Accounting periods straddling 1 April 2023

OMB Large Corporate



20 April 2023

The CIOT has received confirmation that previous advice given to the effect that accounting periods straddling 1 April 2023 will be treated as two separate accounting periods with respect to capital disposals was incorrect.

Ordinarily, when a company's accounting period straddles a change of corporation tax rates on 1 April, Corporation Tax Act 2010 s 1172(1) requires time apportionment for profits, which are then assigned to different periods subject to the corresponding rates. However, with respect to 1 April 2023 and the introduction of a higher main rate, Finance Act 2021 Sch 1 para 34(2) states:

> 'In the case of an accounting period (a "straddling period") beginning before 1 April 2023 and ending on or after [that] date, those other amendments have effect as if the different parts of the straddling period falling in the different financial years were separate accounting periods.'

HMRC had advised Tolley that this was to be read to mean that two distinct accounting periods are to be created either side of 1 April 2023, and that any chargeable gains should be assigned in full to one accounting period or another. The normal treatment would be to apportion the capital gain alongside the company's profits, but the advice given to Tolley was that this would not apply under para 34(2). Tolley initially stated that:

> 'We have had confirmation by email from HMRC on the rate changes that in their view whilst the general requirement for accounting periods straddling a rate change would be a strict time apportionment of profits, the commencement provisions in Finance Act 2021 Sch 1 para 34 mean that the accounting that straddles 1 April 2023 is split into two deemed accounting periods (one ending on 31 March 2023 and one starting on 1 April 2023) and that the allocation of profits and gains is akin to those for long periods of account. They stated that this would mean, for example, that where a company has a chargeable gain arising in the pre-commencement period (or indeed in the post-commencement period) the correct treatment under para 34 would be to allocate that to the period in which it arises, based on the date of disposal.'

However, upon CIOT's querying the matter, HMRC have now confirmed that the advice they gave to Tolley was incorrect. Paragraph 34(2) does not provide for an alternative basis for assessment to override the default time-apportionment method per s 1172(1). Both Tolley's guidance and that of HMRC have been updated to reflect this position. Tolley (at paragraph D1.1202) now reads:

> 'Companies with an accounting period beginning before 1 April 2023 and ending after 1 April 2023 will need to apportion the accounting period across the two financial years to reflect the change in corporation tax rate.'

It also provides a worked example.

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