GILBIE ROBERTS
CHARTERED CERTIFIED ACCOUNTANTS

Client Bulletin

October 2023

BASIS PERIOD REFORM

Tax year basis of assessment
From the 2024/25 tax year, unincorporated businesses will be taxed on the profits of the tax year, regardless of the date to which they prepare their accounts. This is known as the tax year basis. This change will affect you if you are a sole trader or a partner in a traditional partnership.

If your accounting date is 31 March, 5 April or a date in between, the profits assessed for the tax year will align with your accounting period. An accounting date of 31 March to 4 April inclusive is treated as being equivalent to the tax year.

However, if you prepare your accounts to another date, you will need to apportion your profits from two accounting periods to arrive at the profits for the tax year. This means that you will need to have prepared both sets of accounts before you can calculate your 2024/25 taxable profit.

To make life simpler, you may wish to consider changing your accounting date to 31 March or 5 April.

Speak to us to find out what the tax year basis means for your business and whether a change of accounting date would be beneficial.

The 2023/24 transitional year
Under the current year basis, which applied for 2022/23 and previous tax years, once established, an unincorporated business was taxed on their profits for the accounting period that ended in the tax year. For example, if you prepared your accounts to 30 June, for 2022/23 you would have been taxed on your profit for the year to 30 June 2022.

To move from the current year basis to the tax year basis, which applies from 2024/25, the 2023/24 tax year is a transitional year. Depending on the date to which you prepare your accounts, the profits assessable in 2023/24 may cover more than 12 months.

If you prepare your accounts to a date that aligns with the tax year (e.g. 31 March to 5 April inclusive), the transitional rules will not affect you.

However, if you prepare your accounts to another date, the profit assessable in 2023/24 will comprise the profits from the end of the basis period for 2022/23 to the accounting date in the 2023/24 tax year (the standard part) plus the profits from the accounting date in 2023/24 to 5 April 2024 (the transition part). If you have any unrelieved overlap profits, these can be deducted from the profits assessable in 2023/24. For example, if your year end is 30 June, you will be taxed on the profits for the year to 30 June 2023, plus profits for the period from 1 July 2023 to 5 April 2024, less any overlap relief.

To prevent an unusually high tax bill in 2023/24, the transition part, less any overlap relief, is taxed over five years from 2023/24 to 2027/28, unless you elect otherwise.

Talk to us to find out how the transitional rules impact on your taxable profits for 2023/24.

Overlap relief

Under the current year basis, the rules that applied in the early years of a business meant that some profits may have been taxed twice. These are referred to as 'overlap profits'. Profits may also have been taxed twice on a change of accounting date. Relief was given either on a change of accounting date which resulted in more than 12 months' profits being taxed in a tax year, or otherwise when the business ceased.

As a result of the move to the tax year basis, overlap relief will cease to be available from 2024/25. Consequently, if you have unrelieved overlap profits, you must claim the relief for 2023/24 (or an earlier year) or it will be lost.

If you are unsure of the amount of your overlap profits available for relief, HMRC may be able to help, as long as you previously provided details of your overlap profits to them on your tax return. You can use HMRC's online service (available on the Gov.uk website) to request your overlap relief figure. HMRC aim to deal with requests within three weeks.

We can help you to work out whether you are likely to have overlap profits available for relief and what a claim will mean for you.

CAPITAL ALLOWANCES

Annual investment allowance

The annual investment allowance (AIA) enables you to obtain full relief for qualifying expenditure up to the AIA limit of £1 million. It is available to both companies and to unincorporated businesses and expenditure on both new and second-hand assets qualifies. However, the allowance is not available in respect of expenditure on cars or assets previously used for a non-business reason; although writing down allowances may be claimed instead.

The AIA is optional and must be claimed.

Talk to us to find out whether claiming the AIA would be beneficial to your business.

Full expensing for companies

Full expensing is available to companies only for a limited period. Like the AIA, it provides 100% relief for qualifying capital expenditure in the accounting period in which it was incurred, but unlike the AIA there is no limit on the amount of qualifying expenditure that can benefit from the relief. Expenditure will qualify for full expensing if it is expenditure on new assets that would otherwise qualify for main rate writing down allowances and the expenditure is incurred between 1 April 2023 and 31 March 2026 inclusive. As with the AIA, expenditure on cars cannot be fully expensed.

Speak to us to discover whether your company can benefit from full expensing.

50% first-year allowance for companies

Companies can also claim a 50% first-year allowance for expenditure on new assets that would otherwise qualify for capital allowances at the special rate, for example, expenditure incurred on installing a new electrical system. Like full expensing, there is no limit on the expenditure that is able to benefit from the allowance. However, it must be incurred on or before 31 March 2026.

