

# Changing your year end

Need to consider changes to your accounts year end date to align with tax year end

It was confirmed in the recent budget that all self-employed businesses will need to change their basis period for tax purposes to align with the end of the tax year (5<sup>th</sup> April or 31<sup>st</sup> March).

We are contacting you as your trading year end is set between the tax year ends and so we will need to help you change. This must be completed before 5<sup>th</sup> April 2024.

## Timing

Whilst we have plenty of time to plan for this change, the switch to an actual basis – where profits earned in a tax year are taxed in that year – can be made before April 2024.

Consider the example that follows.

## What to expect

Let's say that your present year end is 30 April. For the tax year 2021-22, profits that will be used to calculate tax due for that year will be those for the accounts ending in that year; 30 April 2021.

Assuming that you do not change dates before the official transitional year 2023-24, when the change to an actual basis has to be made, the profits taxed in that year will be the year to 30 April 2023 plus the actual profits 1 May 2023 to 31 March (5 April) 2024.

Effectively, a total of 23 months trading profits will be taxed in one year. See the table that follows to see how many months' profit will be taxed based on your year end date.

Present year end date	Profits taxed in 2023-24	Number of months taxed
30 April	Year to 30 April 23 plus 11 months to 31 March 24	23
31 May	Year to 31 May 23 plus 10 months to 31 March 24	22

30 June	Year to 30 June 23 plus 9 months to 31 March 24	21
31 July	Year to 31 July 23 plus 8 months to 31 March 24	20
31 August	Year to 31 Aug 23 plus 7 months to 31 March 24	19
30 September	Year to 30 Sept 23 plus 6 months to 31 March 24	18
31 October	Year to 31 Oct 23 plus 5 months to 31 March 24	17
30 November	Year to 30 Nov 23 plus 4 months to 31 March 24	16
31 December	Year to 31 Dec 23 plus 3 months to 31 March 24	15
31 January	Year to 31 Jan 24 plus 2 months to 31 March 24	14
28 February	Year to 29 Feb 24 plus 1 month to 31 March 24	13

Those traders with year end dates close to the beginning of the tax year will have the biggest adjustment to make, and self-employed traders who have already adopted the 31 March or 5<sup>th</sup> April accounts date will have no transition to consider as they are already being taxed on an actual basis.

Fortunately, when you commenced in trade as a self-employed person, your opening year's profits would have been partly used in two tax years. This apparent double taxation is carried forward and can be claimed as a deduction when you transition to an actual tax year basis. This is called Overlap Relief.

### When should you make the change to an actual basis?

There is still an opportunity to change your accounts year end to an actual basis in numbers to be submitted to the tax office for 2021-22, 2022-23 or 2023-24.

Which is the best year?

The best option will be the change that allows you to achieve the lowest tax bill for those years. This will be influenced by your actual and expected trading profits during those years and the optimum year to claim any overlap relief available.

### Crunching the numbers

Hopefully, this alert has thrown some light on the impact of this change to an actual year basis.

Could you call so we can organise a date to consider your planning options and keep any tax bills to an absolute minimum.

Please have the following information to hand when we speak:

- An estimate of potential profits up to 31 March 2024.
- An estimate of any significant investment to be made in equipment or commercial vehicles in the same period.