

Technical insights - Quick reference guide

Residence Nil Rate Band (RNRB)

This guide will provide you with the information you require to advise your clients on the Residence Nil Rate Band (RNRB).

The RNRB is an additional nil rate band available on death

When a long-term UK resident dies their estate will be subject to inheritance tax if it exceeds their available nil rate band, currently £325,000. Since 6th April 2017 it has also been possible to claim an additional residence nil rate band (RNRB), currently £175,000 if certain conditions are met.

The RNRB may be used against a 'qualifying residential interest'

- For most people this will be a residential property which was their main residence at some point.
- It is not necessary to have lived in the property for the full period of ownership. For example where the property has been rented out for a period.
- An individual may have more than one property which qualifies. However, their executors (the persons dealing with a deceased persons estate) may only nominate one property to apply it to.
- The residence may be located anywhere in the world.

The qualifying residential interest must be 'closely inherited'

- The property must be inherited by a direct decedent, which includes children, stepchildren, remoter issue of children (such as grandchildren).
- Children includes adopted children and foster children.
- A property left to a discretionary trust cannot be considered closely inherited - even if the beneficiaries are direct decedents. Therefore, property passing to parents, brothers and sisters, nieces and nephews or non-married/civil partners of the deceased are not classed as direct descendants.

The RNRB is transferrable between Spouses and Civil Partners

As with the standard nil-rate band, when the first of the couple dies, any unused RNRB is transferred to the survivor. The transfer is calculated as a percentage. That percentage is then applied to the RNRB at the time of second death.

Example: Partner 1 dies in 2017/18 tax year when the RNRB was £100,000. They used none of their RNRB and transferred 100%. Partner 2 dies in 2022/23 when the RNRB is £175,000. This gives Partner 2 an RNRB of up to £350,000. This transfer does not happen automatically, it has to be claimed. The claim is made by using the form IHT436. Where a spouse/civil partner died prior to the introduction of the RNRB it is possible to claim 100% of the unused 'RNRB' for the second death. See the RNRB Scenarios document for more detail.

The RNRB may be limited by property value

The available RNRB will be the lower of: the net value of the qualifying residential interest (i.e. after deduction of outstanding mortgage) and the maximum available band.

Example: Property of £250,000 with a mortgage of £150,000 will limit the RNRB to £100,000.

The RNRB may be available where the property is held in trust.

Discretionary

If a qualifying residential interest is placed into a discretionary Will trust, it will not qualify for the RNRB, even if the beneficiaries are direct descendants. However, if the trustees irrevocably nominate (appoint) the property to direct descendants within two years of death, the RNRB could potentially be claimed.

Bare (absolute) trust

Where a qualifying residential interest is gifted to a bare trust there may be IHT to pay if the settlor (the person making that gift) dies within 7 years. The RNRB could be claimed where the beneficiary of that trust is a direct decedent of the settlor.

Qualifying Interest In Possession (IIP)

An IIP gives a life tenant the right to occupy the property during their lifetime. On death the property passes on to other beneficiaries (remaindermen). Where the IIP was created as part of a Will then the value of the property is within the life tenant's taxable estate and subject to IHT. If the remaindermen are the direct decedents and receive an absolute interest, then the RNRB could be used.

The available RNRB is tapered where the estate value exceeds £2 million

- The available RNRB is tapered at a rate of £1 for every £2 over the £2 million threshold.
- When calculating the value of the estate, business and agricultural property relief must be ignored.
- Tapering can apply twice to RNRB transferred between spouses/civil partners
 1. On first death, where their personal estate is more than the £2 million threshold; the amount which can be transferred is reduced by £1 for every £2 over.
 2. On second death, where the estate is more than the £2 million threshold; both the individual's RNRB and transferred RNRB is reduced by £1 for every £2 over. It is possible for large estates that the taper leads to having no RNRB available.

Lifetime gifts can help to reduce or avoid the impact of tapering

The value of the deceased's estate for the purposes of the RNRB taper threshold (£2m) is the value immediately before death. It takes no account of previous lifetime gifts – even if those gifts failed i.e. made within the 7 years prior to death. This includes gifts to individuals and gifts into trusts.

Example

Jon, owns a house worth £1.5m, a number of buy-to-let properties worth £800,000 and investments of £150,000. He plans to leave all his estate to his adult children, Ashley and Sarah. Currently, on Jon's death, due to the impact of the taper rules all of the RNRB will be lost. By making a gift of some of the properties within his buy-to-let portfolio (£450,000), his estate will qualify for a full RNRB. This could result in an IHT saving of as much as £70,000.

This could either be a direct gift to Ashley and/or Sarah or a gift into trust of which they are one of the beneficiaries.

For details on downsizing provisions on RNRB see our [Quick reference guide -part 2](#)

The information provided in this article is not intended to offer advice.

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