

How HMRC assesses profits for some sole traders and partnerships to change

What is changing and when

The way HMRC assesses your profits if you're a sole trader or a partnership that uses an accounting date between 6 April and 30 March is changing. 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 and will normally make your accounts up to that date every year.

If your accounting date is between 31 March and 5 April this change will not affect you.

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.

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.

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 on both the tax for profits for the:

- 12 month accounting period you have previously been using
- rest of the 2023 to 2024 tax year – minus any overlap relief that you may be due – spread over the next 5 tax years

You can spread the profits from the rest of the 2023 to 2024 tax year over a shorter period if you wish.

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

The way your profits are assessed if you use an accounting date between 31 March and 5 April will not change.

Profits for businesses with accounting periods ending between 6 April 2023 and 30 March 2024 will be divided and assessed over the 5 tax years starting on 6 April 2023. If you have any overlap relief available, that will be set-off against those profits first.

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.

Overlap relief

If you used an accounting date between 6 April and 30 March when you started your business, 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 when they change their accounting date. However, we will allow any business that uses any accounting period and that has unused overlap relief to use it in the 6 April 2023 to 5 April 2024 transition year.

HMRC will publish guidance on how to check how much overlap relief you may be due in the future.

Example where overlap relief is used against profits

1. Your accounting period is from 1 October to 30 September.
2. Your assessable profit is £42,000 from 1 October 2022 to 30 September 2023.
3. Your assessable profit is £21,000 from 1 October 2023 to 5 April 2024.
4. You have £5,000 of unused overlap relief that you use to reduce your assessable profit for 1 October 2023 to 5 April 2024 to £16,000 (£21,000 minus £5,000).
5. The £16,000 profit is divided equally and assessed over the next 5 tax years at £3,200 a year (£16,000 divided by 5).
6. In the 2023 to 2024 tax year your total assessable profits will be £45,200 (£42,000 plus £3,200).

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.

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 that you have made the change in.

If you decide to change your accounting period, you'll need to complete box 11 on the self-employment (full) (SA103F) page of your tax return.

Get more information

You can find out more about accounting periods in sections 13 to 17 of [Self Assessment helpsheet HS222](#).