The Chartered Institute of Taxation

Awareness

Module B: Inheritance Tax, Trusts & Estates

May 2026

Suggested answers

Answer 13

	£	£	
House	350,000		
Less mortgage secured on the house	(100,000)		
		250,000	1
Cash and personal chattels		150,000	
Unit trust: 1,000 units @ £30		30,000	1
Less:			
Credit card bills		(4,000)	
Income tax and capital gains tax		(7,500)	
Verbal promise to pay car repairs (not legally enforceable)		0	
		418,500	1
Charitable legacy		(1,500)	1
Chargeable estate		417,000	
Less NRB		(325,000)	
		£92,000	
IHT x 40%		£36,800	1*

** For using full NRB and 40% tax rate.*

Answer 14

	£	£	
Gross chargeable transfer (working)		543,750	1
Nil rate band 2025/26	325,000		
Less: PET on 31 March 2020	(200,000)		
Nil rate band available		(125,000)	1
		£418,750	
IHT at 40%		167,500	
Less lifetime IHT paid		(43,750)	
		£123,750	1

Working

Transfer to discretionary trust on 10 January 2023		500,000	
Nil rate band 2023/24	325,000		
Less chargeable transfers in previous 7 years	-		1
		(325,000)	
		£175,000	
IHT at 20/80		£43,750	1
Gross chargeable transfer (£500,000 + £43,750)		£543,750	

Answer 15

20 December 2025	Gift to nephew on occasion of marriage	
	Marriage exemption £1,000	1
	Annual exemption 2025/26 £3,000	
	Annual exemption 2024/25 b/f (unused) £1,000	1
31 March 2026	Gift to friend	
	Remainder of 2024/25 annual exemption £2,000, so £500 of the gift will be a PET	1
10 April 2026	£250 to each grandchild	
	Covered by small gifts exemption as no more than £250	1
Pension contributions for daughter	Likely to be covered by the normal expenditure out of income exemption as his income is considerably higher than the amount regularly paid.	1

Answer 16

	Non-Savings	*Dividends*	
	£	£	
Income	24,000	5,000	
Less trustee expenses			
£1,800 x 100/91.25		(1,973)	1
	£24,000	£3,027	
Income Tax:			
£24,000 at 45%	10,800		
£3,027 at 39.35%	1,191		
	11,991		
£1,973 x 8.75%	173		
	12,164		1
Tax pool deficit	1,236		
Total payable	£13,400		1

Tax pool:	£	
Balance brought forward at 6 April 2025	1,500	
Plus Income Tax paid by trustees		
(excluding Income Tax on the amount covered by expenses)	11,991	1
Less Tax credit on distributions paid to beneficiaries		
£18,000 x 45/55	(14,727)	1
Deficit	£(1,236)	

Answer 17

	£	
Death estate	940,000	
Less: Nil rate band	(325,000)	
	615,000	
IHT at 40%	246,000	1
QSR		
£40,000 x 20% x £((300,000 – 40,000)/300,000)	(6,933)	1+1+1+1
IHT payable	£239,067	

Answer 18

Neither shareholding was owned by Jasmine for the required two year period, however as the Toonkin Ltd shares are replacement property, and the reinvestment occurred within three years, the ownership period can be combined. 1

Therefore, BPR will be given on the transfer of the Toonkin Ltd shares. 1

The BPR cannot exceed the BPR that would have would have been available had the original property not been replaced, i.e. £90,000. 1

However, HMRC will allow an adjustment to reflect the value in growth in the replacement shares. Since the shares in Toonkin Ltd increased in value by 10%, it is reasonable for HMRC to allow BPR on £90,000 plus 10%, i.e. £99,000. 1+1

Answer 19

		£	£	
Initial value of relevant property			500,000	
Nil rate band 1 April 2026		325,000		
Chargeable transfers made by settlor in 7 years prior to 1 March 2023		Nil		
			(325,000)	1
			£175,000	
				1
Notional IHT at 20%			35,000	
Effective rate	£35,000 / £500,000 x 100%		7%	1
Actual rate	Effective rate x 30% x n/40 7% x 30% x 12/40		0.63%	1+1

Answer 20

		No of shares Before	No of shares After	
Anaya's holding		4,000	3,000	
Related property:				
Maya (civil partner)		4,000	4,000	
Relevant holding		8,000	7,000	1

	Stand-alone value £	*Related property value* £	*Higher amount* £	
Value of shares before gift				1
4,000 x £45	180,000			
4,000/8,000 x (8,000 x £110)		440,000	440,000	
Value of shares after gift				1
3,000 x £35	105,000			
3,000/7,000 x (7,000 x £90)		270,000	270,000	1*
Value of transfer			£170,000	1

**For taking higher of (before and after)*

Answer 21

A trust for a bereaved minor is a trust set up via a Will (or intestacy) by a deceased parent for the 1
benefit of a child who has not yet reached the age of 18. 1

Until Bren reaches the age of 18 the trustees can apply the capital and the income from the trust assets for his benefit. 1

The estate assets will be a charged to IHT passing into the trust on Lewis's death, however once the trust is in existence there is no IHT within the trust itself. 1

This is on the condition that Bren becomes absolutely entitled to the trust property when he turns 18. 1

Answer 22

1)

The disposal of the shares in Labada Ltd qualifies for Business Asset Disposal Relief (BADR) as although the trustees share was less than 5%, the shares qualify as Alana has an interest in possession in the trust and is employed by the company and owns at least 5% of the shares and has done so for at least two years. 1+1 1

2)

	Gains qualifying for BADR	Residential property gain	
	£	£	
Gain on Labada Ltd shares / Residential property	30,000	20,000	
Annual exemption (£1,500 / 2)		(750)	1
Taxable gains	30,000	19,250	
CGT at 14%		4,200	
At 24%		4,620	
		£8,820	1

Answer 23

1)

	Savings	*Dividends*	
	£	£	
Interest income	22,000		
Dividend income		5,000	
Tax at 20%/8.75%	(4,400)	(438)	1
	17,600	4,562	
Less PR expenses met from income		(650)	1
Income available for distribution	£17,600	£3,912	

2)

	Taxable income	
2024/25		
Savings:	£	
£10,000 x 100/80	12,500	1
2025/26		
Savings:		
£(17,600 – 10,000) x 100/80	9,500	1
Dividends:		
£3,912 x 100/91.25	4,287	1

Answer 24

An initial penalty of £100 could be imposed for late filing.	1
A daily penalty of £60 per day could be imposed if the failure is declared by a court or tribunal.	1
If daily penalties are not imposed, then a further penalty of £100 could be imposed when the return is six months late.	1
These fixed penalties cannot exceed the amount of Inheritance Tax due.	1*
As the return is over 12 months late, a further penalty of £3,000 could be imposed.	1
The final penalty can exceed the Inheritance Tax due.	*

**Awarded for either mention of capping penalties, not required to mention both*