

## Choosing your year end

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In the early stages of the lead-up to self assessment, the Inland Revenue considered insisting that all businesses make up annual accounts to 5 April to coincide with the end of the tax year.

However, this proposal was not implemented, and the rules still allow businesses a free choice of accounting date. Under the current year basis, the taxable profit for a particular tax year is determined by the accounts that end in that year.

Thus, for 2001/02 tax, accounting dates will vary between 6 April 2001 and 5 April 2002. So what is the best date to choose?

Sometimes, compelling commercial reasons relating to the nature of the trade will dictate the most appropriate accounting date. Otherwise (as in many tax matters), there is no easy answer - it all depends on the particular circumstances. There are several basic considerations:

### **Overlap relief**

The system is designed so that, over the life of a business, tax is paid on no more and no less than the cumulative profits of the business. However, unless your accounting date falls between 31 March and 5 April (inclusive), there will be some element of double counting, or overlap, in the first full tax year on the current year basis.

Overlap relief will be held in reserve for use when the business ceases (or on an interim change of accounting date). One concern is that, because of inflation, overlap relief will be worth less in future years than it is at present.

### **Bunching of terminal profits**

The converse of the overlap situation is the 'bunching' effect of profits when a business ceases. The assessment for the final tax year will be based on the profits right back to the accounting date in the previous tax year. The earlier in the tax year the accounting date falls, the longer will be the period of account relating to the final assessment.

Thus a cessation date of, say, 31 December means that the final tax assessment will be based on a period varying in length between 9 months (5 April accounting date) and 21 months (6 April accounting date). This effect may be lessened to some extent by overlap relief, but the overall distortion is illustrated in the example set out below.

### **Partnerships**

Partners are each deemed for tax to have an individual business so the points already mentioned for new businesses and those ceasing apply equally to partners joining or leaving a continuing partnership.

### **Pattern of profits**

If profits do not vary significantly from one year to the next, the accounting date will not affect the assessable profit for each tax year.

Where profits show a trend, the rule of thumb is that (all other things being equal) it is beneficial to have an accounting date early in the tax year if profits are rising, and late in the year if profits are falling.