

Residence nil rate band' (RNRB)

As legislated for in Finance Act 2015 which amends section 8 of the Inheritance Tax Act 1984, an additional 'residence nil rate band' (RNRB) will be available in addition to the existing ('any assets') inheritance tax nil rate band of £325,000 in circumstances where an owner dies after 5 April 2017 and a 'qualifying' property is transferred to either:

- A lineal descendant of the deceased (which will include step children, adopted children, foster children, grandchildren and great grandchildren); or
- The spouse or civil partner of a lineal descendant of the deceased; or
- The surviving spouse or surviving civil partner of a lineal descendant of the deceased, who have not remarried

Qualifying Property

To qualify, the deceased must have an interest in a property which is, or was, their main residence and forms part of their estate on death. So, even if a property was let out at the time of death, as long as it had been used as the main residence at some point in the past, it will qualify for the RNRB. Buy-to-let properties which have never been used by the deceased as their main residence will not qualify.

Whilst, however, the RNRB will be limited to a qualifying residential interest in one residential property, if there is more than one, the personal representatives will be able to nominate which residential property qualifies.

The transfer must be on death and can be made by will, under intestacy or as a result of the rule of survivorship.

This measure will be introduced from 2017/18 and will be phased in as follows:

Tax Year	Additional RNRB	Existing NRB	Potential overall IHT threshold for married couples and civil partners
2017/18	£100,000	£325,000	£850,000
2018/19	£125,000	£325,000	£900,000
2019/20	£150,000	£325,000	£950,000
2020/21	£175,000	£325,000	£1,000,000

Depending on the circumstances this could mean that (from 2020/21) the overall inheritance tax threshold would be increased to a total of £1million for married couples and civil partners i.e. £500,000 each. The RNRB will, however, be reduced by £1 for every £2 where the value of the net estate (after deducting liabilities but before reliefs and exemptions) exceeds £2m. The RNRB is also transferable between married couples and civil partners to the extent that it is not used on first death.

This will be the case regardless of whether the first spouse/civil partner to die could have used their RNRB or not and the amount unused (expressed as a percentage of the amount available) will be applied to uplift the survivor's RNRB on second death.

In addition, it should also be noted that where the first death occurs before 6 April 2017 (and therefore before the RNRB actually exists) the new legislation provides that no part of this RNRB will be deemed to have been used on first death. So, where the first death occurs before 6 April 2017, the estate of the surviving spouse will always be entitled to a 100% transferable RNRB *unless* the estate of the first to die exceeded the taper threshold.

If both deaths occur before 6 April 2017 though, no RNRB is available to offset against the deceased's estate.

How this can work for married couples where first death occurs before, and after, 6 April 2017 is demonstrated in the two examples below.

Example 1 (1st death before 6 April 2017)

Simon died in April 2016 before the new rules come into force, leaving his entire estate (worth less than £2m) to his wife Sue.

Sue dies in May 2018 when the standard nil rate band is £325,000 and the additional RNRB is £125,000.

If Sue leaves her entire estate (which includes a qualifying residential interest worth £400,000) to her children, Sue's estate will have a full standard nil rate band of £325,000, a 100% transferable standard NRB of £325,000, a full RNRB of £125,000 plus a 100% transferable RNRB of £125,000.

Sue's RNRB will be off-set against any chargeable transfers of the family home before any of the standard nil rate band is used up. So, in this example then, where the family home is worth £400,000 on second death and the full £250,000 RNRB is available, the transfer of the family home to the children will use up the £250,000 RNRB first, followed by £150,000 of her available standard NRB.

Example 2 (1st death after 6 April 2017)

Harry dies in 2020/21 with an estate valued at £2.2 million.

Harry leaves all his estate (including his interest in the family home) to his wife Sally.

RNRB of £175,000 on first death is reduced by £100,000 (£200K excess / 2) = 57.2% used up

Transferable RNRB is 42.8%

On Sally's subsequent death, her estate will therefore have the full standard NRB, a 100% transferable standard NRB, a full RNRB and a 42.8% transferable RNRB.

As above in example 1, if on Sally's death the family home is left to her children, her RNRB (which will be 142.8% of the RNRB in force when she dies) will be off-set against any chargeable transfers of the family home before any of her available standard nil rate band is used up.

In recognition of the fact that the new rules could act as a disincentive to older people wishing to either downsize to a less valuable residence or sell a residence prior to death to move into residential accommodation the additional RNRB will also be available when a person:

- Downsizes, sells or gifts their home on or after 8 July 2015; and
- Assets of an equivalent value (up to the value of the additional RNRB) are passed on death to their lineal descendants.

The new rules on downsizing are included in Finance Bill 2016 but how this can work in practice is demonstrated in the example below:

John, a widower (who had previously owned the home jointly with his wife Margaret before she died in June 2018), sells his house for £400,000 in May 2020 and replaces it with a smaller house valued at £200,000.

John dies six months later and leaves the house together with the remainder of his estate of £800,000 (which includes the £200,000 cash from the proceeds of sale from the larger home) to his two children.

If the NRB is £325,000 in 2020/21 and assuming that 100% of Margaret's NRB was unused on her death, this would mean that his NRB would be doubled to £650,000.

Because however (a) John would have been eligible for a £175,000 RNRB had he not downsized and (b) the RNRB is also transferable between spouses to the extent that it hasn't been used on first death (and in this case none of it had been used because ownership of the home automatically passed to John) the estate now benefits from a double RNRB of £350,000, thus ensuring that none of his estate is subject to IHT.

Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change. However, independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given.