



CASH BASIS FOR THE SELF-EMPLOYED

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Cash Basis for the Self-Employed

We consider the optional rules which allow small unincorporated businesses to calculate their profits for tax purposes on a cash basis rather than the normal accruals basis.

Accruals basis and cash basis

One example which illustrates the difference between the accruals basis and cash basis is that credit sales are included in the accruals basis accounts income despite the fact that the customer may not have paid for the goods or services by the end of the accounting period. Under the optional cash basis the business is taxed on its cash receipts less allowable cash payments made during the accounting period. So under the optional cash basis credit sales are accounted for and taxed in the year in which they are paid for by the customer.

Cash basis eligibility

The main entry criteria are that your business is unincorporated (sole trader or a partnership consisting only of individuals) and that your receipts in the accounting period are less than the entry threshold. From 1 April 2017 the entry threshold is £150,000. The exit threshold is £300,000.

There are some individual exclusions from cash basis, for example, Limited Liability Partnerships, Lloyd's underwriters and those eligible individuals who wish to continue to claim averaging of profits like farmers.

Once the cash basis election is made an individual will generally have to remain in the scheme unless the business either grows too large or there is another acceptable 'change of circumstances.' These matters are not considered further here.

Key tax points

Cash receipts

Cash receipts literally mean all cash receipts that the business receives during the accounting period. As well as trading income this will also include the proceeds from the sale of any plant and machinery. If a customer does not pay what is owed by the accounting year end then it will not be taxable until the next year when it is actually received by the business.

What deductions are allowable?

In terms of what deductions can be claimed the main rules are that the expenses must have been actually paid in the accounting period as well as being incurred wholly and exclusively for the purposes of the trade.

As is the case with calculating taxable profits generally for a business no deductions are allowed for items which are of a capital nature such as the purchase of property. However, under the cash basis the costs of most plant and machinery can be included as a deduction. One key exception is the purchase of cars.

Relief for interest payments

If you have a business loan or overdraft only interest payments up to a maximum limit of £500 can be claimed. If, in the future, you have a larger loan and wish to claim more interest as a deduction then this could be treated as a change of circumstances and result in you then having your accounts prepared on the accruals basis.

Restrictions on the use of losses

If your business incurs a loss then under the cash basis this can only be carried forward and set against profits of the same business in future years. This is not as



advantageous as the normal rules which will allow the loss to be carried back or set off 'sideways' against other income.

In order to ensure that income is taxed and expenses are relieved 'once and once only' special calculations are needed on entering or leaving the cash basis.

How we can help

So, in summary, as you can see there is more to the cash basis than might be expected and we would be happy to review your circumstances to see if this would be suitable for you and your business. Please contact us if you would like any further information.

SMES AT FD EXCELLENCE AWARDS



2014

WINNER
ACCOUNTANCY FIRM
OF THE YEAR



2015

WINNER
ACCOUNTANCY FIRM
- LARGER CLIENTS

**OVER
60**



**LOCATIONS
AROUND THE UK**

WINNER
AUDITOR OF THE
YEAR FOR SMES



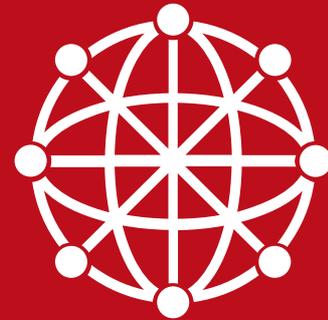
2012

&



2013

ACCESS TO
OVER 100
SPECIALIST SERVICES



TO HELP WITH EVERY ASPECT OF
YOUR BUSINESS & PERSONAL NEEDS



VIA OUR INTERNATIONAL ALLIANCE



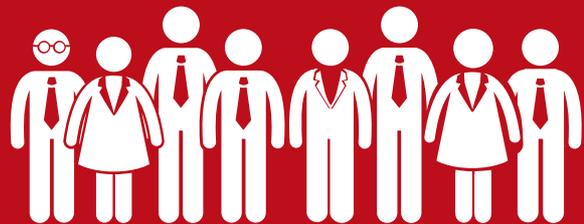
FUNDRAISING
FOR OVER 100 LOCAL CHARITIES

HELPING OVER

35,000

BUSINESS OWNERS REACH THEIR GOALS

OVER 1,000 PEOPLE



AROUND THE UK WORKING TO SUPPORT CLIENTS

Having advisers that can add expert advice and value to both your business and personal wealth aspirations is important for most business owners. By understanding what you want to achieve, Haines Watts is able to work with you to identify opportunities for growth, saving money and managing risk to help you reach your goals. If you have an hour to spare, why don't you arrange a meeting with Haines Watts to find out how we can help you with your business needs? Contact your local office: www.hwca.com/offices