

Institution **CIOT - CTA**
Course **Adv Tech IHT Trusts and Estates**

Event **NA**

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Exam ID 

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	764	3726	4369
Section 2	450	1983	2316
Section 3	602	2829	3352
Section 4	649	2976	3487
Section 5	948	4137	5032
Section 6	339	1581	1909
Total	3752	17232	20465

Answer-to-Question-_1_

Inheritance tax fue on Albert's death:

Death tax on lifetime gifts:

Gift of the static caravan in March 2016 is a potentially exempt transfer (PET). Since Albert continued to benefit from the Caravan until his death and did not pay rent for his use, the caravan falls fowl of gift with reservation of benefit (GWROB).

Two calculations are performed, one being taxing the PET in March 2016 and now including the caravan in the death estate and the second being ignoring the PET and including the caravan in the death estate.

The first calculation; as the gift of the static caravan was over 7 years before Albert's death, it has fallen out of his estate and not subject to IHT. Therefore HMRC will prefer the second calculation as the caravan will be included in the death estate.

			£	£
Februar y 2023	Cash to Gemma			18,000
	less: AE		2022/23 & 2021/22	(6,000)
	PET			12,000
March 2023	Cash to Isabel			18,000
	less: AE		none remaining	nil
	PET			18,000

Both PETs are covered by the Nil rate band (NRB) on death and are not chargeable to IHT.

Death estate:

		£	£	£
	Notes	General estate	Settled property	GWROB
Bank account		124,000		
Pension	N3	nil		
House	N2	850,000		
Fine wine collection		89,500		
ISA		368,000		
Quoted shares		360,000		
Big investment ltd		21,000		
ABC trade Ltd	N4,6	nil		
Holiday property in Devon	N5		350,000	
Static Caravan				19,000
		1,812,500	350,000	19,000
less: exempt legacy to charity		(140,000)		
chargeable estate		1,672,500	350,000	19,000
less:				
NRB split between components of the estate.	N1	(507,935)	(106,295)	(5,770)
RNRB	N2	nil	nil	nil

		1,164,565	243,705	13,230
IHT @ 36%/40%/36%	N7	419,243	97,482	4,763

Notes:

1) Albert's wife Barbara's whole estate was covered by spousal exemption as it was left to Albert entirely.

Albert can benefit from Barbara's unused nil rate band (NRB). Albert's NRB can be extended to a maximum of 200%. As Barbara did not use any of her NRB, Albert can fully extent his to £650,000 (£325,000 x 200%).

This NRB is reduced by Albert's PETs, as shown below:

		£	£
extended NRB			650,000
less: failed PETs	cash to Gemma		(12,000)
	Cash to Isabel		(18,000)
remaining NRB			620,000
Split between the components of the estate			
general		$1,672,500 / 2,041,500 \times 620,000$	507,935
settled		$350,000 / 2,041,500 \times 620,000$	106,295
GWROB		$19,000 / 2,041,500 \times 620,000$	5,770

2) Albert's estate is eligible for the resident nil rate band (RNRB) as his main residence is being left to direct lineal descendants (his two daughters).

Albert can also extend his RNRB by 200% for Barbara's unused amount of her RNRB.

However, given the size of his estate being over £2.35M, his RNRB has been fully restricted.

3) Pensions are exempt from IHT.

4) ABC Trade Ltd will qualify for 100% business property relief as the shares have been held for more than 2 years and ABC Trade Ltd is an unquoted trading company with no exempted assets. Therefore £40,000 is fully covered by 100% BPR.

5) Albert has a life interest in the Holiday property in Devon, as this was a transfer on the death of a spouse on 22 March 2006, this is a qualifying interest in possession (QIIP) and is held in Albert's estate.

6) There is no s.39 spreading as no BPR property is in the residue.

7) £140,000 is left to a UK registered charity. Baseline of the estate is £1,421,500 (£1,164,565 + £243,705 + £13,230), as the charity donation is not more than 10% (£142,150) of the total baseline of the estate, the estate can apply to 36% test to the individual components to see if the donation is greater than 10% estate.

General component : baseline £1,164,565 x 10% = 116,457, the charity donation is greater than this therefore 36% lower rate of IHT applies.

