

Institution **CIOT - ATT-CTA - 2020 November Exams**
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Course **CTA Adv Tech IHT Trusts Estates**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID **11574**

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	211	1037	1860
Section 2	399	1919	2623
Section 3	401	1783	2166
Section 4	342	1584	2265
Section 5	1007	4465	6114
Section 6	429	2043	2557
Total	2789	12831	17585

Answer-to-Question-_1_

2018/19

	NSi	Interest	Divs
oak	5,500		
treetops	5,500		
ash	1,500		
beach	8000		
isa			3,300
non isa			2,200
	20,500		5,500
Tax at 20/7.5%:			
	4100		412

Total income tax liability = 4512 payable by 31 jan 2020

Residuary income:

	NSI	Divs
	20500	5500
tax	(4100)	(412)
expenses		(800)
distributable	16,400	4288
Distribution n1	(16,400)	(4288)
c/frwd	-	-

n1 - apportionment of 50,000 to granchildren on 31 December 2018
wipes out the entire distributable income. No distributable

income to be carried forward.

capital gains

Beachhouse

proceeds	220,000	
cost of sale	(5000)	
probate cost	(185,000)	
sp 2/04	(580)	8k *185k/2.55m
gain	29,420	
AE	(11,700)	
	17,720	
@20% (commercial)	3,544	>> payable by 31 jan 2020

2019/20

	NSI	Divs
ISA port		1800
Non isa		1200
tax at 7.5%		225 > payable by executors by 31 jan 2021

distributable income:

	NSI	Divs
	-	1200
tax		(225)
expenses		(600)
distributable		375

Capital gains=

loss on ISA portfolio exempt from CGT/not allowable.

Non isa portfolio:

Proceeds	99,000
probate	100,000
loss	(1,000)

The croft

proceeds	850,000	
cost of sale	(15,000)	
probate	(660,000)	
SP 2/04	(2070)	8k * 660/2.55m
gain	172,930	
PPR n1	(172,930)	
tax	-	

n1 house used as main residence for up until 31 July 2018. Last 18 months also covered by PPR. PPR wipes out the full gain.

-----ANSWER-1-ABOVE-----

-----ANSWER-2-BELOW-----

Answer-to-Question-_2_

Felix

The original gift from Felix to Sharon in 2016 would have been a PET. However as he died within 7 years of the pet the pet becomes chargeable.

2016	400,000	
NRB	(325,000)	
	75,000	
@40%	30,000	>

This should have been paid by Sharon by 30 September 2018

QSR

Felix's death

estate	2,500,000	
NRB	-	used on failed pet
charity	(300,000)	
	2,200,000	
@36% n1	792,000	

As charitable legacy of 300k is at least 10% of the net estate i.e. 2.5m (250k) the 36% applies.

The net value of the trust assets are therefore:

estate 2,200,000
tax (792,000)
trust assets 1,408,000

The tax should have been paid by Felix's executors by 30
Septmeber 2019 or date the IHT return submittted whicher earlier.

Sharon

Sharon estate was increased by gifts from Felix less than 5 years
before she died. QSR is therefore available. It doesn't matter
that she no longer held the assret on her death.

2016 gift:

$$\text{QSR} = 30\text{k} * 20\% * (400\text{k} - 30\text{k})/400\text{k} = 5500$$

2018 - gift on death (life interst)

$$792,000 * 60\% * (1,408,000/1,408,000 + 792,000) = 304,128$$

Total QSR = 309,628

Sharon's estate

	General	Survivorship	settled
investment	1,400,000		
cash	100,000		
property		750,000	
trust			1,408,000
Total	1,500,000	750,000	1,408,000
3,658,000			

NRB	(133,269)	(66,634)	(125,095)
325,000			
	1,366,731	683,366	1,282,905
tax at 40%	546,692	273,346	513,162
1,333,200			
QSR n1	(126,966)	(63,483)	(119,179)
309,628			
Tax payable	419,726	209,863	393,983
1,023,572			

n1 apporionted according to tax

Tax on the propperly can be paid by 10 equal annual installments (i.e. over 10 years). Tax payable on inv proppertry = 209,863. First installment of 20,986 will be payable by the normal due date i.e. 6 months from the end of the month of death i.e. 30 apirl 2021 or date that the iht return is submitted (whicher is earlier). This tax will be payable by Sharon.

