

The Chartered Institute of Taxation

Awareness

Module B Inheritance Tax, Trusts & Estates

May 2021

Suggested answers

Answer 13

	£	£	
Gross chargeable transfer (working)		<u>418,750</u>	
Nil rate band (2020/21)	325,000		
Less PET on 20 February 2015	<u>(180,000)</u>		1
Nil rate band available		<u>145,000</u>	
Death IHT			
£145,000 x 0%		109,500	
<u>£273,750</u> x 40%			
<u>£418,750</u>			
Less lifetime IHT paid		<u>(18,750)</u>	
		<u>£90,750</u>	1
<u>Working</u>			
Transfer to discretionary trust on 1 November 2017		<u>400,000</u>	
Nil rate band (2017/18)	325,000		
Less chargeable transfers in the previous 7 years		-	1
Nil rate band available		<u>325,000</u>	
Lifetime IHT			
£325,000 x 0%		18,750	1
<u>£75,000</u> x 25%			
<u>£400,000</u>			
Gross chargeable transfer (£400,000 + £18,750)		418,750	1

Answer 14

	£	
Death estate	1,200,000	
Less spouse exemption		
£(325,000 max – 150,000 already used)	<u>(175,000)</u>	1+1
Gross chargeable estate	<u>£1,025,000</u>	
IHT payable		
£175,000 (RNRB) x 0%		1
£325,000 (NRB) x 0%		1
<u>£525,000</u> x 40%	<u>£210,000</u>	1
<u>£1,025,000</u>		

Answer 15

- 1) Sophia's gift to Valentina on 1 March 2017 is not subject to UK Inheritance Tax as Sophia was not domiciled or deemed domiciled in the UK at the time of the gift and the apartment in Rome is therefore an excluded asset. 1
- 2) At the time of Sophia's death on 17 November 2020, she is deemed domiciled in the UK as she has been resident in the UK for at least 15 of the previous 20 tax years. Therefore her worldwide assets in her death estate are subject to UK Inheritance Tax. 1

Answer 16

	£	
Unit trust (25,000 x £2.06)	51,500	1
Cash and personal chattels	<u>528,000</u>	
	<u>£579,500</u>	
 IHT: 40% x £(579,500 - 325,000)	101,800	1
Less quick succession relief		
<u>£18,000 x £88,650/£550,000 x 80%</u>	<u>(2,321)</u>	1+1+1
IHT payable	<u>£99,479</u>	

Answer 17

1) A shareholding in a quoted trading company held for at least two years qualifies for BPR at 50% if the donor has control of the company. 1
1+1

Related property is taken into account when determining whether control exists. Between them, Joe and Betty have a 60% holding, therefore Joe's shares qualify for BPR. 1

2) BPR at 50% is also available on the office building as it is a personally owned asset used in a trading company which is controlled by the donor. 1

Answer 18

Although Charles does not fulfil the seven-year ownership requirement, the farm in Cumbria will qualify for APR under s.121 IHTA 1984 as the earlier transfer from George to Charles qualified for relief and the transfer was on George's death. 1
1

On Charles's transfer of the farm into the discretionary trust, APR is given at the rate of 50% on the agricultural value as the farm is tenanted, the lease began before 1 September 1995 and has more than two years to run at the date of the transfer. 1
1+1
1

Max 5 marks

Answer 19

1)

	Probate Value £	Gross sales proceeds £	Profit/ (loss) £	
4,000 Bucket plc shares	12,000	5,500	(6,500)	1
2,500 Spade units	7,000	8,200	1,200	
	<u>19,000</u>	<u>13,700</u>	<u>(5,300)</u>	1
Restriction: <u>£5,300 x £8,500/£13,700</u>			<u>3,288</u>	<u>1+1</u>
Reduction in the value of the death estate			<u>£(2,012)</u>	

2) 14 April 2021 (twelve months after the date of death). 1

Answer 20

1) Income distributed from a discretionary trust is received net of a 45% tax credit, therefore Mick will gross up the amount received by 100/55 and include the gross amount in his tax return.

The gross income is taxed on Mick as non-savings income at 40%/45%. 1

2) Income arising in an interest in possession trust is taxed in the trust at the basic rate of tax according to the underlying asset which generated the income, therefore Mick will gross up the amount by 100/92.5.

The gross income is taxed on Mick as a dividend at 32.5%/38.1% after any available dividend allowance. 1

In both cases, Mick will claim a deduction against his Income Tax liability for the tax credits on his trust income. 1

Answer 21

	£	
Initial value (£1 million - £133,800)	866,200	1
Less nil rate band (2020/21)	(325,000)	
	<u>£541,200</u>	1
Effective rate of tax = 20% x £541,200/£866,200	12.496%	1
Actual rate = 12.496% x 30% x 20/40	1.874%	1
Exit charge = £150,000 x 1.874%	£2,811	1

Answer 22

1)	£		
Proceeds	600,000		
Less cost			
$\underline{\text{£}(200,000 + 85,000) \times \text{£}600,000/\text{£}600,000 + \text{£}400,000}$	$\underline{\text{£}(171,000)}$	1+1+1+1	
Chargeable gain	$\underline{\text{£}429,000}$		

2)			
The base cost of the remaining two acres of land is $\text{£}285,000 - \text{£}171,000$	$\text{£}114,000$		1

Answer 23

	£	£	
Gain on residential property		22,000	
Gain on commercial property	55,000		
Gilts – exempt assets		-	
	55,000	22,000	1
Annual exemption (£6,150/3)		$(2,050)$	1+1
Taxable gains	$\underline{55,000}$	$\underline{19,950}$	
	$\underline{\text{£}11,000}$	$\underline{\text{£}5,586}$	1+1

Answer 24

	£	
Income Tax on the property income	36,650	
Income Tax on the dividend income		
$\text{£}88,800 \times 38.1\%$	$\underline{33,833}$	1
	$\underline{70,483}$	
$\text{£}1,200 \times 7.5\%$	90	1
Income Tax payable by the trustees	$\underline{\text{£}70,573}$	

Tax pool

Income Tax paid by the trustees	70,483	1
(less Income Tax on income used to meet the Trustees' expenses)		
Less tax credit claimed by beneficiary ($\text{£}44,000 \times 45/55$)	$(36,000)$	1+1
Balance at 5 April 2021	$\underline{\text{£}34,483}$	