Office of
Tax Simplification

The UK tax year end date: exploring the potential for change

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Foreword

In this report, the Office of Tax Simplification (OTS) presents the findings of a high-level exploration and analysis of the benefits, costs and wider implications of a change in the date of the end of the UK tax year for individuals.

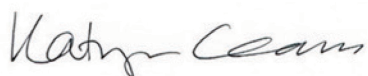
This review considers the high-level implications of moving the tax year end date to 31 December, and a more detailed evaluation of the implications of a move to 31 March.

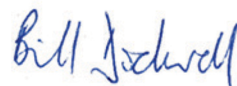
There are clear benefits in adopting a tax year which is either aligned with the calendar year or with a calendar month-end. However, the costs of change are significant, both in terms of the financial cost and the opportunity cost. In either case, the work involved to make such a change would consume government resources and make it much harder to implement other changes at the same time, and a move to 31 December could also require changing the UK's financial year.

This review did not aim to make a specific recommendation about whether such a change should be made. Instead, the report presents information and analysis about the issues involved to inform evaluation of any changes that might be considered and their timing.

The review also considers potential practical measures to facilitate the planned launch of Making Tax Digital for Income Tax in 2023, particularly in relation to individuals in business or with rental income for whom it is simpler to be able to run their accounting processes to 31 March than to 5 April.

The OTS would like to thank Hannah Smith, who led the review, supported by Sally Campbell, Sarah Glover, Nigel Mellor, Patricia Mock and Mark Pickard, guided by OTS Head of Office David Halsey. We are also very grateful to our HM Treasury and HM Revenue & Customs colleagues, and to all those who have willingly given time, ideas, challenge and support.





Kathryn Cearns – OTS Chair

Bill Dodwell – OTS Tax Director

Executive summary

Introduction

The Office of Tax Simplification (OTS) is the independent adviser to government on simplifying the tax system. The work of the OTS is rooted in improving the experience of all who interact with the tax system. The OTS aims to improve the administrative processes, which is what people actually encounter in practice, as well as simplifying the rules. These are often of equal importance to taxpayers and HM Revenue & Customs (HMRC).

This review provides a high-level exploration and analysis of the benefits, costs and wider implications of making a change to the UK tax year for individuals, from the current tax year which runs to 5 April.

Specifically, it considers the high-level implications of moving the tax year end date to 31 December, and a more detailed evaluation of the implications of a move to 31 March.

The OTS published a document setting out the scope of this review on 4 June 2021 (see Annex A). Since then, the OTS has received valuable contributions from representative bodies, professional advisers and businesses, and from HMRC and HMT. A list of those consulted is in Annex B.

Summary findings

To be effective, a tax system should be as intuitive and easy to follow as is practicable. This includes aligning reporting or assessment timetables with familiar periods (such as months or quarters).

There are clear benefits in adopting a tax year which is either aligned with the calendar year or with a calendar month-end. Increasing automation, internet-enabled commerce and digitisation of financial services and financial information generally increases the need for a more intuitive cut-off date, as the more seamlessly accounting systems generally align with tax requirements, the more easily information can be transferred between systems.

The OTS found a significant level of support for changing the date of the end of the tax year, as illustrated by a recent reported business survey.[1] However, the costs of change are significant, both in terms of the financial cost and the opportunity cost.

The work involved to make the change would consume government resources and make it much harder to implement other changes at the same time, and a move to 31 December could also require changing the UK's financial year. The change would

[1] https://www.ft.com/content/333775e2-eda5-42a7-bbc9-9cb467b6f277

equally affect the private sector, where all businesses would experience some changes and some would face issues of a similar scale to those affecting the public sector. There would also be impacts on the devolved administrations.

The review did not aim to make a specific recommendation about whether such a change should be made. Instead, this report presents information and analysis about the issues involved to inform evaluation of any changes that might be considered, together with their timing. In the light of that analysis, the OTS does not consider that such a change should take place in the immediate future.

The review also considers potential practical measures to facilitate the planned launch of Making Tax Digital for Income Tax in 2023, particularly in relation to individuals in business or with rental income, for whom it is simpler to be able to run their accounting processes to 31 March than to 5 April. It would not be practicable to change the tax year before the scheduled start date of this programme.

The simplest design: 31 December

While it is challenging to quantify the benefit, a tax year aligned to the calendar year is the natural, simplest and easiest approach for everyone to understand, and make things simpler for individuals and businesses with income from or activity in more than one country.

Globalisation and the transformational growth of the internet has led to more businesses and individuals having income and activities in multiple countries. Even the smallest business can now sell internationally in a way that was not possible twenty years ago, including through international platforms. This is leading to growth in financial reporting by platforms to their users, and increasingly to tax authorities both domestically and internationally.

A move to 31 December would have the tangible benefit of helping HMRC make considerably better use of internationally exchanged tax-related data in supporting taxpayers in fulfilling their obligations (through making that data visible to them for use in tax returns[2]) and in their compliance work.

This data includes data shared under the Common Reporting Standard[3] in respect of financial accounts and the forthcoming platform reporting arrangements,[4] both of which work to the calendar year. It is likely that continued globalisation and continued growth in exchange of data between tax authorities will only increase the importance of having a common tax year with major trading partners.

This is reflected in the tax year end dates in use globally, notably across Europe, North America, Japan, South Korea, Brazil and most of the G20.[5]

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2 https://www.gov.uk/government/publications/making-better-use-of-third-party-data-a-vision-for-the-future See paragraph 5.33

3 https://www.oecd.org/tax/automatic-exchange/common-reporting-standard/

4 https://www.oecd.org/tax/exchange-of-tax-information/model-rules-for-reporting-by-platform-operators-with-respect-to-sellers-in-the-sharing-and-gig-economy.htm

5 India uses 31 March; Australia 30 June; South Africa 28/29 February

The alternative: a move to 31 March

Moving the tax year to 31 March would also have a range of benefits, if on a lesser scale.

As a calendar month end, 31 March would be much more understandable to the general population. The tax year and the UK's financial year would align. It would also particularly benefit taxpayers who prepare business accounts or report income from investments.

The benefit of aligning with other jurisdictions and international conventions would not be realised to the same extent, as international exchange of information arrangements operate by reference to 31 December.

The overall scale of what would be involved in a move to 31 March would be substantially lower than for 31 December, though the extent of the systems impacts could be comparable.

Managing a transition

Timeline for any change

If government were convinced by the case for change, the OTS is clear it would be best carried out after major digital projects such the Single Customer Account have been implemented and following a systems upgrade programme. It would in any case not be feasible to change the tax year end date before the scheduled start date of Making Tax Digital for Income Tax in 2023.

Moving to 31 March

Moving to a tax year end date of 31 March would involve a substantial investment by the UK government and the private sector. It would entail major changes to legislation and to government and businesses' systems and operating procedures.

There would also be a small revenue cost from taxes forgone or deferred in the transitional 'year', depending in particular on the extent of any adjustments to reflect the shorter 360 day transitional tax 'year'. The cost is estimated at between £0.4 billion (with reduced allowances) and £2.2 billion (without such adjustments).[6]

While increasing. the Exchequer cost, leaving allowances and thresholds alone could reduce the systems costs and administrative burdens involved, in both the public and private sectors.

The move would nevertheless mean that both private and public sector organisations would have significantly reduced capacity to undertake other major changes at the same time.

The OTS has not sought to estimate the overall costs to the public or private sectors of changing the tax year end date. However, it is clear from the OTS's discussions with affected parties in both sectors that it would involve a substantial time and resource commitment, and take some years to scope and plan.

Many systems have the tax year end date coded into them. In both public and private sectors, these include systems delivering salary, pension and benefits

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[6] Refer to Annex D. Costing based on survey data for England, Wales, Scotland and Northern Ireland. The costs here relate to the whole of the UK, including any impact on Scottish Government revenues

payments, which are of critical importance. The lead time for changes of this nature is at least 18 months to 2 years from when they are legislated.

Like many large organisations, HMRC and DWP have a number of legacy large-scale IT systems. Changes to these systems, which include the State Pension, would require a longer testing period to ensure the maintenance of critical functionality. There are also systems that feed data into each other, which would need to be coordinated. Both HMRC and DWP are on the path to adopting new systems. Issues of a similar scale arise in the private sector, in particular in sectors such as banking, pensions and life insurance.

Legislation relating to Income Tax, National Insurance contributions and state benefits would need to be changed before systems changes were made, to specify the details of the transition and implementation. Before this, the government would need to consult on the detailed impacts of the change and develop transitional measures. There would also need to be a publicity exercise to ensure taxpayers and the private sector were ready for the change.

In summary, if the government were to consider changing the tax year end, it would need to allow for a lead time of several years from beginning to plan for it before it was put into effect.

Moving to 31 December

A move to 31 December would involve most of the transitional issues outlined above but ultimately be a much larger and costlier exercise.

This is partly because it is possible that moving the tax year could require the adoption of 31 December as the UK's financial year. That question is beyond the scope of this review but if required would be a very significant undertaking. It would affect the devolved administrations as well as regional and local government, and affect many public bodies including the NHS.

It is also because a 3-month change, involving a transitional tax 'year' of just under 9 months, would require transitional provisions to address the impact on the Exchequer and taxpayers, which could prove costly or complex. From the following year, the Self Assessment deadline would move to 31 October, with comparable changes to other reporting and payment deadlines, with particular consequences for taxpayer, agent and HMRC workloads in that transitional period.

Government would need to decide how best to facilitate the transition in the light of the circumstances at the time, including in relation to the implementation of Making Tax Digital for Income Tax and any changes made following the July 2021 basis periods consultation.[7]

In 2002, when Ireland moved its tax year end date from 5 April to 31 December, their government chose to absorb much of the cost rather than implement complicated rules. Ireland also changed its financial year date at the same time, which was a requirement for joining the Euro (see Annex E).

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[7] https://www.gov.uk/government/consultations/basis-period-reform/basis-period-reform-consultation

Practical measures to facilitate Making Tax Digital for Income Tax

There are 3.4 million self-employed individuals who currently prepare their accounts to 5 April[8] and 2.9 million landlords[9] who must account for their property income for the year to 5 April.

Once Making Tax Digital for Income Tax comes into operation, from 6 April 2023, any of these taxpayers with a turnover above £10,000 will be required to submit quarterly reports online.

It is easier to account to a month or quarter end, as this fits with the way that most people run their businesses and the systems they use (or may adopt to comply with Making Tax Digital for Income Tax), so it is natural for statements of income and expenditure to be produced on this basis. Paper bank statements – critical for businesses and landlords – generally run to a month or quarter end, or annually.

The OTS understands that many taxpayers may already be informally using a 31 March cut off date, as this simpler for them. Although there are a number of provisions in guidance which support this in some situations, it is not generally possible to treat 31 March as if it were 5 April in this way.

Self-employed individuals and landlords could benefit from a broader acceptance of the use of a 31 March cut off in place of 5 April in calculating self-employment and property income.

The OTS considers that formalising this in legislation would make a very useful contribution to simplifying the affairs of around 3.7 million individuals with turnover from as low as £10,000,[10] and their compliance with Making Tax Digital, whether or not HMRC proceed with the wider changes to basis periods which have been the subject of the consultation document published on 20 July 2021.

One of the larger groups of individuals potentially affected are those construction workers who are paid under the Construction Industry Scheme. This scheme currently operates by reference to the tax year ending 5 April. It would also be worth considering changing the reporting year to 31 March (and using calendar months) as part of implementing Making Tax Digital for Income Tax in the easiest possible way for individuals.

Recommendation

The OTS recommends that the government and HMRC should pursue ways to formalise arrangements to allow (or even require) taxpayers to use a 31 March cut off to stand in for 5 April in respect of the calculation of profits from self-employment and from property income, ahead of the implementation of Making Tax Digital for Income Tax.

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8 HMRC data 2018-19. See Annex F. Data was provided by HMRC under agreed assumptions and definitions tailored for the purpose of the analysis in the report. They do not constitute official statistics and may vary from published HMRC estimates. The OTS has made its own independent use and interpretation of the data. See Annex F.

9 HMRC data 2018-19. See Annex F.

10 HMRC data 2018-19. This the total of 2.9 million sole traders accounting to 5 April with turnover above £10,000 and 1.2 million landlords with turnover above £10,000, after allowing for double counting of 0.4 million. See Annex F

Chapter 1
Introduction

The tax year

1.1 The 'tax year' is the period by reference to which most taxes for individuals are set and calculated. It starts on 6 April and runs until the following 5 April.

1.2 The reasons for the 5 April end date are historical and now obsolete.[1] The only reason to use 5 April now as the end of the tax year is that it is the date currently in use.

1.3 The tax year is distinct from the 'financial year' which is the period over which government accounts are drawn up and by reference to which corporation tax is calculated. This starts on 1 April and runs until 31 March. The tax year and the financial year are also clearly distinct from the calendar year.

1.4 Most people who pay Income Tax do not need to file a Self Assessment tax return, as the PAYE system calculates and deducts the correct amount of Income Tax and National Insurance.

1.5 A minority of PAYE payers receive an updated tax calculation from HMRC after the end of the tax year and either receive a refund or have additional tax to pay.

1.6 Self-employed taxpayers and those with more complicated tax affairs are required to file a Self Assessment tax return by 31 January following the end of the tax year. The taxpayer has until the same date to pay their tax (usually a balancing payment after having made two payments on account by the end of the previous January and July).

Alternative tax year end dates

31 March

1.7 The OTS has analysed, in the first instance, the possibility of moving the tax year end date to 31 March, in line with the financial year and the end of a calendar quarter. The potential benefits of so doing are set out in Chapter 2 and the transitional costs and risks in Chapter 3.

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[1] The tax year shifted from the previous date of 25 March in 1752, in association with a shift from the Julian to the Gregorian calendar

1.8 There is also an analysis of alternative measures aimed at securing many of the benefits of moving the tax year date to 31 March while minimising transitional costs and risks. This is set out in Chapter 4.

31 December

1.9 The OTS has also performed a high level review of the possibility of aligning the tax year with the calendar year, ending on 31 December. This would align the UK tax year with the most commonly used tax year internationally used by 16 of the 19 G20 countries[2] notably China, the United States of America and in Europe. A discussion of the benefits and costs of moving the tax year end date to 31 December is set out in Chapter 5.

Consultation on basis period reform

1.10 On 20 July 2021, HMRC issued a consultation document entitled 'Basis period reform'.[3]

1.11 The consultation contains numerous proposals intended to change "the rules under which profits of an unincorporated trading business are allocated to tax years". The consultation includes, among other topics, discussion of the potential for treating 31 March and 5 April accounting dates as equivalent.

1.12 It is beyond the scope of this report to go into detail on or interpret the proposed measures outlined in the consultation. However, the report does indicate areas where the proposals in the consultation appear capable of helping to resolve issues discussed in this report.

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2 Australia uses 30 June; India 31 March and South Africa 28/29 February

3 https://www.gov.uk/government/consultations/basis-period-reform/basis-period-reform-consultation

Chapter 2

Benefits of moving from 5 April to 31 March

Introduction

2.1 The present date of 5 April is not a natural or obvious date to use for the end of the tax year, especially as most of the UK's other financial reporting runs to 31 March.[1] It is believed that only the Isle of Man uses the same tax year, following Ireland's change to 31 December in 2002.

