

Residence Nil Rate Band

An Overview

What is the Residence Nil Rate Band (RNRB)?

A top-up to the existing Inheritance Tax Nil Rate Band (NRB).

Inheritance Tax of 40% is payable on the portion of a person's estate above the Nil Rate Band (currently, £325,000).

Who is eligible for the RNRB?

People who wish to pass on their 'family home' to their direct descendants (children, stepchildren, adopted children, grandchildren or foster children).

The 'family home' must have been the main home at some stage, but it doesn't necessarily have to be where the person now lives.

Why is the RNRB being introduced?

To reduce the Inheritance Tax burden on family estates.

As house prices continue to rise, more and more family estates are becoming liable for Inheritance Tax – from 15,000 in 2010, to an estimated 40,000 in 2016 and a forecast of circa 66,000 in 2020/21. The RNRB allowance is expected to reduce this number to approximately 57,000 in 2020/21.

When will the RNRB be introduced?

The RNRB will be phased in between 2017/18 and 2020/2021.

How much will the RNRB be?

TAX YEAR	RNRB FOR ESTATES VALUED AT BETWEEN £325K AND £2 MILLION
2017/18	£100K
2018/19	£125K
2019/20	£150K
2020/21	£175K
FROM 2021/22	INCREASED IN LINE WITH CONSUMER PRICE INDEX (CPI)

- If the value of the property (or the relevant share of it) is less than the RNRB, the band will be reduced proportionally
- If the value of the estate is over £2 million, the band will taper off at a rate of £1 for every £2 of assets – therefore, there will be no RNRB for estates valued at £2.35 million or more

Will the RNRB be transferrable to the second spouse?

Yes, the RNRB will be transferrable in the same way as the NRB – even if the first spouse dies before April 2017.

For example, if the second spouse dies in 2017/18 tax year, there could be a total NRB of £650k plus an RNRB of £200k. In other words, no Inheritance Tax would potentially be payable on the first £850k of the second spouse's estate.

Will the RNRB apply to people who have sold or downsized their family home?

Yes, if the family home was sold or downsized after 8 July 2015.

The government's intention is to **not disincentivise** people from selling or downsizing their home.

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Who isn't eligible for the RNRB allowance?

- People with no direct descendants
- People who are not leaving their family home (or qualifying asset) to their direct descendants
- People who are leaving their family home (or qualifying asset) via a discretionary trust (see below)
- If the property was sold before 8 July 2015
- If the estate is valued at more than £2.35 million

How will the RNRB affect previous Inheritance Tax (IHT) planning?

Where a person has set up a discretionary trust to enable them to leave their assets to their children in a tax-efficient manner, the estate will not be eligible for the RNRB.

This is because the trustees, while constrained to distributing assets to only the named beneficiaries in the trust, are not legally bound to follow the person's wishes. They have discretion regarding which beneficiary receives which assets, how much and when. Therefore, the assets are not seen as passing directly to the beneficiaries – one of the eligibility criteria for the RNRB.

Where a trust is deemed to allow a property to pass directly to the beneficiaries, ie they are legally entitled to use the property or take an income from it, the estate will qualify for the RNRB.

Which types of trusts qualify for the RNRB?

TYPE OF TRUST	QUALIFIES FOR RNRB	DOES NOT QUALIFY FOR RNRB
LIFE INTEREST TRUST	⊙	
RIGHT TO OCCUPY	⊙	
AGE 18 - 25 TRUSTS	⊙	
DISCRETIONARY TRUST OF RESIDUE (IF IT INCLUDES QUALIFYING ASSET)		⊙
NRB DISCRETIONARY TRUST (IF IT INCLUDES QUALIFYING ASSET)		⊙
DISABLE TRUST	⊙	

Next steps

- Make sure you **REVIEW** your IHT planning in light of the new RNRB
- **CONSIDER** your reasons for setting up a discretionary trust, if you have one. Are these reasons still valid or have your priorities or circumstances changed?
- **SEEK ADVICE** from a qualified Will adviser who will help you to clarify your requirements and understand your options

Pavilion Row are specialists in Wills, Powers of Attorneys and Estate administration. All our advisers are qualified to the highest standards through the Society of Trust and Estate Practitioners (STEP). If you would like any advice regarding the above, please contact us on 01904 234840 or wills@pavilionrow.com.