



BRIEFING NOTE NOVEMBER 2015

INHERITANCE TAX - ADDITIONAL NIL RATE BAND

For deaths on or after 6 April 2017, the government will introduce an additional Inheritance Tax nil rate band when a person's residence is passed on death to direct descendants. Where the deceased has more than one residence their personal representatives will be able to elect which residence will qualify for the additional nil rate band.

The current rules

- If a UK domiciled individual were to pass away their entire estate would be subject to Inheritance Tax (**IHT**) at 40% save for a proportion of their estate called the nil rate band (**NRB**), currently set at £325,000 per person, which will be completely exempt from IHT.
- There is also an absolute exemption from IHT where an individual leaves their estate to their spouse (the **Spouse Exemption**).
- Where an individual's NRB is unused due to the Spouse Exemption it can be "transferred" to the surviving spouse and is known as the transferable nil rate band (**TNRB**). If, for example, the first spouse to die were to leave their entire estate to the surviving spouse then the TNRB would result in an effective NRB of £650,000 for the surviving spouse.

The New Rules

- For deaths on or after 6 April 2017, the government will introduce an additional nil rate band (**ANRB**) when a residence is passed on death to direct descendants.
- The ANRB will be in addition to the existing £325,000 NRB and any unused ANRB can be transferred to a surviving spouse or civil partner where the second death is on or after 6 April 2017.
- The ANRB for 2017-18 will be £100,000, rising in stages to £175,000 in 2020-21. Therefore, in 2020-21 it should be possible for a surviving spouse to have an effective NRB of £1million where they pass their residence to direct descendants.
- The government also plans to extend the ANRB to estates where the deceased downsized to a less valuable property or ceased to own property on or after 8 July 2015 and assets of equivalent value are passed to direct descendants on death.