

inheritance tax factsheet.



Inheritance tax (IHT) is a tax applied to the total value of your estate at the time of your death. This is charged at 40% of the value of your estate above what is called your Nil Rate Band (NRB).

Your total tax free allowance can include an additional element called the Residence Nil Rate Band (RNRB). This applies if you exceed your NRB and are passing on your main home to a direct descendant. A direct descendant is a child, grandchild or other lineal descendant including stepchildren, foster children and adopted children amongst others.

Tax Year	Nil Rate Band	Residence Nil Rate Band	Total
2021/22	£325,000	£175,000	£500,000

Any unused allowance can be passed on to your spouse or civil partner. This is passed on as a percentage of your unused NRB and RNRB. When your spouse dies, they receive the extra percentage of the NRB and RNRB at the time. Meaning that if the amount of the bands increase, the percentage would be worth more.

Example: 1

Tim dies in this tax year (2021/22), leaving his entire estate to his daughter. His house is valued at £400,000, and he also has £125,000 in savings. His estate was valued at a total of £525,000.

As Tim is leaving his house to a direct descendant, he can make use of the Nil Rate Tax Band and Residence Nil Rate Band, meaning he can pass on a total of £500,000 to his daughter without inheritance tax being applied.

The remaining £25,000 is liable for inheritance tax meaning that a total tax charge of £10,000 would need to be paid (40% of £25,000) before any of the estate could be inherited.

Example: 2

Hassan died in May 2020 with his entire estate totalling £600,000. In his will he left £130,000 to his children and the rest including the family home to his wife, Samiya.

Hassan has not used any of his RNRB, because he can pass the house to his wife, free of inheritance tax meaning that Samiya gets 100% of his RNRB to use when she dies, doubling her RNRB.

Hassan has used £130,000 of his NRB when passing on his savings meaning that he has used 40% of his NRB ($£130,000 \div £325,000 \times 100$) and has 60% of his NRB unused. The unused 60% will also pass on to Samiya.

If Samiya died in the current tax year (2021/22) and wanted to leave her £400,000 family home and her remaining estate to her children, she would have the available bands:

Samiya's NRB:	£325,000
Hassan's unused NRB (60% of the 2021/22 NRB):	+ £195,000
Samiya's RNRB:	+ £175,000
Hassan's unused RNRB (100% of the 2021/22 RNRB):	+ £175,000
Total Band available:	= £870,000

There would be no inheritance tax to pay if her estate was valued under £870,000. Anything over £870,000 would attract a 40% inheritance tax charge.

To discuss your options with **my wealth**, please contact:



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