bright grahame murray

CHARTERED ACCOUNTANTS

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Contents

Confused on claiming residence band relief?

Working through inheritance tax (IHT) requirements come at a difficult time. The provisions of the residence nil rate band (RNRB), which can be passed on between deceased spouses and civil partners, has caused some confusion.

Any unused RNRB from the first death of a spouse or partner can be relieved on the death of the second individual. The claim is based on the value of the RNRB at second death, but some executors are mistakenly using the value at the date of first death.

The RNRB was introduced from 6 April 2017 at £100,000, increasing by £25,000 a year until reaching its current value of £175,000.

The claim for RNRB is made on IHT form IHT436, with the confusion coming from the entry at box 11: the value of the RNRB enhancement at the spouse or civil partner's date of death. However, the actual claim is based on the value entered at box 14. This should be the value of the RNRB at the date of second death, although it is easy to see why mistakes are being made given the confusing wording used by HMRC.

HMRC does not seem to be picking up the error, so if a mistake has been made a correction will have to be made by writing to the Revenue.

Conditions and transfer

Unlike the normal IHT nil rate band, the RNRB comes with various conditions. It is only available:

- At death (not against lifetime gifts).
- Against the value of a home (only one property can qualify).
- Where the home is inherited by direct descendants (including step, adopted and foster children).

Any unused RNRB can be transferred in the same way as the nil rate band, with a claim required within two years of second death. It doesn't matter if first death was before the introduction of the RNRB on 6 April 2017.

The unused RNRB of more than one spouse or civil partner can be transferred, but the overall total cannot exceed one full RNRB (£175,000).

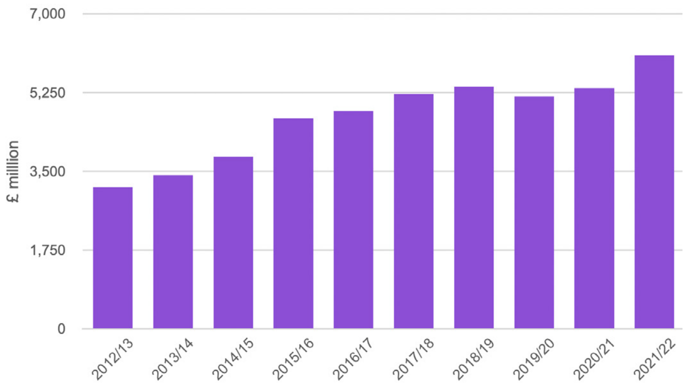
Detailed HMRC guidance on working out and applying the RNRB can be found from the link below:

https://www.gov.uk/guidance/inheritance-tax-residence-nil-rate-band

Inheritance tax receipts double in a decade

New data from HMRC show the Treasury's inheritance tax (IHT) receipts have doubled since 2012/13.

IHT receipts



Source: HMRC.

Of all the various taxes levied in the UK, IHT is one of the most peculiar:

- For a start, its name is misleading. In other countries that levy inheritance taxes, the tax is usually based on the inheritor and the amount that they inherit. In the UK, the tax would be more accurately described by its former name, capital transfer tax. Think tanks regularly suggest IHT should change from a levy on donors to a tax on recipients. In theory, the switch would encourage a wider distribution of assets. It could also raise considerably more revenue.
- IHT is often described as the UK's most hated tax. However, the amount of tax it raises for the Exchequer is small change: it is worth about 1% of the total produced by the three main taxes – income tax, national insurance (yes, that is a tax) and VAT.
- The great majority of estates do not pay any IHT. For married couples and civil partners who are homeowners with children, IHT is usually not an issue until their wealth exceeds £1 million. Statistics from HMRC show that in 2019/20, only 3.76% of estates suffered the tax. In practice, nearly half of estates will escape IHT simply because there is generally no tax on transfers between married couples and civil partners. However, this exemption does not apply to unmarried couples – in IHT there is no such concept as a common-law spouse.

New figures from HMRC show that in 2021/22 the IHT receipts rose by nearly 14%, with the average IHT bill faced by that small minority of taxpaying estates with a value of just over £250,000. One reason for the increase is the fact that the nil rate band is frozen. The freeze started in 2009 and its term has regularly been extended – the "thaw" is not now due to arrive until April 2026. With inflation surging, over three more years of freeze will drag more estates into the IHT net.

If IHT is a concern for you, there are a variety of ways to reduce its impact on what your children or grandchildren will inherit. It will not surprise you to learn that with such a misunderstood tax, the starting point is professional advice.

Getting in touch: HMRC's new email facility

Although there is no general facility to contact HMRC by email, it is slowly moving into the 21st century by providing the option to receive an email response. But of course, this comes with a few conditions.

