Interaction of basis period reform rules and student finance

Personal tax



23 October 2023

Following a request from LITRG, HMRC and the Department for Education have confirmed how the new basis period reform rules will interact with student finance applications and repayment of student loans through self assessment.

Basis period reform will start from the 2024/25 tax year, with 2023/24 being a transitional tax year so that all unincorporated businesses move to reporting their business profits on a tax year basis.

Unincorporated businesses which currently do not have an accounting period ending between 31 March and 5 April will need to make transitional changes during 2023/24, which may result in including profits from a period longer than 12 months. The basis period reform rules and calculations are covered in HMRC's Business Income manual (tinyurl.com/3ryz73nz). If there is an overall profit after deducting overlap relief and any 'standard part' losses, then this profit (known as 'transition profit') will be automatically spread evenly over five tax years (2023/24, 2024/25,

2025/26, 2026/27 and 2027/28).

LITRG sought confirmation on how the inclusion of ‘transition profit’ over five tax years in the self-employment or partnership pages of tax returns would affect applying for student finance and repaying student loans.

Student finance

Some students may be eligible for additional maintenance loans, depending on criteria such as where they live and their household income (including parents’ income if they are not an independent student). As the amount of maintenance loan is based on household income, this could be affected by changes under basis period reform.

HMRC have confirmed that any ‘transition profit’ should be included in student finance applications which could affect up to five years because of the spreading rules. These additional profits could potentially reduce the amount of maintenance loans that family members are eligible to borrow. We understand that student award bodies such as Student Finance England will be amending their guidance for this.

Student loan repayments

Student loan borrowers who are self-employed or partners will usually repay their loans through self assessment; the exception being directly paying the Student Loans Company when nearing the end of loan repayments. HMRC have confirmed that student loan repayments will be affected by basis period reform as the ‘transition profit’ will be included alongside the ‘standard 12-month profit’ when looking at whether earnings are above the loan repayment threshold. This means that student loan repayment calculations will also be affected by the spreading rules for potentially five tax years.

An election can be made to accelerate spreading but it is not possible to postpone spreading to a later tax year. Following an election, if there is any remaining

‘transition profit’ left this will be spread proportionally over the remaining tax years up to 2027/28.

Using the election to decide whether to accelerate the inclusion of ‘transition profits’ could be a potential planning tool when considering the impact on student finance applications and loan repayments. LITRG will be writing an article for a future edition of *Tax Adviser* on these interactions and how electing to change spreading may be beneficial in some circumstances.

Claire Thackaberry *cthackaberry@litrg.org.uk*