Reforms to corporation tax loss relief

Large Corporate **OMB**

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The proposed changes to the rules dealing with corporation tax loss relief will have winners and losers and what is proposed is far from simple.

The CIOT responded to the consultation document, Reforms to Corporation Tax Loss Relief. The proposals to change the rules relating to loss relief for corporation tax purposes were announced at Budget 2016 and outlined in the Business Tax Road Map published at that time. Our response says that, although the changes are proposed as part of a package to 'simplify and modernise the tax regime', some aspects of the changes are so complicated and involve so many detailed calculations, the purported aim of simplification will be annulled.

We welcome the proposed increased flexibility for the use of carried-forward losses arising after the proposed start date – 1 April 2017 – because this could benefit many companies, predominantly those with profits of less than £5m. However, we note that, for large companies, this increased flexibility comes with the cost of the restriction to 50% of the amount of annual profit that can be relieved, the restriction applying not just to losses arising after the start date but also to historic losses, which themselves continue to be streamed.

We suggest that this is the wrong time to make significant adverse changes to the UK corporate tax system, such as the proposed 50% restriction, which will have an impact on larger companies and groups, including multinationals.

The result of the EU referendum casts doubt on the advisability of introducing new complex rules around the use of losses, particularly in the short term. Implementing the rules now could harm the UK's competitiveness and the reputation of the UK as a good place to do business. We say, however, that the impact on the UK's global competitiveness must be weighed against the benefit for smaller companies and groups arising from increased flexibility in the use of losses.

We note that the Business Tax Road Map says that it is also a government priority to ensure that small and medium-sized businesses are supported. As a result of these potentially competing priorities, we suggest that these proposals could benefit from a review once the overall direction of the government's objectives and priorities in relation to corporation tax and the different sectors within that tax become clearer, perhaps after the Autumn Statement.

Read the full CIOT response on the CIOT website.