2.2 This is probably why some taxpayers are unaware that the tax year runs to 5 April. The OTS has heard that this can even be the case for some who have been filing Self Assessment tax returns for many years.

2.3 The OTS has explored the benefits for the taxpayer of moving the tax year date for individuals from 5 April to 31 March. One of the main situations in which taxpayers would be likely to benefit is where they are the owners of unincorporated businesses, either as self-employed people or landlords (or both, as is the case for around 469,000 individuals).[2]

Wider context

2.4 There is broad agreement that aligning the UK tax year with a calendar month end would aid general understanding. It would help those who keep records – personal or business – for whom a month end will always be more intuitive.

2.5 Some actions need to be considered by taxpayers in relation to the end of the tax year, for example contributing to an ISA or pension scheme before that year's allowance expires. In such cases, a month end would be clearer for individuals to understand. The choice of 31 March is the least disruptive to broader government systems, since it is closest to 5 April and is the UK's financial year.

2.6 The resulting tax year start date of 1 April may also be familiar in the context of a range of other matters affecting individuals where changes take effect from 1 April annually, such as:

- Council Tax rises

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[1] Indeed, one of HMRC's 'Tax Facts' educational videos contains a humorous aside describing it as 'weird'. www.youtube.com/watch?v=QA94wNeIXyE

[2] HMRC data 2018-19. See Annex F. Data in this report was provided by HMRC under agreed assumptions and definitions tailored for the purpose of the analysis in the report. They do not constitute official statistics and may vary from published HMRC estimates. The OTS has made its own independent use and interpretation of the data

- National Minimum Wage increases
- National Living Wage increases

2.7 In addition, rates of Corporation Tax are determined by reference to the financial year, with any changes also taking effect from 1 April annually and the Annual Tax on Enveloped Dwellings (paid on residential properties held within corporate structures) is calculated on a 1 April to 31 March basis.

2.8 Changing the tax year date for individuals to 31 March would have implications for Income Tax, National Insurance contributions and Capital Gains Tax. All of these taxes on individuals (and employers in the context of National Insurance contributions) operate by reference to a 6 April to 5 April tax year, as do allowances, exemptions and rates for Inheritance Tax. The benefits of changing the tax year that have been identified by the OTS relate mainly to individuals who will be filing reports under Making Tax Digital for Income Tax, which is scheduled to start from 6 April 2023.

Main groups of taxpayers who would benefit

Self-employed people

2.9 There were 5.1 million self-employed people who filed tax returns in the UK for the 2018-19 tax year.[3] Self-employed people operate either as sole traders or as partners in a trading partnership (either of which can also have employees).

2.10 The self-employed population is diverse across a spectrum of low to high earning trades and professions, including:

- Accountants and lawyers
- Casual labourers and seasonal workers
- Construction workers
- Hair stylists and beauticians
- Mini-cab and taxi drivers
- Tradespeople such as plumbers, decorators and electricians

2.11 There are also relatively new, growing, sectors in platform workers (the 'gig economy', including people such as delivery drivers) and small online businesses selling a variety of goods and services, often as a source of secondary income.

2.12 Government research from 2018 estimated that 2.8 million people were involved in the gig economy at that time.[4] This figure may well have increased as platform-based gig work has of course been a relatively

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[3] Table 3.10 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/974540/SPI_National_Statistics_Commentary_tables_3_1_to_3.17_1819.pdf. See also Annex F.

[4] https://www.gov.uk/government/publications/gig-economy-research

successful area during the COVID-19 pandemic and is likely to continue to grow.[5]

2.13 The self-employed population is diverse in terms of socio-economic background, education and literacy levels: additionally, the presence of individuals from overseas means the general level of awareness of the UK's tax system is likely to be variable.

2.14 A change of tax year date from 5 April to a more intuitive date such as 31 March would help many self-employed individuals with their understanding of the tax reporting processes; as explained below, under Making Tax Digital for Income Tax these reporting requirements will be more extensive for many self-employed taxpayers as from 6 April 2023.

Landlords

2.15 Landlords refers to the owners of residential or commercial properties that are rented out to tenants: recent statistics show that there were around 2.9 million individuals in the 2018-19 tax year in the UK who were reporting income from property via self-assessment.[6] Landlords are also affected by the forthcoming quarterly reporting requirements for Making Tax Digital for Income Tax as explained in more detail below.

Individuals with more complex tax affairs

2.16 As well as those individuals with self-employment income or property income, there are others with investment income and gains, or more complex affairs generally, for whom things could be simpler if the tax year end moved to 31 March.

2.17 For example, wealth or investment managers would be able to provide annual tax reports for clients to 31 March, either in conjunction with or as part of a usual quarterly or half-yearly investment report, rather than as a free-standing exercise.

2.18 Employees - typically those who work for quoted multinational companies - who are in share incentive plans, are often supplied with share scheme reports on a (calendar) quarterly basis, so having a 31 March tax year date would simplify this aspect of their tax affairs.

Accounting made easier

Calculating taxable profit

2.19 All businesses, whether self-employed or landlords, that generate a taxable profit (or wish to claim a loss) must calculate the profit (or loss) by accounting for income and expenditure[7] over a period, usually a year.

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[5] https://www.economicsobservatory.com/update-how-is-the-coronavirus-crisis-affecting-gig-economy-workers

[6] HMRC data 2018-19. See Annex F.

[7] The calculation of taxable profit or loss can also include specific tax adjustments, such as claiming capital allowances in respect of items of capital expenditure or the disallowance of non-deductible expenditure

2.20 At its simplest, for self-employed people, the taxable profit is the aggregate of all of the cash receipts, less the payments of such expenditure as is deductible for tax purposes. This approach is known as the 'cash basis' and was used by about 1 million self-employed taxpayers in tax year 2018-19.[8]

2.21 The other, more common way of accounting for self-employed income is to use the traditional accounting method known as the accruals basis – this takes account of outstanding invoices, debts, stock and work in progress at the end of the accounting period, as well as cash receipts and payments during the accounting period.

2.22 The cash basis can be used by most self-employed individuals whose business has an annual turnover of £150,000 or less[9] – if the business grows the accruals basis must be used once annual turnover reaches £300,000.

2.23 For landlords with an annual turnover of £150,000 or less, the cash basis of accounting is always used by default unless the landlord chooses to opt out and use the accruals basis instead. Over 75% of landlords use the cash basis.[10]

Basis periods

2.24 Whichever accounting method is used, self-employment business accounts are usually drawn up for a period of a year, and the profits taxed in the tax year in which that period ends.

Case study 1

Jerry is a self-employed accountant with an established business. He draws up his business accounts for the 12 months ending 30 June 2020. The accounts show a £50,000 profit.

The full profit from the 12 months to 30 June 2020 is taxed in the 2020-21 tax year.

The accounting year to 30 June 2020 is described as the basis period for the 2020-21 tax year.

Timeline showing how Jerry's accounting profits are allocated to tax years:

8 HMRC data 2018-19. See Annex F.

9 There is an annual election.

10 HMRC data 2018-19. Around 2.3 million landlords (other than partnerships) out of a total of 3 million. See Annex F.

2.25 There are specific rules which can be complicated to apply in practice when accounting periods are shorter or longer than a year, for instance if there is no basis period falling into a tax year (for more detail see Chapter 5).

2.26 In contrast landlords must calculate their taxable profit by reference to the tax year, even if any property accounts they maintain are drawn up to a different date – if this is the case, profits for each accounting period are apportioned to arrive at profits for the tax year.[11]

2.27 The main exception is where a trading partnership also has rental business, in which case the tax basis period for rental profits is the same as the one used for trading profits.[12] HMRC will also, in limited circumstances, accept a consistent use of a 31 March accounting year end for landlords who use the accruals basis, as being the tax year basis period.[13]

Using the month end as a cut off

2.28 The OTS has heard that many taxpayers who account to 5 April are likely, in practice, to use 31 March as the cut off date for accounting for income and expenditure. This is because statements of financial transactions are more often prepared to a month or quarter end. As an example, drivers who work for ride-hailing and delivery services organised via online platforms might receive monthly income statements from the platform, making it difficult or inconvenient to split April transactions between 1-5 April and 6-30 April. They would also have to wait until May for the April statement.

2.29 The OTS understands that the practice of treating 31 March as the cut off for a 5 April year end is common and goes largely undetected or uncontested by HMRC. This makes sense as the amounts in question, particularly in respect of cash basis users - who usually have a turnover of £150,000 or less - are unlikely to be material and, in any case, would be accounted for in the following tax year.

Case study 2

Charlie is a landlord. She uses a separate bank account for all of her property income and expenditure and accounts to HMRC on the cash basis for each tax year to 5 April.

When she prepares her tax return for the 2020/21 tax year, Charlie downloads her property business bank account transactions covering the period 6 April 2020 to 5 April 2021 and includes only those transactions in her calculation of taxable rental profit. This is the correct way to account for property income on the cash basis.

Rashid is also a landlord and, like Charlie, accounts for his rental profits on the cash basis. However, when Rashid prepares his tax return for the 2020-21 tax year, he uses bank statements and takes the 12 bank statements from April

11 https://www.gov.uk/hmrc-internal-manuals/property-income-manual/pim1010

12 Section 851 Income Tax (Trading and Other Income) Act 2005

13 https://www.gov.uk/hmrc-internal-manuals/property-income-manual/pim1102

2020 to March 2021 (so he doesn't have to wait until May for the April 2021 statement) and totals all of the transactions.

Rashid does this every year, consistently. He doesn't miss any items of income and expenditure but those from 1-5 April are effectively accounted for a year late. Rashid thinks it makes little difference and it's better to get his tax return in early. HMRC have never raised any issues with this.

2.30 Self-employed taxpayers are already free to choose 31 March as their accounting year, but those who have been using 31 March 'informally' (while reporting as if they were using 5 April as their accounting year) could find it difficult to make the change: it would require notification to HMRC and potentially an adjustment to profits, even though the taxpayer has not in fact changed their reporting period.

2.31 The OTS considers that, since it appears this cut off is in habitual use and in some cases is informally accepted, it would make sense to formalise such arrangements. This is what would happen if the tax year were moved forward 5 days to a more intuitive cut off date of 31 March.

2.32 Alternative approaches which could potentially achieve the same result, without the need to change the tax year end, are discussed in Chapter 4. This point is also addressed in the current basis period reform consultation, which explains that the proposed reforms would 'put on a statutory footing from 2022-23 the widespread practice of treating profits of a year to a date near to the end of the tax year (usually 31 March) as being equivalent to the profits of the tax year'.[14]

2.33 Moving the tax year date to 31 March could benefit self-employed people and landlords who use 31 March as an informal cut off (and those who would find it easier to do so) and potentially, to a lesser extent, anyone whose investment income is reported on a monthly or quarterly basis.

Making Tax Digital for Income Tax

2.34 The administrative ease, or otherwise, of preparing quarterly accounts will become more significant for self-employed individuals and landlords following the planned introduction of Making Tax Digital for Income Tax from 6 April 2023, which mandates quarterly electronic reporting for individuals in self-assessment with turnover of over £10,000 for their business and property income.

What is it?

2.35 Currently, taxpayers who have a tax liability to report to HMRC submit a Self Assessment tax return on an annual basis. The normal filing deadline for an online return is 31 January following the end of the tax year. Any remaining tax due for the year is also payable by that date.

[14] Clause 2 Explanatory note in https://www.gov.uk/government/publications/income-tax-basis-period-reform

2.36 Taxpayers who choose to file a paper return also file this with HMRC on an annual basis, by 31 October following the end of the tax year.

2.37 Under the Making Tax Digital for Income Tax proposals, most people who have self-employed business income or income from property with (combined) turnover of over £10,000 will have to submit (for each source of such income and within one month of the quarter-end) quarterly digital updates of their income and expenses to HMRC with a final report covering the whole year to be filed by the following 31 January.

2.38 The taxpayer will then finalise their tax position for the tax year - taking into account all sources of income and capital gains as well as reliefs such as pension contributions and gift aid contributions - by a process provisionally known as 'crystallisation'.[15]

2.39 The current intention is that where possible crystallisation will take the place of the Self Assessment tax return for taxpayers who use Making Tax Digital for Income Tax: the filing deadline is the same as for a Self Assessment tax return, the 31 January following the end of the tax year. Tax payment deadlines are also the same as for self-assessment, so the balance of any tax due for the year also has to be paid by that same date.

2.40 These new reporting requirements are scheduled to be in place for accounting periods starting on or after 6 April 2023 – so the first report for a business with a 5 April year end will be the quarter 6 April 2023 to 5 July 2023.

2.41 To do this additional reporting, taxpayers will either have to use software that is specifically compatible with Making Tax Digital for Income Tax, use their existing records in conjunction with bridging software - again compatible with Making Tax Digital for Income Tax - or engage an accountant or tax agent to maintain and submit the records for them.

2.42 HMRC are not providing software for Making Tax Digital for Income Tax but are encouraging developers to provide free-to-use products for small businesses.

2.43 Some of the more complex businesses - such as partnerships with a corporate partner – will have a delayed start (exact date to be confirmed) and those who are digitally excluded, for example due to age, disability or religion, will be able to opt-out of Making Tax Digital for Income Tax but it is envisaged that the vast majority of affected taxpayers will need to comply with the new rules from 6 April 2023.

Why is 5 April a problem?

Making Tax Digital for Income Tax filings

2.44 As described above under '*Calculating taxable profit*', many self-employed businesses – particularly those using the cash basis – use an accounting date of 5 April. However, self-employed businesses with more complex affairs or

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[15] https://developer.service.hmrc.gov.uk/guides/income-tax-mtd-end-to-end-service-guide/documentation/final-return-crystallisation.html

those registered for VAT are more likely to use a month end accounting date.

2.45 Once Making Tax Digital for Income Tax reporting is mandatory, self-employed taxpayers with an accounting date other than 5 April who also have a property business (where the taxable profit must be calculated by reference to the tax year) may find they have multiple reports to file to different period ends. This could be burdensome, particularly for smaller businesses.

2.46 It has been estimated that there are around 469,000 individuals in self-assessment who are both self-employed and have a property business: of these 169,000 do not have a 5 April year end for their self-employment business.[16]

2.47 The exact process has yet to be finalised, but it is likely that separate reports will need to be filed for trading businesses and property businesses and in addition different types of property business (such as UK property businesses or overseas property businesses) will require separate reports.

