



Increasing inheritance benefits for couples

Couples could now save an extra £20,000 of inheritance tax (IHT), as the residence nil rate band (RNRB) increased in April 2018.

The RNRB was increased at start of the new tax year and it is due to increase by £25,000 in each of the next two years, reaching £175,000 in 2020/21. It will be indexed to the Consumer Price Index after that.

The RNRB was introduced to give married couples and civil partners an eventual total IHT exemption of £1 million. This new band was introduced rather than increasing the existing nil rate band, which has been at £325,000 since 2009.

Whilst the increase is good news, the RNRB creates a lot of complexity for the taxpayer. A good example is that the £125,000 band is reduced by £1 for each £2 of estate over £2 million. So, in 2018/19 your RNRB is lost completely if your estate exceeds £2.25 million.

However, the estate value is calculated *at death*, so if gifts are made only days before death to reduce the estate below the £2 million threshold, the RNRB is not lost – a potential tax saving of up to £50,000 at present. A surviving spouse or civil partner can also double that saving by inheriting any unused RNRB from their partner.

Complexities such as this mean that, between April and December 2017, just over 3,000 estates claimed the RNRB, compared to 24,000 that paid IHT, according to data obtained via a Freedom of Information request.

If you have not reviewed your estate planning in the light of the RNRB, it makes sense to do so. The RNRB can encourage deathbed gifts, as outlined above. In some instances, it can also mean couples should revise their wills to avoid leaving everything to the survivor on first death.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.