

# 2006 Pre-Budget Report



PBRN 19

6 December 2006

---

## MICROGENERATION: TAX TREATMENT OF INCOME FROM SALES OF SURPLUS POWER BY HOUSEHOLDERS

---

### Who is likely to be affected?

1. Householders who have invested in microgeneration technology and who receive payments from energy suppliers for sale of surplus power.

### General description of the measure

2. Legislation in Finance Bill 2007 will put beyond doubt that where private householders install microgeneration technology in their home for the purpose of generating power for their personal use, any payments they receive from the sale of surplus power to an energy company is not subject to income tax.
3. This exclusion does not apply to cases where surplus power is sold in the course of a trade.

### Current law and proposed revisions

4. Under section 5 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA), income tax is charged on the profits of a trade. Receipts which arise other than in the course of a trade fall outside this section.
5. Householders are able to make use of microgeneration technology to produce power for use in their homes, reducing their energy bills. In some cases, where households produce power in excess of their own needs, they can sell the surplus back to power companies. Any payments received in respect of such sales are not subject to income tax. Legislation will be included in the Finance Bill 2007 to put this situation beyond doubt.
6. Any individual selling power produced by microgeneration technology in the course of a trade is not covered by this exclusion and is liable to income tax under section 5 of Act 2005 (ITTOIA).

7. Microgeneration refers to the generation of electricity or the production of heat by those sources of energy and technology described in Section 82(7) of the Energy Act 2004 and not exceeding the capacity described in Section 82(8) of that Act.

**Further advice**

8. If you have any questions about this change, please contact Ruth Curtice on 020 7147 2602 or Craig Mason on 020 7147 2599. Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at <http://www.hmrc.gov.uk>