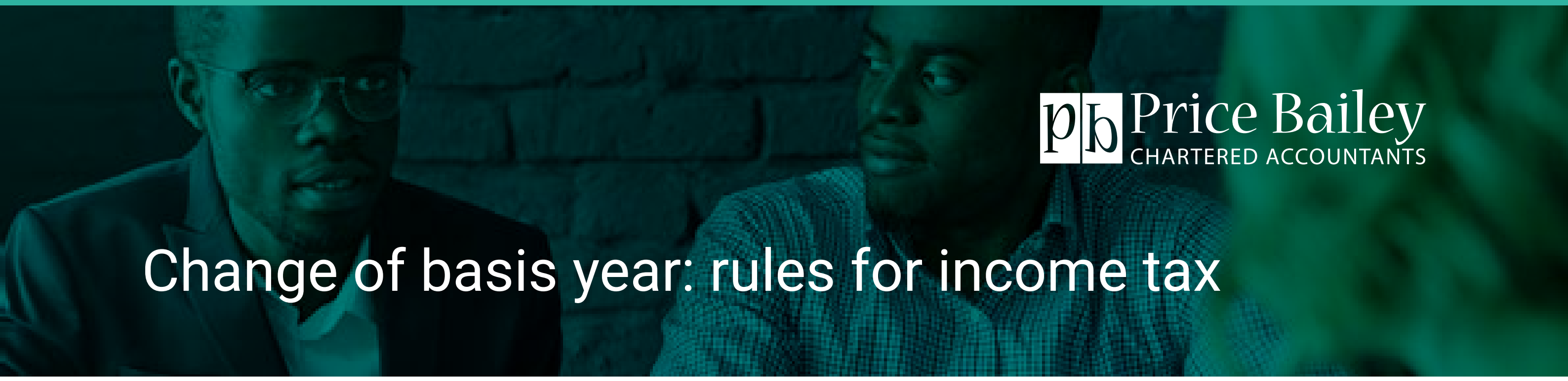

# Change of basis year: rules for income tax

Historically, all business profits subject to income tax are taxed in the tax year the business accounting year ends (the current year basis). For example, a sole trader with an accounting year-end date of 31 May 2021, will be assessed tax on these profits during the tax year 2021/22.

The rules will however change from **5 April 2024,** when the business profits of sole traders, partnerships, and trusts, will be taxed in the year they arise - regardless of the accounting year-end date (the tax year basis).

In the context of the current tax year, 2023/24 is serving as a transitional period and has introduced significant changes in preparation for the new operational basis set to commence on 5 April 2024. Throughout this tax year, businesses whose accounting year does not align with the tax year are required to calculate their transitional profits and adhere to the transitional rules, which are briefly outlined below.

The basis period for the 2023/24 tax year began immediately after the conclusion of the basis period for the 2022/23 tax year and will end on 5 April 2024.

For the purpose of the various calculations to be considered this basis period will be in two parts:

- the **standard** part being the first 12 months i.e. the normal period
- the **transition** part being from the end of the standard part to 5 April 2024

Existing overlap profits will be deducted from the profits of the transition part, givng the **transitional profits.**

To ease the tax burden of these changes, the transitional profits will be spread evenly over 5 years from the current tax year 2023/24. If the business ceases permanently during this 5 year period the balance of the amount of the transitional profits are taxed fully in the tax year the business ceases.

During this 5 year period the business owner can accelerate the charge by electing for any additional amount of the transitional profits to be taxed in a selected tax year.

If the deduction of the overlap profits creates or increases a trading loss, the resulting loss/additional loss can be treated as a terminal loss and set against profits of the same trade for the previous 3 tax years.

To ensure the tax payers allowances and other means tested benefits are not impacted by these transitional rules, the calculation of the income tax liability treats the transitional profits as a separate component of income.

The transitional profits are also ignored in averaging of profits calculations for farmers and creative artists.

Businesses with a year-end between 31 March and 5 April will be treated the same as 5 April unless an election is made otherwise.

## Act before 5 April 2024

Many business owners will see more profits taxed in the 2023/24 tax year than would otherwise be the case. This will not only bring forward the tax payment date for these profits but also has the potential of pushing individuals into higher rates of tax.

Going forward, as all business profits will be taxed on a tax year basis, tax payers will have only a short period to finalise the business accounts and report the profits to HMRC, which will be a substantial change for businesses who have an accounting year-end not concurrent with the tax year.

We advise all business owners, who have not done so already, to ensure they fully understand the practical implications of these changes as well as the cash-flow impact of an increase in personal tax liability for their 2023/24 tax year.

We expect some businesses have changed their accounting year-end date to 31 March 2024 to simplify the transitional calculations and the reporting of the annual profits going forward. Not all businesses will have been able to do this, and will need to consider the submission of provisional tax returns until final