

MTD – Extending the cash basis

The cash basis is an easier way for smaller businesses to work out their taxable profit. Under the cash basis it is only necessary to take account of money in and money out. By contrast, under the traditional accruals method, income and expenditure is recorded when invoiced or billed.

Prior to 6 April 2017, the cash basis was only available to unincorporated business and partnerships (as long as partners are individuals) whose turnover was less than the VAT threshold - £83,000 from 1 April 2016, increasing to £85,000 from 1 April 2017.

Higher threshold

As part of the consultations on the Making Tax Digital reforms, the Government consulted on measures designed to simplify tax for unincorporated businesses. The measures included increasing the turnover threshold for the cash basis to make it accessible to more businesses. Following the consultation, it was announced that the threshold will be increased to £150,000 from 6 April 2017. Once in the cash basis, businesses can remain in it as long as their profits do not exceed the exit threshold. This is set at double the cash basis threshold and consequently increases to £300,000 from 6 April 2017.

Simplified rules

Changes are also made to the cash basis rules, particularly in relation to the treatment of capital items. The general rule which prohibits a deduction for capital items in computing the profits of the business is replaced by a more limited disallowance for capital expenditure. Under the new rules, capital expenditure can be deducted in working out taxable profits unless the expenditure is incurred on or in relation to the acquisition or disposal of a business or in connection with the provision, alteration or disposal of:

- an asset that is not a depreciating asset (i.e. one with a useful life of more than 20 years);
- an asset that is not acquired or created for use on a continuing basis in the trade;
- a car;
- land;
- a non-qualifying intangible asset, including education and training; or
- a financial asset.

The new rules apply from 6 April 2017.

Extension to landlords

The availability of the cash basis is also extended to unincorporated property businesses from 6 April 2017 where the rental income of the property business (calculated according to cash basis rules) is not more than £150,000 a year. Where this is the case, the cash basis is the default basis and landlords within the cash basis threshold who want to use the accruals basis will now need to elect to do so.