2.48 For example, a self-employed trader who also has a buy-to-let property would need to submit:

- quarterly income and expenses reports for each business type (trading and rental) - so 8 reports for the year
- final reports – which will include, for example, accounting adjustments - for each annual accounting period for each business type – a further 2 reports
- an annual crystallisation return (equivalent to the current Self Assessment tax return)

2.49 This would amount to 11 reports in total each year, rather than the current one annual Self Assessment tax return.

2.50 If the trade has a different accounting date to the property business, the taxpayer is likely to find that reports will need to be filed most months although perhaps on slightly different dates each month. This is illustrated in the example below, for a self-employed taxpayer using a 31 December accounting date, who also has a property business:

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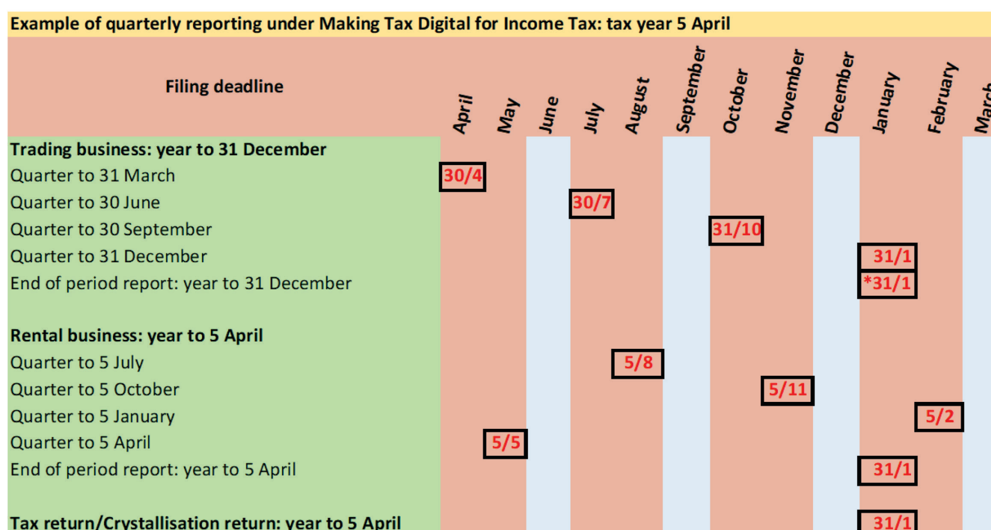
[16] HMRC data 2018-19. See Annex F.



Example of quarterly reporting under Making Tax Digital for Income Tax: tax year 5 April												
Filing deadline	April	May	June	July	August	September	October	November	December	January	February	March
Trading business: year to 31 December												
Quarter to 31 March	30/4											
Quarter to 30 June				30/7								
Quarter to 30 September							31/10					
Quarter to 31 December										31/1		
End of period report: year to 31 December										*31/1		
Rental business: year to 5 April												
Quarter to 5 July					5/8							
Quarter to 5 October								5/11				
Quarter to 5 January											5/2	
Quarter to 5 April		5/5										
End of period report: year to 5 April										31/1		
Tax return/Crystallisation return: year to 5 April										31/1		

*+1 year after quarterly submission date

Source: OTS

2.51 This gives the taxpayer 8 months of each year where a reporting deadline falls. If the tax year (and the reporting year for property income) were to end on 31 March instead of 5 April, then there would still be the same number of reports to file but the period ends and deadlines would be aligned. It would be less confusing for someone running two businesses (one self-employment and one property) if their accounting periods and reporting timetable are aligned.

2.52 There will be a points-based penalty system (with a point given for each late submission and a penalty when a certain threshold is reached) for late submission of quarterly or annual reports due under Making Tax Digital for Income Tax,[17] so it is important for the number of reporting deadlines to be workable, as otherwise taxpayers could face penalties for late reports.

2.53 Further returns would be needed if the business is VAT registered: VAT returns are to the end of the calendar month, with a filing deadline of one month 7 days – so for example a VAT return for the quarter to 31 March has a filing deadline of 7 May.

2.54 Quarterly reporting is standard for VAT returns although businesses can file annual returns if they meet specific criteria. However, in 2018-19 only around 17,000 out of a total of 2.3m VAT registered businesses use the annual accounting facility.[18]

2.55 Currently, VAT registered businesses with a taxable turnover of over £85,000 must file returns using Making Tax Digital for VAT: this will be expanded to cover all VAT registered businesses, regardless of turnover levels, as from 1 April 2022.

[17] https://www.gov.uk/government/publications/penalties-for-late-submission/penalties-for-late-submission

[18] VAT Annual Statistics Table 9 https://www.gov.uk/government/statistics/value-added-tax-vat-annual-statistics

Challenges with the use of software

2.56 Reporting under Making Tax Digital for Income Tax will often be done using commercially provided software. Most accounting packages are adaptable in terms of picking an accounting date but the OTS has heard that some do not currently support 5 April year ends.

2.57 Using bridging software is an option put forward by HMRC – this involves using basic software such as Excel spreadsheets, or an accounting package which is not adapted for Making Tax Digital for Income Tax filing. The bridging software will link the accounting information directly into HMRC's Making Tax Digital for Income Tax platform.

2.58 Bridging software is generally a cost-effective solution: there are currently several software companies which provide bridging software for Making Tax Digital for VAT filings and it is likely that many of these will also eventually provide bridging software for Making Tax Digital for Income Tax filings.

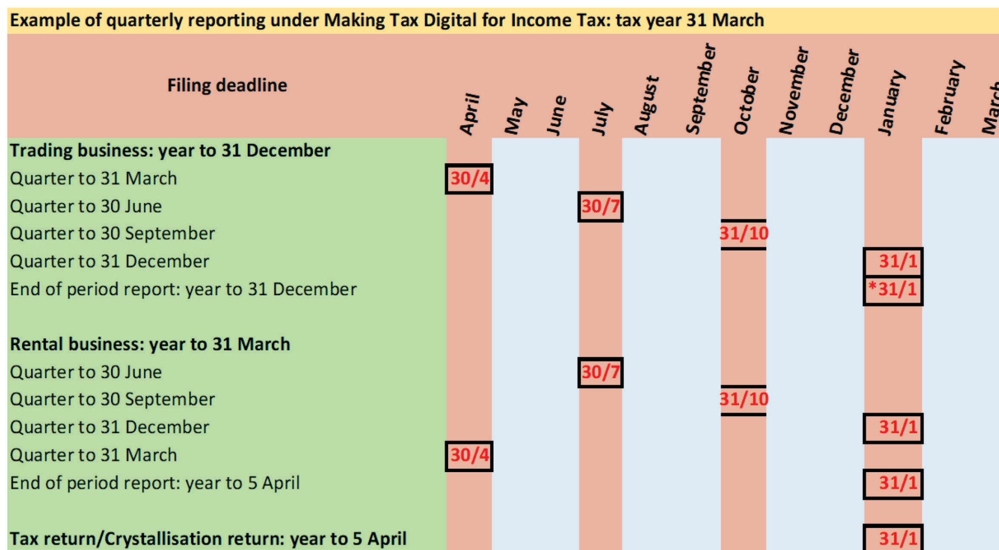
2.59 Those self-employed taxpayers currently using software which only supports a month-end accounting date and who also have a property business may need to find an alternative software provider or separate software for their rental business, as their existing software may not be able to accommodate property business reports to 5 April/5 July/5 October/5 January quarter ends as well as the self-employed business accounting.

2.60 This is likely to lead to additional costs for the taxpayer and be more administratively complex for them, perhaps because they will need to use more than one software package, or a combination involving their existing software for their self-employment income and Excel spreadsheets plus bridging software for their rental income.

2.61 Changing to a different software provider to cover all types of income may not be straightforward, as some businesses use specific providers - perhaps because that software provides enhancements which are tailored to their specific trades.

Why is 31 March better?

2.62 One of the main concerns with Making Tax Digital for Income Tax is that it will involve an increased administrative burden on taxpayers. Changing the tax year end could reduce this as potentially there would be fewer reporting dates. Following on from the example above, a change of tax year to 31 March would reduce the number of months where filings are needed from 8 down to 4, as the property business reports would be due at the same time as the self-employed business reports, as in the example below.



Example of quarterly reporting under Making Tax Digital for Income Tax: tax year 31 March												
Filing deadline	April	May	June	July	August	September	October	November	December	January	February	March
Trading business: year to 31 December												
Quarter to 31 March	30/4											
Quarter to 30 June				30/7								
Quarter to 30 September							31/10					
Quarter to 31 December										31/1		
End of period report: year to 31 December										*31/1		
Rental business: year to 31 March												
Quarter to 30 June				30/7								
Quarter to 30 September							31/10					
Quarter to 31 December										31/1		
Quarter to 31 March	30/4											
End of period report: year to 5 April										31/1		
Tax return/Crystallisation return: year to 5 April										31/1		

**+1 year after quarterly submission date*

Source: OTS

2.63 Moving the tax year date to 31 March could help facilitate more streamlined reporting under Making Tax Digital by reducing the number of dates to which returns are required and the collection of data needed for those returns.

2.64 More widely, it would benefit other business accounting processes and would also give consistency between Self Assessment tax returns and, under Making Tax Digital for Income Tax, the annual crystallisation process as these could both be carried out to 31 March.

2.65 It would also be a date more easily understood by taxpayers generally, helping with their awareness and requirements to fulfil their filing obligations.

2.66 The consultation on basis period reform[19] addresses some of the concerns by proposing that, when self-employed trading profits are calculated to a 31 March accounting date, this should be treated as equivalent to 5 April. It also considers whether the same approach could apply to property income. This would mean the accounting and the MTD filings for these two sources of income could be aligned.

[19] https://www.gov.uk/government/consultations/basis-period-reform/basis-period-reform-consultation

Chapter 3

Costs of moving to 31 March

Introduction

3.1 Any change of the tax year end date (even only by 5 days from 5 April to 31 March) would be a very significant change with far-reaching consequences across the tax and benefits systems for individuals, businesses, software providers, government departments and the Exchequer.

3.2 In particular there would need to be significant changes to systems governing large scale operations such as the deduction of tax from employment income and pensions under PAYE, which would have knock on consequences for the benefits systems operated by the Department of Work and Pensions.

3.3 As well as changing the way everything works on an ongoing basis, there would be particular impacts from handling the shortened transitional tax year of 360 days.

3.4 These include one-off tax rules and systems changes, which would involve changing IT systems twice: once to change them to operate appropriately during the transitional year, and then again to change them back to work in the way intended for the new 12 month tax year starting the following 1 April.

3.5 There would also be a one-off impact on the Exchequer, due to the impact on Income Tax, National Insurance contributions and Capital Gains Tax explained under subheading '*Exchequer costs*' below.

3.6 This chapter examines the costs and impacts involved in the following areas:

- Legislating to change the tax year
- Transitional provisions and the impact on individuals
- Private sector systems changes
- HMRC and other government systems changes
- Exchequer costs

Legislating to change the tax year

3.7 Changing the tax year is not just a matter of amending the definition of the tax year in section 4 of the Income Tax Act 2007. This is because the fact that tax years run to 5 April is embedded in both tax and non-tax legislation and, as a consequence, the effect of the many provisions which refer to

specific dates in a particular tax year on that presumption would need to be to be considered.

3.8 As an illustration of the scale of this, a search using the search term '5 April' across the direct tax legislation contained in the Tolley's Yellow Tax Handbook 2020-21, produces 8,770 hits.

3.9 While many of these relate to particular dates in the past, which would be unaffected, many others would need to be amended. For example, various interactions between taxes and benefits and administrative matters such as enquiry time limits hinge on references to the tax year.

3.10 Definitions of the tax year, and related expressions such as tax months, appear in a variety of legislation, not all of which is usually subject to amendment in Finance Acts. If changes to legislation were desired that went beyond those which were a direct consequence of changing the tax year for tax and related National Insurance purposes (for example to change the operation of benefits) then it is likely that separate legislation would be required outside of a Finance Act.

3.11 This legislation could potentially take the form of relatively brief enabling provisions, with most of the detailed changes being made through regulations. The enabling legislation could also provide for the change to be 'switched on' at a future date.[1] This would give space for the detailed work and consultation to be carried out, and time for work on supporting policy changes, practical arrangements and customer guidance to be begun, ahead of a final decision about the timing of the change.

Transitional provisions and the impact on individuals

3.12 Bringing the tax year end date forward from 5 April to 31 March would mean having a transitional 'year' of 360 days. There would need to be certain rules in place (transitional provisions) to cater for this and to mitigate any unintended financial effects of the 5 days' reduction in length of the transitional tax year.

Handling the 360 day tax year

3.13 The government would need to consider how to treat the transitional 'year' in a number of contexts affecting individuals.

Allowances and bandings

3.14 Many aspects of the tax system for individuals incorporate or rely on the notion of a tax year. Changes in tax rates, such as the Income Tax rate, come into force at the beginning of a tax year and for each year the government sets certain thresholds. For Income Tax, the notable thresholds are set out below.[2]

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[1] This was the kind of approach adopted in relation to the 2009 reforms to the Tax Tribunals

[2] This is a simplified overview of Income Tax – there are other allowances, rates and rules that can affect and individual's Income Tax liability that are not described here

Allowance /banding	Banding/threshold for 2021/22	Effect
Personal allowance	£12,570	Income below tax threshold is tax free
Savings and dividend allowances	£1,000[3] and £2,000 respectively	Income below threshold taxed at 0%
Basic rate band	£12,571 to £50,270	Income in band taxed at 20%
Higher rate band	£50,271 to £150,000	Income in band taxed at 40%
Additional rate threshold	£150,000	Income above threshold taxed at 45%

Source: HMRC

3.15 These determine what income is taxed and at what rate. Other taxes have similar provisions which are set out in more detail under '*Exchequer costs*' below. Scotland has adopted different rates and bands, although the UK-wide allowances apply. Wales has the ability to set different rates but has not yet chosen to do so.

3.16 The 'cost' of the allowances and bandings is, in effect, that of allowing for income to be taxed at a rate other than the top rate of Income Tax. Any costing is based on the total of taxable income taxpayers receive in a year. However, in a 360 day year, that total income would be likely to be reduced, leading to a disproportionately high cost of the allowances and bandings (as less is left over at each threshold to be taxed at the higher rates).

3.17 One solution to this might be to scale down all of the various thresholds to 360/365 of the annual amount. However, this is not as simple and effective a solution as it might seem because:

- individuals in PAYE (see more information below) would either receive a year's worth of pay or see it reduced by 1/12 (months) or 1/52 (weeks)
- annual sources of income (such as some annual pensions or directors' fees) would either be received in full or not at all

3.18 And there would be different outcomes for each taxpayer depending on precisely when they are paid.

3.19 It is also likely that any 'year end' planning done by taxpayers, for example to realise capital gains before an allowance expires, would be brought forward into the transitional year.

3.20 In addition, changing thresholds requires additional legislation and investment in systems that would create a longer lead time to changing the tax year end. In a 360 day transitional year, it is feasible that the Exchequer cost of not reducing the allowance[4] would be outweighed by the additional costs of systems change.

[3] £500 for higher rate taxpayers; £0 for additional rate taxpayers

[4] See Annex D for details of estimated exchequer costs

3.21 This issue would be far more significant for a move to a 31 December year end (see Chapter 5).

Entitlement to benefits

3.22 The UK operates a system of contributory benefits, whereby some benefit entitlements rely on an individual's National Insurance contributions. The biggest and perhaps best known of these contributory benefits is the State Pension, full entitlement to which relies on 35 years' contributions.

3.23 Here, 'year' refers to the tax year, which means legislation would be needed to confirm that a 360 day transitional tax year should stand in for a 365 day year in an individual's National Insurance contributions record.

Residence

3.24 Whether an individual is deemed to be resident in the UK for tax purposes (and thereby taxable on their worldwide income and gains[5]) relies on the Statutory Residence Test. Aspects of this test hinge on the definition of the tax year, for example one of the factors tested is whether or not an individual spends over 90 days in the UK in a given tax year. It would therefore need to be determined and legislated for how an individual's residence is assessed in the transitional year.

Qualifying periods

3.25 There are also certain rules that count up tax years. An example is the rule that deems a person to be domiciled in the UK for tax purposes after a period of prolonged residence, encompassing 15 of the preceding 20 tax years. It would need to be determined and legislated for how the transitional tax year would be treated in the context of this and other rules that rely on counting tax years.

