



Some self-employed profits may be taxed twice in the opening years of a business, or on a change of accounting date. Relief for these profits (overlap profits) is given in the form of overlap relief.

However, time is running short to benefit from the relief.

Key dates

Claims for overlap relief for the 2023/24 tax year must be made in the Self-Assessment tax return for that year, which must be filed by midnight on 31 January 2025.

This note explains how relief for overlap profits can be claimed on the transition to the tax year basis of assessment.

Basis period reform

The way in which the profits of an unincorporated business are taxed is changing. For 2022/23 and earlier tax years, self-employed traders were taxed on the profits of the accounting period which ended in the tax year. This is known as the current year basis.

From 2024/25 onwards, you will be taxed on the profits of the tax year. This is known as the tax year basis. To move from the current year basis to the tax year basis, the 2023/24 tax year is a transition year. It is during this year that relief may be given for any remaining overlap profits.

The 2023/24 transition year

Under the tax year basis, you will be taxed on the profits for the tax year. If you prepare your accounts to 31 March or a date between 1 and 5 April, your accounting period is treated as being equivalent to the tax year. However, if you prepare your accounts to another date, you will be assessed on more than 12 months' profits in 2023/24 in order to move from a current year basis of assessment to a tax year basis of assessment. From 2024/25 onwards, you will need to apportion the profits from two accounting periods to arrive at the profits for the tax year.

The profits assessed for 2023/24 comprise the 12 months from the end of basis period for 2022/23 plus the remainder of the 2023/24 tax year, less any overlap relief.

For example, if you prepare your accounts to 31 December each year, the profit for the year to 31 December 2022 is taxed in 2022/23. In 2023/24, you are taxed on the profits for the period from 1 January 2023 to 31 December 2023 plus the profits for the period from 1 January 2024 to 5 April 2024, less any overlap relief. The profits for the period from 1 January 2023 to 5 April 2023 are known as the transition profits. Overlap relief can only be deducted from the transition profits. These profits, less overlap relief, are spread and taxed over the five tax years from 2023/24 to 2027/28 inclusive unless you elect otherwise.

Overlap profits

Overlap profits are simply profits that have been taxed twice. Overlap profits may arise under the current year basis in the opening years of a business or if you changed your accounting date. Under the current year basis, relief for overlap profits could be given either when the business ceased or in a tax year in which there was a change of accounting date and the basis period in that tax year was more than 12 months.

If you have overlap profits for which relief has not yet been given, the 2023/24 tax year is the last chance to obtain relief for those profits. Relief can only be given against the transition profits assessable in 2023/24.

Determining overlap relief

In order to claim overlap relief, you will need to identify your overlap profits. This information may not be to hand, particularly if you started your business many years ago. You will need this information before submitting your 2023/24 Self-Assessment tax return.

HMRC are launching an online form which can be used to submit requests for details about overlap relief. They will only be able to provide information on overlap relief if the figures are recorded in their systems, taken from tax returns that you submitted previously. It should be noted, that if the information was not provided to HMRC in your tax returns, HMRC will be unable to provide it.

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When making a request for overlap relief information, you need to supply details about your business to HMRC. You can make a request ahead of the launch of the online form. If you choose to do this, you will need to supply the following information:

- your name;
- your National Insurance number or your Unique Taxpayer Reference (UTR);
- a name or description of your business, or both;
- whether you operate as a sole trader or are in a partnership;
- the date that you commenced as a sole trader or the date of commencement of the partnership, as applicable.

Relief for overlap profits that is not claimed in 2023/24 will be lost.

We can help

Please call us on **01753 888211** or email **info@nhllp.com** if you need guidance with any of the issues raised in this Broadcast. We would be happy to help.