Institution **CIOT - CTA**
Course **APS IHT Trusts and Estates**

Event **NA**

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Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**4300**	**20001**	**24747**
Total	**4300**	**20001**	**24747**

Client: Jean Macfarlene

Date: 11 May 2026

Important Notice

ABC Tax Advisors ('ABC') have been engaged by Jean Macfarlene ('Jean'), 'our client' to prepare this report for the exclusive use of our client.

ABC accept no liability for any reliance placed on this report by any third party.

Our report is based on the legislation in force in May 2026 and we do not accept responsibility for any change in legislation which may render our advice out of date once our report has been issued to Jean.

Please note that this report does not cover any valuation advice and we are relying on the values contained within the asset schedule dated 26 April 2026 provided by our client.

The scope of our report is covered by our existing engagement with Jean under our letter of engagement dated 19 April 2026.

Background and Scope

Jean is 84 years old and has recently experienced a period of ill-health which is unfortunately expected to worsen in the next 12 months, and Jean is likely to pass away within the next two years.

Jean has two children, Emma and James, (together the 'children') neither of whom are married. Emma has two children, Luna (15 years old) and Marco (17 years old). James

also has two children, Cordelia (18 years old) and Evelyn (14 years old), together the 'grandchildren'.

We have been instructed to prepare a report regarding Jean's current Inheritance Tax ('IHT') position and any suitable planning options available to her in consideration of her deteriorating health.

Our report covers the following:

- Change in living arrangements
- Gift of 3A Turney Road to James
- Review of Current Will
- Other Strategies to reduce IHT liability

We have prepared our report on the assumption that Jean will pass away within the next two years, by April 2028.

Executive Summary

1. Current IHT Position of Jean's Estate

Jean has made a PET to Emma within the last seven years. If Jean survives until 4 August 2027, the PET will fall outside of Jean's estate for IHT purposes as more than seven years will have elapsed since the gift was made.

The current value of Jean's estate is just over £1.92m. On the assumption that Jean survives passes away between 4 August 2027 and April 2028, after deducting all available reliefs and exemptions, Jean's estimated IHT liability is just over £220k.

However, if Jean dies before 4 August 2027, the estimated IHT liability arising on her death will increase to £350,400, an increase of £130k. This would be due to the failed PET to Emma utilising Jean's NRB.

2. Business Property Relief

Jean's 60% shareholding in CG Ltd qualifies for 100% Business Property Relief as Jean has owned the shares for more than two years and the Company is an unquoted trading company with no excepted assets.

3A Turney Road also qualifies for BPR at a rate of 50% because it is the trading premises of CG Ltd in which Jean owns a controlling shareholding.

Jean should retain 3A Turney Road in order to retain the benefit of 50% BPR on the property in her death estate.

3. Living Situation

If Jean moved in with Emma a POAT charge would arise as Jean indirectly contributed to the purchase of Emma's current main residence due to Emma using the £500k cash gift from Jean towards the purchase of her house.

Moving in with James, providing the renovation work can be completed on time, should be more tax efficient for Jean overall.

If Jean did choose to pay £6k pcm rent to James to live at his house, this would be assessable on James at his own marginal rate of tax.

4. Lifetime Gift to James

Jean should retain 3A Turney Road until her death and should amend her Will to ensure that the property passes to James upon her death.

If Jean wanted to see James benefit from additional assets in her lifetime, she could consider gifting her stocks and shares ISA and her share portfolio to James, however there would be other tax implications to consider and the reduction in income from the share portfolio could impact Jean's standard of living and cause her difficultly in covering her care costs.

5. Will

Jean's current Will leaves her chattels absolutely in equal shares to Emma and James(eg. car, household possessions.

Residue left to grandchildren absolutely.

income & capital held upon trust for grandchildren

Trustees (Emma and James) have power to advance capital to the grandchildren at any age (before 25)

If clause 4.1 fails (ie all g'children predecease Jean) = residue left on trust for Emma and James

Section A: Current IHT Position

As summarised in Appendix 1, the current value of Jean's estate is just over £1.92m. On the assumption that Jean survives passes away between 4 August 2027 and April 2028, after deducting all available reliefs and exemptions, Jean's estimated IHT liability is just over £220k.

Pleas see summarised below how Jean's IHT liability has been calculated by reference to the different reliefs available to her.

