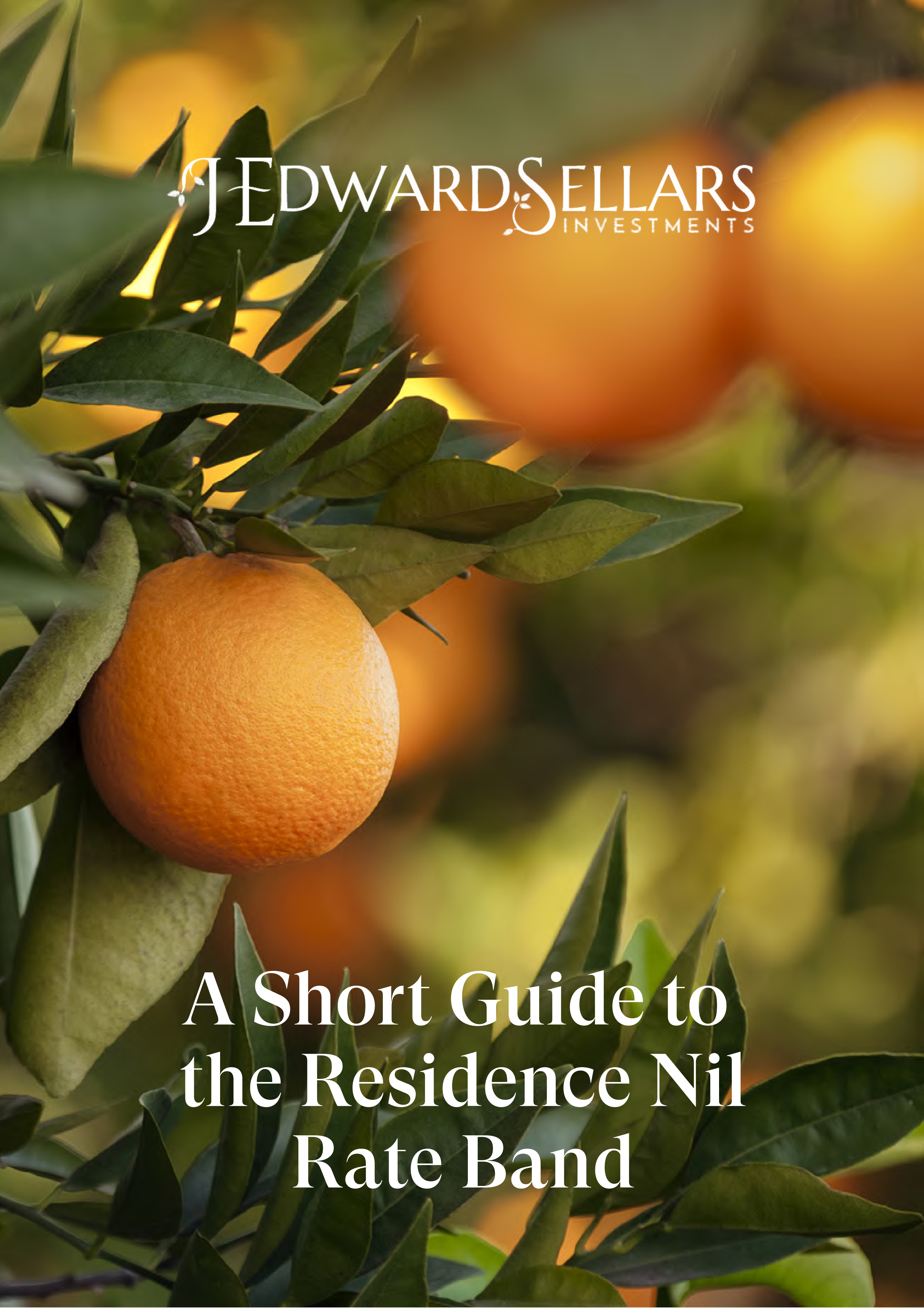


J EDWARD SELLARS INVESTMENTS

A Short Guide to the Residence Nil Rate Band

Since 2009, the nil rate band has been frozen at £325,000 per person, with no sign of increasing. As property prices have increased during this time, more families have been pushed over the threshold, facing Inheritance Tax (IHT) of 40% on the excess.

The Residence Nil Rate Band was introduced to combat this, and to avoid families being penalised on the rising value of their family home.

BACKGROUND

The Residence Nil Rate Band (RNRB) was launched in 2017. At the time, this extended the nil rate band by £100,000 per person, providing it was set against the value of the main residence.

