



## Helping you to manage your money

### The Inheritance Tax Main Residence Nil Rate Band

The Conservatives have made quite a song and dance about the Inheritance Tax (IHT) nil rate band increasing to £1 million in their Election manifesto and subsequent Budget announcements but, as ever, there is devil in the detail.

As a result of the change to legislation, it is possible that married couples could save as much as £140,000 in IHT when the family home passes to children on death.

However, the new IHT additional or main residence nil-rate band (let's call it the RNRB for ease of reference) is not being introduced until April 2017 and it will not be until 2020/21 when families could escape IHT on up to £1 million of their wealth.

We have spoken to a number of clients who seem to have picked up an incorrect understanding of the changes from the media and we would like to take this opportunity to provide accurate information.





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We thought the easiest way of doing this would be to identify 10 key facts about the legislation which will help clients to understand how the new rules will operate in practice, to identify potential traps and pitfalls to be avoided and to highlight action which can be taken to make sure we maximise the additional allowance.

### 1. How much will it be?

The RNRB is in addition to an individual's own nil-rate band of £325,000 and conditional on the main residence being passed down to direct descendants, e.g. children and grandchildren.

The RNRB will not be introduced until 2017 and it will be phased in over four years. The full £175,000 allowance will not be available until April 2020. The RNRB will start at £100,000 and will increase by £25,000 each tax year until 2020 as shown in the table below.

Tax Year	Maximum residence nil rate band
2017 – 18	£100,000
2018 – 19	£125,000
2019 – 20	£150,000
2020 – 21	£175,000

It will increase in line with the Consumer Prices Index (CPI) from 2021/22 onwards.

We need to appreciate that these are, of course, the maximum amounts. The available allowance will be reduced if the value of the property is less than this.

For example, a father dies in 2020/21 and his will gifts his 50% share in the family home to his children. If this share is valued at £140,000, the extra £35,000 of RNRB will go unused. However, it might be possible to transfer this unused allowance to his widow.



### 2. When can the RNRB be transferred?

The RNRB will be transferable between spouses and civil partners on death, much like the standard IHT nil-rate band of £325,000. It is the unused percentage of the RNRB from the estate of the first to die which can be claimed when the second spouse dies.

For example, using the example above, the father will have not used 20% of the available RNRB (£35,000/£175,000%). So, if his widow dies a few years later, when the RNRB has increased to, say, £200,000, the monetary amount that will be transferable will be £40,000.

Therefore, if the value of the family home had increased to £480,000 so that the widow's 50% share is now valued at £240,000, then she could use her RNRB plus the unused RNRB of her late husband to ensure that there is no IHT liability on her share of the main residence, providing it is passed on death to her direct descendants.

***The RNRB will not be introduced until 2017 and it will be phased in over four years***



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### 3. Will everyone qualify for the RNRB?

Individuals with large estates may not see any benefit from the additional nil-rate band.

The RNRB will be reduced by £1 for every £2 that the deceased's net estate exceeds £2 million. This will mean that, on its introduction in April 2017, there will be no RNRB available if the deceased holds assets of more than £2.2 million. This will rise to assets of £2.35 million in 2021/22 when the full £175,000 allowance kicks in.

Other IHT reliefs such as Business Property Relief and Agricultural Property Relief are ignored when calculating the value of an individual's estate.

### 4. Who can benefit?

The RNRB is only available where the main residence passes on death to children (including adopted, foster or step-children) or linear descendants of the children.

The rules have also been extended to accommodate situations where the family home passes into the joint names of the deceased's child and their spouse.

### 5. What is the situation if the family home passes into trust?

The RNRB may be lost where, for example, the property is placed into a discretionary will trust for the benefit of children or grandchildren.

However, some trusts for the benefit of children/grandchildren will not result in the loss of the allowance. If the trust gives a child an absolute interest or interest in possession in the home the RNRB can still be claimed. Other trusts such as Bereaved Minor Trusts and Disabled Persons Trusts will also retain the additional nil-rate band.

