Basis period reform rules for unincorporated businesses: impact on student finances

Personal tax OMB

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The basis period reform rules for unincorporated businesses may have an impact on households which are applying for student finance or where the sole trader or partner in a partnership are repaying student loans.

Key Points

What is the issue?

The basis period reform rules may result in additional transition profits being spread over five tax years. Consequently, these additional profits may impact student loan repayments and applications for student finance.

What does it mean for me?

Affected taxpayers will need to understand the impact of basis period reform on their student loan repayments and/or their household's student finance applications and consider potential planning opportunities by accelerating the spreading of transition profits.

What can I take away?

It is important to consider any interactions with student loan repayments and student finance applications when looking at the impact of basis period reform on a client's tax position.

Basis period reform means that all unincorporated businesses must move to reporting their business profits on a tax year basis from the 2024/25 tax year with a transition tax year in 2023/24. It will affect sole traders and partnerships that currently do not have an accounting year end date of 31 March to 5 April inclusive. These businesses will need to make transitional changes during 2023/24, which may result in including profits for a period longer than 12 months.

Although this article does not focus in depth on the calculation of profits in the 2023/24 transition year, we need to understand how profits will be calculated in 2023/24 for businesses affected by basis period reform. The calculation is at Finance Act 2022 Sch 1 para 75 and covered within HMRC's Business Income Manual at BIM81200 (see tinyurl.com/54t938uw).

Calculating transition year profits

For 2023/24, profits will be comprised of:

Standard profits + (transition profits less overlap relief)

- Standard profits are based on the 12 month accounting period which ends in 2023/24.
- The transition profits are those from the end of the standard profits period to 5 April 2024.
- Overlap relief is deducted from the transition profits.

For example, Hardeep is a self?employed trader who usually prepares his accounts on a calendar year basis. In 2023/24, his standard profits would be for 12 months; i.e. 1 January 2023 to 31 December 2023. His transition profits would be for the period 1 January 2024 to 5 April 2024.

If there are any transition profits remaining after deducting any available overlap relief and any losses from the standard 12 month period, then these are automatically spread evenly over five tax years (2023/24 to 2027/28) unless an election is made to accelerate the inclusion of these transition profits into an earlier tax year (see below).

Repayment of student loans

Student loan borrowers who are self-employed or partners will usually repay their loans through self-assessment. The main exception to this is directly paying the Student Loans Company when nearing the end of loan repayments.

For most undergraduate loans, in simple terms loan repayments are calculated using a 9% repayment rate on self-employment profits after deducting the relevant student loan plan threshold.

Using the example above, Hardeep has a Plan 2 student loan and has made profits of £32,000 in the 2022/23 tax year. His student loan repayment for the tax year prior to basis period reform would be calculated as:

£32,000 – £27,295 (Plan 2 repayment threshold) = £4,705

£4,705 x 9% = **£423.45**

The amount of £423.45 is due through self-assessment by 31 January 2024.

Student finance applications

Some students may be eligible to apply for additional maintenance loans based on a number of factors, including: which devolved administration the student lives in; where they want to study; and, often, their household’s taxable income.

This means that the student will have to declare all their household’s taxable income on their student finance application. A ‘household’ depends on who the student normally lives with or is dependent upon. This might be, for example, both of their parents, or one of their parents and that parent’s partner.

If a student is considered ‘independent’, it will be their own household income that is relevant. Applicants will need to check the rules carefully depending on their individual situation. Applications need to be made in every year that a student is on their course and are usually based on an earlier tax year. For example, for a student finance application for the 2025/26 academic year (September 2025 to August 2026), information will need to be provided based upon the 2023/24 tax year.

There is detailed information on the eligibility criteria and the amounts that students can borrow at ‘Funding and finance for students’ on GOV.UK (see tinyurl.com/tm9eh6rs).

Interaction with basis period reform

HMRC and the Department for Education have confirmed that the amount of profits to be used when calculating student loan repayments and applying for student finance will be standard profits ***plus*** transition profits (reduced by any available overlap relief).

This means that for affected sole traders and partners in partnerships for the five tax years (2023/24 to 2027/28), there could potentially be:

- higher student loan repayments; and
- a reduction in the amount of maintenance loans that family members are eligible to borrow.

Student loan repayments

The amount of extra loan repayments will clearly depend on individual circumstances. Some borrowers may have an unwelcome surprise when they complete their 2023/24 tax return with higher than expected loan repayments.

For taxpayers who are impacted by basis period reform, it would be advisable to check if they have any unused overlap relief available which would reduce their transition profits. If you do not have accurate information from your client’s records (perhaps due to a change of tax adviser), then the quickest way to check their overlap relief position is to use HMRC’s G-form ‘Get your Overlap Relief figure’ on GOV.UK (see tinyurl.com/yc29u7dp). To speed up this process, HMRC requests that as much information is provided on the G-form as possible, such as the year of commencement.

