

R03 Inheritance Tax 2020/2021

Inheritance Tax (IHT) seeks to tax transfers of property from one individual to another person, a trust or an organisation. IHT is often considered as a “death tax” but both lifetime gifts and legacies on death are potentially subject to IHT.

To come under the scope of the tax, a lifetime transfer must be a **gift**. It reduces the value of the donor’s wealth. If it isn’t a gift but a sale or a loan, then no IHT is due. IHT will always seek to tax the reduction in the donor’s wealth rather than the increase in the wealth of the recipient.

The subject will be covered in three parts:

- Lifetime Transfers
- IHT on death
- Charitable legacies
- Residential Nil Rate Band (RNRB)

Lifetime Transfers

These will fall into one of three categories.

- **Exempt transfers:** no tax will ever be payable
- **Potentially Exempt Transfers (PETS):** no tax is payable when the gift is made. They will become exempt if the donor lives seven years after making the gift.
- **Chargeable Lifetime Transfers (CLT):** tax may be payable when the gift is made. They will also become exempt if the donor survives seven years.

Exempt Transfers

These are:

- Transfers between legal spouses and civil partners.
- Gifts to Charities
- Gifts to qualifying political parties (at least two members in the Commons)
- Gifts for national purposes e.g. museums, universities
- Gifts of Land to Housing associations

They are all unlimited but the position on spousal transfer is tempered by the fact that the receiving spouse must be domiciled in the UK. If the spouse receiving the transfer is not domiciled in the UK, the limit is £325,000 and anything above this it would be considered a PET.

In addition HMRC gives further exemptions. These are:

The annual exemption

Each person can gift £3,000 per tax year. If the whole or part of it hadn't been used in previous years, it can be carried forward to the next year. This means it is possible for £6,000 to be used as a totally exempt transfer in a tax year. In practice it is normally deducted from a PET or CLT.

If you see the phrase, "and has made no other gifts" in the question then you can deduct £6,000 from the amount of the gift.

The small gifts exemption

An individual can make unlimited amount gifts of £250 or less to as many recipients as he or she chooses. It cannot be combined with the annual exemption. Give someone £251 and it would all be set against the annual exemption if this were available.

Gifts in consideration of marriage

The figures are:

Parents	£5,000
Grandparents	£2,500
Anyone else	£1,000

The bride and groom can each make an exempt gift of £2,500. This isn't in the tax tables!

These are in addition to other exemptions.

Mr & Mrs Jones' daughter Emma is getting married. They have not made any previous gifts so each could give her £11,000 which would be an exempt gift. £6,000 would be two lots of annual exemption and £5,000 the wedding exemption

All these exemptions were set in the early 1980's and have never been increased. Inflation has reduced their value so the next class of gift has become much more significant.

Gifts out of normal expenditure

IHT is a tax on the transfer of capital, not on the payment of income Therefore gifts out of income are outside the scope of IHT provided they meet the following criteria.

- They are made as part of the normal expenditure of the donor.
- They are regular
- They are made from income rather than capital
- It leaves the donor with sufficient income to maintain their usual standard of living.

Regular payments alone aren't sufficient to meet this exemption. To satisfy HMRC the transfers must come from income and not capital. Someone who won £1 million on the lottery and transferred £20,000 a month for two years to their unmarried partner would have difficulty claiming that this was out of normal expenditure. Withdrawals from an Insurance Bond would also be considered to come from capital.

The capital element of a purchase life annuity would not count as income but the interest element would.

The amount gifted can also be varied. It doesn't need to be the same every month.

Potentially Exempt Transfer

A PET is a transfer that is not exempt and is made to:

- an individual
- a bare/absolute trust.

As noted in the previous section the annual exemption is normally deducted from a PET. If Jack makes a gift of £100,000 to his son, the value of the PET will be £94,000. This is of course subject to him having this and last year's annual exemption available.

No tax is payable when the PET is made but the gift becomes chargeable if the donor dies within seven years of the gift being made.

