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Working to get the Residence Nil Rate Band

Pat Nown considers the complexities of the new IHT 'residence nil rate band' which unfortunately is not a simple exemption. Make sure your clients are aware of the new relief and meet the necessary conditions.

IHT on a family home?

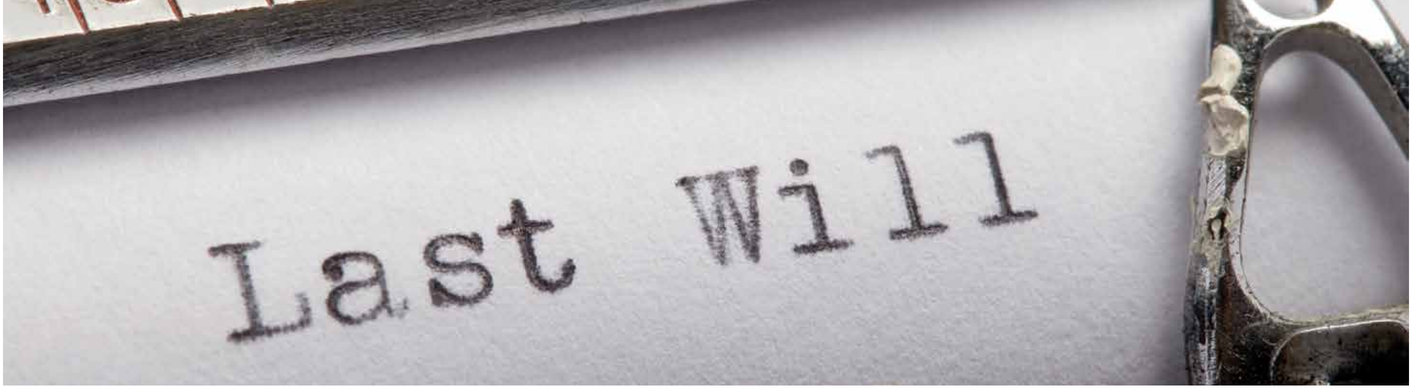
A delegate on a recent course of non UK origin was horrified to learn that in the UK we are charged IHT on the family home as under her home country's IHT, this is exempt when passed to family. The concept of being taxed on a home that you have worked to acquire over many years to improve your family's position seemed completely alien and inequitable. I would like to think that the availability of the new 'residence nil rate band' (RNRB) from 2017/18 in addition to the general nil rate band would provide some reassurance but unfortunately the RNRB is anything but a simple exemption.

RNRB relief

It is more appropriate to describe the RNRB as a relief rather than an exemption as it reduces the IHT on the chargeable estate at death if the estate contains a residence that qualifies for relief. Where an individual is married (not cohabitees) or in a registered civil partnership, they generally each have an entitlement. If on the first death the home passes to the other under the spouse exemption rule, then on the second death when there is a charge to IHT, the second spouse will have a double entitlement. This applies even where the first spouse died before 2017/18.

Phasing in

The entitlement is being phased in over a four year period commencing 2017/18 with an individual allowance of £100,000. This is to increase by £25,000 in each of the three subsequent tax years to a maximum of £175,000 for 2010/21. It is then expected to increase annually by reference to the consumer price index. So far so good, but unfortunately, the relief is reduced by £1 for every £2, when an individual's gross estate at death exceeds £2 million. This means that if in 2020/21 an individual died with an estate of £2.35 million they would not receive any RNRB. The limit would be £2.7 million if the individual could take into account the allowance of a deceased spouse.



The complexities of this relief are not however restricted to the calculations but… there are various conditions which need to be ticked off.

Conditions and complications

First, when establishing whether an estate is in excess of £2 million, this is the value before relief is given for Business and Agricultural Property reliefs, so where an individual has significant business or agricultural interests they may well exceed the limits. Lifetime planning may need to be considered to reduce high value estates so that they can qualify for some relief.

Second, the relief is only available against a property in which the person has resided at some point and in which they have an interest. This latter point will be an issue for certain couples where their only residence is in sole rather than joint ownership and this position should be reviewed to ensure both spouses can qualify.

A further complication arises if before death an individual who would have qualified has downsized to a lower value home or has no home in the estate at death. In this case there may still be an entitlement to relief but it depends on a number of factors which because of the complexities has led to HMRC issuing specific additional guidance.

A third matter to consider is that the relief is only available where the residence is inherited by direct descendants, essentially children, grandchildren and their spouses. The residence can be bequeathed into a trust but only in limited circumstances. It seems discriminatory that if you have no children the relief is not available if left to an alternative blood relative such as a sibling.

Advise clients and review Wills

What is clear is that evaluating whether clients are eligible and what advice should be considered to secure the relief requires attention, not least because current Will arrangements including any trust planning may be detrimental to securing the RNRB if not reviewed.

Guidance from HMRC available at **www.gov.uk/guidance/inheritance-tax-residence-nil-rate-band**.

Additional guidance also available on **how downsizing, selling or gifting a home affects the additional Inheritance Tax threshold**.

About the author

Pat Nown is Tax Consultant Lecturer at Mercia Group Ltd, one of the UK's largest providers of training and support services to the accountancy profession.

For Pat's upcoming events and online training for Mercia, visit **our website**.

The views expressed in this article are entirely her own.

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