

# THE CHARTERED INSTITUTE OF TAXATION

## APPLICATION AND PROFESSIONAL SKILLS

### Inheritance Tax, Trusts & Estates

**May 2026**

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TIME ALLOWED

3 HOURS 30 MINUTES

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- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- 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.

You are a tax senior in a firm of Chartered Tax Advisers. Your tax director, Alex Matthews, has received an email from Jean Macfarlane, a longstanding client of the firm. Jean's declining health has prompted her to consider her estate planning options and to review her Will.

Alex has asked you to review the email from Jean (**EXHIBIT A**) alongside the updated asset valuations (**EXHIBIT B**) and the copy of Jean's Will (**EXHIBIT C**) before preparing a draft report to Jean addressing her queries.

The following exhibits are provided to assist you:

- EXHIBIT A:** Email from Jean Macfarlane to Alex Matthews
- EXHIBIT B:** Valuation of Jean Macfarlane's assets (updated 26 April 2026)
- EXHIBIT C:** Extract from Jean Macfarlane's Will dated 11 June 2015
- EXHIBIT D:** Pre-seen information

**Requirement:**

**Prepare a draft report to Jean Macfarlane, which advises on her estate position and provides recommendations in relation to her proposals and Will planning.**

Continued

**EXHIBIT A**

Email from Jean Macfarlane to Alex Matthews

From: Jean Macfarlane <'jeanwyattmacfarlane@email.co.uk'>  
To: Alex Matthews <'alex.matthews@taxadvisers.co.uk'>  
Date: 29 April 2026  
Subject: My Will and tax planning

Dear Alex

Thank you for your email, which was timely as I have been meaning to get in touch about my Will and change in circumstances. Unfortunately, my health issues have worsened, and I spent some time in hospital seriously unwell last year. I was lucky to recover and have been told that I am likely to deteriorate considerably over the next year or so. I want to make sure I fully understand my current estate position and any tax considerations given the uncertainty regarding my health. I have enclosed an updated asset schedule (**EXHIBIT B**).

As you know, I have been renting a small flat for the last five years with care support, but I am finding it increasingly difficult to manage without someone in the flat full-time. I've been considering various options, bearing in mind that I am unlikely to have much time left, and I am now weighing up the possibility of moving in with either Emma or James and continuing with external care provision. There are pros and cons to living with either child, but their houses are very similar in size and location. My lease expires in July, so I am planning to move by then at the very latest. Emma's home is well-set up for me to occupy immediately. If I move in with James and his family, I want to contribute £30,000 in the next few weeks towards a new en-suite bathroom and some other renovations on the ground floor (where I would be staying). I offered to pay either Emma or James £6,000 a month in rent (roughly half of the rental value of their respective homes) but they have insisted that I retain my remaining cash for care and other expenses, so as not to disturb my investments. Could you let me know if you foresee any issues with any of the above proposals, and whether there would be any tax issues to consider with either the gift of cash or the living arrangements? That may help me to decide who to live with!

I gave the children £750,000 each almost 10 years ago to purchase their first homes mortgage-free after their father died. In 2020 I gave Emma a further £500,000 which she used towards the purchase of her current home in London mortgage-free; she contributed £1 million from the proceeds of sale of her previous property. James has also moved to a larger house in the last few years, but he did not really need the financial help and was also going through a divorce, so I decided not to complicate matters further.

Regardless of where I end up living, I would like to equalise the gifts between the children as much as possible and so have decided to give 3A Turney Road to James. I expect he will retain the property initially and then sell it after my death, either to my niece and nephew, if they want it, or to a third-party buyer. I was planning to go ahead with the transfer in the next few weeks but wanted to make sure I understand the tax implications before doing so. There is no urgency, but I want to make sure James receives the property (rather than my grandchildren) when I die.

Finally, please could you have a look at my Will (**EXHIBIT C**), which I last updated in 2015. It was agreed some time ago that Emma and James' children should inherit my remaining estate when I die, partly because my children have already received substantial assets, but also due to them both being in unstable relationships at the time. I would still like the grandchildren to inherit, and do not want them to be able to access the majority of the capital before at least age 25, but smaller amounts or a regular income would be acceptable. I cannot remember exactly what the implications of the current Will are, and I have read that there are different types of trust that can be made in a Will with different tax consequences. I would consider alternative structures if there were tax benefits to be had and would be grateful if you could explain my current Will to me and let me know if you recommend any changes.

I am not sure how relevant my life expectancy is for the purposes of your advice, but I have been told that I am very unlikely to survive beyond two years with my current condition. Please therefore assume that I will live for another two years at most when making your recommendations.

