



inheritance tax - the family home allowance (FHA)

General Principles

The Conservatives pledged to increase to £1 million the Inheritance Tax (IHT) Nil Rate Band threshold for married couples/civil partners with homes. The Summer Budget introduced the new IHT Family Home Allowance ("FHA") but not everyone will benefit.

The current Nil Rate Band ("NRB") for IHT (i.e. the portion of the estate taxed at 0%) is £325,000, unchanged since April 2009. For married couples/civil partners, they share two NRBs so have the potential for 0% IHT on £650,000.

From 6th April 2017, the FHA of £100,000 will apply (in addition to the £325,000 NRB) when a main residence is passed on death to direct descendants – children and grandchildren (including step/adopted children and grandchildren). The allowance will increase by £25,000 in each of the following three tax years until it is worth £175,000 in 20/21.

From 6th April 2021, the NRB and FHA will increase in line with inflation.

Both the NRB and the FHA will be transferable between spouses and civil partners.

Downsizing is covered – when someone downsizes/ ceases to own a home after 8th July 2015 and assets of an equivalent value pass on death to descendants, the FHA can be claimed.

Information is still very sketchy as to how the new FHA will work in practice – updating Wills and strategic IHT planning is more important than ever.

Restrictions

- The FHA can only be used to gift to direct descendants.
- Unmarried couples/singletons can only claim their own FHA and so a maximum of their NRB and their FHA (a maximum of £500,000 in 20/21)
- The FHA will be tapered away where an estate is worth more than £2m and business owners in particular will need to structure their Wills very carefully to establish entitlement to the FHA.
- The FHA is not available in respect of lifetime gifts and only applies to gifts on death.

At Latimer Hinks we have a specialist and dedicated Private Client team who would be delighted to advise and help.

If you would like us to help contact us on:
01325 341500

Latimer Hinks Solicitors, 5-8 Priestgate, Darlington DL1 1NL

Tel: 01325 341500 Fax: 01325 381072 email: lh@latimerhinks.co.uk www.latimerhinks.co.uk July 2015