TAX SYSTEMS

Alphatax UK
Release Notes

Professional: Version 18.1

Contents

1. Introduction

About version 18.1

Welcome to the version 18.1 edition of Alphatax UK. This release includes a number of new features and enhancements including:

- Further enhancements arising from Finance (No.2) Act 2017
- Improvements to R&D expenditure credit, creative industry and charity calculations
- Improvements to the Alphatax Tax accounting calculations
- A new Product News feature which allows you to see important updates at a glance
- A new Navigation History pane which allows you to quickly navigate to previously selected statements
- Some minor changes to resolve issues reported by customers

Share your ideas

We have recently introduced a new ideas portal to help us better capture customer ideas across our entire product portfolio. The portal allows you to add your own ideas, and to vote for other ideas that you think have the most merit. These ideas will feed directly into our future decisions on what we will be developing.

Please register at the following link today and let us know what you'd like us to do next.

Technical support

We provide a technical support help desk for users requiring assistance. The help desk can be contacted by telephone between the hours of 9.00 am and 5.30 pm, Monday to Friday excluding public holidays.

If a consultant is not available to speak with you immediately, every effort will be made to return your call within one hour.

If you require help or further information, please contact the support team on:		
UK:	Tel: +44(0) 1784 777 666	Email: support@taxsystems.com
Ireland:	Tel: +353 (0) 1661 9976	Email: support@taxsystems.ie

*Please note: We recommend that you use the **E-mail Support** option from the **Help** to send copies of the computation directly to Support.*

2. Important notices

Size of generated PDF files

In the previous release we made a change to the method that we use to generate PDF versions of the tax return supported in Alphatax. The aim of this change was to materially improve the quality of the output, and to make it quicker for us to update our software following changes to these returns.

We have been made aware of some circumstances, such as SA800 forms including a large number of partners, in which the file has failed e-filing due to excessive size. We are working with our PDF generation software vendor to resolve this issue.

In the meantime, if you experience any related issues then please contact our technical support help desk. We apologise for any inconvenience.

3. Installation

Installation key

Your 16-digit Alphatax installation key is provided in the email that you received announcing the release. The Alphatax installation key is required to both download and install Alphatax.

Should you have any queries, please contact the support team on 01784 777666 or at support@taxsystems.com.

Downloading and installing Alphatax

Please download the copy of Alphatax from the releases download site **https://releases.taxcomputersystems.com**, which will require you to enter your email address and your 16-digit Alphatax installation key. This process will generate an automated email with a unique URL which will be sent to your email address.

The URL will allow you to download the Alphatax installer along with other applications which you are registered to use and also installation guides and release notes.

Click on **'Alphatax v18.1.exe'** to initiate the installation process for which the Alphatax installation key will again be required. Press the **Enter** key at the prompts. The installation process will override the old version of Alphatax. For detailed information on the installation process refer to the *Alphatax UK Installation Guide*. This can be retrieved from the user documentation section of the download screen.

Templates

The installation will reinstall the standard Alphatax templates to ensure that you have the latest version.

To allow you to retrieve your own versions of these templates, if applicable, the old templates are stored in a new folder called BACKUPXn (where n is a number incremented for each new installation).

See Appendix 2 for details of changes made to the standard Alphatax templates in this release.

Please note: This part of the process may take some time. A progress bar displays the names of templates as they are being copied. Folders called BACKUPXn created in the version 18.0 release are removed with this release.

Alphatax platform support

Operating Systems: Alphatax is supported on Windows 7 and later operating systems.

SQL Server: Alphatax Enterprise is supported on SQL Server 2008 and later versions

4. Finance (No. 2) Act 2017

Carried forward loss relief restriction

Loss relief where a business becomes small or negligible

Finance (No. 2) Act 2017 introduced new rules which increased the flexibility on the use of post-1 April 2017 carried forward losses. Conditions must be met for this flexibility to be available however. s463G CTA 2009 for example, which provides relief for post-1 April 2017 non-trading loan relationship deficits brought forward against total profits, is only available where the investment business has not ceased, or become small or negligible. Where these conditions are not met, s463H will apply instead and the post-1 April 2017 losses are set against non-trading profits only.

Similar rules also apply for trades, where s45A CTA 2010, which provides relief for trading losses brought forward against total profits, is only available where the trade has not become small or negligible, and is not carried on upon a non-commercial basis. Where these conditions are not met, relief for post-1 April 2017 losses carried forward is provided under s45B against profits of the same trade only.

The legislation is structured such that this test is applied at the end of each period before losses are carried forward. Therefore, where a business becomes small or negligible, losses brought forward into that period under s45A/s463G will be demoted to being carried forward under s45B/s463H.

For this edition of Alphatax, we have included new flags on the trade *Losses* and *Non-trade financial losses* input statement to indicate that the more favourable provisions of s45A/s463G do not apply, and that s45B/s463H apply to the trade loss or non-trade deficit instead. Setting this flag to Yes will cause Alphatax to offset any carried forward losses against trading profits or non-trading profits only.

Note that these sections are both subject to the loss restriction rules under s269ZB and s269ZC respectively.

Relief for losses under s45B applies automatically by default, but s45B(5) provides that a claim may be made for relief not to be given for a specified amount of the loss. The existing **Disable brought forward loss relief? [may enter claim amount]** will now perform this function where the s45B flag referred to above has been set to Yes. A claim note will be included on the trade *Losses* report statement.

In addition to the small or negligible conditions referred to above, s45A CTA 2010 includes a further condition which specifies that relief is not available where s37(5) applies. This sub-section refers to trades carried on outside the UK, and accordingly the only relief available for post-1 April 2017 losses of an overseas trade is for them to be carried forward to be offset against profits of the same trade under s45B CTA 2010. In this edition, Alphatax will now apply this treatment automatically where the **Is this an overseas trade?** flag is set to Yes on the trade *Accounts adjustments* input statement.

Miscellaneous carried forward loss relief changes

- Company distributions are excluded from modified total profits in line with s269ZF(4)(a) CTA 2010. In the previous edition, Alphatax was incorrectly bringing company distributions entered on the *Trade untaxed income* statement into this calculation on the *Qualifying profits* statement. We have now addressed this issue for periods of account ending on or after 30 June 2018.
- In computations where trade translation mode was enabled and post-1 April 2017 trading losses were being set against total profits, a rounding difference was in certain cases arising on the trade *Losses* report statement. This was caused by the way the trade loss amount is translated to company currency for the purposes of the *Profits chargeable* calculation, and then the offset is translated back to trade currency for the purposes of determining trading losses remaining to carry forward. This rounding issue has now been corrected.
- We have corrected a display issue in the losses input statements within Alphatax in the scenario when a loss arises the first accounting period of a long period of account computation, and that accounting period straddles 1 April 2017. We were previously not displaying the post-1 April 2017 loss brought forward for the second accounting period, which in some cases had a knock-on effect on the display rules for post-1 April 2017 loss relief flags within those losses statements.

  For example, the **Suppress brought forward deficit relief under s463G CTA 2009** was not appearing on the *Non-trade financial losses* input statement when there was a current period non-trade loan relationship deficit arising in the first accounting period of a long period.

Group relief for carried forward losses

Restrictions on the surrender of losses

For this edition, we have added a new section to the *Group relief carried forward surrenders (CT600C(4))* input statement that will apply the restriction on the surrender of losses under s188BE CTA 2010 where the company could use the losses itself. This section in the legislation provides that a company may not surrender any amount of group relief for carried forward losses where:

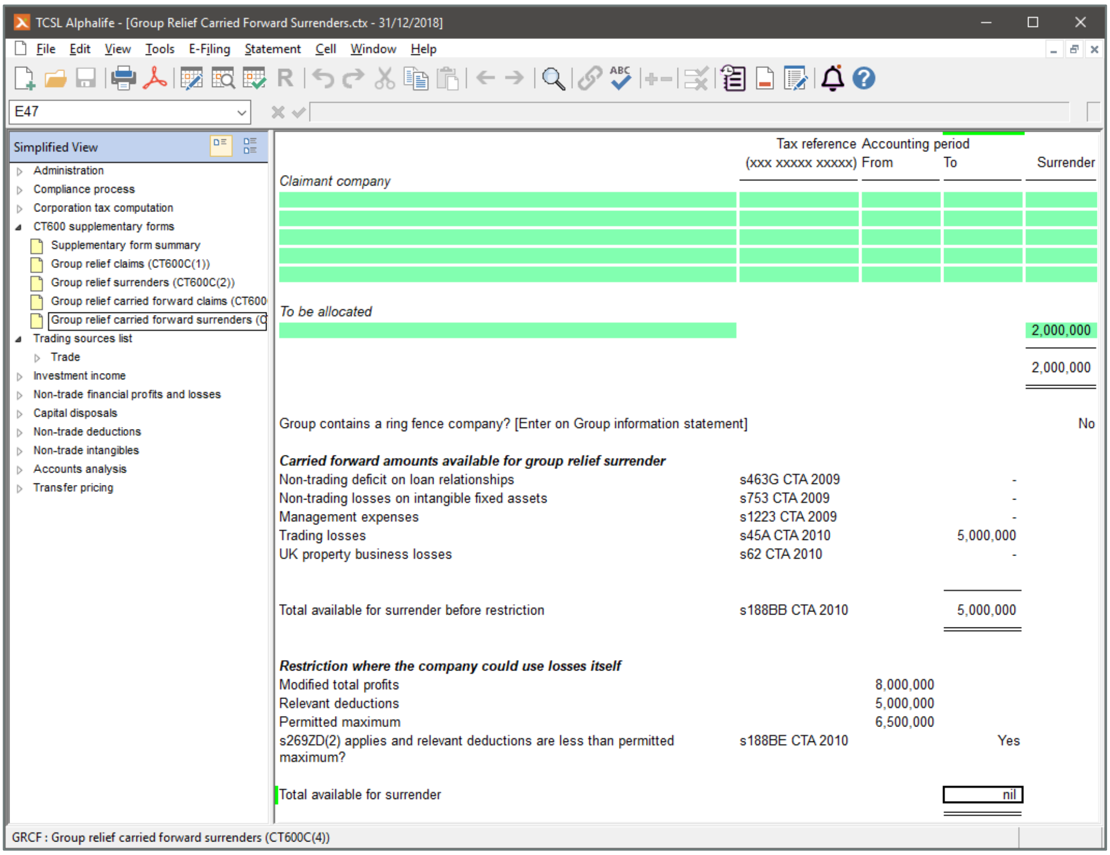
- The restriction under s269ZD applies, i.e. modified total profits are greater than nil, and
- The sum of relevant deductions is less that the permitted maximum.

