



HMRC are changing my year end – So what?

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Back in 2021, we told you that HMRC were considering reforming the basis period for the self-employed; well, they decided to do just that and here, we are going to explain what that means for you.

Who is affected?

Fortunately, not too many people will be affected. If your annual accounts are drawn up to either the 31st of March or the 5th of April, you will not be affected – that means, you do not have to read any further.

A small number of people, however, will be affected and they are self-employed traders, partners in partnerships and other unincorporated entities with trading income. The new measures will only affect businesses that draw up annual accounts to a date **that is not** 31st March or 5th April. All new businesses that commence from 6 April 2024 will have to have a yearend that is either 31st March or 5th April.

What is changing?

The changes will alter the way in which taxable profits or losses are calculated with effect from 2024/25. From this date, profits and losses will be calculated as those earned in the tax year and not those earned in your usual accounting yearend; i.e. profits or losses must be calculated as those generated between 6th April 2024 and 5th April 2025 but please note, HMRC will accept 1 April 2024 to 31 March 2025 instead.

This seems to be a very minor change, but “**how does it affect me**”, I hear you ask?

The 2023/24 tax year will be a “Transitional Year”. In this year, HMRC will tax an accounting period longer than the usual 12 months; for example, if your usual yearend is (say) 30 June 2023, you will declare profits for the 12 months to 30 June 2023 **and** profits for the 9 month period to 5 April 2024. In this example, 21 months will be taxed! Therefore, all other things being equal, more profit will be included on your 2023/24 tax return than what was included on your 2022/23 tax return. Potentially therefore, and subject to any overlap relief brought forward, this may mean that you have more tax to pay than normal!

What can I do?

HMRC have introduced transitional measures which allow a taxpayer to 'spread' any tax payable on excess profits caused by the reform, over a 5-year period. HMRC brought in this transitional measure to assist with cashflow because they recognise that for some, tax will be collected earlier than has been the case in the past.

The only practical thing which you can do is to be forewarned and be prepared. Our advice is that you should make sure that your accounts are prepared as soon after the yearend as physically possible and you should keep in regular contact with your Accountant so that you know exactly what is going to happen and when. Once you know how you will be affected, then you can put plans in place to mitigate any negative impact on your cashflow.

CONTACT US

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