

Residential Nil Rate Band [RNRB] Information

Introduction:

On 6th of April 2017 the Government introduced a new allowance to reduce the burden of Inheritance Tax (IHT) on families called the Residence Nil Rate Band (RNRB).

Everyone is still entitled to a tax free allowance (the Nil Rate Band allowance) of £325,000 to be applied to their estate on death while any assets above this amount on death are taxed at 40% and now additionally a specific exemption (up to limits please see below) for a residence is potentially available provided the asset is a property of part of and is being passed to children or other direct descendants and is done within the time limit.

What properties qualify?

The relief will only apply to one residential property per individual. Properties that were never a residence of the deceased, such as buy-to-lets, will not qualify. In estates that contain more than one residential property, personal representatives will be able to nominate which property should qualify. However, it will also apply to residences the deceased no longer owned on death as long as they owned them on or before the 8th of July 2015 and the equivalent value of the property is passing to direct descendants. This means an individual may downsize or sell their property and their family will still be able to benefit from the tax relief. The amount of the downsizing addition will generally be equal to the RNRB that's been lost because the former home is no longer in the estate.

Who counts as my direct descendants?

A direct descendant includes children, step-children, adopted children and foster children and their lineal descendants such as the deceased's grandchildren. This relief also applies if the residence is being passed to the spouse or civil partner of a lineal descendant. Once the direct descendants have inherited the home, there are no restrictions on what they can do with it. An estate will still qualify for the RNRB even if the direct descendants decide to sell the home after they've inherited it. However, if the Will contains a condition that the deceased's direct descendants have to reach a certain age before they can inherit the home which means the property is held in a trust, the RNRB wouldn't apply. This is because the descendants don't directly inherit the home on the death of the deceased.

How much is the allowance under the RNRB?

The value of the qualifying property for RNRB purposes will be its open market value less any liabilities secured on it such as a mortgage. There will be a tapered withdrawal of the additional relief for estates with a net value of more than £2 million. This will be at a withdrawal rate of £1 for every £2 over this threshold.

The additional relief will take effect on deaths on or after the 6th of April 2017 and will be as follows:

£100,000 in 2017 to 2018

£125,000 in 2018 to 2019

£150,000 in 2019 to 2020

£175,000 in 2020 to 2021

It will then increase in line with the Consumer Prices Index from 2021 to 2022 onwards. If the value of the residence is less than the maximum available RNRB the unused amount of RNRB can't be set against the other assets in the estate.

However, as with the Nil Rate Band allowance, the unused RNRB is transferable to the deceased's spouse or civil partner's estate when they die and leave a home to their direct descendants. This can also be done if the first of the couple died before the 6th of April 2017, even though the RNRB wasn't available at that time.

How will the RNRB apply to trusts?

If a qualifying property is put into a trust on an individual's death the RNRB will only be available if:

- The beneficiary of the trust is a direct descendant of the deceased and they fully receive the asset outright upon death of the deceased
- AND the type of trust is one that means the home is included in the beneficiary's estate for IHT purposes

For more information on Inheritance Tax or Residence Nil Rate Bands, please get in touch with us.