

Inheritance Tax, Trusts and Estates Module Answers

1.

Chargeable value of 1 May 2014 gift by Brenda:

	£	£	
Gift amount		25,000	½
Marriage exemption (parent / child)		(5,000)	
Annual exemption (2014/15 and 2013/14)		<u>(6,000)</u>	
Chargeable amount (set against Brenda's nil rate band)		<u>£14,000</u>	1
NRB calculation on Bill's death:			
Bill's NRB		325,000	
Brenda's NRB	325,000		
Less lifetime gifts (see above)	<u>(14,000)</u>		
Balance		311,000	1
Bill's RNRB (downsizing applies)		175,000	
Brenda's RNRB (downsizing applies)		<u>175,000</u>	1
Total		<u>£986,000</u>	½

(Note: The executors need to make appropriate claims for transfer of NRB and RNRB from Brenda's estate.)

IHT payable:

	Estate £	Trust £	
Value	900,000	300,000	½
NRB and RNRB			
£(986,000 x 900/1,200)	<u>(739,500)</u>		1
£(986,000 x 300/1,200)		<u>(246,500)</u>	1
Subject to IHT	160,500	53,500	1
IHT at 40%	64,200	21,400	1
(effective rate = £64,200 / £900,000 = 7.1333%)			
Double tax relief £50,000 @ 7.1333% (capped at 7.1333%)	(3,567)		1
Tax payable	£60,633	£21,400	½

2.

One half (50%) of the trust income is allocated to Sam who has been entitled to it for three months.

Therefore, one eighth (or 12.5%) of the trust income is not liable to be accumulated and the trust rate does not apply to that element.

Calculation of tax due

	Dividends £	Interest £	
<u>Taxed at trust rate:</u>			
Amount	17,500	3,500	1

minus:

TMEs re income subject to accumulation

£1,200 x 7/8 = £1,050

Grossed up at 8.75%

-1,150

1

Taxed at trust rate (39.35% / 45%)

16,350

3,500

Tax at above rate
(enters tax pool)

£6,433

£1,575

1

Taxed at dividend ordinary rate / basic rate:

£

£

TMEs (grossed up) as above

1,150

1

1/8 of total income (payable to Sam)

2,500

500

1

Total - taxed at 8.75% / 20%

3,650

500

Tax on the above

319

100

1

Total income tax liability:

6,433

1,575

319

100

Total income tax liability

£8,427

1

Calculation of tax pool carried forward:

£

Tax pool brought forward

15,000

½

Add: tax paid at trust rate £(6,433 + 1,575)

8,008

1

Less tax on grossed up distributions

£2,000 x 45 / 55

(1,636)

1

Tax pool carried forward at 5 April 2026

£21,372

½

3.

Notes for meeting

Mr and Mrs Williams

Main tax issues

IHT:

The lifetime transfer of the property will be a transfer of value by each of them and taxable if either of them fails to survive the gift of their share by seven years (albeit taper relief would apply after three years). IHT due on the lifetime gift will not be able to be postponed until the death of the survivor.

1

It will be a gift with reservation for so long as they continue to use the property without paying for that use which would not achieve an IHT saving. If they wanted to continue to use the property they would have to pay a full market rent for that use to avoid a reservation arising.

1

CGT:

A gift of the property will be a disposal, a gain is likely to arise and tax will be payable. Since this is residential property, the gain will need to be reported, and tax paid, within 60 days of completion of the gift.

1

CGT will be payable even if the gift is subject to IHT (i.e. because they fail to survive seven years or because there is a reservation). This would result in a double charge but with no tax credit offset. 1

There would be no tax-free uplift on death so the CGT payable on later sale by the children would be greater than if no lifetime gift had been made. 1

4.

Peter will need to vary the estate in a way that complies with the requirements of s. 142 IHTA1984. The document will need to be in writing and in practice for legal reasons a deed is normally necessary. A deed will need to be signed by Peter in the usual way (with a witness). Legal advice may be required. 1

The deed must be executed within two years of David's death. 1/2

It must contain a declaration that the provisions of s. 142 IHTA are to apply 1/2

The charity / charities must be notified of the variation (and written confirmation obtained) 1/2

The amount to be given must be at least 10% of the 'baseline amount' of the general component of the estate. 1/2

In this case the baseline is found as follows: £

Value of the estate 1,000,000

nil rate band (325,000)

Baseline amount £675,000

10% thereof (minimum gift) £67,500 1

5. £

Proceeds of sale 400,000

Cost (300,000)

Gain 100,000 1/2

Less: PPR relief – time apportioned
(Trust is able to claim relief by virtue of Harry's occupation)

Period of ownership is based on completion date:
Period of ownership 01.5.2017 – 30.9.2026 = 113 months 1

Period of actual occupation 01.5.2017 – 30.11.2024 = 91 months
Period of deemed occupation - the last nine months = 100 months 1

PPR relief (£100,000 x 100 / 113) (88,495) 1/2

Annual exemption (1,500) 1/2

Subject to tax 10,005

CGT at 24% £2,401 1/2

6.

Adjusted rental value = (£1,500 x 200/500) x 9
= £5,400 1

This exceeds the 'de minimus' £5,000 exemption so POAT is payable. 1

From the adjusted value Simone can deduct the payments of £250 per month.

$$£250 \times 9 = £2,250$$

$$£5,400 - £2,250 = £3,150$$

1

Simone pays tax on deemed income of £3,150. Since she is a basic rate taxpayer her liability will be as follows:

$$£3,150 \times 20\% = £630.$$

1

7.

The gift in trust will be immediately chargeable when made but is covered by the nil rate band so no tax will be payable at the date of the gift. If Bob dies within seven years, the outright gift to the son will also become chargeable. The two gifts together will exceed the nil rate band and tax will be due on the excess. The order of the gifts will not affect the amount of IHT payable but since the earlier gift will benefit from the deduction of the nil rate band, the IHT will fall on the recipient of the latter gift.

1

If the outright gift is made first and Bob dies within seven years, that gift will permanently reduce the trust nil rate band used to calculate the IHT 'ten-year' and exit charges charged on the trustees under the 'relevant property' IHT rules.

1

That will not be the case if the gift in trust is made first. Accordingly, it is better if the gift in trust is made first.

1