Individuals in PAYE[6]

3.26 There are 33 million employed people in the UK and 12 million recipients of non-State Pension payments who receive their income net of Income Tax (and National Insurance contributions (NICs) where applicable) under the PAYE system operated by employers and pension providers. Deductions of Income Tax are calculated with reference to a code that takes into consideration certain taxable and tax-deductible items.

3.27 As a result, most taxpayers in the United Kingdom do not have to file a tax return[7] and nor do they ordinarily need to pay or claim a refund of tax: it is all taken care of by the PAYE operator. Most people have very little interaction with HMRC.

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5 There are certain exceptions to worldwide taxation for individuals who are neither domiciled nor deemed domiciled in the UK for tax purposes

6 All statistics cited in this section are from HMRC data for 2020-21. See Annex F for details.

7 There are 32 million Income Tax payers (https://www.gov.uk/government/statistics/income-tax-liabilities-statistics-tax-year-2018-to-2019-to-tax-year-2021-to-2022/summary-statistics) and 12 million people who file Self Assessment tax returns (https://www.gov.uk/government/news/fascinating-facts-about-self-assessment)

3.28 The tax code issued to the individual and their employer underpins this system. If the code is incorrect, then the incorrect amount of tax is deducted under PAYE and the taxpayer must either pay or claim a refund for the difference.

3.29 The tax code is applied by payroll operators in a way that takes account of whether an individual is paid monthly or weekly. The main tax deduction it allows for is the personal allowance.

3.30 There are two significant ways, then, that PAYE deductions might be impacted by the shortened tax year:

1. Anyone whose regular pay date falls into 1-5 April of the new tax year following the year of transition may find they receive 11 instead of 12 or 51 instead of 52[8] payments in the year.
2. A proportionately reduced personal allowance would have a consequent impact on any code incorporating it.

3.31 In particular, significant numbers of pensioners receive their pension on the first day of the month.

3.32 The result could be that taxpayers who normally don't interact with HMRC find themselves, as a result of a mismatch between their code and their income, in either an overpayment or an underpayment position and having to resolve that position with HMRC. This would have both cash flow and administrative impacts for both parties.

Weekly paid

3.33 There are 9.5 million weekly paid employments.[9] Statistically, these are more likely to 'lose' a payment period. All else being equal, there is a five in seven chance a weekly payment would fall within the 1 to 5 April period.

3.34 There are 14 million employments in total with pay dates occurring every one, two or four weeks.

Monthly paid

3.35 Anyone who is paid monthly on 1 to 5 of the month would have one monthly payment deferred to the next tax year in a transitional year. The individuals affected would see a 1/12 reduction in the associated employment or pension income falling into the transitional year.

Annually paid

3.36 Over a million pension recipients and a small number of employees are paid annually. Depending upon the pay date, they would either receive a full year's income or none at all in the transitional year (none at all only for those paid in the 1 to 5 April period).

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[8] The calculation of the tax code in respect of weekly paid individuals is oversimplified here for illustrative purposes. It is possible to receive 53 weekly payments in a year, in which case a special table has to be used to calculate the tax deductions. It has been suggested to the OTS that a change in tax year end would be a good occasion to review this process

[9] By contrast with only 24,000 weekly paid pensions. See Annex F.

3.37 There are also 0.8 million pension recipients and a small number of employees paid either quarterly or every six months, whose income could be reduced by a quarter or half in a transitional year.

Mitigation

3.38 In the context of a transitional tax year that is 5 days shorter than a full year, there are a variety of ways in which payment dates could interact with a full year's or a reduced allowance to result in a reduction or increase in tax, or generate an overpayment or underpayment position for employees and those receiving pensions.

3.39 It is likely that the government would be expected to mitigate the position of taxpayers who would be worse off because of quirks of the PAYE system. Whether it would seek to minimise the incidence of windfalls to taxpayers would involve weighing the tax cost against the additional costs and complexities of so doing and is a decision for government.

Benefits claimants

3.40 As described above, a change in tax year could affect the tax liabilities and payments of wage earners. Changes in net income and cash flows can have consequential impacts on benefit entitlement. For example, entitlement to Universal Credit is assessed on a monthly basis and a tax refund received in a given month could count as income and reduce or even preclude the claim. Government would need to decide a policy on how to treat such refunds for Universal Credit claimants (of whom there are 6 million in total).[10]

Self-employed people

3.41 As described in Chapter 2, above, self-employment businesses can have different accounting dates. A self-employed individual who chooses to account to the tax year end of 5 April is taxed on the profits that actually arise in the tax year itself. A self-employed individual with a different accounting date is normally taxed on the profits of the 12 month accounting period ending in the tax year, subject to detailed rules if no such accounting period exists. This period is called the 'basis period' for the tax year.[11]

Accounting periods ending between 6 April and 31 March

3.42 For self-employed individuals whose ongoing accounting date is between 6 April and 31 March, there would be a 12 month accounting period ending in the 360 day transitional tax year. Consideration would have to be given to whether measures to mitigate the financial implications of having 365 days' profits taxed in a 360 day period would be required.

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[10] As of 14 January 2021

https://www.gov.uk/government/statistics/universal-credit-statistics-29-april-2013-to-14-january-2021/universal-credit-statistics-29-april-2013-to-14-january-2021

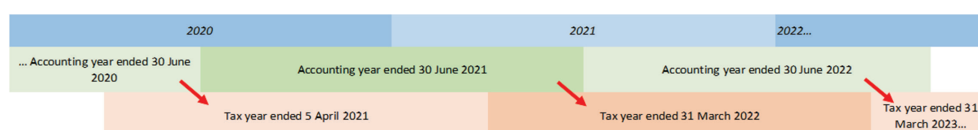
[11] Changes to basis periods set out in the consultation at https://www.gov.uk/government/consultations/basis-period-reform/basis-period-reform-consultation have not been considered here

Case study 3

Josef is a self-employed joiner. Each year he calculates his profits for the year ended 30 June and reports them to HMRC.

Tax year 2021-22 is the year in the tax year end date transitions to 31 March. That tax year runs for 360 days from 6 April 2021 to 31 March 2022. Josef prepares his accounts for the year to 30 June 2021 and therefore has a 12 month accounting period ending in the transitional tax year 2021-22, which will form the basis of his tax charge for that year.

Timeline showing allocation of Josef's accounting profits to tax years:



Accounting periods ending between 1 and 5 April

3.43 For those with ongoing accounting dates between 1 and 5 April, which includes 3,679,000 self-employment businesses (and 2,901,000 property businesses),[12] there would be no 12 month accounting period ending in the transitional year.

3.44 Without specific transitional provisions, the same profits would effectively be taxed twice, two years in a row. This is because the law currently states that (with some exceptions at the start and end of a business) the taxable profit for a tax year in which no 12 month accounting period ends is the profit for the 12 months from the end of the last accounting period.

Case study 4

If instead Josef calculates his profits for the year ended 5 April the effect would be different.

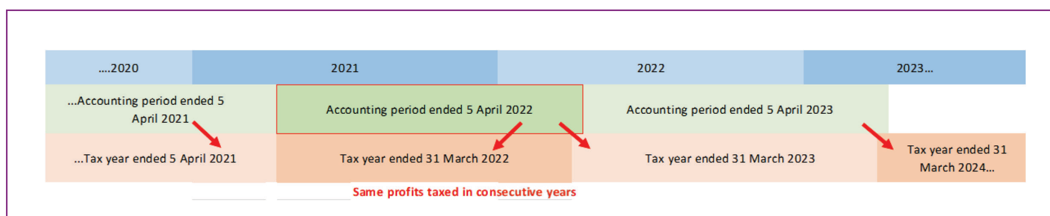
Tax year 2021-22 is the year the tax year end date transitions to 31 March. That tax year runs for 360 days from 6 April 2021 to 31 March 2022. Josef prepares his accounts again for the year from 6 April 2021 to 5 April 2022. As a result, Josef does not have an accounting period ending in tax year 2021-22.

The current rules state that Josef must therefore be assessed on the profit for the 12 months following the end of his last accounting period. This is his profit for the year ending 5 April 2022.

The accounting year ending 5 April 2022 now ends in tax year 2022-23. Under the rules, it is taxed in this year. The same profits are taxed twice in two consecutive tax years.

Timeline showing allocation of Josef's accounting profits to tax years:

[12] HMRC data 2018-19. See Annex F.



3.45 When an accounting period is used as the basis period for more than one tax year, there are specific rules that allow for a relief (overlap relief) which reduces the profits taxed in the year when the business is closed down. However, Josef is still taxed twice in the meantime and the OTS notes HMRC's observation that it is 'common for businesses to lose track of their overlap relief, which may date from more than 20 years ago.'[13]

3.46 Transitional provisions would help stop people like Josef losing out. In practice, Josef probably chose to account to 5 April to align with the tax year end and would only be in the position described above if he did not change his accounting period end date to 31 March.

3.47 One solution would be to require all individuals with an accounting date ending between 1 and 5 April to change this to 31 March.

3.48 For self-employed people, who are allowed to prepare their accounts for a date of their choosing, and that suits their business, this would be unprecedented. There are rules that restrict how often an accounting date may be changed but there isn't a precedent for mandating the use of the tax year as their accounting period.

3.49 An alternative solution might be to make it easy for all individuals with 1-5 April accounting dates to move this date to 31 March without adverse consequences. Taxpayers would need to be given sufficient notice to allow them to change their accounting date. Alternatively, if a taxpayer wished to retain a 5 April accounting date, a deeming provision could be introduced to ensure that the 12 month period ending 5 April would be treated as the basis period for the tax year ending on the previous 31 March.

3.50 All of these situations and suggestions would need to be examined in detail, costed and consulted on. Getting the basis periods right would be a key part of the legislative process of transitioning the tax year.

3.51 Note that, if the equivalence measures contained in the consultation on basis period reform[14] were adopted first, this would set a precedent for equivalence of 31 March and 5 April without the need for taxing the same profits twice. If the consultation proposals are adopted more widely, then all profits would be taxable only in the tax year in which they arise and these transitional issues would be avoided.

Landlords

3.52 All property income is taxed in the tax year in which it arises.

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13 https://www.gov.uk/government/consultations/basis-period-reform/basis-period-reform-consultation

14 https://www.gov.uk/government/consultations/basis-period-reform/basis-period-reform-consultation

3.53 From a legislative perspective, it would be relatively straightforward to require property income to be accounted to the new tax year end of 31 March because the law already requires the use of the tax year, and it would make sense for this to continue. For any landlords already using 31 March as a cut off (described in Chapter 1), this would make no difference to them.

Private sector systems changes

3.54 A change in the tax year end date would have a significant and potentially costly impact on wide areas of the private sector.

- taxpayers and their agents would need to comply with such a change when fulfilling their self-assessment and other tax obligations
- industry providers of services including payroll and software would need to amend their products and services
- investment or pension providers currently reporting to the tax year would require significant changes to their systems, processes and operations, particularly in the shortened, transitional year.

Unrepresented taxpayers

3.55 Individual taxpayers would need to spend time in familiarising themselves with any changes and understanding the effect of any transitional rules on their affairs. Some cost incurred by others (see below) may also be passed on to consumers.

Tax agents

3.56 Tax agents would need to communicate and educate clients about the change and update any of their internal processes and procedures which are based around the tax year end date. The majority of these are likely to be updated each year so this may not be a major additional exercise. Any calculation software would also need to be amended to deal with the change; in many cases twice, once in respect of the transitional shortened period and again for the new tax year date. The costs of these changes are likely to be passed to clients.

Tax software providers

3.57 Tax software used to file Self Assessment returns by individuals in respect of their own affairs, or agents on behalf of their clients, would need to be updated to incorporate the change of the year end date and any transitional year provisions. Two sets of changes would be required – one for the transitional year and another to revert to a 12 month period to the new tax year end.

3.58 Software is already updated annually to reflect the annual changes to the UK tax legislation and so, given sufficient notice, these changes could be incorporated into the wider annual update process. However, it is likely that there would be additional complexities to consider particularly in respect of the transitional year.

3.59 Timely legislative changes and clear government guidance would be essential. Depending on when any change takes place the interaction with

Making Tax Digital for Income Tax changes would also need to be considered. The cost of these changes may be passed to agents or taxpayers through increased software subscription prices.

Accounting package software providers

3.60 Where tax reporting elements of accounting software packages can currently report to a year end date of 5 April, updates would be required to the software (either by automatic update or manual user input) to amend this date to the new tax year end date. A number of off-the-shelf software packages currently only have the function to report to a month end date, in which case some users may already be using 31 March as their year end date for tax purposes. As for tax software (see above) any interaction with Making Tax Digital for Income Tax would need to be carefully considered.

Investment advisors

3.61 Although not giving tax advice, the tax year is relevant to investment advisors, particularly those giving pensions advice. They would need to understand the effect of any changes for their clients, and to update any existing software which is tax year specific, one example being software to review a client's pension contributions and whether these would exceed the annual allowance.

Payroll processes and reporting obligations

3.62 Payroll processes are relevant for both employment and payments of income from both private and occupational pensions. These processes and accompanying software would need to be updated to reflect the new tax year end date.

3.63 These changes would be far-reaching and require a significant amount of work by employers and software providers to amend the payroll products currently available. Any necessary changes to allowances such as the personal allowance for Income Tax would be considered and individuals' PAYE codes amended appropriately. Any changes in tax bands would also need to be considered. It is likely that changes would be needed for both the transitional year and the following year, to revert to the normal 12 month length.

3.64 Additional consideration would need to be given to those in receipt of PAYE income such as salary or pension income during the period 1-5 April compared with those whose annual PAYE receipts are wholly received during the period 6 April to 31 March, to ensure that both groups are taxed equally on their income over the course of the transitional year.

3.65 Annual payroll reporting obligations including P60 and P11D reporting would be undertaken to the new year end date of 31 March, again requiring systems amendments to reflect the new year end date.

Financial Institutions

Pension providers

3.66 Pension providers would be affected by a change in two main ways:

- They would have to update their pension scheme systems

- They would have to work through the PAYE implications

3.67 Firstly, in dealing with contributions to pension schemes, any procedures and software based on the tax year, for example the annual allowance (currently £40,000 for most taxpayers), would need to be amended. It is likely that two sets of amendments would be required, one to proportionately reduce the allowance in the transitional year (if that is considered necessary) and a second to revert to a full 12 month year.

3.68 During the transitional year complexities may arise if contributions made are close to the annual allowance, and more people are likely to be affected by this if the allowance were revised down in the transitional year.

3.69 Many people paying into personal pensions make regular payments at the start of the month, and others make contributions as late as possible in the tax year when they have as accurate details as possible of their tax affairs for that year. In particular many bonuses are paid in March and it is common to make pension contributions from them. There would need to be a detailed communications exercise to ensure that payments were made earlier to fall into the correct tax year, and that any reduced allowance was not exceeded.

3.70 Consideration would also be needed for those where pension contributions are deducted from salary, so that contributions deducted in the 31 March payroll were credited to the pension in the same tax year. The mechanics of this depend on the precise type of pension arrangement.

3.71 There could also be difficulties for those in defined benefit (final salary) pension schemes. The contribution measured against the annual allowance for these schemes is calculated in a specific way, partly based on salary changes, and this can give a high deemed contribution when there is a salary increase. If the annual allowance were revised down in the transitional tax year, this could be a particular problem in some cases.

