

RESIDENCE NIL-RATE BAND (RNRB)

Simplified Guidance Outline

1. The relief came into effect after 5 April 2017.

2. The Basics

The relief is in addition to the standard Nil-Rate Band of £325,000 that is fixed until 2021. The additional RNRB relief from inheritance tax is as follows:-

Tax Year

£100,000 for 2017/2018;

£125,000 for 2018/2019;

£150,000 for 2019/2020;

£175,000 for 2020/2021

It is only available where there is a qualifying residence.

3. Qualifying Residence

- (a) The deceased must have held an interest in a property
- (b) It must have been lived in by the deceased at some stage and would have formed part of the deceased's estate
- (c) If the deceased held more than one residence the personal representatives need to elect a single chosen residence within 2 years
- (d) Where the value of the residence is less than the amount of relief, relief is limited to the value of the property

4. Qualifying Descendants

The relief only applies where the gift is to direct descendants ("closely inherited"). This is defined as:-

- (a) children
- (b) stepchildren
- (c) adopted children
- (d) foster children
- (e) lineal descendants, ie. grandchildren and great-grandchildren etc

Yes you read that correctly, stepchildren, adopted children and foster children potentially benefit with RNRB from four parents!

Relief does not apply where the residence is left to parents, siblings, nephews, nieces or other relatives.

5. Relief Transferable

Any unused excess of the relief is transferable to the surviving spouse or civil partner. For deaths that occurred prior to 5 April 2017 the surviving spouse/civil partner will still be considered to acquire an RNRB from their deceased partner provided the survivor is alive on 6 April 2017 so potentially saving £80,000 inheritance tax.

As years go by the individual relief for the estate of the person dying increases as in 2. above and so also does the individual relief of the person dying before 6 April 2017! So if a spouse dies in tax year 2020/2021 and his or her spouse died 30 years ago there will be two RNRB's of £175,000 potentially available.

Of course, should both spouses die prior to 6 April 2017 there is no relief whatsoever as they had both died before the new system commenced.

6. Downsizing

In order not to discourage the sales of residential property, disposals on or after the budget day announcement of 8 July 2015, relief applies where a taxpayer downsizes their residence or where it is sold because the taxpayer moves into residential care.

7. Taper Restriction

Taper threshold above £2m! RNRB is reduced by £1 for every £2 by which the net estate exceeds £2m. The net estate will be defined as simply assets less liabilities. Exemptions and reliefs are ignored so effectively no RNRB available where a net estate exceeds:-

£2.2m in 2017/2018
£2.25m in 2018/2019
£2.3m in 2019/2020
£2.35m in 2020/2021

8. Death Transfers Only

It only applies to the estate on death so it is not taken into account when calculating any tax payable on any failed potentially exempt transfers (PETs) or other lifetime transfers.

9. Claiming the Relief

The surviving spouse or civil partner has to make a claim to transfer any unused RNRB as with the normal NRB transfer.

If you don't claim it you won't get it!

For further details, please contact:-

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