



Making Tax Digital (MTD) basis periods (Updated May 2023)

Abolition of basis periods

As you are no doubt aware, HMRC is pushing on with its MTD project, with a view to implementing MTD for certain income tax businesses in 2026.

One major change relates to the requirement to keep, and submit, certain specific information to HMRC with Government-approved software and we will be talking to you about this nearer the time.

However, there are other changes, primarily aimed at self-employed businesses, including partners in partnerships, which may require us to consider changing your business year-end and these changes are described in more detail below.

5 April year-ends

The first thing to appreciate is that, throughout the new tax rules, year-ends between 31 March and 5 April are generally treated in the same way.

The gist of the new rules is that, for 2024/25 onwards, self-employed businesses, including partners in partnerships, will be taxed on the profits arising in each tax year, rather than by reference to profits arising in a set of accounts ending in that tax year, which has been the case for many years.

Therefore, if you already draw up accounts to 31 March/5 April, then nothing much will change. The profits for 31 March 2024 will be taxable for 2023/24, 31 March 2025 taxable for 2024/25, etc.

Transition

However, if your business draws up accounts to non-31 March/5 April, then special rules will apply for 2023/24 to 'force' businesses to tax profits on a 31 March/5 April basis.

Clearly, if the accounting year does not end on 31 March/5 April, profits would have to be apportioned across two sets of accounts on an ongoing basis, which is not really practical.



Example

Mark draws up accounts to 30 June each year. The accounts to 30 June 2022 form the basis period for 2022/23.

For the transitional year of 2023/24, Mark's basis period will run from 1 July 2022 to 5 April 2024. In order to file the return for 2023/24 by 31 January 2025, accounts for the two years ended 30 June 2024 will be required and then figures apportioned.

For 2024/25 onwards, the basis periods will run to 5 April each year but accounts to 30 June each year, so apportionment will continue to be required. There will also be issues regarding quarterly reporting.

However, two things to note for such businesses:

- any 'overlap profit' brought forward from earlier years will be deducted from the profits for 2023/24; and
- any additional profit brought into account for 2023/24 will be automatically spread over five years, starting with 2023/24.

Looking forward

This letter merely contains a basic overview of the rules, which may be rather more complex in specific situations. Clearly, there is a great deal to consider for businesses caught by the transitional rules. Over the next few months, we will be considering the best route for your business and when it may be appropriate to change the business year-end.

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