This restriction will generally be relevant where a company has brought forward losses but has chosen to not claim relief for those losses in its own computation.

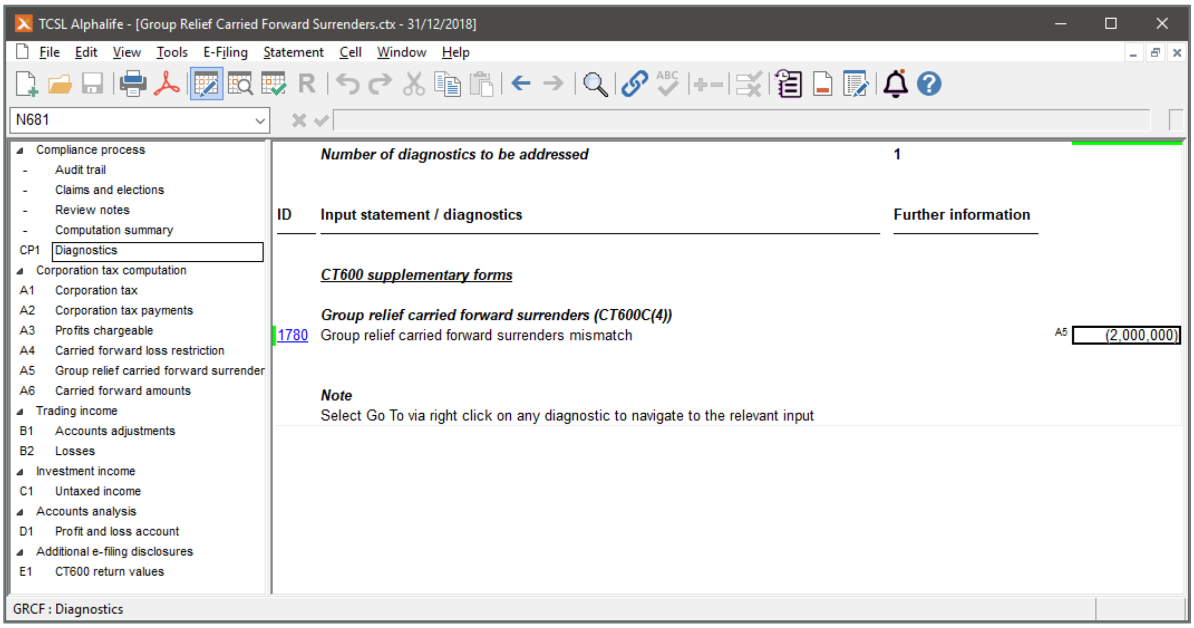
In Alphatax, a new ***Restriction where the company could use losses itself*** section on the *Group relief carried forward surrenders (CT600C(4))* input statement will present the three key values that are relevant, which are taken from the *Carried forward loss restriction* statements:

- Modified total profits
- Relevant deductions
- Permitted maximum

Where modified total profits are greater than nil and relevant deductions do not equal the maximum permitted under s269ZD(2), the total losses available for surrender will be set to nil:



Attempting to surrender group relief for carried forward losses where this restriction is relevant will lead to the existing diagnostic 1780 being displayed:



The carried forward losses that have been surrendered for group relief would need to be removed in this situation, or the claims made in the computation would need to be amended to utilise losses as far as possible.

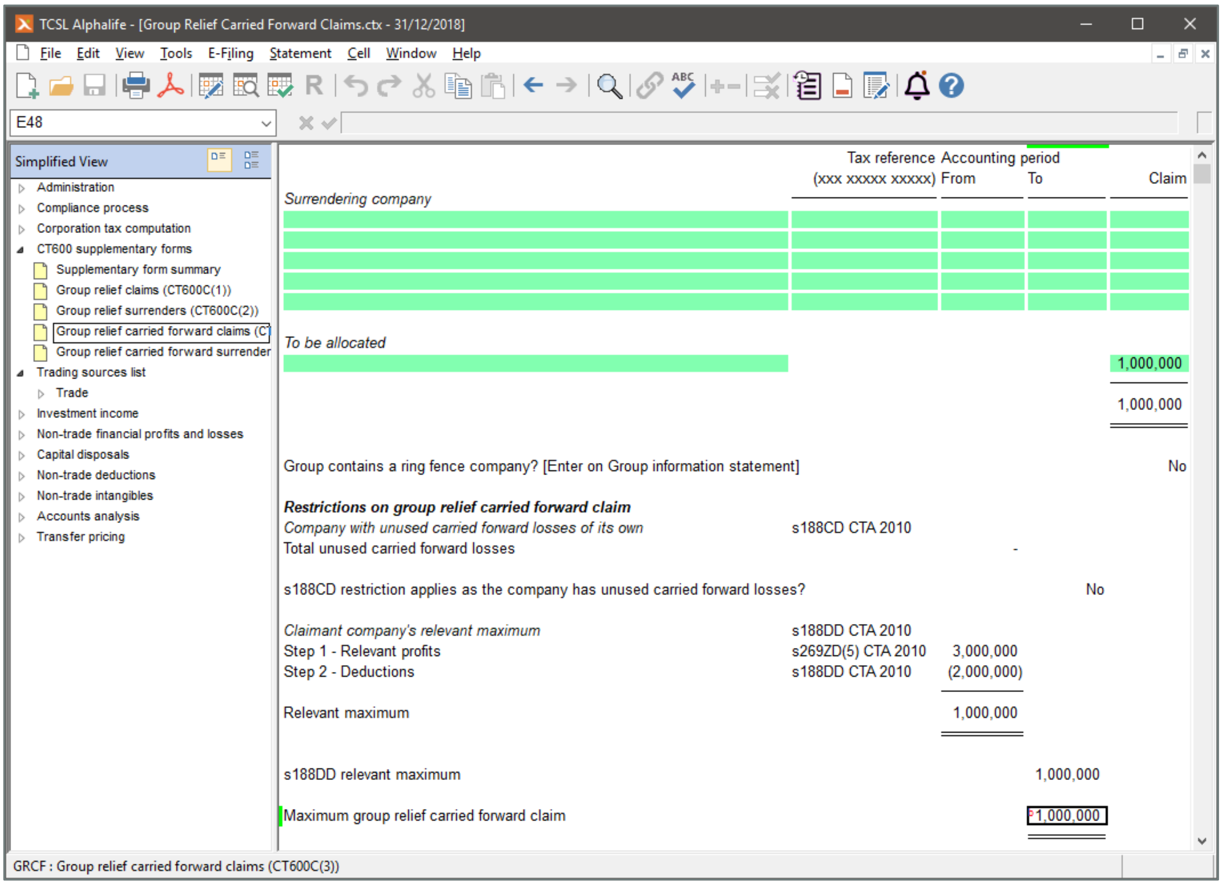
Where relief for brought forward losses has been claimed by the company as far as possible, the sum of relevant deductions will equal the permitted maximum and so group relief for carried forward losses will be available.

Note that following the wording of the legislation – which is what Alphatax will do - the allocation of the deductions allowance to a company may consequently prohibit that company from surrendering group relief for carried forward losses, even where the company does not have sufficient profits to relieve it’s brought forward losses. This follows as a result of the deductions allowance being included in the calculation of the relevant maximum for the purposes of the loss restriction under s269ZD. See the Appendix on page 33 for an illustration of this point.

The legislation also includes a restriction on the surrender of group relief for carried forward losses where a company does not own any income-generating assets at the end of a surrender period (s188BF CTA 2010). Due to the expected rarity of this scenario we have decided against adding additional functionality to Alphatax for this, but we have added an additional passage to our Help system to clarify the position. Existing inputs are available on each of the losses input statements to override the loss available for carried forward group relief.

Restrictions on the claiming of losses

For this edition we have added a new section to the *Group relief carried forward claims (CT600C(3))* input statement that will apply the restrictions on claims that apply under s188CD and s188DD CTA 2010:



The legislative details of these two restrictions are as follows:

s188CD	Provides that a company may not claim any amount of group relief for carried forward losses when the company has unused carried forward losses of its own. Alphatax will calculate and display the **Total unused carried forward losses** in the period to determine if the restriction applies. A breakdown details statement has also been added to show where the unused carried forward losses, if any, arise.
s188DD	Provides a 3-step calculation to determine the relevant maximum for the purposes of claims to group relief for carried forward losses. This amount represents the maximum carried forward losses a company may claim. The calculation is broadly based on the company's relevant maximum calculated under s269ZD(4), less deductions under s269ZD(3) and any losses claimed against restricted profits (for example pre-1 April 2017 trade losses claimed against trade profits). The result is pro-rated if the surrendering company has a non-coterminous period. Alphatax will show the result of the first two steps to arrive at the **s188DD relevant maximum** for that company. The breakdown details statement will also show the details of this calculation. *Please note: Alphatax follows the wording of the legislation in calculating the relevant maximum under s188DD. However, in certain scenarios when s188DD(3) applies and relevant profits are less than the deductions allowance, the legislation produces an unexpected result whereby a company is not able to claim as much group relief carried forward amounts as would be expected. We have queried this point with HMRC, and they have confirmed that they will be reviewing the effect of this legislation.*

Group module changes

- In calculating profits chargeable to corporation tax, group relief for carried forward losses is deducted after group relief (s137(5) CTA 2010). The *Group relief carried forward* input statement in the Group module in Alphatax therefore shows the profits available for group relief for carried forward losses as being after any amount of group relief claimed. The max claim calculation is limited accordingly.

