

## Preparing for the new tax year basis - overlap relief

Synopsis: The transitional year of basis period reform is now underway. It will be important to ensure that any available overlap relief is used. However, getting hold of information about overlap relief may be tricky.

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This tax year, 2023/24, is the transitional year for the reforms to the basis year calculations for self-employed sole traders and partners..

To help explain what is happening this tax year, consider the situation for an individual who has a trading year ending on 30 April. Under the pre-2023/24 basis year system, the end April date had the advantage of deferring tax because in any tax year, the calculation of tax was based on roughly 11 months of profit in the previous tax year.

For example, in 2022/23, the taxable profit would be based on the trading period ending on 30 April 2022.

In 2023/24, the advantage of 30 April year end morphs into a disadvantage because tax will be based on...

1. Trading income to 30 April 2023, *plus*
2. Trading income from 1 May 2023 to 5 April 2024 (341/366ths of the trading year to 30 April 2024 as 2024 is a leap year), less
3. Any unused overlap relief available.

By default, the sum of 2 and 3 (the transitional profits) will be divided by five and spread over five tax years – 2023/24 to 2027/28.

### Overlap relief

If the individual used an accounting date between 6 April and 30 March when they started their business, they may have paid tax twice on some of their profits and be entitled to overlap relief. So, in the above example, roughly the very first 11 months of profit would have been taxed twice. That could have been some considerable time ago.

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

HMRC has now announced that, this summer, it is planning to launch an online form for submitting requests for details about overlap relief. This will provide an easier way to submit requests and make sure that these are dealt with separately from general post.

HMRC will also be publishing additional accompanying guidance on overlap relief and the changes to the rules for the new tax year basis.

Taxpayers with an accounting date other than 31 March or 5 April who are affected by the move to the new tax year basis may need to find out the details of their overlap relief. They will need to do this ahead of submitting returns for the 2023/24 transitional year.

Overlap relief information can only be provided if these figures are recorded in HMRC systems, taken from information submitted by taxpayers as part of previous tax returns. If this information has not been submitted in tax returns, HMRC will not be able to provide it.

When looking at a request for overlap relief information, HMRC needs some details about a business to be able to find the correct figures to report back to the taxpayer. If anyone wants to submit a request for information ahead of the launch of the online form, HMRC asks that they provide as much of the following information as possible...

- taxpayer name;
- National Insurance number or Unique Taxpayer Reference (UTR);
- either name or description of business, or both;
- whether this business is a sole trader or part of a partnership;
- if the business is part of a partnership, the partnership's UTR;
- date of commencement of the self-employed business, or date of commencement as a partner in a partnership (if not known, then the tax year of commencement);
- the most recent period end date up to which the business used to report its profit or loss.

Ahead of more guidance being published on GOV.UK, information on overlap relief and basis period reform is provided in the [Business Income Manual](#). Information is also available in a [GOV.UK news article on basis period reform](#).

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