

**The Chartered Institute of Taxation**

**Application and Professional Skills**

**Inheritance Tax, Trusts & Estates**

**November 2025**

**Suggested answer**

## **Report to the trustees of the Colin Northwood Discretionary Trust and Margie Briggs as sole beneficiary of the estate of Owen Briggs**

This report is prepared for the trustees of the above trust (the "Trust") and Margie Briggs as sole beneficiary of the estate of Owen Briggs. It may not be relied upon by any other person or entity without our prior written consent.

The report contains tax advice and recommendations in relation to:

1. The proposed appointment of cash from the Trust to Rose Briggs; and
2. Whether to appoint shares in Beechcroft Ltd to Lily Briggs (from the Trust) or, alternatively whether a gift of shares in KA Motors Ltd should be made from Margie to Lily.

The advice contained in this report is based on the information held on our file and the legislation in force on today's date. A delay in implementing our recommendations, a significant fiscal event or a change in circumstances may affect our advice and therefore confirmation of its continuing relevance should be sought.

### **1. Executive Summary**

#### **Cash appointment to Rose**

- a. The Trust's inheritance tax ("IHT") ten-year anniversary ("TYA") will occur on 15 February 2026. A distribution in the next few weeks (but before 15 November 2025) will result in tax charges of £87,217, consisting of an IHT exit charge of £26,720 and a subsequent TYA charge of £60,497, on the assumption that the value of the investment portfolio in the Trust remains the same as on 3 November 2025.
- b. If the distribution is delayed until March 2026, the value of the Trust will be higher for the purpose of calculating the TYA charge (as it will include the undistributed cash for Rose), but there will be no exit charge as the distribution will occur in the first three months after the TYA. The TYA IHT charge will be £72,606. We therefore recommend that the appointment is postponed until March 2026, which will give an overall tax saving of £14,611.
- c. This recommendation is based on the view that Beechcroft Ltd is likely to be operating as a genuine property development business for the purposes of IHT business property relief ("BPR") and the shares in the Trust will benefit from 100% IHT relief on the TYA.

#### **Appointment of shares to Lily**

- d. If an 8% holding in Beechcroft Ltd is appointed to Lily in March 2026, 100% BPR is likely to be available to reduce the IHT charge to nil. As the distribution is a chargeable transfer for IHT purposes, holdover relief can be claimed on the capital gain, which will mean no tax charges will arise on the disposal.
- e. We recommend that Margie instead transfers the shares in KA Motors Ltd to Lily by a Deed of Variation including an IHT statement under section 142 IHTA 1984. This will be read back into Owen's Will for IHT purposes, making use of the BPR on his death by redirecting the shares to a chargeable beneficiary. The variation will remove the shares from Margie's estate, potentially saving up to £208,000 in IHT (based on current figures) if they no longer benefit from BPR on Margie's death. The variation should also be made effective for CGT purposes so that no capital gain arises on the transfer and Lily is treated as having acquired the shares at their probate value.
- f. In addition, a variation rather than a direct gift from Margie for IHT purposes will remove the possibility of the gift becoming chargeable to IHT on Margie's death within seven years (due to BPR being clawed back).

## 2. Cash distribution to Rose from the Colin Northwood Discretionary Trust

The Trust is a lifetime discretionary trust created by Colin Northwood. It is a relevant property trust for IHT purposes and will therefore be subject to IHT charges when assets leave the Trust and on each TYA of the Trust's creation.

### a. Appointment in November 2025

The appointment of cash will involve assets leaving the Trust and therefore an IHT exit charge will occur. In addition, the first TYA charge will occur on 15 February 2026. The timing of the cash distribution will therefore affect the exit charge on the distribution and the charge on the TYA.

There is no CGT payable on the distribution as cash is not a chargeable asset for CGT purposes.

#### i. IHT exit charge

The appointment of cash in November 2025 will result in an IHT exit charge in the first ten years of the Trust's existence. This charge is a percentage of the value of the assets leaving the Trust. The percentage is based on the value of the assets comprised in the Trust immediately after creation. The initial value of the Trust will not be reduced by any BPR that may have been available at the time.

