

Institution **CIOT - CTA**  
Course **Adv Tech IHT Trusts and Estates**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID 

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	<b>833</b>	<b>3760</b>	<b>4505</b>
Section 2	<b>603</b>	<b>2571</b>	<b>3108</b>
Section 3	<b>684</b>	<b>2975</b>	<b>3614</b>
Section 4	<b>482</b>	<b>2172</b>	<b>2560</b>
Section 5	<b>802</b>	<b>3369</b>	<b>4145</b>
Section 6	<b>386</b>	<b>1744</b>	<b>2121</b>
Total	<b>3790</b>	<b>16591</b>	<b>20053</b>

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Answer-to-Question-\_\_1\_\_

There would've been no IHT to pay on the transfer of assets to Albert on the death of Barbara due to spousal exemption. This means that she would not have used up any of her Nil Rate band (NRB) so this can be transferred to Albert.

NRB = £325,000

Barbara had 100% of hers remaining so Albert's NRB will be  $£325,000 \times 2 = £650,000$

No exempt residue on Albert's estate so no single/double grossing is required.

Life time transfers by Albert.

Gift of Caravan is over 7 years from death so no IHT charged on death from this.

Gift of £18,000 to Gemma in Feb 23 and £18,000 to Isabel in March 23 - these were potentially exempt transfers (PETS). No taper relief would be given as under 3 years between gift and death.

These are chargeable on death.

TO Gemma	18,000		
To Isabel	18,000		
Total	36,000		

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Less NRB	(36,000)		
Chargeable	Nil		

NRB remaining = £650,000 - 36,000 = £614,000

As his main residence is passing to his children (lineal descendants) the residence Nil rate band can be claimed. There will also be a transfer of Barbara's RNRB meaning his total RNRB will be £175,000 x 2 = £350,000

The shares in ABC Trad Ltd will be subject to Business property relief (BPR). This is because they are unquoted shares in a trading company held for a minimum of two years. This will be at a rate of 100%

The shares in Big Investment LTD will not be subject to BPR as BPR is not available on shares in an investment company.

The settled property component of the estate is £350,000 ( the life interest in the property). Life interests form a part of the death estate.

There is a Gift with reservation of benefit component on the Static Caravan as he was still able to enjoy use of the caravan following the gift to his daughters, whole not paying any rent to use it. We will use the value on death when calculating the IHT as this will give a higher charge than using the amount of gift

The general component is the remainder of the estate as follows:

	Settled property	General component	GWROB
Caravan			19,000
Life interest	350,000		
Bank account		124,000	
House		850,000	
Wine		89,500	
ISA		Exempt	
Quoted shares		360,000	
Big investment ltd		21,000	
ABC trade LTD		40,000	
Pension		Exempt	
Less BPR		(40,000)	

Less donation		(140,000)	
Total	350,000	1,304,500	19,000
Less NRB	(128,414)	(478,615)	(6,971)
RNRB		(350,000)	
	221,586	475,885	12,029
Charitable donation		140,000	
Chargeable estate	221,586	615,885	12,029
709,500@ 36%	255,420		

$$350,000 + 1,304,500 + 19,000 = 1,673,500$$

nrb is apportioned between each component. The RNRB is just for the general component as it relates to the residential property

$$(350,000/1,673,500) \times 614,000 = 128,414$$
$$(19,000/1,673,500) \times 614,000 = 6,971$$
$$(1,304,500/1,673,500) \times 614,000 = 478,615$$

The charitable donation exceeds the baseline amount of  $615,885/10 = \text{£}61,589$  so the lower IHT rate of 36% can be used. This can be spread across the components however, as the amount left to charity is over 10% of the total chargeable estate.

$$221,586 + 475,885 + 12,029 = \text{£}709,500.$$

## Part 2

The due date for IHT following a death is 6 months from the end of the month he died. Therefore, tax is due by the 30 November 2025. This will need to be paid by the executors of the estate (excluding the tax on the Life interest). The executors can make a claim to pay some of this in instalments. They can make a claim for this on the shares in ABC trade LTD as they were in a trading company, he had at least a 10% holding and they were valued at at least £20,000. They can also make a claim to pay in instalments on the house.

