For professional advisers and paraplanners only.
Not to be relied upon by retail clients.

IHT and The Residential Nil-Rate Band. Simple, right!?

SimplyBiz

LDE 2024

octopus investments

A brighter way

Learning objectives

By the end of this session, you will be able to:

1. Identify the inheritance tax exemptions and allowances that apply to UK individuals and couples.
2. Describe the Residential Nil-Rate Band and clarify this complex tax exemption.
3. Articulate potential inheritance tax solutions for clients who have an inheritance tax liability.

What is inheritance tax?

Inheritance tax: the basics

When a person dies, their ‘**estate**’ is everything they leave behind.

This can include their house, any savings or investments, the value of any life insurance policies in their name, and any other assets.

Inheritance tax is paid on the value of the estate that they leave behind when they die.

Inheritance tax: the basics

Inheritance tax is paid on the value of the assets a person leaves behind when they die.
It can also apply to some gifts that are made before someone dies.

1

Not everyone is required to **pay inheritance tax.**

2

Everyone gets an **inheritance tax-free** allowance of **£325,000** (the nil-rate band).

3

Anything **above £325,000** will be taxed at **40%** when a person dies.

4

£325,000 since April 2009

Don’t forget the Will

It’s a good idea to think ahead and plan for what happens to your clients’ estates when they pass away. The Will is the starting point.

- Spend it
- Gifts
- Trusts
- Charity
- Use of exemptions
- Pension
- Assets

Inheritance tax overview

Chargeable transfers	Death rate	Lifetime settlement into discretionary trusts
£0-325,000 (nil rate band)	Nil	Nil
Over £325,000	40%	20%

Some gifts are exempt immediately	
Annual exemption	£3,000
Small gifts	£250
Marriage	Parent: £5,000 Grandparent: £2,500 Other: £1,000
Gifts from income	Gifts made as part of normal expenditure out of income
Charitable donations	£ unlimited + gifts over 10% of net estate reduces IHT rate to 36%

	Additional nil-rate band applicable ONLY to a residence
2020-28	£175,000

Inheritance tax gifting taper relief for gifts above NRB	
Years before death	% IHT payable
0-3	100%
3-4	80%
4-5	60%
5-6	40%
6-7	20%

IHT403 – Documenting gifts

HM Revenue & Customs

Gifts and other transfers of value

Schedule IHT403

When to use this form

Fill in this form to tell us about any gifts the deceased made on or after 18 March 1986.

Do not tell us about any gifts where the total value was £3,000 or less in any tax year, small amounts of £250 or less or if the gifts were made to a spouse or civil partner.

To work out the total value of the estate (on which tax is charged) we may need to add the value of these gifts to the value of the estate at the date of death.

Taper relief

Do not deduct taper relief on this form. Taper relief is only available on the tax on gifts that both:

- have a combined value that is more than the Inheritance Tax nil rate band available for the estate
- are made between 3 and 7 years before the date of death

If tax is due on the gifts HMRC will send you separate calculations and include any taper relief due.

For more information about taper relief go to www.gov.uk/inheritance-tax

Name of deceased

Date of death DD MM YYYY

Inheritance Tax reference number (if known)

Help

Please read the guidance notes for form IHT403 in the IHT400, 'Notes' before filling in this form.

For more information or help or another copy of this form:

- go to www.gov.uk/inheritance-tax
- phone our Helpline on 0300 123 1072 - if calling from outside the UK, phone +44 300 123 1072

Gifts made within the 7 years before death

1 Did the deceased make any gifts or transfer assets to or for the benefit of another individual, charity or other organisation?

No ☐ Yes ☐

2 Did the deceased create a trust or settlement?

No ☐ Yes ☐

3 Did the deceased transfer additional assets into an existing trust or settlement?

No ☐ Yes ☐

4 Did the deceased pay any premium on a life assurance policy for the benefit of anyone (other than themselves) who was not their spouse or civil partner?

No ☐ Yes ☐

5 Was the deceased entitled to benefit from any assets held in trust or in a settlement which, during their lifetime, came to an end (either in whole or in part)?

