Guide to Nil Rate Bands

Key guides

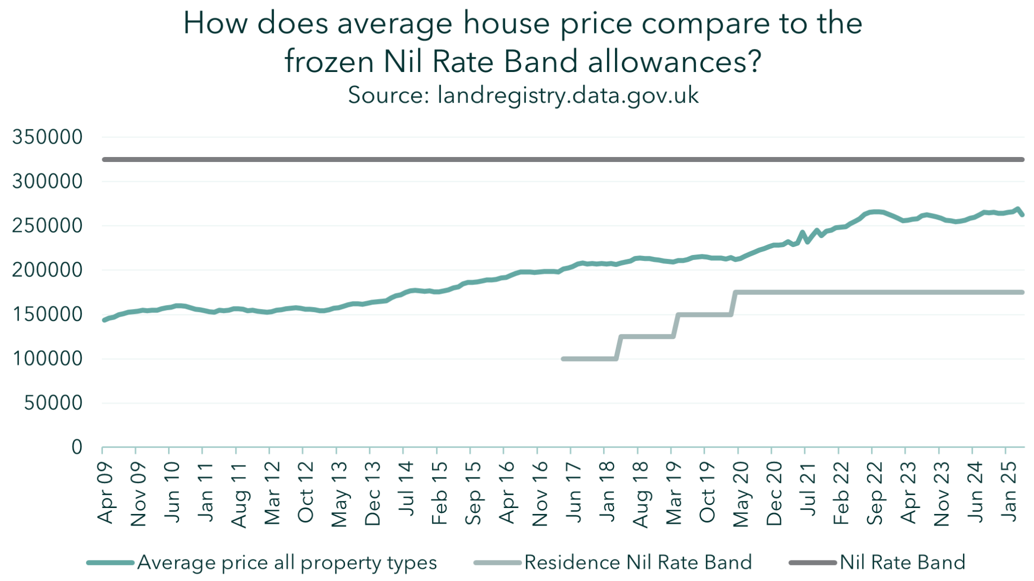
WREN STERLING

How to maximise Inheritance tax relief

Average UK house prices have risen by 44.8% over the past 10-years (to September 2025 (according to the ONS house price index) which should be cause for celebration for homeowners – until they consider how this will impact their inheritance tax bill.

The Nil Rate Band and Residence Nil Rate Band have been frozen since April 2009 and 2020 respectively, and aren't set to change until 2031 (as announced in the November 2025 Budget). For many, this freeze will see more of their estate being inherited by the tax man, rather than their loved ones. Over the three-years of additional freezing the Exchequer expects an additional £575m in inheritance tax receipts to the tax year 2030/31.

This guide is designed to help for homeowners and landlords understand how to make the most of the exemptions and reliefs available. We will cover your questions about the Nil Rate Band, what it is, who qualifies, and how to claim it.



Independent Financial Adviser, Andrew Mence, shared a story of a recent case. "I met with some clients recently, a couple aged 70 and 75, who wanted to get their affairs in order. We found that their IHT bill would be nearly 15% of their estate. As per their wishes, we considered a variety of solutions, ensured their Will was up to date, and enabled them to pass down as much of their estate to their children as possible. I was delighted to be able to support this and give them peace of mind about their children's future."

What is the Nil Rate Band?

Inheritance Tax (IHT) often represents one of the most significant financial considerations in estate planning within the UK. As a tax levied on the estate (including property, money, and possessions) of someone who has passed away, understanding the mechanisms available to mitigate its impact is crucial for effective financial planning.

The Nil Rate Band is the amount of an individual's estate that is ignored for inheritance tax purposes. This is currently £325,000 (as of tax year 2025/26 and frozen until 2031) and anything above this threshold is taxed at 40%.

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What is the Residence Nil Rate Band?

The Residence Nil Rate Band (RNRB) is an additional allowance of £175,000 (tax year 2025/26 also frozen until 2031) which allows the deceased to pass their homes on to their children, grandchildren or other 'direct descendants'.

This changes when an estate is worth over £2 million. In these cases the RNRB is tapered to reduce by £1 for every £2 that exceeds £2 million. This means that estates eligible for only one Nil Rate Band worth more than £2.35 million may not benefit from the RNRB at all (£2.7 million where two Residence Nil Rate Bands are available).

The crucial part of the Residence Nil Rate Band for landlords is that only the value of one property can receive the RNRB, the RNRB cannot be divided between properties, and the deceased must have been a resident of the chosen property – so this relief cannot be applied to buy-to-let properties. The RNRB will also not apply to properties gifted in certain trusts – and therefore we recommend that landlords regularly review their existing estate plans.

Impact of pension changes for IHT calculations

From the 6 April 2027 unused pension funds will become potentially liable for inheritance tax as part of the person's estate. This change is designed to discourage the use of pensions as a wealth transfer tool and encourage individuals to save for their retirement. As our homes and pensions are likely to be our highest value assets – it is particularly important for homeowners and landlords to consider how this change will affect their estate planning.