The rate of tax applied to the assets is reduced by the number of complete three-month calendar periods ("quarters") that have passed since the Trust's creation. The charge would be £26,720 based on a distribution before 15 November 2025. See **Appendix 1**.

#### ii. Availability of IHT business property relief – Beechcroft Ltd

The TYA charge will be based on the value of the Trust on 15 February 2026 net of any BPR.

BPR reduces the value of a transfer for IHT purposes and 100% BPR is potentially available where that value relates to shares in an unlisted trading company.

One key condition is that the business must not mainly consist of dealing in land or buildings or making or holding investments. Businesses that are mainly property development businesses will benefit from BPR provided the conditions explained below are met.

The balance sheet and income statement for Beechcroft Ltd shows a split between property development activities and property letting. It is therefore necessary to establish whether the company is mainly trading for BPR purposes.

HMRC guidance states that in deciding whether a 'hybrid' business is mainly trading, regard must be given to its main activities, assets, and sources of income or gains, over a 'reasonable period' preceding the transfer. The leading case in relation to this test, *Farmer (Farmer's executors) v IRC*, held that it is necessary to consider the overall context of the business, including turnover, profit, time spent by employees and capital employed.

The balance sheet shows that the value of the property development assets exceeds the value of the rental income-generating assets by a significant margin. The balance sheet shows stock and work in progress of £6,260,000 for the financial year ending 31 August 2025. This is broken down into three elements, with the first two, Grace Road and Broad Park, clearly consisting of housebuilding activities for onward sale over the last year. The significant increase in Broad Park's value is likely to be largely derived from development works, rather than appreciation in land value.

HMRC guidance states that BPR will be available where, at the time of the transfer, a company holds land acquired with a view to the development and subsequent disposal of the completed development. The land at Sandy Lane is therefore likely to form part of the trading activities for BPR purposes, despite works being yet to commence.

The income statement information shows that turnover from the sales of development property have exceeded rental income over the previous two financial years. Turnover is solely attributable to rental income in the financial year ending 31 August 2024, but in the Farmer case the fact that the investment business was more profitable was not conclusive. More significantly, development income is more than three times the value of rental income in the following year.

The information for the Trust indicates that more employee time is being spent on the property development side of the business, as this is managed by both directors and supported by a part-time employee, who also deals with lettings.

BPR is denied in relation to any "excepted assets". An excepted asset is one that is not used wholly or mainly for the business in the last two years or required for the future use in the business. There is cash held within the company and cash surpluses are the most common type of excepted asset. However, in this case the cash is considerably less than turnover (less than 25% in both years) and case law suggests that BPR is unlikely to be restricted where cash levels are less than 25% of turnover. This, together with the levels of short-term debt (related to sub-contract works), means the cash is likely to be considered as working capital by HMRC.

Taking into consideration the extent of the development works, the value of the stock and the context of the business, it is likely that BPR will be available in relation to the entire value of the Beechcroft Ltd shares on the Trust's TYA. The company's activities should be monitored for anything that could demonstrate an increase on the letting side or a reduction in development activities.

iii. IHT TYA charge

The TYA charge on 15 February 2026 will be based on a percentage of the value of the Trust's assets. This value will be net of the BPR available (see above). The Trust's value on the TYA will also be reduced by the appointment of cash to Rose and the IHT exit charge paid by the trustees on the distribution.

The rate of tax applicable is calculated using the value of the Trust on the TYA and any NRB available. However, the NRB will be reduced to nil by the cash distribution to Rose and the IHT paid, so a 6% tax rate will apply (20% x 30%). This rate is applied to the Trust's current value (net of BPR) to give an IHT TYA charge of £60,497. This amount, together with the IHT exit charge in November 2025, gives total tax charges of £87,217.

**b. Appointment in March 2026**

i. IHT TYA charge

If the distribution is postponed until March 2026, the Trust's value for calculating the TYA charge on 15 February 2026 will be higher as it will include the undistributed cash and IHT payable on the distribution. However, a full NRB will be available to reduce the tax rate applied to the Trust value (which will also be net of BPR). This will give a lower actual rate of 4.730% which, when applied to a higher value of current assets, gives a higher TYA charge of £72,606.

ii. IHT exit charge

Exit charges after the first TYA are based on the value of the trust at the previous TYA, which are reduced by any BPR available. However, as this distribution will occur in the first three months following the TYA, there is a total exception from charge.