Election can be made to combine the general component with the GWROB for lower rate of IHT. Baseline of combined components £1,177,795, 10% is £117,780 which is still less than the charity donation.

Due dates and who is liable:

IHT is due 6 months after the end of month of death, 30 November 2025.

Instalment option is available for payment of IHT on relevant property, this includes IHT on the house and Big Investment Ltd as it is unquoted shares with a shareholding of more than 10% and value more than £20,000.

Instalments are paid in 10 equal instalments on 30 November annually.

Instalments are interest bearing.

	payable by	£	£
General estate	Executors	419,243	
payable by instalments	419,243 x (850,000+21,000) /1,812,500	201,468 x 10%	20,147
not payable by instalements	419,243-201,468		217,775
settled property	Trustees		97,482
GWROB	Gemma and Isabel		4,763
Total payable	31.11.25		340,167

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

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

Answer-to-Question- 2

IHT claims which can be made by the children or the executors and IHT savings from these claims:

Fall in value relief is a relief can be claimed on the following gifts in lifetime:

On Martha's apartment as the value of the property has fallen from the PET in February 2019 at Bill's death in August 2024.

On the book gifted to Peter in may 2021 for £26,000 which was only worth £15,000 when he sold it in January 2024.

No fall in value is available on the sale of the table to Peter as he is a connected person.

Fall in Value			£	£
Feb 19 - gift			200,000	
Apartment at death			150,000	
fall in value				50,000
May 21 - gift of book			26,000	
value at sale			15,000	
fall in value				11,000
Total fall in value				61,000
IHT saving @ 40%			61,000 x 40%	24,400

Post mortem relief can be claimed on the following:

Sale of quoted shares within 12 months of death (August 2025), which is restricted for purchases of the same shares within the 12 month period; and sale of land within 3 years

of death and sales at a loss only in the fourth year post death.

Since there is an overall gain on quoted share in 12 months then no election made.

Election for house needs to be made within 4 years of the claimant period by August 2030.

	No of shares	£	£
BigPharma plc			
probate value	1,000	25,000	
	200	4,400	
	1,200	29,400	
value of 1,000	$29,400 \times 1,000 / 1,200$	24,500	
sale value		15,000	
gain			9,500
AI Tech plc			
probate value	600	12,000	
	200	nil	
	800	12,000	
value of 600	$12,000 \times 600 / 800$	9,000	
sale value		12,000	
loss			(3,000)
overall gain			6,500

		£	£
Bill's house			
Probate value		950,000	
sale value		800,000	
loss			(150,000)
IHT saving		$150,000 \times 40\%$	60,000

Capital Gains tax (CGT) due on the sales by executors:

The sale of the grandfather clock by the executors is exempt for CGT.

Distributions to beneficiaries of the estate are no disposals for CGT.

	£	£	£	£	£
	BigPharma plc	AI Tech plc	Bigdieselcars plc	Home	
Proceeds	15,000	12,000	7,000	800,000	
less:					
cost of sale	(75)			(3,500)	
	14,925	12,000	7,000	796,500	
less:					
probate cost (N1)	(25,000)	(12,000)	(10,000)	(800,000)	
				(3,500)	
less: SP 2/04 (N2)	(250)	(120)	(100)	(9,500)	
gain/(loss)	(10,325)	(120)	(10,100)	(13,000)	
All losses, no CGT due					

Notes:

- 1) Where a claim for post mortem relief has been made, base cost is replaced with gross proceeds of the sale for CGT disposal.
- 2) The estate is valued at £1.5M therefore for SP 2/04, relief of 1% of probate value.
- 3) CGT rates for residential property is 24% and all other disposals 20%.

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

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

Answer-to-Question- _3_

Tax consequences for the settlor and the trustees in relation to the UK property:

Mary made the trust in October 2015 while she was not UK-domiciled. She was then deemed UK domicile on 6 April 2017 under the long term resident rules as she was a UK resident for 15 out of the last 20 tax years.

The foreign assets in this trust as excluded property and are not subject to UK inheritance tax (IHT), this is an excluded property trust (EPT).

On 2 January 2024 the trustees purchased UK property in Bristol. Since 5 April 2015, UK residential property held in an EPT is subject to IHT charges to the relevant property regime (exit charges on distribution from the trust and principal charge on every ten year anniversary of creation) on the value of the UK residential property.