Chargeable Lifetime Transfers

All transfers that are neither exempt or a PET are Chargeable Lifetime Transfers. A transfer to both an Interest in Possession or Discretionary Trust is a CLT.

The key difference between a CLT and a PET is that tax may be immediately payable on a CLT. This occurs once the total of CLTs in a 7 year period exceeds the current Nil Rate Band (NRB)

Tony has never made any CLTs. He sets up a Discretionary Trust in June 2013 and pays £100,000 into it. (For simplicity we'll ignore the use of the annual exemption which could have reduced the gift by £6,000). Whilst it's a CLT, there is no tax to pay as it was below the then NRB of £325,000.

Suzanne has also never made a CLT and pays £525,000 into an Interest in Possession Trust. This is £200,000 in excess of the NRB so tax is immediately payable.

Tax is payable at half the full rate, i.e. 20% so the tax due is £200,000 x 20% = £40,000.

The next question is who pays it? There is a choice as either the donor or the recipient can elect to pay the tax. In this case the recipients are the trustees of the trust. If they pay the

£40,000 tax this must come from trust funds so the trust has only £485,000 to invest rather than £525,000

If Suzanne pays the tax there is a further complication. Remember that IHT taxes the reduction in the donor's wealth, which will now be not just the £500,000 gift but the gift **plus** the tax. HMRC will therefore seek to tax the tax that Suzanne has paid!

The way to deal with this is as follows:

- if the recipient pays, charge 20% on the excess over NRB
- if the donor pays, charge 25% on the excess above NRB

The next issue is how to deal with more than one CLT. Whenever a CLT is made you must first look back **seven years** from the date of the transfer and see if any other CLT's were made in this period. If they were, the earlier gift is subtracted from the current NRB and then the current CLT is deducted from this figure to calculate the taxable amount.

Boris made a gift into a Discretionary Trust of £230,000 on 1/12/15. He paid a further £250,000 into it on 1/10/20. (again we will ignore the £3,000 annual exemption)

No tax was payable when the first gift was made as it was below the NRB for that year (£325,000)

The second gift is also below the current NRB (£325K) but since the first gift was made within the previous seven years it must be taken into account.

The first gift is deducted from the current NRB (£325,000 less £230,000 = £95,000)

There is now only £95,000 available for the second gift so £155,000 is chargeable (£250,000 less £95,000)

The amount of tax due if the recipient pays is £155,000 x 20% = £31,000

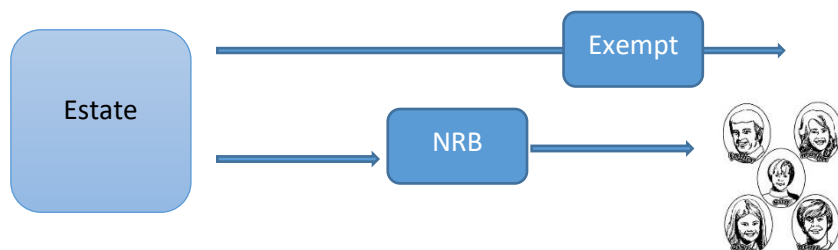
If Boris wishes to pay the tax the amount due will be £155,000 x 25% = £38,750

Inheritance tax on death

The basis of an IHT calculation

IHT is a tax on the transfer of capital from one person to another. On death there is a transfer from the deceased's estate to beneficiaries either through a will or through intestacy rules.

The basic calculation, whether it's simple or complex, can be described in this illustration.



The starting point is to calculate the deceased's estate. Transfers will either be exempt or chargeable. Exempt transfers are paid directly to the beneficiary with no IHT liability. All chargeable transfers, go through a kind of toll gate which is the deceased's Nil Rate Band. Transfers below this are taxed at 0%. Transfers above it are taxed at 40%.

There are therefore four steps to calculate an IHT liability:

1. Calculate the value of the estate
2. Deduct any exempt transfers
3. Calculate the NRB
4. Deduct the NRB from the estate and charge at the correct rate.