Recommendation

We recommend that the appointment is delayed until March 2026. This will give the lowest IHT liability overall as there will be no exit charge on an appointment within the first quarter following the TYA. This will give an overall tax saving of £14,611. The trustees must deliver

form IHT100 to HMRC within six months following the end of the month of the TYA (in this case 31 August 2026). The IHT TYA charge must be paid within the same timescale.

### **3. Appointment of shares to Lily: Beechcroft Ltd or KA Motors Ltd**

It has been agreed that Lily should receive shares of a similar value to Rose's cash distribution, either in Beechcroft Ltd (from the Trust) or KA Motors Ltd (from Margie) in June 2026 when Lily turns 30.

#### **a. Beechcroft Ltd**

##### **i. IHT**

An IHT exit charge would usually arise when shares are appointed to a beneficiary. However, the share appointment is likely to qualify for 100% BPR (see 2.a(ii) above) and therefore no IHT will be due.

##### **ii. CGT**

The appointment of shares to Lily will be a chargeable disposal for CGT purposes, and a gain of £160,000 will arise on which £32,000 CGT will be payable. The gain is based on the difference between the market value of the shares (£500,000) and trustees' base cost in relation to an 8% holding (£340,000). Holdover relief is available on a disposal where there is also an immediate charge to IHT. If a claim was made, there will be no tax to pay on the appointment and Lily will be deemed to have acquired the shares with a base cost equal to the market value at the date of the Trust creation (£340,000). The claim will need to be made jointly by the trustees and Lily within four years of the end the tax year in which the disposal is made (on or before 5 April 2031), but in practice should be made in the Trust's self-assessment return for the 2026/27 tax year. If no the claim is made the CGT will be due on 31 January 2028.

Holdover relief for a disposal of qualifying business assets (in this case shares in an unlisted trading company) may also be available as well as a claim based on an immediate charge to IHT, but where both reliefs apply the latter takes priority.

#### **b. KA Motors Ltd**

##### **i. IHT**

##### **IHT transfer by Margie**

The transfer of the shares from Margie to Lily will be a potentially exempt transfer ("PET") for IHT purposes. BPR is potentially available at a rate of 100% in relation to unquoted shares in a trading company. The valuation provided indicates that the shares would qualify for BPR as the company does not hold any investment assets. Usually, the transferor must have owned the asset for at least two years to receive BPR on the transfer. However, where there are successive transfers in a two-year period, BPR can still apply provided one of the transfers was made on death and the earlier transfer qualified for BPR.

BPR will therefore be available to reduce the PET to nil and if Margie survives seven years from the transfer it will become fully exempt from IHT. If Margie dies within seven years, the BPR position will be reassessed and BPR will be withdrawn if Lily has disposed of the shares and not replaced them with other business property qualifying for IHT relief. This will be the case if Lily has sold the shares and used the proceeds to purchase a property. BPR will also be withdrawn on Margie's death within seven years if the shares no longer qualify for BPR and the valuer's note suggests the company may become listed in the next few years. If BPR was withdrawn, it would reduce Margie's NRB and the transferrable NRB from Owen's estate available to Margie's estate (or any other lifetime transfers by Margie that have become chargeable to IHT) by £520,000.

##### **Variation in relation to Owen's estate**

As the shares have passed to Margie under Owen's Will they will have benefited from the spouse exemption for IHT together with the rest of the estate. The BPR available on the shares is therefore effectively wasted. If Margie retains the shares until death they may not meet the qualifying conditions at that point. There is also the risk of a charge to IHT on death within seven years if a PET is made.

A variation of an entitlement to part of an estate must be in writing and signed by the person making the variation within two years of the date of death.

