

RESIDENCE NIL RATE BAND (RNRB)

APRIL 2024

The **residence nil-rate band** (RNRB) was introduced in 2017 as an addition to the **nil-rate band**, with the aim of reducing the amount of Inheritance Tax (IHT) payable **specifically on family homes inherited by children**.

As ever, the simple aim belies the potentially complex operation of such a specifically targeted piece of legislation. Those with large estates, or where wills do not currently leave the home directly to children (e.g. where will trusts are in place), may need to review their planning.

This note looks in detail at the rules underpinning the availability of the residence nil-rate band. Given the complexity of the rules, we suggest that professional advice is taken to ensure that full value is retained where possible.

SUMMARY

The RNRB is only **available on death**; on a 'home' included in the estate taxed to inheritance tax; and where the home is '**closely inherited**' by a child. The RNRB is not available for lifetime gifts or failed PETs (gifts given in the last 7 years before death which then become taxable to IHT).

The RNRB is only **available up to the value of the home** which is to be closely inherited, capped by the **maximum value of £175,000** (frozen to 5 April 2028). If only a part of the home is closely inherited, only that part value may be eligible for the RNRB.

Any unused amount of the RNRB can be **transferred** to the surviving spouse/civil partner.

The full amount of the RNRB is only available where the **estate on death is £2 million or less**. The band is tapered for estates over £2 million, by £1 for every £2 above this amount.

The RNRB is also available when an individual downsizes or ceases to own a home on or after 8 July 2015, when a **downsizing allowance** is calculated. The value of the downsizing allowance is limited by the value of the home disposed of, and by the value of the assets which are closely inherited on death. It cannot exceed the basic RNRB.



CALCULATION OF THE RNRB

On death, Inheritance Tax (IHT) is charged at 40% on the value of an individual's estate. However, the first part of the estate (£325,000 frozen to 5 April 2028) qualifies for a **nil-rate band**, where no IHT is charged.

For deaths after 5 April 2017, the **residence nil-rate band** (RNRB) offers an **additional band**, on top of the standard nil-rate band, where no IHT may be charged.

The RNRB only applies where there is:

- 1 a **'home'** in the estate on death;
- 2 which is **'closely inherited'** (see below).
 - The value of the RNRB available may be **limited** by these two factors.
 - A **downsizing allowance** is available where the home may have been sold before death.
 - Any unused amount of the RNRB can be **transferred** to the surviving spouse/civil partner.
 - The RNRB is **tapered** down by £1 for every £2 an estate exceeds £2million.

The band is currently as follows:

Tax Year	RNRB	Standard Nil-rate Band	Potential combined nil-rate bands for both spouses/civil partners
Frozen to 05.04.2028	£175,000	£325,000	£1,000,000

The RNRB value is added to the standard nil-rate band, and the total is deducted from the entire estate before calculating the IHT due. The RNRB does not apply against any one particular asset or home.

CALCULATION OF THE RNRB

Sue died in May 2024 with an estate consisting of her home valued at £150,000 and other assets valued at £400,000. Total estate value £550,000. She left her estate 50% to her daughter and 50% to her brother.

- The value of the home left to her 'descendants' is 50% of £150,000 = £75,000. This is the maximum RNRB that can be used, even though the standard RNRB is £175,000.
- In addition, the standard Nil Rate Band of £325,000 is available.
- The total of the NRB and RNRB available is therefore £400,000, leaving a balance of £150,000 of the estate subject to IHT at 40%. This gives an IHT bill of £60,000.
- If Sue had instead specified in her will that the home was to be given entirely to her daughter, with the balance of the estate then divided to achieve the desired 50% split, the whole property value would be within the RNRB. This could have given an additional £100,000 of RNRB, and saved IHT payable of £40,000.

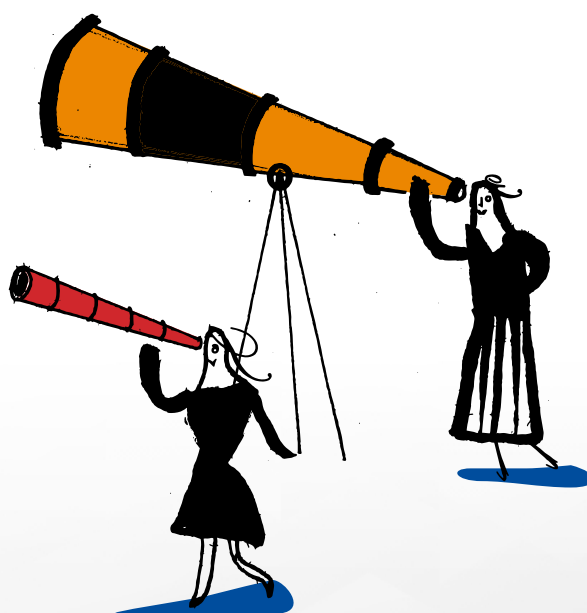
Please also see our note on IHT Planning, which gives an overview of how IHT and the standard nil-rate band work.

In addition, HMRC provide a helpful online calculator for the RNRB: <https://www.tax.service.gov.uk/calculate-additional-inheritance-tax-threshold>.

