

Fact sheet:

The main residence nil rate band



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PART OF
BROOKS MACDONALD

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In the July 2015 Budget the government introduced new rules which introduced an additional main residence nil rate band (RNRB) for an estate if the deceased's interest in a residential property, which has been their residence at some point and is included in their estate, is left to one or more direct descendants on death.

The value of the RNRB for an estate will be the lower of the net value of the interest in the residential property (after deducting any liabilities such as mortgage) or the maximum amount of the band. The maximum amount is £175,000 in 2024/25, and is now frozen until April 2028.

The qualifying residential interest is limited to one residential property but personal representatives can nominate which residential property qualifies if there is more than one in the estate. A property which was never a residence of the deceased, such as a buy-to-let property, does not qualify.

As with the existing nil rate band, the RNRB will be transferable where the second spouse or civil partner of a couple dies on or after 6 April 2017 irrespective of when the first person died.

If an estate does not qualify for the full amount of main residence nil rate band, the estate may be entitled to a downsizing addition if all these conditions apply:

- the deceased disposed of a former home and either downsized to a less valuable home, or ceased to own a home, on or after 8th July 2015;
- the former home would have qualified for the main residence nil rate band if it had been kept until death; and
- at least some of the estate is inherited by the deceased's direct descendants.

Please note, the downsizing addition cannot exceed the maximum amount of RNRB that would have been available if the disposal or downsizing hadn't happened.

Furthermore, if the net value of the estate (after deducting any liabilities but before reliefs and exemptions) is above £2 million, the RNRB will be tapered away by £1 for every £2 that the net value exceeds that amount.

When you work out the value of the estate for taper purposes you don't take off any:

- exemptions such as spouse exemption;
- reliefs such as Agricultural or Business Relief; and
- you ignore assets that are specifically excluded from IHT (excluded property).

The RNRB is only available where the main residence passes to children (including adopted, foster or step children) or linear descendants on death.

Please see overleaf for an example of how the RNRB would be applied.

Example:

David and Lisa are married. On David's death in 1997, he leaves his half share of the matrimonial home, together with the remainder of his estate, to Lisa. Lisa dies in October 2018.

The value of the matrimonial home is £500,000. Lisa's remaining estate is worth £650,000 and she has her own nil rate band available and the transferable nil rate band from David.

IHT of £60,000 will be due following Lisa's death. This is because £650,000 of her estate is covered by the nil rate band and £350,000 of the value of the home is covered by the RNRB, which includes unused RNRB transferred from David, leaving £150,000 taxed at 40%.

Conclusion

The RNRB has been a welcome addition to the inheritance tax legislation, however, it does bring further complication to estate planning. If you have any questions at all in relation to the RNRB, please speak to your Lucas Fettes Financial Planning consultant.

Contact us

If you would like further information on any of the above services or how we can help you, please do not hesitate to contact your Lucas Fettes Financial Planning adviser, call us on **01603 706 820** or email **info@lffp.co.uk**.

www.lfffinancialplanning.co.uk

The contents of this fact sheet do not constitute financial advice. The impact of taxation (and any tax relief) depends on individual circumstances. This has been prepared based on our current understanding of UK Law, Taxation and HMRC practice, all of which could be subject to change in future.

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