As the trustees are both non-UK residents, for income tax and CGT purposes the trust is not a UK resident and is not subject to UK income and CGT tax.

Once the Bristol property is sold the trustees will need to file a NRCG form and pay CGT at 24% on the residential property. The NRCG form will need to be filed within 60 days of completion and any CGT due will also need to be filed then too.

		£	£
market value			480,000
less: base cost			(450,000)
gain			30,000
CGT @ 24%			7,200

The trust is not settlor interested for income tax purposes as Mary has excluded herself from benefiting. The Trustees are liable to report any income generated from the trust.

The trust is settlor interested for CGT purposes as the wider definition includes Mary's children in the class of beneficiaries.

Ben's tax liability in respect of the capital distribution if he receives a one-off payment, and explain with calc why it would be better to receive distributions over four years:

Under s.731 and s.87, Ben as a UK beneficiary is subject to UK tax when he receives a benefit from the trust, a capital distribution is a benefit.

The benefit is matched under the 'matching rules' firstly against accumulated income and once this is exhausted against stockpiled gains on a last in, first out basis.

Supplementary charge is due on the stockpiled gains as if gains are not matched in the year they arise and the one year after, a supplementary charge will be due at 10% per annum (maximum 60%).

One-off capital distribution:

	£	£	£
accumulated income			25,000
less: distribution			(25,000)
Subject to income tax			
basic rate band remaining	37,700- (38,000-12,570)	12,270	
income tax due			
	12,270 @ 20%	2,454	
	12,730 @ 40%	5,092	
	Total income tax due 31.1.27	7,546	

	£	£	£
remaining distribution	48,000-25,000 = 23,000		
2024/25	(12,100)		

2023/24	16,000	7,450	
2022/23	1,200	nil	
2021/22	(4,000)	nil	
2020/21	2,750	nil	
2019/20	3,500	nil	
2018/19	(12,000)	nil	
2017/18	3,000	3,000	
Gain		3,000+7,450	10,450
less: AEA			(3,000)
			7,450
CGT @ 20%			1,490
supplementary charge		3,000/10,450 x 1,490 x 60%	257
total CGT due			1,747

Unmatched benefit of £12,550 will be carried forward to match future year gains.

Distribution over four years

It would be better off to receive distribution over four years as more income will accumulate and can be matched to the benefit. This benefit will be covered by the basic rate band for all the years and will be subject to income tax at the lowest rate possible - 20%.

This saves tax at 20% so $£12,000 \times 20\% = £2,400$ tax saving each year is £9,600 tax saving.

If enough income accumulates then stockpiled gains will not need to be matched which are subject to supplementary charges.

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

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

Answer-to-Question- _4_

Income tax payable by the estate, recieved by Tabitha and Helen each year, how and when it is reported and paid to HMRC by executors:

Income tax will be reported by the executors on an informal basis as the estate income is less than £10,000.

One tax return can be filed covering the whole administration period on a trust and estate self assessment tax return by 31 January 2027.

Distriution from the estate is matched to the revelant income for the beneficiaries and shown on an R185.

2023/24

		£	£	£	£
	Notes		NSI	SI	DI
Dividends Forstarter Properies Ltd	2				10,000
ISA interest	1				
rents			15,000		
gross income			15,000	nil	10,000
less tax: 20%/8.75%			(3,000)		(875)
net income			12,000		9,125
less: expenses			(2,500)		
distributable income			9,500		9,125
Total income tax due		3,875			

Notes:

1)ISA income is exempt from income tax in the executors tax return for 2 tax years post death.

2)All distributable income resulting from dividends from Forstarter Properties Ltd is due to Tabitha as she is the beneficiary of the specific legacy.

R185 2023/24:

No distributions were made to Tabitha in 2023/24 so no R185 due.

R185 - Helen		£	£
Distributable income from NSI		9,500	
distribution £20k		(9,500)	
c/fwd		nil	
		£	£
		Net	tax
NSI	20/80	9,500	2,375

2024/25

		£	£	£
	notes	NSI	DI	
dividends			200	
ISA	1			
rental		100		
gross income		100	200	
less tax: 20%/8.75%		(20)	(18)	
distributable income		80	182	
Total income tax due		38		

No distributions have been made to Helen or Tabitha in 2024/25 therefore nothing will be reported no R185.

