Professional Capital

Inheritance Tax

Residence Nil Rate Band (RNRB)

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Introduction

Since its introduction in April 2017, the residence nil rate band (RNRB) has provided additional tax relief for property passed to direct descendants. With the 2024 budget confirming that both the basic nil rate band and the RNRB will remain frozen at £325,000 and £175,000, respectively, until April 2030, understanding the complexities of RNRB remains crucial. These thresholds, unchanged since 2009, now affect a larger percentage of estates, as property values have continued to rise. This freeze means more estates than ever may fall within the inheritance tax net, making effective planning essential.

On the surface, this may look like a straightforward extension of the existing allowance. However, these provisions remain highly complex and, with the 2027 inclusion of inheritance tax on pension funds for estates above the threshold, navigating these rules is even more challenging. While basic information on RNRB is available on the government's website, the full value of this allowance lies in exploring how it applies to varied personal circumstances and in understanding strategies to maximise its benefits while avoiding pitfalls.

This guide aims to provide a clear explanation of these factors, equipping you with the knowledge to make informed decisions and plan accordingly. As HMRC advises, professional guidance is recommended to fully understand RNRB's impact on inheritance tax liability and to navigate new complexities introduced by recent changes. For further information, visit https://www.gov.uk/guidance/inheritance-tax-residence-nil-rate-band.

The RNRB Allowance – An Overview

The Inheritance Tax (IHT) Residence Nil Rate Band (RNRB), introduced in April 2017, provides tax relief in addition to an individual's standard IHT nil rate band of £325,000, specifically when a main residence is passed down to direct descendants, such as children or grandchildren.

NRB = Nil Rate Band

RNRB = Residence Nil Rate Band

For estates settled after 5 April 2017, the RNRB allowance enables additional tax-free relief on qualifying property. Combined with the standard nil rate band—frozen at £325,000 until at least April 2030—the RNRB offers a potential combined tax-free threshold of up to £1 million for married couples and civil partners, provided certain conditions are met. This could lead to an IHT savings of up to £140,000 for a couple's estate.

Furthermore, any unused RNRB can be transferred to the estate of a deceased person's spouse or civil partner, even if the first spouse or partner passed away before 6 April 2017, prior to the introduction of RNRB. However, RNRB cannot be transferred to an unmarried partner, even if they jointly owned the residence and lived together.

Starting in 2027, unused pension funds and other death benefits may also be subject to inheritance tax if they exceed the frozen nil rate threshold. This change highlights the importance of estate planning, as these allowances may be impacted further if left unmanaged.

Transferring Unused Allowances Between Spouses

Unused residence nil rate bands (RNRBs) can be transferred between spouses, providing significant tax-saving potential. Even if the first spouse died before 6 April 2017, it's possible to secure a carried-forward RNRB. The transfer is calculated as a **percentage** rather than a fixed amount, with the available RNRB on the second death calculated based on the current RNRB.

The Property

The RNRB is limited to a single property within an estate rather than applying per property. If multiple properties are owned, executors can choose which property qualifies, though properties classified as buy-to-let do not qualify for the RNRB. The chosen property must have been used by the deceased as a residence at some point, but it does not have to be their primary residence. With the RNRB threshold frozen until at least 2030, rising property values may pull more estates into inheritance tax, making this selection especially important.

Direct Descendants

The RNRB will only be allowed when you pass on a property directly to a direct descendant.

This includes:

- Children
- Step children
- Adopted children
- Foster children
- Lineal descendants such as grandchildren

If passed onto anyone else, then RNRB won't apply to your estate

Downsizing

The downsizing rule allows estates to still benefit from the RNRB if a person sold their main residence and moved to a less valuable property or no longer owned a home before their death. This rule was introduced to prevent families from needing to retain a larger, potentially burdensome property solely to maximise IHT savings through the RNRB. The reasons for downsizing—whether to release funds, simplify the estate, or support care needs—do not affect eligibility for this allowance.