The responsibility for paying IHT falls primarily on the executors of the deceased's estate. However, there are occasions when the recipient of a legacy must pay the tax.

Calculating the value of the estate

A person's estate is broadly all the assets they owned on death less any liabilities such as outstanding loans. This will also include assets that can be claimed by the executors such as the proceeds of a life policy that is not written in trust

Any jointly owned asset is normally split in proportion to the number of owners. A house held on a joint tenancy basis automatically goes to the survivor but they are deemed to receive 50% of its value.

Greg and Tina are not married and own their home on a joint tenancy basis. The property has a value of £500,000. Greg dies and Tina is deemed to receive £250,000

Outstanding loans made by the deceased, including a loan trust, should also be included since the executors can reclaim this money. Business assets should also be included although there can be a relief for these.

The following should **not** be included in the estate:

- Uncrystallised or drawdown pension funds.
- A life policy written in trust since the sum assured will be paid to the trustees and not into the estate.

Business assets (Including AIM shares) also qualify for **Business Relief**. If the assets had been held for two years or more the asset is effectively ignored.

Having calculated the estate any exempt transfers are deducted. The only two exempt death transfers are:

- Transfers to a UK domiciled spouse/civil partner.
- Gifts to charities or political parties

Note that the £3,000 annual exemption cannot be used on death. It is a lifetime exemption only.

Once any exempt transfers have been deducted the remaining estate is chargeable. Transfers up to the NRB are charged at 0% and those in excess of it are charged at 40%

Calculating the Nil Rate Band

Whilst the standard NRB is £325,000 the estate may have a greater or lower figure than this. In some cases, there may be no NRB at all.

- The NRB will be reduced by PETs and CLTs made in the seven years before death.
- The NRB can be increased by transferring any unused NRB from a deceased spouse.

Reducing the NRB

A PET or CLT made in the seven years before the donor's death becomes a failed PET or CLT.

It is often said that "the PET/CLT is added back into the estate". This is incorrect. The rule is that failed PETs or CLTs are deducted from the nil rate band at date of death. They are dealt with in chronological order with the earliest transfer being used first. It is the value of the PET/CLT when it was made that is deducted. The value of the gift at date of death is irrelevant

Maria made three gifts to her daughters. (The £3,000 annual exemption has already been deducted) Alice received £50,000 in 2012, Betty received £70,000 in August 2013 and Charlotte received £80,000 in July 2017. Maria died in May 2020

The gift to Alice is exempt as it was made more than seven years before Maria's death. The other two have failed and must be taken into account.

Betty's gift is deducted from the NRB (£325,000 less £70,000 = £255,000)

Charlotte's gift is deducted from the remaining £225,000 so the estate has an NRB of £175,000.

In effect any PET or CLT will reduce the amount of nil rate band available to the estate for seven years after it was made.

Transferable Nil Rate Bands

It is possible to transfer any unused nil rate band from a spouse/civil partner who died before them. There will be an unused NRB if all or part of legacies made from the pre-deceased's estate were made to the surviving spouse.

Sally died and left all her estate to her husband Harry. This was an exempt transfer so 100% of her NRB that can be transferred.

George died when the NRB was £200,000. He left £20,000 to each of his two children with the rest of his estate to his wife Elizabeth. The £40,000 legacy is chargeable and used up 20% of his NRB. Elizabeth's executors can claim 80% of George's NRB

The basic rules are as follows:

- The date of the first death is immaterial but the couple must have been married at the time of the first death
- The amount of unused NRB is expressed as a percentage (NRB unused/NRB at date of first death)
- This percentage is applied to current NRB and added to the NRB available to the survivor's NRB.
- The first deceased's NRB must be claimed by the executors of the second spouse. They have two years to make the claim.

