



# ***The cash basis of taxation for the self-employed***

18 APRIL 2024

© ICAEW 2024

## ***Presenters***



Today's speaker  
Richard Jones  
Senior Technical Manager, Tax Policy  
ICAEW Tax Faculty



Today's moderator  
Lindsey Wicks  
Senior Technical Manager, Tax Policy  
ICAEW Tax Faculty



# Verifying your CPD

If you are watching this webinar **live**, a copy of the registration email is acceptable evidence of verifiable CPD.

If you are watching this webinar **on demand** via ICAEW.com, click on the CPD widget on the webinar webpage to add this to your CPD record.



## ***Housekeeping***

### **Slides**

A link to the slides for this webinar was included in your reminder email sent approximately 1 hour ago. If you did not receive a reminder, you can find the slides by visiting [icaew.com/taxwebinars](https://icaew.com/taxwebinars) and clicking on the page for today's webinar.

### **To ask a question**

Click on the **Q&A** button in the toolbar to open the submit question prompt. Type in your question and click **send**. You can also upvote questions from other delegates.

### **Closed captions**

Closed captions are enabled on this webinar. In order to view this feature please click on the "CC" icon on your screen. Please note that the transcript is automatically generated, and errors may occur.

### **Recording**

A recording of this webinar will be available to watch later at [icaew.com/taxwebinars](https://icaew.com/taxwebinars).

## ***Agenda***

- How does the cash basis work and who can use it?
- How is it changing from 2024/25?
- What transitional adjustments arise on entering or leaving the cash basis?
- The other pros and cons of transitioning to the cash basis
- The interaction between MTD for ITSA, basis period reform and the cash basis
- Q&A

## ***Taxable profits under the cash basis***

	£
Total cash receipts	x
Less: total expenses	(x)
Plus/less: statutory adjustments*	x/(x)
PROFIT/LOSS	X/(X)

\*These include:

- Disallowing expenses relating to:
  - the acquisition or disposal of a business
  - education or training
  - provision, alteration or disposal of certain assets
- Adjustments for private use of assets

## ***Who can/cannot use the cash basis***



- Self-employed individuals
- Partnerships with wholly non-corporate partners
- Up to and including 2023/24, enter if the relevant maximum amount of cash basis receipts is not exceeded



- Companies
- Partnerships with one or more corporate partners
- Limited Liability Partnerships
- Lloyds Underwriters
- Businesses with a current herd basis or averaging election

## ***Relevant maximum cash basis receipts - entering the cash basis***

	Universal credit claimants	Others
2013/14 to 2016/17	Twice the VAT registration threshold	The VAT registration threshold
2017/18 to 2023/24	£300,000	£150,000
2024/25 onwards	N/A	N/A



## ***Specific rules 1 – capital receipts***



Acquisition

Disposal

2023/24

2024/25

2025/26

Accruals basis

Cash basis

Cash basis

## ***Specific rules 2 - capital expenditure***

The following are, broadly speaking, not deductible:

- An asset which is not a depreciating asset
- An asset not acquired or created for continuing use in the trade
- Cars (WDAs instead)
- Financial instruments or financial assets
- Land (see BIM70036)
- Non-qualifying intangible assets (see BIM70037)

## ***Deductions for provision, alteration or disposal of land***



Not allowed



Allowed

Unless incurred on or in connection with the provision of:

- a building
- a wall, floor, ceiling, door, gate, shutter or window or stairs
- a waste disposal system
- a sewerage or drainage system; or
- a shaft or other structure in which a lift, hoist, escalator or moving walkway may be installed



Attached to



Not allowed

## ***Disallowed deductions – intangible assets***

Internally-generated

Trade marks

UNLESS: it will cease to exist within 20 years of the date of the capital expenditure

Patents

Other rights and licences

## ***Specific rules 3 - private use of asset adjustment***



- Van cost Hugo £5,000 in May 2021. Initial business use is 90%
- In 2022/23, the business use percentage falls to 70%, at a time when the van's market value is £4,000

2021/22	£	2022/23	£
Deduction for van purchase (£5k x 90%)	(4,500)	Adjustment for private use (£4k x 20%)	800

## ***What is changing from 2024/25?***

	Up to 2023/24	From 2024/25
Default basis (if eligible for cash basis)	Accruals basis	Cash basis
Loss relief	Sideways relief disallowed	Unlimited
Deductions for interest and incidental cost of obtaining finance	Limited to £500 p.a.	Unlimited

## ***Transitioning to the cash basis***

Transitional adjustments may be required, including in respect of:

- Debts owed to the business and monies due to suppliers
- Trading stock
- Accrued expenses and pre-payments
  
- Unclaimed expenditure in capital allowances pools
- Payments still due on equipment paid for in instalments

## ***Transitional adjustment example 1 - debtors***

- In the first tax year using the cash basis, the business receives £32,000 from customers.
- £1,750 of the £32,000 had been owed by customers at the end of the last tax year, in respect of sales made last year.

