

Residence Nil Rate Band

The Government has introduced a transferable main residence allowance in addition to the existing nil-rate band.

What is the residence nil-rate band?

From April 2017, the residence nil-rate band (“RNRB”) will gradually be added to existing inheritance tax thresholds (currently £325,000 for a single person and £650,000 for a married couple/couple in a civil partnership). The RNRB will start at £100,000 per person and will increase by £25,000 each year until 2020-2021, thereby reaching £175,000. Thereafter, it will follow the consumer prices index. This will mean that, on the death of the survivor, they will be able to leave a residence valued up to £1m to their children (for example) without triggering a charge to inheritance tax.

What does it apply to?

The RNRB applies to a deceased’s residence. Only one residential property can qualify for the allowance. If a deceased has multiple properties, the personal representatives will be able to nominate which residential property should qualify. However, it has to have been used as the “residence” of the deceased.

Who does it apply to?

The RNRB only applies to people who leave their residence to lineal descendants. The term “lineal descendants” is not defined in the legislation, but is generally understood as synonymous with issue or direct descendants, so it includes children, grandchildren and remoter descendants, but not collateral descendants such as nieces and nephews.

Is the RNRB transferable?

To the extent that the RNRB is unused, it can be transferred (carried forward) to a surviving spouse if the survivor dies on or after 6 April 2017 (similar to the current £325,000 nil-rate band), even if the pre-deceased spouse died before 6 April 2017.

Is there a limit?

There will be a tapered withdrawal of the RNRB for estates with a net value of more than £2m. This will be a withdrawal of £1 for every £2 over this amount. This limit will result in further estate planning considerations, as some people will inevitably try and reduce their estates to under £2m before passing away.

What if you downsize or go into care?

The RNRB will also be available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the RNRB, are passed to lineal descendants on death.

This would apply to situations where the deceased:

- downsized to a less valuable residence and that residence, together with assets of an equivalent value to the 'lost' RNRB, have been left to lineal descendants
- sold their only residence and the sale proceeds, or other assets of an equivalent value, have been left to lineal descendants
- has otherwise ceased to own their only residence, and other assets of an equivalent value have been left to lineal descendants.

The broad intention is that an estate would be eligible for the proportion of the RNRB that is foregone as a result of downsizing or disposal of the property as an addition to the RNRB that can be used on death; 'the additional RNRB'.

The additional RNRB would be applied together with the available RNRB, but the total for the two would still be capped so that they would not exceed the limit of the total available RNRB for a particular year. The additional RNRB would be tapered away in the same way as the RNRB if the value of the estate at death is above £2m.

The introduction of the RNRB is a positive step towards mitigating inheritance tax, or perhaps avoiding it altogether. With careful tax planning and a well structured Will, the RNRB can be a valuable relief.

For further information on any of the issues raised in this Briefing Note, please contact a member of the Rooks Rider Solicitors Wealth Planning Team.



Karen Methold
Partner
Head of Wealth Planning
+44 (0)20 7689 7112
kmethold@rooksriders.co.uk



Nicholas Jenkins
Managing Partner
Wealth Planning
+44 (0)20 7689 7161
njenkins@rooksriders.co.uk



Christopher Cooke
Senior Partner
Corporate & Wealth Planning
+44 (0)20 7689 7110
ccooke@rooksriders.co.uk



Robert Drysdale
Associate
Wealth Planning
+44 (0)20 7689 7168
rdrysdale@rooksriders.co.uk



Elena Tzialli
Associate
Wealth Planning
+44 (0)20 7689 7141
etzialli@rooksriders.co.uk



Rooks Rider Solicitors LLP
Challoner House
19 Clerkenwell Close ■ London ■ EC1R 0RR

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