3.72 In common with other private sector providers these considerations should not present insurmountable problems, particularly as updating is frequently necessary in respect of other tax changes. However, this would depend on the type and age of software being used and how easy it is to make changes. In any event it would require an adequate lead time and the provision of good guidance. Additional costs would be involved, and it is likely that these would be passed onto consumers.

3.73 Any HMRC reporting specific to pension funds would also need to be amended to deal with the change.

3.74 The second issue arises in relation to PAYE, when pensions are being drawn, by way of annuities or withdrawals from a scheme. In general providers operate PAYE in the same way as employers, and payroll issues would arise as set out above.

3.75 However, some pensions schemes are so large that they need to have daily payroll runs to manage the volumes, and pension withdrawals may be more 'lumpy' than ongoing salary payments and in many cases are made in the first few days of a month, so the difficulty arising for those paid during the period 1 to 5 April would be likely to be more pronounced, with a need for

communication with those affected to ensure that the payment was made in the intended tax year. This would be a particular problem if allowances and bands were revised down in the transitional year.

Banks and building societies

3.76 Banks and building societies report details of interest payments to investors and to HMRC on a tax year basis. This would need to be amended to cover the new tax year.

Fund managers and investment managers

3.77 These financial institutions would need to prepare reports for both clients, and in some cases HMRC, which were based on the tax year end date.

3.78 One example is a tax year end pack prepared by investment managers for their clients which provides details of income and gains made on assets within the client's portfolio, to assist with income and capital gains tax reporting. The software which produces these reports would need to be adjusted in respect of a new year end and, if applicable, for any revised down allowances, such as the capital gains tax annual exemption.

3.79 Given that reports are prepared from the underlying data held by investment managers this should be a reasonably straightforward exercise, but there may be some lead time and costs involved. Many managers already prepare investment reports to month end dates in any event, so may find aligning the tax year to 31 March an advantage as the tax year end pack can be aligned to an investment report date.

3.80 Those who provide ISA investments would need to communicate with customers to ensure that their ISA contributions fall into the intended tax year, so utilising the intended ISA allowance. If the allowance were revised down for the short transitional year, this would again require a communication exercise. Over 20 million people have one or more ISA accounts, so this would be an extensive exercise.[15]

3.81 There would also need to be software changes reflecting both the new tax year and any reduced allowance. Fund managers and large corporates which need to provide investors with details of income and gains on their funds/shareholdings over the tax year would also need to review and amend their processes to reflect the new year.

3.82 There would also need to be systems changes for the calculation and payment of the annual government bonus on Lifetime ISAs to ensure that this is correctly calculated and paid in.

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15 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/991715/Individual_Savings_Accounts__ISAs__tables__June_2021_.ods

Table 9.10

Insurance companies

3.83 The main issue for life insurance companies is the administration of certain insurance policies ('non-qualifying policies') which have an investment element in addition to a life assurance element.

3.84 Withdrawals from these policies over a cumulative allowance of 5% per policy year give rise to an Income Tax charge and a need for the insurer to provide details of the amount chargeable in a chargeable event certificate. In common with other financial institutions a change in tax year end would add complexities to the calculation of the gain arising and the tax due, particularly if tax bands were scaled down in the transitional year. Again, client communication would be important to ensure that any withdrawals fall into the intended tax year.

Summary – financial institutions

3.85 As explained above financial services companies would all need to make software changes and undertake detailed client communication in respect of any change in tax year end date.

3.86 The OTS has been told that many companies have a number of different software systems in use, resulting from legacy systems and market consolidation, and making changes across all these systems would be difficult and time-consuming. Some of these systems are very dated and were written without any expectation of a future tax year end change, meaning that making these changes now would be particularly challenging.

3.87 Any changes made would need to be tested to a high degree to avoid costly failures on implementation, so a long lead in period would be required.

3.88 Changes are likely to be costly, and in some cases very significantly so, although it is not possible to quantify such costs at this stage. Ultimately however, at least a part of any costs incurred are likely to be passed on to consumers resulting in higher charges across the sector.

Rental/managing property agents

3.89 These agents provide their property owner clients with details of income and expenditure on property rentals managed by them to facilitate tax reporting.

3.90 Currently individuals require this information for the tax year to 5 April although trading partnerships with rental income and companies report for their accounting period. Some agents provide reports to 5 April, although in some cases the cut off may in practice be 31 March. Some minor changes may be needed to provide reporting to any new tax year end date.

Public sector systems changes

3.91 A change of the tax year end date to 31 March would have significant and far-reaching implications for the public sector's systems and processes. Numerous government departments would be affected. Those particularly affected would include the UK's tax authority HMRC, responsible for tax administration and collection, and the Department of Work and Pensions (DWP), which administers the UK State Pension and benefits system.

3.92 The preparation for such a change would require significant investment in the necessary updates to public sector systems and processes over several years, timely consultation with the private sector and taxpayers during the development of any transitional provisions, and appropriate support and information made available to taxpayers and their agents. The impact of such a change on devolved administrations would also need to be considered.

HM Revenue and Customs (HMRC)

3.93 HMRC has a large number of computer systems, many of which would need to be updated to accommodate a change of tax year end date to 31 March. Updates to systems and processes would be required in respect of an initial, shortened transitional year as well as further updates for the following year, which would be the first year to run from 1 April to 31 March.

3.94 The age and relative flexibility of HMRC's different computer systems vary, and further work would need to be undertaken to assess the scale of changes required and the necessary timescales involved. Such updates would also need to be considered in relation to ongoing tax change and modernisation programmes such as 'Making Tax Digital'. Several main areas of change are discussed below; a non-exhaustive list of other systems and processes, undertaken by various governmental departments, that would be affected to varying degrees by a change to the tax year end date is included at Annex C.

Self-assessment

3.95 As discussed earlier, adopting a transitional 360-day tax year would require decisions to be made as to whether to proportionately reduce certain allowances, limits and thresholds applying to Income Tax and Capital Gains Tax for individuals. These include the personal and dividend allowances, basic and higher rate bands, limits on tax relief for investment into EIS shares and VCTs and the annual exempt amount for capital gains tax.

3.96 Self-assessment forms and online filing service would need to be amended accordingly, along with any online income and tax calculators maintained by HMRC. It is likely this would form a larger-scale version of the annual update process that already occurs in respect of changes to rates and bands - 12 million individuals are currently registered for self-assessment so any changes to the system would need to be well-planned and rigorously tested.[16]

PAYE for Income Tax and National Insurance contributions

3.97 Transitional arrangements would be needed to identify those individuals who would receive only 11 monthly salary payments during a transitional year (that is, those due to receive payments in the period 1-5 April) and to ensure their tax codes were amended appropriately so that they received the correct amount of personal allowance for the shortened transitional year and paid tax and National Insurance contributions at the appropriate rate on their income. Any additional issues relating to individuals being paid via a weekly payroll would need to be addressed.

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16 https://www.gov.uk/government/news/fascinating-facts-about-self-assessment

3.98 Necessary changes to payroll information employer reporting deadlines should be made to ensure employers are able to fulfill these obligations.

HMRC-administered Working Tax Credits and Child Tax Credits

3.99 Individuals in approximately 1.9 million households currently claim Working Tax Credits or Child Tax Credits.[17] These are part of a number of 'legacy benefits' being phased out as part of a transition towards Universal Credit, with the intention that all claimants will instead claim Universal Credit by the end of 2024.

3.100 Should the tax year end date be changed while individuals are still claiming Working Tax Credits and Child Tax Credits, transitional provisions would need to be introduced to amend the eligibility calculation (which looks at a claimant's prior year total taxable income) in respect of a shortened transitional year.

Taxpayer education and assistance

3.101 Taxpayers and agents would need to be educated about such a change and appropriate support put in place, including government written guidance, and additional helpline support to deal with increased queries in the transitional year of change.

3.102 HMRC (and other government departments such as the DWP) would need to communicate the change to the tax year end date along with transitional year arrangements to the general public as well as to businesses and prepare for increased levels of engagement with customers, in order to ensure taxpayers are helped to correctly fulfill their reporting obligations after a change to the tax year end.

Department of Work and Pensions (DWP)

3.103 Two of the DWP's main functions are to administer the UK's State Pension and a range of working age, disability and ill health benefits to around 20 million claimants[18] and customers.

3.104 The large numbers of payments made by the department and range of ages of their systems means that any changes affecting things such as the State Pension and benefits payments is high risk and would need to be thoroughly tested to minimise the risk of errors. Several areas which would be affected by a change to the tax year end date are shown below.

State Pension

3.105 There were 12.4m UK State Pension recipients[19] at September 2020. Annual increases to the range of State Pension payments currently take effect from 6

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[17] www.gov.uk/government/statistics/child-and-working-tax-credits-statistics-provisional-awards-april-2021

[18] About us - Department for Work and Pensions - GOV.UK (www.gov.uk)

[19] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/986499/state-pension-caseload-statistics-5-per-cent-sample-to-sept-2020.ods

April each year, with the first increased payments typically received by pensioners a few days after that date.

3.106 If the tax year end date were to be changed to 31 March, a decision would need to be made as to whether to increase the State Pension in line with the start of the new tax year, that is from 1 April with the new amount being received by pensioners from a few days later. Such a fundamental change to the longstanding, critical State Pension computer system coupled with the very large number of payments being made would carry a high risk of error, which may impact State Pension recipients receiving their correct State Pension entitlement at the correct time and would need to be rigorously tested.

National Insurance contributions records

3.107 Certain statutory benefits and payments such as the State Pension are dependent on an individual having paid sufficient National Insurance contributions for a certain length of time. A change to the tax year end date (resulting in, effectively, a 51-week year) may affect whether someone is counted as having made enough contributions in the transitional tax year. Transitional provisions to combat this would ensure that individuals are treated as having made a 'whole' year of contributions despite the year being slightly shorter.

Legacy benefits (including Housing Benefit and Income Support)

3.108 The DWP currently administers a number of 'legacy' benefits (including Housing Benefit, income-related Employment and Support Allowance, income-based Jobseekers Allowance and Income Support). Eligibility for some of these benefits are calculated using a claimant's prior tax year income, so if a change to the tax year end date is implemented before the legacy benefits are completely phased out (currently planned for end of 2024) work would need to be undertaken to ensure any necessary transitional provisions are introduced.

Universal Credit

3.109 Over 6m people[20] currently claim Universal Credit. The amount a claimant is entitled to is calculated by reference to their previous month's income, and their claim month is based from the date of when they made their initial claim. As such, a change to the tax year end date would not have a significant impact on how an individual's eligibility to Universal Credit is calculated. However, work would need to be done to ensure a change to the tax year end date did not impact those on Universal Credit and steps taken to ensure that they would not be adversely impacted by such a change.

Exchequer costs

3.110 Moving the tax year end forward 5 days to 31 March could have certain financial consequences for the Exchequer in terms of its revenues from taxes. These include:

[20] Universal Credit statistics, 29 April 2013 to 14 January 2021 - GOV.UK (www.gov.uk)

Delayed cash receipts

3.111 For example, if an item taxable under self-assessment (such as investment income or gains) were received in the 1-5 April period then the date by which it must be declared and taxed would be moved forward by a year.

Reduction in overall liabilities

3.112 In a 360-day tax year, a taxpayer may receive less income than usual and therefore incur a lower Income Tax liability. This would particularly be likely in the event that the allowances and bandings set against their income were not somehow proportionately reduced, as described under '*Allowances and bandings*', above.

Costings

3.113 HMRC analysts provided indicative costings, in Exchequer revenue terms, of between £0.4 billion and £2.2 billion for moving the tax year end date to 31 March. These costings are subject to a number of important assumptions and based on methodologies that are described in detail in Annex D.

Weighing up

3.114 The reason the costing is a range is because one costing factored in an indicative reduction in certain allowances and thresholds to mitigate lost revenues and the other assumed no change to any annual threshold. The difference between the two outcomes would need to be weighed against the additional complexity, legislation and systems update costs inherent in achieving the saving.

3.115 In any case, the Exchequer costing is only part of the story. As well as more detailed costings than those obtained by the OTS, the government would also need to estimate the cost to itself of, among other things:

- Legislative changes
- Systems updates
- Consultation and communication programmes
- Staff training
- Increased burden on customer services

3.116 The Exchequer costings are themselves analysed and explained in detail in Annex D.

Chapter 4

Alternatives to moving the tax year date

Introduction

4.1 Changing the tax year end date to 31 March is likely to be a complex and expensive process, with significant financial repercussions for both the public and private sectors.

4.2 An alternative to this wholesale change would be to introduce specific measures for those individuals – principally some of the 7.8 million total of self-employed people and landlords[1] – who could potentially benefit the most from a move to a 31 March year end.

4.3 This suggestion, made to the OTS during its work on this review, has been prompted by the forthcoming changes to Income Tax reporting requirements when Making Tax Digital for Income Tax is introduced in 2023, as some of the 469,000 taxpayers who are both self-employed and a landlord[2] may have a burdensome number of filing deadlines, as noted in Chapter 2.

4.4 It is also likely that many self-employed people and landlords are already using 31 March as a cut off for income and expenditure in practice, as noted in Chapter 2, so formalising the ability to adopt this approach is likely to be helpful for both taxpayers and HMRC.

4.5 Self-employed people are already able to choose any accounting date and also to subsequently change their accounting dates if they meet certain criteria (see below). However, landlords, with a few exceptions, are currently taxed on income arising in the tax year. A change in legislation would be needed to allow them to use a 31 March year end for their property businesses.

4.6 The OTS proposes that the government pursue ways to formalise and expand the 31 March cut off arrangements, for self-employed people and landlords, either following the 20 July consultation on Income Tax basis period reform[3] (which contains proposals for the equivalence of 31 March and 5 April) or separately.

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1 HMRC data 2018-19. Total of 5.3 million self-employed and 3 million landlords, after allowing for double counting of 0.5 million. See Annex F.

2 HMRC data 2018-19. See Annex F.

3 https://www.gov.uk/government/consultations/basis-period-reform/basis-period-reform-consultation

4.7 Focusing changes on these taxpayers, who would most benefit from them, rather than making a wholesale change to the tax year end date, would significantly mitigate the cost to the Exchequer of the change (see below) and the impact on third party costs such as agents and software companies is likely to be minimal, as it should simplify their processes.

Self-employed people

4.8 There are already provisions enabling self-employed people to change their accounting year-end: the change is valid for Income Tax purposes provided accounts for the period of change are for 18 months or less and the change is notified to HMRC in the relevant tax return. If there is more than one change in a 5-year period, the taxpayer must also specify the commercial reason for the change as part of the notification.

4.9 These provisions are in place to prevent potential manipulation of the timing of receipts and expenditure – which could defer income or accelerate a deduction.

4.10 As explained in Chapter 3, a change in accounting date often entails complex profit apportionment calculations to ensure that basis periods are adjusted so that, broadly, 12 months' worth of profits are taxed each tax year.

4.11 A change of accounting date from 5 April to 31 March for self-employed people is therefore already feasible – however, under current rules, it involves an adjustment so that 5 days of profits from the previous accounting period (the one which ran to 5 April) is also assessed in the year of change. An allowance for the 5 days of profits which is double counted is made by way of 'overlap relief' when the business ends.

4.12 When Making Tax Digital for Income Tax is introduced, those who have informally been using a 31 March accounting date - and who wish to continue using it - but who have been reporting as if they had a 5 April year end, could be enabled and encouraged to formalise the position.

