

Inheritance tax changes now offer chance to shelter up to £1m

There's a new allowance for a home left to a descendant

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Children, grandchildren and step, foster and adopted children all stand to benefit
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Next year, couples leaving a family home to their direct descendants will between them be able to shelter up to £1m from inheritance tax (IHT). That's because two years ago the government added an extra element — the residence nil-rate band (RNRB) — to the basic IHT allowance of £325,000.

Here's what you need to know about the new band.

How much is it worth?

Currently, £150,000 per person, or £300,000 for a couple who are married or in a civil partnership. Next year this will rise to £175,000 per individual or £350,000 per couple. When added to two helpings of the basic allowance, worth a combined total of £650,000, this means couples can enjoy an IHT-free allowance of £1m.

Who qualifies for RNRB?

It is available where a deceased parent is leaving a residence — a property that they have occupied — directly to a lineal descendant, which could be children, grandchildren, adopted children, stepchildren or foster children — although stepchildren will require a marriage or civil partnership between the child's parent and step-parent.

From when does the new extra allowance apply?

It applies for any deaths that have occurred since April 6, 2017. For deaths that happened in the financial year of April 2017 to April 2018, the RNRB is worth £100,000, rising in steps of £25,000 to £175,000 in 2020-21.

Does everyone eligible get the full allowance automatically?

It is limited to the size of your stake in the property. If you own a property or a share in one worth, say, £85,000, that is the limit of your RNRB.

What happens if my spouse died in 2015? Would they qualify retrospectively for an RNRB, which could be added to mine to cut the IHT bill for our children?

Basically, yes. If you have a married couple where one died before the introduction of the residence allowance on April 6, 2017, and the other is still alive or died after that date, the residence allowance of the first spouse to die could not have been used up as the allowance was not available then. So 100% of their residence allowance is available to pass on to the surviving spouse for the benefit of their estate.

If, however, a single person died before April 6, 2017, or both of a married couple died before that date, no residence allowance is available.

Are there any catches that could prevent you qualifying for the RNRB?

Generally speaking, the residence allowance is not available when the property passes into a trust on the deceased's death.

There can also be problems if a parent leaves the property to be inherited by children over the age of 25, or grandparents leave the property to be inherited by grandchildren at any specified age.

Jane Sutherland of solicitors Nelsons said: "Generally speaking, if the property passes into a trust on the deceased's death, it will not be directly inherited and the residence allowance will not be available.

"For example, if the deceased left the property into a discretionary trust, then, even though the only beneficiaries may be the children, the allowance will not be available, as the property hasn't been inherited directly."

Any other catches?

If the value of the assets owned by the deceased at their death is more than £2m, then taper relief applies to reduce the allowance by £1 for each £2 that the value of the assets exceeds that threshold.

If the deceased's assets at death are worth £2.2m — that is, £200,000 above the £2m threshold — then the residence allowance will be reduced by £100,000 from (currently) £150,000 to £50,000.

For more information, see bit.ly/resallowance.