



SOWERBY

CHARTERED ACCOUNTANTS

SUMMER NEWSLETTER

CONTENTS

- COMMENT - SOLAR PANELS – ARE THEY A GOOD INVESTMENT?
- BUSINESS - WHEN SOMEBODY DIES – PROBATE AND ESTATE ADMINISTRATION: SOME BASIC FACTS
- ADVICE AND BEST PRACTICE - MAKING TAX DIGITAL - REFORM OF BASIS PERIOD RULES
- SOWERBY

"With covid, whilst still providing the odd bump in the road, becoming more manageable we looked forward to a smoother quarter 2 of 2022, how wrong we were. We bring you our Summer newsletter with a degree of hope that whilst the issues facing business are unprecedented, with every problem comes an opportunity for the well managed business to thrive and build a strong base for the future."

- Elizabeth Blanchard



ELIZABETH BLANCHARD - PARTNER

01482 888 820

07583 036 149

EMB@sowerby-llp.co.uk

COMMENT

SOLAR PANELS – ARE THEY A GOOD INVESTMENT?

A question we get asked frequently, and increasingly so in recent months due to spiralling energy costs, is whether it's sensible to invest in solar panels.

The short answer is: it depends on a number of factors. If these all align for you, going solar could make a lot of sense.

FACTORS TO CONSIDER

POSITIONING OF THE PANELS.

A completely unobstructed, angled, south facing roof is optimal. Anything deviating from this will produce less output.

CURRENT ENERGY PRICES.

The higher prices are, the more you're saving. In that respect solar panel installations are currently in high demand due to soaring energy prices.

COST OF INSTALLATION.

Obviously the lower this is, the better, assuming you are seeking like-for-like quotes. Prices have inflated recently but not as much as energy prices. The biggest issue seems to be getting hold of an installer with availability, who is still charging fair market rates.

YOUR ENERGY USAGE.

The more electricity you use, the higher the potential savings can be.

WHEN YOU USE YOUR ENERGY.

If you are mainly a daytime user and can use the electricity as it is being generated, in daylight hours, you will see the biggest savings. Similarly, it's better if you use more electricity in the summer months.

WHAT HAPPENS TO YOUR EXCESS.

The timing difference between generation and usage is the biggest issue with solar. Most people tend to use most of their electricity at the exact opposite time (in an evening and in winter) to when it is generated. There are two options for the excess – sell it back to the grid or store it in a battery. Neither option is as good as using it. Large capacity batteries are expensive, they can double the cost of an installation. Plus, they may only last half as long as the panels themselves, so may require replacing – potentially tripling the cost of the installation over its lifetime. Alternatively, excess electricity can be sold back to the grid. However, these payments are not as generous as they used to be and tend to be capped at around £100 annually. So, the amount you receive back is likely to be a lot less than the retail value of that electricity. Being able to use what you generate, when you generate it, is always the best option.

WHETHER YOU'VE ADDED VALUE TO YOUR PROPERTY.

This element is particularly difficult to estimate. Some research suggests that on average, a homeowner won't increase the value of their house by nearly as much as the amount they have spent on solar panel installation. Though how a potential buyer will perceive solar panels also varies massively, as do different areas of the country. The best advice here tends to be not to consider solar panels if you're planning on moving in the next few years as it's likely you won't recoup your outlay.

HAVE YOU GOT THE CASH OR WOULD YOU NEED TO BORROW?

If you're considering taking out a loan to pay for the installation, how much interest will you pay? That needs adding onto any cost calculations.

HOW LONG TO PAY FOR THEMSELVES?

As the above illustrates, with this number of variables, people's outcomes can differ wildly.

As a very approximate ball-park estimate as to how long it might take solar panels to pay for themselves we think a period in the region of around 15 years is good to have in mind (based on a cost of installation around £6,000 and annual energy savings of around £400).

For someone willing to factor in the added value to their property, which could be, say £2,000 of that original £6,000 invested, they could consider themselves at break-even and producing 'free' electricity after as little as 10 years.

