



Basis period reform- a step by step guide

RICHARD JONES

TAX FACULTY, ICAEW

1

Presenters



Richard Jones
Technical Manager
Business Tax
ICAEW



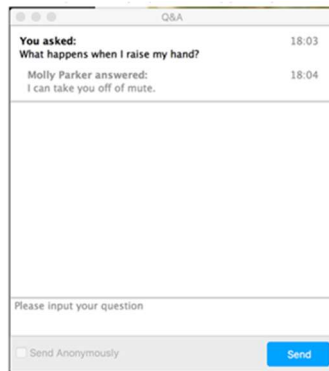
Today's speaker
Anita Monteith
Technical Lead
ICAEW Tax Faculty



Today's speaker
Caroline Miskin
Practitioner Tax Manager
ICAEW Tax Faculty

2

Ask a question



The screenshot shows a Q&A window with the following content:

Q&A	
You asked:	18:03
What happens when I raise my hand?	
Molly Parker answered:	18:04
I can take you off of mute.	

Below the table is a text input field with the placeholder text "Please input your question". At the bottom left, there is a checkbox labeled "Send Anonymously". At the bottom right, there is a blue button labeled "Send".

To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type in your question and click **send**.

Note. If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration to the left.

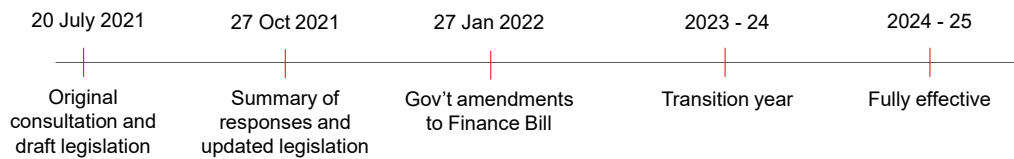
3

Basis period reform

- Timeline
- Current basis period method of taxation
- New tax year basis from 2024 - 25
- Calculation of profits in transition year 2023 – 24
- Taxation of transition profits
- Q&A

4

Basis period reform timeline



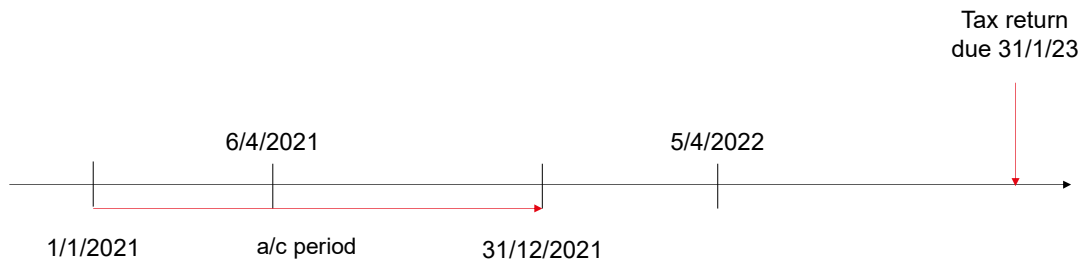
5

Who does this change impact?

- All unincorporated businesses without a 31 March – 5 April year end
- HMRC estimates that is 7% of sole traders and 33% of partnerships
- Most likely affected includes:
 - Large and international partnerships
 - Seasonal businesses (eg tourism)
 - Farming businesses
- Basically, any business that chooses to adopt a non-tax year end basis of accounting for commercial or practical reasons

6

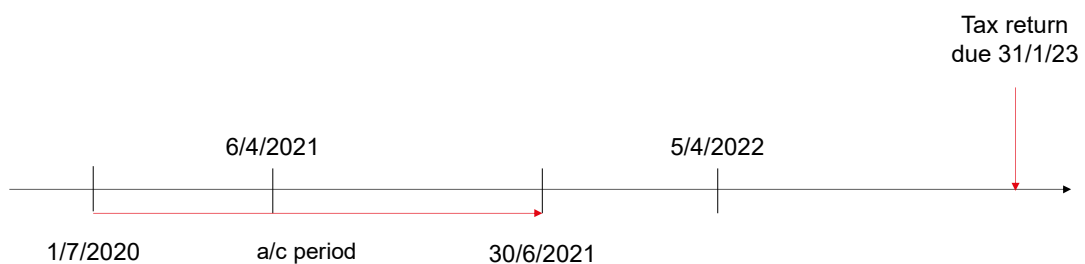
The basis period method (31 December y/e)