A1: Nil Rate Band

Jean was married to Colin who passed away on 2 February 2014.

All individuals are entitled to a Nil Rate Band ('NRB') of £325k which is available to reduce transfers of value made either during an individual's lifetime or on their death. Any unused NRB on the death of the first spouse is transferable to the surviving spouse for use on death to reduce the value of the death estate or any lifetime gifts within seven years of second death.

Under the terms of Colin's Will, his NRB was left to Emma and James. The remainder of Colin's assets passed to Jean absolutely, being a half share of the family home worth £250k and £23k cash.

No IHT liability will have arose upon Colin's death due to the chargeable legacy to his children being covered by the NRB and the remaining legacy to Jean being covered by

the spouse exemption, which was unlimited as both Jean and Colin were UK resident at the time of Colin's passing.

As Colin's NRB was utilised on his death, Jean's NRB on her death cannnot be uplifted at all as there is no transferable NRB available from Colin and Jean does not have another deceased spouse.

A1.1: Lifetime Gifts Made

Jean's own NRB is restricted by any lifetime gifts made in the seven years prior to her death. This includes any gifts to trust or any gifts to individuals which are not survived by the full seven year period.

Jean gifted £750k to each of her children in April 2017.

For IHT purposes, these gifts are considered potentially exempt transfers ('PETs'). PETs are exempt from IHT provided the individual making the gift survives for a minimum period of seven years following the gift. If a PET is not survived by seven years it is deemed to 'fail'.

If Jean (the donor) did not survive any lifetime gifts made to individuals by seven years, IHT would be due upon Jean's premature death. Any IHT liability arising would be payable by the donee of the gift (ie. the individual receiving the gift).

An IHT liability will arise for the donee if the donor's NRB has been fully utilised by the gift and any others made in the previous seven years. Taper relief is available to reduce the IHT on a failed PET provided that Jean survives for at least three years following the gift. Taper relief reduces the IHT due on the failed PET rather than the IHT value of the

gift itself.

In respect of the April 2017 PETs, as more than seven years have elapsed, the value of the PETs are outside Jean's estate due and there are no IHT implications now for Jean regarding these gifts.

This said, Jean made an additional cash gift of £500k to Emma in 2020. As with the 2017 gifts, this gift to Emma is considered a PET.

For the purposes of this report, we have assumed that Jean will survive until April 2028 and therefore the 2020 gift to Emma will be outside Jean's estate for IHT purposes and her full NRB of £325k will therefore be available in her death estate.

However, for completeness we have illustrated below the effect of Jean dying before 4 August 2027 (being seven years from the £500k gift to Emma):

	£
August 2020 gift	500,000
20/21 & 19/20 AEs	(6,000)
PET	494,000
Failed PET	494,000
Jean's NRB	(325,000)
Taxable	169,000
IHT @ 40% (death rate)	**67,600**
Taper relief (N1)	**(54,080)**
IHT due (N2)	**13,250**

Notes

N1: For the purposes of this report, we have assumed that Jean dies between August 2026 and August 2027.

Jean will have survived the PET by 6-7 years so the taper relief available is 80%.

N2: The IHT liability of £13,250 would be payable by Emma, due six months from the end of the month of Jean's death.

A2: Residence Nil Rate Band

The Residence Nil Rate Band ('RNRB') was introduced in 2017/18 and is an additional amount of up to £175k per individual available to deduct from the death estate provide the the following conditions are met:

- The deceased owned a Qualifying Residential Interest ('QRI'), being a residential property they occupied as their main residence at some point during their lifetime.
- The QRI is 'closely inherited' upon the individual's death, meaning it is left to the deceased's lineal descendants, being their children, grandchildren, great grandchildren (including step-children and adopted chidren). The property must be left via an absolute gift or to an Interest in Possession trust for the benefit of the lineal descendants.

Relief per individual is the lower of £175k or the value of the main residence owned at death (or another property which was previously occupied as their main residence at some point).

Whilst Jean no longer owns a QRI, she should be eligible for the 'downsizing addition' meaning that her estate can still benefit from the RNRB because she previously sold her main residence in 2019 and her estate (including sale proceeds from the property) is left to her lineal descendants.

Similar to the NRB, any unused RNRB on first death is transferable to the surviving spouse.

As Colin died in February 2014, before the introduction of the RNRB, his brought forward allowance is 100% (ie. £175k).