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They could also make a claim to pay in instalments if they believe they would suffered undue hardship as a result of having to pay the IHT at once. Seeing as they have £124,000 and other assets that can be easily converted to cash such as the quoted shares, they are unable to be able to make a claim for this.

The instalment option would split the tax due on the assets it is being claimed on into 10 equal instalemetns. The first payment would be on the usual IHT date i.e 30 November 2025 and then once a year from this date. There will be interest added to each payment as well as extra interest for any late payments. No penalties are charged if payments are late.

See calculation below for estate rate and tax paid by trustees. The executors have a total of £255,420 - £53,410 = £202,010 to pay.

The amount of IHT due on the Life interest held by Albert will need to be paid by the trustees.

The estate rate is  $255,420/1,673,500 \times 100 = 15.26\%$

$350,000 \times 15.26\% = £53,410$

Therefore £53,410 is payable by the trustees of the trust in which Albert had a life interest in the holiday property.

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question- 2

Martha can claim fall in value relief on the apartment. This is because the value of her property has fallen between the original gift and Bill's death.

Value at gift - value at death = 200,000 - 150,000 = 50,000

The gift of the apartment to Martha would've been a Potentially exempt transfer however, as Bill died within 7 years of making the gift, there will be a tax charge on death as follows:

PET	200,000		
Fall in value relief	(50,000)		
Subject to IHT	150,000		
NRB	(150,000)		
Chargeable	Nil		

NRB remaining = 325,000 - 150,000 = 175,000

There is no IHT relief available on the fall in value of the Book or table. These PETS are fully covered by the NRB.

NRB remaining = 175,000 - 26,000(book) - 20,000(table) = £129,000

There is a post mortem relief for losses made on shares sold within the first 12 months following death. The probate value of the Big Pharma PLC shares is £25,000 with 200 more being purchased for £4,400. Total base cost is £29,400

$1000/1200 \times 29400 = 24,500$ . Remaining base cost = 29400 - 24500 = 4,900

Proceeds	15,000		
Sale cost	(75)		

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Base cost	(24,500)		
Loss	(9,575)		

Distribution to Peter = 3,200 - 4,900 = £1,700 loss

Total loss = £11,275

The executors can make a claim for this loss to be deducted from the value of the estate for IHT purposes.

There is a loss of the bigdiesel cars PLC shares however, as these were sold after 12 months from the date of death no relief is available for the loss on the sale.

The executors can make a claim to deduct the loss on the sale of Bill's home from the value of the estate for IHT purposes. This is because the total losses on properties within 3 years of death is deductible from the value of the estate. The loss of £153,500 as shown below can be deducted from the value of the estate.

Proceeds	800,000		
Cost of sale	3,500		
Probate value	(950,000)		
Loss	153,500		

The total losses deducted as a result of the claims is £153,500 (house) + £11,275 (Big Pharma) + £50,000 (fall in value relief) = £214,775.

IHT is at a rate of 40% - 214,775 @40% = £85,910 has been saved as a result of these claims.

The executors can also deduct any probate costs from the value of the estate or make a SP 2/04 claim to reduce the value of the estate.

The SP 2/04 claim is a set amount of £8,000 deduction as the estate is valued between £1,000,001 - £5,000,000.

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Big Pharma shares	-		
AI Tech shares (w1)	41,000		
clock (w2)	(500)		
bigdiesel plc (w3)	(3,000)		
house	-		
Gain	37,500		
AEA	(3000)		
Chargeable gain	34,500		
@20%	6,900		

w1 - The bonus issue of shares in AI Tech PLC meant 1 new share for every 3.  $600/3 = 200$  new shares. 800 shares in total with base cost = £12,000

Sale in July =  $600/800 \times 12000 = £9000$  base cost on sale . (£3,000 base cost remaining)

$£12,000 - £9,000 = £3,000$  gain

Distribution to Martha =  $41,000 - £3000 = £38,000$

Total gain = £41,000

W2 - Loss on clock =  $3000 - 3,500 = (£500)$

w3 - Sale of Bigdieselcars plc shares =  $7000 - 10000 = (£3,000)$

W4 - Losses on Big pharma plc and the house not included as these were deducted from value of estate for IHT purposes.