4.13 This could be facilitated by a waiver of the overlap relief provisions for this situation: the effect on the Exchequer is likely to be small, particularly as those taxpayers will have already been consistently reporting their income to 31 March, in any case.

4.14 This could be particularly helpful for those self-employed people who:

- have been consistently accounting to 31 March but are in practice reporting this as being to 5 April
- wish or need to change their accounting year to 31 March because of Making Tax Digital for Income Tax, or because they wish to use accounting software that only supports a month-end as a reporting date

4.15 The proposals for equivalence of 31 March and 5 April in the consultation on basis period reform[4] would facilitate the reporting of income to 31 March as if it were to 5 April.

4.16 Raising awareness of the need to use the correct accounting date and to report income on the correct basis could help facilitate accurate reporting under Making Tax Digital for Income Tax when this is scheduled to start on 6 April 2023.

4.17 The OTS has been told that there could also be a case for making it mandatory for those presently accounting to dates between 1 and 5 April to use 31 March as an accounting year end.

4.18 This would remove potential confusion about the different options and bring the simplicity of aligning with a month end, but would involve a change for all taxpayers who are reporting their self-employment income to 5 April.

4.19 However, construction workers who have tax deducted under the Construction Industry Scheme – which reports to 5 April - often prefer a 5 April year end so that their income and tax deductions made under the scheme align. Of some 1 million individuals receiving income under the Construction Industry Scheme, 90% account to 5 April.[5] So any mandatory change here would require consideration of a general change to the CIS scheme accounting dates.

Landlords

4.20 Property income is almost always calculated on a tax year basis. As described in Chapter 2, when Making Tax Digital for Income Tax is introduced, this may lead to a significant administrative burden for those landlords who also are also self-employed, some of whom may need to file quarterly and annual reports for each of their businesses to different dates.

4.21 In particular, this could be the case where the self-employment accounting period is a date other than 5 April and where it might be difficult to change that accounting period to align with the rental business reporting period of 5 April – this could affect 169,000 taxpayers.[6]

4.22 The consultation on basis period reform poses the question whether 31 March ought to be treated as equivalent to 5 April in respect of accounting for property income, which the OTS would support as a simplification.

Aligning accounting dates to 5 April?

4.23 It might be possible for a taxpayer who is both self-employed and a landlord to align accounting dates to 5 April, if necessary changing their self-employment accounting date, but - as well as the complications involved with a change of accounting date - this could mean an extra administrative burden.

4 https://www.gov.uk/government/consultations/basis-period-reform/basis-period-reform-consultation

5 HMRC data 2018-19 and 2019-20. Over 0.9 million out of just over 1 million in total in both tax years.

6 HMRC data 2018-19. See Annex F.

4.24 For example, if the self-employment business is VAT registered, it would have to file VAT returns to a month end. For some businesses, if they draw up quarterly management accounts it could be awkward to use anything other than a month end for those reports. In both cases, changing the main accounting date to 5 April could cause extra complexity.

Aligning accounting dates to 31 March?

4.25 It could therefore be a useful simplification if landlords could use 31 March as a reporting date for Making Tax Digital for Income Tax: it would also then make sense for 31 March, rather than 5 April, to be used as the assessment period for the tax year.

4.26 Again, this would be particularly helpful for those landlords who:

- have been consistently accounting to 31 March but in practice reporting this as being to 5 April
- would like to change their rental accounting year to 31 March - perhaps as they also have self-employment income which is accounted for to a date other than 5 April - and they would like to minimise the number of quarterly reporting dates under Making Tax Digital for Income Tax

4.27 This new 31 March ‘basis period’ would work in a similar way to the self-employment basis period, in that reliefs and allowances specific to the property business (such as capital allowances for non-residential lets) would be calculated by reference to the year to 31 March.

4.28 Taxable income for the year to 31 March would then be assessed for the tax year ended 5 April.

Case study 5

Jan owns a commercial property which has rental profits (income less running expenses) of £25,000 in the year to 31 March 2025. Jan spent £2,000 on new equipment for the property in February 2025 and can claim capital allowances for this expenditure, giving assessable rental profits of £23,000 for the year to 31 March 2025.

These rental profits are assessed as part of Jan’s total income for the 2024-25 tax year.

4.29 Consideration could also be given to whether this would apply only to landlords within Making Tax Digital for Income Tax or whether it would apply to all landlords.

4.30 If the latter, this would also cover the situation where a landlord might, although still receiving rental income, no longer meet the filing criteria for Making Tax Digital for Income Tax – perhaps because their turnover falls below the £10,000 threshold. This would then avoid the necessity of further adjustments if their Making Tax Digital for Income Tax filing requirement ceases.

Mechanism for legislative change

4.31 Changes would need to be made to the existing Income Tax legislation to allow landlords to be assessed on profits using a date other than the tax year-end.

4.32 This could be relatively straightforward with the suggested alternative date of 31 March, as it might simply require a 'deeming' provision, so that a property business owner who wants to use an accounting date of 31 March as the tax year basis period, would have no basis period adjustments on the change of date from 5 April to 31 March, similar to the suggestions above for self-employed people.

4.33 Effectively, the transitional period for this change would treat the 360-day basis period as if it were a full year.

4.34 An election or notification to HMRC to formalise this might be a requirement, together with a restriction on subsequent changes unless for a commercial reason, as an anti-avoidance measure.

4.35 Ideally, these provisions would be brought into effect before the start of Making Tax Digital for Income Tax: this is currently scheduled to start on 6 April 2023.

Cost savings

4.36 The impact on the Exchequer from this targeted approach and moving the accounting period to 31 March for all property income and also self-employment income where a 5 April accounting date is currently used is likely to be low at around £160 million – or possibly less, as this estimate includes those who are ostensibly currently reporting to 5 April, but may in fact already be reporting to 31 March (so there would in fact be no change in their reporting periods).

4.37 This is the cost of moving the accounting period for all self-employment and property income to 31 March for any individuals and partnerships which currently account to the tax year date. More details of this costing are set out in Annex D.

4.38 Targeting the change in this way would have the very significant benefit of limiting the costly and substantive changes which would be needed for the whole UK tax system if the tax year end changed.

4.39 There would be no need to change any allowances, thresholds or bandings, and no need to change basis periods for other income or capital gains.

4.40 Importantly, a change targeted only at self-employment and property businesses would not affect any other taxpayers and in particular would avoid the substantial investment and risks - outlined in Chapter 3, above – of transitioning the PAYE system operated by HMRC and 2.3 million employers and pension providers in respect of over 42 million individuals.[7]

4.41 It would also avoid the cost and disruption to other taxes and to the state benefits system which might be considered an uneconomic use of resources

[7] HMRC operational data for 2020-21. See Annex F.

at this time, and which might be better implemented when there is another imperative to make this fundamental change.

Conclusion

4.42 The OTS considers that measures targeted at self-employment and property businesses would make a very useful contribution to simplifying the affairs of around 3.7 million individuals with turnover from as low as £10,000,[8] and their compliance with Making Tax Digital for Income Tax, whether or not HMRC proceed with the wider changes to basis periods which have been the subject of the consultation document published on 20 July 2021.

Recommendation

The OTS recommends that the government and HMRC should pursue ways to formalise arrangements to allow (or even require) taxpayers to use a 31 March cut off to stand in for 5 April in respect of the calculation of profits from self-employment and from property income, ahead of the implementation of Making Tax Digital for Income Tax.

[8] HMRC data 2018-19. This the total of 2.9 million sole traders with turnover above £10,000 and 1.2 million landlords with turnover above £10,000, after allowing for double counting of 0.4 million. See Annex F.

Chapter 5

Additional considerations of moving to 31 December

Summary

5.1 Many of the issues and themes outlined in Chapters 2 and 3 would also apply if the tax year ended in December. For an IT provider the difference is largely academic – if a change is made one date is much the same as another. However, moving the tax year to 31 December would raise several new issues not relevant for a discussion about 31 March.

5.2 Moving the end of the tax year to 31 December would mean a 9 month transitional year (or more precisely a tax year of 270 days which is 0.74 years). So, it is highly likely that government would seek to proportionately reduce most allowances and thresholds. Not doing so would have revenue implications in the tens of billions so is unlikely to be a realistic option. Even if most allowances and thresholds were reduced, the implications for the Exchequer are likely to be greater than those for 31 Match – depending on the policy choices made by government.

5.3 The OTS has also assumed that the return and payment dates would change too. Currently people have 10 months to file and pay after the end of the tax year. If that was maintained, the new self-assessment and payment deadline would move from 31 January to 31 October. The deadline for balancing payments and payments on account would also move in parallel, from 31 January and 31 July to 31 October and 30 April.

5.4 As with a change to 31 March, a long lead-in time would be needed to give taxpayers, businesses, and government time to plan and prepare for the transition. If government did make this change it may also be best left until after major digital projects such as Making Tax Digital and the Single Customer Account have been implemented and following a systems upgrade programme.

Advantages

5.5 There are a number of advantages in having a tax year that ends on 31 December. These include enhanced public understanding, a simpler process for those with income from, or commercial footprint across, more than one country, and enhanced use of international data in supporting taxpayers in fulfilling their obligations (such as by making it visible to them in their Single Customer Account for use in their tax returns) and in HMRC's compliance work.

Public understanding

5.6 An effective and simple tax system should be intuitive and logical. So, it would be natural for the tax year to align with the calendar year. It is not feasible to quantify the value of this as part of a cost benefit analysis, but it is clear that a tax year end date of 31 December would be the simplest choice if a tax administration system were being developed from scratch.

Residence

5.7 International competitiveness is a key driver of future economic performance and remains an important policy objective.[1] One aspect of competitiveness is the relative ease with which a business can support highly skilled internationally mobile employees in the UK.

5.8 When a business does this it often takes responsibility for organising the employee's tax affairs. The OTS has been told by some stakeholders that managing the tax affairs of an individual with a footprint across more than one country is made more difficult and expensive by having different tax year end dates, meaning returns have to be filed based on estimated foreign tax information and updated later when more up to date information is available.

5.9 Harmonising the tax year end with other countries would ease the administration required to support businesses' needs for internationally mobile employees in the UK and in doing so have some effect on the UK's competitiveness.

5.10 Not all UK residents with an overseas footprint are wealthy – some may only have a foreign bank account. If they are not advised, these people may simply approximate their tax liabilities across the tax year. Similarly, UK pensioners living abroad may experience this issue in reverse.

International information exchange implications

5.11 Over 100 jurisdictions have committed to automatically exchange financial account information under the Organisation for Economic Co-operation and Development's Common Reporting Standard. The Common Reporting Standard is intended to facilitate signatory jurisdictions in tackling international avoidance and evasion by giving them access to third country data.[2] The UK is also committed to adopting the OECD's model rules for reporting by platform operators with respect to sellers in the sharing and gig economy.[3] HMRC incorporates the use of such data into its No Safe Haven strategy for offshore tax compliance.[4]

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1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/34647/12-1207-benchmarking-uk-competitiveness-in-the-global-economy.pdf

2 https://www.oecd.org/tax/automatic-exchange/common-reporting-standard/

3 https://www.oecd.org/tax/exchange-of-tax-information/model-rules-for-reporting-by-platform-operators-with-respect-to-sellers-in-the-sharing-and-gig-economy.htm

4 https://www.gov.uk/government/publications/no-safe-havens-2019/no-safe-havens-2019-introduction

5.12 However, the Common Reporting Standard's usefulness to the UK tax authority is currently limited as the reports exchanged annually between signatory jurisdictions are for the year to 31 December and exchanged by 30 September. From HMRC's perspective, data for the last quarter in a tax year would not become available until about 18 months after it had ended. It is also simply harder to reconcile datasets from overlapping periods.

5.13 Similar issues affect data received under the Foreign Account Tax Compliance Act (FATCA) intergovernmental agreement[5] with the US and data received under the model rules for reporting by platform operators.

5.14 As a result, it would facilitate better use of these international sources of data if the UK used a 31 December year end. [6]

Software

5.15 Notwithstanding the very real software challenges in moving to a new tax year end date as outlined in Chapter 3, there could be some steady state advantages for the small number of international providers of accounting and tax software. This reflects that they would no longer have to design and maintain systems that allowed for different tax year end dates.

Challenges for government

Budget and Finance Bill implications

5.16 The Government's *Budget timetable and the tax policy making process* was designed to 'ensure that any tax changes are announced well in advance of the start of the tax year in which they will take effect, giving Parliament more time to scrutinise proposed changes and taxpayers more time to prepare.'[7]

5.17 Typically, a new tax measure would be announced at Budget in the Autumn and come into force on 6 April 2 or 3 years later. However, some tax measures can apply from Budget with immediate effect or from the following April.

5.18 If the Budget stays in Autumn a tax year end of 31 December would make this more difficult on an ongoing basis for the minority of tax changes that need to take effect from the next tax year.

5.19 At a practical level this is unlikely to prevent government passing the necessary legislation. The Finance Bill's Parliamentary passage would straddle the tax year end. But this is unlikely to be insurmountable as government could use the Provisional Collection of Taxes Act to collect any taxes ahead of Parliamentary approval. This was standard practice for March Budget measures that needed to come into force by April and is still used for Budget measures that need to come into effect immediately to tackle avoidance.

5.20 The other solution to these challenges would be to return to a Spring Budget – which would give parliament until the end of the calendar year to

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[5] UK - US Automatic Exchange of Information Agreement - GOV.UK (www.gov.uk)

[6] https://www.gov.uk/government/publications/making-better-use-of-third-party-data-a-vision-for-the-future See paragraph 5.33

[7] https://www.gov.uk/government/publications/the-new-budget-timetable-and-the-tax-policy-making-process/the-new-budget-timetable-and-the-tax-policy-making-process

scrutinise any changes. This would broadly maintain the objectives of the *Budget timetable and the tax policy making process* but would involve the Finance Bill being introduced into parliament in July, and its progress then paused for the summer recess with debates potentially spilling over into September or October.

HMRC operational implications

5.21 If the budget remained in the Autumn, it could give HMRC as little as 6 weeks to deliver Budget announcements that are required to come into effect in the following tax year. This could be challenging operationally as IT, staffing, and other operational changes can take time to fully adjust to a significant policy change. Quantifying this effect is impossible as it would depend on the exact make up of future government policy and the permitted lead in time.

5.22 Again there is a precedent for this in March Budget measures that need to come into force by April, and there are often mitigations (such as temporarily moving to paper forms) that HMRC can use to resolve any immediate change. However, while it is unquantifiable, there is a greater risk that these temporary fixes can create either HMRC operational challenges or a poorer taxpayer experience.

5.23 Once again, a solution to these challenges would be to return to a Spring Budget – which would give HMRC 9 months to prepare for any policy changes as they have currently.

Relationship to financial year

5.24 If the tax year was changed to 31 December government would have to also consider the wider implications for public spending and government accounting, which follows a financial year to 31 March.

5.25 If the financial year remained as it is, changing the tax year to 31 December would take the broadly inconsequential existing mismatch between 5 April and 31 March and make it a much greater one. This misalignment of tax receipts and spending liabilities, although likely to be surmountable, would make it more difficult for government to predict its overall liabilities and require more adjustments to the national accounts. Fully assessing this is beyond the scope of this review.