Let's look at an example. Here we see a fictional example of this affecting a couple (Kerry and Mark) and increasing their taxable estate value by over £1.2m.

Assets	Value	Now	From 6 April 27
Pension – Kerry	£1,000,000	£0	£1,000,000
Pension – Mark	£220,000	£0	£220,000
House	£1,000,000	£1,000,000	£1,000,000
ISA – Kerry	£120,000	£120,000	£120,000
ISA – Mark	£43,000	£43,000	£43,000
GIA – Kerry	£100,000	£100,000	£100,000
GIA – Mark	£70,000	£70,000	£70,000
Cash	£75,000	£75,000	£75,000
Total estate value for IHT purposes		£1,408,000	£2,628,000
Minus the couple's combined IHT exemptions:			
NRB x 2		-£650,000	-£650,000
RNRB x 2 (will leave to children and grandchildren)		-£350,000	-£36,000*
Total amount exempt from IHT		-£1,000,000	-£686,000
Total liable to IHT		£408,000	£1,942,000

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These figures assume that on the first death everything is left to the spouse, and on the second death the estate goes to their children and grandchildren.

*Tapered RNRB: The RNRB will reduce by £1 for every £2 over the £2m taper threshold. £350,000 - £314,000 = £36,000.

There's no one universal solution to reducing inheritance tax liability, as everyone has different circumstances. So what can couples like the example, Kerry and Mark, do to reduce their Inheritance tax liability and make sure they're using their allowed exemptions and reliefs?

How can you calculate your inheritance tax?

Before you can reduce your IHT liability you'll need to know the current value of your assets (property, investments and savings, any unused pension funds etc) as well as any debts and liabilities. You can then use an inheritance tax calculator to create an estimate of how much of your estate is likely to be taxable, and how much inheritance tax there could be to pay.

Visit our Inheritance tax calculator

What are the exemptions from Inheritance Tax?

Spouses and Civil Partners

Assets passing between spouses and civil partners are exempt from inheritance tax. Any unused portion of their Nil Rate Band can then be 'transferred' to the surviving spouse's estate on their death (more on that later.) Couples in long-term relationships who have not 'tied the knot' will not benefit from the tax-free gift to their surviving partner.

Charitable donations

Gifts to registered charities are exempt from inheritance tax. Charitable donations in your Will worth 10% or more of your net estate can reduce the rate of IHT payable on your taxable estate from 40% to 36%.

Our article from Clive Barwell on doing good whilst saving on inheritance tax goes into further detail.

Gifting

Giving assets away in your Will would mean these were part of your estate for inheritance tax purposes. Making gifts of them in your lifetime could allow you to enjoy seeing them help your beneficiaries – and can reduce any inheritance tax liability over time thanks to the 7 year rule.

More on the 7 year rule, small gifts and 'normal' gifting in our gifting guide.

Can the Nil Rate Band be transferred?

Everyone is entitled to NRB and RNRB, and for those who are married or in a civil partnership, any remaining portion of the NRB/RNRB can be passed onto the surviving partner. This is where the term 'Transferable Nil Rate Band' comes from.

However, this 'transfer' of the Nil Rate Band and Residence Nil Rate Band is not automatic and must be claimed upon the surviving partner's death.

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How to claim the Nil Rate Band

During the probate process, the deceased's Executor will need to submit various forms to HMRC, detailing how much (if any) inheritance tax is to be paid, and the use of transferable Nil Rate Band (the unused portion of the Nil Rate Band of a previously deceased spouse).

Please note, HMRC cannot provide tax planning advice, and beyond their informative articles, they recommend seeking professional advice in more complex scenarios.

Incorporating BTL portfolios

Changes to the NRB and Mortgage interest tax relief has led to landlords reviewing how they structure their assets. Incorporating buy-to-let (BTL) properties into a limited company is one option – but the question of whether this is the right option is complex. Whether or not incorporation will be beneficial will depend on a number of factors, including; the level of income drawn out of the company, your income tax rate, the value of your properties, and how much rental income you expect.

If you are considering incorporating your buy-to-let portfolio we recommend contacting an Accountant or Tax Adviser as making mistakes could leave you much worse off. Wren Sterling does not provide these services, but we often work in tandem with these professionals to support our mutual clients.

Considerations for incorporating a BTL portfolio

Owning rental property as an individual

- **Property allowance** – The first £1,000 of rental income each year is relieved from tax liability. Above this, you are taxed at your marginal rate.
- **Mortgage interest** – Recent changes to this tax means that rather than deducting mortgage interest from your rental income, you will receive a 20% tax credit on your costs. This change may cause higher and additional rate taxpayers to consider incorporating their BTL portfolio.