The RNRB has since risen to £175,000 per person, although it is now set to remain level until at least April 2026.

This can result in an effective nil rate band of up to £1 million for a couple, providing various conditions are met.

JOINT PLANNING

The standard nil rate band can be passed to the surviving spouse on first death, meaning that the joint estate has a total nil rate band of £650,000.

Similarly, the RNRB can be passed between spouses, resulting in a total RNRB of up to £350,000 for a couple. This must be claimed as it is not automatically applied.

It’s possible to claim the RNRB for a deceased spouse if:

- They died after 6th April 2017 and their interest in the property passed to the surviving spouse.
- They died before 6th April 2017, as the RNRB did not apply prior to this, and they could not have used up any of the relief through other means. This is available even if the pre-deceased spouse did not own any property.

Someone who was widowed more than once could in theory claim more than one RNRB, but this is always capped at 100% of the prevailing threshold, currently £175,000. This could be useful if each deceased spouse had partially used up their RNRB on death, but this would require a very specific chain of events, so is unlikely to benefit many families in practice.

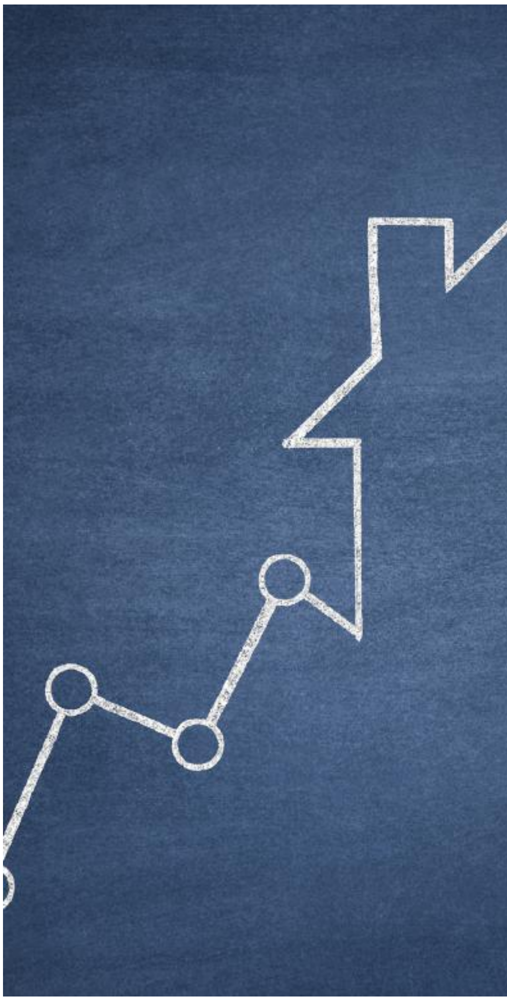
Joint nil rate bands are only available if you are married or in a civil partnership.

THE PROPERTY

The RNRB must be set against the value of a residential property. This means that if the residence is worth less than £175,000 (or £350,000 for a couple), it cannot be claimed in full. The relief is capped at the level of the property value.

While the new rules were intended to apply to the family home, there are some exceptions. If a former home is still owned but rented out, it can still be used to claim RNRB, providing the other conditions are met.

Similarly, if you downsize your property or sell your home to pay for care, you can still benefit from the RNRB. This is on the basis that the original home was sold after July 2015, and that it would have qualified for the RNRB if it had been retained until death.