Following on from the previous example Elizabeth's executors can claim 80% of £325,000 to give £260,000. Assuming that Elizabeth does not have any failed PET or CLT, the £260,000 is added to £325,000 to give her estate a NRB of £585,000

In principle someone who has more than one predeceased spouse can claim any unused relief from both. However, the maximum that can be claimed is 100% of the NRB so the maximum claimable for 2020/21 would be £650,000.

Helen has been married twice and both her husbands have died. Her first used up 80% of his NRB so 20% is left. Her second used 30% of his NRB so 70% is left. Her executors can claim from both to allow 90% of the NRB to be transferred to her.

However, if her first husband did not use any of his NRB and her second still had 70% left, her executors could only claim 100% and not 170%

Just as a failed PET/CLT reduces the deceased's NRB, a failed PET or CLT made by the former spouse will also reduce their NRB and the amount that can be transferred.

Mia died in August 1996 when the NRB was £200,000. and left everything to her husband Len. His executors are trying to claim his NRB. It would appear that 100% can be claimed but further checks show that Mia made a gift to her daughter of £100,000 three years before she died. This would have used 50% of her NRB so Len's executors can only claim 50% or £100,000

Pulling all the previous points together here is an example of the structure that should be followed in calculating the estate's NRB.

Calculating the tax

Having established the value of the estate and the NRB the rest of the calculation should be straightforward

The first step is to deduct any exempt transfers from the estate. What remains is the **chargeable estate** The available NRB is then deducted to give the **Taxable Estate** which is charged at 40%.

Brian dies leaving an estate of £1 million. He leaves £400,000 to his wife with the balance going to his children. His NRB is £325,000

Estate	1,000,000
Less gift to spouse	<u>400,000</u>
Chargeable estate	600,000

The £600,000 is chargeable. The first £325,000 (NRB) is subject to tax at 0%. The remainder is subject to tax at 40%

Estate after exempt gifts	600,000
Less NRB	<u>325,000</u>
Taxable estate	275,000

£275,000 @ 40% =	£110,000
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This is payable by the executors. It must be paid before the remaining assets can be distributed

Further complications occur when:

- The failed PETs or CLTs have wiped out the NRB
- Where a CLT has been made in the last seven years as allowance needs to be made for the tax already paid.
- Where a charitable legacy has been paid.

When a PET has used up the NRB

Brian makes a gift of £425,000 to his son Bill. Two years later Brian dies leaving an estate of £500,000 which is passed to his unmarried partner.

The PET used up all the NRB so the whole estate of £500,000 will be taxed at 40%. As the PET was £100,000 above the NRB this also becomes chargeable and the recipient, Bill, becomes liable to pay £40,000. (£100,000 x 40%).

All failed PETs are dealt with in chronological order starting with the oldest. This can be illustrated by extending a previous example.

Maria made three gifts to her daughters. Alice received £50,000 in 2012, Betty received £70,000 in August 2013 and Charlotte received £80,000 in July 2017. Maria made a PET of £100,000 to a fourth daughter Donna in August 2018 (In all cases the £3,000 annual exemption has already been deducted). Maria died in May 2020

The gift to Alice is exempt as it was made more than seven years before Maria's death. The other three have failed and must be taken into account.

Betty's gift is deducted from the NRB (£325,000 less £70,000 = £255,000)

Charlotte's gift is deducted from the remaining NRB (£255,000 less £80,000) to give £175,000

Donna's gift wipes out the NRB and £25,000 becomes chargeable. Donna is liable and pays £10,000 (£25,000 x 40%)

The estate will not have a NRB

The rule that PETs are deducted in date order can lead to some odd outcomes.

Jane wins a large lottery prize and gives her son £200,000 on July 1 2016. Two weeks later she gives £200,000 to her daughter.

If Jane dies within seven years both PETS will fail. As the gift to the son was the first to be made this will use up £200,000 of the NRB. The gift to the daughter will use up the remaining £125,000 and £75,000 will be chargeable. The daughter will have to pay £30,000

This could have been avoided if Jane has a husband. She could gift him £200,000 which would be exempt and he would gift this to his son. If either Jane or her husband died within seven years, both PETs would be within the NRB so no tax would be payable by the recipient. Alternatively if the payment had come from a joint bank account, each would be treated as paying 50% of each gift so each would have made PETS of £200,000.

