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CHARTERED ACCOUNTANTS

NEWS UPDATE - 12 JUNE 2023

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The Ofgem price cap returns

From 1 July, the energy price cap set by energy regulator, Ofgem, will fall from £3,280 to £2,074. Prices are currently capped at £2,500, but this further reduction will help home-based employees and any small business owners who work out of residential accommodation.

In October last year, the government introduced a temporary energy price guarantee that has limited the annual gas and electricity costs for a typical household. This cap was set to increase from £2,500 to £3,000 this July, however, the lower energy price cap of £2,074 will now apply instead.

Impact of the cap

The energy price cap is set quarterly, so the limit of £2,074 will apply from 1 July to 30 September 2023.

- Customers on standard variable tariffs with typical consumption will see their bills fall in line with the cut in prices.
- However, annual bills are not capped as such. Households with higher energy use will pay more than the cap, with lower energy users paying less.

The £3,000 energy price guarantee will remain in place as a safety net until 31 March 2024 just in case energy prices increase above this level.

Even with the price reduction from 1 July, energy prices will still be almost double what they were before costs started to soar.

Fixed energy deals

There are virtually no fixed energy deals currently available, although they might return now that prices have started to fall.

The energy price cap is forecast to remain around £2,000 until March 2024, so any fixed rate deal must be compared to this rate. A fixed rate deal will provide certainty, but the downside is being locked in for a fixed term should prices fall. An exit fee – which can be quite substantial – is normally charged to end a fixed deal early.

A government briefing of the energy price guarantee and how it operates alongside the energy price cap can be foundfrom the link below:

https://commonslibrary.parliament.uk/research-briefings/cbp-9714/

Self-assessment threshold rises from 2023/24

There is a long list of reasons why it is necessary to complete a self-assessment tax return, but PAYE taxpayers are generally exempt from the requirement. Previously, exemption was subject to a £100,000 income ceiling, but the threshold has been increased to £150,000 for the current tax year onwards.

The £150,000 threshold applies to total income – not just gross salary – and also any taxable benefits and income from savings and investments.

Other reasons to file a return

There are a number of other reasons why an employee with income below £150,000 will still be required to complete a tax return. For example, where the taxpayer also has:

- Income from property rental;
- More than £10,000 in either dividend income or savings income;
- Income from a trust;
- To pay capital gains tax (more likely now with the exempt amount reduced from £12,300 to £6,000);
- Income from self-employment or partnership income; or
- To pay the High Income Child Benefit Charge.

When a return is not required

Employed taxpayers with income between £100,000 and £150,000 for 2022/23 – and with no other reason for completing a return – should receive a self-assessment exit letter from HMRC confirming that they do not need to complete a return for 2023/24.

In other situations, it will be necessary for taxpayers to contact HMRC and inform them why a return is no longer necessary. Taxpayers can ask for a return to be withdrawn even after HMRC has charged late filing penalties. Subject to HMRC agreement, the penalties will then be waived.

Even if a tax return is not strictly required, there are some situations where a taxpayer might want to complete a return anyway. The main reason will normally be to claim a relief, such as pension contributions or donations to charity.

If a tax return is not submitted, it will be more important than ever to check your tax code, which will typically be used to collect tax on taxable benefits and savings income.

To check if a self-assessment tax return is required, use HMRC's online tool found from the link below:

https://www.gov.uk/check-if-you-need-tax-return

More estates paying IHT

The combination of a frozen inheritance tax (IHT) nil rate band and considerably higher property values has pushed more estates into the IHT net. The average IHT bill is now nearly £62,000, with much larger amounts payable if an estate includes a property in London or the South East.

Increase in property values

Even though property prices have fallen recently, the average price of a detached house went up by more than £20,000 to nearly £454,000 during the year to March 2023. The average price for London property is not far off £525,000.

- Since the nil rate band was frozen back in 2009, the average UK property has risen in value by 86%.
- The FTSE All Share index shows an even better return, having gone up by just under 245%. An investment of £50,000 in March 2009 would have been worth over £170,000 by March 2023.

With cash savings also added in, a typical estate is now valued at just under £480,000. If the residence nil rate band is not available, the IHT liability on such an estate is £62,000. However, if the nil rate band had been uprated with inflation, no IHT would have been payable on such an estate.

