A historical oddity?

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Bill Dodwell asks whether it’s time to condemn the UK’s idiosyncratic tax year end to history

In 1582, Pope Gregory XIII introduced the new calendar, to correct inaccuracies from the older Julian calendar. The Julian year was slightly too long and so a 10-day correction was implemented to sort out the problem that had arisen over 13 centuries. It took Britain until 1752 to adapt to modern ways, by which time an 11-day correction was needed. The tax year at the time ended on 25 March, one of the traditional quarter days for rent payments. In 1758, Parliament decided to move the tax year forward by 11 days to match the new calendar.

Roll forward 260 years – and the UK is still using 5 April as the individual tax year end. It's one of only two jurisdictions to do so (the Isle of Man is the other). Ireland moved to 31 December in 2002, as a requirement for joining the euro.

In June, the Office of Tax Simplification launched a review on whether the UK should adopt a different individual tax year. The trigger for the review was the forthcoming launch of Making Tax Digital for Income Tax – where self-employed individuals and landlords will be required to keep digital records and upload quarterly data to HMRC. The issue is whether the 5 April year end adds complexity for individuals as they move towards using accounting software to manage their affairs.

The review was published on 15 September (see bit.ly/3hYXnxi). The Office looked in some detail at the benefits of moving to 31 March, with a high-level look at the benefits of 31 December.

The review considered the costs and practicalities of moving the tax year, which led to the first conclusion: it would not be feasible to move the tax year before the adoption of Making Tax Digital for Income Tax, originally set for 2023 and now 2024.

The modern way

We now live in an internet age and the systems of the past no longer help us with our daily lives. There are clear benefits in adopting a tax year which is either aligned with the calendar year or with a calendar month-end. Increasing automation, internet-enabled commerce and digitisation of financial services and financial information generally increase the need for a more intuitive cut-off date. The more seamlessly accounting systems generally align with tax requirements, the more easily information can be transferred between systems.

It was only a few years ago that exchange of information between countries was a purely manual process. Yet today we have already seen several years of automatic exchange of financial account information for individuals – and there is more to come. The challenge for the UK in using the data received is that the reference period is the calendar year – which is the tax year for most countries globally. Advisers and taxpayers will know of the confusion created when trying to reconcile calendar year data to the UK tax year.

The exchange of platform data is coming, under an OECD template – again, by reference to the calendar year. Sticking with something else means that the UK is going into the internet-enabled age hobbled. Instead of the platform telling its UK customers the value of their sales by calendar year and passing the same data to HMRC, businesses will need a separate set of figures for their tax return, no doubt accompanied by a reconciliation att empt. Having the same tax year as most other countries would also help with double tax relief and moves to and from the UK. Anyone with investment income taxed in two countries would also prefer that those countries used the same tax year.

A painful change

What's the problem, then? Transition. Changing public sector and private sector systems to work with a different tax year would take a huge effort to get right. We must remember that the systems we're talking about are those which pay salaries, pensions and benefits – affecting almost everyone. The National Audit Office's report on underpayment of the state pension (see bit.ly/3zz2z0R) makes it clear that the DWP has several manual, unconnected systems to pay 12 million people their state pension. No one could afford a glitch. We should not think this is just a public sector problem: similar issues exist in some very large private sector payroll systems.

Choosing between 31 December and 31 March is another complexity. If December were adopted, the UK might need to change its financial year, which could affect the devolved administrations and any public sector spending body, such as local authorities and the NHS. Moving by three months will always be more complicated than moving by five days – although the long-term gain should be more significant.

If the government is minded to adopt a modern tax year – and the OTS does not make a recommendation – significant planning would be needed. This would be a big multi-year project. The OTS does recommend that any change should only take place once major systems have been delivered, such as the new Single Customer Account.

We hope the report will help the government consider whether or not to adopt a modern tax year.