

The Chartered Institute of Taxation

Advanced Technical

Inheritance Tax, Trusts & Estates

November 2025

Suggested answers

ANSWER 1

(i)

Gifts in previous 7 years:

February 2023- Gemma

	£
Total	18,000
Less 22/23 AE	(3,000)
21/22 AE B/F	<u>(3,000)</u>
PET	<u>£12,000</u>

March 2023- Isabel

Total	<u>18,000</u>
PET	<u>£18,000</u>

Nil rate band remaining £325,000-30,000= £295,000

Barbara's nil rate band unused 100%	<u>£325,000</u>
Total	<u>£620,000</u>

N1 Residence nil rate band:

Albert has left the family home, which falls into the residue, to his children and therefore the residence nil rate band is available. His estate will also benefit from Barbara's transferable RNRB. The combined RNRB available is £350,000 (£175,000 each) but this will be tapered will be applicable due to estate value:

Gross estate value before reliefs	£2,221,500
Taper	
Estate value - £2million	221,500
Taper @ 50%	<u>(110,750)</u>
Residence nil rate band available (£350,000-£110,750)	<u>£239,250</u>

	Total	Trust	GWROB	General
	£	£	£	£
Bank account	124,000			124,000
House	850,000			850,000
Fine Wine collection	89,500			89,500
ISA	368,000			368,000
Quoted shares	360,000			360,000
Unquoted shares ABC	40,000			40,000
Trade Ltd				
Unquoted shares Big Investment Ltd	21,000			21,000
Caravan	19,000		19,000	

Life interest	350,000	350,000		
Estate value before reliefs	2,221,500	350,000	19,000	1,852,500
Less: BPR	(40,000)			(40,000)
Less charitable deduction (exempt)	(140,000)			(140,000)
Total	2,041,500	350,000	19,000	1,672,500
Nil rate band (650,000-30,000)	(620,000)	(106,295)	(5,770)	(507,935)
Net estate before RNRB	1,421,500	243,705	13,230	1,164,565
<i>Add baseline legacy</i>				<i>140,000</i>
<i>Baseline amount X 10%</i>		<i>243,705</i>	<i>13,230</i>	<i>1,304,565</i>
Residence nil rate band (N1)	(239,250)	(41,018)	(2,226)	(196,006)
Net taxable estate	1,182,250	202,687	11,004	968,559
IHT @ 40%		<u>£81,074</u>		
IHT @ 36%				<u>£348,681</u>
Total IHT due	<u>£433,717</u>		<u>£3,961</u>	

Shares in ABC Ltd, an unquoted trading company, would qualify for business property relief (BPR). The shares in Big Investment Ltd would not qualify for BPR as the company is not a trading company.

The Fine Wine and ISA would be subject to Inheritance Tax. The pension (SIPP) would not form part of Albert's estate and would be Inheritance Tax free.

The continued use of the caravan was a gift with reservation of benefit because Albert continued to use the caravan for extended holidays and did not pay rent for his use.

The life interest in the holiday home is an immediate post death interest and the value of the property would form part of Albert's estate.

Baseline amount for 36% rate- no part of the Trust or GWROB was left to charity and therefore the 36% rate would not apply to these components. An election can be made to combine components and apply the 10% to the combined components. The election must be made in writing within two years of death. The donation is not sufficient to aggregate all components and therefore the 36% rate is only available on the general estate and GWROB.

(ii)

A claim can be made to pay the IHT in ten equal annual instalments on qualifying property. In this case the qualifying property would be the house, holiday home held in trust and the unquoted shares in Big Investments Ltd.

Instalments for land and buildings are interest bearing and therefore interest will be due on the outstanding tax running from the due date of payment.

The instalment option is available on the Big Investment Ltd shares under S228(1)(d) as the shares are unquoted, form at least a 10% holding and the value transferred is at least £20,000. The instalments would be interest bearing.

No tax is due on the shares in the unquoted trading company and therefore the instalment option is not relevant to these assets.

Inheritance Tax is due 30 November 2025 or on delivery of the IHT account if earlier for assets where instalments are not available. This amount is as follows:

	£
GWROB	4,401
General estate (£1,672,500- (£850,000+£21,000))/£1,672,500	<u>167,096</u>
x £348,681	
Total	<u>£171,497</u>

Where IHT can be paid by instalments the first instalment is due on the normal due date, i.e 30 November 2025.

