

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	598	2881	3411
Section 2	666	2948	3566
Section 3	801	3860	4649
Section 4	701	3285	3892
Section 5	1018	4636	5591
Section 6	467	2184	2646
Total	4251	19794	23755

Answer-to-Question-__1__

Albert

	General Estate	Settled Property	GWROB
Bank Account	124,000		
Caravan			19000
Main Residence	850,000		
Settled property		350,000	
Wine collection	89,500		
ISA	368,000		
Quoted shares	360,000		
Big investment Ltd	21,000		
ABC	-		
Less; charitable donation	(140,000)		
Chargeable estate	1,672,500	350,000	19000
RNRB	(£309250)		
	1363250	350,000	19000
NRB	(487929)	(125271)	(6800)
Taxable	875,321	224,729	12200
Tax @36%/40%/40%	315,116	89,892	4880
Who is liable	Executors	Trustees	Daughters

Notes/Workings

1. The Pension scheme is outside the scope of IHT and is therefore not included in the death estate.
2. BPR

No s.39a applies as the BPR assets is a specific legacy in the Will.

However BPR will be available on the ABC Trade Limited at 100%. The shares are in a wholly or mainly trading unquoted company which have been held for at least 2 years. No chargeable value in the estate.

No BPR will be available on the Big Investment Ltd shares as these shares are not in a trading company.

3. RNRB

The RNRB is available where there is a qualifying residence in the estate and that residence has been left to a lineal descendant.

A qualifying residence is one which at some point during Albert's lifetime has been his main home.

The amount available = £175k add any unused allowance (100%) from Barbara's estate. Therefore a total of £350k is available as it appears all Barbara's estate went to spouse.

However, where the gross estate exceeds £2m, the allowance is tapered by £1 for every £2 the £2m threshold is exceeded.

The gross estate is the total estate less liabilities but before BPR.

Chargeable estate = 2041500
add: BPR 40,000
= 2,2081500

$2,062,500 - 2,000,000 = 81500$
Taper = $81500 / 2 = 40750$

Available against estate = $350,000 - 40750 = £309250$

4. Settled Property

As Albert Received an immediate post death interest from Barbara this is a qualifying interest in possession and as a result the value of the trust assets will be included in Albert's death estate.

5. Transferable NRB

Unused = 100%

Therefore, available to Albert = £325k x 200% = 650k.

Lifetime gifts (chargeable) = 36k - Annual exemptions (2022/23 & 2021/22) = (6000) = 30k

Available = £620k

This is apportioned based on the value of the general estate and settled property.

6. Gifts with reservation of benefit applies.

This is because a gift was made, however the benefit of use of the caravan was retained and no rent was paid. As a result, the value of the caravan will need to be included in the death estate.

7. 36%

Available if 10% baseline amount. No merger election is available as baseline amount of total estate exceeds £1.4m

General estate

Taxable = £875,321

RNRB = 309,250

donation = 140,000

baseline amount = 1324571

10% = 132457, therefore as donation > 36% rate applies only to general estate.

b)

Please see the calculation above to see who is liable to pay the tax.

The instalment option is available for qualifying assets. This includes:

- business interests
- land and buildings
- shares

In Albert's scenario, the main residence and the caravan will be eligible to pay by instalments. Instalments are payable in 10 annual instalments, with the first being payable on the usual payment date for IHT which is 6 months following the end of the month of death (30 November 2025).

Estate rate = 18.841%

$\text{£}850\text{k} \times 18.841\% = 160,149 / 10 = \text{£}16,015$ each 10 year instalment.

the shares in Big do not qualify for instalments as the IHT attributable does not exceed the $\text{£}20\text{k}$ threshold.

Therefore payable on 30 Nov

-----ANSWER-1-ABOVE-----

-----ANSWER-2-BELOW-----

Answer-to-Question- 2

The two main reliefs the executors can claim are:

- 1) Fall in value relief
- 2) Port Mortem reliefs

Fall in value relief is available where the value of an asset which has been gifted which has then later become a chargeable transfer has then fallen in value, either by the retained value at the point of death or if it was sold at a lower value.

Fall in value relief can then be claimed to reduce the value of the PET.

In the case of Martha, the property was initially gifted was cash. It was not the house. Therefore, unfortunately, despite the value of the house being decreased in value the asset gifted was not the house. - no relief

No relief is also available where the gift of an asset is a wasting chattel. A wasting chattel is one with an expected life of less than 50 years. It is fair to assume that a book is unlikely to last for 50 years and therefore no fall in value relief is available.

