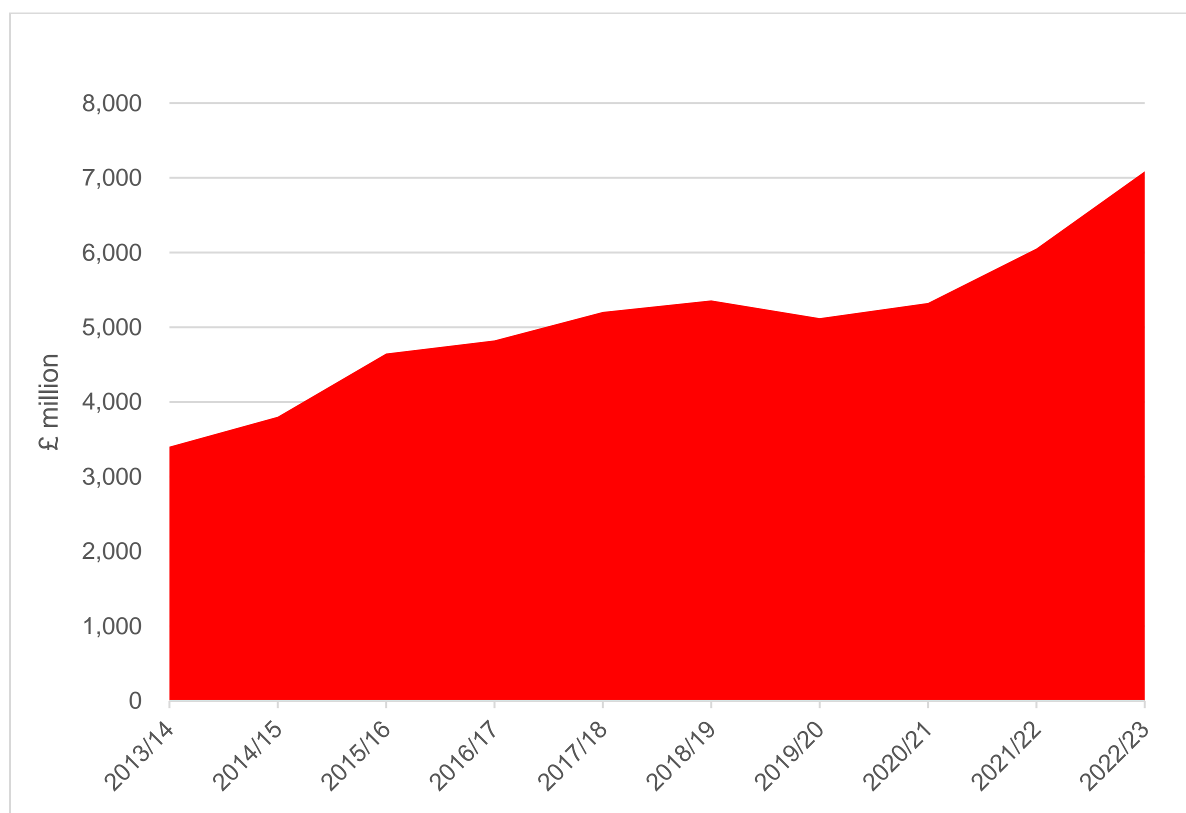
Will you be fueling the inheritance tax bonanza?

Recent data has revealed that inheritance tax (IHT) receipts reached a record level in the 2022/23 tax year.



Source: HMRC.

Every month the government publishes data that sets out HMRC's cash tax receipts in detail. The data issued in late April provided the first set of figures for the sums raised in the 2022/23 tax year. This showed that between 2013/14 and 2022/23:

- Overall HMRC receipts rose by 59.6%;
- Income tax receipts increased by 57.3%; but
- IHT receipts jumped by 108.3%.

For comparison, between April 2013 and March 2023, prices rose by 31.1%, using the CPI as a yardstick.

As the graph shows, the path to the more than doubling of IHT receipts was not smooth. Receipts barely changed between 2017/18 and 2020/21, mainly due to the phased introduction of the residence nil rate band (RNRB) and low inflation. However, in the following two years, the IHT cash entering the Exchequer's coffers rose by a third. That reflected both the end of the RNRB phasing and the rise in inflation.

Inflation is particularly important for future IHT receipts as both the main nil rate band and the RNRB are frozen at their current levels – £325,000 and £175,000 respectively – until at least April 2028. Such a prolonged freeze at a time of high inflation is a classic example of a stealth tax increase, dragging more estates into the IHT net and raising extra tax from those already caught.