The remaining nine annual instalments will be due 30 November, the second payment being 30 November 2026. The instalment amounts will be as follows:

	Payable by Trustees	Payable by Executors
Holiday Home- £81,074/10	£8,107	
House- (£850,000/£1,672,500 x £348,681) /10		£17,720
Shares (£21,000/£1,672,500 x £348,681) /10		£437

The tax on the general is payable by the estate. The tax on the GWROB is payable by the donees and the tax on the IPDI is payable by the trustees.

MARKING GUIDE

TOPIC	MARKS
Gifts within 7 years use part of NRB	1.0
Transferable NRB	0.5
RNRB and transferable RNRB, why available and calculate taper	1.5
BPR availability on unquoted shares- (0.5 per company)	1.0
Caravan GWROB	1.0
Life interest- IPDI	1.0
Pension not taxable	0.5
Wine and ISA taxable	0.5
Deduct exempt charitable gift	1.0
Total chargeable estate	0.5
Apportion NRB and RNRB	1.5
Divide estate 3 components	0.5
Base line calculation for 36% rate	1.0
Conditions for merging election	1.0
Conclude merging available on for GWROB only	0.5
Correct IHT rates applied	1.0
Sub-total	14
(ii)	
Tax due on general estate (no instalments)	1.0
Instalment option available on qualifying assets	0.5
Instalment option available for investment company shares and conditions, tax due.	1.0
Not applicable to the unquoted trading co shares	0.5
Instalments option available for property, interest bearing, tax due	1.0
Tax due dates	0.5
Who pays the tax	1.5
Sub total	6
TOTAL	20

ANSWER 2

(i)

Cash/Martha's flat

No claim is available for the fall in value of Martha's flat as the gift she received was cash.

Book

The lifetime gift to Peter was subject to Inheritance Tax (IHT) on death as Bill had already used his nil rate band against the cash gifts in 2019. The book had fallen in value and therefore Peter can make a fall in value claim S131 IHTA 1984. The claim must be made within four years of death.

Potentially Exempt Transfer (PET) value

Gift	Original £
	26,000
AE 2021/22	(3,000)
AE 2020/21	(3,000)
PET	20,000
Less: fall in value (£26,000- £15,000)	(11,000)
Chargeable on death	£9,000

This would save Peter IHT of £3,520 (£11,000 x 40% x 80%) (revised PET – original PET).

Table

No claim is available for the fall in value of the table because it was sold to a connected person.

Clock

No post mortem relief is available for the clock as it is a chattel.

House

A post mortem claim under s191 IHTA 1984 can be made for any sales of land and buildings within three years of death. Therefore, the executors can make a claim for the resulting loss on sale. IHT saving (£950,000-£800,000) £150,000 x 40%= £60,000. The base cost of the property will be reduced for Capital Gains Tax (CGT) purposes.

Shares

IHT relief is available (s179 IHTA 1984) for the sale of quoted shares within 12 months of the date of death. Profits and losses must be aggregated. The shareholding in Bigdieselcars plc cannot be taken into account as the sale occurred more than 12 months after death and more than 2 months after last purchase in the twelve month period.

As the executors purchased an additional shareholding in BigPharma plc shares the shares sold will be apportioned between the shares held at death and the subsequent purchase. Relief can only be claimed for the shares held at death:

$$1,000 \times \frac{1,000}{1,200} = 833 \text{ shares sold from holding on death.}$$

	£
Proceeds £15,000 x 833/1,000	12,495
Probate value £25,000 x 833/1,000	(20,825)
Loss	<u>(£8,330)</u>

AI Tech plc probate value

Shareholding after bonus issue 1 for 3 : 800

£12,000 x 600/800 = £9,000 (cost)

£20 x 600 = £12,000 proceeds

Therefore a gain of £3,000

Total net loss £8,330 - £3,000 (AI Tech gain) = £5,330

Loss restriction due to purchase by the executors within the period starting at the date of death and running until two months after the last sale in the 12 month period- IHTA 1984 s.180

	£
Loss	5,330
Less restriction purchase/gross proceeds	(957)
£5,330 x £4,400/£24,495 (£12,495 + £12,000)	
Allowable loss	£4,373

IHT saving – £4,373 x 40% = £1,749

(ii)

