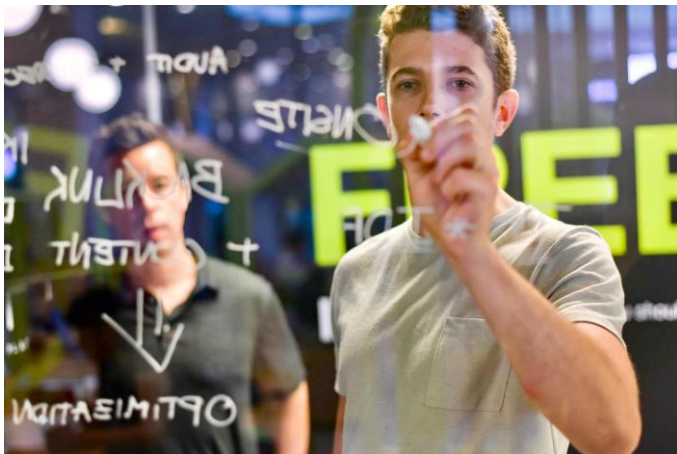


We hope you enjoy reading this newsletter and find it useful. Please contact us if you would like to discuss any matters further.

HMRC is changing how they assess profits for some sole traders and partnerships

How HMRC assesses profits for sole traders and partnerships who use an accounting date between 6 April and 30 March **will change** from 6 April 2023. This change will not affect companies.

Your accounting date is the last day of the period that you prepare your accounts for. You choose your accounting date when you set up your business and will normally make your accounts up to that date every year. Under the current rules, you are taxed on profits for the accounting date that ends in a given tax year. For example, if your accounting date is 30 November, for the 2022 to 2023 tax year you will be taxed on profits in your 30 November 2022 accounts.



From 6 April 2024, you will be assessed on your profits for each tax year that runs from 6 April to 5 April. This change will affect how you fill in your tax return if you use an accounting date between 6 April and 30 March. The way your profits are assessed if you use an accounting date between 31 March and 5 April will not change.

There will be a transition year from 6 April 2023 to 5 April 2024 to allow any overlap relief that you may be due to be used against your profits for that tax year. You may be due overlap relief from when you started to trade, or if you subsequently changed your accounting date.

How your profits for the 2023 to 2024 tax year will be assessed

The changes will mean the amount of tax that you owe in the 2023 to 2024 tax year may change if you use an accounting date between 6 April and 30 March. You will be assessed to tax on both:

- The 12-month accounting period you have previously been using (the one that ends in 2023/24).
- The rest of the 2023 to 2024 tax year — minus any overlap relief that you may be due — spread over 2022/23 and the next 4 tax years. You can spread these 'excess' profits over a shorter period if you wish.

Example (assuming no overlap relief is available):

1. Your accounting period is from 1 January to 31 December.
2. Your assessable profit is £32,000 from 1 January 2023 to 31 December 2023.
3. Your assessable profit is £18,000 from 1 January 2024 to 5 April 2024.
4. The £18,000 profit is divided equally and assessed over the next 5 tax years at £3,600 a year (£18,000 divided by 5).
5. In the 2023 to 2024 tax year, your total assessable profits will be £35,600 (£32,000 plus £3,600).

Any increased profits from the 2023 to 2024 tax year will be treated in a special way to minimise the impact on benefits and allowances.

How overlap relief can be used

If you set an accounting date between 6 April and 30 March when you started your business, or if you subsequently changed your accounting date, you may have paid tax twice on some of your profits and be entitled to 'overlap relief'.

Usually, businesses can only use overlap relief to get this tax back when they stop trading or change their accounting date. However, HMRC will allow a business with unused overlap relief to use it in the 6 April 2023 to 5 April 2024 transition year.

In the example above, any overlap relief would be deducted from the £18,000 in step 3, also thereby reducing the profits spread over the subsequent 4 tax years.

Please speak to us about how much overlap relief you may be due in the future.

Changing your accounting period

You do not have to change your accounting period and can continue to use whatever accounting date suits your business.

However, you may want to consider changing your accounting date to 31 March or 5 April. If you do, this will align your accounting period with the end of the tax year, and you will not need to apportion profits on your tax return every year.

HMRC have confirmed that the restrictions on changing your accounting date that are currently in place will be lifted starting from the tax return for 2023 to 2024. If you change your accounting date in your tax return for a year before 2023 to 2024, you will not be able to spread any extra profits that arise in the tax year you made the change in.

Please talk to us because we will be able to clarify this change and discuss your options directly.

“Off-payroll” working rules continue to apply

With all of the U-turns on tax policy in the last couple of months, businesses may be confused about what changes are going ahead and which ones have been scrapped by the new chancellor.

One of the controversial announcements in the mini-budget on 23 September was the abolition of the “off-payroll” rules that apply when workers are engaged via an intermediary, typically their own personal service company (PSC). This was due to take effect from 6 April 2023, restoring the tax rules to the pre-6 April 2017 position and would have

reduced the compliance burden on end-user organisations. However, this is one of the many measures that was scrapped by Jeremy Hunt, so the current rules continue to apply.

This means that public sector bodies and large and medium-sized organisations will still need to decide the employment status of every worker who supplies their services through their own intermediary (PSC), even if they are provided through an agency. Whether the organisation qualifies as large or medium-sized is determined by the criteria set out in the Companies Act.

If the off-payroll working rules apply to the relationship, they are required to communicate the worker’s employment status determination to them and also the fee-payer by using a Status Determination Statement (SDS). If the end-user organisation is also the fee-payer, they will need to deduct and pay Income Tax and National Insurance contributions to HMRC.

HMRC suggest that end-users utilise the [Check Employment Status for Tax](#) service to help them decide if the off-payroll working rules apply.

For detailed guidance see: [April 2021 changes to off-payroll working for clients - GOV.UK \(www.gov.uk\)](#)