Executors get the Annual exempt amount of £3,000 for the year of death and the following 2 years to deduct from capital gains. The rate of CGT is 20%.

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question- 3

As all of trustees are not resident in the UK this is a non resident trust. As the settlor cannot benefit from the trust she will not be subject to any tax on income or gains made by the trust.

As there are UK resident beneficiaries, the trust will be taxed on any UK income.

By purchasing a property in the UK with cash from an offshore account, there has been a transfer of assets abroad. As the settlor cannot benefit S720 does not apply.

The beneficiary (Daisy) can benefit from the income generated by this property if it is rented out and as it is an asset that the trustees have control of as a result of relevant transfer of an asset abroad S731 will apply.

This means that the income generated from the property will be taxable on Daisy if any distributions are made to her.

All income from UK sources is taxable if there is atleast one UK resident beneficiary so this potential income would be taxable on the trust.

If the property is sold then the trust will be subject to CGT on the full gain. This is because since 6.4.15 any gains on residential properties in the UK made by overseas trusts are subject to CGT. As the property was purchased after this date the whole gain is taxable as there is no pre 6.4.15 element.

Part 2 -

S87 will apply on the capital distribution to Ben. We need to match the capital distribution with the capital gains made by the trust. Gains are matched on a Last in first out (LIFO) basis.

2017/18 - £3,000 gain c/fwd in pool

2018/19 - (£12,000) loss but can only offset against same year or future gains

£3,000 gain c/fwd in pool

2019/20 - gain of £3,500

Offset by loss c/fwd - 12,000 - 3,500 = £8,500 loss c/fwd

£3,000 gain c/fwd in pool

2020/21 - £2,750 gain offset by loss c/fwd

8500 - 2750 = £5,750 loss c/fwd

£3,000 gain c/fwd in pool

2021/22

Loss of (£4,000) - total loss c/fwd = 4000 + 5750 = £9,750

£3,000 gain c/fwd in pool

2022/23

1,200 gain offset against losses = 9750 - 1200 = 8,550 loss carried forward

£3,000 gain c/fwd in pool

2023/24 - Gain = £16,000

16,000 - 8,550 (losses c/fwd) = 7,450

7,450 + 3000 = 10,450 gain c/fwd.

2024/25 - Loss of £12,100 is carried forward

£10,450 gain in pool.

Distribution of £48,000 is matched with gains in pool.

However, the accumulated income is to be added to this amount =  $10,450 + 25,000 = £35,450$

£35,450 will be the gain taxed on beneficiary

$48,000 - 35450 = £12,550$  will be matched with any future gains the trust makes.

Trust gain	35,450		
Less AEA	(3,000)		
Chargeable gain	32,450		

$50270 - 38,000 = 12,270$  REMAINING BASIC RATE BAND FOR BEN

$12,270 @ 10\% = 1,227$

$32,450 - 12,270 @ 20\% = 4,036$

$CGT = 1227 + 4036 = £5,263$

There will be a supplementary charge as some gains were not distributed either in the year they arose or in the following year.

$£5,263 \times (10\% \times 7 \text{ years}) 70\% \times 3,000/35,450 = £312$  supplementary charge

Total CGT on distribution of £48,000 =  $5263 + 312 = £5,575$

If the distributions were paid out over 4 years it would be better as the entire distribution each year of £12,000 would be taxed at the basic rate of 10% as Ben's total income and gains wouldn't exceed the basic rate tax bracket. Also he would get an AEA each year meaning £12,000 (4years x £3,000) of the distribution wouldn't be subject to capital gains tax. Each year  $9,000 \times 10\% = £900$  would be the CGT charge which over 4 years amounts to £3,600 which is lower than the charge for one lump payment.

