



KEY FEATURES AND BENEFITS 25

Residence Nil Rate Band (RNRB)

The Residence Nil Rate Band (RNRB) refers to **Finance (No.2) Bill 2015** where an extra Residence Nil Rate amount will be introduced for deaths on or after **6th April 2017**. This is an addition to the Nil Rate Band (NRB).

AN ESTATE WILL BE ENTITLED TO THE ADDITIONAL RNRB IF THE:

- Individual owns a home, or a share of one, so that it's included in their estate.
- Individual's direct descendants such as children or grandchildren inherit the home, or a share of it. Direct descendants inherit property when they become:
 - 'Absolutely' entitled to it, or
 - Beneficially entitled to a qualifying interest in possession in the property. (i.e. a Trust!). See below.
- Value of the individual's estate isn't more than £2 million. For estates valued at more than £2 million, the RNRB (and any transferred RNRB) will be gradually withdrawn or tapered away. (See below).
- An estate will also be entitled to the RNRB when an individual has downsized to a less valuable home or sold or given away their home after 7th July 2015.

THE MAXIMUM AVAILABLE AMOUNT OF THE RNRB WILL INCREASE YEARLY.

This will be in addition to the current Nil Rate Band and will be phased on over 4 years.

| | |
|----------------------------------|-------------------------------|
| 2017 – 2018 | An additional £100,000 |
| 2018 – 2019 | Rises to £125,000 |
| 2019 – 2020 | Rises to £150,000 |
| 2020 – 2021 | Rises to £175,000 |
| 2021 onwards | Currently frozen |
| The current Nil Rate Band | Currently frozen |

THE HOME

The RNRB only applies to one home where it's both:

- Included in the deceased's estate on death, to be directed by their Will/ Intestacy Laws or joint ownership.
- Lived in at some stage by the deceased before their death.

If the deceased downsized or disposed of their home before they died, the RNRB only applies if the former home would have been included in their estate before the downsizing or disposal.

If the deceased owned more than one home, the personal representatives can nominate which one should qualify for the RNRB.

The home doesn't have to be a person's main residence at the time of death but it must have been lived in, or owned, for a minimum period. It can be any property that the deceased lived in as long as it's included in their estate on death. A property that the deceased owned, but never lived in, such as a buy-to-let property, won't be eligible for the RNRB.

DIRECT DESCENDANTS

The RNRB is only available where the deceased's residence, (or share) is inherited by direct descendants.

| Descendants | Non Descendants |
|--|-----------------|
| Children | Parents |
| Step children | Siblings |
| Adopted children | Nephews |
| Foster children | Nieces |
| Grandchildren | Other relatives |
| Great grandchildren | |
| & the issue of the above | |
| & Spouses of the above, unless they remarry | |

The RNRB only applies to the estate of a person who's died. It doesn't apply to gifts or other transfers made during a person's lifetime. This includes gifts that become taxable because they've been made within 7 years of a donor's death.

RESIDENCE NIL RATE BAND TAPERING

The RNRB will be tapered where the net estate exceeds £2m at a rate of £1 withdrawal for every £2 of value over the £2m. So for example from 2020, if a client's estate is valued at £2,350,000, there will be no additional RNRB to claim.

If widowed, then in a similar manner as to the transfer of Nil Rate Band, when possible they will be able to transfer an unused RNRB in certain circumstances, however, if the value of the widower's estate is in excess of £2.7m then there will be no RNRB to claim as it will have been tapered away completely.

USING TRUSTS?

Initial reactions to the RNRB feared that Trusts would not be suitable. However, this is not the case. It has now been confirmed (and notably by STEP and Counsel Opinion), that beneficiaries of some Trusts will still be able to claim the RNRB.

Of course in many cases clients are recommended Discretionary Trust(s) to receive some or all of their estate on death. No single beneficiary has a qualifying interest in such a Trust and therefore the RNRB will not be obtainable.

However utilising Discretionary Trusts still provide the maximum protection of a client's assets on death, so we would still want to recommend using them when appropriate.

So accepting Discretionary Trusts are the best advice to provide the maximum protection to then claim the additional RNRB, there are 2 options available, assuming lineal descendants exist.

1. Work can be considered 'post death' by the Trustees, within 2 years of the death to potentially create an Interest in Possession in favour of the qualifying beneficiary (ies).
2. Establish a **Flexible Family Trust** to receive the NRB & RNRB. The client's Will would need to reference this Trust. This Trust will allow the RNRB to be acquired within a specified period from death of the Settlor. It ensures that if the Trustees take no action at all the RNRB will not be wasted, assuming there were surviving lineal descendants.

Whichever option is taken it then would be critical, more than ever, that the Executors and Trustees understand their roles and the options available to them. So it is vital the appointment of Executors and Trustees is considered appropriately.

This sheet contains only general planning and is not to be construed as advice for any personal planning. Each strategy recommended is based on individual circumstances.