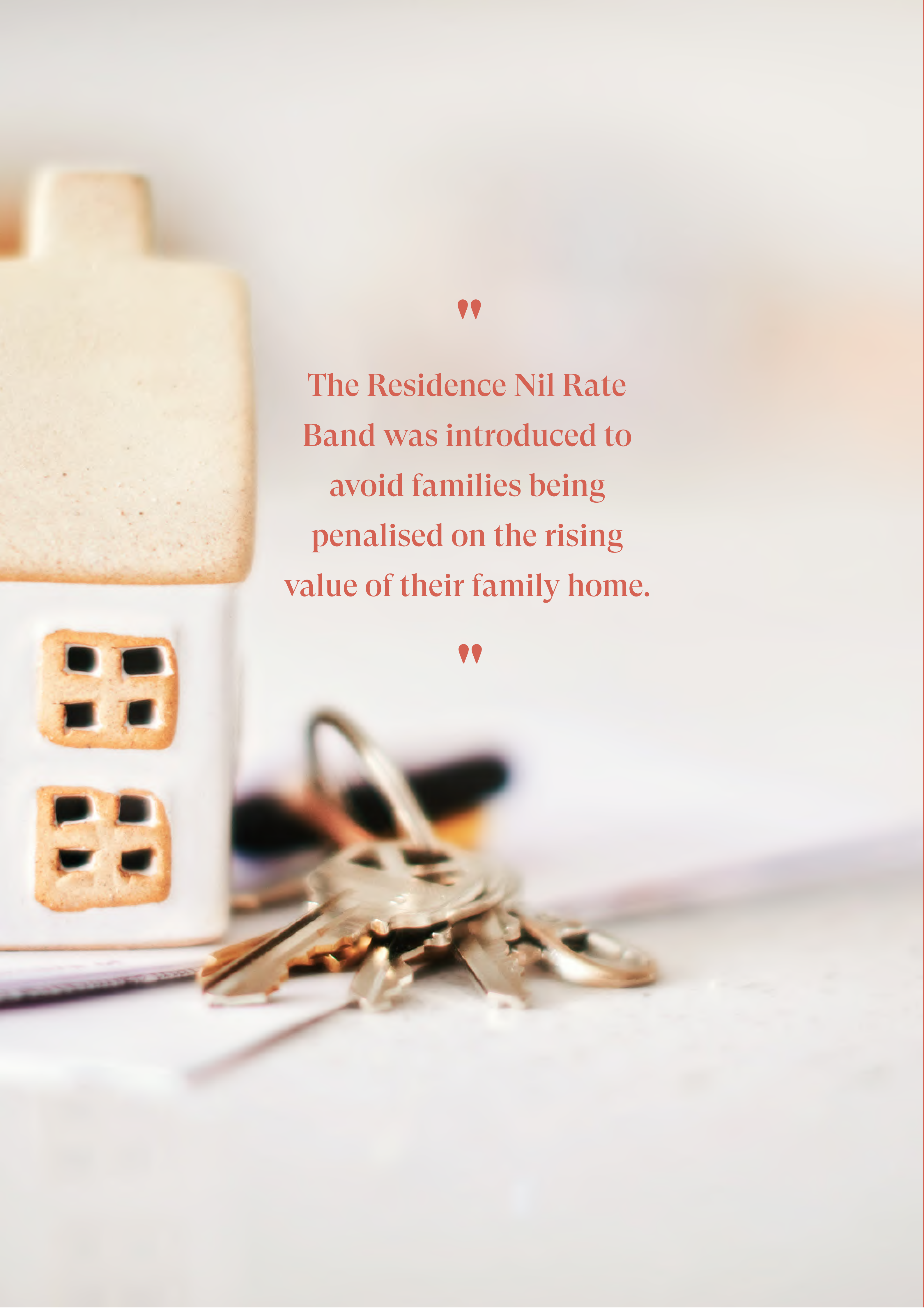
BENEFICIARIES

To qualify for the NRB, the property must be 'closely inherited'. This means it must pass to:

- A child (including adopted children)
- A grandchild or great grandchild
- A step-child
- A foster child, or someone for whom the deceased was appointed legal guardian
- The spouse or civil partner of one of the above, if the original beneficiary had died.

The RNRB can still be claimed if the house is sold by the executors, without ever being legally owned by the beneficiaries.

If the property passes to other relatives, such as siblings, parents, nieces or nephews, the RNRB cannot be applied.



"The Residence Nil Rate Band was introduced to avoid families being penalised on the rising value of their family home."

ESTATE VALUE

IIf the total estate is valued at over £2 million, the RNRB is gradually revoked.

This is applied at a rate of £1 for every £2 over the threshold.

This means that a single person's estate would lose the RNRB if it was valued at over £2,350,000. A couple would lose the relief based on an estate value of over £2.7 million. Unlike the RNRB itself, the threshold does not double for a couple.

But there is another difference between the RNRB and other aspects of estate planning. If you give away substantial assets during your lifetime, the value remains in your estate for seven years. This means that your estate could pay Inheritance Tax on assets that you did not own at the time of death. The intention is to avoid 'deathbed gifting' as a strategy to reduce or avoid IHT.

However, making gifts at any time can reduce your estate below the £2 million threshold. Depending on the assets and the circumstances of the family, this may not be practical, but could result in a significant IHT saving.

While there are a few caveats to be aware of, the RNRB could result in IHT savings of up to £140,000 for a family. It's worth ensuring that your estate is positioned to qualify for any reliefs available.

Please don't hesitate to contact a member of the team to find out more about estate planning.

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