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Residence nil rate band

From April 2017, a new nil rate band – the residence nil rate band (RNRB) – is available for inheritance tax purposes. It increases the amount that can be left free of inheritance tax when the estate includes a residence (or a share in a residence) that is left to a direct descendant.

When is it available

The RNRB is available to an estate where:

- the individual dies on or after 6 April 2017;
 - the estate includes a residence or a share of a residence;
 - the residence or share of a residence is inherited by direct descendants of the individual;
- and
- the value of the estate is not more than £2 million (the allowance is tapered away once the value of the estate exceeds £2 million).

How much is it worth

The RNRB is set at £100,000 in 2017/18, increasing to £125,000 for 2018/19, £150,000 for 2019/20 and £175,000 for 2020/21.

It is available in addition to the normal inheritance tax nil rate band of £325,000. This means that by 2020/21 a couple can leave £1 million free of inheritance tax where the estate includes a residence worth at least £350,000, which is left to direct descendants.

Couples

As with the normal nil rate, any portion of the RNRB unused on the death of the first spouse or civil partner can be used on the death of the second spouse or civil partner. This is the case even if the first spouse or civil partner dies before 6 April 2017, as long as the second death occurs on or after this date.

Direct descendants

To qualify, the residence (or share in a residence) must be left to a direct descendant. This is a lineal descendant (children, grandchildren, great grandchildren, etc.) or the spouse or civil partner of a lineal descendant. Also qualifying, are step-children, adopted children and foster children of the deceased, and a child for whom the deceased was appointed a guardian or special guardian while they are under 18.

The residence

To qualify for the RNRB, the residence must be included in the deceased's estate and must have been lived in by the residence at some point. However, it does not have to be the main home.

An estate can also benefit from the RNRB where the deceased downsized after 7 July 2015.

Estates worth more than £2 million

Where the estate is worth more than £2 million, the RNRB is reduced by £1 for every £2 by which the value of the estate exceeds £2 million. For £2017/18 it is lost completely where the estate exceeds £2.2 million.

Partner note: IHTA 1984, s. 8D – 8M.

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