The remaining tax of 813,709 (419,726 + 393983) must be paid be payable by the normal due date i.e. 6 months from the end of the month of death i.e. 30 apirl 2021 or date that the iht return is submitted (whicher is earlier).

The tax of 419726 is payable by the executors of the estate.

Thje tax of 393,983 is payable by the Rosemary/remainderman.

distribution of estate:

Hmrc = 1,023,572

Rosemary/remainderman = 1,014,017 > 1,408,000 - 393,983

Gergia = 1,620,411 n1

n1 750,000 - 209,863 = 540,137 + 1,500,000 - 419,726 = 1,080,274

-----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

Answer-to-Question-_3_

Your addressa

Our address

Date

Dea trustees

Thank you for your recent enquiry.

A&M trusts were a soecual type of discretionary tryst which could be made before 22 MArch 2006. No new A&M trust can be set up after MArch 2006.

The creation of Qualifying A&M trust were PETs and they were not subject to Principle charges and exit charges before 2008.

for the trust to have been a qulfiying A&M the beneficiaries must have been entitled to either an IIP or caoutak by the age of 25. These condtions seem to be met and there is therefore no exit or priuncipel charegs before 2008.

However, a pricmple charge will have arisen on the trust in december 2017. And an IHT100 and supporting forms must be submitted.

The princiole charge is levied on the current value of the

relacant proeprty in the ttrust on every 10 year anniversay form the date the trust wsa settled.

The current value of the trust will be made up by the current value of the shares.

The current value of the trust will also take into account any accumulated and undistributed income which arose more than 5 years before the 10 year charge. However, it appears that all accumiualted incoem has already been distributed and this will therefore not be included in the 10 year charge.

The nil band at the 10 year date is used and reduced by the settlors transfers in the 7 years before the creation and any distributions by the trustees in the 10 years before the 10 year date.

The current value minus the available nil band is then multiplied by a 20% which gives the notional transfer.

The effective rate is then calculated by dividijng the npotional transfer by the current value of the trust.

The actual rate of tax is then calcuated by nuliplying the effective rat eof tax at 30%. The actual rate of tax is then applied to the current value of the trust which give you the total value of the principle charge.

Due date for submission of the form will have been by 6 months from the end of the month of the anniversary i.e. 30 june 2018. The IHT is due on the same date.

There will be penatlies and interest on the late payment of IHT. There will also be penatlies on the late submission of the IHT form.

Kidn regards

Advisor

-----ANSWER-3-ABOVE-----

-----ANSWER-4-BELOW-----

Answer-to-Question-_4_

Lifetime gifts

The holidays and annual allowance to Charlotte will be seen as regular gifts out of ordinary income and therefore not subjct to IHT. Completely exempt. This also applies to the annual accountancy fees that she paid for the trust ebery year.

I have assumed that she has used her annual allowance in every year and these are therefore not availanble on thje below gifts.

2009	320,000	
NRB	(312,000)	
	8,000	
@20/80	2,000	> grossed up as she paid the tax

Gross gift = 322,000

2013	200,000	PET
------	---------	-----

2014 50,000 > gifts to registered clubs are exempt. NO IHT due on life or death

2015	150,000	
NRB		325,000
		(322,000)
	(3,000)	

147,000
@20/80 36,750

2016 n1 15,000 exempt from IHT

1 seat in parliment and over 150k votes > exempt.

2020 200,000 PET

Death

2009 > No further IHT on deaht as she survived more than 7 years
from this gift

2013 200,000 ? survived 7 years therefore falls outside of
IHT scope. No IHT due

2014 50k to club exempt

2015 150,000
NRB (325,000)
-

2016 15000 exempt from IHT

2020 200,000
NRB 325,000
(150,000)
(175,000)
25,000

@40% 10,000 > payably by charllote by 31 April 2021.

Death estate

NRB on death = 325,000 - 150k - 200k = nil.

Single grossing is required as will includes tax free legacies
and also a wholly exempt residue (as left to political party)

Estate	2,900,000
expenses	(25,000)
	2,875,000

NRB

Chargeable estate:	2,100,000
BPR	(1,000,000)
expenses	(25,000)
	1,750,000
NRB	-
@40/60	716,667

Gross gift to Edward = 1,100,000 + 716,667

The tax of 716,667 will be borne by the political party as the
residuary legatee.