Shortly before the 2022/23 IHT data emerged, the government quietly announced a technical change in its approach to discounted gift trusts, which have long been popular for IHT planning. The unexpected change was the first since 2013 and has reduced the attractiveness of the scheme for potential investors. Fortunately, there remain plenty of other options to mitigate the impact of the tax, from other lifetime trust-based arrangements to the careful structuring of a will.

IHT is a complex tax that requires a holistic, long-term approach to planning. If you would prefer more of your wealth to pass to your chosen beneficiaries rather than to HMRC, the sooner your plans begin, the better.

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 resources are 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.

The FCA's unusual warning on trusts

The Financial Conduct Authority (FCA) has issued a warning on some trust services.

An asset protection trust might sound like a good idea if you have assets you wish to protect. Unfortunately, the reality may be rather different, as the FCA made clear in a warning issued in late April.

Asset protection trusts are nothing new and for years have been marketed as a one-stop solution for retirees to:

- Reduce personal wealth and thereby limit the level of personal contribution towards long-term care costs;
- Save on probate fees and speed the distribution of their estate on death; and
- Cut inheritance tax (IHT).

In practice, the trust may achieve none of these goals. For example, where care costs are concerned, a local authority could treat the establishment of an asset protection trust as a "deliberate deprivation of assets". In such circumstances, the care fee assessment would ignore the existence of the trust.

Probate may also be complicated rather than simplified – and costs increased – by an asset protection trust, as the assets in the typical trust structure would still need to be considered when preparing a probate application. Similarly, the typical trust does nothing to ease the burden of IHT because the person creating the trust retains a right to the income from it.

The FCA said that it had "…seen cases of firms seriously mismanaging trusts with unsuitable investments being made by trustees." Those trustees may be associated with the promoter of the trust and, under the powers granted by the trust, have full discretion as to how to invest the trust's capital. As the FCA says, "…where the trustees involved are not sufficiently competent, or not acting in your best interests, there is scope for your money to be misused."

Before signing up to an asset protection trust, the FCA says you should seek:

- independent legal advice to ensure that the trust delivers the intended protection; and
- independent financial advice to validate any proposed investment strategy.

Do not be surprised if that advice leaves you wondering whether there is any benefit to an asset protection trust, other than for the promoter.

31 July: an important deadline for pension provision

If you have gaps in your national insurance contributions (NICs) record, then 31 July should be marked on your calendar.

The introduction of the new state pension in April 2016 was one of the most significant reforms to state benefits in decades. If you did not reach state pension age before 6 April 2016, there were two important adjustments to rules relating to pension entitlement and NICs:

- The period of NICs (including any credits) required to obtain a full pension was increased from 30 tax years to 35 tax years; and
- The corresponding minimum period for entitlement to any pension benefit moved from just one year to ten.

