

### **The Transitional Year 2023/24**

A further complication with the change in the basis of assessment is the calculation of profits in 2023/24, the “transitional year”, which seeks to transition from the old ‘current year’ basis to the new tax year basis. The rules in 2023/24, where the business has a year end that doesn’t correspond with the tax year, seek to tax the profits from the day after the end of the period taxed in 2022/23 until 5 April 2024. A business preparing accounts to 31 December each year would have a 15 month period from 1 January 2023 to 5 April 2024 potentially taxable in 2023/24. However, the 3 months’ profits in the period 1 January 2024 to 5 April 2024, less any overlap relief, is not all taxed in 2023/24 but spread over 5 years, unless the taxpayer elects to be taxed on a higher amount.

If, in the above example, the sole trader makes profits of £120,000 in year ended 31 December 2024 then £30,000 less any overlap relief (typically from the early years when some profits were taxed twice) would be spread over 5 years. Assuming no overlap relief, an extra £6,000 profits would be added to the profits assessable from 2023/24 to 2027/28 unless the individual elects to be assessed on a higher amount, in which case the balance of the £30,000 would then be spread over the remaining years to 2027/28. This is not at all straightforward and we can work with you to calculate the transitional profits and advise you of your tax liabilities going forward.