Owning property through a limited company

- **Corporation tax** - Holding property within a limited company will require payment of corporation tax which is currently 25% for companies with profits over £250k (tax year 2025/26), below the higher rates of income tax. If properties are sold in future you will be subject to corporation tax on any capital gains (which is higher than capital gains tax for companies paying corporation tax at 25%).
- **Mortgage interest** would be fully deductible before calculating tax.
- **Inheritance tax** – Assets owned through a limited company, rather than an individual may reduce exposure to inheritance tax liability by passing shares in the company through gifting rules.
- **Dividends** - You will need to pay tax on dividends you collect from the company.

Making the change

- **Set up and admin costs** – Consider the costs of incorporation and taking professional advice.
- **Mortgage interest rates** may be higher for limited companies rather than personal buy-to-let mortgages.
- **Stamp Duty** – Moving existing personally held property will trigger the Stamp Duty Land tax on properties worth more than £125,000 (for residential properties). And if you sell the

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property in the future as a Limited Company, the sale will be liable to corporation tax, rather than you will need to pay capital gains tax on amounts above your Annual Exemption.

Get Nil Rate Band advice from Wren Sterling

Set up an appointment to seek advice on dealing with Nil Rate Bands

We hope this guide has explained the Nil Rate Band, the impact it can have on your legacy- and how complex this area of financial planning can be.

Our clients choose not to do their financial planning alone. Wren Sterling Financial Advisers simplify the complex and develop bespoke financial plans to give our clients clarity, confidence and control. Together you can make a plan that takes advantage of available exemptions, reliefs and gifting rules to ensure your legacy supports your loved ones – not the tax man.

Nil Rate Band and Inheritance Tax FAQs:

What is the seven-year gifting rule?

The 7 year rule means that no tax is due on gifts to friends and family if you live for seven years after giving them. You will need to keep a list of all gifts you have given – as there are other exemptions (such as the Gifting Annual Exemption and Small Gifts rule) – exempt gifts are immediately out of your estate. Taper relief can apply to some gifts – see below.

What is IHT taper relief?

Taper Relief is a relief given on the IHT payable by the recipient of a gift made within the 7 years before the donor's death, where that gift (alone or cumulatively) exceeds the Nil Rate Band available on death. Taper relief can only apply if you survive for over 3 years after making the gift. If you do pass away within 7 years the recipients may have to pay tax on gifts they have received. Keep a list of the gifts you've made, when they were given and how much these gifts were.

What happens if assets are left to children and grandchildren in a trust?

Typical use of trusts is for the protection of money, investments, property and land. Trusts can help to cascade wealth through the generations and are particularly useful when beneficiaries are unable to manage their own finances.

Trusts can have many benefits but this is a complex area of law. It is best to receive professional advice prior to creating a trust to make sure you're aware of your responsibilities. Wren Sterling works with a number of specialists who can ensure the right legal and taxation advice is available.

Does RNRB apply to second properties?

The Residence Nil Rate Band can only apply to the value of one property, which must have been lived in by the deceased at some point. It cannot be used to offset against other owned

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properties, such as buy-to-let properties, but can be used by those who have released equity on their home on the remaining value of the property they own.

What is the downsizing rule for the Residence Nil Rate Band?

If you have sold or downsized to a less valuable home after 7 July 2015, you may be able to qualify for a 'downsizing addition' - the maximum Residence Nil Rate Band that would have been available if the individual had died while they owned the original property.

This can apply as long as the former home would have qualified for the RNRB, and the direct descendants will be inheriting (at least some of) the estate. This is calculated by looking at the percentage of RNRB that would have been 'lost' by the move. Further explanation is available on the gov.uk website.

Can you give away property before you die to avoid paying inheritance tax?

While there are allowed Inheritance tax reliefs and exemptions, it is important that individuals should not *avoid* inheritance tax. If this is discovered your beneficiaries will need to pay the inheritance tax due and may also incur penalties.

Deprivation of assets: There are strict rules concerning giving away assets in an attempt to avoid paying for social care. The sooner planning is started, the less likely it is to fall foul of the deliberate deprivation rules. With use of cashflow planning tools available to your Wren Sterling Financial Planner, it can be demonstrated what you can and can't afford to dispose of during your lifetime.

Using trusts: Rather than removing assets from your IHT bill, placing a property in trust can trigger an immediate IHT liability of 20%. Individuals should also consider the costs of putting a trust in place, which must also be registered with HMRC's Trust Registration Service.

- If you have placed your home in trust but continue to live in this property without paying a market rent, the entire value of the property could still be taken into account for IHT purposes. This means the expected results of saving tax will not apply as you are continuing to benefit from the gift.
- Anyone placing assets in trust should know that this will mean these assets are no longer under their control (although they can be one of the trustees). Placing a property in trust will mean that they would require agreement from trustees if they wished to sell or alter the property.

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