

## **Transition: Change of Date - Key Issues (Lecture B1317 – 10.24 minutes)**

Most unincorporated businesses that do not have a 31 March or 5 April year-end should be encouraged to change their accounting date before 2024/25, when the new 'tax year' basis of assessing profits will be in place. If they do not, their future tax returns are going to require the apportionment of profits from two different accounting periods, probably with estimated figures (that will require subsequent adjustment) being used from the latter period.

Many small practitioners have clients who are partners in large professional firms. These firms may decide to stick with their existing year-end (which is often 31 December, particularly if the firm trades internationally), so ongoing apportionments will remain likely for such clients.

If a change of accounting date is made in the transition year (2023/24), the extra profits assessable that year (after deducting any overlap profits that the business is carrying forward) will be 'transition profits', meaning that they will:

- automatically be spread over five years for income tax purposes, starting in 2023/24 (with the option to elect out of the spreading in any year so as to bring extra profits into charge early); and
- be excluded from the definition of 'adjusted net income' (ANI), which is used for determining personal allowance abatement and whether any High Income Child Benefit Charge is payable.

In contrast, if the change is made a year earlier (in 2022/23), any additional profits after deduction of overlap profits will be fully chargeable in that year and included in ANI. Unless profits would otherwise be unusually low in 2022/23, changing in 2023/24 is clearly more tax-efficient and better for cash flow.

### *Basis periods*

Under the existing current year basis rules, if an accounting date is to be changed from (say) 30 December to 31 March, this could be effected by preparing

- a long period of account for the fifteen-month period; or
- two separate sets of accounts, for year-ended 31 December and the three months to 31 March.

As the former option would then (for tax purposes) involve time-apportioning the 15-month period's profits after capital allowances into 12-month and 3-month periods, these two methods produce rather different results. There would be no time-apportioning if separate accounting periods are chosen and capital expenditure would be allocated to the period in which it is incurred.

### *Impact of the FA2022 transition year provisions*

When changing accounting date, there seems to be nothing in the transition year provisions of FA2022 Schedule 1 to prevent you either preparing separate accounts or apportioning one long period of account, whichever is more beneficial. If two separate accounts are prepared and expenditure on plant is incurred in the 12-month period, the capital allowances will reduce profits that are not eligible for spreading and will reduce ANI.

However, as periods of account exceeding eighteen months are not recognised as a change in accounting date for tax purposes [ITTOIA 2003, s.217(3)], those with current accounting dates early in the tax year will need to prepare two separate sets of accounts to effect a change.

With the split between 'normal' and transitional profits in 2023/24 being so important, some clarification on these basis period issues from HMRC would be welcome.

2024/25 may seem a long way off but the transition year basis period for traders with a 30 April year-end began on 1 May 2022. Whether, when and how to change accounting date is something that should be being discussed urgently with clients.

*Contributed by Kevin Read*