5.26 If government moved the financial year to 31 December as well, this would result in a major overhaul to a very wide range of government and wider public sector systems and processes. Government would also have to amend a wide sweep of legislation.

5.27 The OTS has been told that this would be difficult, costly, time and resource intensive, and need a very long lead time. Also, government income and expenditure does not arise evenly across all months in the year. For example, the NHS faces higher costs in the winter than the summer, and the government's debt financing needs are seasonal. This means that government would also need to give some thought to how it would adapt its fiscal position and find a new formula for public spending in the year of transition and for subsequent years.

Interaction with the benefits system

5.28 The OTS assumes that benefits, pensions, and the National Minimum Wage would be uprated from 1 January to correspond with the new tax year. Failure to do this would exacerbate the already high degree of complexity between the tax and benefit system and could make calculating entitlements more difficult.

5.29 If more benefits were uprated from 1 January rather than 6 April this would bring forward these upratings and thus have a significant fiscal cost which has not been factored into the indicative estimated cost (which only attempts to quantify the tax cost).

5.30 Making these changes would mirror the systems challenges described above.

5.31 Government would also have to give some thought to how to account for contributary based benefits. Such benefits include New Style Job Seekers Allowance, New Style Employment and Support Allowance, Maternity Allowance, some bereavement benefits, plus the Basic State Pension and New State Pension. Currently such benefits are pass or fail – so either someone qualifies for the full year or they do not. There are no credits for a partial year.

5.32 As a starting point government should consider revising down requirements to 74% of those for a full year. This would mean an employee would have to earn £4,618 across the year to qualify.[8] Similarly a self-employed person would have to pay £3.05 per week for each of the 38 or 39 weeks in the new tax year.[9]

5.33 Government would then have to consider what this year of entitlements should mean for eligibility. The simplest solution would be to conclude that a tax year is a tax year and so give the short tax year equal weight. However government may choose to reduce entitlements to the extent to which they were accrued in the short tax year. This would diverge from the usual approach taken to pass or fail benefits and be complex to administer though may be justified on neutrality grounds.

Devolved administrations

5.34 Further work would be needed to consider the full legal implications, but it is likely that any change to the UK tax year would be a reserved matter for the Parliament at Westminster subject to consultation with the devolved administrations. However, the OTS would anticipate that the Scottish, Welsh, and Northern Irish tax years would also change at the same time as the UK one, if a change were made.

5.35 As for the UK government the devolved administrations would most likely have to change several systems and processes to adapt to the new tax year.

5.36 Without access to an equivalent of the Provisional Collection of Taxes Act the Scottish and Welsh governments are required to set their Income Tax rates before the start of the tax year. This means that unless they were given new

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8 Based on the 2021-22 Class 1 Lower Earnings Limit of £6240*74%

9 Based on the 2021-22 Class 2 weekly payment rate

powers they would be required to move away from an Autumn Budget as it would give them insufficient time to pass the necessary legislation ahead of the following 1 January.

5.37 While the UK government may also choose to move its budget, if it did not and no new powers were given, then the devolved administrations would be in the unfortunate position of having to maintain a very different budget date to the UK government.

Corporates

5.38 Corporation tax for companies (and other entities such as trade associations or members clubs) is charged by reference to the rates and allowances for a 'financial year'. The UK's corporation tax financial year runs from 1 April to 31 March.

5.39 If the tax year for individuals changed to 31 December the government, as well as changing the financial year for public spending and government accounting as described above, might also want to consider changing the financial year for corporation tax purposes.

5.40 This would inevitably be challenging but as many companies have a year end of 31 December, this change could somewhat simplify the tax position for those companies, as they would no longer need to apportion their profits between two financial years when calculating their tax position.

Challenges for taxpayers

Taxpayer compliance implications

5.41 It is likely that a short window between the Budget and end of the tax year could also burden taxpayers who would have less time to plan and predict their affairs. The end of the calendar year is a time when people are likely to take some time off work so it may be harder than normal for tax advisors to support their clients or IT providers to update their software. Tax advisers may have to scale up around October in order to meet this demand.

5.42 As above one partial solution to these challenges would be to return to a Spring Budget – which would give taxpayers 9 months to prepare for any policy changes, as they have currently. However in this case it would only be a partial solution – several tax advisors have told the OTS that their clients leave their tax affairs as late as possible and December coinciding with the holiday season would make this more difficult to deal with.

Tax payment deadlines

5.43 If the tax year is changed then, as mentioned in paragraph 5.3, it would seem reasonable to alter the tax payment date to 31 October following the end of the tax yar, to retain the same 10-month payment period as currently exists. To maintain at least one payment date in every government financial year, the tax payment date for the final 5 April tax year would have to be advanced, possibly also to 31 October, in which case taxpayers would have 7 months to calculate and pay their tax for this tax year – from 5 April to 31 October.

5.44 In subsequent years taxpayers would have the same amount of the time to pay as now (10 months). However, the OTS has been told that not all months are comparable; for example some taxpayers rely on a profitable December in order to pay their January tax bill. This would no longer be possible if October was the new self-assessment and payment deadline.

5.45 To the extent that this is an issue it could be solved through government taking forward the recommendations in the *Tax reporting and payment* report, namely that it should make it easier for self-employed people to be aware of what tax they may have to pay and make it easier for them to make regular contributions towards their liability.[10] Alternatively it could choose to mitigate through enhanced Time to Pay arrangements and forbearance where tax is paid late in the year of change.

Taxing business profits

5.46 A 9 month transitional year raises specific questions about how self-employed people should be treated. It not possible to maintain perfectly neutral tax conditions.

5.47 Working out what business profits to tax is governed by the rules on basis periods.[11] The basis period for a tax year is the period the profits of which are to be taxed in that tax year. The rules broadly ensure that there is always a taxable accounting period in any given tax year and the taxable period runs for 12 months. Normally a self-employed individual is taxed on the profits of the 12 month accounting period ending in the tax year, subject to detailed rules if no such accounting period exists. Examples of this are shown in Annex G.

5.48 Depending on the accounting date there may or may not be a 12 month accounting period ending in the 9 month transitional year. Businesses with accounting dates between 6 April and 31 December would have such a period, whereas businesses with accounting dates between 1 January and 5 April would not.

5.49 As detailed in Annex G, where there is no 12 month accounting period ending in the tax year the rules ensure that the profits of the 12 months from the end of the last accounting period are taxed instead.

5.50 Without any other changes this raises two main issues:

- depending on the date of the accounting period, several months of profit could be taxed twice
- a 12 month accounting period is not proportionate to 9 months of allowances

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[10] Tax reporting and payment: Simplifying tax for self-employed people and residential landlordshttps://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/843531/OTS_Tax_reporting_and_payment_review.pdf

[11] Business Income Manual, Computation of liability: introduction to basis periods

https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim81001

5.51 Both issues could each have significant cashflow implications for many businesses.

5.52 Government would then face a number of policy choices about how and to what extent these problems should be mitigated. For instance:

- the businesses could be allowed to use up some of its previously banked overlap profits
- the business could be allowed to change its accounting date without triggering additional overlap profit
- any extra payments could be spread out over a number of years if the business could prove its cashflow was constrained
- the business could be allowed to apportion profits between the year of change and the year after the year of change
- government could take the approach taken in Ireland and revise down taxable trading profits by 74% in the year of change
- government could choose not to scale down allowances for people who have 12 month of trading profits

5.53 None of above mitigations create perfect symmetry with the status quo and several would require careful thought to be given to anti-avoidance legislation to restrict any relief to specific situations. Some, particularly the final three, involve significant revenue implications beyond the other costs of transition.

5.54 This list is indicative rather than exhaustive and should be taken as a starting point for further investigation. Weighing up an appropriate response would ultimately be a policy choice for the government.

5.55 The consultation on basis period reform includes proposals that, if implemented, would see the basis of taxation of income from self-employment changed from being based on the accounting year profit to the tax year profit. Such a change could facilitate a transition to a 31 December tax year end date as the profits taxed in the transitional year could simply be those for the period 6 April to 31 December, in line with how all other income and gains would be taxed.

Pensions

5.56 The OTS report on *Life Events* explained when an employee in a final salary pension scheme is promoted the amount that they are deemed to have contributed to their pension in that year can be very significant. This is then assessed against their pension tax free allowance of (usually) £40,000. If this is exceeded, it can produce punitive charges.

5.57 If the pension tax free allowance were scaled down to £29,600 (74% of the current £40,000 limit) then more taxpayers could be affected. And government would have to give additional thought to the implications for previous and future years contributions. As a result government may want to think carefully about whether it is appropriate to scale this down alongside the other allowances.

Other anomalies

5.58 In the year of transition careful thought would need to be given to a small number of technical areas such as scaling down the statutory residence test, profit averaging, and how to deal with taxes that are adjusted for inflation. However, none of these are likely to be insurmountable.

Annex A
Scoping document

A.1 This scoping document was published on 4 June 2021.

Review of potential for moving the tax year end date: Scoping document

Introduction

The UK's tax year for individuals runs from 6 April to the following 5 April. This is for historical reasons and has been the case for hundreds of years; the UK's modern tax system and infrastructure have been developed around this date.

By contrast, accounting systems used by businesses have been developed around month and quarter ends. Across businesses and internationally, it is common to account to a month end date.

Many countries use 31 December for their government accounts and the two most popular accounting dates for multinationals are the calendar year end date of 31 December and 31 March.

The UK financial year for government accounting and for companies runs from 1 April to 31 March.

Focus of review

The OTS is undertaking a high-level exploration and analysis of the benefits, costs and wider implications of a change in the date of the end of the UK tax year for individuals and will publish a report over the Summer of 2021.

While primarily addressing tax simplification issues, the review will also take account of the implications of any change in other areas, such as in relation to tax credits and benefits.

31 March

The review will focus on the implications of moving the tax year end date from 5 April to 31 March. This is both the end of a calendar quarter and the nearest month end date to the end of the current tax year. It is also the UK financial year end date, to which the UK government makes up its own accounts, and by reference to which corporation tax rates apply.

Changing the tax year end to 31 March would mean the transitional year – the first year of the change – would be shortened by 5 days and run from 6 April to the following 31 March. As well as considering the implications of changing the tax year end to 31 March, the review will also consider potential alternative approaches to addressing practical issues connected with the UK's tax year running to 5 April.

31 December

In addition, the OTS will outline the main additional broader issues, costs and benefits that would need to be considered if the end of the tax year were moved to 31 December.

Many major tax regimes including the USA, France and Germany have a tax year end date of 31December. Ireland moved its government accounting and tax year ends from 5 April to 31 December in 2002.

In this case, the transitional year would be shortened by 3 months and 5 days and run from 6 April to the following 31 December.

Further guidance for the review

In carrying out its review, the OTS will:

- consider the implications for the Exchequer, the tax gap and compliance generally, in particular in relation to Income Tax, PAYE, National Insurance contributions, Capital Gains Tax and Inheritance Tax
- consider the financial and administrative implications for taxpayers, employers and businesses
- consider the practical implications for HMRC including the operation of their systems
- consider interactions with other government departments and devolved administrations
- reflect on implications for areas connected to individuals, such as partnerships and trusts
- consult with the Administrative Burdens Advisory Board
- take account of relevant international experience

Annex B
Organisations consulted

Aberdeen Standard Investments

Absolute Accounting Software Ltd

Aegon UK

Association of Accounting Technicians

Association of British Insurers

Chartered Accountants Ireland

Chartered Institute of Payroll Professionals

Chartered Institute of Taxation

Deloitte

EY

Harold Smith Partnership

Institute of Chartered Accountants in England and Wales

IPSE (Independent Professionals and the Self Employed)

Legal and General

Low Incomes Tax Reform Group

PwC

Rebecca Benneyworth & Co

Revenue Ireland

Scottish Government

UK Finance

Annex C

Transitional impacts: Government departments' systems and processes

Introduction

As discussed in Chapter 2, a change to the tax year end date would require significant and far-reaching changes to government departments' systems and processes.

An in-depth cross-departmental impact assessment and feasibility study would need to be conducted ahead of any final decision on whether to move the tax year end date. This would identify the significant levels of risk surrounding multiple areas including tax collection, State Pension and other state benefits payments which may result in adverse outcomes for UK taxpayers following mass systems changes.

Many of the taxpayers whose State Pension and benefits payments may be affected would be financially vulnerable so it is vitally important that changes to systems and processes following a change of tax year end date are rigorously tested.

Based on initial high-level impact assessment analysis work undertaken by HMRC and conversations with several government departments, what follows is a non-exhaustive list of HMRC and other governmental systems and processes that may be affected by a change to the tax year end date.

Table C1: HMRC systems and processes

Work area	Systems and processes to be amended as required due to change to tax year end date	Additional comments
Benefits and tax credits	• Systems which calculate individuals' eligibility to certain benefits and tax credits using income information from PAYE, RTI and SA data	• Eligibility to certain benefits and tax credits is calculated using prior year income levels. These thresholds may need to be adjusted in respect of a shortened transitional year
Debt management	• Filing, tax payment, penalties, interest and claim deadlines • Tax period changes: for example PAYE periods currently end on the 5th of each month	• Many of these deadlines are specifically defined in legislation • If the tax year end date were moved to 31 March some or all of these deadlines may not be changed

National Insurance	• IT systems- National Insurance and PAYE System / National Insurance Recording System. Large scale systems that interact with other government departments including DWP • Digital services including online State Pension checker and National Insurance records • Large number of different letters and forms, produced centrally or manually	• Scale of IT systems and number of payments made means any changes would need a significant lead time and rigorous testing
PAYE	• IT systems - National Insurance and PAYE System • Tax code calculation • Budget coding process • In year and end of year reconciliation calculation • Employer Business Service and Employer Compliance System • Real Time Information Service • Construction Industry Scheme • Large number of data interfaces with other cross-governmental systems • Online tax calculators and claims forms (such as for working from home and other employment expense claims)	• Large numbers of taxpayers and employers interacting with systems means that there is a high risk attached to any changes. These should be tested rigorously
Self-assessment	• Paper tax return forms and online filing systems • Late filing and other penalties systems	• Changes to forms required for transitional year and post transitional year
Multiple	• Guidance and training materials • Increased calls to helplines etc. regarding change of Tax Year End	• Would need updating in respect of transitional year and then again for following year • Additional staffing and training required for increased calls to helplines etc.

Source: OTS

Table C2: DWP systems and processes

Work area	Systems and processes to be amended as required due to change to tax year end date	Additional comments
State Pension	• Payment systems and annual updating of those systems to reflect uprating • Systems recording NI contributions and qualifying years	• Any changes to be rigorously tested to minimise risk of error. Large-scale, critical system
Universal Credit	• Payment and eligibility calculation systems	• Universal Credit is mainly linked to claim month and not tax year • Impact may be less than for other systems but should still be tested
Legacy benefits	• Eligibility calculation processes, especially where prior year taxable income determines eligibility • Payment systems	• Legacy benefits due to be phased out by 2024 so may no longer exist at time of change

Source: OTS

Table C3: Other government departments' systems and processes

Department/Work area	Systems and processes to be amended as required due to change to tax year end date	Additional comments
Student Loans Company	• Calculation of deductions from salary based on any transitional year rules for thresholds etc.	
Child Maintenance Service	• Calculation of child maintenance payments	• Calculated based on weekly income however should be tested to ensure any impacts on other income received by individuals during a change to Tax Year End does not affect child maintenance calculations
Scottish/Welsh government departments	• Any systems the devolved administrations operate using tax year income and other data	

Source: OTS

Annex D
Costings explained

Costings for moving the tax year to 31 March

Costings for moving the tax year to 31 March (Chapter 3)	£0.4 billion to £2.2 billion

Note these costings are the addition of the individual costings below but are based on actual or forecast data for different years. All costings are indicative.

