

Inheritance Tax

UK Inheritance Tax (IHT) is primarily a charge on an individual's estate on death. IHT is normally payable at 40% over and above an individual's available IHT tax-free allowance. This is subject to any available exemptions. References below to married couples include civil partners.

Exempt beneficiaries

Assets to certain individuals and organisations qualify for IHT exemptions, such as to spouses or civil partners and UK charities, UK political parties and some national institutions. Married couples can pass their estate to the surviving spouse tax-free, although IHT may be payable on the survivor's death.

Non-Exempt Beneficiaries

Most organisations and individuals (including children) are non-exempt beneficiaries and any assets passing to them over and above the available tax-free allowance will be taxed at 40%.

Residence Nil Rate Band

The Residence Nil Rate Band (RNRB) can be claimed in addition to the NRB. The RNRB applies where you own a "qualifying residence" and gift it to your children (or any other direct descendants) on your death. The current value of the RNRB is £175,000.

Conditions

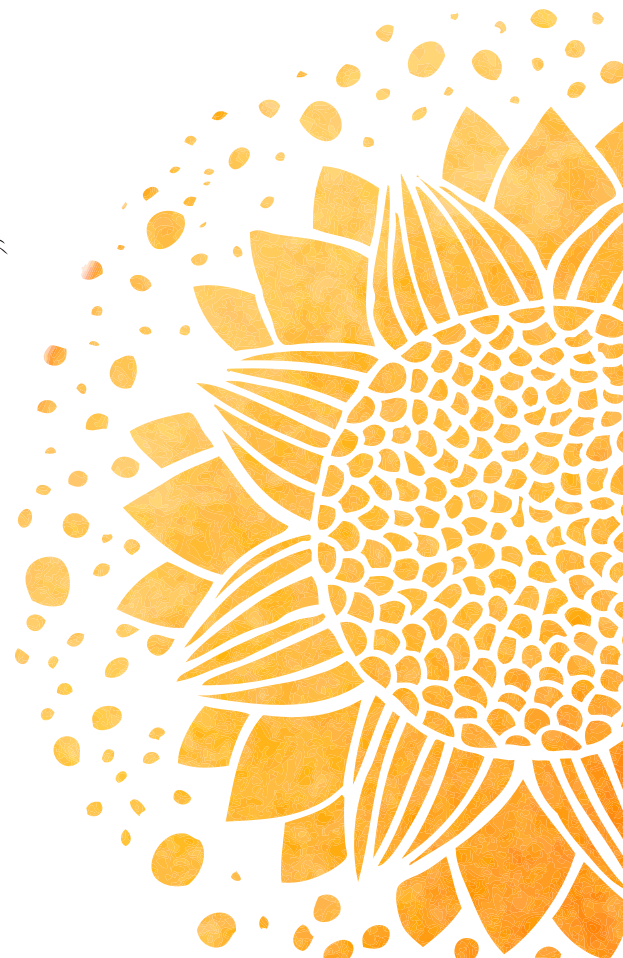
Your estate on death needs to contain a "qualifying residence" that is "inherited" by "direct descendants":

Nil Rate Band

Every individual has a tax-free allowance known as the Nil Rate Band (NRB) in which IHT is charged at 0%. The NRB is currently £325,000, subject to any lifetime gifts made in the seven years before death. The value over the NRB will be taxed.

Transferable NRB

A surviving spouse can effectively "inherit" the unused percentage of their deceased spouse's NRB. On the second death, the deceased's estate will be able to use the survivor's NRB in addition to any unused proportion of the NRB from the first death if they claim this within two years of the survivor's death. This can double the NRB available on the second death.



- 1) **Qualifying residence** – This is any property where you have lived in at some stage as your home, including overseas property. If there is more than one property, your executor(s) can nominate which property qualifies for the RNRB.
- 2) **Inherited** – This can be by way of an outright gift with no conditions or Immediate Post-Death Interest trust in your Will, intestacy or any other mechanism for transferring property (such as by survivorship as a joint tenant). When property passes to a discretionary trust, it will not qualify for the RNRB (even if beneficiaries are all direct descendants), although the Trustees can appoint to direct descendants within two years of death to qualify.
- 3) **Direct descendants** – Direct descendants are your children (including adopted, foster and step-children), grandchildren and their spouses and civil partners but no other relatives.

Limitations – Tapering

There are some limitations on the RNRB. Restrictions apply where estates are in excess of £2 million. The RNRB is withdrawn by £1 for every £2 your estate exceeds £2 million.

Transferable RNRB

The unused percentage of your RNRB can be transferred to your surviving spouse regardless of when they died or whether they had a qualifying residential property or not. This means that increases in the RNRB allowance are taken into account.

Downsizing

Downsizing relief ensures that the RNRB can still be claimed when it would otherwise have been lost because you downsized or disposed of your residence on or after 8 July 2015.

There are three main circumstances where downsizing relief may apply, if you:

- 1) Downsized to a less valuable residence;
- 2) Sold your residence; or
- 3) Gifted your property.

The relief will apply where the property disposed of would have qualified for the RNRB had you retained it, as long as it can be demonstrated that the sale proceeds or assets bought with the sale proceeds form part of the estate and pass to direct descendants.

Contact

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A full list of team members can be found on our website:

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