The default allowance on Jean's death is therefore £350k. The downsizing addition compares the current RNRB available to Jean (nil) and the RNRB that would have been available at the time of sale of the main residence in 2019 (£350k, the former allowance).

The former allowance would not have been tapered as both now and in 2019 the total value of Jean's estate before deducting any reliefs was less than £2m.

Jean's death estate should therefore benefit from RNRB of £350k.

A3: Business Property Relief

Jean owns 60 Ordinary shares of £1 each in Castle Galleries Ltd ('CG Ltd' or 'the Company').

Jean also owns 3A Turney Road ('3A TR'), the premises from which CG Ltd trade.

Business Property Relief ('BPR') is a relief available to reduce the value of qualifying

assets for IHT purposes, including sole trade and partnership shares, quoted and unquoted shares and business assets such as land and buildings, and plant and machinery.

CG Ltd qualifies for 100% BPR because the following conditions are met:

- the Company is an unquoted trading company
- the Company does not hold any excepted assets
- the Company does not have any investment activities

Jean's shareholding in CG Ltd qualifies for 100% BPR because the Company meets the relevant conditions (see above) and Jean has owned the shares for more than two years, since incorporation in 2000.

3A TR also qualifies for BPR as the property is owned by Jean, who holds a 60% (controlling) shareholding in CG Ltd and the Company trades from 3A TR.

In summary, the value of Jean's 60 Ordinary shares in CG Ltd in her death estate, and the chargeable value of 3A TR is reduced to £275k (being 50% of the current market value).

Section B: Living Arrangements

Jean currently lives in a rental flat but her lease expires in July 2026, by which date she hopes to be living with one of her children.

B1: Living with Emma

Emma's home is already well suited for Jean to occupy immediately.

Emma used the £500k gifted by Jean in 2020 as part of the total £1.5m consideration paid to acquire her current home.

There is anti-avoidance legislation in place to prevent an individual giving away an asset but continuing to derive a benefit from it.

As Jean made a cash gift to Emma which Emma then used to purchase a property for herself, the Pre-Owned Asset Tax ('POA') rules will apply, as Jean would be first benefitting from the asset (ie living in Emma's house) within seven years of making the cash gift to Emma.

As Jean only provided 1/3 of the consideration Emma paid for the home, the POA charge will be restricted.

The POA charge is calculated by reference to the annual rental value of the property, less any contribution paid by Jean.

	£
Annual rental value	48k ((£6k x 2) x 12) / 3
Less contribution by Jean	(nil)
POA Charge	48k

Jean is a higher rate tax payer so the POA charge of £48k will be taxed at her marginal rate (at 40% to the extent that her higher rate band is available and at 45% on the excess). Jean should report this additional deemed income on her Self-Assessment Tax Return each year.

Whilst Jean is expected to pass away within the next two years, this could still result in an

additional income of £84k for Jean which would be subbject to IHT.

If Jean does not wish to pay this additional charge, she could instead make an irrevocable election to treat the POAT charge as a Gift With Reservation of Benefit ('GWROB') instead. The deadline to elect would be by the anniversary of 31 Janaury in which the POA charge first arose, being 31 January 2029.

The effect of this would be to treat the value of the GWROB (ie £500k PET) as forming part of Jean's estate for IHT purposes.

Two IHT computations would be compared to tax the GWROB and ignore the original PET, with the higher IHT liability being used. This prevents a double charge arising if Jean dies within seven years of making the original gift to Emma.

However, there is the potential that the value of the GWROB will be outside Jean's estate and exempt from IHT under the infirm relative rules.

These rules apply if an individual has made a GWROB the following conditions are met:

- At the time of the original gift to Emma in August 2020, Jean was not unwell and her condition was unforseen at the time
- Jean's condition has developed since August 2020
- Jean's gift was to a relative, her daughter Emma
- Emma's property is suitable as a place for Jean's care needs to be met

B2: Living with James

Alternatively, if Jean chose to move in with James, the POA or GWROB rules mentioned

in section B1 above would not apply, as James did not use cash provided by Jean within the seven years prior to the purchase, to purchase his new home.

Jean's proposed gift of £30k to James to contribute towards the required house renovations would be considered a PET for IHT purposes.

As Jean is expected to pass away within the next two years, any resulting IHT due on this gift would be payable by James as the recipient of the gift.