No ☐ Yes ☐

6 Are you claiming that gifts should be treated as exempt as 'gifts out of income'?

No ☐ Yes ☐

If you answered 'Yes' to any of these questions, give full details on pages 2 to 7.
If you answered 'Yes' to question 6, give full details on pages 2 to 8.

Gifts made as part of normal expenditure out of income

Only fill in this page if you've ticked 'Yes' to box 6 on page 1. This is a guide to the type of income and expenditure the deceased may have had so that you can show that gifts made were part of the deceased's normal expenditure out of their income. Give details of the deceased's income and expenditure for each of the years in which the gifts were made.

20 Income								
Tax year in which gifts made (for example, 6 Apr 2005 to 5 Apr 2006)								
Salary								
Pensions								
Interest (including PEPs and ISAs)								
Investments								
Rents								
Annuities (income element)								
Other								
Minus Income Tax paid								
Net income								
21 Expenditure								
Mortgages								
Insurance								
Household bills								
Council Tax								
Travelling costs								
Entertainment								
Holidays								
Nursing home fees								
Other								
Total expenditure								
22 Surplus (deficit) income for the year (Net income minus total expenditure)								
Gifts made								

Schedule IHT403 (publishing.service.gov.uk)

The Residential Nil-Rate Band (RNRB)

A simple inheritance tax situation

Miss Jones
Single and has no children. The beneficiaries of her estate are her niece and nephew.

House	£300,000
Savings	£100,000
Investments	£75,000
Other	£25,000

Estate value	£500,000
Nil-rate band	£325,000
Residence nil-rate band	£0
Amount liable to inheritance tax	£175,000
Inheritance tax bill	£70,000

A simple inheritance tax situation

Mr and Mrs Brown

Married. The beneficiaries of their estate are their three children.

House
£800,000

Savings
£150,000

Investments
£75,000

Other
£25,000

Estate value	£1,050,000
Nil-rate band	£650,000
Residence nil-rate band	£350,000
Amount liable to inheritance tax	**£50,000**
Inheritance tax bill	**£20,000**

A simple inheritance tax situation – same couple but different situation.

Mr and Mrs Smith

Married. The beneficiaries of their estate are their three children.

Flat
£250,000

Savings
£200,000

Holiday Home
£500,000

Other
£100,000

Estate value	£1,050,000
Nil-rate band	£650,000
Residence nil-rate band	£250,000
Amount liable to inheritance tax	**£150,000**
Inheritance tax bill	**£60,000**

The RNRB rules

What counts as a qualifying residential interest (QRI)?	What does 'closely inherited' mean?
The RNRB is only available to individuals or couples who have a QRI when they die, or who had one before. QRI means ownership of a residential property that has been the deceased's home at some point. Note that the property does not have to have been their main residence at the time they pass away. So a buy-to-let property would not qualify, but a property that was once the deceased's home and was later let to tenants could.	'Closely inherited' means inherited by a direct descendant. The following beneficiaries would qualify as direct descendants: • The deceased's children (which could include adopted, fostered or stepchildren) and grandchildren. • The spouses of those children or grandchildren. • The widows, widowers or surviving civil partners of those children or grandchildren if not remarried at the date of death of the property owner. Let's now look at some aspects of the RNRB that have the potential to catch people unaware.

The RNRB rules

The RNRB does not apply for homes transferred before death	Homes settled into trust are unlikely to qualify
An important distinction between the RNRB and the £325,000 nil-rate band is that the RNRB only applies to homes owned when a person dies. So if the home is transferred to children as a lifetime gift, the RNRB will not be available to offset against that transfer. By contrast, if the home is left to children on death, the RNRB will be available.	You may have a client who plans to settle their home into trust when they die. If it's a discretionary trust, it is unlikely that the RNRB will be available in most instances, even if the potential beneficiaries are children or grandchildren. These rules are complicated, so it's worth getting tax advice if needed to make sure the RNRB will be available as you expect. In addition, the RNRB will not apply if the home is transferred into discretionary trust during someone's lifetime.

