



# The new £1m Inheritance Tax allowance

In the wake of the 2015 General Election, the Conservative Party confirmed it would deliver on its Manifesto promise that parents could pass their property up to the value of £1m to their children free of Inheritance Tax, thanks to a new 'family home allowance'.

The allowance is called the Resident's Nil Rate Band (RNRB) and takes effect in April 2017. By 2020/21 it effectively adds £175,000 to each parent's nil-rate band (currently £325,000) in respect of their main residence, bringing the total that may be transferred inheritance tax (IHT) free on the second death to £1m.

## Basic rules

An estate will be entitled to the RNRB if:

- the individual dies on or after 6 April 2017
- they own a home, or a share of one, so that it is included in their estate for Inheritance Tax
- their direct descendants, such as children or grandchildren, inherit the home or a share of it
- the value of the estate is not more than £2m (*estates valued at more than £2m the RNRB (and any transferred RNRB) will reduce by £1 for every £2 over the £2m taper threshold. This means that in the tax year 2020 to 2021, an individual would not be entitled to the RNRB if their estate is worth more than £2,350,000.*)

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 7 July 2015, provided the deceased left the smaller residence or assets of equivalent value to direct descendants.

## The RNRB allowance

The maximum amount of RNRB will increase every tax year as follows:

Tax year at death	RNRB
2017/18	£100,000
2018/19	£125,000
2019/20	£150,000
2020/21	£175,000

For later years, the amount of the RNRB will increase in line with the Consumer Prices Index.

Any unused RNRB can be transferred to the deceased's spouse / civil partner's estate. This can also take place if the first of the couple died before 6 April 2017 (even though the RNRB wasn't available at that time).

## The definition of direct descendant

For RNRB purposes, a direct descendant of a person is:

- a child, grandchild or other lineal descendant of that person
- a spouse or civil partner of a lineal descendant (including their widow, widower or surviving civil partner)
- a child who is, or was at any time, that person's step-child
- an adopted child of that person
- a child who was fostered at any time by that person
- a child where that person is appointed as a guardian or special guardian for that child when they're under 18

*HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.*

*Contains public sector information licensed under the open Government Licence V3.0.*

## Example case studies

**Mr A** dies in the tax year 2020 to 2021 and leaves a home worth £300,000 and other assets worth £190,000 to his children.

- The maximum available RNRB in tax year 2020 to 2021 is £175,000.
- The RNRB that applies is £175,000 (the lower of the home value or £175,000)
- The Inheritance Tax Nil Rate Band (NRB) is £325,000

Estate value	£490,000
Less RNRB	£175,000
Remaining estate value	£315,000
Less NRB	£315,000*
Value that IHT is due on	£0

\*£10,000 of NRB is unused and can be transferred to spouse.

**Mrs B** dies in the tax year 2020 to 2021 leaving a flat worth £100,000, and other assets of £400,000 to her son. She leaves the rest of her assets of £500,000 to her husband; these are exempt for IHT purposes.

- The maximum available RNRB in tax year 2020 to 2021 is £175,000.
- The RNRB that applies is £100,000 (as it is the lower of the home value or £175,000)
- The Inheritance Tax Nil Rate Band (NRB) is £325,000

Estate value	£500,000
Less RNRB	£100,000*
Remaining estate value	£400,000
Less NRB	£325,000
Value that IHT is due on	£75,000

\*£75,000 of RNRB is unused and can be transferred to spouse.