

How will the residence
nil-rate band affect
you?





The residence nil-rate band is not yet in place – it will be phased in over four years, starting from April 2017.

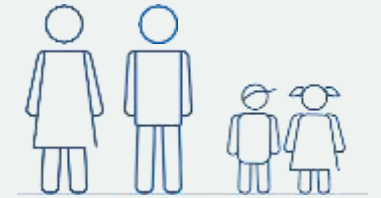
2017-18 £100,000

2018-19 £125,000

2019-20 £150,000

2020-21 £175,000

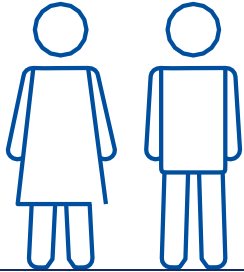
- It applies to one property that has been the person's residence at some point – executor's will be able to nominate where there is more than one.
- It applies when the property is passed on death to a direct descendant – including step, adopted, fostered children, those with a legal guardianship over and their spouses or civil partners – or lineal descendants of the deceased, such as grand-children.
- The property value that qualifies for the residence nil-rate band is the net value of the qualifying interest in the residential property after deducting any liabilities, such as a mortgage.
- It will be transferable where the second spouse or civil partner of a couple dies on or after 6 April 2017. It's important to note that it's not transferable for unmarried couples.
- It's also available when someone downsizes or ceases to own a home on or after 8 July 2015. The value of the property for the purposes of the residence nil-rate band is its value at the time of its sale.
- There will be a tapered withdrawal of the residence nil-rate band (of £1 for every £2) for estates with a net value of over £2million.



The following case studies demonstrate how the residence nil-rate band will affect clients in different situations.

- 1 **Married couples and civil partners with children**
- 2 **Married couples and civil partners without children**
- 3 **Unmarried couples with children**
- 4 **Unmarried couples without children**
- 5 **Married couples or civil partners with children, downsizing a property**

Married couples and civil partners with children



The situation

Estate is worth £1million.
House is worth £350,000 and held as joint tenants.
The current IHT liability of £140,000.



What happens on first death?

The full estate passes to the spouse/civil partner.
There is no inheritance tax to pay due to spousal exemption.

What happens on second death after April 2020?

The full estate passes to the children.
Both £325,000 nil-rate bands are available as they are transferable.
Both £175,000 residence nil-rate bands are available as they are transferable.
Inheritance tax to pay:
£1,000,000 – (£650,000 + £350,000) = £0

Notes

This is the 'headline' £1,000,000 nil-rate band in action. But note that this is only the case after the full residence nil-rate band comes into effect after April 2020.

In the meantime, all other things remaining equal, the couple will have a decreasing IHT liability between 2017 and 2020 because of the phasing in of the residence nil-rate band.

2017/18 IHT liability = £60,000

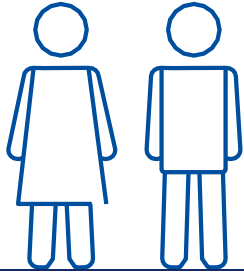
2018/19 IHT liability = £40,000

2019/20 IHT liability = £20,000

You could cover this liability with term assurance and then review the ongoing need after five years.

- 1 Married couples and civil partners with children
- 2 Married couples and civil partners without children
- 3 Unmarried couples with children
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- 5 Married couples or civil partners with children, downsizing a property

Married couples and civil partners without children



The situation

Estate is worth £1million.
House is worth £350,000 and held as joint tenants.

What happens on first death?

The full estate passes to the spouse/civil partner.
Inheritance tax to pay = nil, due to spousal exemption.

What happens on second death after April 2020?

The full estate passes to nephews and nieces.

Both £325,000 nil-rate bands are available as they are transferable.

The residence nil-rate band is not available as the house is not going to direct or lineal descendants.

