

1 Abolition of basis periods for income taxed as trading profits

- (1) Schedule 1 makes provision about the abolition of basis periods for the purposes of determining the profits of a trade under Part 2 of ITTOIA 2005 (trading income) for the tax year 2023-24 and subsequent tax years.
- (2) Schedule 1 also makes transitional provision for the tax year 2022-23.

SCHEDULE 1

Section 1

ABOLITION OF BASIS PERIODS FOR INCOME TAXED AS TRADING PROFITS

PART 1

MAIN AMENDMENTS OF ITTOIA 2005

- 1 Part 2 of ITTOIA 2005 (trading income) is amended as follows.

Chapter 2 (income taxed as trade profits)

- 2 (1) Section 7 (income charged) is amended as follows.
- (2) In subsection (1), at the end insert “(including amounts treated as profits of the tax year under section 23E(1))”.
- (3) Omit subsections (2) and (3).
- 3 After section 7 insert –

“7A Apportionment etc of profits to tax year

- (1) This section and sections 7B to 7D apply if a period of account of a person carrying on a trade (“the trader”) does not coincide with a tax year.
- (2) Any of the following steps may be taken if they are necessary in order to arrive at the profits or losses of the tax year –
- (a) apportioning the profits or losses of a period of account to the parts of that period falling in different tax years, and
- (b) adding the profits or losses of a period of account (or part of a period) to profits or losses of other periods of account (or parts).
- (3) The steps must be taken by reference to the number of days in the periods concerned.
- (4) But the trader may use a different way of measuring the length of the periods concerned if –
- (a) it is reasonable to do so, and
- (b) the way of measuring the length of periods is used consistently for the purposes of the trade.
- (5) This section and sections 7B to 7D apply to professions and vocations as they apply to trades.

7B Late accounting date rules

- (1) Sections 7C and 7D contain rules for the purpose of avoiding the need to apportion profits or losses under section 7A.
- (2) But the trader may elect for those sections not to apply in relation to a tax year.
- (3) An election under this section must be made on or before the first anniversary of the normal self-assessment filing date for the tax year to which it relates.

7C Rule if trader starts to carry on trade after 31 March

- (1) This section applies if, in a tax year (“the relevant tax year”), the trader—
 - (a) starts to carry on the trade after 31 March, and
 - (b) does not permanently cease to carry on the trade.
- (2) For the purposes of this Chapter—
 - (a) the profits or losses of the relevant tax year are treated as nil, and
 - (b) the actual profits or losses of the relevant tax year are treated as arising in the following tax year.

7D Rule if there is a late accounting date

- (1) This section applies if, in a tax year (“the relevant tax year”), the trader—
 - (a) does not start to carry on the trade after 31 March,
 - (b) does not permanently cease to carry on the trade, and
 - (c) has an accounting date that is 31 March or 1, 2, 3 or 4 April.
- (2) For the purposes of this Chapter—
 - (a) the profits or losses of the period beginning with the day after the accounting date and ending with 5 April in the relevant tax year are treated as nil, and
 - (b) the actual profits or losses of that period are treated as arising in the following tax year.
- (3) In this section, “accounting date” in relation to a tax year means—
 - (a) the date in the tax year to which accounts are drawn up, or
 - (b) if there are two or more such dates, the latest of them.”

Chapter 3A (trade profits: cash basis)

- 4 In section 31A (conditions to be met for profits to be calculated on cash basis), in subsection (5)(a), omit “the basis period for”.
- 5 (1) Section 31B (relevant maximum for purposes of section 31A) is amended as follows.
 - (2) In subsection (6), for “where the basis period for a tax year is less than 12 months” substitute “where the trade, profession or vocation is carried on for only part of a tax year”.
 - (3) In subsection (7), in the definition of “universal credit claimant”, omit “the basis period for”.
- 6 In section 31C (excluded persons for purposes of section 31A), in each of subsections (2)(b), (3), (4), (7), (8) and (9)(a), omit “the basis period for”.
- 7 In section 31E (calculation of profits on cash basis), in subsection (2)
 - (a) in the words before step 1, for “for a tax year” substitute “of a tax year”;
 - (b) in each of steps 1 and 2, omit “the basis period for”.
- 8 After section 31E insert—

“31EA Application of sections 7A to 7D

- (1) Sections 7A to 7D apply in relation to the calculation of profits of a trade on the cash basis, subject to the following modification.
- (2) Section 7A(2) applies as if the profits or losses of a period of account were determined in accordance with section 31E (calculation of profits on cash basis) (and for these purposes, references in section 31E to a tax year are to be read as references to a period of account).”

Chapter 15 (basis periods)

- 9 Omit Chapter 15 (basis periods).