Mitigating IHT liability

Mitigating a future IHT liability requires a shift from being a saver to a spender. This might mean putting assets into trust or making pension contributions – financial advice being essential here.

Making lifetime gifts will obviously reduce the value of an estate. Options could include regular monthly saving into junior ISAs for grandchildren (with such gifts normally completely free of IHT) or helping a child with their first home by paying the deposit (such a large gift will exceed the available exemptions but will fall out of IHT after seven years).

Even if you decide to just spend on yourself, leasing a new car or taking extended holidays abroad looks much more affordable if you factor in the future 40% IHT reduction.

HMRC's basic guide to how IHT works, including details of various exemptions, can be found from the link below:

https://www.gov.uk/inheritance-tax

Selling power back to the grid

With continuing high electricity prices, now could be a very good time to install solar panels at your property. Unless an expensive solar battery is part of the system, it makes sense to sell excess electricity back to the national grid. Normally such sales are free from tax, but there is an exception.

Exemption rules

The sale of excess electricity – from what is known as microgeneration system – is exempt provided the intention is to match the individual's own home consumption needs.

- The system must be installed at or near an individual's home, e.g. rooftop solar panels; and
- The amount of electricity generated by the system should not significantly exceed domestic needs – HMRC allow a 20% margin here, so the system can generate 120% of domestic needs before sales to the grid become taxable.

Even if electricity sales to the grid are taxable, they might still be covered by the £1,000 trading allowance. If income exceeds the allowance, a £1,000 deduction can be claimed.

Unless a solar battery is used, around half of the electricity generated may end up being sold back to the grid. Install too large a system and these sales will be taxable. This will extend the typical eight-to-ten-year payback period for solar panels, especially if higher rates of tax are involved.

Smart export guarantee

Larger energy suppliers have to pay for excess electricity that is exported to the national grid under the smart export guarantee (SEG) scheme. Any energy company can be chosen, but care should be taken as rates vary significantly – from 1p/per kWh up to a potential 15p/per kWh. Even higher rates might be available if a variable tariff is chosen.

The best SEG rates are normally only available when the same energy supplier is used to supply electricity.

Details of the best SEG available rates can be found from the link below:

https://www.ofgem.gov.uk/environmental-and-social-schemes/smart-export-guarantee-seg

More action to counter fraud

The government has announced a new initiative to counter fraudulent activity, particularly in the financial sector.

You might not be surprised to learn that fraud is now the most common crime in England and Wales, although you may not be aware that it accounts for more than 40% of all crime. The growth in fraud has so far not been accompanied by a corresponding increase in prevention measures. At present, less than 1% of police resource is directed towards dealing with fraud.

In May, the Home Secretary announced a new fraud strategy – Stopping Scams and Protecting the Public. The Home Office's plans include:

Stopping abuse of the telecom networks: Many scams start with unsolicited calls and text messages. The government says it will be "making it harder" for criminals to spoof phone numbers, which make their calls appear to be coming from your bank or another trusted source. Under the same heading, the government has launched a consultation on banning SIM farms, devices that can send thousands of fraudulent texts in a matter of seconds.

A ban on cold calling on investment products: Currently, there is a ban on cold calls from personal injury firms and pension providers (unless the consumer has explicitly agreed to be contacted). The government plans to extend this ban to all investment products, with an initial consultation on the mechanics "by summer". The logic behind this move is that the ban will mean that anyone receiving such a call will know it is unauthorised – assuming they are aware of the law.

More protection for fraud victims: If you are a victim of unauthorised fraud (such as bank card theft), you are entitled by law to be reimbursed by your bank within 48 hours. However, if you fall foul of authorised fraud – for example, by being tricked into transferring money – you are currently not eligible for the same level of protection. The Financial Services and Markets Bill, currently on its way through parliament, will remove this distinction.

These and the many other proposals will inevitably take time to reach the statute book and, as now, will encounter the problem of offshore and ever more creative fraudsters. In the meantime, there is one sound piece of advice – if you receive an unsolicited call from your bank, the police or anyone else, tell them you will call them back on the number you have (e.g. on your bank card). A scammer will do everything to prevent that happening, but a genuine caller will have no such issue.

Find out more about the latest fraud strategy from the link below:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1154660/Fraud_Strategy_2023.pdf

Should you wish to discuss this News Update in further detail please contact BGM at: communications@bgm.co.uk

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