

How to pass £1m to your children IHT free

April 2020

From April 2020, changes to the Residence Nil Rate Band could allow parents to pass up to £1,000,000 inheritance tax-free to their children.

Inheritance Tax ([IHT](#)) is probably one of the most hated taxes in the UK, as the money and assets you've acquired throughout your lifetime, through income already taxed, are taxed again on your death. However, not everybody realises that we all have the benefit of a Nil Rate Band and more.

The Nil Rate Band is the first slice of your estate (everything you own at the time of your death) which is taxed at 0%. This is currently set at £325,000. That's £325,000 that can pass tax-free. The remainder of your estate is then taxed at 40%.

If you do not use all or a part of your Nil Rate Band during your lifetime, or your estate does not use it upon your death, your Unused Nil Rate Band can be transferred to the estate of your spouse or civil partner (spouse). This means that a surviving spouse can get the benefit of both Nil Rate Bands. So, if you are a surviving spouse you may pass up to £650,000 of your estate to your children tax-free. Anything above this will be taxed at 40%.

In addition to the Nil Rate Band and Transferrable Nil Rate Band, on 6 April 2017, the government introduced a [Residence Nil Rate Band](#) linked to your residential property, meaning an additional £100,000 could be passed to your children tax-free.

The Residence Nil Rate Band was set to increase by £25,000 a year until 6 April 2020, when it reached its maximum allowance of £175,000. And, again, if you don't use your Residence Nil Rate Band it can be transferred to your surviving spouse.

This means that from 6 April 2020, the estate of the second spouse to die can benefit from an additional £350,000 Residence Nil Rate Band, which can be left to your children tax-free.

So, if an estate is eligible, it can benefit from:

1. the Nil Rate Band of £325,000;
2. the Transferrable Nil Rate Band of £325,000;
3. the Residence Nil Rate Band of £175,000; and
4. the Transferrable Residence Nil Rate Band of £175,000.

That's £1,000,000 that could pass to your children tax-free.

"Good estate planning could help you to reduce the inheritance tax bill for your estate"

Not everybody will be entitled to either the Residence Nil Rate Band or the maximum amount claimable, as your estate must qualify. The rules are quite complicated, but in short, to be eligible for the Residence Nil Rate Band your estate must have a qualifying residence (a property that you have lived in or are living in at the date of your death), which passes to your direct descendants - to the next generation (i.e. your children or your grandchildren).

Further, the relief is capped. This means that if the value of your estate is above £2,000,000, any entitlement to Residence Nil Rate Band will be reduced by £1 for every £2 above £2,000,000. So, for example, an estate over £2,350,000 will not benefit.

To find out if your estate qualifies for Residence Nil Rate Band relief or any other available reliefs, call [James McMullan](#) or [Lalita Kauldhar](#) today.

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Note: This is not legal advice; it is intended to provide information of general interest about current legal issues.

