

How Does The Residence Nil Rate Band (RNRB) Save You Inheritance Tax (IHT)?

The residence nil rate band (RNRB) was introduced by the Chancellor of the Exchequer, George Osborne, from 6 April 2017. The aim of the RNRB was to make it easier for you to bequeath the family home to your direct descendants without being unduly taxed – to save you inheritance tax. This is in addition to the standard inheritance tax nil rate allowance of £325,000. The RNRB was set at £100,000 per person in April 2017 and has increased each April in £25,000 increments to 2020/21, thereafter it rises in line with the Consumer Price Index. So today the available RNRB allowance is £175,000 per person.

So, if you are married and your joint estate exceeds the current £650,000 threshold and you wish to leave your home to your children or grandchildren then you would do well to review how your will is currently structured to ensure that, if you are eligible, you can take advantage of the RNRB. So for example, in 2020/21 your combined inheritance tax allowances are £1,000,000 (£500,000 per person). Please note that the additional allowances apply to your residential property which has been your home and passed to a direct descendent.

The residence nil rate band (RNRB) Frequently Asked Questions

Q. What is meant by a direct descendants?

A. Direct descendants qualify if, on the date of your death, they are your children, adopted children, step children or fostered children, your grandchildren, the spouses of your children or grandchildren, the widowed surviving spouses or civil partners of your children or grandchildren (if not remarried/in a new civil partnership).

Q. Is the RNRB allowance transferable to my spouse/civil partner?

A. Any unused portion of the RNRB can usually be transferred to the surviving spouse / civil partner (watch out for the £2m “taper” threshold). The RNRB allowance is granted to executors at the second death for a first spouse who dies before 6 April 2017 so long as that spouse dies AFTER 6 April 2017.

Q. I have more than one property, how does RNRB apply?

A. RNRB applies to one residential property that has been your home, and it will be up to your executors to determine which property qualifies, however, a rented investment property for example, would not apply.

Q. I've downsized, do I still qualify for RNRB?

A. It is likely that you will, providing that you would have qualified for RNRB had you not sold your property, and the resulting property and assets pass to your direct descendants. However, this is a complex area and we suggest you seek professional advice for your particular circumstances.

Q. I have moved into care and now rent the family home to tenants; do I still qualify?

A. It is likely that you would, provided it was once your home and you are passing the property to your direct descendants. However, we suggest you seek further advice to ensure your circumstances meet the RNRB criteria.

Q. What is the £2m "taper" threshold?

A. The amount of RNRB which can be applied is reduced by £1 for every £2 by which your estate exceeds the taper threshold of £2m. We suggest you seek advice on how to ensure your existing estate protection planning means you don't lose out on the RNRB, especially if your spouse/civil partner may receive your estate on your death and be over the £2m threshold. Plus parts of your estate which may not count for inheritance tax may form part of the £2m taper threshold calculation.

Q. I have transferred my home as a lifetime gift to my children, will I be able to take advantage of the RNRB?

A. It is unlikely, as the RNRB applies only on your death. We suggest you seek advice on how to ensure your existing estate protection planning means you don't lose out on the RNRB allowance.

Q. I have established a Trust as part of my estate protection planning, will the RNRB apply?

A. It is unlikely, depending on the type of Trust, as the Trust is designed to be so effective that it in effect, disqualifies your estate from being eligible for the RNRB. We suggest you review your estate protection measures as a matter of urgency if this is the case.

The residence nil rate band (RNRB) was introduced with the aim of making it feasible for you to leave the family home to your direct descendants without being unduly taxed. The rules can however be complex (the above is for general guidance only), so to ensure you maximise your RNRB allowance and reduce your Inheritance Tax (IHT) liability, we suggest you review your estate protection measures as soon as possible.

If you would like more information or would like to discuss this with one of our expert Consultants our advice is completely free of charge (we apply a fee only if you proceed with the agreement to prepare the necessary legally documents for you.)