Distribution to Abigail of the ISA is not matched to any income as ISA income is exempt

for income tax purposes.

2025/26

	£	£	£
	NSI	DI	
dividends		14,000	
rental	10,000		
gross			
less tax: 20%/8.75%	(2,000)	(1,225)	
distributable income	8,000	12,775	
Total income tax due	3,225		
Total income tax due for the administratio n period to be reported and paid by executors by 31.1.27	3,875+38+3,2 25	7,138	

Administration period ended in tax year 25/26 so all income is distributed to beneficiaries.

R185 - Helen

	£	£	£
	NSI		
2024/25	80		
2025/26	8,000		
	8,080		
distributed	(8,080)		
R185		net	tax

NSI		20/80	8,080	2,020

R185 - Tabitha

		£	£	£
		DI		
2023/24		9,125		
2024/25		182		
2025/26		12,775		
		22,082		
distributed		(22,082)		
R185			net	tax
DI		8.75/91.25	22,082	2,117

Explain the IHT treatment of the trusts created under the Deed of Variation:

For a deed of variation (DOV) to happen it needs to be in writing and signed by Helen within 2 years of Simone's death (by 20 April 2025).

The DOV of passing 50% of Helen's share of the estate residue in to a life interest trust for Simone is an exempt transfer for IHT. As the deed included the relevant statements under s.142 IHTA 1984, the transfer is treated as having been made by Simone herself on death.

The trust is therefore exempt and an IHT refund will be due on the transfer of 50% of the residue as Helen was a chargeable beneficiary and Abigail is not as she is Simone's spouse.

The trust is created as being made on Simone's death and is therefore a qualifying interest in possession (QIIP) as it was created on death. Abigail's life interest will fall in to her estate and not be subject to IHT until she dies and the settled property will be taxed in her estate.

The remaining 50% share will be put on trust for Simone's minor child. This trust is a bereaved minor trust as Jennifer is entitled to income at 18.

There will not be any IHT due on the trust until Jennifer turns 18 years old. The trust will

then be subject to an exit charge on the distribution of capital at at 25 years old. The actual rate will be apportioned for the number of completed quarters between Jennifer turning 18 and ditribution at 24 years ild.

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

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

Answer-to-Question- 5

How inheritance tax (IHT) arising in respect of each of the gifts made by Magdalena in her lifetime and one her death will be calculated:

14 December 2011

In life

Gift of £100,000 cash on trust for her nieces and nephews is a chargeable lifetime transfer (CLT).

The gift value can be reduced by the available IHT annual exemption for the current tax year and the previous tax year if unused, totaling £6,000 (2 x £3,000).

Therefore the chargeable lifetime transfer was £94,000. This would have been covered by Magdalena's nil rate band (NRB) on £325,000 and would not have been chargeable to lifetime IHT.

On death

As this CLT was made over 7 years before Magdalena died in June 2025 the CLT has fallen out of her estate and is not subject to IHT on death.

14 October 2018

in life

Gift of the factory to Titley Factory Settlement discretionary trust is again a CLT.

As the factory was used in trading company which has been 100% owned and operated for more than 2 years, business property relief (BPR) will apply. This is at a rate of 50% as the factory was used in Magdalena's company.

This remaining 50% value of the CLT can be reduced further by two available annual exemptions bring the CLT to £169,000.

THIS CLT would also be covered by Magdalena's NRB in lifetime and would not be subject to lifetime IHT.

on death

On death, 6 years have passed since this CLT was made, therefore it has not fallen out of the estate and will be subject to IHT on death.

Since the factory was still used by the company at her death and the trustees still hold on to it, no BPR will be withdrawn on death.

This CLT on death will be covered by Magdalena's NRB on death and will not be chargeable to IHT.

11 November 2020

In life

Transfer of farmland in to a disabled persons trust is a potentially exempt transfer (PET), this is not subject to lifetime tax and if only subject to IHT if the donor dies within 7 years of the gift.

The PET in lifetime is covered entirely for 100% agricultural property relief (APR) on the agricultural value of the land. In this case the market value is the agricultural value so it is entirely covered.

APR is available because the land has been used for the purposes of agriculture in Magdalena's farming business for over 2 years which is the required ownership period.