Distribution of estate

Edward	- 1,100,000
Trust	- 1,00,000
Political party	- 83,333 > 800,000 - 716,667
HMRC	- 716,667

Tax to be paid by executors by 31 April 2021 or date that the IHT return is submitted whichever earlier.

Tax on the house can be paid by 10 annual equal installments. The first being due on 31 April 2021 or date that the IHT return is submitted whichever earlier.

-----ANSWER-4-ABOVE-----

-----ANSWER-5-BELOW-----

Answer-to-Question-_5_

There are three potential strategies of transferring the assets in Roberts estate to Daphanie.

- 1) Gift the assets to Daphanie while he is still alive
- 2) sell the assets and raise funds and then gift the funds to Daphanie
- 3) do nothing and allow the assets to pass to Daphanie on death

If he gifts the assets to daphanie while he is still alive this will give rise to a potentially exempt transfer for IHT purposes. He will be able to set off his Annual exempt amounts of 3k per year against this (and can carry forward previous year unused AE). The PET will only give rise to IHT if he were to die within 7 years which is likely. He will receive taper relief should he survive at least 3 years but this is also unlikely.

The advantage of this is that he will be able to use his Annual exemptions and the value of the asset will also be frozen. I.e. Daphanie will not need to pay any IHT on the increase of the value of the assets between the date of the gift and the date of his death.

THE Transfer of value of the PET would be 406,450 and would give rise to the following tax on his death assuming that happens in March 2021:

Cash	3,850
red plc	2,600

White plc	400,000		
Blue	12,000		
BPR	(12,000)		
	406,450		
AE	(6,000)		
NRB		325,000	
CTs		(294,000)	300k - 6,000 AE
	(31,000)		
	369,450		
@40%	147,780		

This would be payable by Daphanie 6 months from the end of the month of his death i,e, 30 Sep 2021 (assumung he dies MARCH 21.

Daphanie must hold the BPR shares until the date of his death otherwise the BPr will be withdrawn and additional tax will become due on his death. Unless she sells the BPR assets and reinvests the full proceeds into other BPR qulalifiyng assets.

Capital gains tax

The transfer of assets to Daphanie would be deemed to be a capital disposal between connected parties. The deemed proceeds would therefore be the market value of the chargeable assets.

The cash is not a chargeable asset for CGT purposes.

The gains/losses oin the shares would be as follows:

Red	prceeds	2,600	
cost		(20,000)	
	loss	(17,400)	
White	proceeds	400,000	
cost		(64,000)	

gain 336,000

Blue Proceeds 12,000
Cost (10,000)
Gain 2,000

Capital gains on EIs shares are exempt from CGT. No CGt will therefore arise.

Capital gains 318,600
AE (12,000)
306,600
@20% 61,320

This would be payable by Robert on 31 January 2022 assuming he makes the gift during the 2020/21 tax year.

Daphanie would acquire the shares at the base cost equal to thier market value at that date.

She could therefore sell them immediately (i.e. before there is any time for the value of shares to appreciate in value) and the capital gain would be nil.

No Gift relief claim could be made as the shares are not business assets and it doesn't give rise to an immediate chjarhge to IHT.

Option 2

If he were to sell the shares to raise funds and then gift the cash to Daphanie this would result in the same capital gain above (i.e. 318,600 and CGT of 61,320).

However the main difference is that the transfer of value would

be equal to the funds transferred less than tax paid. This would be

cash raise from sale of assets	418,450		
cgt	(61,320)		
transfer of vlaue	357,130		
AE	(6,000)		
	351,130		
NRB		325,000	
CTs	(294,000)		300k - 6,000
AE			
	(31,000)		
	320,130		
@40%	128,052		

option 1 - total tax = 147,780 + 61,320 = 209,100

Option 2 - Total tax = 130,452 + 61,320 = 189,372

there are anti avoidance rules which exist where someone gifts an asset and then continues to benefit ffrom such asset (the GWROB rules). These could be in scope here if Robvert decides to movve into the hoiues he gifted Daphanie. If they apply the house woiuld be incldiued in hjis death estate.

