

The abolition of basis periods

The government has announced a series of reforms to the way the self-employed and small businesses file their tax returns. These new rules will come into effect from 2023.

The changes mean that they will be taxed on profits arising in a tax year, rather than profits of accounts ending in the tax year. It is hoped that the new system will be easier to understand, less time consuming and will prevent errors occurring.

According to Financial Secretary to the Treasury Jesse Norman:

“These complex rules lead to thousands of errors and mistakes in self-employed tax returns every year. Simplifying them will allow self-employed people to spend less time doing tax admin and more time growing their business and creating jobs.”

Under the current system, tax returns filed by the self-employed, sole traders, landlords and partnerships are based on a business’s set of accounts ending in the tax year (5 April). More complex rules apply when a business starts and draws up its accounts to a date different to the end of the tax year. In those cases, taxpayers pay tax for their first tax year on the period to the end of the tax year, and then in subsequent years on the basis of their full accounting year - meaning profits are taxed twice and complex rules apply to relieve the double taxation when the business finishes.

HMRC are currently consulting on how to abolish basis periods for those that pay income tax on profits calculated on a ‘current year’ basis, so they instead pay on a ‘tax-year’ basis. This will bring all unincorporated businesses and landlords in line with the mandatory date of 6 April 2023 for ‘Making Tax Digital for income tax’ (MTD ITSA). From this date these businesses must report income and expenses on a quarterly basis using MTD-compatible software. The new deadlines will be 5 August, 5 November, 5 February, 5 May as well as the standard self-assessment deadline of 31 January.



According to the Treasury, this change aligns the government’s plans to provide self-employed business owners with a more modern, digitally integrated service through the implementation of MTD ITSA. Its aim is to help reduce errors and ensure self-employed businesses get their tax right first time. The change to the time periods against which businesses report their tax will also reduce the number of times those with several sources of income will need to report their income under MTD for Income Tax.

If you are concerned or need any help regarding these changes, please contact your accountant for advice.

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