	£
Total cash receipts from customers	32,000
Less: last year's end debtors	(1,750)
Adjusted cash basis receipts	30,250



## ***Transitional adjustment example 2 – capital allowances pools***

- The business has £1,545 in its capital allowances pools at the end of the last period under the accruals basis.
- It also purchased assets in its first cash basis period for £1,250

	£
Additional deduction	1,545
Deduction for capital asset purchase	1,250
TOTAL deduction	2,795

### ***Transitional adjustment example 3 – assets not fully paid up***

- A business had been paying for a machine in monthly instalments of £100.
- It claimed tax relief of £6,000 for the total cost under the AIA.
- £5,000 was still due at the end of the last period under the accruals basis.

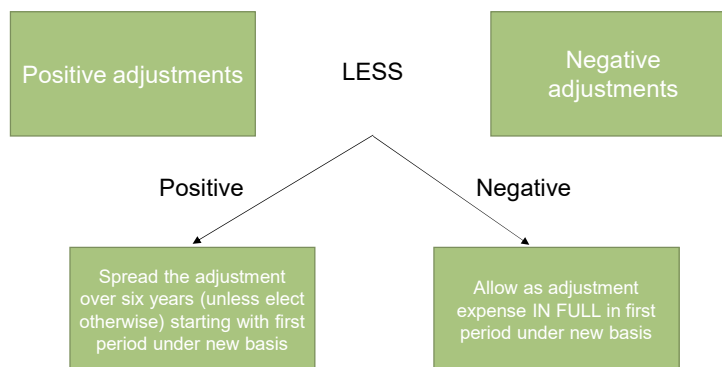
	£
Adjustment income	5,000
Deductions for instalment payments (12 x £100)	(1,200)
Net income in first cash basis period	3,800

## ***Leaving the cash basis – the one-year grace period rule***



- Emma can stay in the cash basis throughout 2017 – 20 as her cash receipts only exceed £300,000 for one year.
- If they had exceeded £300,000 in 2019-20 too, she would have left the cash basis in 2019-20.

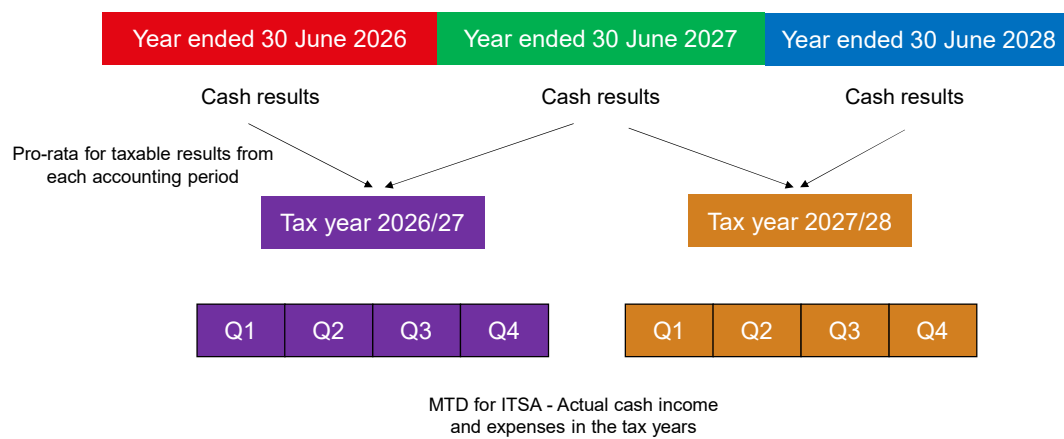
## ***Leaving the cash basis***



## ***Other pros and cons of joining the cash basis***

Pros	Cons
No need to prepare accruals basis accounts	May still need GAAP accounts for other reasons (eg bank loans, grant funding)
One reason not to need detailed accounting records (eg debtors and accruals)	GAAP accounts provide incentive for good financial management
Some tax adjustments no longer apply (eg more capital expenditure is allowable)	Other adjustments may be necessary (eg private use of assets)
	Would otherwise get AIA or writing down allowances and can disclaim these
Fewer adjustments to the quarterly reports required under MTD for ITSA if you account to the tax year	Businesses with non-tax year ends will still need to pro-rata multiple accounting periods

## ***MTD for ITSA and the cash basis***





***Questions***

## ***Upcoming Tax Faculty webinars***

- 24 April: MTDtalk

For further details on the above visit [icaew.com/taxwebinars](https://icaew.com/taxwebinars)



## ***Thank you for attending***

- Please take the time to fill out our short survey
- Contact the Tax Faculty
- Phone: +44 (0)20 7920 8646
- Email: [taxfac@icaew.com](mailto:taxfac@icaew.com)
- Web: [icaew.com/taxfac](http://icaew.com/taxfac)

This webinar is presented by the Tax Faculty. Tax Faculty membership gives you access to exclusive premium resources including our regular e-bulletin, webinars, discounts on events and conferences and extensive online resources to support your career.

ICAEW will not be liable for any reliance you place on the information in this presentation. You should seek independent advice.

