

Inheritance tax, trusts and estates module

Questions

1.

Bill and Brenda Sykes were married to each other when Brenda died on 1 June 2018. By her Will, she left her half share of the matrimonial home ('Highways') to her executors to hold on trust for Bill during his lifetime and then to their daughter Bethan absolutely. The rest of Brenda's estate was left to Bill outright.

Bill and Brenda had each made a gift of £25,000 to Bethan on the occasion of her wedding on 1 May 2014. Apart from this, neither of them made any lifetime gifts.

Highways was sold on 1 May 2022 for £500,000, after Bill had moved into a care home. The proceeds were divided equally between Bill, and the trustees of Brenda's will trust.

Bill died on 1 August 2026. At the date of his death Bill's estate, net of liabilities, was valued at £900,000, of which £50,000 represented assets overseas on which foreign death duty of £10,000 had been paid. At the date of Bill's death, Brenda's will trust was valued at £300,000.

By his Will, Bill left his worldwide estate to Bethan.

At all material times Bill and Brenda were UK resident and domiciled.

- 1) Calculate with explanations the Inheritance Tax payable as a consequence of Bill's death.**
- 2) Calculate what amount is payable by Bill's executors and what amount by the trustees of Brenda's Will trust.**

(10 marks)

2.

Florence Smith died five years ago. Under her Will she left her residuary estate in trust "for such of my two children, Sam and Rob, as survive me and attain 25 years of age in equal shares if more than one". Sam and Rob are both living. Sam attained 18 years of age on 6 January 2026 but Rob is still a minor.

You are advised that, under the terms of the will trust, Sam and Rob are each entitled to receive a half share of trust income arising when they reach 18 years of age. Until then, the trustees may accumulate income and add it to capital. Florence Smith has made no other trusts.

On 30 August 2025, the trustees distributed income of £1,000 to each of Sam and Rob. Apart from that to date there have been no distributions out of the trust.

The trust income for the year to 5 April 2026, which had accrued evenly over the year, was as follows:

	£
Dividends from UK companies and unit trusts	20,000
Interest (gross)	4,000

At 5 April 2025, the trust had a tax pool brought forward of £15,000. The trustees incurred trust management expenses of £1,200 during the year to 5 April 2026.

Calculate the Income Tax liability of the trustees for 2025/26 and the amount of the tax pool to be carried forward at 5 April 2026.

(10 marks)

3.

Mr and Mrs Williams are a wealthy couple in their seventies. They jointly own a large second home on the South Coast worth £2 million which they bought 30 years ago. They visit the property regularly and would like to continue doing so. They intend to retain the property until they die when it will then pass to their children, at which time their children plan to sell it. The property is not mortgaged.

Mr and Mrs Williams are thinking of transferring the holiday home to their children during their lifetime with a view to saving Inheritance Tax when they die.

Discuss the Inheritance Tax and Capital Gains Tax issues of that proposed gift.

(5 marks)

4.

David Roberts died recently leaving an estate valued at £1 million. His whole estate passes to his brother Peter. David had made no lifetime gifts and had never married or entered into a civil partnership.

Peter would like to vary the disposition of the estate, to leave an amount to charity sufficient to enable David's estate to benefit from the lower (36%) rate of Inheritance Tax.

Explain what Peter will need to do to achieve his objective and calculate the minimum amount that will need to be given to charity.

(4 marks)

5.

On 1 May 2017, Colin Chambers created an interest in possession trust for his son Harry. On the same date he transferred a property worth £300,000 to the trust and paid the Capital Gains Tax arising. Harry then immediately occupied the property as his main residence.

Harry married on 30 November 2024 and immediately took up residence at his wife's house. The trust property then stood vacant while the trustees sought a buyer. On 30 July 2026, the trustees exchanged contracts for the sale of the property for a sum of £400,000 net of disposal costs. However, under the terms of the contract, completion of the sale was delayed until 30 September 2026.

Colin has made no other trusts.

Calculate with explanations the Capital Gains Tax payable by the trustees.

(4 marks)

6.

Simone sold her house and moved abroad ten years ago. She gave her daughter £200,000 at that time, which her daughter used towards the purchase of a house that she still lives in. The purchase price of that house was £500,000.

Simone returned to the UK two years ago. She moved into her daughter's house on 6 July 2026 and has resided there ever since. As a lodger, she pays her daughter £250 per month under a written agreement. The rental value of the property as a whole is £1,500 per month. Simone's only income is a pension of £20,000 per annum.

Calculate with explanations Simone's liability for pre-owned asset tax for the 2026/27 year of assessment.

(4 marks)

7.

Bob Sykes would like to make an outright gift of £250,000 to his son and also transfer £250,000 into a trust for his grandchildren. He is elderly and there is a good chance he will not live a further seven years. He wants to know if the gifts should be made in any particular order. He has made no previous gifts.

Explain whether it is better to make the gift to his son prior to, or after, the transfer into trust.

(3 marks)