Capital Gains

	House	BigPharma Plc	AI Tech Plc	Bigdieselcars Plc
	£	£	£	£
Proceeds	800,000	15,000	12,000	7,000
SP2/04 Probate costs (PV/1,341,670** x 8,000)	(4,770)	(96)	(53)	(60)
Other sales costs	(3,500)	(75)		
Probate value/revised probate value	(800,000)	(16,169)*	(9,000)	(10,000)
Gain/(loss)	<u>(£8,270)</u>	<u>(£1,340)</u>	<u>£2,947</u>	<u>(£3,060)</u>

Total: Loss £9,723

*BigPharma cost on sale £20,825 reduced to £12,495 by post mortem claim. Therefore cost/probate value is £12,495 + (£4,400 x 167/200)= £16,169

** Gross value of estate £1.5 million less post mortem claims (£150,000 +£8,330)= £1,341,670

Clock is exempt from CGT as it is a wasting asset.

Distributions of shares in specie are not chargeable events for CGT purposes. The assets would be received by the beneficiaries at their probate value.

MARKING GUIDE

TOPIC	MARKS
(i)	
Peter S131 claim available for lifetime gift- 4 year time limit	1.0
IHT saving	0.5
No claim on sale of table as it was to a connected person	0.5
No claim re Martha's flat as gift was cash	0.5
House- conditions for claim	1.0
IHT saving	0.5
No claim available for clock	0.5
Shares conditions for claim	1.0
Bigdieselcars plc not qualify	0.5
BigPharma- loss only available on shares acquired pre death	0.5
Calculate allocable loss on BigPharma plc	1.5
AI Tech Gain aggregate and IHT saving	1.0
Sub-total	9
(ii) CGT	
CGT calc house	0.5
BigPharma (CGT calc (1) distribution in specie not chargeable (1.0)	2.0
Ai Tech	1.0
Bigdieselcars	1.0
Clock is a wasting asset- exempt	0.5
Distributions to Peter and Martha not chargeable events for CGT purposes. Receive assets at probate value	1.0
Sub-total	6
TOTAL	15

ANSWER 3

The trust is an excluded property trust to the extent it holds non-UK situs assets as Mary was not domiciled in the UK when the trust was set up. The trust is not UK resident as the trustees are resident outside the UK. Therefore the trustees would only be taxable on UK source income in the UK.

The trust is not settlor interested for Income Tax purposes and is a protected trust for Capital Gains Tax purposes so any income and gains in the trust are not taxable on Mary. The UK situs property does not form part of Mary's estate as she cannot benefit from the trust.

If the trustees were to let out the property they would be in receipt of UK source income and would be required to file UK Trust Tax Returns to report the income each year. The Trust would also need to be added to the Trust Register.

The trustees have purchased a UK residential property and this will be relevant property for Inheritance Tax purposes. The Trust will be subject to a 10 year charge on 30 October 2025 and the value of the UK property will be taxable as follows:

		£
Value of relevant property at ten year anniversary		480,000
Less NRB		<u>(325,000)</u>
		£155,000
£155,000 x 20%	£31,000	
£31,000/£480,000	6.458%	
6.458% x 30% x	1.937%	
number of quarters before UK property was added = (40-32)/40 x 1.937%	0.387%	
Ten year charge:		
£480,000 x 0.387%	£1,857	
Due 30 April 2026		

2) Ben is expecting to receive a distribution of £48,000 and this can be a one-off distribution or spread over four years.

The distribution would firstly be matched with the accumulated income of £25,000 and be subject to Income Tax. The remaining distribution would be matched with the stockpiled gains on a last in first out basis as follows:

	£	£
2017/18	£3,000	3,000
2018/19	(£12,000)	
2019/20	£3,500	Nil (use part of £12,000 b/fwd loss c/fwd £8,500)
2020/21	£2,750	Nil (use part of £12,000 b/fwd loss -c/fwd £5,750)

2021/22	(£4,000)	Add to £5,750 b/fwd- total c/fwd £9,750
2022/23	£1,200	Use part of b/fwd loss £9,750 - c/fwd £8,550
2023/24	£16,000	£7,450 after £8,550 loss b/fwd
2024/25	(12,100)	

The distribution would next be matched with the £7,450 net capital gain from 2023/24. There would be a 20% supplementary charge. The distribution would then be matched with the 2017/18 gain of £3,000 and a 60% supplementary charge applied.