Profits of the accounting period ended 31 December 2021 are taxed in the tax year 2021/22
Final tax payment made just over a year after end of accounting period

7

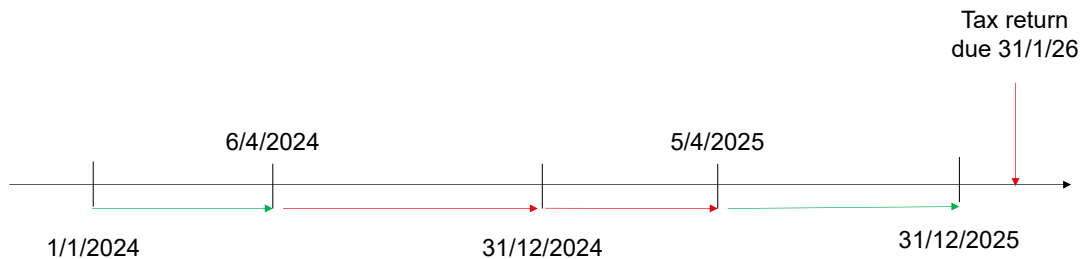
The basis period method (30 June y/e)



Profits of the accounting period ended 31 December 2021 are taxed in the tax year 2021/22
Final tax payment due 19 months after end of accounting period

8

New basis of taxation (31 December y/e)

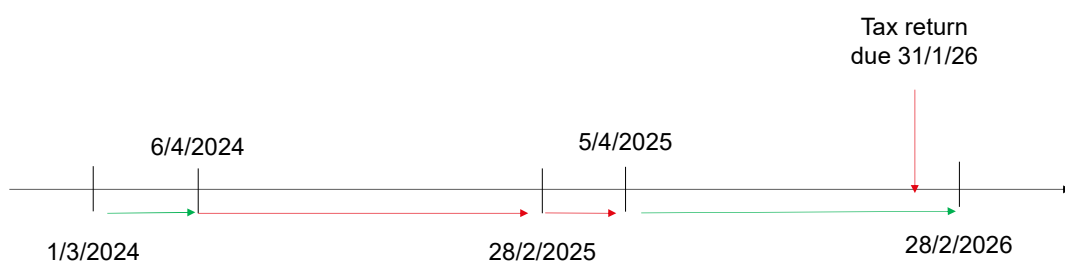


In 2024 – 25, profits taxed are:

- Profits from 2024 accounting period between 6 April 2024 and 31 December 2024; plus
- Profits from 2025 accounting period between 1 January 2025 and 5 April 2025

9

New basis of taxation (28 February y/e)



In 2024 – 25, profits taxed are:

- Profits from first accounting period between 6 April 2024 and 28 February 2025; plus
- Profits from second accounting period between 1 March 2025 and 5 April 2025

10

Challenges with new basis of tax

- Estimates required for profits of second accounting period in tax year
- That period may not have ended by time tax return needs to be filed
- Particular estimation challenges for seasonal businesses

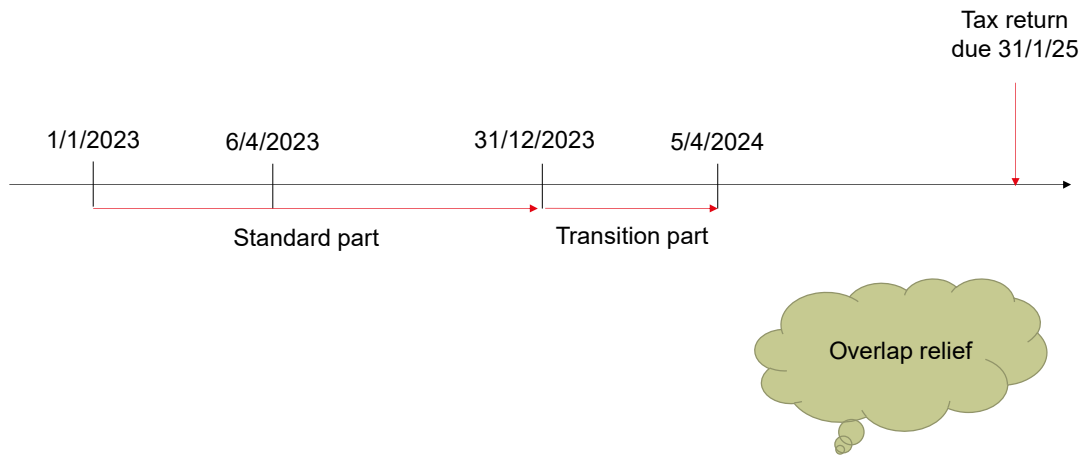
11

HMRC's suggested solutions

- Allowing taxpayers to amend a provisional figure at the same time as they file their returns for the following tax year
- Allowing an extension of the filing deadline for some groups of taxpayers, such as more complex partnerships or seasonal trades
- Allowing taxpayers to include in the next year's tax return any differences between provisional and actual figures in the previous year