On death

At death, the land has been let by the trustees to the local riding stables, as the land is no longer used for the purpose of agriculture and the trustees have not let the land for 7 years being the required ownership period for let land, the 100% APR will be withdrawn on death of Magdalena.

The total value being £400,000 of the original PET is not chargeable to IHT. This can be reduced by 2 times the annual exemption for the tax years 2020/21 and 2019/20.

The revised PET will then use up the remaining NRB which has been reduced for the failed CLT made in October 2018, leaving a balance subject to IHT at 40%.

This IHT liability can be reduced by taper relief at 40% as 4 years have passed since the original PET was made.

10 May 2022

In life

Gift of quoted shares in RingMe plc to the discretionary trust is a CLT. This can be reduced 50% BPR and 2 available annual exemptions for tax years 2021/22 and 2022/23.

50% BPR is available on the CLT as Magdalena holds a controlling shareholding in the quoted shares and has done for over 2 years.

The CLT is then reduced by the remaining NRB having been reduced for CLT in October 2018.

The remaining balance is subject to IHT at 20/80 as the donor Magdalena agreed to pay the IHT arising.

On Death

The CLT and IHT paid will remaining on the clock for cumulation purposes.

On death the gross chargeable transfer will be increased as the 50% BPR is withdrawn because a binding sale agreement was in place at death.

The revised CLT will then be subject to IHT at 40% and be able to apply taper relief at 20% as the CLT was made within 3/4 years before death.

19 June 2023

In life

Gift to the trust is a CLT, this will be covered entirely by 100% BPR as the shares are in an unquoted trading company which has been held for more than 2 years, has no binding contract of sale and no investment assets.

No IHT will be due in lifetime.

On death

Even though the nature of the business has change in the VEganize Ltd shares and the company is no longer trading, BPR is withdrawn as the shares are still held by the trustees on death.

IHT due on the capital appointment on 1 December 2025:

		£	£
Effective rate			6%
actual rate		$6\% \times \frac{1}{40} (n1) \times 100$	0.15%
grossed up		$0.15\% \times \frac{100}{(100-0.15)} \times 100$	0.15%
Exit charge		$\text{£}100,000 \times 0.15\%$	150

As no nil rate band (NRB) is available, the effective rate of tax is 6%.

As the trustees are paying the IHT arising the actual rate of tax needs to be grossed up.

Notes:

1) The exit charge is reduced to reflect the number of completed quarters from creation and relevant property addition(19 June 2023 and 21 June 2025) to distribution (1 December 2025).

Since only cash is being distributed the exit charge only considers the cash element of the trust which was the relevant property added on 21 June 2025.

n = 1.

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

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

Answer-to-Question- 6

Whether a deduction is available in Mandeep's estate:

As Mandeep is Canadian domicile, he will be subject to IHT on his UK situs assets only.

- 1) The bank borrowing of £250,000 can be deducted from the value of his AIM shares therefore reducing the business property relief available on the shares as the shares are AIM listed and have been held for more than 2 years.
- 2) No deduction is available as it is secured against his share portfolio which have been given away. The loan is not allowable against the shares in the trust.
- 3) No deduction is available on to help purchase the property in Canada as this property is excluded property in the death estate as it is in UK situs. Therefore, no deduction is available for the £150,000 bank borrowing.

Explain CGT treatment of the disposal of the property by the trust:

The trust was created by Mandeep while he was non-domiciled in the UK and before he became deemed domicile as a long term resident therefore the trust assets are excluded property.

From 5 April 2015, foreign trusts holding UK residential property are subject to capital gains tax on the sale proceeds.

The capital gain are to be calculated using the default method or taxing the whole gain, the default method is preferred:

This method takes the sales proceeds less the value of the property at 5 April 2019.

The gain can be reduced by the trustees annual exemption allowance of £1,500 and by private residence relief (PRR) as Sharon the beneficiary has lived in the property from November 2023.

PRR will only be available for the percentage time Sharon occupied the property from November 2023 to October 2025. The time the property was not occupied from 6 April 2015 to November 2023 will be chargeable to CGT.

The chargeable gain is subject to capital gains tax at 24%.

As the trustees are non-resident an NRCG form needs to be filed by the trustees and the CGT paid by 60 days from completion 6 December 2025.