Any transition profits (after overlap relief and losses) are automatically spread evenly over five tax years beginning in the 2023/24 transition year. However, it is possible to elect to accelerate the spreading (although no deferral is allowed). There may be reasons why you may choose not to spread transition profits equally over the five tax years. For example, if forecast profits show a move into a higher rate tax band in the following tax year, it might be preferable to treat all the transition profits as arising in the current tax year.

An election must state the amount of transition profits that the taxpayer wants to be treated as arising in the relevant tax year and it must be made on or within 12 months of the online self-assessment filing deadline of 31 January.

Below is an example of accelerating the spreading of transition profits to assist with planning student loan repayments.

Example: Kirsteen’s student loan repayments

Kirsteen has a Plan 2 student loan and is self-employed, making profits of around £27,000 each year. She has an accounting year end of 30 April so will be affected by basis period reform. She has no overlap relief to use against her transition profits as her business was loss-making during the first few years of trading and she has no unutilised losses brought forward.

Kirsteen's profits are as follows:

Year ending 30 April 2023: **£26,500**

Year ending 30 April 2024: **£27,200**

The impact of basis period reform

Without basis period reform, Kirsteen would not be required to make any student loan repayments, unless she chose to do so voluntarily, because her earned income is below the repayment threshold for 2023/24 of £27,295. (The 2024/25 repayment threshold will also be £27,295.)

However, under basis period reform, Kirsteen's profits from self-employment for the 2023/24 tax year will be calculated as follows:

- **Standard profits** (12 months ended 30 April 2023): **£26,500**
- **Transition profits** (1 May 2023 to 5 April 2024): This amounts to 341 days out of 366 days (2024 being a leap year).
  £27,200 x 341/366 = **£25,342**

This transition profit will be automatically spread evenly over five tax years and therefore **£5,068** will be allocated to the 2023/24 tax year.

In 2023/24, Kirsteen will therefore have profits from self-employment of:

£26,500 + £5,068 = **£31,568**

Her Plan 2 student loan repayments will be calculated as:

£31,568 – £27,295 = £4,273

£4,273 x 9% = **£384.57**

Accelerating transition profits

In these circumstances, Kirsteen may want to consider whether she can accelerate any of her transition profits to a tax year where she may have lower taxable profits.

In the 2024/25 tax year, she earns her usual amount of profits so keeps the spread of transition profits at 20% (£5,068). However, during the 2025/26 tax year, Kirsteen must replace some expensive capital equipment which reduces her taxable profits to £10,000. Kirsteen decides to accelerate the spreading of her remaining transition profits so it is all included within the 2025/26 tax year. This will be beneficial as she forecasts higher profits than usual for 2026/27.

Kirsteen has allocated an even spread of transition profits (£5,068) to each of the 2023/24 and 2024/25 tax years. The remaining transition profits amount to £15,206 (£25,342 – £5,068 – £5,068). Kirsteen elects to include the remaining transition profits alongside her self-employment profits in her 2025/26 tax return. Therefore, her total taxable profits are £25,206 (£10,000 + £15,206). No student loan repayments are due (assuming that the Plan 2 repayment threshold remains at its current level).

Student finance applications

As explained above, any profits from self-employment that need to be declared on an application for an additional amount of maintenance loan must include the amount of any transition profits alongside the standard profits.

In the example above, Kirsteen has a daughter who is applying for an additional maintenance loan from Student Finance England. Her daughter's 2025/26 finance application form must include Kirsteen's self-employment profits from the 2023/24 tax year of £31,568. This may reduce the amount of maintenance loan that Kirsteen's daughter is eligible to borrow.

Kirsteen may want to consider whether she can plan any spreading of her transition profits to assist her daughter in obtaining a higher maintenance loan for some or all of her years studying at university, whilst bearing in mind the amount of income tax and NICs due, as well as any other potential interactions.

Although student finance applications are usually based on the taxable income of an earlier tax year (so the 2021/22 tax information is used for an application for the 2023/24 academic year), it is possible to request to use current tax year information if you expect your household income to fall by at least 15% compared to the tax year included on the original application.

Closing comments

This article illustrates that the interactions between basis period reform and student loans/student finance can be extremely complex. They may require advisers to look further into the future and more broadly at clients' family circumstances than they might be accustomed to.

Depending on individual circumstances, it may be advantageous to consider an election to accelerate the spreading of transition profits; for example, where it could reduce student loan repayments or increase the amount of maintenance loan eligible to borrow.

However, as basis period reform will result in interactions with other parts of the tax system, it is important to check the rules for each interaction as these can be different to the ones applying to student loans/student finance. For example, tax credits and the High Income Child Benefit Charge will be calculated by using standard profits only.