However, if Robert moves into the house with Daphanie for her to look after him during his last months of life this would note fall under the GWROB rules as it would be considered to be for domestic reasons.

He could also pay her a full market rent for living in the house and also a fee for her to look after him. This would help reduce

his estate and would not be regarded as a gift for IHT purposes.

He would therefore be more beneficial to give with option 2 i.e. sell the assets and gift them to Daphanie before death.

If this option is adopted it would give rise to the following IHT:

Lifetime gifts

2017	300,000	
AE	(6,000)	
	293,000	PET

2020	351,130	
AE	(6,000)	
	345,130	PET

death tax

2017	293,000	
NRB	(293,000)	
2020	345,130	
NRB		325,000
		(293,000)
	(32,000)	
	313,130	
@40%	125,252	

payable by Daphanie by 30 September 2021 assuming he dies in march 2021

Death estate

	Trust
Trust	1,500,000
NRB	-
@40%	600,000

Payable nby trustees by 30 septemebr 2021 or on date that the IHT return is submitted.

The trust forms part of his estate as it is a transitional series interest. I.e. an IIP trust was set up pree 22 MArch 2006 and the the iip ceased before OCTober 2008 and was immediately followed by another IIP. Therefore it is a QIIP and must be included in Roberts esatte.

If Robert sold assets and these realised a capital loss in the year of his death, these losses can be carried back and set against the chargeable agains accruing to him in the three tax years preceeding the tax in which he died. Provided that they have already been set off against the gains which arose in the year of death.

Rovert cannot make regular gifts out of ordinary income as he will not give long enough for the series of gifts to be seen as regualr.

He can howevre gift 5,000 to Daphaine in contemplation of her wedding and this will be compeltely free of IHT dur to the marrigate exemption.

-----ANSWER-5-ABOVE-----

-----ANSWER-6-BELOW-----

Answer-to-Question-_6_

To: Solicitors:
FRom: Advisor
Subject: RNRB

Dear solicitors

Thank you for your recent enquiry wwe would be happy to assist.

As you are no doubt awaare the RNRB is available where the estate contains a qualifying reisdential interest (being a swelling house which has at some point been usedd as the deceaseds private residence) and that resicene is closely inherited i.e by passing to a lineal decendant such as children. From the information given both of these conditons seem to apply to MR Ash and RNRB will thereforebe available on his death.

The RNRB is usually reduced by 1 pound per 2 poudn that the deceaseds gross estate exceeds £2m. however this does not seem to be an issue here as his estate is well below this threshold.

The RNRB for the tax year in quesstion i.e. 2019/20 is £150,000.

However, as the residnce value is only 110k the rnrB is restricted to this. However there are downsizign additions. I will discuss later.

The RNRB is an extra amount on which IHT is charged at 0%.

The RNRB applies to the death estate only (i.e. it doesn't apply to lifetime transfers).

There is no minimum ownership requirement for the time period of owning the main residence, as long as it has been his main residence at some point in the past.

Furthermore, there are special downsizing provisions which ensure that an estate is not prevented from benefiting from RNRB where the deceased individual has downsized to a lower value home before his death.

The downsizing addition compares the % of the RNRB that would have been used had the person died at the time of downsizing with the % of RNRB available on death.

Mr Ash qualifies for a downsizing addition of £40k (see appendix for calculations). This can be set off against any assets passing to direct descendants (i.e. his children).

The total IHT on his death will therefore be 110,000. This is payable by 30 September or date that the IHT return is submitted whichever is earlier.

IHT on the residence can be paid by 10 equal annual installments.

Kind regards
Advisor

Appendix

RNRB calculations:

RNRB at time of downsizing (oct 18) - 125,000

Houes value 150,000

Thje % of RNB used is therefore 100%

actually used at time of death:

RNRB at death	150,000-
house value	110,000

$$110/150 = 73.33\%$$

$$100\% - 73.33\% = 26.66\%.$$

The downsizing addition allowance is therefore $26.67\% * 150k = 40,000$.

IHT on death:

estaet	750,000
NRB	(325,000)
RNRB	(110,000) > restricted to value of house
DS addition	(40,000)
	275,000
@40%	110,000