The supplementary charges will be higher over 4 years however, this won't be as significant as the main CGT charge difference. Also as the lump distribution isn't all taxed at once as there are insufficient gains to match it with, there will be supplementary cgt

charges regardless.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- \_4\_

Executors are taxed in the same way as Interest in possession trusts (at basic rate)

No personal allowances/dividend allowance/savings allowance for executors

2023/24 -

	NSI	Savings	Dividend	
Dividend			10,000	
ISA		Exempt		
Rent	15,000			
Admin expenses			(2500)	
Taxable	15,000		7,500	
15,000 @ 20%	3000			
7,500 @8.75%			656	
Total				3,656

Interest from an ISA is tax free.

Admin expenses deducted from dividend income first.

Total income tax due for 2023/24 is £3,656

The executors will need to file a tax return for the estate by 31 January 2025. They will make a payment on account of  $\text{£}3,656/2 = \text{£}1,828$  to HMRC on 31 January 2025 and another  $\text{£}1,828$  to HMRC on 31 July 2025.

The R185 for Tabitha's income is as follows:

23/24	Net	Tax	
Dividend	6,844	656	


R185 for Helen

23/24	Net	Tax	
Rent	12000	3000	

These R185 amounts will need to be added to their personal tax returns. They can claim a tax credit for the amounts already paid by the executors.

2024/25

	NSI	Savings	Dividends	
Dividend			200	
ISA		exempt		
Rent	100			
100@20%	20			
200@8.75%			18	
Total				38

Total income tax due for 2024/25 is £38. This should be paid by 31 January 2026

The executors do not need to file a tax return for this amount as it is below £500.

R185 - TABITHA	NET	TAX	
Dividends	182	18	

R185 Helen	Net	Tax	
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Rent	80	20	

2025/26

	NSI	Savings	Dividend	
Dividend			14,000	
Rent	10,000			
10,000@20%	2,000			
14,000 @ 8.75%			1,225	
Total				3,225

Income tax due for 2025/26 is £3,225. As the admin period has finished after this point, all tax is due by 31 January 2027.

R185 Tabitha	NET	TAX	
Dividends	12,775	1,225	

No tax on Helen in this year as Deed of variation has given right to assets elsewhere

Part 2 -

A deed of variation cannot be made any later than 2 years from death so 3 March 2025 was within the time limit to make one. Any dispositions of the property comprised in the estate immediately before death are varied.

The trust will be a qualifying interest in possession trust (QIIP) as it is a trust created on death. This means that the trust is not subject to the relevant property regime and subsequently will not have any exit charges or principal charges. The IIP will form a part of Abigail's estate and the value of this IIP will be subject to IHT as part of her estate should she pass away.

The trust created for Jennifer is an 18-25 trust. This is because it is on the death of her parent (Simone). This trust will be subject to limited exit charges. There will be no principal charges on this trust. There will only be exit charges if any trust assets are distributed between Jennifer's 18th to 25th birthday. When Jennifer becomes entitled to the capital on her 25th birthday, this will give rise to an exit charge.

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question- 5

The gift of £100,000 to the MT Trust will be a chargeable lifetime transfer. This means that IHT will be immediately payable by Magdalena. She will be able to deduct her Annual exempt amount of £3,000 from this as well as £3,000 carried forward from the year before as this had no been utilised. The remaining £94,000 will be covered by her Nil rate band meaning no IHT has to be paid on this. IHT would've been at a rate of 20% had any have been due. As this gift is more than 7 years before death, no IHT is due on death as a result of this transfer.

The gift of the factory on 14 October 2018 would be a Potentially exempt transfer (PET). As the company was a trading company that she had owned for atleast 10 years, there will be 50% Business property relief (BPR) available on the factory used for this business. This means that the PET valued at £350,000 will be reduced to £175,000 by the BPR. We don't deduct any AEA or NRB from PET'S.

PET'S become chargeable to IHT if the donor passes within 7 years of making the gift. The BPR can be taken back on death however, as the factory was still used in the company at death this amount remains. The £175,000 become chargeable to IHT on her death however, this amount will be covered by the NRB. If there had have been any tax due taper relief of 80% would've been available as the death was 6-7 years after the gift was made.

