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WEALTH KNOWLEDGE

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Over one million individuals use extra time to file tax returns

More than one million individuals completed their self-assessment tax return by the extended deadline at the end of February 2022.

HMRC estimates 11.3m of 12.2m of the taxpayers who had to file a self-assessment tax return for the 2020/21 tax year did so by 28 February 2022.

Tax returns for the self-employed must usually be filed by the 31 January that comes after the tax year in question to avoid a fine.

However, HMRC announced in early January 2022 that no fines would be applied for tax returns that were filed past the typical deadline but were sent by 28 February 2022.

This essentially extended the self-assessment deadline by a month, which HMRC had also done for individuals filing their 2019/20 self-assessment tax return in 2021.

Lucy Frazer, Financial Secretary to the Treasury, said:

"Today's stats show how vital the extra month was in supporting the cashflows of more than a million self-employed people and businesses across the UK, helping to ensure their survival as we recover from the pandemic."

Individuals who filed their return on time have until 1 April to pay their tax bill or set up a time to pay arrangement to avoid a financial penalty. The time to pay service allows individuals and businesses to spread their payments of up to £30,000 in instalments.

Government increases inheritance tax take

HMRC collected £5 billion from inheritance tax (IHT) between April 2021 and January 2022, £0.7bn more than in the same period a year earlier.

The 13% increase in IHT receipts is probably partly due to higher wealth transfers following increased deaths caused by COVID-19, according to HMRC.

However, the tax authority said it cannot verify its claim until full administrative data becomes available.

Andrew Tully, technical director of insurance company Canada Life, said rising house prices also contributed to the growth in IHT receipts.

The Treasury froze the nil rate band and residence nil rate band thresholds at £325,000 and £175,000 respectively until 2025/26 in March 2021, which may have pulled more estates into the range of IHT.

According to Shaun Moore of Quilter, the band freezes and rising house prices could lead to more estates facing a “hefty” IHT bill.

He added that the complexity of the complex nature of the UK inheritance system makes it difficult to plan for, particularly the residence nil-rate band.

Moore said:

"Perhaps now is time for a rethink of IHT to make the regime as easy to understand as possible for IHT payers."

BCC amends UK economic outlook

The British Chambers of Commerce (BCC) has amended its forecast for the UK economy in 2022 amid soaring inflation, tax rises and the Russian invasion of Ukraine.

Unfortunately, most of it is not good news, with the BCC lowering its expectation of GDP growth from 4.2% to 3.6% – less than half the growth of 7.5% in 2021.

The downgrade largely reflects a deteriorating outlook for consumer spending and a weaker than expected rebound in business investment.

GDP growth will slow sharply to 1.3% in 2023 before easing to 1.2% in 2024 due to limited activity following the cost-of-living squeeze, according to the BCC.

Of particular worry for savers is the BCC's prediction that CPI inflation will peak at 8% in Q2 2022 and outpace wage growth – significantly higher than the Bank of England's 6% forecast.

CPI inflation will fall back to the Bank of England's target of 2% in Q4 2024, over a year later than the previous forecast of Q2 2023, according to the forecast.

The BCC also expects UK interest rates to double over the course of 2022 from 0.5% to 1%, although this will do little to combat inflation due to the global factors behind the spike.

Consumer spending, meanwhile, is forecast to grow at 4.4% in 2022, down from the BCC's previous forecast of 6.9%.

Suren Thiru, head of economics at the BCC, said:

"Our latest forecast signals a significant deterioration in the UK's economic outlook.

"The UK economy is forecast to run out of steam in the coming months as the suffocating effect of rising inflation, supply chain disruption and higher taxes weaken key drivers of UK output, including consumer spending."

Britain faces biggest income squeeze in generations

Typical household incomes across Britain will fall by 4% in the coming financial year, the sharpest fall since the mid-1970s, according to the Resolution Foundation.

In its annual living standards outlook for 2022, the progressive think-tank forecasts the war in Ukraine to push up energy prices and inflation to over 8% this Spring.

The report examines the outlook for living standards in the UK as the UK moves past the worst of the COVID-19 pandemic and straight into a cost-of-living crisis.

But the war in Ukraine has exacerbated the situation, with the Foundation predicting inflation could peak at 8.3% in Spring – significantly higher than the Bank of England's 6.2% forecast from February.

As a result, real typical household incomes could fall by 4% in 2022/23, equivalent to £1,000 per household.

These figures take into account the £350 boost to incomes that the Government's energy rebates package will provide for most households.

Most working age benefits and the state pension are due to rise by 3.1% in April, which could mean a real-terms cut in the value of benefits by £10bn if inflation hits 8%.

Adam Corlett, principal economist at the Resolution Foundation, said: "For millions of low-and-middle-income families, this inflation-driven squeeze will be made worse by a living standards rollercoaster. In the longer term, turning around the UK's relative decline compared to other advanced economies, and reversing our terrible recent record on productivity, is the only route to meeting the living standards challenges Britain faces."

Important Information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future.

ISA eligibility depends on individual circumstances.

Pension eligibility depends on individual circumstances. Pension benefits cannot usually be taken until age 55.

Your home may be repossessed if you do not keep up repayments on your mortgage.

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