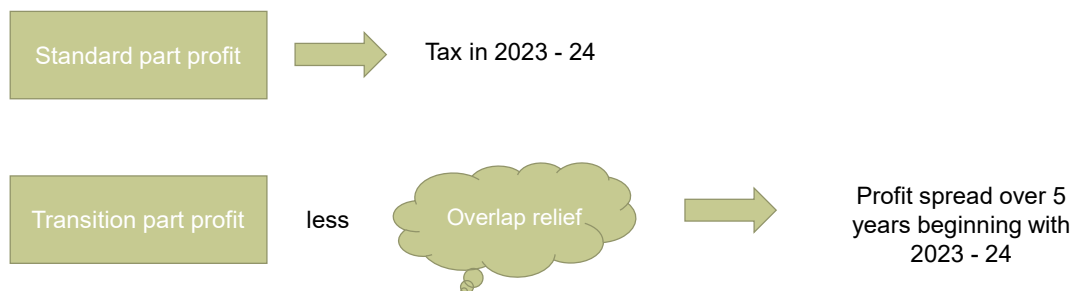
12

Transition year 2023 - 24 – example with a 31 December year end



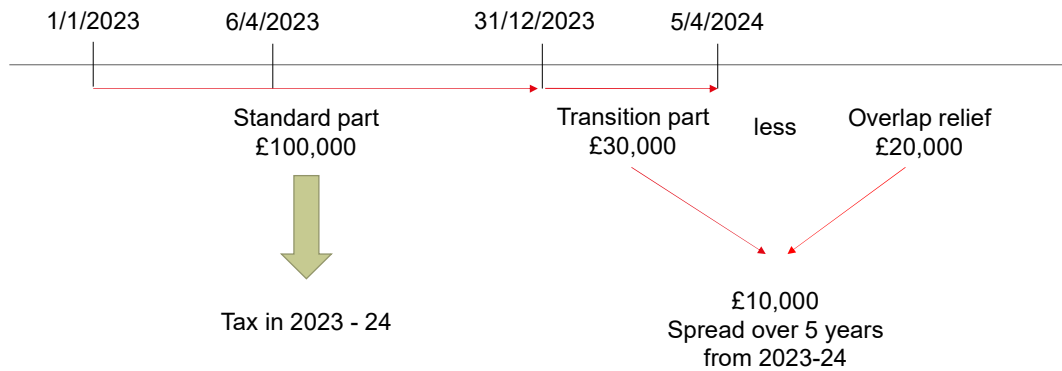
13

Transition year end profit computation process (where there are no losses)



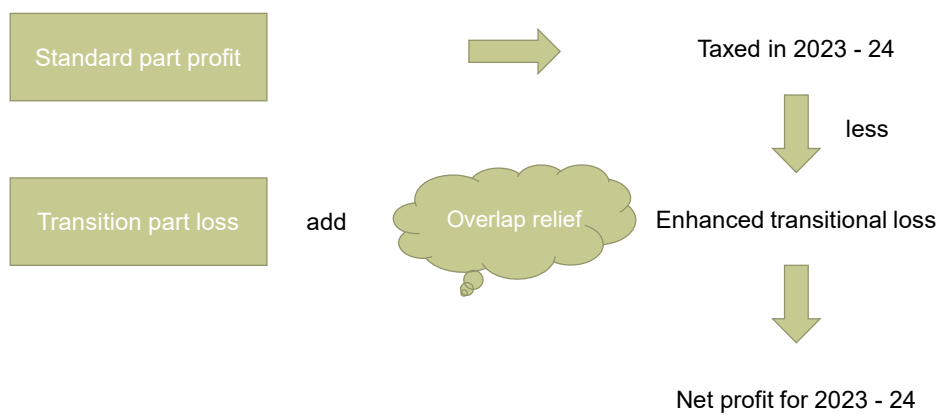
14

Transition example 1 - (31 December y/e)