As the rate of relief is less than for the AIA, where the AIA remains available, this may be a better option. However, the first-year allowance can be beneficial if the AIA limit has already been used.

Contact us to discuss how best to obtain relief for your capital expenditure and whether claiming the first-year allowance would be worthwhile.

PENSION SAVINGS

Abolition of the lifetime allowance

The pension lifetime allowance, which placed a cap on the amount of tax-relieved pension savings that an individual could accrue, is to be abolished from April 2024. The lifetime allowance charge which previously applied where tax-relieved pension savings exceeded the lifetime allowance was abolished from 6 April 2023.

If your pension pot has already reached the lifetime allowance of £1,073,100, you will now be able to continue to add to your pension pot and to benefit from tax relief on contributions up to your available annual allowance. However, if your tax-relieved pension pot exceeds £1,073,100, the tax-free lump sum that you will be able to take is capped at £268,275 (25% of £1,073,100). If your pension pot has not reached £1,073,100, you can take a tax free lump sum of 25% of your pension savings.

Speak to us to assess your pension provision and to discuss whether it is worth making further contributions to your pension.

Annual allowance

The annual allowance places a cap on tax-relieved pension savings in a tax year. For 2023/24, the annual allowance is set at £60,000. However, your annual allowance will be reduced if both your threshold income (broadly income excluding pension contributions) exceeds £200,000 and your adjusted net income (which includes pension contributions) exceeds £260,000. Where this is the case, your pension annual allowance is reduced by £1 for every £2 by which your adjusted net income exceeds £260,000 until the minimum amount of the annual allowance, set at £10,000 for 2023/23, is reached. If your threshold income is at least £200,000 and your adjusted net income is at least £360,000, you will only be entitled to the £10,000 minimum annual allowance for 2023/24.

If you do not use all of your annual allowance in a tax year, it can be carried forward for up to three years; however, you must fully use the annual allowance for the current year before making use of unused allowances for earlier years. Remember, the annual allowance was set at £40,000 for 2021/22 to 2022/23 inclusive and the minimum amount was £4,000. Abatement applied for those years where threshold income exceeded £200,000 and adjusted net income exceeded £240,000.

If you have reached age 55 and have already accessed your pension pot, you are instead entitled to the money purchase annual allowance, which is set at £10,000 for 2023/24.

If you have not made contributions in recent years, in light of the abolition of the lifetime allowance, you may wish to consider whether it is worthwhile making contributions to take advantage of your unused allowances. However, you must have sufficient earnings from which to make individual contributions as contributions are also capped at 100% of earnings (or £3,600 if higher).

We can help you with your pension planning.

Employer contributions

Employers can also contribute to an individual's pension and under auto-enrolment are required to make at least minimum contributions on behalf of eligible jobholders. Contributions made by an employer count towards the annual allowance, but are not limited by the employee's earnings. This can be useful in a personal or family company for extracting profits in a tax-efficient manner. Pension contributions made by an employer are generally deductible in calculating the employer's taxable profits.

Contact us to explore further the benefits of employer pension contributions.

NATIONAL INSURANCE

Extended deadline for voluntary contributions

An individual needs 35 qualifying years to secure a full state pension, and at least 10 qualifying years for a reduced state pension. Individuals who do not have sufficient qualifying years can top up their National Insurance record by making voluntary contributions. This can be done in two ways – by the payment of Class 3 contributions or where the person is a self- employed earner with low earnings, by paying Class 2 contributions voluntarily.

To help people fill in gaps in their National Insurance record, the deadline for making contributions for missing years in the period from 2006/07 to 2016/17 has been further extended until 5 April 2025. Contributions can be made until the deadline at the 2022/23 rates, which for Class 3 contributions is £15.85 per week and for Class 2 is £3.15 per week. You can pay Class 2 contributions voluntarily for a year in which you were self-employed and your earnings from self-employment were less than the small profits threshold. Where you are entitled to do this, it is a cheaper option than paying Class 3 contributions.

Talk to us to discover whether it would be beneficial to consider making voluntary contributions to boost your state pension entitlement.

CAPITAL GAINS TAX

Annual exempt amount to fall again

The annual exempt amount for capital gains tax purposes was reduced to £6,000 for 2023/24 and it is to be further reduced to £3,000 for 2024/25. If you are planning on disposing of an asset that will realise a gain of more than £3,000, you may wish to consider disposing of the asset before 6 April 2024 to benefit from the higher annual exempt amount available for 2023/24.

We can help you with your capital gains tax planning.

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.