Downsize allowance

- Hamish passes away 2010 = 100% RNRB available to transfer to Jenny
- Jenny sold home 2018/19 = £125k RNRB
  Goes into a care home
- Jenny dies 2023/2024 = £175k RNRB

RNRB Jenny reduced RNRB (date sold home) and Hamish's RNRB	£250,000
Home sold	£200,000
RNRB allowance	80%
Lost RNRB Maximum RNRB of £350,000 x 80%	£280,000

£280,000 can be used to offset against Jenny's estate as passing to son

Key Points:
- Calculate lost RNRB at date home sold
- Divide home proceeds by RNRB
- Apply that % to RNRB at death
- Capped at portion of estate passed to son

RNRB on remarriage

NRB and RNRB from previous marriages – maximum is 2 NRB

Mabel

Andrew

Passes away

Jane

Passes away

Steve

Mabel

Steve

Widows and widowers may need to do some extra planning

The RNRB comes with a ‘tapering restriction’.

The amount of RNRB available is reduced by £1 for every £2 by which the deceased’s net estate exceeds the ‘taper threshold’ of £2 million.

In a typical married couple scenario, the second spouse may well need to do some planning once they receive the first spouse’s assets if they want to benefit from the RNRB in full.

The RNRB rules

Beware… joint tenants and tenants in common.

Introduction to Business Relief (BR)

A summary of other estate planning options

	Gifting	Life insurance	Trusts	BR-qualifying investment*
Pros	• Familiar • Easy to understand • Can reduce size of estate	• Can be used as a way to save for and pay any inheritance tax due to HMRC	• Reduces size of estate • Control over asset distribution	• Speed • Access and control • Doesn’t use up Nil-Rate Band • Power of Attorney potential
Cons	• Can use up nil-rate band • Slow • Irreversible • Unsuitable for Power of Attorney	• Medical underwriting required • Can be costly • Will form part of a taxable estate	• Irreversible and can be complicated • Various taxes payable	• Small/unquoted companies present a high degree of investment risk • Doesn’t reduce value of an estate • Tax treatment is subject to circumstances, current legislation and maintaining qualifying status.
Speed of relief	• 7 years	• Whole of life	• 7 years	• 2 years

*BR-qualifying investments are only suitable for clients with the appropriate risk profile.

Tax reliefs provide some compensation for investors for taking investment risk

Capital at risk	Tax treatment	Qualifying status	Volatility and liquidity
The value of an investment, and any income from it, can fall as well as rise. Investors may not get back the full amount they invest.	Tax treatment depends on an investor’s personal circumstances and tax rules may change in the future.	Tax reliefs depend on the portfolio companies maintaining their qualifying status.	The shares of smaller and unquoted companies could fall or rise in value more than other shares listed on the main market of the London Stock Exchange. They may also be harder to sell.

We can help you with a variety of tax planning areas

- We created these tax planning scenarios to help advisers develop suitable planning strategies for clients.
- They do not provide advice on investments, taxation, legal matters, or anything else.
- Tax-efficient investments aren't suitable for everyone.
- Any recommendation should be based on a holistic review of a client's financial situation, objectives and needs.
- Before recommending an investment, you should also consider the impact of charges related to the product, such as initial fee, ongoing fees, and annual management charges.

Clients who want to retain access to their capital

Carol is 86 years old and widowed.

Her estate is worth £1.5 million and she is receiving income from a pension.

She wants to undertake estate planning with her grandchildren in mind but is reluctant to give away assets in her lifetime in case she needs them.

Carol’s adviser suggests selling £250,000 of her existing investment portfolio and making a BR-qualifying investment.

Clients who have a power of attorney in place

Barbara and Malcolm's adviser suggests moving £300,000 from their existing investment portfolio into an investment that qualifies for BR.

- Barbara (88) and Malcolm (90).
- Have lost capacity, grandson acting as power of attorney.
- Cost of care is being met by their pensions.
- Expressed a desire to leave as much of their estate as possible to their great-grandchildren.
- Any decisions need to be made in Barbara and Malcolm's best interests and not disadvantage them, for example by making their money inaccessible.

Clients who want to use their ISA for estate planning

- Peter, 70.
- Has built up ISA investments over the years.
- Wants to retain tax benefits of the ISA wrapper.
- Is worried his daughter will have to pay 40% inheritance tax on his ISA investments when he dies.