Taper Relief

Taper relief is probably the most misunderstood aspect of IHT. The important thing to remember is that taper relief reduces the tax payable by a person receiving a gift. It does not reduce the size of the PET nor does it reduce the tax paid by the estate.

Brian makes a gift of £425,000 to his son Bill. Four and a half years after making the gift Brian dies leaving an estate of £500,000 which is passed to his unmarried partner.

As the NRB has been used up the excess is chargeable on Bill. This is $(£425,000 \text{ less } £325,000) \times 40\% = £40,000$

Taper relief applies therefore only 60% of tax is payable i.e. £24,000

This is payable by Bill

The PET used up all the NRB

Tax on estate is $£500,000 \times 40\% = £200,000$

This is payable by the executors

The taper relief rates will be given in the tax tables.

Calculating the liability with Chargeable Lifetime Transfers

In principle there is no difference between the treatment of outstanding CLTs and PETs. If any CLTs were made in the seven years before death they are deducted from the nil rate band in chronological order. If this does not exhaust the NRB no further action is required

If the CLT exhausts the NRB at date of death there is further step to take as the trustees will be liable to pay the tax but can offset any lifetime tax paid in addition to taper relief.

Francesca made a gift of £500K into a Discretionary Trust in July 2016 when the NRB was £325K. The trustees would have paid £35,000 in IHT.

She died in June 2020 when the trust property was valued at £600K

The NRB at date of death (£325K) is deducted from the original value of the gift. This gives £175,000 which is taxed at 40% giving a tax liability of £70,000 but the trustees can deduct the £35,000 paid at the time of the gift giving a final bill of £35,000

If three years have elapsed since the gift was made taper relief can be used

Nicholas paid £500,000 into a Discretionary Trust in June 2015 when the NRB was £325,000. The initial tax paid by the trustees would have been £35,000

He died in May 2020. The death tax is

Value of CLT	£500,000
Less NRB at death	<u>£325,000</u>
Chargeable amount	£175,000
£175,000 @ 40%	£70,000
Less taper relief (40%)	<u>£28,000</u>
	£42,000
Less tax paid	<u>£35,000</u>
	7,000

Taper relief is always taken off before credit is given for the tax paid at the time of the gift. If the tax after taper is higher than the tax paid at the time of the gift there is no further liability but there is no refund. In the above example if taper relief at 60% had been available £28,000 would be payable but the tax paid at the time would wipe this out. This excess payment of £7,000 could not be reclaimed.

Charitable legacies

If the deceased's will left a legacy to a UK charity of at least 10% of the **baseline amount** then the rate reduces from 40% to 36%. To calculate the baseline amount:

- Deduct the legacy from the estate This is the **chargeable estate**
- Next deduct the available NRB. This is the **taxable estate**
- Finally add back the gift to get £425,000. This is the **baseline amount**.

Fran dies in July 2020 and leaves an estate of £750,000. He leaves £50,000 to the NSPCC and the remainder to his children

Estate	£750,000
Less Charitable legacy	<u>£50,000</u>
Chargeable estate	£700,000
Less NRB	<u>(£325,000)</u>
Taxable estate	£375,000
Add legacy	<u>£50,000</u>
Baseline amount	£425,000

The legacy is more than 10% of the baseline amount so the 36% rate applies

£375,000 (taxable estate) @ 36% = £135,000

If the NRB is different to £325,000 because of outstanding PET or transferable NRB this figure will be deducted. Any RNRB is ignored in the calculation.

Louisa died leaving an estate of £750,000. She left a legacy of £50,000 to the RNIB. Four years earlier she gave £150,000 to her daughter.