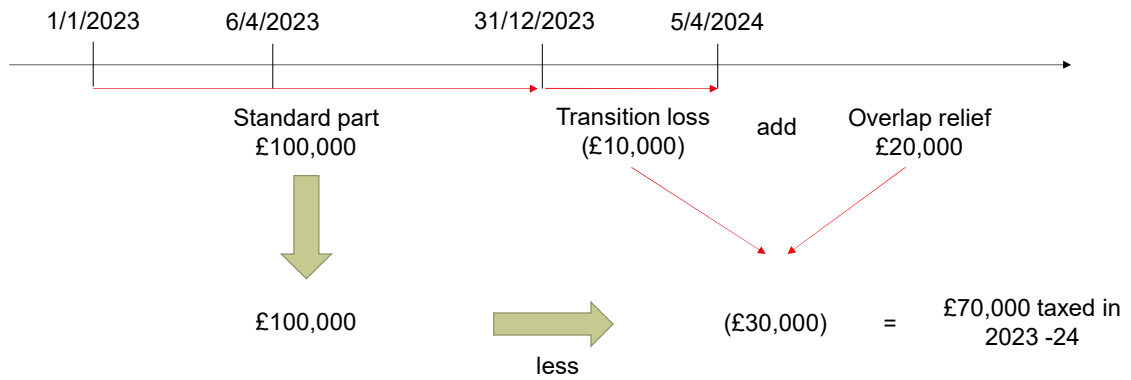
15

Process where there is part loss but overall profit (after overlap relief)



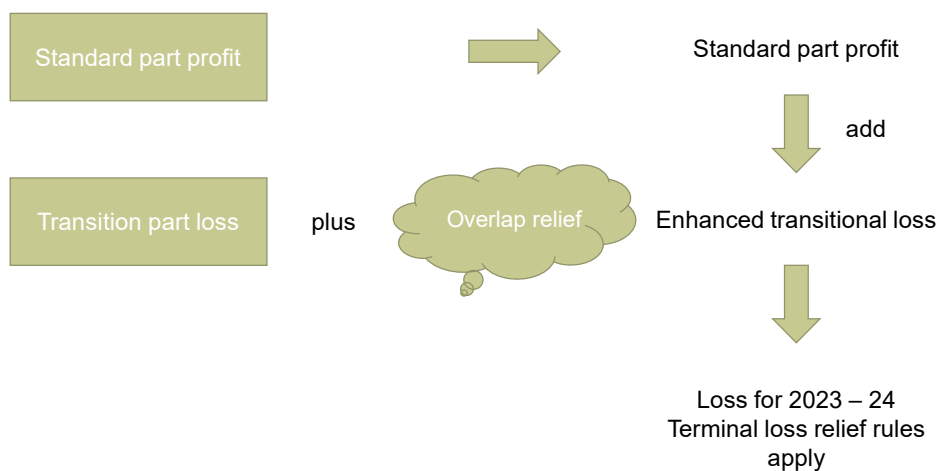
16

Transition example 2 - (31 December y/e)



