RMS Tax and Financials

Basis Period Reform Isn't Finished With You Yet — Here's What Comes Next

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PLANNING OPPORTUNITY

You Can Choose to Bring Transition Profit Forward

If a client still has some transition profit left to be taxed in future years, there's a useful option: choose to bring forward more of that profit into a year that suits them better, instead of waiting for it to land automatically.

Unused tax-free allowance this year — bringing forward some transition profit now means it gets taxed at 0% instead of being taxed later at a higher rate.

Expecting to earn more in future years — pulling profit forward into this year, while they're still in a lower tax band, can mean paying less tax overall.

Income currently below £100,000 — bringing forward transition profit now can help them keep their full tax-free personal allowance, before it starts getting reduced as their income grows.

ADJUSTED PROFIT CALCULATIONS

✓ Where Transition Profit Is Not Included

The spread transition profit is kept out of the calculation for the **High Income Child Benefit Charge** and the **tapering of the pension annual allowance**, via a "standalone" tax charge mechanism — so it generally won't push someone over the £50,000 or £60,000–£360,000 thresholds that trigger those charges.

£50,000

High Income Child Benefit Charge threshold

£60,000–£360,000

Pension annual allowance taper band

ADJUSTED PROFIT CALCULATIONS

Where Transition Profit Is Included

Transition profit is **not** excluded from **Class 4 National Insurance** or **student loan repayment** calculations — it's added straight into the numbers for those.

If a partner or sole trader retires, or the business ceases, before 2027/28, any remaining unspread transition profit is automatically **accelerated into that final year in full** — it doesn't get relief just because the trade has stopped.

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RETIREMENT & CESSATION

Timing a Retirement Can Change the Tax Rate

If a partner or sole trader retires or the business ceases before 2027/28, any remaining unspread transition profit is automatically accelerated into that final year in full — it doesn't get relief just because the trade has stopped.

Timing a retirement to land in a tax year where the partner has **lower other income** (or hasn't yet started drawing a pension, State Pension, etc.) can materially reduce the rate that final chunk is taxed at.

The flip side is true too — bringing retirement **forward** into a year already loaded with a will-anyway acceleration can sometimes be efficient, if the alternative is a worse future year.