If there are any family trusts involved which could include the main residence, it would be a prudent idea to seek specialist legal advice to ensure the RNRB is not lost.



### 6. What happens in the event of downsizing or moving into a care home?

The family home does not need to be owned at death to qualify. The reason for this is to help those who may have downsized or sold the property to move into residential care or to a relative's home.

The RNRB will still be available provided that:

- The property disposed of was owned by the individual and it would have qualified for the RNRB had the individual retained it:
- The replacement property and/or assets form part of the estate and will pass to direct descendants on death.

Downsizing or the disposal of the property has to take place after 8 July 2015 (the date of the post election Budget announcement) but there is no time limit on the period between the disposal and when death occurs.



## Helping you to manage your money

### 7. What is the situation with regard to holiday homes?

Only one residential property will qualify for the additional nil-rate band. It will be up to the personal representatives of the deceased to nominate which residential property should qualify if there is more than one in the estate.

A property which was never a residence of the deceased, such as a buy to let, cannot be nominated.

### 8. What is happening to the standard IHT nil-rate band of £325,000?

While we may benefit from some additional nil-rate band to set against the family home, the basic IHT nil-rate band will be frozen at £325,000 until the end of the 2020/21 tax year.

When combined with the full RNRB of £175,000 in 2020/21, this would provide a married couple with the headline £1 million nil-rate band. So, it is not quite like it said on the tin!

### 9. How might the ownership of the property cause problems for married couples?

Some wealthier married couples may miss out on the RNRB by not ensuring that their estates are shared in the most efficient way.

Many married couples will hold the family home as joint tenants. On first death, this means that the house passes to the surviving spouse with no IHT due because of the inter-spouse exemption. Therefore, the RNRB of the first to die is not used, with the surviving spouse inheriting the full unused allowance.

However, if the total estate on the death of the surviving spouse, which may include all or part of the deceased spouse's estate, is greater than £2 million, there is the possibility that both RNRBs could be lost because of the value of the estate.

Transferring the property ownership into 'tenants in common' will allow each spouse to control how the property passes on death and potentially preserve their entitlement to the RNRB by keeping each spouse's assets below £2 million.

On the first death, the deceased could use their RNRB by leaving part of their share in the family home to their children. In turn, this would reduce the value of the surviving spouse's estate, which could be further reduced if the deceased spouse also gives more assets away up to the value of their standard nil-rate band of £325,000.

For couples where there is the possibility of the combined estates adding up to more than £2 million, it is worth reviewing how the main residence is owned.

### 10. How could these changes impact upon our wills?

In any event, it is prudent to keep wills under constant review to cater for changing circumstances. This also includes ensuring that changes in legislative circumstances do not adversely impact upon what we would like to happen in the event of our death.

Missing out on the RNRB, by passing the family home into a discretionary trust for example, could see executors paying as much as an extra £140,000 in IHT.

Therefore, as a final word of advice, we would encourage everyone to review their wills on a regular basis.

### Conclusion

We hope you have found the content of this newsletter interesting and that you now feel you have a better grasp of the impact the changes in legislation might have on your own personal circumstances.

As ever, if you would like to discuss this further, please do not hesitate to contact your Breed Elliott Financial Planner.



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Market	Value at the start of 2016	Current situation	Comments
<b>Interest Rates</b> (BOE base rate)	0.5%	0.5% at 29.02.16	The Bank of England Base Rate remains at 0.5%.
<b>House Prices</b> (Nationwide)	House prices increased by 4.5% in 2015	The annual change in house prices is 4.8% at 29.02.16	UK house prices increased by 0.3% in February and there was a slight acceleration in annual house price growth to 4.8%.
<b>UK Share Prices</b> (FTSE 100)	6242.30	6,097.10 at the close on 29.02.16	The FTSE 100 increased marginally by 0.22% in February.

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