  The *Group relief* input statement however intentionally uses profits available before group relief carried forward, in line with the legislation. The result of this is that making a valid claim for group relief can render existing claims for group relief for carried forward losses invalid.

  In order to assist in identifying where this is the case, for this edition we have added two new columns to the *Group relief* input statement. These will appear to the right of the claims matrix – reflecting the fact that group relief takes precedence – to show any group relief carried forward claims already made, and the profits after these claims.

Claiming an amount of group relief that makes group relief for carried forward excessive will now result in a negative amount of remaining profits being displayed. This indication is supported by existing diagnostics that will appear in the claimant company computation.

- The *Group relief carried forward* input statement and associated max claim calculation have been updated to include both the s188BE restriction on surrenders, and the relevant maximum on claims under s188DD referred to above. If a claimant company has any unused carried forward losses of its own (s188CD) it will not appear on the input statement.

Miscellaneous group relief for carried forward losses changes

- The *Group relief carried forward claims (CT600C(3))* and *Group relief carried forward surrenders (CT600C(4))* input statements within the *CT600 supplementary forms* section of the contents tree have been enabled by default going forwards. Previously, the user was required to enable these input statements when needed.
- A note has been added to the *Excess management expenses* input statement to remind users to exclude any qualifying charitable donations included in brought forward excess management expenses when determining the amount available for group relief carried forward, as required under s188BC CTA 2010.
- Minor display issues on the *Loss utilisation carried forward* report statement in the Group module have been corrected so all relevant rows and values for Alphatax and non-Alphatax companies appear as intended.

Corporate interest restriction

Real Estate Investment Trusts

The corporate interest restriction legislation includes specific rules for the treatment of Real Estate Investment Trusts (see s452 TIOPA 2010). These rules are required as profits of a property rental business of a REIT are exempt from corporation tax, subject to the REIT distributing those profits to its shareholders, and so the interest restriction rules need to work differently in order to interact with this distribution requirement correctly.

For the purposes of the corporate interest restriction calculation, the exempt and residual parts of the REIT are treated as two separate members of the same worldwide group. In addition, the provisions within the REITs legislation that treat profits of a property rental business (s534 CTA 2010) and related chargeable gains (s535) as exempt from corporation tax are deemed to not apply for the purposes of the corporate interest restriction calculation.

Finally, in respect of the allocation of any disallowance, a limit is placed on the amount that may be allocated to the tax-exempt business, and an adjustment is brought into the residual business to allow for an increased disallowance allocation.

For this edition of Alphatax, we have added full support for REITs within our corporate interest restriction statements. The changes made may be summarised as follows:

- Statement of calculations – where a single computation REIT is included in the group, a new column will appear allowing the notional adjusted corporation tax earnings and tax-interest income and expense amounts of the exempt business to be entered. These amounts post and refresh from new fields at company level, and the entries will feed into the aggregate group totals to be used in calculating the interest capacity of the group.
- Statement of allocated interest restrictions – we have added two new sections to the bottom of the statement which drive two new amounts related to the allocation of the disallowance:
    - Exempt business limit on disallowance – whilst the profits of the property rental business are exempt from corporation tax, an interest disallowance may still be allocated. Such a disallowance will increase retained profits and so increase the distribution that the REIT is required to make to satisfy the 90% rule. The interest restriction legislation states that any allocated disallowance may not exceed such an amount that would require the REIT to make an unlawful distribution. HMRC manual CFM97730 provides further guidance on this restriction.

      We have added new fields that allow the retained profits of the residual and exempt businesses to be entered. Total retained profits are then automatically grossed up by 90%, and this amount compared to retained profits of the residual business. The difference represents the maximum disallowance that may be allocated to the exempt business, and Alphatax will present this value in a new row against the disallowance allocation inputs. Diagnostics will be presented where an allocation exceeds this limit.
    - Residual business tax-interest adjustment – the REITs provisions within the corporate interest legislation are designed to provide flexibility over the way any allocated disallowance of a REIT company is allocated between the exempt or residual businesses. An allocation to the exempt business affects the distribution requirement of the REIT and so a company may choose to allocate none, some or all of the disallowed amount to the exempt business. The remaining amount will be allocated to the residual business. This approach means that it would be possible for a disallowance to be allocated to the residual business that is in excess of the tax-interest expense of that business. The legislation therefore includes a mechanism for an equal and opposite tax-interest debit and credit to be brought into account.

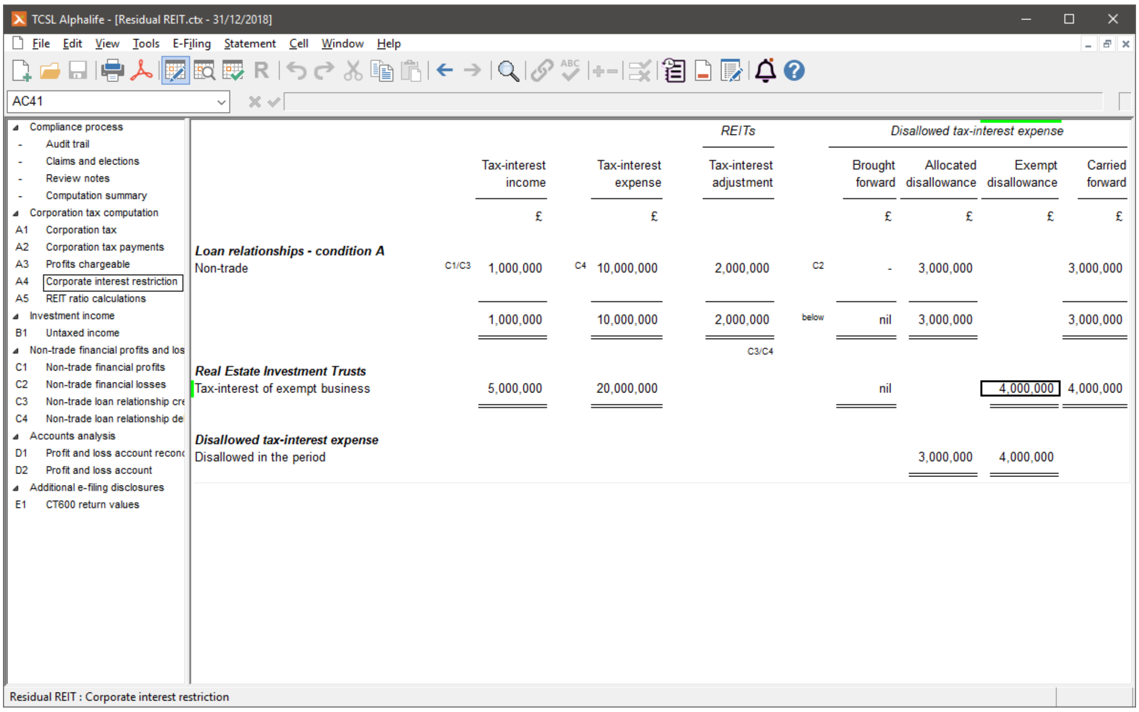
      The calculation of this adjustment follows a five-step process in the legislation. Alphatax will present details of this calculation, and the result is notionally brought into account as both an amount of tax-interest income and tax-interest expense. The effect is that the residual business may be allocated a disallowance in excess of its own net tax-interest expense.

      Please note: In our view, the wording of the legislation in this area (s452(6)-(10)) does not achieve the intended result. Bringing into account a debit and a credit has no effect on net tax-interest expense, which is the limiting factor on any allocated disallowance under Sch 7A para 22(3). We have sought guidance from HMRC however, and have applied the rules as we understand they are intended to work, rather than in line with the wording of the legislation.

- Company level – two changes have been made to the company level *Corporate interest restriction* statement to reflect the changes in the Group module:
  - Exempt business tax-interest – for a single computation REIT (one marked as residual on the *Standing data* statement and with the **Not preparing exempt company files?** flag set to **Yes** on the *Configuration options* statement) we have added a new row that allows the notional tax-interest of the exempt business to be recorded. Any amount entered will flow up into the *Statement of calculations* at group level.

    In addition, where a disallowance is allocated to the exempt business, this will be posted down to the company computation and allocated against the tax-interest expense of the exempt business. This disallowed amount has no effect on the residual business tax computation, but it will be carried forward to become an amount available for reactivation in future periods.
  - Residual business tax-interest adjustment – where the Group module determines that the residual business is required to bring in a tax-interest adjustment, the calculated value will be posted down to a new **Tax-interest adjustment** column. An adjustment is matched against existing tax-interest expense amounts in the residual computation, and the resulting amount is brought into account as both a debit and a credit in the computation.

    Please note: Any adjustment allocated to a trade stream of tax-interest is not taken into account in the computation since the effect on the trade Accounts adjustments report statement would simply net-off before the effect of the interest restriction disallowance is considered.