Income Tax and National Insurance contributions	£0.2 billion to £2 billion

These costings do not take account of any behavioural response to the change.

Costing without reducing allowances (£2 billion)

These costings were based on Survey of Personal Incomes data for tax year 2018-19.[1] The year was chosen as it was not a leap year and predates the COVID-19 pandemic, so may be indicative of a typical year. Nonetheless, results for other tax years may differ.

In respect of those paid under the PAYE system, liabilities of monthly paid earners were not scaled down, whilst those of earners paid otherwise than monthly were scaled down by 360/365. This was to mitigate for the fact that most monthly payments are not made in the period 1-5 of the month.

Before any reduction in allowances, the Income Tax and National Insurance contributions costs were estimated at £1.5 billion and £0.5 billion respectively (total £2 billion).

Costing based on reducing allowances (£0.2 billion)

It was then assumed that the following items were scaled down by 360/365

- Income Tax personal allowance
- Income Tax marriage allowance
- Income Tax married couple's allowance
- The primary and secondary threshold for employees' and employers' NICs
- The lower profits limit for self-employed NICs

Now the total costs were estimated at £0.4 billion for Income Tax, but with an

[1] https://www.gov.uk/government/collections/income-tax-statistics-and-distributions.

increase of £0.2 billion for National Insurance contributions (total £0.2 billion) because most National Insurance contributions are paid monthly by individuals who would see no reduction in their total earnings in the transitional year.

A costing for reducing the capital allowance thresholds for income from self-employment was estimated to have a positive impact of £7 million on Income Tax revenues. This impact on the total costing is immaterial.

Capital Gains Tax	£150 million to £200 million

This costing is based on forecast Capital Gains Tax revenues for 2022-23.

Capital Gains Tax is forecast for in the year in which the is received. Most Capital Gains Tax falls due by 31 January in the year following the end of the tax year of the disposal (although the tax on residential property falls 30 days from the disposal). As a result, most tax revenues relating to disposals made in the period from 1-5 April following the end of the transitional 360-day year to 31 March would in effect be pushed into the next year for government forecasting purposes. Most of the estimated costs relate to this deferral; however there is also some £10 million to £20 million extra that results from factoring the effect of forecast growth in revenues being deferred.

In an ordinary year, revenues relating to the period from 1-5 April make up a disproportionate amount of total revenues, as people make disposals to use up their Annual Exempt Amount. It is anticipated that the transitional year would see this concentration of activity pushed forward to just before 31 March.

It is not anticipated that revenues for the transitional year would be reduced by more than a proportional 5/365ths. As well as affecting its forecasting, government cash flows would also be affected by a one-year deferral of the payment date for most of the tax.[2]

Scaling the Annual Exempt Amount down proportionately would reduce the threshold from £12,300 to £12,200 (note it is always rounded up to the nearest £100). This would reduce the total cost by at most £10 million.

Inheritance Tax	£0

Inheritance Tax liabilities do not follow the tax year. They usually arise upon a death[3] and are payable, if interest is to be avoided, by 6 months following the death. In practice, some Inheritance Tax payments are made years after the death and there are arrangements for instalment payments over several years in some cases.

Government recognises Inheritance Tax revenues on a receipts basis in its accounts, which are made up to the 31 March financial year and so would be unaffected by moving the tax year end date to 31 March. There would be no cash flow impacts. The Inheritance Tax nil rate band is allocated once to each person on death. There would be no sense in scaling it down for a shorter tax year.

[2] Cash flows relating to liabilities on residential property disposals due within 30 days would remain unaffected.

[3] Inheritance Tax liabilities can also arise upon a gift in certain circumstances or on property held in a trust.

Costings for moving all taxpayers with income from self-employment and property from a 5 April accounting year end to 31 March

Costings for moving all taxpayers with income from self-employment and property from a 5 April accounting year end to 31 March (Chapter 4)	£160 million

Income Tax for self-employed people and property income	£135 million

This costing is based on data for tax year 2018-19.

It is based on Income Tax on self-employment income.

The estimated Income Tax liabilities for the self-employed are scaled down proportionately to estimate the liabilities of those with 5 April period of account ends, and then multiplied by 5/365 to give the amount of revenue forgone during these 5 days in the transition year.

For property income, estimated Income Tax liabilities for the sole trader population are scaled to reflect the incomes from property relative to the sole trader self-employment incomes to give an estimate of the total tax liabilities from property incomes. This is multiplied by 5/365 to give the amount of revenue forgone during these 5 days in the transition year.

This assumes that average tax rates are uniform between the sole trader and landlord population

It is also assumed that:

- all self-employed individuals for whom 1-5 April is specified or no date is specified in the tax return account to 5 April, and
- all income accounted to 5 April is done so faithfully, including any that is apportioned from accounts straddling the tax year end

In those respects, the methodology produces a maximum estimate.

National Insurance contributions on self-employment income	£25 million

Self-employment income is subject to National Insurance contributions whereas property income is not. The same methodology was applied as for Income Tax on self-employment income.

Annex E

Ireland's 2002 experience - moving the tax year to 31 December

E.1 In July 2000, Ireland announced its plan to change its tax and financial year from 5 April to 31 December, to facilitate the conversion from the Irish Pound to the Euro and integrate better with other countries in the EU.

E.2 The transitional year for this move was 6 April to 31 December 2001 as the new financial year was due to start on 1 January 2002, meaning that there was a shorter 9 month (39 week) tax year.

E.3 At the time, Ireland was a growing economy, which would shortly lower its corporate tax rate from 40% to 12.5% to attract more international business, considered essential for its economic wellbeing. There was also widespread political and public support for EU membership and the Euro, which positively affected the appetite for th change despite the costs involved.

E.4 To make the transition run smoothly, the Irish government was prepared to absorb some costs and as a result, there were revenue costs in some areas, particularly in relation to unincorporated business. The profits were scaled down by a factor of 0.74 to account for the shorter tax year.[1] This meant the Irish Exchequer lost tax on 3 months' worth of profits. The Irish Budget 2001 budget document[2] refers to budgeted tax costs of £119m in 2001 and £109m in 2002 and social security costs of £32m in 2001 and £1m in 2002.

E.5 Ireland also made wider legislative changes through the Euro Currency in the Finance Act 2001.[3] Additionally, it had to ensure that its double tax treaties applied terms such as "183 days in the fiscal year" or "12 month period" appropriately in determining the taxing rights of different states.

E.6 The decision to switch to online services and automated software also made the transition smoother. By making this change during the transitional year, Ireland was able to transition in a shorter amount of time as they bypassed software difficulties that would have arisen if they were using automated

1 Any business with an accounting year ending between 6 April to 31 December during the transitional year paid tax on 74% of their profits while the remaining 26% was uncharged. Any business with an accounting year ending between 1 January to 5 April potentially paid tax on 174% of their profits due to the operation of the rules but could change their accounting date to eliminate such double taxation and benefit from the scaling down of profits to 74%.

2 http://www.budget.gov.ie/Budgets/2001/Summary.aspx

3 https://www.icaew.com/insights/tax-news/2021/april-2021/lessons-from-ireland-on-changing-the-tax-year

services before the change. Additionally, taxpayers were now able to have access to clear information online.

Annex F

Additional data contained in the report

Self-employment and property income data

The data relating to self-employment and property income in this report was provided by HMRC analysts. It is based on self-assessment management information or self-assessment returns and further related HMRC statistics.[1] It relates to the tax year 2018-19, which was chosen because it is the latest year for which data is available that is not a leap year. It should be seen as indicative only – actual numbers of taxpayers affected will vary from year to year.

The data provided by HMRC references the number of tax returns for each category, under a set of agreed assumptions and definitions. This has been used here as a proxy for the number of individuals, which means the estimates are indicative. For instance, the figure provided represents the number of tax returns declaring property income. Some individual landlords report multiple sources of property income across different tax returns and, below certain income thresholds, are not required to declare their property income. The figure of 2.9 million used therefore does not capture the total number of (unincorporated) landlords.

Some of the rows in the below tables do not add up to the total due to rounding.

Table F1: Headline statistics

Total number of self-employment businesses[2]	5,346,000
Total number of individuals with property income	2,977,000
Total number of individuals with both self-employment income and property income	469,000
Source: HMRC	

The OTS estimates the total number of individuals represented by the above figures is 7,854,000, eliminating double counting of taxpayers with both self-employment and property income. However, this does not eliminate double counting of those individuals filing more than once for either self-employment or property income.

[1] www.gov.uk/government/organisations/hm-revenue-customs/about/statistics (see the material under Income Tax and personal incomes)

[2] As described in the text above the table, these figures are proxies obtained by the OTS. The total number of self-employed individuals for 2018-19 of 5.1 million, cited in Chapter 2, is from Table 3.10 of the National Statistics: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/974540/SPI_National_Statistics_Commentary_tables_3_1_to_3.17_1819.pdf.

Table F2: Self-employed individuals by accounting year end date:

	Total	1-5 April	31 March	31 December	Other
All	5,346,000	3,679,000	921,000	91,000	654,000
	100%	69%	17%	2%	12%
Individuals who also have property income	469,000	301,000	100,000	8,000	61,000

Source: HMRC

Any individuals with accounting dates from 1 to 4 April have been included along with those with 5 April accounting dates.

Table F3: Self-employed individuals (sole traders only) and individuals with property income whether by cash basis or traditional accounting, split by £10,000 Making Tax Digital turnover threshold:

	Total	Turnover[3] <£10,000			Turnover £10,000+		
		Total	Cash basis	Traditional	Total	Cash basis	Traditional
Self-employed sole traders*	4,477,000	1,601,000	484,000	1,117,000	2,876,000	604,000	2,273,000
Individuals with property income*	2,901,000	1,730,000	1,347,000	383,000	1,171,000	906,000	265,000
Both	469,000	81,000	19,000	62,000	388,000	63,000	325,000

Source: HMRC

*Excludes partners in partnerships (868,000 with self-employment income and 76,000 with property income).

It is possible that the number of self-employed cash basis users is underestimated as the taxpayer ought to tick a box on the tax return to say they are using the cash basis but may inadvertently omit to do so, while still actually accounting on the cash basis.

PAYE data

The PAYE data in this report was provided by HMRC from their operational data for tax year 2020-21. The totals in the tables below are for all employments and pensions that were operated under the PAYE system at any point during the period from 6 April 2020 to 5 April 2021.

[3] For property businesses, turnover refers to total property income.

Table F4: Headline statistics[4]

Total number of PAYE Schemes in operation	2,282,000
Total number of individual recipients in the PAYE system[5]	42,437,000
Number of employers (including pension providers)	2,257,000
Number of employees (excluding pension recipients)	32,869,000
Number of employments (excluding pensions)	43,952,000
Number of pension recipients	12,294,000
Number of pensions	19,836,000

Source: HMRC

All these pensions are non-state pensions that are now in their paying out phase ('drawdown').

There are more employments than employees because some people have more than one. The same is true of pensions.

There are more PAYE Schemes in operation than employers (including pension providers) because some organisations operate more than one payroll.

Table F5: Pay frequency

Frequency	No. of pensions	No. of employments
Weekly	24,000	9,459,000
Fortnightly	<1,000	1,008,000
Four weekly	520,000	3,321,000
Monthly	16,830,000	30,022,000
Quarterly	606,000	21,000
Six monthly	146,000	2,000
Annually	1,110,000	65,000
Irregular payments	355,000	315,000
One off payment	365,000	181,000

Source: HMRC

[4] Figures may omit a small amount of late submissions

[5] Identified with reference to unique National Insurance numbers or temporary references.

Other figures cited in the text

Paragraph 3.34:

"*There are 14 million employments in total with pay dates occurring every one, two or four weeks*."

The 14 million is the addition of the weekly, fortnightly and four weekly paid employments in the above table.

Annex G

Taxing business profits

As set out in Chapter 5, moving the tax year end date to 31 December may have complex implications for the self-employed depending on their accounting date. The following examples provide more detail.

In all cases the tax year is changed to 31 December from 2021 with the period 6 April 2021 to 31 December 2021 being the transitional year. The case studies set out the default position if the government did not implement transitional measures.

This default position would change in the event the measures proposed in the basis period consultation were adopted before a change to the tax year end date.[1]

Accounting dates between 6 April and 31 December

A business with an accounting date between 6 April and 31 December would, in the absence of relieving provisions, have an acceleration of its tax charge upon transition and pay tax on 12 months' profit for a 9 month tax year.

Case study 6

Katya is self-employed and prepares accounts for her established business to 30 September each year. She consistently makes £20,000 profit.

Under the current rules her accounts for the year ended 30 September 2021 will be taxed in 2021-22.

Timeline showing allocation of Katya's accounting profits to tax years:

Now we assume the tax year is changed to 31 December with the period 6 April to 31 December 2021 being the transitional year and that Katya continues to prepare accounts to 30 September each year.

Her accounts for the year ended 30 September 2021 end in this transitional year and so would be taxed in that year. Her accounts for the year ended 30 September 2022 would form the basis for her tax charge for 2022. There is no

[1] https://www.gov.uk/government/consultations/basis-period-reform/basis-period-reform-consultation

double taxation of profits but 12 months of profits would be taxed in the 9 month transitional period.

Timeline showing allocation of Katya's accounting profits to tax years over a transition to a 31 December tax year end:

If filing and payment deadlines were brought forward in line with the tax year end date move, then Katya would have to pay tax in respect of the accounting year ended 30 September 2021 and subsequent years 3 months earlier.

Accounting dates between 1 January and 5 April

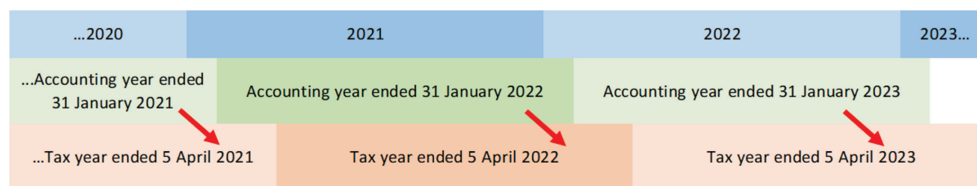
A business with an accounting date between 6 April and 31 December would, in the absence of relieving provisions, suffer double taxation.

Case study 7

Theo draws up his business accounts for his established business for the 12 months ending 31 January 2022. He consistently makes £20,000 per year profit.

The full 12 months is taxed in tax year 2021-22.

Timeline showing allocation of Theo's accounting profits to tax years:



Now we assume the tax year is changed to 31 December with the period 6 April 2021 to 31 December 2021 being the transitional year and that Theo continues to prepare accounts to 31 January each year.

Theo does not have an accounting period ending in the year of change, so the tax would be based on the profits for a 12 month period starting from the end of his last accounting period – in this case 31 January 2022. This would be assessed in the 9 month 2021 tax year.

In the year following the year of change he would also be taxed on his accounting period ending on 31 January 2022.

Timeline showing allocation of Theo's accounting profits to tax years over a transition to a 31 December tax year end:

Theo would pay tax on 12 more months of income than if the tax year had not changed.