PART 2

OTHER AMENDMENTS OF ITTOIA 2005

- 10 ITTOIA 2005 is amended as follows.

Part 2 (trading income)

- 11 In section 47 (business gifts: exceptions), in subsection (3)(b), for “basis period” substitute “tax year”.
- 12 In section 133 (meaning of “relevant period” for purposes of Chapter 9), in paragraph (b) omit “the basis period for”.
- 13 (1) Section 154A (certain non-UK residents with interest on 3.5% War Loan 1952 Or After), is amended as follows.
 - (2) In subsection (3) –
 - (a) in step 1, omit “the basis period for”;
 - (b) in each of steps 3, 4 and 5, for “basis period” substitute “tax year”.
 - (3) In subsection (4) –
 - (a) for “basis period”, in each place those words occur, substitute “tax year”;
 - (b) for “that period” substitute “that tax year”.
 - (4) In subsection (5), for “basis period” substitute “tax year”.
- 14 (1) Section 225ZD (compensation for compulsory slaughter of animals: effect of claim for spreading profits) is amended as follows.
 - (2) In subsection (1), in each of steps 2 and 3, for “whose basis period”, in each place those words occur, substitute “which”.
 - (3) Omit subsection (2).
- 15 In section 240B (“entering the cash basis”), in paragraph (b), omit “the basis period for”.
- 16 In section 240C (unrelieved qualifying expenditure: Parts 2, 7 and 8 of CAA 2001), in subsection (1)(b) –
 - (a) omit “the basis period for”;
 - (b) for “with that basis period” substitute “in that tax year”.

- 17 In section 240D (assets not fully paid for), in subsection (1)(b), omit “the basis period for”.
- 18 In section 240E (effect of election where predecessor and successor are connected persons), in subsection (1)(c), omit “the basis period for”.

Part 5 (miscellaneous income)

- 19 In section 613 (films and sound recordings: application of trading income rules to non-trade businesses), omit paragraph (a) and the “and” at the end of that paragraph.

Part 6A (income charged under ITTOIA 2005: trading and property allowances)

- 20 (1) Section 783AI (partial relief: alternative calculation of profits) is amended as follows.
- (2) In subsection (2), omit step 3.
- (3) Omit subsection (4).

Part 7 (rent-a-room and qualifying care relief)

- 21 (1) Section 786 (meaning of “rent-a-room receipts”) is amended as follows.
- (2) In subsection (1)(b), for “subsections (3) and (4)” substitute “subsection (4)”.
- (3) Omit subsection (3).
- (4) In subsection (4), in the words before paragraph (a), omit “Otherwise”.
- 22 (1) Section 805 (meaning of “qualifying care receipts”) is amended as follows.
- (2) In subsection (1)(b), for “subsections (2) and (3)” substitute “subsection (3)”.
- (3) Omit subsection (2).
- (4) In subsection (3), omit “Otherwise”.
- 23 Omit section 828 (overlap profit).

Part 9 (partnerships)

- 24 In section 852 (carrying on by partner of notional trade), in subsection (1), for “Chapter 15 of Part 2 (basis periods)” substitute “Chapter 2 of Part 2 (income taxed as trade profits)”.
- 25 Omit section 853 (basis periods for partners’ notional trades).
- 26 In section 854 (carrying on by partner of notional business), in subsection (1), for “Chapter 15 of Part 2” substitute “Chapter 2 of Part 2”.
- 27 Omit section 855 (basis periods for partners’ notional business).
- 28 In section 855A (notional business: indirect partners), omit subsection (3).
- 29 Omit section 856 (overlap profits from partners’ notional business).
- 30 In section 857 (partners to whom the remittance basis applies), in subsection (2), for “856” substitute “855A”.

- 31 In section 860 (adjustment income), in subsection (7), for “856” substitute “855A”.

Part 10 (general provisions)

- 32 In section 867 (business entertainments and gifts: non-trades and non-property businesses), in subsection (5), omit “(but as if the reference to a basis period were to a tax year)”.

Schedule (abbreviations and defined expressions)

- 33 Part 2 of Schedule 4 (index of defined expressions) is amended as follows –
- (a) omit the entry for “accounting date”;
 - (b) omit the entry for “overlap period”;
 - (c) omit the entry for “overlap profit”.

PART 3

COMMENCEMENT AND TRANSITIONAL PROVISION

Commencement

- 34 The amendments made by this Schedule have effect for the tax year 2023-24 and subsequent tax years.

Transitional provision

- 35 (1) Paragraphs 36 to 39 apply for determining, under Chapter 2 (income taxed as trade profits) or 3A (trade profits: cash basis) of Part 2 of ITTOIA 2005, the profits of a trade of a person (“the trader”) who –
- (a) carries on the trade in the tax year 2022-23, and
 - (b) does not permanently cease to carry on the trade in that tax year.
- (2) This paragraph and paragraphs 36 to 39 apply to professions and vocations as they apply to trades.