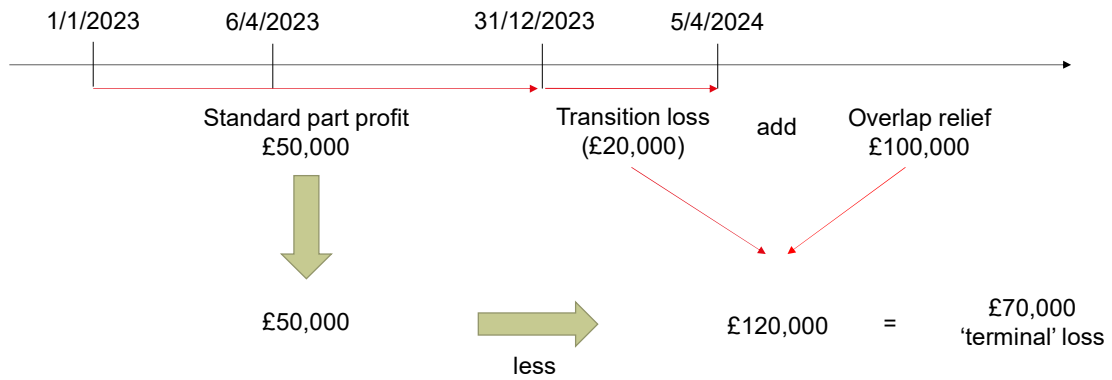
17

Process where there is part profit but overall loss



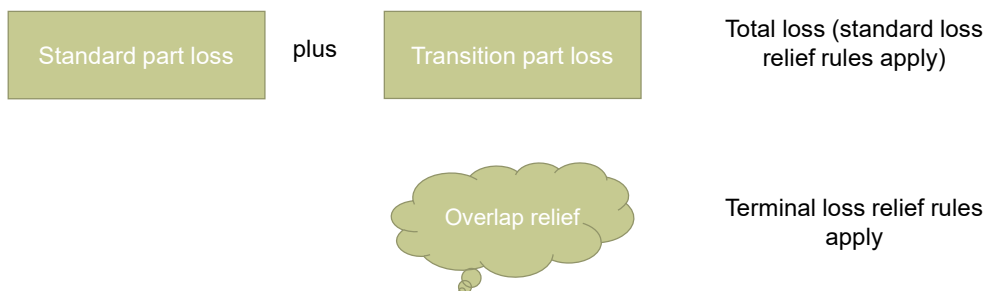
18

Transition example 3 - (31 December y/e)



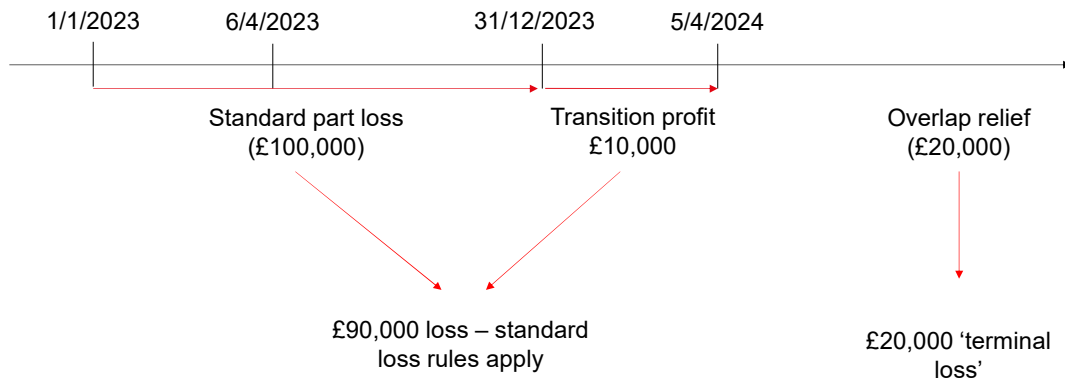
19

Process where there is an overall loss (without overlap relief)



20

Transition example 4 - (31 December y/e)



21

Spreading of transition profits

Example 1 – Transition profit of £10,000

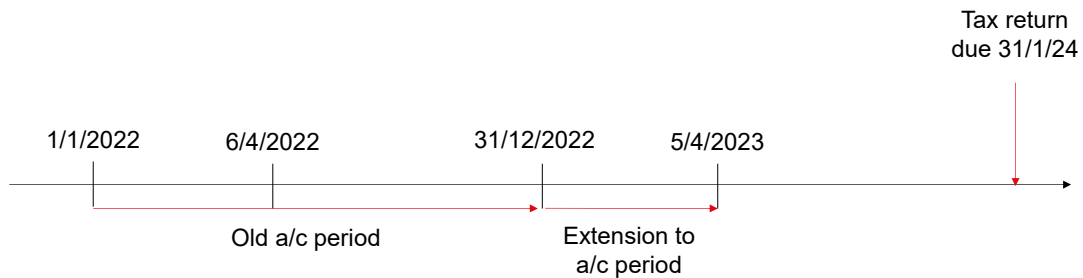
	2023/24	2024/25	2025/26	2026/27	2027/28
Standard	£2,000	£2,000	£2,000	£2,000	£2,000
Trade ceases in 2025/26	£2,000	£2,000	£6,000		
Elect to allocate more to 2024/25	£2,000	£5,000	£1,000	£1,000	£1,000

Notes:

- No spreading if business changes its year end prior to 2023 – 24
- But spreading is available if year end change is in 2023 – 24
- Transition profits ignored for farmers' and creative artists' averaging calculations