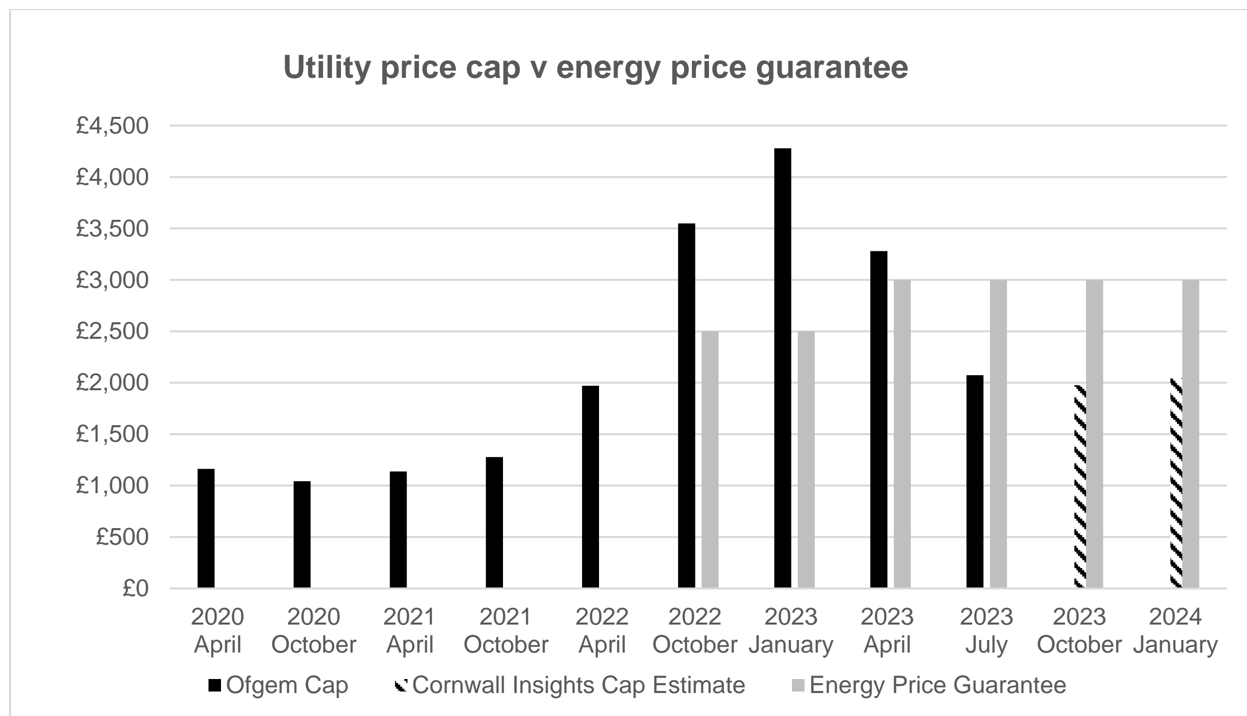
These changes left some people worse off, particularly those with contribution records of under ten years. To mitigate the effects, the government relaxed the rules permitting voluntary NICs to be made to fill in any missing years. These had normally only been payable for a maximum of the previous six tax years, but a temporary extension of the backdating period was introduced to allow voluntary contributions to cover the years from 2006/07 onwards. This concessionary payment period was meant to end on 5 April 2023, after which voluntary contributions could only have been made to cover periods from 2017/18 onwards.

As is often the case with financial deadlines, publicity in the form of press stories and subsequent public awareness both arrived late in the day. However, when it did appear, there was a tsunami that the Department for Work and Pensions and HMRC had not anticipated. On 7 March, the government was forced to announce that the payment deadline would be extended to 31 July 2023. In addition, the Treasury said that all voluntary contributions would be payable at 2022/23 rates – a useful perk when the main voluntary rate (Class 3) was raised by 10.1% for 2023/24 to £907.40 a year.

It seems unlikely that there will be any further extension of the voluntary deadline beyond 31 July. If you have any gaps in your NIC record between April 2006 and April 2017 – even if you have now passed state pension age – now is probably your last opportunity to fill them. However, it will not always be beneficial to make the top up, so you should seek advice before making any payments.

The Ofgem price cap returns

An announcement in late May will herald a fall in gas and electricity bills from July.



Source: Ofgem, Cornwall Insights.

Remember the Ofgem price cap?

A little over a year ago it was the headline grabber, with the news that the so-called utility price cap set by Ofgem would be rising in April 2022 from £1,277 a year to £1,971 – a 54% increase. The price leap prompted a flurry of government measures, including £150 council tax rebates, followed by a universal £400 payment and the introduction of an Energy Price Guarantee (EPG).

It was all somewhat bewildering, especially as the cap (and the EPG) were not limits on total household energy costs, but merely a regionally based ceiling on the standing and unit charges that suppliers could levy. In the March 2023 Budget, the Chancellor added a further twist by deferring a £500 increase in the EPG to £3,000 from April to July 2023.

Since last October, the EPG has been lower than the Ofgem price cap, meaning the Ofgem measure lost its consumer relevance. However, it has mattered to the government, which has been forced to meet the significant cost difference between the two. From July, the situation changes.

On 25 May, Ofgem announced that its new price cap for the three months from 1 July will be £2,074, 32% less than its April – June figure. Consequently, the EPG is the figure that will now become irrelevant – the consumer will pay less thanks to the new Ofgem price cap and the government will be off the hook for subsidising domestic bills.

On current estimates from Cornwall Insights, the next two iterations of Ofgem price caps (October – December 2023 and January – March 2024) will be close to the July quarter and well below the EPG. Thereafter, the EPG disappears, leaving the Ofgem cap the sole price arbiter.

The July switchback to Ofgem may encourage some providers to offer fixed rate deals – at present over 90% of domestic users are on the standard variable tariff, which not so long ago was considered the worst deal. As with many other financial decisions, you may find yourself wondering how much you are prepared to pay for certainty (such as a two-year fix) over the uncertainty (variable rates) that might deliver lower – or higher – costs.