However as for the table it is fair to assume that the table will last greater than 50 years. Therefore fall in value is available on the reduction in the value of the table. Fall in value relief of £10k will be available to deduct against the Pet. This will be as follows:

Transfer of value = £20k
less: fall in value = (10k)
less: annual exemptions (6000)
NRB (Nil)
Taxable = 4,000
Tax @40% on the failed pet of £1,000.

Clearly this saves tax of £4,000

Post mortem reliefs are available to the executors in the way of 3 forms:

- quoted shares
- Land and buildings
- Related property valuations.

In respect to Bills' position only the shares and the land and buildings apply.

Shares

Post mortem relief is available on the net loss of the sale of quoted shares within a 12 month window after death (August 2025). Therefore the sale of the bigdielcars plc shares are not eligible as this is after the time limit

The probate value is compared to the gross proceeds (ignoring any costs of sale). Shares must be sold to an unconnected 3rd party to benefit from the relief.

The amount of post mortem relief is restricted if the executors have reinvested into quoted shares.

Bonus issues are treated as being held from the date of death. Therefore relief is available. Value is not effected however.

	Probate value	Gross sales	profit/loss
Big Pharma	25000	15000	(10,000)

The loss of £10k is restricted by $10k \times 4400/15000 = £2933$

loss available to claim by the executors = £7067

Tax repayment @40% = 2826

Land and property

Executors can claim for losses in the 3 years after death. a 4th year is available to be considered if a loss occurred.

Probate cost = £950k

Sales price (gross) = £800k

Loss to estate = £150k

This can then reduce the value of the property in the estate to £800k .

As a result a repayment of £60k is available to the executors.

b)

After a claim for post mortem relief the base cost of the asset is revised to reflect the claim made.

Distribution of assets to beneficiaries is not a disposal for CGT by the executors. Therefore distributions to both Peter and Martha are not chargeable.

Gain 1

Proceeds = £15000
less: cost (75)
= 14925
less; cost (16167)
less; cost s4/02 (8000 x 25/1.5m)= 133

Loss= 1375

Big Pharma

	No shares	£	
Probate cost (revised post post mortem relief)	1000	15000	
	200	4400	
sale	(1000)	(16167)	

Grandfather clock - wasting asset exempt from CGT. Both cost and proceeds < 6k.

Home

Proceeds = 800,000
less: revised probate cost (800,000)
less costs (3500)
Less: s4/02 = (8000 x 800/1.5m) =4267

allowable loss = £7767

Big deisel

Proceeds = £7000

less; cost (10000)

less: cost (8000 x 10k/1.5m) = (53)

loss = 3053

As a result no capital gains tax due by the executors as no gains made.

-----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

Answer-to-Question- 3

On the initial set up of the trust the trust was a non-uk resident trust. The residency of the trust follows the resident status of the trustees. Therefore for income tax and CGT, the trust is non-resident.

The Trust is therefore subject to income only on UK situs assets. As currently no uk assets generate an income no tax is payable by the trustees in the UK.

However, should the trust begin to receive income from the UK residential property, this income will be subject to income tax in the UK. The Trustees will need to submit annual Tax Returns disclosing the income received from the rental property, paying tax on the income at 45%.

Any revenue expenses incurred relating to the property can be deducted before tax is applied.

Tax returns will be due on the 31 January following the end of the tax year in question. Any tax payable will also be due on this date.

Potentially payments on account will need to be made.

For CGT, the Trustees will only be liable to CGT on NRCGT (i.e. disposals of interests in UK land and property). Therefore if the trustees subsequently dispose of this property they will be subject to UK CGT at the higher rate of 25%. Principal private residence relief will however be available for the trustees to claim on the period that Daisy used the trust property as her main residence.

This Trust is currently non-settlor interested for income tax purposes as the settlor is excluded from benefit. Therefore no income will be attributable under s.720 on the settlor. Instead, s.731 will apply attributing the income to UK resident beneficiaries receiving benefits (i.e capital distributions etc).

For IHT, the initial transfer was of excluded property as it went into a non-uk bank account. In addition the domicile status of the trust follows MARY's domicile at the point of creation.

From an IHT perspective the value of the UK residential property will now need to be included in any principal charges and any exit charge calculations as this is not excluded

property for the trustees.

b)

For capital gains tax the settlor interested rules are extended under the transfer of assets abroad anti-avoidance legislation.

However, under the deemed domicile rules as Mary has become deemed domicile under the 15/20 long term residence rules the trust is protected. Therefore where usually gains are attributed to UK resident and domiciled settlors under s.86, the trust is protected and as a result no gains are attributed to the settlor.

