

## **Pass on your house free of IHT**

The introduction of the residence nil rate band (RNRB) opens up the possibility of leaving the family home to successive generations without triggering an inheritance tax charge. It is available for deaths on or after 6 April 2017.

The RNRB is an additional nil rate band that is available where a qualifying residence is passed on death to a direct descendant. The RNRB is:

- £100,000 for 2017/18
- £125,000 for 2018/19
- £150,000 for 2019/20
- £175,000 for 2020/21

From 2021/22 onwards it will be increased each year in line with the Consumer Prices Index (CPI).

## **Estates worth more than £2 million**

Where the net value of the estate is more than £2 million, the RNRB is reduced at a rate of £1 for every £2 by which the value of the estate exceeds £2 million. Thus, for 2018/19, the RNRB is not available where the net estate exceeds £2,350,000.

## **Interaction with existing nil rate band**

The RNRB is available in addition to the normal nil rate band of £325,000. However, it can only shelter a residence that is passed on death to a direct descendant. The value of the RNRB is capped at the net value of the residential property (i.e. after deducting liabilities such as a mortgage) left to direct descendants where this is less than the maximum for the year, as set out above.

## **Transfer to spouse**

The spouses' exemption allows property to be left to a spouse or civil partner without triggering an inheritance tax charge. However, to ensure that the nil rate band is not lost, the proportion unused on the death of the first spouse or civil partner may be used transferred to the surviving spouse or civil partner and used on their death. The RNRB band operates in the same way and any unused proportion is transferred to the surviving spouse or civil partner.

The transfer is available even if the first death was prior to 6 April 2017 as long as the surviving spouse or civil partner dies after that date.

## **Qualifying residence**

The RNRB only applies where the residence that is passed on is a qualifying residence. This must be a residential property – a property such as a buy-to-let property in which the deceased has never lived does not qualify. Where there is more than one qualifying residence, the personal representative can nominate which one qualifies.

## **Direct descendant**

The RNRB is only available if the residence is left to a direct descendant. This includes a child (including step, adopted and foster children) and their lineal descendants.

## **Downsizing**

Where the deceased downsized after 8 July 2015 or ceased to own a residence after that date, the funds relating to the former residence can still qualify for the RNRB if passed to a direct descendant.

### **Example**

Ida and Edward have lived in their family home for many years. On her death in 2015, Ida left her whole estate to Edward. On his death in June 2018, he left his estate worth £850,000 equally between his two sons. The estate included the family home with a net value of £600,000. Edward's estate benefits from the nil rate band of £325,000 and 100% of Ida's nil rate band – a further £325,000.

He is also able to benefit from the RNRB (£125,000), plus 100% of Ida's RNRB (a further £125,000) as he leaves a qualifying residence to direct descendants. As the net value of the residence is worth more than £250,000, the available RNRB is £250,000.

Edward's total nil rate band (including the RNRB) is £900,000 ((2 x £325,000) + (2 x £125,000)). As the value of his estate is less than this, it is free from inheritance tax