Estate	£750,000
Legacy	<u>£50,000</u>
Chargeable estate	£700,000
Less reduced NRB	<u>£175,000</u>
Taxable estate	£525,000
Plus legacy	<u>£50,000</u>
Baseline amount	£575,000

In this case the legacy (£50,000) is below the 10% of the baseline amount (£57,500) so the estate does not qualify for the 36% rate. The beneficiaries could execute a deed of variation to increase the gift by £7,500 to meet the 10% test. This would reduce the liability at full rate from £210,000 to a reduced rate of £186,300.

Residential Nil Rate Band

The RNRB is an additional Nil Rate Band that can be claimed if the following conditions are met:

- The death occurs on or after 6 April 2017.
- The deceased's home, or a share of a home, is transferred either through a will or intestacy
- The home is left to direct descendants or their spouses.

It does **not** apply to lifetime transfers.

- For 2020/2021 the standard RNRB is £175,000.
- From 2021/2022 it will increase in line with CPI.
- RNRB will be gradually withdrawn if the total estate is more than £2 million.
- Unused RNRB can be transferred between spouse's/civil partners

In HMRC language, to get RNRB there must be a **Qualifying Residential Interest (QRI)** that is **closely inherited**.

Qualifying Residential Interest

A QRI is an interest in residential property that has at some time during the deceased's period of ownership was occupied by him or her as a residence. Its value is market value less any mortgage.

Roger only owned one house on his death that was always been his main residence. He has a QRI in that property.

Hilary lived in her house for most of his life before moving in with her daughter as her health had deteriorated. She then rented out the property which she still owned on her death. She has QRI in that property

Bill owned a buy to let property that was never his home. He does not have a QRI.

It is possible for the deceased to have QRI in more than one property. If in the above example Hilary had purchased a retirement property where she lived, rather than moving in with her daughter she would have QRI in both properties. In that case her executors can nominate which one will be treated as the QRI.

Closely Inherited

To get RNRB, the QRI must be left to a "lineal descendent" or a spouse of one. These are:

- Children, grandchildren and great grandchildren of the deceased. It includes adopted, and step children. Foster children together with any child for whom the deceased

acted as legal guardian when the child was under 18 are closely inherited even if these relationships had ended when death occurred.

- The spouse's/civil partners of the above descendants.
- Widows/widowers and surviving civil partners of the descendants as long as they had not remarried at the time of the deceased's death

It cannot be claimed if the deceased had no children or step children. If the deceased had children but chose to bequeath the house to a cousin, or nephew this would not get RNRB.

Neither can it be claimed if the property is passed to an unmarried partner.
A transfer to a spouse/civil partner is of course an exempt transfer

The amount of RNRB is also restricted to the value of the property that is passed to the beneficiary.

What the beneficiary or beneficiaries do with the house is irrelevant and RNRB can still be claimed. Similarly, if the executors sell the property and distribute the proceeds to the beneficiaries RNRB can still be claimed.

Applying RNRB in a calculation

These examples illustrate how RNRB is dealt with in a calculation where there is no transferable RNRB. The basic principle is the RNRB is applied first and the standard NRB can be offset against any excess. In these examples, the deceased's house and other assets are shown separately.

Angela is divorced and has a property with a value of £500,000 and other assets worth £300,000. In her will this is all bequeathed to her daughter.

House	£500,000
Less RNRB	<u>£175,000</u>
	£325,000
Other assets	<u>£300,000</u>
	£625,000
Less NRB	<u>£325,000</u>
Chargeable	£300,000

If the value or share of the property is less than £175,000 the RNRB is limited to the value of the property.

Dennis owns his house on a tenants in common basis with his wife. On his death, the house was valued at £180,000. He left his share (£90,000) to his daughter.

The RNRB would be £90,000. The unused £85,000 cannot be used to increase his “standard” NRB of £325,000 so if he leaves other assets of £400,000 to his daughter, £75,000 is chargeable.

If there is a previous PET/CLT this is deducted from the NRB and not the RNRB.