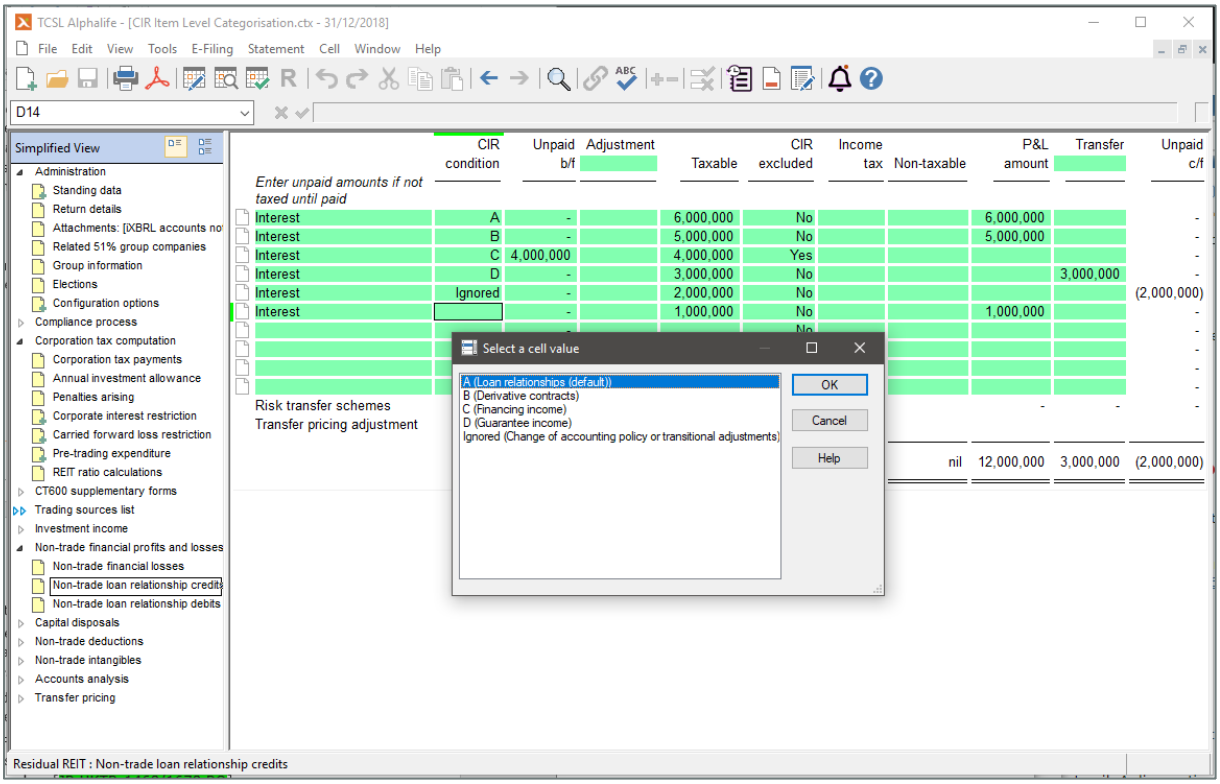


- Interest restriction return – we have added headings throughout report mode to identify where a company is a REIT, and the two parts of the business therein. We have also added a note to the *Interest restriction return* report statement that states that the group includes a REIT, and explains the ways in which the return has been amended as a result, in line with the requirements of the legislation.

Item level categorisation

- Following a user enhancement request, tax-interest amounts may now be categorised into the relevant streams of tax-interest at item level on the loan relationship input statements:
  - A (Loan relationships),
  - B (Derivative contracts),
  - C (Financing costs),
  - D (Guarantee income), or
  - Ignored (Change of accounting policy or transitional adjustments)

  An **Excluded** column is also provided to enter any item-level amounts that are excluded under the legislation:



The respective totals will then be automatically returned in the relevant categories on the *Corporate interest restriction* input statement.

This treatment is optionally enabled via a new **Enable item level categorisation of tax-interest amounts?** flag on the *Group information* input statement.

Note that under Sch 5 para 29-30 F(No. 2)A 2017, a debit or credit in relation to a change of accounting policy or transitional adjustment is to be ignored for the purposes of the corporate interest restriction rules.

Miscellaneous corporate interest restriction changes

Adjusted corporation tax earnings

- **Tax-interest income** and **Tax-interest expense** amounts are excluded from forming part of adjusted corporation tax earnings of a company. It follows that any interest income or expense that is excluded from being tax-interest, should accordingly form part of adjusted corporation tax earnings.

  Alphatax applies this treatment automatically however in previous versions, all excluded amounts of tax-interest were included in the non-trade section of adjusted corporation tax earnings. For trade-related amounts of interest the presentation therefore gave a misleading view of trading profits for the purposes of the adjusted corporation tax earnings calculation.

  For periods of account ending on or after 30 June 2018, Alphatax will now include trade-related amounts of excluded tax-interest in the trade section of the calculation.
- In scenarios where a trading loss was being netted-off against *Trade overseas income*, the calculation of *Adjusted corporation tax earnings* was previously double counting the effect of the deduction. This issue has been corrected for periods of account ending on or after 30 June 2018. The amount of **Trading profits - overseas income** will now be returned gross of any trade loss deduction.
- Under s460 TIOPA 2010, each of the following amounts are to be ignored in calculating a company's *Adjusted corporation tax earnings* for an accounting period:
  - A deduction under s363 CTA 2010 (lessor under long funding operating lease)
  - The amount by which a deduction is reduced under s379 CTA 2010 (lessee under long funding operating lease)
  - The capital component of a company's rental earnings under a finance lease which is not a long funding finance lease
  - The amount of depreciation in respect of any asset leased to the company under a finance lease which is not a long funding finance lease

Previous editions of Alphatax incorrectly considered these amounts for the calculation of adjusted corporation tax earnings.

A new **Ignored amounts** section has now been added to the *Adjusted corporation tax earnings* statement to disallow the above deductions from the calculation of adjusted corporation tax earnings. This section will appear for periods of account ending on or after 30 June 2018.

Other company level

- We have addressed a minor display issue on the *Corporate interest restriction* input statement whereby Alphatax was including property business trade item in the list of trades for the purposes of determining tax-interest. The trade related loan relationship statements are not relevant for a property business trade item, and so these rows should not be shown.

Group level

- We have addressed an issue on the *Interest restriction return* report statement in the Group module whereby the start date for the return period in a period straddling 1 April 2017 was being retuned as the actual start date for the group. In line with the commencement provisions this date is now returned as 1 April 2017.
- We have corrected an issue on the *Statement of calculations* statement in the Group module whereby the **Number of days in overlapping period** was returning an incorrect value for group computations with a long period of account. This issue was adversely affecting the disregarded period allocations for adjusted corporation tax earnings and tax-interest.
- Previous editions of Alphatax included two errors within the calculations on the *Blended percentage and group-interest* statement:
    - The first related to the **Blended net group-interest expense** result for an investor to which s402(3) step 3 applied, where the investor's applicable net group-interest expense was incorrectly being multiplied by the investor's share in the group.
    - The second was in the calculation of the ***Basic interest allowance*** where the **Group ratio debt cap** calculated in accordance with the blended election was not superseding the normal result.

  Both of these issues have been corrected in this version.

  In addition, we have also taken the opportunity to clarify the column headings used in this area of the *Blended percentage and group-interest* statement to better reflect the terminology used in the legislation.
- We have addressed an issue on the *Interest allowance brought forward* statement whereby Alphatax was incorrectly deducting the interest allowance used in the receiving period from the calculation of the amount of **Interest allowance brought forward** allowable. This change will come into effect for the first group return period starting after 1 April 2017, and may affect the interest capacity of the group.

  We have also taken the opportunity to reorder and rename the columns on this statement to better match the order and wording of the legislation.

5. Returns and e-filing

- HMRC recently updated their Company Tax Return Guide to state that the number returned in box 625 - Number of 51% group companies - should include the company itself. This is unless the company has no related 51% group companies, in which case this box should be left blank:

> **625 Number of 51% group companies**
>
> Enter the number of companies in a 51% group that are related for any part of the accounting period. The total should include your company. You can leave this box blank if this company has no related 51% companies.
>
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  In previous editions, Alphatax excluded the company itself from this figure.

This change to the wording of the guidance represents a departure from both:

- The previously understood approach carried over from associated companies on the CT600 Version 2 where the guidance was to return the "number of companies associated with the company", and
- The legislation where SI 1998/3175 para 3, for example, continues to refer to "N+1" with N being the number of related 51% group companies used for the purposes of determining whether a company is large for QIPs.

Having confirmed the required position with HMRC, in this edition Alphatax will now populate box 625 of the CT600 in accordance with the updated guidance. In accordance with a request from HMRC, this change has been made for accounting periods ending on or after 1 April 2019.

Please note: The Related 51% group companies input statement in Alphatax has always accepted the number of related 51% group companies excluding the company itself, and this treatment is unchanged in this edition. Alphatax will now add 1 to the number on this statement for the purposes of box 625 of the CT600. Existing computations therefore do not need to be amended.

- HMRC recently updated their guidance on claiming a trading loss against total profits of the current or previous period under corporation tax rules. This guidance now states that on the CT600, as well as entering the amount of the loss in box 275, '0' should be entered in box 155 for Trading profits.