Inflation is a factor that makes any of these calculations difficult, especially at the moment. Any outlay you make is at today's prices, but energy prices, and so savings, in the future are a huge unknown. Nobody predicted the recent huge increases to energy costs. Might they double again in the next ten years? Might they fall back to nearer their old levels? It's all guesswork.

Also, panels don't last forever. Typically, they are said to have a lifespan of 25 to 30 years. Though some newer models may have longer lives, potentially even up to 50 years. Most panels will pay for themselves before they are no longer functioning, it's just incredibly difficult to estimate when that might be, given the huge number of variables at play.

From an investment point of view, everyone should make their best estimates, crunch the numbers for their specific setup and accept there is a good degree of uncertainty in their sums. They can then decide if that investment, including the uncertainty, provides a better return than they can get elsewhere. Or it provides a better use of the money in general – what else would you do with the money if not investing in solar panels?

OTHER CONSIDERATIONS

As accountants we tend to get asked the numbers questions first. Though there are other motivations for going solar.

The first one is perhaps obvious - it's simply better for the environment. Even if you only ever break even over the whole lifetime of the panels, you've helped lower your carbon footprint through greener energy generation, and that's something admirable in itself.

Some people also like the thought of independence and certainty – being able to generate their own personal supply of electricity just makes them feel more self-reliant, and less subject to potential price shocks and even power cuts.

Whatever your reasons and motivations, we would suggest everyone assess their own situation independently. Going solar might mean being able to make hay while the sun shines for some people, while others might find themselves under an expensive cloud if their savings don't add up fast enough.

Should you wish to know more about renewable energy investments, either personally or through your business, then please contact your Relationship Partner or James May.



JAMES MAY - TAX MANAGER

01482 888 820

07747 116 665

JMM@sowerby-llp.co.uk

BUSINESS

WHEN SOMEBODY DIES – PROBATE AND ESTATE ADMINISTRATION: SOME BASIC FACTS

When somebody dies, as well as the grief and anxiety that you will feel at the passing of a loved one, there is also the matter of the deceased person's estate to think about, and this can cause additional worry and stress.

Dealing with a deceased's estate is a serious matter and it is easy to find the process confusing and to make mistakes.

Indeed, those undertaking this task are potentially personally liable, and therefore it is a good idea to take professional advice.

PERSONAL REPRESENTATIVES (PRS)

It is the responsibility of the PRs to deal with the administration of the deceased's estate. The PRs are known as 'executors' if they have been appointed by a Will; otherwise, they are called 'administrators' of the estate, and the law determines who these should be.

WHAT THE PRS MUST DO

In a nutshell, the PRs must:

- Submit any required returns to HM Revenue & Customs;
- Pay any Inheritance Tax that is due to HM Revenue & Customs;
- Obtain a Grant of Representation (for instance a Grant of Probate), if required;
- Gather in the assets, and pay liabilities, of the estate;
- Distribute the net estate to the beneficiaries in accordance with the Will (or, if no Will, according to the intestacy rules);
- Prepare estate accounts, if these are required.

In practice, each of these areas of responsibility can be quite complex, and there may be other responsibilities too, for instance practical arrangements such as notifying relevant parties, redirecting post, securing property, or dealing with insurance issues.

The task must be carried out with a high degree of care and caution, as there are various ways in which mistakes can be made, which may result in the PRs becoming personally liable.

Common pitfalls include:

- Incorrect completion of forms submitted to HM Revenue & Customs;
- Failing to recognise creditors of the estate;
- Incorrect distribution of the estate, for instance due to non-payment of creditors, or misinterpretation of the Will (or of the intestacy rules, in the absence of a Will).

HOW CAN WE HELP?

We strongly advise PRs to take professional advice, in order to help them through the process, and to protect them from falling into the pitfalls and potentially becoming personally liable for any mistakes; and we can provide that advice.

If you do choose to use our services, we will tailor that service to your specific needs and wishes. A minimal level of advice might simply be to review documents such as the Will, your completion of forms, etc, while on the other hand you may wish us to carry out all or most of the work for you, on your behalf.