11 November 2020 - Gifts to disabled persons trusts are not chargeable lifetime transfers and will instead be a PET. The farmland does not qualify for APR as the land land is let out for riding stables which disqualifies any APR. The PET of £400,000 therefore becomes chargeable to IHT on death at a rate of 40%. There will be some NRB to deduct from this. This amount will be £325,000 - £175,000(used on factory) = £150,000 deduction. The amount subject to IHT on death is therefore £250,000. The reason the 175,000 used on the factory is deducted from the NRB is because the NRB is reduced by any NRB used in the 7 years prior to the gift. The IHT due on this will be tapered by 40% as the gift was made 4-5 years before death.

The gift of the shares in Ringme PLC to the Ringme Discretionary trust would've been a chargeable lifetime transfer - Magdalena paid any IHT on this. The gift would've qualified for BPR at a rate of 50% due to the fact that she had a controlling holding in a quoted company. £500,000 BPR would've been deducted from the transfer.

On death there is a further charge on this as the transfer was made within 7 years of death. There will be taper relief at 20% on any IHT due as it is within 3-4 years between gift and death. However, as there is a binding contract to sell the shares made before death, the BPR is withdrawn. This means when calculating the tax on this transfer on death, no BPR can be deducted. There will be no NRB available as this has been used up on transfers in the 7 years prior to this. Any tax paid by Magdalena on the original gift can be deducted from the extra IHT paid on this gift on death.

19 June 2023 - The gift of shares into the Titley Grandchildren's Trust will be a Chargeable lifetime transfer. BPR would've been available on the original transfer at a rate of 100% so no lifetime tax would've been paid. However, as the nature of the business changed and the restaurant trade had ceased, BPR is withdrawn on death. The gift will be subject to IHT at a rate of 40% on death. No Taper relief as less than 3 years between gift and death.

The gift to the trust on her death will form part of the death estate and will be subject to tax at a rate of 40% unless 10% of the estate was left to charity in which case it will be at a rate of 36%.

## Part 2

Intitial value			700,000
Value of added property			1,000,000
Total			1,700,000
Notional tax at 20%			340,000
Effective rate			20%
Actual rate			0.15%

No NRB for death estate as it has been used up by chargeable transfers in the 7 years prior to creation of the trust. Effective rate is therefore 20%

$$\text{Actual rate} = 30\% \times 20\% \times (n-x)/40 = 0.15\%$$

n = full quarters between creation and exit = 7

x = full quarters between creation and addition = 6

Exit charge =  $100,000 \times 0.15\% = 150$

IHT due is £150

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question- 6

AIM shares are treated as unquoted shares for IHT purposes. As the loan was secured against a UK property (his main residence and he is UK resident) this loan can be deducted from the value of his estate for IHT purposes.

Loans to acquire shares in unquoted trading companies are deductible from the value of the estate for IHT purposes. Despite gifting the shares to a trust and to his son, the amount can still be deducted as the loan is secured against Mandeep's assets and he retains the obligation to repay the loan.

The £150,000 loan to purchase property in Canada cannot be deducted from the value of his estate. This is because loans taken out to purchase foreign property cannot be deducted from the value of his estate. The fact the loan is secured against his stock market portfolio is irrelevant.

Part 2 -

There will be Private Residence Relief available on the sale of the property by the trust. This is because a beneficiary who was UK resident occupied the property as their main residence for a period in which it was in the trust. The gain will be restricted by - gain x period of occupation/period of ownership.

From 6.4.15 the sales of UK residential property is subject to CGT for overseas trusts. However, by default only the post 6.4.15 element of the gain is subject to CGT.

This method is called the rebasing method. The trust will only be subject to CGT on the proceeds less the market value at 6.4.15.

The trustees could elect to use the retrospective method which charges CGT on the whole gain. However, unless the initial base cost was higher than the market value at 6.4.15 then this will not be beneficial.

The trustees could elect to use a time apportionment method. This means the total gain is divided by ownership post 6.4.15/total ownership period. This may be beneficial due to the long time the property has been held in the trust.

On sale a UK property return will need to be completed within 60 days and any CGT due will need to be paid within this time period as well. The gain will also need to be added to the trust tax return however, any CGT paid can be deducted so it isn't paid twice.