

[4.3.4] Cessation of a trade or profession

Basis of Assessment

General

Where a trade or profession is permanently discontinued, special rules apply to the calculation of the Case I or Case II profits to be charged to tax in the final and penultimate years of assessment.

Year of cessation

The profits to be charged to income tax for the year of assessment in which a trade or profession is permanently discontinued are the actual profits of the period from 1 January in that year of assessment to the date of cessation. Any unutilised losses carried forward are to be set off or deducted from such profits. Where a person has been otherwise charged, any tax overpaid is to be repaid or an amended assessment is to be made.

Example 1

Business ceases on 31 July 2013. Taxpayer's profits for the 10 month accounting period ended 31 July 2013 are €22,000.

Final year of assessment: 2013

Basis period for 2013 is 1/1/2013 to 31/7/2013

Assessable profit is $€22,000 \times 7/10 = €15,400$

Penultimate Year

The assessment for the penultimate year of assessment is initially based on the rules contained in *section 65(2)*. So, for example, if only one account has been made up to a date in that year of assessment and that account is for a period of one year then the profits arising in the twelve month period ending on that date are taken to be the profits of the year of assessment (see *section 65(2)(a)*). However, if the actual profits of the penultimate year of assessment (i.e. the profits of the period from 1 January to 31 December in that year) exceed the profits on which a person has been assessed for that year, an amended assessment is made to charge the excess.

Example 2

Business permanently ceases on 31 May 2014. Accounts have been made up as follows:

Year ended 30/9/2012	Profits €20,000
Year ended 30/9/2013	Profits €24,000
8 months ended 31/5/2014	Profits €32,000

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Year of cessation assessment

2014 (basis period 1/1/2014 to 31/5/2014) = €32,000 x 5/8 = **€20,000**

Penultimate year assessment

2013 original assessment (basis period y/e 30/9/2013) = €24,000

Actual profits of 2013:

Profits 1/1/2013 to 30/9/2013 = €24,000 x 9/12 = €18,000

Plus

Profits 1/10/2013 to 31/12/2013 = €32,000 x 3/8 = €12,000

Total = **€30,000**

As the originally assessed profits for 2013 of €24,000 are less than actual profits of €30,000, the assessment must be revised to the actual profits of €30,000.