

£1m IHT Relief?

The introduction of the Residence Nil Rate Band (RNRB) in 2017 appeared to offer the opportunity for parents to pass up to £1m of their estate to their children free of IHT. In reality it is not that straightforward.

What is the RNRB?

The RNRB was phased in over several years enabling up to £175,000 of the net value of a property to be exempt from IHT if it is passed to a direct descendant (i.e. children, grandchildren, step-children, and foster or adopted children). The property must be the main residence of the deceased and in the case of more than one property in an estate, only one can attract the RNRB. This relief is in addition to the existing Nil Rate Band (NRB) of £325,000 and, like the NRB, is transferable on death to a spouse. If the deceased downsized to a smaller, lower value home, or sold or gave away their home after 7th July 2015, the proceeds of that can still qualify for the RNRB. However, if the total estate exceeds £2million the RNRB will be tapered by £1 for every £2 the estate is valued over £2m even if the actual property earmarked for RNRB is worth much less than this.



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The RNRB and Your Will

The RNRB will not apply to property held in certain trust structures so it is important to review your Will. For example, if your property is left to a discretionary trust, the RNRB will not be available even if the only beneficiaries of the trust are your children (although there would potentially be two years to do a 'deed of variation'). That said, Trusts will still be appropriate in many circumstances for example, to retain control over the ultimate beneficiaries of your assets in the case of divorce and re-marriage.

The Reality

The RNRB threshold will reach its maximum of £175,000 on 6th April 2020 so the full £1m nil rate band only becomes a reality after this date and where the survivor of a married couple leaves their entire estate to their direct descendant(s), where the estate is benefiting from the full £325,000 NRB and £175,000 from both deceased partners and the value of the property in question exceeds £350,000.

For more information or to discuss how the RNRB may affect your own circumstances, please get in touch with your usual JJFS contact or email justask@jjfsltd.com.

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