

SELF EMPLOYMENT: BASIS PERIODS

If you are self-employed (either on your own or in partnership), you are taxed on your business profits for the 'basis period' of the tax year according to the 'current year basis' rules.

The general rule is that the basis period for a tax year is the period of 12 months ending with the date in the tax year your accounts are drawn up to. Different rules apply when the business starts and ends and if there is a change to the accounting year end date.

Starting the business

The basis period for the first tax year begins with the date you first trade and ends on 5 April of that tax year. For the second tax year, the basis period depends on whether your accounting period ends in that year and, if it does, whether the accounting period is greater or less than 12 months in length.

| Year | Description | Basis period * |
|------|--|--|
| 1 | Business starts | Begins with the date the trade starts and ends with 5 April of that tax year |
| 2 | Accounting period ends in Year 2 | |
| | - if the period is less than 12 months | 12 months from the date the trade starts |
| | - if the period is more than 12 months | 12 months ending with the accounting date |
| | - if the period is 12 months | 12 months ending with the accounting date |
| | Accounting period does not end in Year 2 | 6 April to 5 April of that tax year |
| 3 | Continuing business | 12 months ending with the accounting date |

* Different rules apply if the trade ceases at any point or there is a change in accounting date

Ending the business

The basis period for the tax year starts the day after the end of the previous basis period and ends on the date the trade finishes. If the business starts and finishes in the same tax year, the basis period for that year begins and ends on those dates.

Change of accounting date

There are special rules for a change of accounting date within the first three years of trading. If there is a change of date within or after the fourth year of trading:-

- the first accounts to the new date must not exceed 18 months; and
- a notice of the change must be given to HM Revenue & Customs; and
- if there has been a change of accounting date within the previous five years, the latest change must be made for commercial reasons.

Overlap relief

Where 5 April is used as the accounting year end date there will be no overlap between basis periods. In any other case there can be basis periods for two successive tax years that overlap.

To ensure total profits charged to Income Tax equals those made during the life of the business, overlap relief is given as a deduction when calculating the taxable profit in the year the trade ceases and/or if there is a change of accounting date and the associated basis period is longer than 12 months.

This factsheet contains general advice only based on our understanding of current legislation. It should not be relied on as a basis for any decision or action. Professional advice specific to the situation should always be obtained.