



CAMPBELL & McCONNACHIE

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Property and inheritance tax

Could you benefit from changes to inheritance tax?

Inheritance tax (IHT) is sometimes called a 'voluntary tax' as there are a number of ways to minimise liability such as donations to charity and making use of gift exemptions.

From 6 April 2017 people will potentially have another tool at their disposal: the £100,000 residence nil-rate band (RNRB).

The RNRB (which is also sometimes referred to as the family home allowance) will apply when a family home is passed on to a direct descendant.

The allowance will increase by £25,000 each tax year until it reaches £175,000 in 2020/21. After that the RNRB will increase in line with the CPI measure of inflation.

Like the existing nil-rate band, people will be able to pass on any unused allowance to their spouse or civil partner.

This means that from April 2020, married couples and people in civil partnerships will potentially have a combined nil-rate band of £1 million.

However, there are details and exceptions that may affect your eligibility and tax planning.

Increases in the RNRB

Tax year	Nil-rate band	Residence nil-rate band	Maximum nil-rate band	
			Individuals	Married couples and civil partners
2017/18	£325,000	£100,000	£425,000	£850,000
2018/19	£325,000	£125,000	£450,000	£900,000
2019/20	£325,000	£150,000	£475,000	£950,000
2020/21	£325,000	£175,000	£500,000	£1,000,000



Inheritance tax basics

IHT is payable if a person's estate (their property, money and possessions) is valued at more than the nil-rate band when they die.

The current nil-rate band has been set at £325,000 since 2009. Anything that exceeds this is taxed at 40%.

For example, on an estate worth £500,000, the first £325,000 would be exempt from IHT but tax would be due on the remaining £175,000.

The estate can pay a reduced IHT rate of 36% on some assets if the owner leaves 10% or more to charity.

Individuals can transfer any unused allowance to their spouse or civil partner, effectively doubling the nil-rate band to £650,000 if the deceased used none of their own allowance (although this is rarely the case).

[Talk to us about ways to reduce your IHT liability.](#)

Who can inherit?

The first point to consider is that the RNRB only applies if you pass on a property to direct descendants.

Broadly speaking this means children and grandchildren but also includes:

- step children
- adopted children
- foster children
- guardian and special guardianship children.

You won't be able to take advantage of the RNRB if you pass your home on to someone who is not a direct descendant.



Property and inheritance tax

Eligible property

The RNRB is designed to help people pass on a 'family home' without paying IHT so there are rules surrounding what type of property is eligible.

If you own one residential property and you have lived in it, it will qualify for the allowance.

Where there is more than one residential property in the estate the executor or administrator of your estate can choose which property the allowance should apply to. This is a potential way to take full advantage of the allowance.

Property that you've never lived in, such as buy-to-lets, do not qualify.

Eligible property held in a trust will qualify for the RNRB provided that the beneficiary is a direct descendant.

The RNRB will be applied to property before the existing nil-rate band.

Example

Karen is single and has 2 daughters. She dies in September 2017 and leaves all of her estate to her children. This is made up of her home, which is worth £400,000, and assets of £50,000.

The RNRB can be claimed against the first £100,000 of her house, reducing the total value of her estate to £350,000.

Once the general nil-rate band has been deducted, £25,000 of Karen's estate is liable for IHT at 40%, meaning a tax bill of £10,000.

There may be other opportunities for Karen to reduce the value of her estate for IHT purposes.

Our team can help you work out your estate's tax liability.

Valuing your estate

The RNRB will be tapered on estates worth more than £2 million.

If the value of the estate (assets minus liabilities but ignoring exemptions and reliefs such as the spouse exemption) is above £2 million, the RNRB will be reduced by £1 for every £2 above the threshold.

Therefore, there will be no RNRB available on estates worth more than £2.2 million in April 2017 (assuming no unused RNRB has been transferred to a surviving spouse or civil partner).

This figure will increase each tax year as the band increases. From April 2020, individuals with estates worth £2.35 million will not have any RNRB available.

Planning tips

Estimate the value of your estate by adding up the market value of property, possessions and other assets minus any debts.

This rough estimate should give you an indication of whether you are likely to be affected by the taper reduction.

This is an opportunity to review your will to see if it can be structured in a more tax-efficient way.

For example, individuals who plan to pass all their assets on to their spouse or civil partner may find that any tax saving is negated if the estate exceeds £2 million at the time of the second death.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future.

FCA regulation applies to certain regulated activities, products and services, but does not necessarily apply to all tax planning activities and services.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation.

Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.

Downsizing

Those who downsize or no longer own a home on or after 8 July 2015 (when the changes were first announced) can potentially still benefit from the full RNRB.

Individuals will be able to pass on cheaper properties and/or assets up to the value of the full RNRB to direct descendants.

There are other conditions to meet in order to be eligible for this.

Talk to our team about additional qualifying conditions.

Unused allowance

The allowance is reduced if your property is worth less than the RNRB. Any used allowance can't be used against other assets to reduce IHT.

Example

Mike owns a flat worth £150,000. He dies in 2020/21 when the RNRB is £175,000 and leaves the flat to his grandchildren. His RNRB is £150,000 rather than £175,000.

Any unused allowance can be transferred to a spouse or civil partner, even if the deceased didn't own a property at the time of their death.

This is passed on as a percentage rather than a figure. On the second death, the unused RNRB available is calculated according to the current RNRB.

The full RNRB can be transferred to a spouse or civil partner if they died before 6 April 2017.

The new rules add complexity to estate planning but also offer potential to save tax. Contact us to review your circumstances.