

Nil-Rate Band Discretionary Trust: Example for couples with estates of above £2 million

It is often reported in the media that married couples / civil partners can benefit from a combined £1 million before inheritance tax is due. Whilst this is true in some cases, it is important to understand whether the relief will be available to you.

Whilst all individuals have their own Nil-Rate Band (NRB) (£325,000 maximum until 2030), the Residence Nil-Rate Band (RNRB) is an additional allowance. It was introduced to help people pass on their family home to direct descendants by providing an extra allowance before inheritance tax is due, however, there are several conditions that restrict its availability.

1. Home Ownership: You must own a home, or a share of one, that is included in your estate. It can be your main or former residence but not a buy-to-let property.

2. Direct Descendants: The RNRB only applies if you leave your home to direct descendants, such as children, grandchildren, adopted, foster, and stepchildren.

3. Allowance: The RNRB is currently set at £175,000 per individual therefore £350,000 is the maximum that can be claimed by married couples / civil partners. If the property value at the time of death is less than the allowances, the relief available is limited to the property value. It is, however, possible to claim downsizing relief if a more expensive home had previously been owned.

4. Estate Value:

- For estates valued at **£2 million or less**, the full RNRB is available.
- For estates valued **over £2 million**, the RNRB is reduced (tapered) by £1 for every £2 over the £2 million threshold.

- If a married couple have a combined estate over £2.7 million, no RNRB is available.

If the full amount of RNRB is available, a married couple can **save £140,000** inheritance tax.

Options for couples with estates over £2 million to preserve the RNRB

Making lifetime gifts as a couple or on first death can be a way of keeping the estate below £2 million.

Reviewing your will regularly with a qualified professional can help you stay up-to-date with tax changes and enable your will to be structured in a tax-efficient way.

Including a NRBDT in your will enables you to pass up to your available NRB on death (up to £325,000) to a trust without triggering an inheritance tax liability and avoids this amount being added to the surviving spouse's taxable estate.

- Your spouse can still benefit from the trust if named as a beneficiary.
- The trustees can lend your spouse money or assets if he/she needs it. This will be a debt repayable by his/her estate on death.
- Assets likely to increase in value can grow in the trust rather than in an individual's estate.
- On the surviving spouse's death, if the combined estate is £2 million or less, the executors can claim the full amount of RNRB (up to £350,000), providing that the rest of the qualifying criteria for the RNRB is satisfied.

*As with all trusts and estate planning, getting professional advice regarding your own situation is essential. **Contact us today.***