



## The Residential Nil Rate Band

Under the current Inheritance Tax regime, on death the first £325,000 of each individual's net estate is taxed at 0%. This is known as the "nil-rate band" ("NRB"). Unless any tax reliefs apply, the rest of their net estate is then taxed at 40%.

For couples who are married or in a civil partnership, if the first to die has not used their full NRB, the allowance can be transferred to the surviving spouse, effectively providing them with a tax-free allowance of up to £650,000. This most typically occurs when the first to die leaves their entire estate to the surviving spouse, as gifts between spouses are usually entirely tax-free.

From April 2017 onwards, the government is introducing an additional "residential nil-rate band" ("RNRB") which can be set against the value of a residential property (or a share of one) where the homeowner leaves it to their children or grandchildren (including step-children, adopted children and foster children). The additional tax free amount will start at £100,000 in 2017 and will increase by £25,000 a year until 2020/21 when it reaches £175,000 per person. As with the normal NRB, married couples and civil partners are able to transfer any unused RNRB to the survivor. This can allow a couple to pass up to £1,000,000 to their children tax-free by 2021 if they maximise the available allowances.

While normally, in order to benefit from the RNRB, an individual must leave a residential property to their descendants, the new rules also allow individuals to claim the RNRB if they had previously owned a residential property but no longer owned it at the time of their death. This allows people who have downsized or moved into a care home to benefit from the additional allowance up to the value of the residential property that they previously occupied. The details of these rules are complex though and care should be taken to make sure they apply.

It is important to note that the RNRB will only be available in full for estates under £2,000,000. For estates that exceed this sum, the available RNRB will be reduced at the rate of £1 for every £2 by which the value of the net estate exceeds £2,000,000. In 2017, estates that are valued over £2.2million will not benefit from the RNRB and, by 2021, estates over £2.35 million would not benefit.