Dealing with HMRC by post can be a slow process. With resources having been spread more thinly than ever due to the Covid-19 pandemic and Brexit, HMRC has only recently been working its way through the built-up backlog of post.

Scam risks

Scammers can use fake HMRC emails as a way of obtaining personal information, although, with improved scam email detection, they have now largely switched to text messaging. Nevertheless, HMRC points out the risks associated with using email. Their guidance raises various concerns:

- Emails sent may be intercepted and altered.
- Attachments could contain a virus or malicious code.

To reduce the risk, HMRC will desensitise information, by, for example, only quoting part of a unique reference number.

Confirmation

Anyone who would like to be contacted by email has to confirm to HMRC in writing by post or email that:

- They understand and accept the risks of using email;
- They consent to financial information being sent by email;
- Attachments can be used; and
- Junk mail filters are not set to reject and/or automatically delete HMRC emails.

HMRC should also be sent the names and email addresses of all people to be contacted by email, such as business owners, staff and the business's tax agent.

Confirmation will be held on file by HMRC and will apply to future email correspondence, with the agreement reviewed at regular intervals to make sure there are no changes. The use of email can be cancelled at any time by simply letting HMRC know.

HMRC publish a list of recent emails it has sent out to help people determine if an email is genuine. This list can be found from the link below:

https://www.gov.uk/guidance/check-if-an-email-youve-received-from-hmrc-is-genuine

Six-fold increase on late payment interest rates

HMRC late payment interest rates have now been raised six times during 2022 – from 2.6% at the start of the year to a current rate of 4.25%. However, at least there's some good news, with an uplift to the tax repayment rate.

The charge for late payment is set at base plus 2.5%. So, with the Bank of England base rate going up from 1.25% to 1.75%, HMRC's late payment rate has correspondingly gone up from 3.75% to 4.25%. The increased rate applies from 23 August and covers almost all taxes and duties – the exception being quarterly instalment payments of corporation tax, for which the rate has risen from 2.25% to 2.75% since 15 August.

Unfortunately, current predictions have the base rate peaking at 2.25% or 2.5% by the end of 2022, so further late payment interest rate hikes should be expected.

Get up to date

The latest late payment rate increase will hit taxpayers who are not up to date with their tax payments. Many will be struggling to pay outstanding taxes – particularly the latest self-assessment payment on account due on 31 July – against the backdrop of rising living costs.

- Banks and building societies have generally not passed on the latest 0.5% base rate increase to savers, so it makes sense to use savings to repay, or at least reduce, tax debt.
- For a tax liability of, say, £15,000, the annual late payment interest cost has already risen by nearly £250 to almost £650 during 2022.

Repayment rate

The one piece of good news is that the repayment rate on overpaid tax has gone up by 0.25% to 0.75%, being the first increase in over a decade.

However, the still meagre repayment rate means there is little incentive for HMRC to make prompt repayments, with taxpayers often encountering significant delays.

HMRC interest rates for late and early payment can be found from the link below:

https://www.learn-to-grow-your-business.service.gov.uk/

The rise of mini umbrella company fraud

The rise of mini umbrella company fraud continues to concern HRMC which has recently updated its guidance for businesses that either place or use temporary labour. Mini umbrella companies can be used to abuse the VAT flat rate scheme and the national insurance contribution (NIC) employment allowance.

The VAT flat rate scheme can only be used if a business's turnover is no more than £150,000, and the NIC employment allowance covers the first £5,000 of employer NIC liability each tax year.

Fraud

Mini umbrella company fraud is where multiple limited companies are created, with only a small number of temporary workers employed by each one.

Businesses should be aware of the potential dangers in their labour supply chain – apart from the impact on reputation, the business's workers may end up receiving less than they are entitled to. Workers are often unaware of the arrangements, may not even know who their employer is, and might be regularly moved around between different mini umbrella companies. The use of the mini umbrella company model can mean the loss of some employment rights.

Warning signs

Mini umbrella companies will normally be low down in the supply chain, so it can be challenging to spot them. Warning signs include:

- Unusual company names: The companies are often set up around the same time and given a similar or unusual name.
- Unrelated business activity: The business activity listed at Companies House may not relate to the services provided by the worker.
- Foreign national directors: Foreign nationals – who have no previous experience in the UK labour supply industry – are often listed as directors.
- Movement of workers: Employees are moved frequently between different mini umbrella companies.
- Short-lived businesses: Mini umbrella companies typically have a relatively short lifespan – often less than 18 months – before being dissolved by Companies House for not meeting filing obligations.

HMRC's updated guidance on mini umbrella company fraud can be found from the link below:

https://www.gov.uk/guidance/mini-umbrella-company-fraud

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