WHAT IS A 'HOME'?

For a house to qualify for the RNRB as a 'Qualifying Residential Interest', it must **fall into the estate** that will be taxed to IHT. It **must also have been occupied** by the deceased at some point as their home, so pure investment property would not qualify, and many holiday homes may also not qualify. **Only one home** can qualify, and the personal representatives can nominate which property if more than one might qualify.

Where a home is mortgaged, it is only the **net value of the home after the mortgage** has been deducted which is available to use for the RNRB test, and so may potentially restrict the amount of RNRB available.



CALCULATION OF THE RNRB

WHAT DOES 'CLOSELY INHERITED' MEAN?

The home must be left to a **direct descendant**, which means a child, grandchild, or other lineal descendant, or their spouse/civil partner. This includes: adopted; fostered; step children; or children that a person has been appointed a guardian/special guardian for.

The home may also be left for the absolute benefit of a direct descendant in **certain types of trusts**, and still qualify as closely inherited. These include immediate post-death interest trusts, disabled person's interest trusts, bereaved minors trusts or 18-to-25 trusts. Property left to a discretionary trust can never be considered to be closely inherited, and any wills drafted before the changes may need to be reviewed.

It must be the **actual home** that is left to the direct descendant, rather than being appointed via the personal representative instead of equivalent other assets (although the downsizing rules below may apply in this case).

A formal post-death variation (s142) can be used to adjust the terms of inheritance more favourably if the will has not been drafted favourably, or intestacy applies. An appointment out of trust within two years of death, under s144, can also be similarly effective.

DOWNSIZING ALLOWANCE

Individuals who have **previously** had a home that would have qualified for RNRB, but have sold or gifted this before their death, may be eligible for the **downsizing allowance** to increase the amount of RNRB available.

This is due only where all of the following apply:

- Some of the RNRB that the estate might otherwise have been entitled to, is unused because there isn't a valuable enough home in the estate on death. In other words, the downsizing allowance cannot increase the RNRB available above the basic RNRB;
- There was previously been a home in the estate that would have been valuable enough to use more of the RNRB if it hadn't been disposed of;
- The home was disposed of on or after 8 July 2015;
- Assets of an equal or greater value to the downsizing allowance claimed are closely inherited. It is not necessary that these assets are the direct or indirect sale proceeds of the home.



CALCULATION OF THE RNRB

TRANSFERABLE RNRB

If a person dies without using all the RNRB that their estate might have qualified for, the unused amount can be **transferred** to the estate of their spouse/civil partner. The unused amount is transferred as a proportion of the RNRB on first death.

Edith died when the RNRB was £100,000, and only used £30,000 of this. This gives 70% of the RNRB available for transfer to her husband, John.

John then died when the basic RNRB was £150,000, giving a transferable RNRB of $70\% \times £150,000 = £105,000$. A total RNRB would be potentially available to John's estate of $£150,000 + £105,000 = £255,000$.

The full use of this would depend on fulfilment of the other criteria regarding the value of the house being closely inherited. In addition, the standard and transferred nil rate bands may also be available.

The deceased may qualify for more than one transferable RNRB if they have survived more than one previous marriage/civil partnership, which can be added together. However, the total amount of transferable RNRB they would be entitled to is capped at 100%.

The transferable RNRB can apply even when the first death was before the introduction of the RNRB (i.e. pre-6 April 2017). The assumed basic RNRB on the first death is £100,000, and it is deemed that no part of this was used regardless of the actual circumstances or whether there was a home which was closely inherited – although tapering would still be applied if necessary. The transferable RNRB will therefore always be 100%, subject to tapering.

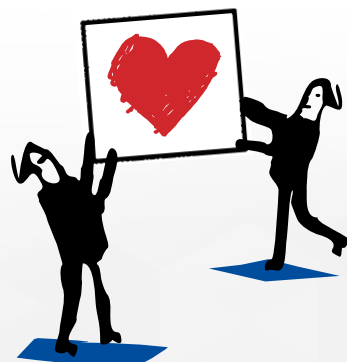
TAPERING

The RNRB is subject to tapering for estates over £2 million on death – at a rate of £1 for every £2 the estate exceeds £2 million. For example, an estate value of £2.1million would lead to a reduction in the RNRB of £50,000.

The estate value used in this instance is the value before any reliefs are applied – and so assets which qualify for Business/Agricultural Property Relief, for example, are included in the overall value.

Where a transferred RNRB is also available, on second death, then the value of that can also be tapered away if the value of the estate is large enough. For example, if the RNRB and transferred RNRB combined were £350,000, estates (on second death) over £2.7million would not benefit from any RNRB at all, even where the estate on first death was under the £2million threshold. Planning may be needed – for example, to gift assets away or into trust, or to utilise the NRB/RNRB on first death - to reduce the potential effect of the taper.

It is worth noting that failed PETs (gifts in the 7 years before death) are not added back into the value of the estate for taper calculations, and so 'death bed' planning may be possible to some degree.



FIND OUT MORE

If you have any questions about our investment methodology, or would like some financial planning or investment advice, the clarity team are here to help.

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