The IHT treatment of the PET would depend on whether Jean passed away before or after 4 August 2027. If Jean passed away before 7 August 2027, the IHT liability arising for James on the £30k gift would be as follows:

	£
Gift	30,000
26/27 & 25/26 AEs	(6,000)
Failed PET	24,000
IHT @ 40%	**9,600**

However, if Jean survives until 4 August 2027, there would be no IHT liability arising for James as Jean's NRB would be available to deduct against the failed PET of £24k.

This would reduce the NRB available to deduct from Jean's death estate to £301k, increasing Jean's IHT liability of £24k.

If Jean ignored James's wishes and did pay him £6k per month rent, this would be chargeable to Income Tax ('IT') in James's hands.

Per annum, the rental income for James would be £72,000 (taxable at 40% within his remaining higher rate band and at 45% on the excess).

The rental income would accrue in James's estate and could impact his own IHT position depending on his other assets.

Recommendation

On the assumption that the house renovations at James's house could be completed before Jean's lease expires in July 2026, we would recommend that Jean moves in with James rather than Emma.

Moving in with Emma is more of a financial risk from an IHT and IT perspective in case the infirm relative exemption criteria is not met and then Jean's estate is increased by £500k if the GWROB election is made.

Section C: Gift of 3A Turney Road to James

Jean is planning on gifting 3A TR to James to equalise the total gifts made to her children in consideration of the £500k cash gift to Emma in 2020.

Jean wants to ensure that her children benefit equally from her estate.

Gift 3a Turney Road to James - tax implications of lifetime gift vs gift on death (could be specific legacy in Will if not LT gift, to ensure g'children dont get the prop)

C1: Capital Gains Tax

For CGT purposes, Jean and James are connected persons. Therefore, any gift of assets is treated as a disposal at market value for CGT purposes.

As shown in Appendix 2, the CGT liability arising on the gift of the property would be £102k.

Whilst Jean meets the qualifying conditions for BADR as she owns > 5% of the total share capital in CG Ltd and has been a director for more than two years, the gift of 3A TR to James would not qualify for the BADR rate of 14% as Jean would not also be disposing of any shares at the same time as the property so it would not be considered an associated disposal.

However, as the property is the trading premises of CG Ltd, Jean could elect to hold over the capital gain arising on the gift. The effect of this would be to pass on Jean's base cost of £125k on to James as the donee, deductible by James upon a future sale.

The deadline to claim holdover relief would be 4 years from the end of the tax year of the gift, being 5 April 2031. The claim would require a joint election between Jean and James, and if James did not agree then he could refuse to sign and Jean would therefore have a CGT liability of £102k in 2026/27.

C2: Inheritance Tax

The property is the traing premises of CG Ltd so currently benefits from 50% BPR so the chargeable value of the property in Jean's estate is £275k.

Upon a gift to James, Jean would lose the BPR on the property however the value of the entire property would be outside her estate subject to the 7 year rule. The potential IHT saving would be £110k however as Jean is expected to pass away within two years there is no IHT saving upon a lifetime gift of the property.

If Jean gifted the property to James, this would be a PET for IHT purposes. The value of the PET would be £544k (after deducting Jean's annual exemptions). Any resulting IHT upon Jean's death within seven years would be payable by James.

C3: Stamp Duty Land Tax

There should be no SDLT implications as no consideration would be paid by James to Jean for the property.

C4: Reporting Requirements / Admin Issues

Jean would be required to report the gift on her self-assessment tax return for 2026/27.

The failed PET would be reportable by Jean's Executors on the IHT400 upon Jean's death.

Recommendation

We would not recommend that Jean gifts 3A TR to James during her lifetime and should instead leave a specific gift of the property to James in her Will.

Jean retaining the property until her death will allow a 50% BPR relief claim on the property as she still holds her CG Ltd shares, with an effective IHT saving of £110k.

This should ensure that Jean's wishes are met in that James benefits from the property instead of Jean's grandchildren, and also that James and Emma will have then benefitted equally.

Additionally, for CGT purposes, the value of the property will benefit from a CGT uplift to the probate value of the property upon Jean's death, meaning that James will inherit the property with a higher base cost. As James is planning to sell the property shortly after Jean's death, there may be no CGT liability at all if there is no increase in value between Jean's death and the date of sale.