Ben could also use his annual exemption of £3,000 against these gains. The remaining unmatched distribution would be carried forward and matched with future income/gains.

The total tax payable by Ben on a one off distribution would be:

	£
£(50,270-38,000= 12,270) x 20%	2,454
£12,730 x 40%	<u>5,092</u>
Total income tax on distribution	<u>£7,546</u>
CGT due	£
Total gain available for matching	10,450
Less: annual exemption	<u>(3,000)</u>
	<u>£7,450</u>
Tax at 20%	£1,490
Supplementary charge	
£1,490 x 20% x £7,450/£10,450	212
£1,490 x 60% x £3,000/£10,450	256
Total CGT	<u>£1,958</u>

If Ben were to receive the distribution in four payments then the tax would be lower because he would be a basic rate taxpayer for all years whereas the one off payment pushes him into higher rate tax. He would also have the benefit of more than one CGT annual exemption. The annual exemptions plus the 20% income tax savings on the income above the basic rate band would be a greater benefit even though the supplementary charge on the 2023/24 capital gain will increase.

MARKING GUIDE

TOPIC	MARKS
Excluded property trust	0.5
Not UK resident	0.5
Income and Gains not taxable on Settlor	1.0
Property not in Mary's estate for IHT purposes	1.0
If property let then UK filings and Trust Register	1.0
UK property is relevant property	0.5
<i>10 year charge calculation</i>	
Value of relevant property	0.5
Calculate tax rate	1.0
IHT due and date	1.0
2) Ben taxable on distribution	0.5
First matched with income	1.0
CGT matching explanation	1.5
Calculation of tax on one off distribution	
Income tax	1.0
CGT matching	1.5
Supplementary charge calcs	1.5
Conclusion re one-off or four payments	1.0
TOTAL	15

ANSWER 4

Income tax due by the estate

The estate is taxable on all of the untaxed income received during the administration period. However, income from ISAs remains non-taxable until the earliest of the end of the period or administration, closure of the ISA account or three years from the date of death. Therefore no Income Tax is charged on the ISA interest which arose in 2023/24 and 2024/25.

The de minimis amount applies to the estate income for 2024/25 as the taxable income received is below £500. None of the income is therefore taxable on the estate.

The dividends and rental income (taxed on the cash basis) are taxed when they are received.

No personal allowance or dividend allowance is available for executors.

Income Tax calculation for the estate

	2023/24	2024/25	2025/26	
	£	£	£	
Dividends	10,000	200	14,000	
Rental income	15,000	100	10,000	
Tax at 8.75% on dividends	875	-	1,225	
Tax at 20% on rents	3,000	-	2,000	
Total Income Tax due	£3,875	-	£3,225	£7,100

Amounts treated as received by Tabitha

Tabitha received a specific gift of the shares in the Will. This means that she is entitled to the income arising on those shares. The income arising on the shares is taxed firstly on the executors in the year of receipt. When the shares and their income are passed across to Tabitha she will be taxed on the income in the tax years in which it originally arose. She will receive a tax credit for the tax paid by the executors.

R185 for Tabitha

	2023/24	2024/25	2025/26	
	£	£	£	
Dividend income	9,125	-	12,775	
Tax credit	875	-	1,225	
	£10,000	-	£14,000	

Tabitha will also receive a dividend of £200 which arose in 2024/25. This is not taxable on her as the estate de minimis amount applied for 2024/25.

Amounts treated as received by Helen

Helen is entitled to the residue of the estate until 3 March 2025. The administration expenses incurred will be offset against the residuary income available for the residuary beneficiary.

Helen received Simone's watch worth £20,000 on 5 January 2024 and its value is matched with Helens' share of the estate income arising in that 2023/24 tax year. As this exceeds Helen's income entitlement, all of the residuary income for that tax year is treated as paid out to her. The net payment carries a tax credit to reflect the tax paid by the executors.

R185 for Helen

	2023/24	2024/25	2025/26
	£	£	£
Non-savings income	12,000	-	-
Less: expenses	(2,500)	-	-
Net income	9,500	-	-
Tax credit	2,375	-	-
	£11,875	-	-

As no income has been paid out to Helen in 2024/25 the undistributed non-savings income of £100 belongs to the trusts as to 50% to each.

Any income arising after the date of the deed of variation on 3 March 2025 will not belong to Helen.