To qualify for the downsizing addition, three conditions must be met:

1. The deceased sold or downsized from a previous home (or ceased to own one) on or after 8 July 2015.
2. The former residence would have qualified for the RNRB if it had remained part of the estate.
3. Some portion of the estate is inherited by direct descendants (such as children or grandchildren).

The downsizing addition compensates for the lost RNRB due to the property's absence in the estate, with the exact amount depending on the value of assets left to direct descendants. However, it cannot exceed the RNRB amount that would have been available if the property hadn't been sold or downsized. If the deceased disposed of multiple properties since 8 July 2015, the estate's representatives can select the property sale or downsizing event used to calculate the downsizing addition.

With RNRB thresholds frozen until at least 2030, the downsizing addition becomes a critical tool for families facing IHT. However, the calculation can be complex, and careful planning is advised to avoid common pitfalls or missed opportunities

Estates valued at more than £2 million

The main residence allowance is progressively withdrawn once an estate, including a main residence, is worth £2 million or more. This tapering continues at a rate of £1 for every £2 over the £2 million threshold, with the full Residence Nil Rate Band (RNRB) withdrawn by £2.35 million. This cap remains unchanged as of 2024.

However, due to changes effective from April 6, 2026, estates that previously benefited from full Agricultural Property Relief (APR) will see adjustments. APR, which has traditionally provided 100% relief for qualifying agricultural property, will now only fully exempt the first £1 million in value. For property valued above this cap, 50% of the excess will be exempt, and the remaining portion will incur inheritance tax at a reduced 20% rate, instead of the standard 40%.

Estates that rely on APR for substantial inheritance tax savings may therefore see higher tax liabilities if they exceed the £2 million taper threshold. Notably, Business Property Relief continues to be available and unaffected by the recent budget.

Agricultural Property Overview

Agricultural Property Relief (APR) provides inheritance tax relief for qualifying agricultural properties, but significant changes are on the horizon. Effective April 6, 2026, APR will cover 100% of the first £1 million of a qualifying property's value, with property valued above this threshold receiving 50% relief, and any remaining taxable value subject to a reduced 20% inheritance tax rate.

Additionally, as of April 2025, APR eligibility will extend to land under conservation agreements with government bodies, such as environmental and rewilding projects, provided these align with governmental environmental goals. This expanded scope supports conservation, though estates with high agricultural property values may now need to account for partial relief limits when calculating their overall inheritance tax exposure.

Wills and Trusts

Revisiting wills and trust arrangements is essential to optimise inheritance tax allowances, particularly if you want to maximise the Residence Nil Rate Band (RNRB). For those with the following arrangements, reviewing and possibly updating estate plans will likely be necessary:

- Tenants in Common and Discretionary Trusts: If you own your home as tenants in common and intend for the shares of the first spouse to pass away to be held in a discretionary trust, the RNRB could be lost under current rules. This is because discretionary trusts can complicate RNRB eligibility if the main residence is not passed directly to a descendant.
- Life Interest and Discretionary Trusts: For wills that leave the estate of the first to die in a life interest trust for the surviving spouse or include discretionary trusts for children or grandchildren, adjustments may be required to retain access to the RNRB. Discretionary trusts for beneficiaries who are not direct descendants could result in the RNRB being forfeited.
- Nil Rate Band Discretionary Trusts for Widowed Individuals: If you were widowed and a nil rate band discretionary trust was established upon your spouse's death, a review is necessary. While discretionary trusts can offer flexibility, they may also complicate eligibility for both the RNRB and the standard nil rate band.
- Bequests to Non-Descendants: Leaving property to someone other than direct descendants (e.g., friends or relatives not in the direct line) will generally disqualify the property from the RNRB.

