Cessation of a trade or profession

Basis of Assessment

Part 04-03-04

This document should be read in conjunction with section 67 of the Taxes Consolidation Act 1997

Document last reviewed July 2024

Introduction

This manual outlines the basis of assessment of profits where a trade or profession is permanently discontinued[1].

1. Permanent Cessation

Where a trade or profession is permanently discontinued, special rules, provided for by section 67 TCA 1997, 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.

1.1 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

Accounts have been made up to 30 September each year. Business ceases on 31 May 2023.

The assessment for the final 8 months ended 31 May 2023 is	€32,000

Final year of assessment: 2023

Basis period for 2023 is 01/01/2023 to 31/05/2023	
Assessable profit is €32,000 x 5/8=	€20,000

[1] Refer to TDM 04-03-06 for details on when a trade has permanently ceased.

1.2 Penultimate Year

The assessment for the penultimate year of assessment is initially based on the rules contained in section 65(2) TCA 1997. 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) TCA 1997).

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, section 67(1)(a)(ii) provides that an amended assessment is made to charge the excess.

Example

Business permanently ceases on 31 May 2023. Accounts have been made up as follows:

Year ended 30/09/2022 (penultimate year)	€24,000
8 months ended 31/05/2023	€32,000

Year of cessation assessment 2023

€32,000 x 5/8 =	€20,000

Penultimate year assessment

2022 original assessment (basis period y/e 30/09/2022)	€24,000

Possible revised assessment to taxable profits of 12 months 01/01/2022 to 31/12/2022 (actual year):

Profits 01/01/2022 to 30/09/2022= €24,000 x 9/12	€18,000
(9 months of original 12-month assessment to 30/09/2022)	
Plus	
Profits 01/10/2022 to 31/12/2022 = €32,000 x 3/8	€12,000
(3 months of final 8 months accounts)	
Total	€30,000

As the originally assessed profits for 2022 of €24,000 are less than the actual profits of €30,000 for the period from 1 January to 31 December in that year, the assessment must be revised to €30,000 to charge the excess.