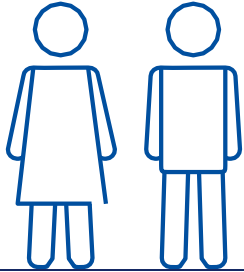
Inheritance tax to pay:
 $(£1,000,000 - £650,000) \times 40\% = £140,000$

Notes

With an IHT liability of £140,000 to cover, a joint life, second death whole-of-life plan written in trust for the beneficiaries would provide a straightforward solution.

- 1 Married couples and civil partners with children
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Unmarried couples with children



The situation

Estate is worth £1million.
House is worth £350,000 and held as joint tenants.

What happens on first death?

The 50% share of the house (worth £175,000) passes to partner automatically.

Other assets of £325,000 pass to partner.

The nil-rate band of £325,000 is available.

The residence nil-rate band is not available as the house is not going to direct or lineal descendants.

Inheritance tax to pay: **£175,000 x 40% = £70,000**

What happens on second death after April 2020?

The full £1,000,000 estate passes to the children.

Only one £325,000 nil-rate band is available.

Only one £175,000 residence nil-rate band is available.

Inheritance tax to pay:
(£1,000,000 – £500,000) x 40% = £200,000



Notes

In this situation there is an IHT liability on both deaths.

In both cases whole-of-life plans written in trust for the beneficiaries provide a straightforward way to protect the value of the estate:

Joint life, first death for £70,000

Joint life, second death for £200,000

An alternative might be to split the property on a 'tenants in common' basis.

1 Married couples and civil partners with children

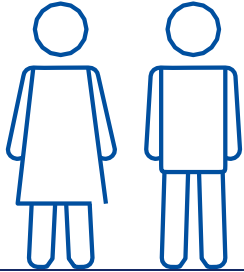
2 Married couples and civil partners without children

3 Unmarried couples with children

4 Unmarried couples without children

5 Married couples or civil partners with children, downsizing a property

Unmarried couples without children



The situation

Estate is worth £1million.

House is worth £350,000 and held as joint tenants.

What happens on first death?

The 50% share of the house (worth £175,000) passes to partner automatically.

Other assets of £325,000 pass to partner.

The nil-rate band of £325,000 is available.

The residence nil-rate band is not available as the house is not going to direct or lineal descendants.

Inheritance tax to pay: **£175,000 x 40% = £70,000**

What happens on second death after April 2020?

The full £1,000,000 estate passes to nephews and nieces.

Only one £325,000 nil-rate band is available.

The residence nil-rate band is not available as the house is not going to direct descendants.

Inheritance tax to pay:
(£1,000,000 – £325,000) x 40% = £270,000

Notes

In this situation there is an IHT liability on both deaths.

In both cases whole-of-life plans written in trust for the beneficiaries provide a straightforward way to protect the value of the estate:

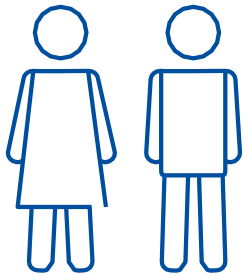
Joint life, first death for £70,000

Joint life, second death for £270,000

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Case study 5

Married couples or civil partners with children, downsizing a property



The situation

Estate is worth £1million.

Original house was worth £350,000 but was sold after 8 July 2015.

Its value has now been split between £200,000 retirement flat and £150,000 in cash.



What happens on second death after April 2020?

The £200,000 flat and the rest of the estate pass to the children.

Both £325,000 nil-rate bands are available as they are transferable.

Both £175,000 residence nil-rate bands are available as they are transferable.

The full £350,000 value of the original house is eligible for the residence nil-rate band.

Inheritance tax to pay:
£1,000,000 – (£650,000 + £350,000) = £0



Notes

The residence nil-rate band is available when a person downsizes or ceases to own a home

on or after 8 July 2015 and assets of an equivalent value are passed on death to direct or lineal descendants.

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- 5 **Married couples or civil partners with children, downsizing a property**

No person should rely on, or act on any information in this guide when making a decision, it is for information purposes only. This guide has been prepared on the basis of our understanding of current legislation and inheritance tax rules which may be subject to change. Always seek independent financial or legal advice.

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