  We have updated Alphatax to reflect this treatment in box 155 of both the printed CT600 and electronic XML submission. This will only apply where there are no other trades in the computation with profits of their own.
- We have addressed a presentational issue in computations where the **Reason for not submitting the accounts** and **Reason for not submitting the computation** inputs had both been populated. In the V18.0 edition of Alphatax, box 90 of the CT600 returned the reason for not attaching the computation only, with the accounts reason not shown. This issue did not affect the electronic XML submission, which returned both entries correctly.
- We have made a change to the way in which we include the required unique identifier for trades in the computation iXBRL document. This resolves an issue whereby the Alphatax submission would be rejected by HMRC where the computation included more than 40 separate trades.
- We have resolved an issue which in some scenarios led to text on return forms being unclear when using print preview over a remote connection (e.g. Citrix). If return forms remain unclear in this release then please apply the ini file setting UseBitmapPreview described in Appendix 3 to resolve this issue.
- We have made a change to the logic which was used to validate that third party iXBRL accounts would e-file successfully after we were made aware of some rare scenarios in which accounts were identified as invalid but would subsequently pass HMRC validation checks.
- Alphatax no longer incorrectly requires FRS105 iXBRL accounts to contain a Director's report when such accounts are attached to the electronic submission package in Alphatax.

6. Specialist companies

Creative industries

Capital allowances and other trade adjustments

Each of the six available creative industry regimes under Parts 15 to 15E CTA 2009 specifies a formula that "applies for the purpose of calculating the profits or losses of the separate [creative] trade":

1189 Calculation of profits or losses of separate film trade

(1) This section applies for the purpose of calculating the profits or losses of the separate film trade.

(2) For the first period of account the following are brought into account—

(a) as a debit, the costs of the film incurred (and represented in work done) to date, and

(b) as a credit, the proportion of the estimated total income from the film treated as earned at the end of that period.

(3) For subsequent periods of account the following are brought into account—

(a) as a debit, the difference between the amount of the costs of the film incurred (and represented in work done) to date and the corresponding amount for the previous period, and

(b) as a credit, the difference between the proportion of the estimated total income from the film treated as earned at the end of that period and the corresponding amount for the previous period.

(4) The proportion of the estimated total income treated as earned at the end of a period of account is given by—

$$\frac{C}{T} \times I$$

where—

C is the total to date of costs incurred (and represented in work done),

T is the estimated total cost of the film, and

I is the estimated total income from the film.

This formula is based upon the total estimated income and costs of the creative industry, and aims to smooth the deduction of expenditure over the life of the trade. The formula requires a debit or credit to be brought into account for the purposes of drawing up taxable profits or losses of the trade.

Following what we understood to be the correct purpose of the legislation Alphatax has always, since these rules were first introduced in 2006, taken the result of this formula (and any creative industry additional deduction) to be the tax adjusted profit or loss of the trade. Creating any further trade accounts adjustments, including claims for capital allowances for example, would create a discrepancy on the creative industry report statements.

In response to user queries in this area, we have now clarified the position with HMRC who have confirmed that the approach previously taken by Alphatax is not correct. We have been advised that the creative industry profit or loss formula supplements the normal tax adjusted profit or loss calculation, rather than replacing it. Certain income and expenditure fall outside of the scope of the creative industry rules, and as such that income or expenditure should be subject to the normal tax adjustment rules. This includes the availability of capital allowances on certain expenditure of the creative industry trade.

Alphatax previously displayed the various trade adjustment statements for a creative industry, and so it has always been possible to arrive at the correct tax adjusted profit or loss. Where other tax adjustments were created however, the creative industry report statements previously did not tie back to the respective figure on the *Accounts adjustments* report statement.

In this edition of Alphatax, we have now added a reconciling **Other trade accounts adjustments** row to the *<Creative industry> tax profit/loss* report statement. This row will bring the creative industry result into line with the trade *Accounts adjustments* report statement, and where a loss arises, this will now agree to the *Losses* report statement.

This change applies for periods of account ending on or after 30 June 2018.

Miscellaneous creative industry changes

- The loss relief available to creative industries during the production phase is limited to carrying forward and offsetting against profits of the same trade under either s45 or s45B CTA 2010. From 1 April 2017, both of these sections include mechanisms for relief for brought forward losses to be disclaimed.

  Creative industry losses meanwhile are also streamed separately as attributable and not-attributable to the additional deduction for the purposes of loss relief in the completion period. Whilst this distinction is not relevant for relief during the production phase, the effect of the disclaim flag was previously not considering this distinction correctly, and so disclaiming brought forward loss relief was not producing the correct result.

  We have now addressed this issue. Alphatax will automatically use brought forward losses attributable to the additional deduction as far as possible first, before remaining losses, with the disclaim input now applying over the top of these two offsets.
- In previous editions for creative industry trades where the terminal loss relief rules applied, any trading losses that remained at the end of the accounting period had to be manually eliminated to ensure that they were not carried forward to the next period.

  These losses will now be eliminated automatically on the trade *Losses* report statement at the end of the accounting period in which terminal loss rules apply.

  This change has been made for periods of account ending on or after 30 June 2018.

  Note that terminal loss rules may be applied either manually using the **Do the terminal loss relief provisions apply in this period?** flag, or automatically by Alphatax for theatrical, orchestral or exhibition production trades in the completion period.

Oil ring fence companies

- The calculation of profits or losses for the purposes of the ring fence supplementary charge under Part 8 Chapter 6 CTA 2010 requires that any amounts relating to financing costs are excluded. The balance of any supplementary charge losses may therefore differ to the losses for the ring-fence trade on which the charge is based.

Where ring fence losses of the current period are offset against total profits, Alphatax previously deducted the full amount offset for the purposes of calculating supplementary charge losses. For accounting periods ending on or after 30 June 2018, on the *Ring fence supplementary charge* report statement, Alphatax will now pro-rate this offset amount by the ratio of disallowable finance costs to ring fence losses. A note has been added to the offset rows in report mode to clarify this treatment.

- In addition, new override inputs have been added in input mode that allow this pro-rate apportionment to be overridden, if required.

Partnerships

- Following a user enhancement request, we have added two new rows to the *Partnership statement* in Alphatax to return the amount of **Net capitals allowances** found in any trades or property businesses within the computation.

  These rows will appear where an individual is a member of the partnership, and allow the balance of capital allowances to be allocated between partners for the purpose of supporting any sideways loss relief claims available to them (such as under s120 ITA 2007).

  The new rows will appear for periods ending after 5 April 2018. Note that there are no fields for these amounts on the form SA800.

- We have addressed a presentational issue in computations where the short version of the partnership statement applies and the **Print one partner only per page on the partnership statement?** submission option was enabled. In the *Q11 - Declaration* section on page 8 of the SA800, Alphatax previously did not declare that the short partnership statement was being prepared. This was an issue on the paper version of the SA800 only, and did not affect the electronic XML submission.

  This has been fixed for the Partnership Tax Return 2018.

Life assurance companies

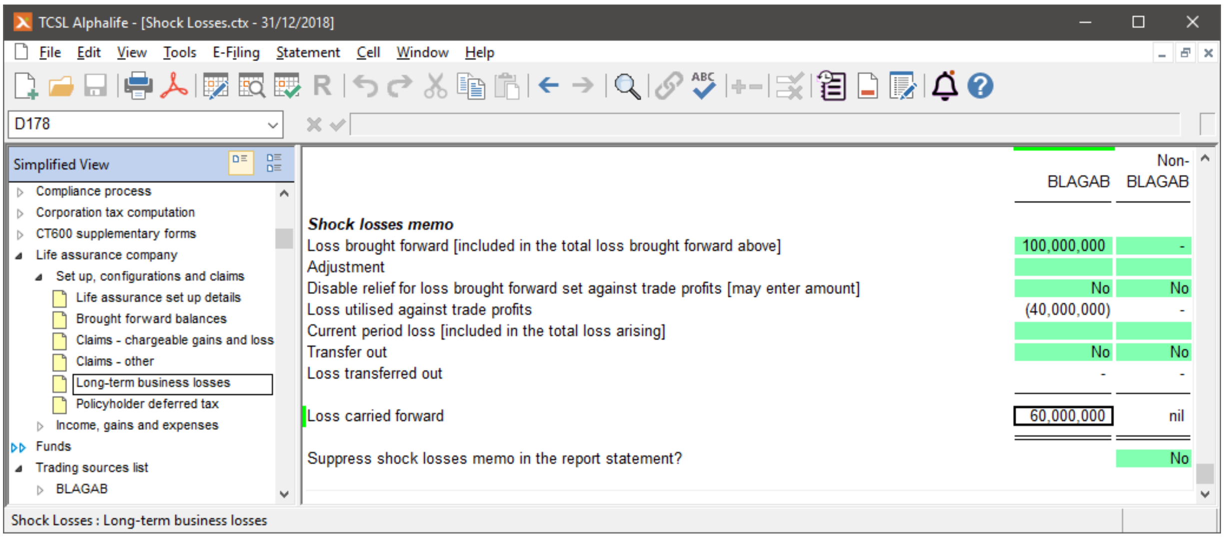
Carried forward loss restriction

- Finance (No. 2) Act 2017 introduced specific rules in relation to shock losses of life assurance companies. These losses arise under Solvency II rules where an insurer suffers a catastrophic and unexpected loss.

  Shock losses are not affected by the carried forward loss restriction (s269ZJ CTA 2010) and are offset on a basis similar to that of pre-1 April 2017 losses, i.e. BLAGAB and non-BLAGAB trade losses are offset against profits of the same trade, and non-trade loan relationship deficits are offset against non-trading profits.

  We have added support for shock losses in this edition of Alphatax. New inputs have been added on the *Long-term business losses* (for trading losses) and the *Brought forward balances* (for long-term business fixed capital losses) input statements to identify the amount of shock losses within the post-1 April 2017 streams of brought forward balances. Populating these inputs will cause the amount of shock losses to be offset against the appropriate stream of profits on an unrestricted basis.

Inputs are provided to disclaim relief, if required, and the carried forward balance is displayed:



Any post-1 April 2017 losses brought forward that are not shock losses will then be offset against profits as normal, subject to the loss restriction.

