

THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Inheritance Tax, Trusts & Estates

May 2026

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise required by the question, candidates may answer the question using Scottish Income Tax rates or Income Tax rates applying elsewhere in the UK.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2025/26 legislation (including rates and allowances) continues to apply for 2026/27 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. George is domiciled in Guernsey and has been resident in the UK since 6 April 2018. He has foreign assets in his estate worth £1.9 million and a UK home worth £1 million.

George is divorced and has not made any gifts in the previous seven years other than to the trust detailed below. George has a Will which leaves his estate equally to his adult children.

George created a discretionary trust on 1 December 2020. The trust is for the benefit of his adult children. The assets in the trust are all foreign situs and are currently worth £900,000. The trust has not made any income or capital distributions to date.

George has provided some estimates of the likely value of the trust over the next few years as follows:

	£
5 April 2028	950,000
1 December 2030	1,000,000
5 April 2031	1,050,000
5 April 2038	1,500,000

George is considering leaving the UK permanently and would like to understand whether it is beneficial for him to do so before 6 April 2027 and whether he should sell his UK home.

George estimates that current values can be used for any 5 April 2027 calculations but by 5 April 2028 he anticipates his UK home will have increased in value to £1.05 million and his foreign estate increased to £2 million.

Requirement:

Explain the Inheritance Tax implications for George and the trustees if he were to leave the UK and cease to be UK resident on 5 April 2027 or 5 April 2028, stating the due date for any tax payments.

(20)

2. Balraj is domiciled in India and became UK resident for the first time on 6 April 2020. He set up a discretionary trust for his wife and children on 31 March 2020, prior to coming to the UK, in order to minimise his UK tax liability. The trustee is a trust corporation resident in Jersey. The trust holds a portfolio of foreign shares and has no UK assets.

The trustee is considering making a capital distribution of £60,000 to Balraj's adult son, Daniel, in August 2026 to help with his university expenses. Daniel is UK resident and has no sources of income or capital gains.

The trust has made no previous distributions. It has received the following income and realised the following capital gains/(losses):

	<u>Foreign Income</u>	<u>Capital Gains</u>
	£	£
2021/22	6,000	12,000
2022/23	6,500	3,525
2023/24	7,000	(6,500)
2024/25	7,500	15,000
2025/26	8,000	(2,125)

Requirement:

- 1) **Explain the UK Income Tax and Capital Gains Tax implications of the trust for Balraj and the trustees.** (5)
 - 2) **Calculate the tax arising on the proposed distribution to Daniel.** (10)
- Total (15)

3. Brian has two adult children, Hannah and Grace. Hannah has recently been diagnosed with a degenerative life limiting condition. Brian is keen to ensure that Hannah has adequate provision for her long-term care needs and is considering setting up a trust for her benefit. He may also include Grace as a beneficiary.

Alternatively, Hannah could also settle a trust with her own funds.

Requirement:

- 1) **Explain which type of trust would be most suitable for Brian to create for Hannah, the qualifying conditions, any differences in tax treatment should Hannah settle the trust herself and whether Grace could also be a beneficiary of either trust.** (8)
- 2) **Explain the tax treatment of either trust for both the trustees and Hannah and how the trust would be treated both on and after Hannah's death.** (7)

Total (15)

4. Steph Moore, UK resident and domiciled, died on 3 April 2020. She was a 50% partner in the Moore Farm Partnership and left her entire Estate of £500,000 to her husband, Alex. This included her 50% share of River Farmhouse, which was worth £100,000 on her death. River Farmhouse was occupied by Steph and Alex as their family home and is from where the management of the farm partnership was always run. Steph made no chargeable transfers during her lifetime.

Alex, who was a long-term UK resident, died on 4 April 2026. Alex carried out his farming business through both the Moore Farm Partnership, established in 1981 and AM Contracting Ltd, an unquoted trading company incorporated in 2010. Alex also operated a rental business which lets out commercial units. Alex and Steph had three children, Josh, Tom, and Layla.

Alex made gifts that used his £3,000 annual exemption on 6 April each year. During his lifetime he also made the following gifts:

- 1) On 15 March 2020, he gifted a 30% partnership share to his three children, who all became partners on this date. The loss to his estate was £150,000 and each child received an equal share of 10% each. The agricultural value of the partnership share was equal to the market value.
- 2) On 23 April 2024, he gifted 60% of the shares in AM Contracting Ltd to Josh, with a loss to his estate of £230,000. Josh continues to own the shareholding.
- 3) On 27 December 2024, he gifted £25,000 to his daughter Layla as a wedding gift.

