

## **CHANGES TO THE BASIS OF ASSESSMENT**

The method of taxing the profits of unincorporated businesses changed significantly in 2023/24 and will also change from 2024/25 onwards. This was originally intended to align with the introduction of Making Tax Digital for Income Tax Self-Assessment (MTDITSA), which will now start to be phased in from 2026/27.

Under the old basis of taxing profits, a sole trader or member of a partnership was taxed on their share of profits of the business's accounting period ending in the tax year. For 2022/23, the last tax year when that basis applied, profits of year ended 31 December 2022 would have been taxed that tax year. Unless that business changes its accounting date, the profits assessed in 2024/25 would be the profits arising between 6 April 2024 and 5 April 2025 i.e. 9 months of the profits from year ended 31 December 2024 plus 3 months of the profits for year ended 31 December 2025. As the 2024/25 self-assessment tax return needs to be filed by 31 January 2026, it is highly likely that the profits for the later period would need to be estimated and subsequently revised. As a result of this complication, many businesses decided to change their accounting year end to 31 March or 5 April so that it corresponds with the tax year.