax relief for. As the company is carrying on its original trade, s86 of the Income Taxes Act 2007 allows you to transfer the loss from the unincorporated business against income you take from the company.

An example

Jim started an engineering workshop in 2007. It had high set-up costs and initially trade was slow. This meant that the business made losses of £40,000 during its first two years. But trading improved considerably and Jim's accountant recommended that he incorporate the business. Joe transferred the trade to a company. In the tax year 2010/11 Joe paid himself a salary of £40,000 to use up losses from his old business. He would normally pay tax on this of around £6,500; instead, he'll pay no tax at all. And if the company can't afford to pay him all the salary at once, he can leave it on his director's loan and draw down on the tax-free funds whenever he wants to.

Subject to conditions you can draw tax-free salary or dividends from the company by using the loss from the unincorporated business. For more specific guidance regarding this topic please contact me.

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