Should you wish to know more about how we can assist in probate matters then please contact your Relationship Partner or Adrian Allen.



ADRIAN ALLEN -PARTNER

01482 888 820

07595 695 484

AMA@sowerby-llp.co.uk

ADVICE AND BEST PRACTICE

MAKING TAX DIGITAL - REFORM OF BASIS PERIOD RULES

One hugely important aspect of the implementation of Making Tax Digital (MTD) is the abolition of Basis Period Rules. To explain the impact of the changes, we first need to cover how the rules currently work.

Before proceeding, we can discount those who aren't affected by these rules. Companies are not affected, it's only sole traders and partnerships (including LLPs) the basis period rules apply to. Secondly, any Sole Traders and partnerships who already prepare their accounts to either 5 April or 31 March every year (for practical purposes, they are the same) also won't be affected by these changes.

BASIS PERIOD RULES CURRENTLY

Presumably those still reading are concerned with Sole Traders and Partnerships who prepare their accounts to a non tax-year end date. Those businesses are already using the basis period rules.

The tax year ends on 5 April – that never changes. Everyone, regardless of when their business accounting year is, submits a return for the tax year and pays their tax on the same dates.

The basis period rules exist to determine how the profits in the accounts (which could run to any date) translate to profits subject to tax on the tax return (which always runs to 5 April).

It might be tempting to assume the answer here is obvious – surely I just include the profit for the months that fall in the tax year. So maybe I take 9 months profit from one set of accounts, and 3 months profit from the other set of accounts? The problem with that approach is businesses could be in the position where they needed the more recent set of accounts to be completed, before they could file their tax returns. This would make submitting returns on time difficult for lots of businesses impossible for others. The government certainly doesn't want to be giving taxpayers excuses not to file on time!

HMRC instead designed a system that both gave businesses flexibility to choose a year-end date to suit them, yet the tax return could be completed on the basis of just the last full set of accounts ending in the tax year. It's a system that works, but takes a bit of learning as it isn't at all intuitive - as many accountancy trainee student headaches will attest! For the middle period of a businesses life it's straightforward – the profits in the last set of accounts are what determines the next tax bill.

However, there are three occasions when it can get complicated – when a business starts trading, when it ends trading, and when it changes its accounts date.

WHAT IS CHANGING WITH MTD

MTD is effectively encouraging all businesses to change their accounting year end date to 31 March or 5 April so that all businesses better fit within the MTD framework and future quarterly returns, when that eventually comes in.

Therefore, since this is a change of year end date, the basis period rules come into play. There are numerous different scenarios that can arise – what happens depends on the business year end date, starting date, and historical figures.

Avoiding the complexity of rules themselves, the key point is - when a business changes their year end date, the amount of profits subject to tax in the year of the change can either be a lot higher than usual, or a lot lower than usual. It's not obvious either. A longer period doesn't necessarily mean there will be more profits subject to tax. Each business has a historical adjustment figure it carries forward called 'overlap profit' and if this is big enough, the profits subject to tax could be much smaller than expected. It can actually be a task in itself to obtain the overlap profit – hopefully the business, or their current accountant has it, but it can be a case of needing to request HMRC retrieve it from their archives from 25 years ago (that, as you would expect, can take some time).

It's therefore key to plan ahead. It's possible for the accountant to crunch some numbers to produce projected tax bills for the next few years to show how the change of year end date is going to affect tax payments. We would strongly recommend anyone affected by a pending year end date change to speak to their accountant well in advance of the rules taking effect.

(It's worth adding that a business doesn't actually have to change their accounting year end date, but the practicalities of the rules changes mean it's just much easier for them to change it. They are free to carry on preparing accounts to whatever date they wish. However, businesses choosing to do this will have to complete a conversion of the two sets of accounts that straddle the tax year into one set of tax year figures – exactly the timing issue highlighted in the example above, and that the whole basis period rules were designed in the first place to avoid. This comes with the obvious problem of delays in being able to file on time, and additional work. For this reason it's anticipated that very few businesses will opt to keep their existing accounts date – it's simply going to add a lot more complexity and work, and for nearly all sole traders and partnerships, changing their accounts to run to 31 March or 5 April is going to be the far simpler solution.)