For trusts involving family homes, the RNRB may apply if the main residence is left directly to a descendant. Trust types eligible for the RNRB when a direct descendant is the beneficiary include:

- Bare Trusts
- Interest in Possession Trusts
- Bereaved Minor Trusts
- 18-25 Trusts
- Disabled Persons' Trusts

In cases where property passes into a discretionary trust, a deed of variation may help, allowing property to be passed directly to an individual rather than a trust. However, this option is limited: varying a transfer into a discretionary trust often requires agreement from all beneficiaries, which can be challenging when the class of beneficiaries is broad.

Trust structures and wills should be carefully evaluated and, where necessary, adjusted to ensure they align with the latest RNRB requirements and maximise inheritance tax efficiency under current rules.

Some of the Variable Considerations and Complexities

The purpose of our guide is to provide you with the basic detail of the main points applying to this rule. We believe that ultimately this is an area which requires bespoke review and advice (see section below), as it is only by considering individual circumstances that clarity can be given in specific cases. However as an example of some of the complexities and potential pitfalls, as well as possible planning opportunities, we outline below some typical situations which may highlight areas to consider:

- It could be that there are provisions in existing wills which negate the potential benefits of this allowance; wills should be reviewed, as should existing estate planning measures;
- Married couples and those in civil partnerships who currently intend to pass all their assets (and nil-rate bands) onto their partner may find that any tax saving is negated if the estate exceeds £2 million at the time of the second death. There may well be ways to reorganise how assets are shared to avoid this loss of the tax benefit.
- If you have an estate which is more than £2 million when you include business assets or other assets which would obtain general IHT relief, you could be in the position where you lose the enhanced allowance even though your overall estate, for IHT purposes, is otherwise below the IHT threshold.
- If you have more than one residential property there could be complications around where this allowance may apply and it is worth exploring this further.
- The relief will not apply where a descendant obtains a contingent interest in a property, for example, where a Will specifies that a beneficiary will not receive their inheritance until reaching a certain age. This is a very common clause, which could cause a claim for the RNRB to fail.
- There will need to be careful consideration around gifts made historically and how these interact with the rule.

Reviews and Advice

As stated at the outset, what appears, at first sight, as a simple piece of legislation has remarkable complexity in the way it is applied and how both individuals and couples should deal with this in the context of their financial planning.

Arguably, this is one of the most important changes we have seen in recent times, with almost universal need for those who will or may be affected (because of their estate values) by this change to take forward looking advice to review their positions.

Estate Planning

Ultimately the area we are looking at here is much wider than a simple quest to make sure that you are benefiting from this allowance, if possible. The area of financial planning is Estate Planning or Succession Planning, whereby we want to help you look at the whole subject of preserving your family wealth. So these rules have to be considered in the context of this much wider subject.

As the tax legislation shifts there is a clear opportunity for individuals and couples to gain considerable advantage. More and more areas of central taxation policy actually open simple tax planning measures; these include the recent introduction of a dividend allowances, higher personal allowances against income tax and also improvements to ISA rules and allowances.

The challenge at a personal level is to balance the here and now, with the longer term (especially in a world where average age of death is increasing and care costs are escalating). This leads to regular reviews, not just to cater for rules, such as the RNRB rules outlined here, being a feature of any successful ongoing plan.

Do you need to take action?

There are many scenarios where the rule could impact on your wider plans, so it is a virtual universal answer to say that it is worth getting your existing position reviewed.

It is especially prevalent for couples who have discretionary trusts to undertake a fresh review, for any individual or couple who have business or agricultural assets within their estates, for anyone who is unsure if a property will qualify, for anyone whose estate may be close to or over £2 million and for any situations where existing estate planning around trusts/gifts etc. has been previously executed.

One final point to remember – in the vast majority of situations, the actual day of reckoning, when an IHT liability may arise, is likely to be some time in the distant future, when IHT legislation could be very different or your asset position could be very different. There is therefore often good reason to take steps to protect assets and pursue protective measures even when the existing view might suggest there is a currently no obvious concern.

Any individual or couple interested in protecting family wealth through the generations should aim to plan ahead, wary that future tax rates, allowances could be very different, as could their own asset positions.

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