We recommend that any transfer of the KA Motors Ltd shares to Lily is made by varying the terms of Owen's Will, redirecting the gift of shares to Lily. The variation should include a statement that Margie intends section 142 IHTA 1984 to apply. This will mean that there is no IHT transfer of value by Margie as the shares are treated as inherited by Lily from Owen's estate directly for IHT purposes. A variation for IHT purposes could save Margie's estate (and Lily and Rose as the ultimate beneficiaries) up to £208,000 in IHT (based on the current value 40% of £520,000). The variation must take place before 2 August 2026 so will be within the required timeframe if the transfer takes place in June 2026.

ii. CGT

A transfer of the shares from Margie to Lily will be a disposal at market value for CGT purposes, on which a capital gain of £40,000 will arise. As the gain relates to the transfer of shares in an unquoted trading company, CGT holdover relief may be claimed. If a claim is made, Margie will have no CGT to pay on the gain and Lily will acquire the shares at Margie's base cost (£480,000) instead of the current market value. The claim must be made jointly between the Margie and Lily within four years from the end of the tax year of the gift (i.e. 5 April 2031).

Alternatively, a variation of Owen's estate could include a statement under section 62 TCGA 1992 so that the gift from Margie is disregarded for CGT purposes and Lily is treated as having acquired the shares under Owen's Will. Lily's base cost will be £480,000. This will avoid the additional paperwork required for a CGT holdover claim and will leave Lily with the same base cost for the shares going forward.

Recommendation

We recommend that Margie transfers her KA Motors Ltd shareholding to Lily by varying her entitlement under Owen's Will and electing for retrospective IHT and CGT treatment to apply. This will give a potential IHT saving of up to £208,000 (based on the current value) if BPR is not available on Margie's death. A variation is preferable to an outright gift as there is no risk that BPR would be clawed back in the event of Margie's death within seven years. The £40,000 gain will not be subject to CGT on the transfer, instead reducing Lily's base cost.

## Appendices

### Appendix 1 – Exit charge on distribution pre 15 November 2025

Initial values	£		£
40 ordinary shares in Beechcroft Ltd		1,700,000	
Investment portfolio		1,105,000	
Cash		150,000	
			2,955,000
2025/26 NRB		325,000	
Less: Settlor's chargeable lifetime transfers ("CLTs") in seven years prior to trust creation		0	
			(325,000)
			<u>2,630,000</u>
Notional tax @ 20%			526,000
Effective rate	$\frac{£526,000}{£2,955,000} \times 100\%$		17.800%
Actual rate (N1)	17.800% x 30% x $\frac{38}{40}$		5.073%
Gross up	$\frac{5.073}{100-5.073} \times 100\%$		5.344%
<b>Exit charge</b>	£500,000 x 5.344%		<b><u>£26,720</u></b>

**N1:** Based on a distribution before 15 November (38 complete quarters between the creation of the Trust and the exit).

### Appendix 2 – TYA following the distribution

Current value	£		£
40 ordinary shares in Beechcroft Ltd		2,500,000	
Investment portfolio		875,000	
Cash (N2)		133,280	
			3,508,280
Less 100% BPR on shares			(2,500,000)
			<u>1,008,280</u>
2025/26 nil rate band		325,000	
Less:			
Settlor's CLT's in seven years prior to trust creation		0	
Distributions in last 10 years (£500,000 + £26,721)			
		(325,000)	
			(Nil)
			<u>1,008,280</u>
Notional tax @ 20%			201,656
Effective rate	$\frac{£201,656}{£1,008,280} \times 100\%$		20%
Actual rate	20% x 30%		6%
<b>Exit charge</b>	£1,008,280 x 6%		<b><u>£60,497</u></b>

**N2:** Cash of £660,000 less £500,000 distribution and tax paid on exit charge of £26,720.

**Appendix 3 – TYA before distribution in March 2026**

Current value		£		£
40 ordinary shares in Beechcroft Ltd			2,500,000	
Investment portfolio			875,000	
Cash			<u>660,000</u>	
				4,035,000
Less 100% BPR on shares				<u>(2,500,000)</u>
				1,535,000
2025/26 nil rate band		325,000		
Less:				
Settlor's CLTs in seven years prior to trust creation			0	
Distributions in last 10 years			<u>0</u>	
				<u>(325,000)</u>
				<u>1,210,000</u>
Notional tax @ 20%				242,000
Effective rate	<u>£242,000</u>	x 100%	15.765%	
	£1,535,000			
Actual rate	15.765%	x 30%	4.730%	
<b>Exit charge</b>	£1,535,000	x 4.730%	<u><b>£72,606</b></u>	