Reporting the Income Tax to HMRC

The informal procedures will apply to this estate as the criteria set down by HMRC are met. These are that

- No notice to file a tax return has been issued to the executors
- The probate value of the estate is less than £2.5 million
- The proceeds of assets sold in a tax year are less than £500,000; and
- The total Income Tax and Capital Gains Tax (CGT) liability for the administration period is less than £10,000.

Therefore the Executors do not have to register for self assessment and can instead write to HMRC at the end of the administration period. Using the UTR of the deceased, they can set out the tax due and make a payment of the tax due for the whole period.

Deed of variation (DoV) trusts

As the DoV was executed within two years of death and the reading back statements included, s.142 IHTA 1984 provides that for all Inheritance Tax (IHT) purposes both trusts will be treated as set up in the Will of Simone, the deceased and so she will be treated as the settlor.

IHT treatment for DoV trust for wife, Abigail

As this is a life interest trust this will be treated as an immediate post-death interest (IPDI) trust. This means that the trust is not relevant property and will not be subject to the regime of exit and 10-year anniversary charges. The trust is treated as forming part of Abigail's estate for IHT purposes and any appointment of all or part of the trust capital to an individual (other than Abigail) by the trustees will be treated as a potentially exempt transfer (PET) by Abigail.

IHT can be reclaimed by Simone's estate for the amount redirected to the trust for Abigail as the spouse exemption will apply.

IHT treatment for DoV trust for daughter, Jennifer

Jennifer is 17 and at least one of her parents has died. The trust fulfils the requirements for s.71D IHTA 1984, as she has a right to capital on reaching 25 (even though she also has an earlier right to income at age 18). This means that no IHT will be due on capital appointments from the trust before Jennifer reaches 18 or if she dies under that age.

Capital appointments will be chargeable to IHT from when she reaches age 18 until the trust terminates when she reaches age 25 or on her death if earlier. IHT will be calculated with reference to the initial value transferred into the trust using the effective rate multiplied by 30% multiplied by 1/40 for every completed quarter after Jennifer turns age 18, to a maximum of 28/40 when she reaches age 25. The maximum rate that IHT can be charged at is therefore 4.2%.

MARKING GUIDE

TOPIC	MARKS
Requirement 1 – Income Tax	
<i>Income Tax due by the estate</i>	
ISA not taxable and why	1
Estates de minimis applies for 24/25 so no tax on executors	1
Dividends and rents taxed at correct rates and computation for 23/24 and 25/26	1
<i>Amounts treated as received by Tabitha</i>	
Specific gift, entitled to income, describe how taxed, tax credit	2
Estates de minimis applies for 24/25 so no tax on beneficiary of estate	0.5
Dividend with appropriate tax credits in 23/24 and 25/26	0.5
Also entitled to £200 dividend in 24/25 which is not taxable	0.5
<i>Amounts treated as received by Helen</i>	
Expenses set against residue after tax	0.5
Watch distribution matched to income (limited to income)	1
Quantify net income for year treated as paid and carries tax credit	1
Not entitled to £100 non-savings income in 24/25	0.5
Income arising after the date of the DoV is not Helen's	0.5
<i>Reporting the Income Tax to HMRC</i>	
Informal procedures apply and criteria	2.5
Write to HMRC, when and payment under deceased's UTR	1.5
Sub total	14
Requirement 2 - IHT	
<i>IHT treatment of DoVs</i>	
Within 2 years of death/relevant statements/treated as set up by Simone and she is settlor	1
<i>IHT treatment for DoV trust for wife, Abigail</i>	
IPDI and not relevant property/no TYA and exit charges	1
Part of Abigail's estate	0.5
Terminations to an individual are PETs or not a transfer of value if to Abigail	1
IHT can be reclaimed for estate as spouse exempt	0.5
<i>IHT treatment for DoV trust for daughter, Jennifer</i>	
s 71D as will become entitled after 18 and at or before 25	0.5
No IHT on exits or death before 18	0.5
IHT on exits between 18-25 and on termination at 1/40 for each quarter	1
Sub total	6
TOTAL	20

ANSWER 5

Part 1

Cash (14 December 2011)

This was an immediately chargeable lifetime transfer (CLT) and benefits from annual exemptions for 2011/12 and 2010/11 of £3,000 each reducing the chargeable transfer to £94,000. The CLT was covered by the nil rate band of £325,000 and no IHT was due in her lifetime.