Similar rules also apply to losses brought forward to the excluded accounting period of a general insurance company. An excluded accounting period is one in which a company is subject to insolvency procedures, immediately before was non-viable, and was non-viable primarily as a result of qualifying latent claims. Under s269ZG CTA 2010, the restrictions of ss269ZB to 269ZE are deemed to not apply to such periods. For this edition, an **Excluded accounting period of a general insurance company?** flag has been added on the *Carried forward loss restriction* input statement to amend the treatment of all the losses brought forward in such periods.

- Additional flexibility has been added to loss streaming between pre and post-1 April 2017 losses for life assurance companies.

  The apportionment of current period BLAGAB and Non-BLAGAB trade losses between notional periods in an accounting period straddling 1 April 2017 may now be controlled via new fields on the *Long-term business losses* input statement.

  The reallocation functionality has been also added on the *Claims – other* input statement for long-term business fixed capital losses, and to the *Carried forward loss restriction* input statement for life assurance related profits.

- A **Section 124D(3)(a) BLAGAB trade profits** override input has been added to the *Qualifying profits* input statement for the purposes of the carried forward loss restriction calculation, for use when necessary.

  The group relief for carried forward losses calculations have been amended to allow for surrender of BLAGAB, Non-BLAGAB and Long-term business fixed capital losses carried forward. Claims have been restricted in accordance with Part 5A CTA 2010 accordingly. The changes have been made at both company and group level.

- In previous editions the calculation of ***Step 2 - available reliefs against total profits*** for the purposes of carried forward loss restriction was incorrectly not including **BLAGAB trade losses** of the current period. We have now added a new row for these amounts which will be presented within the relevant calculations on the *Qualifying profits* input statement and *Carried forward loss restriction* report statement.

- In previous editions where the offset of BLAGAB trade losses brought forward was restricted by the carried forward loss restriction, diagnostic 1360 was in some cases displayed requesting a manual override to the policyholder current tax deduction from BLAGAB trade so that it matched the calculated policyholder tax. The issue has now been addressed. On opening affected files for the first time in the latest version, F7 refresh is required to recalculate the values.
- An issue in the ***Losses transferred in under s940A CTA 2010*** section of the *Long-term business losses* input statement for periods straddling 1 April 2017 whereby disabling relief for brought forward losses transferred in affected the first notional period but not the second has now been corrected.

Corporate interest restriction

- For this edition, we have added full support for the specific features of life assurance companies within the corporate interest restriction calculations.

  The changes made include:

  - The calculation of *Adjusted corporation tax earnings* will now fully consider the life assurance specific streams of income and deductions
  - The application of any allocated disallowances or reactivations to I-E income, Non-BLAGAB trade and long-term business fixed capital profits will now function correctly, in accordance with guidance received from HMRC

  In respect of the disallowance calculation, and according to the guidance, disallowances allocated to I-E income are applied after the minimum profits charge is calculated, and the latter should not be recalculated following the application of the disallowance.

  When calculating the minimum profits charge, Alphalife will initially calculate the amount based on I-E income and BLAGAB trade profits as amended by the disallowance, and will subsequently apply an adjustment to correct the position to the pre-disallowance position. The adjusted I-E income and BLAGAB trade profits will be used for the purposes of allocating the profits between shareholders' and policyholders' share.

Real statement investment trusts

- As part of the tax law re-write, the REIT legislation included within CTA 2010 replaced the previous terminology of 'C (tax-exempt)' and 'C (residual)' with 'Property rental business' and 'Residual business' respectively. The original references were retained in Alphatax at that time on the basis that they were commonly understood, however these terms have now become outdated.

  The input and report statements in Alphatax have now been updated to replace the old terminology with 'Exempt' and 'Residual' respectively. These amendments apply for periods of account ending on or after 30 June 2018.
- Where the *Detailed profit and loss account* was used in a residual REIT computation and the **Not preparing exempt company files?** configuration option was set to Yes, the **Difference to P&L reconciliation** value on the *Detailed profit and loss account* statement was previously comparing the residual values in the *Profit and loss account* statement only, rather than the total values.

  This issue has been corrected for periods of account ending on or after 30 June 2018.

- When the residual business of a REIT disposes of an asset, if the ownership period of that asset includes a period of time when it was owned by the property rental business, then some or all of the resulting gain/(loss) on disposal is exempt from corporation tax under s535 CTA 2010.

  A new **Disposal of an asset under s535 CTA 2010? [May enter %]** field on the *Capital disposals* input statement will now allow a part of the gain or loss to be treated as exempt.
- The *REIT ratio calculations* report statement in the Group module has been updated to display the result of the profit and asset conditions for the balance of business (s531(1) and (5) CTA 2010) ratio calculations as percentages to two decimal places.

  They now take the form of XX.XX%, rather than 0.XX, which matches the approach taken at company level.

Charities

Profit and loss account for charities

For this edition, when a company is marked as being a charity or owned by a charity on the *Standing data* input statement, the accounts analysis *Profit and loss account* will be automatically updated to follow a charity accounts format. This format includes presenting new rows for **Donations** and **Charitable activities** in the ***Income section***, and **Raising funds** in the ***Expenses section***.

Furthermore, if the company is a university, a new **Use alternative university format Profit and loss account?** flag on the *Accounts analysis options* input statement can be used to amend the items to be more appropriate to university accounts.

These changes apply for periods of account ending on or after 30 June 2018.

Finally, a predefined free-format template is now also available to insert a charity specific *Profit and loss account* where accounts analysis is not in use. This statement is included in a new P&L tab in the **New statement** dialog, which is available by right clicking in the contents tree and selecting *Insert: Statement*.

Subsidiaries of charity parents

Following user feedback, and to enable subsidiaries of charities to account for distributions of profits as Gift aid, a new **Gift aid distribution** column has been added to the *Qualifying donations* statements in Alphatax.

This column can be used to enter such Gift aid distributions as are shown as distributions below the profit before tax and taxation lines in the *Profit and loss account* or in the *STRGL*. Where these Gift aid distributions are allowable for tax purposes as qualifying charitable donations, i.e. to the extent that they are paid within 9 months of the end of the period, the **Allowable** amount may be entered into the appropriate *Qualifying donations* input statement as per usual.

Tax accounting has been updated to automatically derive the appropriate tax effects for such Gift aid distributions entered.

Venture capital trusts

Finance Act 2018 introduced two changes to the conditions that must be met in order for a company to qualify for venture capital trust status under s274 ITA 2007. Following these changes, we have taken the opportunity to improve the presentation of the *Trust declaration* report statement in Alphatax to more clearly align with the conditions as they are laid out in the legislation. These presentational changes apply for periods of account ending on or after 31 March 2018, ready for the two legislative changes to be introduced:

Periods beginning on or after 6th April 2018	The minimum investment on further issue condition introduced
Periods beginning on or after 6th April 2019	The 70% qualifying holdings condition amended to 80%

7. Miscellaneous changes

HMRC interest rates

In response to the Bank of England increasing the base rate from 0.5% to 0.75% from 2 August, HMRC have increased the interest rates that they apply to late or under payments of tax. Details of the changes that are relevant to Alphatax are as follows:

	From	**Previous (%)**	**New (%)**
Late CT payment (non-QIPs)	21 August 2018	3.00	3.25
QIPs CT underpayment	13 August 2018	1.50	1.75

These increases have been reflected in this edition of Alphatax and will automatically feed into the calculation on the *Interest on tax payments* report statement, when used.

Note that the repayment rates are unchanged.

R&D expenditure credits

- R&D expenditure credits are calculated on qualifying expenditure at the rate that applied when the expenditure was incurred. The credit is brought into the tax computation when the expenditure is released to the P&L, and therefore it is possible for the expenditure to be incurred at a time when a previous credit rate applied but for the credit to be brought into the tax computation in a period where a different rate is in force.

  For this edition, we have added a new flag to the *Configuration options* input statement to **Show inputs to allow credit to be claimed at different rate?**. This flag will cause new inputs to be displayed on the trade level *R&D expenditure credits* input statement to allow expenditure to be entered with a custom credit rate.

- Following user feedback, we have amended the narrative of the **Step 3 – total expenditure on workers** input on the *R&D expenditure credits* statement to say **Step 3 - Total expenditure on workers - PAYE and NIC liabilities (s104P CTA 2009)**. Although the term 'total expenditure on workers' is taken from the legislation, this narrative change makes it clearer that this expenditure relates to the PAYE and NICs liabilities of workers only, and not the total expenditure. Since this is a clarification for user entry, this amendment has been made in input mode only.

Capital disposals

- We have addressed an issue in the calculation of share pool disposals where there is a **Sale of rights nil paid** from a March 1982 holding that itself has been increased by an earlier rights issue.

  Rights issue acquired shares that are attributable to a March 1982 holding are tracked separately by Alphatax for the purposes of calculating the correct indexation allowance upon a later disposal. Where there is subsequently a sale of right nil paid, Alphatax was incorrectly calculating the pro-rated amount of cost to be removed from the rights issue pool, and this leads to an incorrect cost and indexation amount being returned on the *Share pool disposal* report statement.

  A similar problem also affected the calculation where the sale of rights nil paid was marked as being 'small', in which case the proceeds received should simply be deducted from the share pool holding.
- We have corrected an issue which arose due to the freezing of indexation allowance from 1 January 2018 on the *Capital disposals* statement when using the old-style share pool inputs. The columns disclosing RPI, Indexation and Indexed cost were not correctly appearing in the report.

Administration

- We have added a new **Legal Entity Identifier** field to the *Standing data* input statement. An LEI is a code that acts as a globally unique identifier for legal entities. In accordance with G20 rules and as part of enhanced global transparency measures, with effect from 3 January 2018 entities engaging in financial transactions are required to have obtained an LEI. This is an optional field that is used for reporting purposes only.