Peter’s adviser suggests transferring £100,000 from his existing Stocks & Shares ISA into a BR-qualifying ISA portfolio.

Clients who could benefit

Clients who have sold a business

- Alan, aged 68.
- Sold his manufacturing business two years ago.
- Value of £5 million.
- Wants to leave proceeds to daughters without them facing a large inheritance tax bill.
- Has a house, a pension, an ISA and other investments.

Alan’s adviser suggests investing the proceeds from selling a business into a BR investment utilising the 3 year replacement relief rule

Learning outcomes

you will now be able to:

1. Identify the inheritance tax exemptions and allowances that apply to UK individuals and couples.

2. Describe the Residential Nil-Rate Band and clarify this complex tax exemption.

3. Articulate potential inheritance tax solutions for clients who have an inheritance tax liability.

Our BR-qualifying investments

Octopus entities

Investing in the people, ideas and industries that aim to change the world

Founded in
2000

Private business
70% owned by employees

FUM
£13.5bn[1]

Octopus financial services entities, including:

Octopus energy entities, including:

All Octopus Investments businesses are certified B Corporations

- Meeting the highest standards of verified social and environmental performance, public transparency and legal accountability.
- Working to redefine success in business by measuring success by more than just profit.
- The interests of employees, customers, communities, environment and shareholders are treated equally.

[1] March 2024. Funds Under Management data includes undrawn commitments, funds under advisory mandates and funds monitored. It also includes funds under the management of Octopus Renewables Limited.

Octopus BR investments

Two established services targeting qualification for BR

- Discretionary fund management service that invests in one or more unlisted companies.
- Launched in 2007.
- Aims to deliver a consistent, predictable return of 3% per annum to investors.

- A portfolio of 25 – 30 smaller companies listed on the Alternative Investment Market (AIM).
- Launched in 2005.
- Targets significant growth for investors.
- Also available in an ISA.

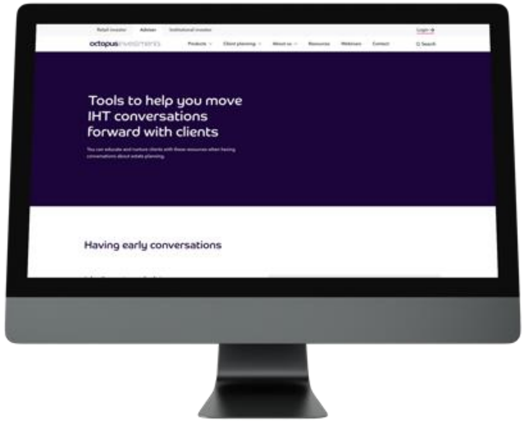
Useful documents

What I own and where I keep it

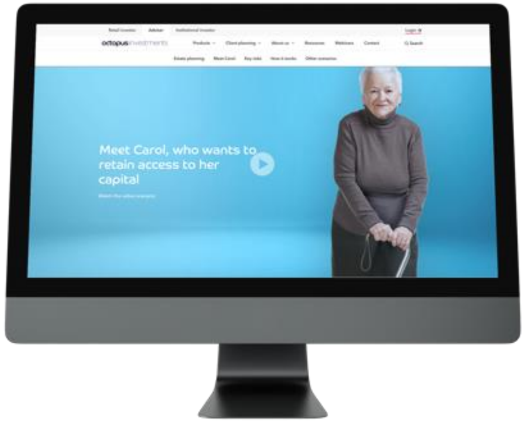
Guide to being an executor

Untangling IHT guide

Client friendly videos



IHT toolkit



Planning scenarios

Introducing

octopuslegacy

Adviser support for client planning

octopuslegacy

A proud member of the Octopus Group

Octopus Legacy services:

- **Free** estate planning consultations
- **Will writing services** - from complex wills with a solicitor to simple online wills
- Our **will dashboards** give you visibility over clients' beneficiaries & plans for their assets
- **Lasting Power of Attorney** (LPA) services
- **Probate services**

Get in touch

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