Best wishes

Jean Macfarlane

Continued

**EXHIBIT B**Valuation of Jean Macfarlane's assets (updated 26 April 2026)Land and property

<u>Address</u>	<u>Detail</u>	<u>Date of acquisition</u>	<u>Cost/probate value</u>	<u>Market value</u>
			£	£
3A Turney Road, Tunbridge Wells, TN3 4AH	Premises used by Castle Galleries Ltd for exhibitions and selling artwork	Purchased 14 September 2004*	125,000	550,000
1B Meadow Hill Road, TN1 4NB	Offices let to local business	Inherited from Jean's brother 15 May 2014	160,000	250,000

Bank account balances

UK Current account	23,000
UK Savings account**	178,000

Shares and securities

60 ordinary £1 shares in Castle Galleries Ltd***	Shares in an art gallery business	Incorporated 2000	60	420,000
Stocks and shares portfolio			180,000	430,000
Stocks and shares ISA			40,000	70,000

Notes

\*The property has been used by the business since Jean purchased it in 2004.

\*\*Remaining proceeds of sale of Jean's family home sold for £775,000 in March 2019.

\*\*\*This represents 60% of the ordinary shares in the company and is the only unquoted shareholding Jean has ever owned. The other 40% is owned by Jean's niece and nephew who run the business day to day. Jean is a director of the company. The company is unquoted and does not have any investment assets or activities. It does not hold any excepted assets.

Continued

**EXHIBIT C**

Extract from Jean Macfarlane's Will dated 11 June 2015

**1 APPOINTMENT OF EXECUTORS**

1.1 I appoint my children Emma Penelope Macfarlane ("**Emma**") and James Samuel Macfarlane ("**James**") to be the executors of my Will.

1.2 In this Will:

1.2.1 "my Trustees" means my executors or the trustees for the time being;

and

1.2.2 the "Trust Period" shall mean the period ending on the last day of the period of 125 years from the date of my death.

**2 PERSONAL CHATTELS**

I give my personal chattels (as defined in section 55 of the Administration of Estates Act 1925) to **Emma** and **James** in equal shares absolutely.

**3 ADMINISTRATION OF MY ESTATE**

My executors shall:

3.1 pay my debts, funeral and testamentary expenses, legacies and inheritance tax on all property which vests in them; and

3.2 transfer the remainder "my Estate" to, or so as to be under the control of, the Trustees, to be held upon the trusts and with and subject to the powers and provisions set out below.

**4 RESIDUARY ESTATE**

4.1 The Trustees shall hold the capital and income of my Estate upon trust for such of my grandchildren as shall survive me and attain the age of 25 before the end of the Trust Period or shall be living and under that age at the end of the Trust Period, and, if more than one, in equal shares, absolutely.

4.2 Subject to the provisions of sub-clause 4.1, the Trustees shall hold the capital and income of my Estate upon trust for my children in equal shares absolutely.

Notes

The administrative provisions that apply to Jean's Will state that:

1. Section 31 Trustee Act 1925 has been modified so that the Trustees have a discretion to advance income to a beneficiary and accumulate the surplus income until their 25<sup>th</sup> birthday; and
2. The Trustees can advance anything up to the whole of a beneficiary's presumptive or vested entitlement to them before they are entitled to it absolutely.

**EXHIBIT D**

Pre-seen information

Client

Mrs Jean Mary Macfarlane

She is a retired pharmacist and higher rate taxpayer. Mrs Macfarlane's Capital Gains Tax annual exempt amount is used fully on quoted share disposals each tax year.

Mrs Macfarlane signed the firm's engagement letter on 19 April 2026. The engagement letter covers both tax compliance and tax advisory work.

Date of birth

23 April 1942

National Insurance Number

ZY781877B

Residence

58 Harewood Drive, Walthamstow, London, E17 6AD

Mrs Macfarlane is UK domiciled, UK resident and is a long-term resident in the UK from 6 April 2025.

Spouse

Mr Colin Alfred Macfarlane

He died on 2 February 2014 and was UK resident and domiciled.

Mr Macfarlane's Will left his nil rate band allowance to his children and the remainder of his estate (which after debts and expenses consisted of a half-share in the family home (probate value £250,000) and £23,000 cash) to his wife.

Children of Jean and Colin Macfarlane

Emma Macfarlane (Born 9 November 1976). Emma is divorced and has two children: Luna De Simone (Born 17 May 2011) and Marco De Simone (Born 11 March 2009).

James Macfarlane (Born 12 August 1972). James has one child, Cordelia Macfarlane (born 9 March 2008), from his previous marriage, and another child, Evelyn Denton (Born 8 August 2011), with his current partner Alison Denton. James and Alison are not married or in a civil partnership.

James and Emma are both higher rate taxpayers.

Jean Macfarlane's gifting history

£500,000 to Emma Macfarlane on 3 August 2020.

£750,000 to each of Emma Macfarlane and James Macfarlane on 8 April 2017.