



Chartered  
Institute of  
Taxation  
Excellence in Taxation

# **The Chartered Tax Adviser Examination**

November 2020

Suggested solutions

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**Module B Inheritance Tax, Trusts and Estates**

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13)				
		Non-savings	Savings	Dividends
		£	£	£
Property income – received		10,000		
- Agent's fees		<u>(960)</u>		
		9,040		1
Building society interest			4,100	
Dividends				800
Trustees' expenses				<u>(560)</u>
£518 x 100 / 92.5				1
		<u>9,040</u>	<u>4,100</u>	<u>240</u>
Income tax liability				
£1,000 x 20%		200		1
£(8,040 + 4,100) x 45%		5,463		1
£240 x 38.1%		91		
£560 x 7.5%		42		1
		<u>£5,796</u>		

14)

For Agricultural Property Relief (APR) to apply, the conditions which need to be met are:

- Owned for at least two years if owner occupied (Bobbins Farm) 1
- or seven years if tenanted (Firkins Farm) 1
- Situated in the UK, the Channel Islands, the Isle of Man or an EEA State 1

APR would apply only to the agricultural value, not the market value, and to farmland and farm buildings of both farms. It will not apply to the equipment owned by Firkins Farm. 1

For Business Property Relief (BPR) to apply, the farm must be operated by the owner as a business (not tenanted) and be owned for at least two years so cannot apply to Firkins Farm. 1

BPR would apply to the market value of farm equipment and the mv premium of the farmland of Bobbins farm. 1

Max 5

15)

May 2019	Gift to spouse – exempt			1
July 2019	PET			
	Uses AE for 2019/20 and 2018/19 but no lifetime tax due			1*
September 2019	CLT	£		
	Nil rate band available in full	500,000	No AE (used by PET)	
		<u>(325,000)</u>		1
		<u>175,000</u>		
	IHT at 25%	£43,750		1
October 2019	Gift to charity – exempt			1

\*Does not need to be stated – can be given for showing none available to use on CLT

16)

January 2011 transfer more than seven years before death so not chargeable \*

March 2016	GCT	£100,000 covered by available nil rate band *		1
		£	£	
June 2019	GCT		318,750	
	NRB	325,000		1
	GCT < 7years	<u>(100,000)</u>		1
			<u>(225,000)</u>	
			<u>£93,750</u>	
	IHT 40%		37,500	1
	Taper relief	(none due)	-	
	Lifetime tax		<u>(18,750)</u>	1
	IHT payable		<u>£ 18,750</u>	

*\*This does not need to be stated but awarded if correct treatment apparent from June 2019 calculation*

17)

As Kenzi and Leo are civil partners, the related property rules apply to the valuation of the shares. 1

The higher of the standalone value (£5.50 per share) and related value will be used. 1

The calculation would be to take the value of their joint holding of 60%. 1

Therefore Kenzi's shares would be valued at £8.90 per share. 1

The £120,000 value for the property in France will be reduced by the costs of obtaining probate overseas, but this is restricted to 5% of the property value (£6,000) leaving £114,000 to be included in the death estate. 1

18)

The maximum nil rate band (NRB) would be based on the level in force at the time of Martin's date of death in 2020/21 therefore £325,000. 1

This would first be used by any chargeable transfers taking place in the seven years prior to death, ie since August 2013. Therefore the PET to his nephew in November 2010 would be ignored. 1

The transfer to the qualifying political party in January 2015 falls within the seven year period but is an exempt transfer so would not affect the available nil rate band. 1

The July 2016 PET to his friend becomes chargeable as it falls within the seven year period and will therefore reduce the nil rate band for use in Martin's death estate. 1

The CLT to the trust also reduces the nil rate band (to nil), based on the gross chargeable value (which would include the lifetime Inheritance Tax paid by Martin). 1

19)

	£	
Main residence	530,000	
Life assurance policy (own life) - proceeds (even though received after death)	95,000	1
Chattels	50,000	
Cash (including ISA)	<u>80,000</u>	
	755,000	1
Personal loans payable	(5,000)	}
Outstanding income tax payable	<u>(1,800)</u>	
Net estate	748,200	1
Residence nil rate band	<i>Main residence left to daughters</i> (150,000)	1
Nil rate band	<u>(325,000)</u>	
	<u>273,200</u>	
Inheritance tax 40%	<u>£109,280</u>	1*

\*For using full NRB and applying 40% to own figure

20)

May 2019	Gifts to national heritage bodies are <u>exempt</u> .	1
August 2019	This is not a transfer for Inheritance Tax purposes as there is <u>no gift</u> – the amount paid by Keith is reasonably within the valuation range given for the table.	1
December 2019	These gifts would be covered by the <u>small gifts exemption</u> as each is below the £250 per tax year per recipient limit.	1
February 2020	The price paid by Simon is clearly below the market value for the house, therefore there is a <u>PET of £35,000</u> before available annual exemptions, being the loss to Jamie's estate taking into account the £150,000 paid by Simon.	2

21)

As Julia's estate includes her main residence which is being left to her daughter (a direct descendent), a residence nil rate band of £150,000 (2019/20) can be set against her death estate. 1

As Nigel died before the residence nil rate band was introduced on 6 April 2017, his residence nil rate band is deemed to be 100% unused. Julia's executors can therefore claim 100% of Nigel's unused residence nil rate band, such that £300,000 in total can be claimed (this is lower than the value of the property included in the estate). 1

In addition to Julia's nil rate band at the date of her death, her executors could claim to make use of any unused nil rate band from Nigel's death. 1

Nigel died in 2006/07 when nil rate band was £285,000. £199,500 of this was used by the legacy to his daughter. This leaves 30% unused (£85,500 / £285,000). The unused NRB to be claimed by the executors against Julia's estate is therefore £97,500 (30% x £325,000). 1

The amount of Julia's estate which will be subject to Inheritance Tax at 40% is £177,500. 1

	£
Estate	900,000
RNRB – own and b/f unused	(300,000)
NRB – own	(325,000)
- b/f unused	<u>(97,500)</u>
	<u>£177,500</u>

22)			
	<b>Residential</b>	<b>Other gains</b>	
	<b>£</b>	<b>£</b>	
Racehorse – exempt asset			1
Residential property	65,000		
Quoted shares		80,000	
Capital loss brought forward	(10,000)		1
Annual exempt amount (£6,000 / 2)	(3,000)		1
<i>Note: Two trusts created by settlor</i>			
Taxable gains	52,000	80,000	
CGT 28%	<u>£14,560</u>		1
CGT 20%		<u>£16,000</u>	1

23)

The gift of the property in July 2019 is a PET and therefore not subject to Inheritance Tax at the date the gift is made, but would use up available annual exemptions and become chargeable if the donor dies within seven years. 1

However, as Joanne has retained the right to use the cottage for at least two months each year, this is also a gift with reservation of benefit. 1

This means that at the date of Joanne's death in October 2020, two calculations are required with the one that results in the higher overall IHT selected by HMRC: 1

(i) Calculate a death tax charge on the PET in July 2019; or 1

(ii) Ignore the PET and include the cottage in the death estate at the value at the date of death, to be taxed as part of the overall estate. 1

24)

Inheritance Tax on lifetime transfers as a result of death is payable by the donee, so the £10,000 payable on the September 2015 PET will be payable by Mark's niece. 1

The tax is payable six months after the end of the month of death i.e. 31 December 2020. 1

Inheritance Tax on the death estate is payable by the executors of the estate. 1

This tax is payable on the earlier of:

- Six months after the end of the month of death i.e. 31 December 2020. 1
- Delivery of the Inheritance Tax return. 1