The nil rate band will be reduced by £94,000 for the next seven years as it enters Magdalena's cumulative total.

Factory (14 October 2018)

This was a CLT. The factory was held personally but was used by a company that she controlled. Therefore business property relief (BPR) was available at 50% on the CLT in her lifetime. The gift had the benefit of two annual exemptions, 2018/19 and 2017/18. No IHT was due in lifetime as the gift was clearly within the remaining nil rate band.

The gift is retested on death for the availability of BPR. On her death the factory is not being used by a company controlled by the trustees and therefore the BPR is withdrawn.

As the gift was made between 6-7 years before her death, the IHT rate of 40% will be tapered by 80%.

Farmland to disabled persons trust (11 November 2020)

The gift to the disabled persons trust was a potentially exempt transfer (PET) and so there was no immediate charge to IHT on the lifetime transfer. APR was available at 100% of the agricultural value as the gift was of farmland used in a farming business.

The APR position is retested on death and as the farmland is not in agricultural use at that date the APR is withdrawn.

The available nil rate band is not reduced by the cash gift in 2011 as this has now fallen out of cumulation. It is reduced for the lifetime transfer of the factory but is not further reduced by the later withdrawal of the initial grant of BPR as withdrawal of BPR on a CLT does not affect the cumulative total.

The annual exemptions for 2020/21 and 2019/20 will be set against the value on death.

As the gift was made between 4-5 years before her death, the IHT rate of 40% will be tapered by 40%.

Quoted shares (10 May 2022)

BPR was available at 50% on the lifetime transfer as the shares were quoted and from a control holding.

Two annual exemptions for 2022/23 and 2021/22 would have been deducted from the transfer. The nil rate band available on the lifetime transfer was reduced by the CLT of the factory on 14 October 2018.

Magdalena paid the initial IHT and so this is grossed up and charged at 20/80, ie 25%.

On death, the lifetime BPR granted will be withdrawn as the trustees have entered into a binding contract to sell the shares. However, the trustees could reinvest the proceeds within three years and retain the relief.

The gross CLT charged to IHT on death will be the value of the shares plus the IHT paid by Magdalena.

The available nil rate band is reduced for the original value of the lifetime transfer of the factory but not for the amended value after the withdrawal of the BPR as this does not affect the cumulative total for a CLT (see above). The nil rate band is further reduced for the full value of the failed PET to the disabled persons trust as the withdrawal of BPR on a PET does affect the cumulative total.

IHT is due at 40% with a credit given for the tax paid in lifetime.

Unquoted shares (19 June 2023)

BPR was available at 100% on the lifetime gift of the unquoted shares.

As the shares are still held at death, there is no clawback of the BPR granted in lifetime as the company remains unquoted but it is no longer wholly or mainly a 'trading' company.

Part 2

	£	£
Initial value of relevant property		700,000
Addition to trust		<u>1,000,000</u>
		1,700,000
Nil rate band	325,000	
CLTs in previous seven years	<u>(325,000)</u>	
		<u>Nil</u>
		1,700,000
Notional tax at 20%		340,000
Effective rate (£340,000/£1,700,000)		20%
Actual before quarters (Effective rate x 30%)		6%
Actual with quarter reduction ((9-8)/40) (N1)		0.15%
Cash exit £100,000 x (0.15%/(100-0.15))		150

(N1) The addition was made solely in cash and the distribution will be made in cash. As this is the same property the rate is adjusted so that it reflects the time that the cash has been in the trust and no apportionment between the original settled value (of shares) and later cash addition is necessary. The cash will only have been in the trust from 21 June 2025 to 1 December 2025. The numerator of the quarters fraction becomes the number of complete quarters since the trust was created less the number of complete quarters until the cash addition.