Report Designer

- Following a user enhancement request, the Report designer function in Alphatax can now be used to identify companies that have become large for quarterly instalment purposes when they were not before. This indicator is intended to help users identify when quarterly instalment payments may be required in the following period, before any data for that following period has been entered (and so the normal *Do QIPs apply?* reportable item cannot be used).

  The new reportable item can be found in the Data Dictionary tab in Report Designer by selecting the *Corporation / Income tax computation – Corporation tax payments / deemed payments – Quarterly instalments (QIPs) – Company is large in this period but was not in the prior period?* option.

In addition, we have also made a change to the expression used in the existing *Companies paying by QIPs* report template such that only those companies that are QIPs payers will now be reported.

Other miscellaneous changes

- We have added a flag **Expenditure qualifies for AIA?**, on the accessory statement in the *Other assets list* statements in the capital allowances section of the contents tree. This will let users flag expenditure as that qualifying for AIA, the expenditure will flow to the *Annual investment allowance* statement where you can assign all or part of the AIA to the assets appearing in the other assets list that qualifies for AIA.
- Following user feedback, the *Advance corporation tax* input statement now include adjustment rows for brought forward surplus ACT. Where used, these adjustments' effects Tax accounting within Alphatax and will also be brought up into the Group module.
- Previous editions of Alphatax displayed a flag on the *Standing data* page for **Is this a Non-exempt unauthorised unit trust (NEUUT)?**. The effect of this flag was to disable small companies relief and tax profits at the full rate of corporation tax. Small companies relief was removed in 2015 however, which made this flag redundant and therefore this flag been removed.
- We have corrected a potential rounding issue in Alphatax when certain loan amounts had been entered on the *Loans to participators (CT600A)* input statement which caused validation errors when assembling for E-filing.
- For this edition of Alphatax, we have updated the following tax agent toolkits in line with the latest published versions:
    - Business profits
    - Capital v revenue expenditure
    - Chargeable gains
    - Company losses

  The Company losses toolkit has been significantly expanded to include questions relating to carried-forward losses.
- We have corrected an issue within the property business company template whereby the *Profit and loss account* incorrectly linked to the **Turnover for CT600** cell on the *Profit and loss account reconciliation* statement. This bug also caused diagnostic 1337 to incorrectly display in certain scenarios. We have also taken the opportunity to remove the (now redundant) *Wear and tear allowance* statement from this company template.

8. System changes

Product news

Customers have in the past told us that they would like to be kept up to date with changes to Alphatax, so for this edition we have introduced a new Product News page. This page will be triggered when Alphatax starts up following a new release, or product announcement to ensure that all of our users are kept up to date with new developments.

You can access the latest news page at any time using the new **Product News** icon  on the toolbar menu.

Password protection

We have added a new option to allow users to add password protection to both:

- PDFs generated from Alphatax when using PDF Writer, and
- Email attachments created when emailing the CT600 and tax computation to the Stakeholder as part of the e-filing assembly process.

You can set the minimum required password length via the ini file option MinimumPasswordLength as outlined in Appendix 3.

Please note: If you forget your password then Tax Systems cannot recover a password protected file on your behalf.

Navigation history

Following user enhancement requests we have added a new **Navigation History** option to Alphatax. A new pane allows users to track the input and report statements that they have visited and allows them to snap back to the selected statement with a single click.

You can access the navigation history pane at any time using the new **Navigation History** icon on the toolbar menu. 

We believe that this will save a considerable amount of time navigating around the computation. We would appreciate your feedback on this feature.

Improved search capabilities

We have made a number of improvements to the Alphatax **Find** feature to make it easier to find content in both input and report mode.

- The dialog has been redesigned to make the available options both clearer and easier to select.
- You can now search for content across the entire computation using **Find All**. Clicking on one of the results will take you directly to the result you've selected.
- Results return the name of the statement, the cell reference and the date and time that the last named user made an entry, so that you can filter the results to quickly get to the result you want.
- The dialog now persists as a separate dialog so you can keep it open and perform other searches.

Miscellaneous system changes

- We have released a new and improved **Help** system that makes use of modern web technology. In time this will allow us to release new types of content natively in our Help system. Please let us know if there are any areas you would like to see additional help for.

9. Optional modules

Accounts analysis

- The Data Extraction and Accounts Integration functions in Alphatax each provide a seamless method of importing accounts data into the tax computation. Furthermore, where the presentation of accounts is similar across a selection of companies, a single mapping template may be created to allow these functions to automatically import amounts for all companies, greatly improving efficiency.

  Creating a single template however relies on the tax computations being prepared in a uniform way, in particular with the same columns used for categories of assets on the statements in the *Accounts analysis – Balance sheet analysis* section of the contents tree. Previously, re-ordering columns in an existing computation in order to achieve uniformity could only be done using the **Adjustment** row, which produced inelegant disclosure in report mode.

  For this reason, in this edition we have added a new **Reorder Accounts analysis brought forward balances?** flag to the *Accounts analysis options* input statement. Setting this flag to Yes will cause a second **Brought forward** row to be displayed on each of the *Balance sheet analysis* statements. These inputs will allow the derived brought forward balances to be re-ordered, or consolidated, between columns as may be required, either for importing accounting data or for any other purpose.
- In the previous edition, certain tax categoriser options for energy saving first-year allowances for the *Special rate pool* were incorrectly removed for periods ended after 31 March 2018. These categories have now been re-instated.

Tax Accounting

Tax account summary statement

- Previously in Alphatax when the **Show period by period analysis of current tax prior year amounts?** flag was set to Yes, users could analyse the Prior period current tax amounts at period level on a separate analysis statement, however the *Tax account summary* statement only displayed the total amounts. The *Tax account summary* statement has now been updated to include the period by period analysis for periods of account ending on or after 30 June 2018.
- Following a user enhancement request, we have added a **Foreign taxation** input to the Accounts transfers column on the *Tax account summary* statement to help record the transfer of amounts between the different sections on the tax account summary or to 3rd parties.
- In previous editions of Alphatax, an amount of **Recoverable foreign tax** entered on the *Overseas income* statement was brought through to the Accounts transfers column on the *Tax accounting summary* statement, and into the respective column total, in the incorrect sign. We have now addressed this issue so that the input and report statement will now cast across and down correctly.

IFRS deferred tax balance sheet

- For periods of account ending on or after 30 June 2018, Alphatax will no longer by default populate **Carrying value** and **Tax base** figures per the computation for the purposes of providing for deferred tax on the *IFRS deferred tax balance sheet*. The existing inputs for each row on the balance sheet must now be used in all cases instead.

  The amounts previously derived by Alphatax have been moved to a new ***Temporary differences found in the computation*** section at the bottom of the input statement. This is intended to indicate the possible suggested, whilst leaving users to correctly consider and confirm each entry for themselves.

Miscellaneous tax accounting changes

- Following a user enhancement request, we have updated Alphatax to now display the **Restate opening values on change of accounting standard?** flag on the *Tax accounting options* input statement in any computation for any period other than the first. This flag was previously only displayed where the ***Accounting basis*** (e.g. FRS102, FRS101, IFRS) on the *Configuration options* input statement was changed between periods.

  The narrative of this flag has accordingly been amended to **Restate opening values?**

  Users may now make use of this function to restate specified brought forward balances as required on the *Tax accounting statements* for any period, which may be required where a particular part of an accounting standard is adopted in the period for example.
- On the *Tax charge per accounts* statement we display a **Prior period accounts** column to allow users to populate the prior period figures for the company. However, previously this column displayed in the first period of a new company when the company would not have prior period values. We have therefore hidden this column based on the following flag, **Company is new and was therefore NOT a "large company" in prior period** located on the *Corporation tax payments* statement provided that there were no values already entered in the column.
- On the *Overall proof of tax charge* report statement, in certain scenarios an **Unexplained difference** row would appear due to the rounding of individual items on the report that users were then unable to clear. Alphatax will now recategorise any £1 unexplained differences on the *Overall proof of tax charge* statement into rounding differences and display them as such on the report. The group module version of this statement has also been updated to reflect the change at company level and so a new **Rounding difference** row will appear on the group *Overall proof of tax charge* input and report statement.
- In previous editions of Alphatax, on the *Tax charge per accounts* report the ***Movement in provision*** section did not return prior year comparatives. This detail has now been added, and in the first period of a company file we will now provide inputs for the relevant prior year comparative values for this section to be entered in input mode.

Group

- Following a user enhancement request, we have enabled the *Group information* statement for partnership and non-resident landlord computations in order to allow the **Group name** input to be populated.

  This is to assist with sorting within the *Compliance Cycle Management* window.
- In previous editions of Alphatax, the *Loss utilisation* report statement within the group module incorrectly appeared in the wrong section of the contents tree where the group had no losses available for surrender. This also caused other related reports to not be displayed. This issue has been corrected so that the *Loss utilisation* report will only display where the *Group relief* report also displays for all group periods.

Data Entry

- Changes have been made to allow the tax user to switch on or off row items within the accounts analysis statements before the pack is published to the accounts user.

10. Appendix 1: Carried forward losses

Group relief for carried forward losses surrenders

The release notes that accompanied the V18.0 edition of Alphatax included an analysis of how the allocation of the deductions allowance between the *trading* and *non-trading* streams of income can produce unexpected results according to the legislation. The following is a similar analysis of a further unexpected result that arises in respect of how the deductions allowance interacts with the availability of group relief for carried forward losses.