The gains are then matched under the s.87 beneficiary charge. This matches stockpiled gains against benefits received by UK resident beneficiaries.

The gains are then charged in the year of receipt of the benefit.

It should be noted however that income is first offset against the benefits received by UK beneficiaries in priority to gains. The income is then taxable on the beneficiary in the year of receipt of the benefit.

A benefit includes both capital payments as well as accommodation.

Therefore the £48k distribution or the £12k per annum will be a benefit.

If received £48k distribution;

The distribution is first matched against income, therefore £25k is matched.

This would give rise to a tax liability of £7526. This is after taking into account Ben's personal allowance.

This is where it will be beneficial to make annual payments as it will better use up Ben's basic rate band. This means less of the matched stockpiled gains and income will be taxed at the lower basic rates of tax.

The balance of £23k is matched against stockpiled gains. These gains are matched on a LIFO basis. No personal losses can be used by Ben against these attributed gains. In addition, no reimbursement can be received by Ben from the trustees.

These gains are taxed first and therefore use the AEA (£3000 in 20214/25) first.

Supplementary charge is added. this happens where stockpiled gains are not distributed in the year in which they arise or the next tax year. Minimum charge = 20% with a maximum of 60% charge.

Capital losses in the stockpiled gains do not retrospectively apply. They are however offset against gains in future years.

£8550 is matched against gains (after losses) in 2023/24 - no supplementary charge as within the following year of the gain arising.

£3000 is matched against gains in 2017/18 - 60% max suuplemntary charge.

Total gains = 11500
AEa (3000)
= 8550
tax @20% = 1710

Add supplemntary charge (60% x 1710 x 3000/11500)=268

total CGT payable = 1978

total tax payable = £9504

An additional point, if the £12k are made year on year. The £12,100 loss will be able to offset agaisnt any stockpiled gains in the year and therefore will not be matched. Will then be made tax free.

-----ANSWER-3-ABOVE-----

-----ANSWER-4-BELOW-----

Answer-to-Question- _4_

Income Tax - 2023/24

	NS	S	D
Dividend			10,000
Interest from ISA		-	
Rents Received	15,000		
Tax @ 20%/20%/8.75%	3000	-	875

Total income tax liability for 2023/24 = £3875 - due 31 January 2025

The estate will need to be registered with HMRC to obtain a UTR.

Payments on account will need to be made by the executors in advance of 2024/25. This is 50% of the income tax liability (£1,937.50) and will be payable 31 January 2025 and 31 July 2025.

Notes

- ISAs retain their exempt status for 3 years following the death and therefore not chargeable to income tax.
- Management expenses which have been met by income are not deductible in teh tax comp but rather against the accumulated income pool.

2024/25

	NS	S	D
Dividends			200
Interest		-	
Rents	100		
	100		200

In this tax year, this falls under the exempted. Taxable income received during the year is below the £500 deminimis threshold.

As a result, no tax is payable by the executors for this tax year and no tax return is required to be submitted for 2024/25.

With regards the accumulated income pool. The full amount enters the pool no tax credit is provided.

Assuming both payments on account for 2023/24 were made a repayment will be available to the executors.

2025/26

	NS	S	D
Dividends			14000
Rents	10,000		
Tax @20%/8.75%	2000		1225

Total tax liability = £3,225.

The estate qualifies for the informal way of disclosing the liability. As the estate's total income tax liability for the administration period is below £10k and the value of the estate is below the threshold. The estate qualifies. This means a singular return can be submitted by the executors for the entire period.

R185s - Tabitha (for shares)

Tabitha receives shares on 14th April 2025. However this was a specific legacy, therefore R185 is attributable as it arises.

2023/24

	Net	Tax	
D	9125	875	

2024/25

	Net	Tax	
D	200		

2025/26

	NEt	Tax	
D	12,775	1225	

Accumulated income Pool

	NS	S	D
Post tax 2023/24	12,000		
Less; expenses	(2500)		
Less: distribution (deemed)	(9500)		
c/f	-		
At this point 50% residue			
2024/25	100		
c/f	100		
Post tax 2025/26	8000		
	8100		
50%	4100		

Notes

- Specific legacies

Where the Will leaves a income bearing asset directly to an individual, the income arising from those assets are directed to the specific beneficiary. All income arising from this asset is thiers of right. It does not enter the accumulated income pool. This is thfore why the isa and dividned income is not included.

- Residue

The accumualted income pool is then maintained for any other income (in this case the rents). Any distributions of capital (i.e. the watch is matched to the residuary beneficiaries share up to the value of the attributable accumulated income pool or the vlaue of the capital distribution if less.