Calculating trade profits

- 36 (1) In calculating the profits of the tax year 2022-23 –
- (a) if there is a transition period (see sub-paragraph (6)), include any profits or losses of that period (but see sub-paragraph (2)), and
 - (b) in any case, make any deduction for overlap profit that would be allowed under section 205 of ITTOIA 2005 (deduction for overlap profit in final tax year) were the trader to have permanently ceased to carry on the trade on 5 April 2023.
- (2) If the basis period for the tax year 2022-23 ends on 31 March or 1, 2, 3 or 4 April 2023 –
- (a) treat the profits or losses of the transition period as nil, and
 - (b) treat the actual profits or losses of the transition period as arising in the tax year 2023-24.
- (3) If the trader starts to carry on the trade after 31 March 2023 –
- (a) treat the profits or losses of the tax year 2022-23 as nil, and

- (b) treat the actual profits or losses of the tax year 2022-23 as arising in the tax year 2023-24.
- (4) Sub-paragraph (5) applies where the period beginning with the start of the basis period for the tax year 2022-23, and ending with 5 April 2023, is longer than 12 months.
- (5) For the purposes of section 31B of ITTOIA 2005 (relevant maximum for purposes of cash basis election), the amounts specified in subsections (3), (4) and (5) of that section, and the VAT threshold (within the meaning given by subsection (7) of that section), are proportionately increased.
- (6) For the purposes of this paragraph –
 - “basis period” has the meaning given by Chapter 15 of Part 2 of ITTOIA 2005;
 - “the transition period” is the period (if any) –
 - (a) beginning immediately after the end of the basis period for the tax year 2022-23, and
 - (b) ending with 5 April 2023.

Apportionment etc of profits to transition period

- 37 (1) Any of the following steps may be taken if they are necessary in order to arrive at the profits or losses of the transition period for the purposes of paragraph 36 –
- (a) apportioning the profits or losses of a period of account to the parts of that period falling in the transition period, and
 - (b) adding the profits or losses of a period of account (or part of a period) to profits or losses of other periods of account (or parts).
- (2) The steps must be taken by reference to the number of days in the periods concerned.
- (3) But the trader may use a different way of measuring the length of the periods concerned if –
- (a) it is reasonable to do so, and
 - (b) the way of measuring the length of periods is used consistently for the purposes of the trade.
- (4) For the purposes of Chapter 3A of Part 2 of ITTOIA 2005, sub-paragraph (1) applies as if the profits or losses of a period of account were determined in accordance with section 31E of that Act (calculation of profits on cash basis) (and for these purposes, references in section 31E to the basis period for a tax year are to be read as references to a period of account).

Spreading of transition period profits

- 38 (1) For the purposes of this paragraph, “the transition period profits” are the amount of the difference (if any) between –
- (a) the profits of the trade of the tax year 2022-23, calculated in accordance with paragraph 36, and
 - (b) the profits of the trade of the tax year 2022-23, calculated as if paragraph 36 were disregarded,
- but if the amount mentioned in paragraph (b) exceeds the amount mentioned in paragraph (a), the transition period profits are nil.

- (2) The transition period profits are spread over five tax years as follows.
- (3) In each of the four tax years beginning with that in which the whole amount of the transition period profits would otherwise be chargeable to tax, an amount equal to 20% of the amount of the transition period profits is treated as arising and is charged to tax.
- (4) In the fifth tax year, the balance of the transition period profits is treated as arising and is charged to tax.
- (5) If, before the whole of the transition period profits have been charged to tax, the trader permanently ceases to carry on the trade, the balance of the transition period profits is treated as arising and is charged to tax in the tax year in which the trader permanently ceases to carry on the trade.

Election to accelerate charge

- 39
- (1) If the trader is liable under paragraph 38 to tax for a tax year on an amount of transition period profits, the trader may elect for an additional amount to be treated as arising in the tax year.
 - (2) The election must be made on or before the first anniversary of the normal self-assessment filing date for the tax year to which it relates.
 - (3) The election must specify the amount to be treated as arising in the tax year (which may be any amount of the transition period profits not previously charged to tax).
 - (4) If an election is made, paragraph 38 applies in relation to any subsequent tax year as if the amount of transition period profits (as reduced by any previous application of this paragraph) were reduced by the amount given by the following formula –

$$A \times \frac{5}{T}$$

where –

- A is the additional amount treated as arising in the tax year for which the election is made;
- T is the number of tax years remaining after that tax year in the period of 5 tax years referred to in paragraph 38.