MARKING GUIDE

TOPIC	MARKS
IHT consequences of gifts on death	
<u>Cash gift</u>	
Annual exemptions set against value	0.5
Net enters cumulative total for seven years	0.5
<u>Factory gift</u>	
BPR at 50% and why on lifetime transfer	1
Two AEs	0.5
BPR retested at death and withdrawn and why	1
Taper relief available 6-7 years	0.5
<u>Farmland to disabled persons trust</u>	
Gift is a PET	0.5
APR at 100%	0.5
APR withdrawn on death and why	1
Cash gift in 2011 has fallen out of cumulation	0.5
NRB reduced for lifetime gift of factory but not the withdrawal of BPR and why	1.5
Two AEs set against value	0.5
Taper relief available 4-5 years	0.5
<u>Quoted securities from a control holding</u>	
BPR available in lifetime at 50% and why	1
Two AEs set against value	0.5
Tax paid by donor so grossed up at 25%	0.5
Binding contract for sale so BPR withdrawn unless proceeds reinvested w/n three years	1
<u>Gross chargeable transfer ie plus tax charged to IHT</u>	
Gross chargeable transfer ie plus tax charged to IHT	0.5
NRB reduced by failed PET and why	1
IHT at 40% less lifetime tax	1
<u>Unquoted shares</u>	
BPR at 100% on lifetime gift	0.5
Business changed – no clawback	1
Sub total	16
Exit charge	
Initial value correct and excludes BPR;	1
Addition to trust; OR	0.5
Explanation of why it can never be more than 6% for 1.5 marks	
Addition to trust	
Effective rate/Actual rate before quarter reduction	0.5
Reduction for correct quarters and why (full mark will be given if correct but no explanation)	1
Rate grossed up	0.5
Applied to cash exit	0.5
Sub total	4
TOTAL	20

ANSWER 6

The £250,000 loan from the bank secured against his main residence was taken out before 6 April 2013 and therefore the rules in s.162B IHTA 1984 restricting deductions for loans taken out to acquire relievable property do not apply. The debt will be fully deductible against his main residence as the normal rule in s162(4) IHTA 1984 applies.

The £100,000 loan from the bank secured against his letting portfolio is caught by the rules in s162B IHTA 1984, as the loan was taken out after 6 April 2013 to acquire property which qualified for business property relief. Half of the shares acquired were gifted to his son more than seven years ago as a PET which he survived by seven years and so became an exempt transfer. As no deduction was taken for the loan at the time then, half of the loan can be deducted in his death estate, against the property. Half of the shares were gifted to a trust as a chargeable lifetime transfer and so a deduction for half of the loan would have been taken at that time. Therefore the total deduction available in his death estate is £50,000 against the value of the letting portfolio.

A deduction is available for the £150,000 loan to purchase the property in Canada secured against the stock market portfolio. Mandeep is deemed domiciled in the UK and this is not excluded property so there is no restriction on the deduction.

Part 2

The disposal of the UK residential property is chargeable to UK Non-Resident Capital Gains Tax (NRCGT), even though the trust is non-resident.

There are three methods for calculating the gain:

1. The default method requires the property to be rebased to 5 April 2015. The value at 5 April 2015 will be used as the base cost in the disposal calculation.
2. The straight line apportionment method requires the original cost to be deducted from the proceeds in the normal way with the resulting gain time apportioned with only the proportion relating to 5 April 2015 onwards being chargeable to CGT.
3. The retrospective method again requires the original cost to be deducted from the proceeds in the normal way. The whole gain is then chargeable to CGT. As a significant gain over base cost has been made then the retrospective method will not be used.

Unless the Trustees want the default method to apply, they must make an election for straight line apportionment. Which they chose will depend on which has the smallest gain.

The trustees are assessed to NRCGT on the gain accruing from 6 April 2015. The gain that accrued prior to that date will fall into the capital gains pool and will be matched against later capital distributions made to UK resident beneficiaries.

As Sharan is UK resident and has occupied the property as her main residence for the two years before disposal, the trustees can claim PPR relief for that period in the main body of their tax return.

The Trustees must file a NRCGT property return and pay any CGT arising within 60 days of completion ie by 5 December 2025.

MARKING GUIDE

TOPIC	MARKS
Deduction of liabilities	
Deduction against main residence available for £250k loan to buy AIM shares and why	1.5
Teapot shares CLT – no deduction for debt	1
Teapot shares PET – deduction available as not previously taken into account	1.5
Deduction for the loan to acquire Canadian property against stock market portfolio and why	1
Sub total	5
Residential gain chargeable to CGT even though trust is NR	0.5
Default method and explain	0.5
SLA method and explain	0.5
Retrospective method explain and note not suitable	1
Election and basis on which they will choose	1
Pre-2015 gains added to pool for matching to distributions	0.5
PPR claim possible	0.5
NRCGT return and time limit	0.5
Sub total	5
TOTAL	10