WHEN DO THE RULES COME INTO PLAY?

The first tax year when businesses must be assessed on tax year profits is for the 2024/25 tax year. Therefore, the business must have aligned its accounting year before this point, so it's last accounts under the basis period rules must run to 31 March / 5 April 2024.

While 2024/25 might sound quite far ahead in the future, think of a business currently preparing its accounts to 31 September 2022. This is the last time it will use that year end date. Its next set of accounts will cover the 18 month period from 1 October 2022 to 31 March 2024.

ARE THE CHANGES AN IMPROVEMENT?

The new rules are certainly simpler to get a handle on for anyone new to running a business.

However, some would argue that the current rules certainly aren't broken, just a little complex at the start and the end of a businesses life, so why fix them? Additionally, we have to first get over the hurdle of changing year end dates and the additional complexity that brings, before life can get simpler. Many businesses are seeing an increase in complexity, not a reduction.

Also, the changes, effectively, remove the freedom of choice for businesses to pick when to complete their accounts – most typically seasonal businesses prefer to deal with the year-end during their off-season when the farm or hotel isn't at flat-out capacity. That flexibility will be taken away.

It also means what had been a fairly evenly spread of work for the accounting industry (and HMRC too) now will get bunched up over a much shorter period – nearly every sole trader and partnership in the country will have the same year end, and therefore want accounts to be completed at the same time. It can be hard to contact HMRC at any time, we hate to consider the delays on the phone in April 2024

HMRC, as seems to be their approach in recent years, are intent on pushing ahead with the changes that they perceive as improvements. It seems fair to say that as far as business owners and the accounting industry are concerned the jury is more than just still out at the moment. HMRC appears unsympathetic to concerns raised from businesses and the accountancy profession regards the real impact this will have on businesses.

The changes are happening so the best course of action businesses can take is to get some visibility on how it will affect them.

Should you wish to know more about MTD and basis periods, then please contact your Relationship Partner or James May.



JAMES MAY - TAX MANAGER

01482 888 820

07747 116 665

JMM@sowerby-llp.co.uk

SOWERBY

SOWERBY

With the sun finally shining Sowerby are enjoying a busy Summer quarter. Our annual conference, normally held in October, was moved to April in the current year and the whole firm enjoyed a night away in Leeds, taking part in key training updates and competing for the role of Sowerby Champion for the current year.

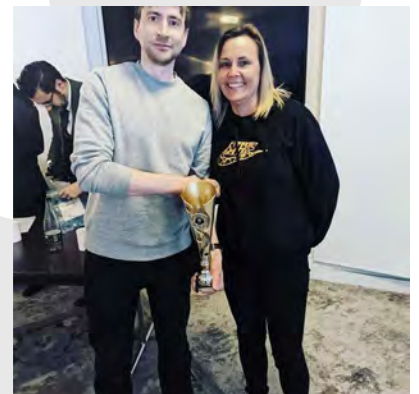
This year's winner was Gayle Pitter who triumphed in the creation of Sowerby themed cake pops and was also part of the winning team from The Crystal Maze Challenge.

Some of the more energetic members of the firm even managed to attend a Sowerby stag do whilst in Leeds for our very own Steven Kitching who is soon to be married, and we are happy to report that all members were present and accounted for at the following morning's MTD presentation.

We must also congratulate one of our Partners, Elizabeth Blanchard who got married this quarter at the beautiful venue The Manor Rooms, on the Drewton Estate.

June saw Sowerby sponsoring the Young Farmers' County Rally Day which was also attended by local MP David Davis. Our Bucking Bronco stand was a huge success and the Sowerby winner was Garry Lewis who managed to hang on for the longest amount of time.

We look forward to an Autumn Quarter full of as much excitement.





SOWERBY

CHARTERED ACCOUNTANTS