Stuart died in September 2020. Two years earlier he made a PET of £100,000 to his son. His will left his house valued at £300,000 plus other assets of £200,000

House		£300,000
Less RNRB		<u>£175,000</u>
		£125,000
Other assets		<u>£200,000</u>
		£325,000
NRB	£325,000	
Less PET	<u>£100,000</u>	
	£225,000	<u>£225,000</u>
Amount chargeable		£100,000

If the PET had exhausted the NRB the full amount of RNRB is still available

Camilla died in May 2020. Two years earlier she made a PET of £500,000 to her son. His will left the house valued at £300,000 plus other assets of £200,000 to her son.

House		£300,000
Less RNRB		<u>£175,000</u>
		£125,000
Other assets		<u>£200,000</u>
		£325,000
NRB	£325,000	
Less PET	<u>£500,000</u>	
	(£175,000)	<u>£0</u>
Amount chargeable		£325,000

Transferable RNRB

Transfers between spouses/civil partners remain exempt so the RNRB cannot be used if the property is left to the surviving spouse.

Tim and Sarah own their house on a joint tenancy basis. On Tim's death, this passes automatically to Sarah and his will bequeaths all his personal property to her. Tim's estate has not used his standard NRB nor his RNRB

In these circumstances, any unused RNRB can be transferred to the surviving spouse but there is a practical issue as it was only introduced in April 2017. Consequently, there are different rules depending on whether the first death occurred before or after April 6 2017.

First death occurred before April 6 2017

Even though RNRB did not exist until April 2017 100% of the RNRB at the time of the second death can usually be claimed by the survivor's estate.

Debbie died in 2009. All her property including the marital home was passed to her husband Peter. He died in May 2020 and left everything to his two children in equal shares. The property had a value of £800,000 and other assets of £400,000.

His executors can claim 100% of Debbie's unused NRB and Peter's RNRB.

House	£800,000
Less RNRB	<u>£350,000</u> (2 x £175,000)
	£450,000
Other assets	<u>£400,000</u>
	£850,000
Less NRB	<u>£650,000</u>
Chargeable amount	£200,000

A further quirk is that there is no requirement for the first to die to have a QRI at the time of their death for RNRB to be transferred to the survivor.

Charles married Camilla having no assets or savings. Despite the property being solely owned by Camilla, she will acquire both his unused NRB and RNRB.

First death occurred after 6 April 2017

In many cases the second death can claim 100% since the house would usually be owned on a joint tenancy basis and would pass automatically to the survivor. It could not be passed on to anyone else.

If part was used on first death then the percentage of the unused amount can be transferred.

Henry died in December 2017 and his daughter inherited a £60,000 share of his house. The percentage used was £60,000/£100,000 or 60% so 40% is unused. His wife Susan, died in May 2020 when the RNRB was £175,000. Susan's executors can claim 40% of £175,000 which is £70,000.

Tapering of RNRB

RNRB is reduced if the deceased's net estate is more than £2million. The reduction is £1 for every £2 over £2 million which means for 2020/2021 there is no RNRB if the estate is more than £2,350,000.

Alistair died in November 2020 with a net estate of £2,080,000. This is £80,000 above the threshold level so the RNRB is reduced by £40,000 to £135,000

The net estate means the total value of the estate less any liabilities such as loans. A particularly important point is that reliefs and exemptions are not deducted.

Mike died with an estate of £2.5 million. This included his business valued at £1 million which qualified for Business Property Relief. His IHT liability will be based on £1.5 million but he will get no RNRB.

Katrina was divorced and left her home with a value with £1.6 million to her son. The remainder of her estate of £1 million was left to several charities. No RNRB can be claimed.

Paying IHT

The executors are responsible for paying IHT on the deceased's estate. This must be paid six months after the end of the month in which the deceased died.

If death occurred in January the IHT must be paid by July 31. If death occurred in February IHT must be paid by August 31 and so on.

IHT must be paid before the estate can be distributed to beneficiaries