Under s188BE CTA 2010, a company may not surrender group relief for carried forward losses where both:

- s269ZD(2) applies in determining taxable total profits, and
- The sum of relevant deductions is less than the permitted maximum:

> **188BE Restriction where surrendering company could use losses etc itself**
>
> The surrendering company may not surrender any losses or other amounts under this Chapter if—
>
> (a) section 269ZD(2) applies in determining the taxable total profits of the surrendering company for the surrender period, and
>
> (b) the sum of the relevant deductions (within the meaning of section 269ZD(3)) made for the surrender period is less than the maximum permitted by section 269ZD(2).

Allocating an amount of a group's deductions allowance to a company affects the permitted maximum referred to under s188BE, and so this allocation can have a direct – indeed adverse – effect on the availability of group relief for carried forward losses.

Example

A company has a December year end with:

- £1m total profits

- £4m trading losses brought forward (post-1 April 2017)

- £5m deductions allowance

The company claims to offset trading losses brought forward against total profits under s45A CTA 2010 as far as possible. The deductions allowance allocated to the company provides that the carried forward loss restriction is not relevant in this case, and so relief is given against £1m of total profits in full. This leaves profits chargeable to corporation tax of nil, and £3m of unrelieved brought forward trading losses remaining.

These remaining trading losses would potentially be available to be surrendered as group relief for carried forward losses under Part 5A CTA 2010. However, in accordance with s188BE losses may not be surrendered where two tests are met:

1. The first is that s269ZD(2) applies in determining taxable total profits. From 1 April 2017 this will generally always be the case, except that s269ZD(7) dis-applies this restriction where modified total profits are nil. In our example modified total profits (£1m) are greater than nil, and so s269ZD(2) does apply.
2. The second is that the sum of relevant deductions is less than the permitted maximum. In this case the permitted maximum is £5m as a result of the allocation of the deductions allowance to the company. Relevant deductions however are just £1m, and therefore this test is also passed since relevant deductions are lower than the permitted maximum.

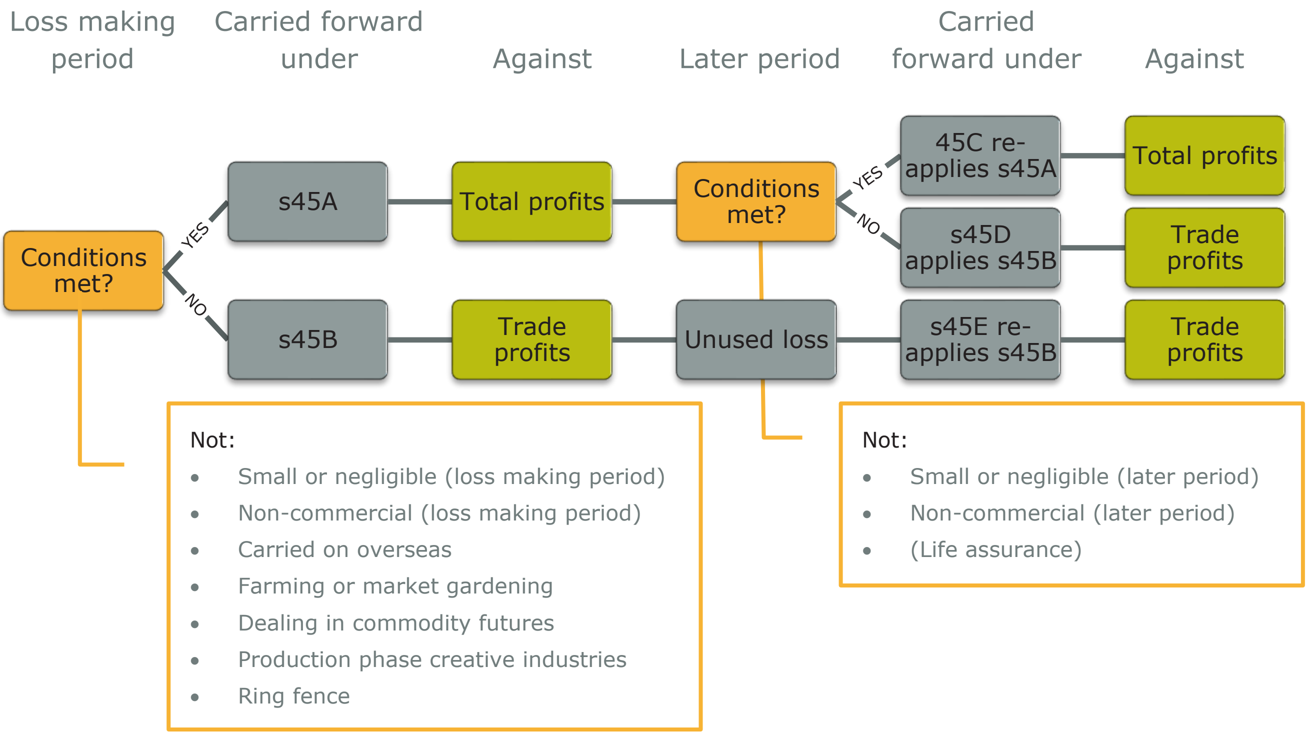
Note that the "maximum permitted" referred to in the legislation is essentially the relevant maximum under s269ZD, less any losses deducted so far as they fall within the restrictions under s269ZB and s269ZC.

Both of the tests are met in our example, and so even though the company has trading losses brought forward remaining, and no profits against which it can relive them, it may not surrender group relief for carried forward losses.

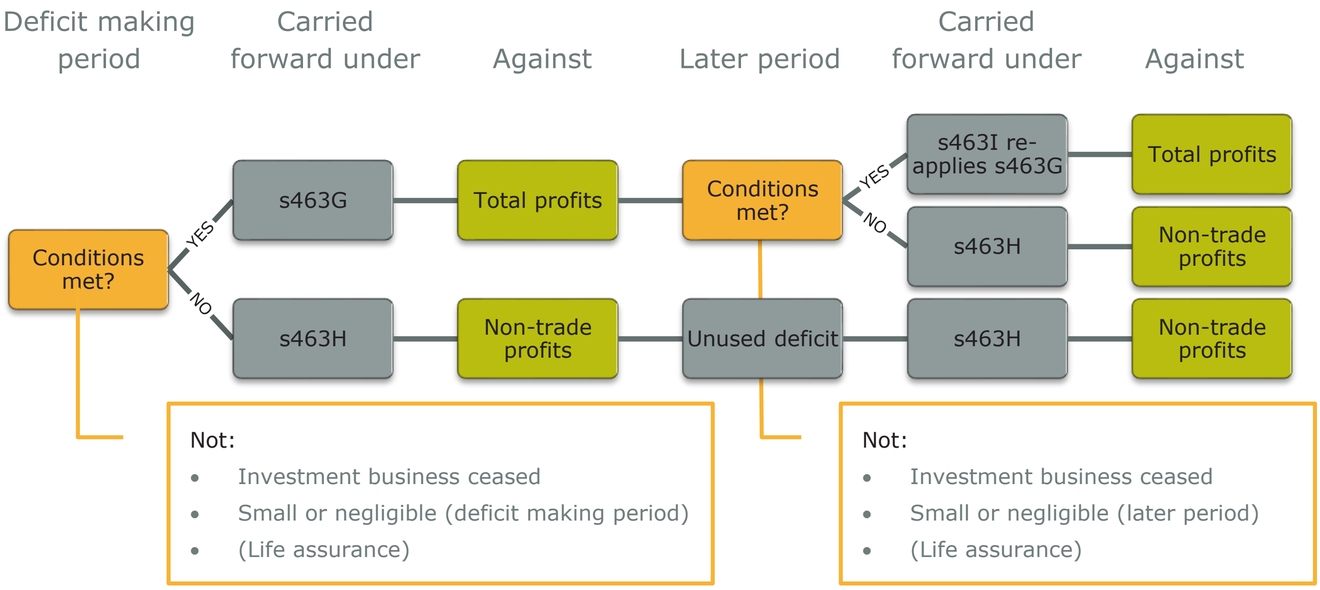
Were the group to re-allocate the £5m deductions allowance to another group company, the permitted maximum for this company would be reduced. An allocation of £1m to this company would provide that relief for group relief for carried forward losses is available. An allocation of less than £1m would also cause group relief for carried forward losses to be available, however at this point the restriction on the use of brought forward losses under s269ZD would also kick in and profits chargeable would remain for the company.

Carry forward conditions analysis

Trading losses carried forward



Non-trading loan relationship deficits carried forward



11. Appendix 2: Template changes

Company template changes

The following changes have been made to company templates:

- Property Business
    - Link from freeformat *Profit and loss account* to the *Profit and loss account reconciliation* input statement removed
    - Wear and tear allowance statement removed

Statement template changes

The following changes have been made to insertable statement templates:

- Income statement Charity
    - New freeformat template added to better reflect the standard terminology used in the income statement of a charity
- Profits chargeable NP analysis – Alphalife
    - An amendment has been made to correct the value returned on the *Short-term business trade* row

12. Appendix 3: Configuration option changes

Ini file changes

Additional tcslbase.ini file settings have been introduced for this release. Include these items in the listed section of the ini file to enable the relevant settings

Section	**Setting**	**Options**	**Effect**
SYSTEM	DisableProductNews	=0 (default)/1	Disables Alphatax Product News page and related menu items
SYSTEM	MinimumPasswordLength	=Numerical entry (default 0)	Specify the minimum number of characters required for passwords (Professional file protection, Email zip attachments & PDF files)
SYSTEM	DisableHTMLPanes	=0 (default)/1	Disables features provided via new html pane, currently Navigation History
PDF	UseBitmapPreview	=0 (default)/1	If the return forms are unclear in Print Preview when using a remote connection (e.g. Citrix), then set this option to 1 to resolve the issue.

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