The Moore Farm Partnership holds agricultural land, a grain store, and a barn and all these assets are used in the trade of the partnership. Before Alex's death, the following changes to the partnership took place:

- 1) Josh withdrew the value of his partnership share and retired as a partner on 30 June 2024. He used these monies to buy a house to live in.
- 2) Layla withdrew her the value of her partnership share and retired as a partner on 30 June 2024. On 1 March 2026, Layla used these monies to purchase a warehouse from where she runs her unincorporated trading business selling flowers.
- 3) Alex and Tom continued in partnership until Alex's death with partnership profits split 87.5% Alex and 12.5% Tom (reflecting the retirement of Josh and Layla).

By his Will Alex left his estate as follows:

<u>Asset</u>	<u>Agricultural Value</u>	<u>Value at death</u>	<u>Recipient</u>
	£	£	
87.5% share in Moore Farming Partnership	1,050,000	1,050,000	Tom
40% shareholding in AM Contracting Ltd		200,000	Josh
Barn owned personally and used by AM Contracting Ltd to store machinery		105,000	Josh
River Farmhouse	185,000	230,000	Layla
Commercial rental units		600,000	Tom
Cash & chattels		65,000	Residue

All the assets in AM Contracting Ltd are used in the business. After payment of funeral costs and the cost of a headstone, totalling £5,000, Alex's Will left the residue of his Estate to Layla.

Requirement:

Calculate with explanations the Inheritance Tax liability arising on Alex's death and state the due date for payment. (20)

5. Alison Cheesbrough, a UK domiciled and resident individual died on 23 April 2023, leaving a net estate of £1.3 million after liabilities of £8,500. The beneficiaries of the estate are her adult children, Max, Dean, Evie and Jack in equal shares.

The executors have requested assistance with the tax compliance for the period of administration, which ended on 31 May 2025. Max received an interim net income cash distribution of £1,300 in 2023/24 for which an R185 has already been prepared. The remaining income and capital were distributed on 31 May 2025.

The executors have received income and incurred expenditure, as follows:

<u>Income</u>	<u>Detail</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>
		£	£	£
Bank interest		6,700	6,000	2,000
Dividends (Gross)	UK Companies	2,750	3,275	400
Rental profits	Investment property – Leeds	10,650	9,800	1,835
Dividends	ISA	2,300	2,700	300
<u>Expenses</u>				
Interest	Loan for Inheritance Tax	1,750	nil	nil

Loan interest was paid when the loan was repaid on 5 April 2024 out of the proceeds of sale of Alison's home which was sold for £750,000 on 1 February 2024. The property sale resulted in CGT payable of £9,600.

Requirement:

- 1) **Prepare, with explanations, the Income Tax computations for the period of administration and show the R185 entries for each of the beneficiaries.** (9)
- 2) **Explain how the estate Income Tax and Capital Gains Tax will be reported and state the due dates for payment.** (6)

Total (15)

6. Abbas Patel who was UK resident and domiciled, died on 19 August 2022. He had never married or been in a Civil Partnership and left his entire Estate to Zara, his niece. Zara lived with Abbas in the Townhouse and continued to occupy it as her only home until it was sold. Abbas made no gifts during his lifetime. His death estate was comprised of the following:

<u>Assets</u>	<u>£</u>
10,000 Banana plc shares	100,000
12,300 Citrus plc shares	25,000
4,000 Dragon plc shares	50,000
Townhouse	700,000
Lodge	500,000
Bungalow	310,000
Cash (after payment of liabilities)	210,000
Classic car	197,000
Other chattels	35,000
Total estate	<u>£2,127,000</u>

IHT was paid by the executors on time. On 20 October 2022 there was a 1:2 rights issue at £4.00 per share for Dragon plc. The executors took up their rights in full and acquired a further 2,000 shares.

The executors made the following disposals:

<u>Date of disposal</u>	<u>Asset</u>	<u>Gross Proceeds</u>	<u>Probate Costs</u>	<u>Cost of sale</u>
		<u>£</u>	<u>£</u>	<u>£</u>
23 December 2022	Dragon plc 6,000 shares	52,000	250	260
18 August 2023	Banana plc 10,000 shares	95,000	250	475
20 August 2023	Citrus plc 12,300 shares	12,000	250	60
20 August 2025	Lodge	565,000	2,625	14,125
30 September 2025	Bungalow	275,000	750	6,875
1 October 2025	Townhouse	750,000	2,000	18,750

The Estate administration period ended on 15 October 2025.

Requirement:

- 1) Calculate with explanations, the Inheritance Tax due on Abbas's death and the impact thereon, assuming any relevant claims are made by the executors after death. (6)
- 2) Calculate with explanations the chargeable gain or loss position on the disposals made by the executors. (9)

Total (15)