Section D: Other IHT Mitigation Strategies

Rental income from 3A TR and 1B MHR.

If Jean has any excess income, she could consider making gifts of NEOOI.

Section E: Review of Will

Jean's current Will dated 11 June 2015 leaves all her chattels absolutely to Emma and James and the residue of her estate is left to her grandchildren.

In the unfortunate event of Jean's grandchildren pre-deceasing Jean, Jean's residuary estate will be held on trust for Emma and James absolutely.

Jean's wish is for her grandchildren to have the ability to benefit from regular income

from her estate however she does not want the grandchildren to access the capital until at least age 25.

The terms of Jean's current will provides protection as it provides Emma and James as trustees to exercise the power of appointment and appoint capital to the grandchildren as they see fit, which could be before their children turn 25.

The current structure does not enable the grandchildren to benefit immediately, due to the fact that they are minors apart from Cordelia.

Jean could alter the terms of her Will to leave her residuary estate on 18-25 trust for the benefit of her grandchildren.

This would result in the grandchildren becoming absolutely entitled to the income and capital of the trust upon turning 25 years old.

The trust would form part of the relevant property regime but special rules apply for IHT purposes meaning the trust would get beneficial treatment.

There would be no 10 year anniversary charge upon each ten year anniversary of the trust and there would only be limited IHT exit charges arising on the appointment of capital out of the trust to the grandchildren between the age of 18 and 25.

There would be no exit charge if capital was advanced before a beneficiary turned 18, which might be beneficial if any of the grandchildren are considering going to university as the trust could help fund this.

Alternatively, Jean could create a Discretionary Trust in her will for the benefit of her

grandchildren. This would provude greater flexibility in the future as they would not become absolutely entitled at age 25.

Jean could prepare a letter of wishes to go alongside her new Will and whilst this would not be binding on James and Emma, it should provide them with an understanding of Jean's wishes and intentions for her estate going forward.

Jean should consider the cost of setting up a new Will and Emma and James should register the Will Trust with HMRC's Trust Registration Service if the administration of Jean's estate continues for more than two years from her date of death.

Appendix 1: Current IHT Position of Jean's Estate

Asset	**Notes**	**Current Value**	**Chargeable Value**
3A Turney Road	N1	550,000	275,000
1B Meadow Hill Road		250,000	250,000
UK Current Account		23,000	23,000
UK Savings Account		178,000	178,000
60 Ordinary Shares in Castle Galleries Ltd	N1	420,000	Nil
Stocks and Shares Portfolio		430,000	430,000
Stocks and Shares ISA		70,000	70,000
Chargeable Value			1,226,000
RNRB & TRNRB	N2		(350,000)
NRB	N3		(325,000)
Taxable Estate			551,000
IHT @ 40%			**220,400**

Notes

N1: As discussed in Section A of the report, Jean's shares in CG Ltd qualify for 100% BPR. As 3A TR is the trading premises of a qualifying unquoted trading company of which Jean is a controlling shareholding, the property qualifies for BPR at 50% because Jean owns it.

N2: See Section A.

N3: Per Section A of the report, Colin's NRB was utilised on his death so is not transferrable to Jean for use on her death. We have deducted Jean's NRB of £325k in full on the assumption that she survives until August 2027 and therefore survives the £500k gift to Emma by seven years so it is therefore outside Jean's estate for IHT purposes.

Appendix 2: Gift of 3A Turney Road to James

CGT:

	£
Deemed Sale Proceeds (N1)	550,000
Base Cost	(125,000)
Capital Gain	425,000
AE (N2)	-
Taxable Gain	425,000
CGT @ 24%	**102,000**

Notes

N1: Deemed market value disposal as James is a connected person for CGT purposes.

N2: No CGT AE of £3,000 available to deduct as is utilised by Jean's quoted share disposals during the 2026/27 tax year.

IHT:

	£	
Chargeable Value of estate (per Appendix 1)		1,226,000
Less chargeable value of 3A Turney Road		(275,000)
Revised estate		951,000
RNRB & TRNRB		(350,000)
NRB	325,000	

Gifts < 7 years of death	(550,000)
NRB remaining	nil
Taxable Estate	601,000
IHT @ 40%	**240,400**

Increase in IHT liability of £20k compared with current position.

Appendix 3:

ABC Tax Advisors
May 2026