The Deed of variation is not retrospective for income tax. Therefore income arising pre Dov only helen's, Income after Dov to be split 50:50.

R185 - Helen

2023/24

	Net	Tax	
NS	9,500	2375	

2025/26

Discretionary Trusts (each)

	NEt	Tax	
NS	4100	1025	

At the point the admiistration period ends there is a deemed distribution of the remaining accumulated income.

b)

Deed of variation must be signed by the original beneficairy of the gift in writing within 2 years of the date of death.

The impact for IHT on a variation is as follows:

If DoV is made with statement under s.142 the gift is deemed to have come from the Will.

This therefore mitigates any PET arising on Helen.

The variation also means that 50% of the residue now becomes exempt under the spousal exemption. As the assets have been deemed to come from the Will rather than from Helen. A transfer of 50% of residue now becomes exempt. A IHT repayment claim should be made by the executors.

The other half being transferred to an 18-25 trust remains chargeable. The 18-25 trust going forward will be eligible to distribute assets once daughter becomes 25. At this point there will be an exit charge based on 28 quarters. quarters between 18th and 25th birthday. The settlor of the trust for IHT purposes will be Simone not helen.

-----ANSWER-4-ABOVE-----

-----ANSWER-5-BELOW-----

Answer-to-Question- 5

Lifetime Gifts

Lifetime gifts are either chargeable lifetime transfers or potentially exempt transfers.

Gifts to any individuals are PETs. Whereas Chargeable lifetime transfers are gifts into trusts or gifts to a company. During the lifetime, no tax is payable on PETs, whereas CLTs do give rise to an IHT charge during the lifetime so far as they exceeds the Nil rate band available to the individual.

On death, we revisit the PET's and CLTs. PETs will become chargeable to IHT when they arise within 7 yeras before the date of the individuals death.

Annual exemptions are available of £3,000 per tax year which can be offset against the gifts. These annual exemptions are offset in a chronological order and are set against the year in gift first. The previous years Annual exemption is also available to be offset if this has not been used.

14.11.2011

Transfer of Value = £100,000

Less: annual exemptions (2011/12 & 2011/10) = (6,000)

PET = £94,000

No lifetime tax as covered by the £325k nil rate band.

14.10.2018

Transfer into settlement = CLT.

Business property relief is avaiable in this scenario. This is due to the fact that Megdalena owned the factory personally and for more than two years. The factory was used by an trading company in which she had control of. As a result, 50% BPR is available to offset against the transfer of value.

Transfer of Value = £350,000

BPr @50% = (175,000)

= £175,000

Less: annual exemptions (6000)
PET = 169,000

Nil rate band available (325,000)
Less; GCT < 7 years before gift (94,000)
= 231,000

Taxable = Nil

Covered by NRB

11.11.20

A settlement on a disabled persons trust is deemed a PET where there is a settlement on a DPT for another individual.

APR can be deducted intially against the PET. Relief for APR is available on the agricultral value of the land. The Relief is then available at 50 or 100% based on if the land is farmed personally or tenanted. As this is being used by her farming partnership rather than her personally this is tenanted.

The question also states that the land has been held for 10 years this exceeds the 2/7 years minimum ownership period for both APR and BPR. On the basis that this would have been aftewr 1995 September, APR is available at 100%.

Transfer of value = £400,000
Less: APR (100%) = (400,000)
PET = nil

10.05.2022

Transfer into Trust = CLT

Transfer of Value = £1,000,000
Less: BPR @50% = (500,000)
= £500,000
less: annual exemption (6000)
CLT = £494,000
NRB available (325k - 169k)= (131k)

NOTE: the CLT in 2011 has fallen out of the estate when calculating the NRB available in 2022.

Taxable = 363,000

(as the settlor is paying the clt the IHT rate if grossed up to 20/80 (25%)
Lifetime tax @ 25% = 90,750

GCT = £584,750

19.06.2023

Transfer of Value = £700,000
Less: BPR (700,000)

CLT = £nil

At the intial settlement the shares qualified for BPR at 100% being an unquoted trading company where the shares have been held for at least 2 years.

Lifetime Gifts on Death

14.12.2011 - this is outside the 7 year period before death and therefore no further tax is due on this.

14.10.2018

BPR is withdrawn in circumstances where the transfer occurs within 7 years before the date of death and either:

- a) the property no longer qualifies for BPR/APR at the point of death in the hands of the donee or,
- b) the property has been sold / is no longer owned by the donee.

