The new ‘family home allowance’

During the next 5 years it has been forecast that people will pay an estimated £2bn more in inheritance tax (IHT) than experts believed only six months ago. Growing house prices and the thriving stock market have both had a bearing on this huge jump. This predicted rise in IHT receipts is despite the introduction of the new residence nil rate band.

Under normal circumstances inheritance tax is paid at 40% on the value of a person’s estate which includes their money, property and taxable assets over and above £325,000 when they die. April 2017 saw the introduction of the government’s new additional tax-free allowance; the residence nil rate band, also known as the ‘family home allowance’.

What is the new family home allowance

This new government allowance allows every person the chance to pass on a further £100,000 of their main home to their children or grandchildren on top of the basic allowance. This means each individual can now pass on up to £425,000 of their estate IHT free.

As of now, a married couple or civil partnership can jointly leave £850,000 of their estate IHT free, and with the residence nil rate band or family home allowance increasing each year, there is potential to leave £1m from April 2020.

The residence nil rate band will be used against the net value of the man residence, once any outstanding mortgage or liabilities are paid to a maximum of:

- £100,000 for 2017/18
- £125,000 for 2018/19
- £150,000 for 2019/20
- £175,000 for 2020/21

It is important to know that from April 2021, estates valued between £1m and £2m, inheritance tax will be calculated on 40% of the amount above £1 million.

On estates valued at £2m or over, homeowners will lose £1 of the ‘family home’ allowance for every £2 of value above £2m. Therefore homes valued at £2.350m in 2020/21 would lose all of the new family home allowance, tax rules can change and any benefits depend on personal circumstances.

A voluntary tax?

We all spend our working lives saving and paying taxes and still the government can become a major beneficiary when we die. The majority of people want to pass their hard-earned wealth to their loved ones and not the tax man.

IHT is commonly known as the ‘voluntary tax’ because there are so many ways to prevent and reduce it and, in some cases, avoid it altogether. Gifting is a great way to reduce the taxable value of your estate. Gifts can be made directly to the chosen beneficiary but could also be paid into trusts, ISA/Junior ISAs, SIPP (Self Invested Personal Pension)/Junior SIPPs, etc. as part of longer-term financial planning.

Seek expert advice

Estate planning is a very complex and difficult area of financial planning; it can be easy to get things wrong, especially as rules and legislation seem to change every year. But with the right forward planning it is possible to significantly reduce, or even eliminate, any liability.

For large and complicated estates, advice from a professional financial adviser could save you and your loved ones tens of thousands of pounds and they can help you navigate the new rules, minimise the tax payable and increase the amount your loved ones receive.

Annual exemptions

You can gift £3,000 each tax year and £3,000 from the previous tax year but only if you haven’t already done so.

Small gifts can be paid up to £250 to any number of people IHT-free

Gifts from your income can be made if they are regular gifts from any surplus of your income which do not impact on your standard of living.