22

Change a/c date from 31 December to 5 April in 2022 - 23

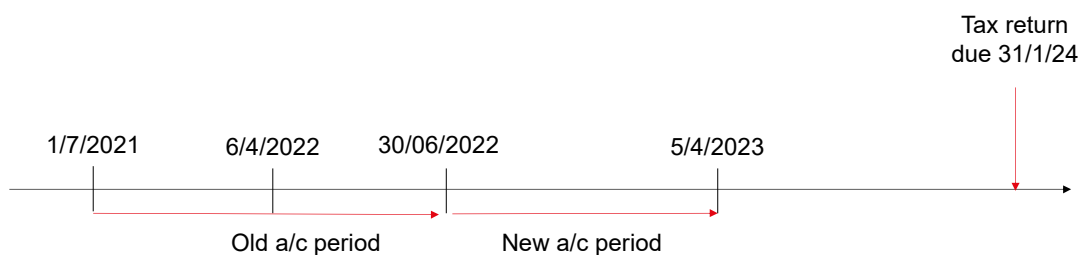


Tax year	Profits charged
2021 - 22	12 months to 31/12/21
2022 - 23	15 months to 5/4/2023
2023 - 24	12 months to 5/4/2024

- 3 months' worth of overlap relief given
- No spreading of additional profits

23

Change a/c date from 30 June to 5 April in 2022 - 23

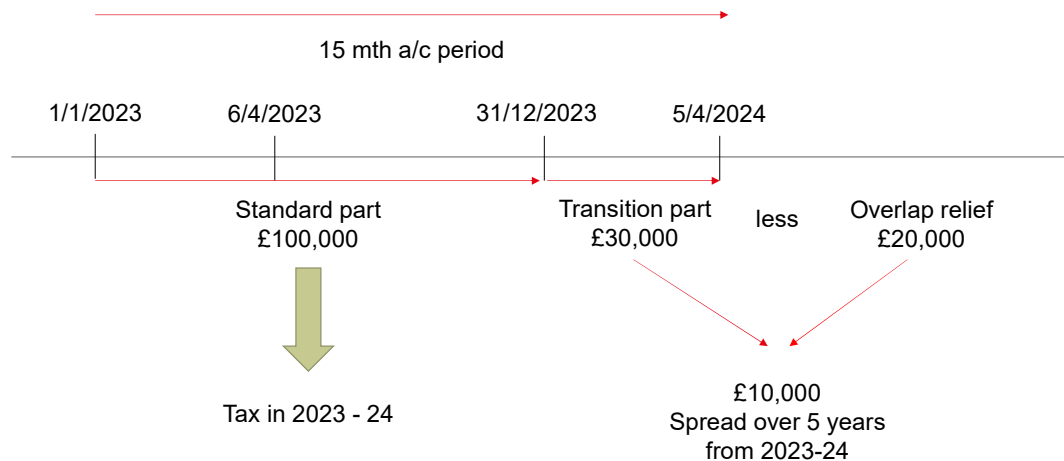


Tax year	Profits charged
2021 - 22	12 months to 1/7/2021
2022 - 23	21 months to 5/4/2023
2023 - 24	12 months to 5/4/2024

- 9 months' worth of overlap relief given
- No spreading of additional profits

24

Transition example 1 revisited – move from 31 December to 5 April y/e in 2023 - 24



25

New equivalence rule

- Accounting periods ending between 31 March and 4 April effectively treated as ending on 5 April
- Impact on businesses with year end between these dates:
 - No pro-rating of a few days' worth of profits each year
 - No transition part of profits in 2023 – 24
- Can elect out of this treatment but must be for five tax years

26

Taxation of transition profits

- Excluded from 'adjusted net income' for purposes of personal allowances, high income child benefit charge etc
- Brought back into tax calculation at step 4 of s23 ITA 2007
- Tax can be reduced by 'tax reducers' at step 6 of s23 ITA 2007 eg
 - Double tax relief
 - EIS, SEIS and VCT reliefs

27

Example – Tax Calculation (2023 – 24)

	£	£
Standard profits	100,000	
Personal allowance	<u>(12,570)</u>	
	87,430	
Add: transition profit	<u>2,000</u>	
	89,430	
Tax £37,700 at 20%		7,540
Tax £51,730 at 40%		<u>20,692</u>
		28,232
Less: DTR		<u>(5,000)</u>
UK income tax liability		23,232

Full PA entitlement as transition profit not included in net adjusted income

28