There is an exception for if All the net proceeds of the sale is then reinvested into APR/BPR qualifying property (of the same kind) within a 3 year period.

In this case, the land has been retained by the trust aand still qualifies for BPR therefore no BPR is withdrawn.

GCT = 169,000
NRB = (231,000)

Taxable = Nil

11.11.2020

The PET arising now becomes chargeable as the donor died within 7 years of the gift.

In addition as previously explained, BPR will be withdrawn on this PET on the basis that the property is no longer used for agricultural purposes (as it is now let), therefore APR is not available at death.

Taper relief is however available to the trustees to claim. This will be at 40% of the tax payable.

Annual exemptions will be available to offset due to them not being previously used. The do not disturb principle applies.

GCT = Nil
Add: BPR 400,000
= 400,000

Less: annual exemptions (6000) - as these were previously not used these can now be allocated accordingly.

= £394,000
NRB (325k - 169k) = (156k)
= 238,000

Tax @40% = 95,200
Less: taper relief (40% x 95200) = (38,080)
Tax payable o death by the trustees of the DPT = £57,120

10.5.2022

A binding contract for sale is a disqualifying event for BPR. Therefore BPR is withdrawn on the shares.

In this case however, the NRB available will be nil due to the do not disturb principle applying and as a result, Tax will be payable by the discretionary trust trustees at 40%

Taper relief will be available as a deduction (20%) as well as the lifetime tax already paid by the trustees.

19.06.2023

It would be fair to assume that the shares would no longer being in a trading company. BPR is denied on companies which have dealings with Land. As a result, BPr on the shares will be withdrawn and the full gift will be chargeable to IHT. Under the Do not disturb principle the annual exemption in 2023/24 will only be available as a deduction.

All tax is due 6 months from the end of the month of death = 31 December 2025

b)

Initial value of Trust	700,000		
addition	1,000,000	1,700,000	
NRB available prior to creation		-	
		1,700,000	
Theoretical tax @20%		340,000	
effective rate		20%	

Actual rate needs to be apportioned

$$\text{Cash} = 20\% \times 30\% \times 1/40 = 0.15\%$$

$$\text{Gross up } 0.15 \times 100 / (100 - 0.15) = 0.1502$$

$$\text{IHT} = 0.1502\% \times 100,000 = \text{£}150$$

Payable 30 June 2025.

-----ANSWER-5-ABOVE-----

-----ANSWER-6-BELOW-----

Answer-to-Question- 6

Loans are usually deductible against the property in which they are secured against. Where the loan is not secured the loan is deductible against the general estate.

At death Mandeep will be UK domiciled via the 15/20 long term resident rule and as a result will be taxed on worldwide income and gains.

Loan 1 - Loans made before 2013 to acquire BPR qualifying property is fully deductible against the estate. No deduction is to be made against the AIM shares, but rather is made against the main residence first.

Loan 2 - Post 2013, where a loan has been taken out to purchase BPR qualifying property the loan is not deductible against the property in which it is secured but rather secured against the BPR property. The loan is then deducted from the BPr property before BPR is applied, preventing double relief.

In September transferring these assets is a deemed disposal for CGT. Therefore if the value of the remaining loan outweighs the value of the BPR shares at death, the remaining loan can be deducted against the general estate.

Loan 3 - A loan to purchase excluded property (because at this point Mandeep would not yet have obtained her deemed domicile status) is not deductible. However as now Mandeep is deemed domicile and is subject to worldwide assets, the loan can also be deductible.

b)

As the trust is non-resident it is taxable on the NRCGT rules. This includes sales in the interest of UK land and property.

NRCGT is calculated on 3 methods

- default method - this gives a rebase at April 15. This is then used as the cost figure.

- Retrospective method, this calculates the gain based on the original base cost of the

property back in 2006.

- time apportioned method - this uses the original cost but time apportions the gain for the period April 2015 onwards.

The retrospective and time apportion method are elections to be made by the trustees. The default method applies automatically.

The disposal of the property can benefit from PPR. PPR is available on deemed occupation and actual occupation of a main residence.

Deemed occupation most commonly used are the 3 years for any reason and last nine months, less commonly used is the 4 years working elsewhere. However PPR is only available on the period from April 15 if the default method is used. Whereas if the other methods are chosen the full periods of occupation can be used.

A real time transaction disclosure needs to be made by the trustees to HMRC. This pays any tax due on the disposal within 60 days of the completion of the property (i.e. 6 December 2025.)

PPR must be claimed, it does not apply automatically. This can be done via the real time transaction return.