



Chartered  
Institute of  
Taxation  
Excellence in Taxation

# **The Chartered Tax Adviser Examination**

May 2019

Suggested solutions

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## **Module B Inheritance Tax, Trusts & Estates**

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1)

	£	
Estate value	1,000,000	
Charitable legacy	<u>(80,000)</u>	
Chargeable estate	920,000	
Residence NRB	(125,000)	
Normal NRB	<u>(325,000)</u>	
Taxable	<u>470,000</u>	1

Baseline amount      £(470,000 + 80,000 + 125,000) = £675,000 x 10% = £67,500      1 + 1 + 1  
£80,000 >£67,500

IHT: 36% x £470,000      £169,200      1\*

*\*Using 36% rate but applying to correct amount (ie after deduction of charitable legacy)*

2)

14 February 2019	Gift to son on occasion of marriage	
	Marriage exemption £5,000	1
	Annual exemption 2018/19 £3,000	
	Annual exemption 2017/18 b/f (unused) £2,000	1
1 April 2019	Gift to friend	
	Remainder of 2017/18 annual exemption £1,000	1
15 April 2019	£200 to each grandchild	
	Covered by small gifts exemption as no more than £250	1
School fees	Likely to be covered by the normal expenditure out of income exemption as her income is considerably higher than the amount regularly paid.	1

3)

**Any shareholding in an unquoted trading company** is relevant business property so the investment in Bigloz Ltd would qualify.      2

The investment in Carpt Ltd would not qualify as it is an investment company.      1

For a quoted trading company, shares only qualify as relevant business property if it is a controlling holding, so an investment in a 3% holding of Delk Ltd would not qualify.      1

Further condition: the combined period of ownership of the original and the replacement asset would need to be at least two of the five years preceding a subsequent transfer.      1

4)

	£	
Lifetime gift 1 July 2016	440,000	
AE x 2	<u>(6,000)</u>	
	434,000	
NRB 2016/17	<u>(325,000)</u>	
Chargeable	<u>109,000</u>	1
IHT 25%	£27,250	1
Gross chargeable transfer	461,250	1
NRB at death 2018/19	<u>(325,000)</u>	
Chargeable	136,250	
Death charge x 40%	54,500	1
IHT paid lifetime	<u>(27,250)</u>	1
Payable by trustees	<u>£27,250</u>	

5)

	<b>Non savings</b>	<b>Dividends</b>	
	£	£	
Income	16,000	4,000	
Management expenses			
£1,480 x 100/92.5		<u>(1,600)</u>	1
	16,000	2,400	
£1,000 taxed at 20%	200	}	
£15,000 at 45%	6,750		1
£1,600 @ 7.5%	120		
£2,400 at 38.1%	<u>914</u>		
Total due on income	7,984		
Tax pool deficit	<u>1,391</u>		1
TOTAL payable	<u>£9,375</u>		
Tax pool	£		
Balance b/f	2,200		
Tax paid by trust in year (£7,984 – £120)	7,864		1
Tax credit to beneficiaries			
£14,000 x 45/55	<u>(11,455)</u>		1
Deficit	<u>(1,391)</u>		

6)

The hire purchase liability is legally enforceable and so deducted in full from the value of the car in the death estate. 1

Additional administration costs in relation to overseas property can be deducted from the value of the property in the death estate, but only up to a maximum of 5% of the value of the property. Therefore the maximum deduction will be 5% x £45,000. 2

As the gift to the friend was only verbally agreed, it is not legally enforceable and so not deductible in the death estate. 1

Reasonable funeral costs are an allowable deduction in the death estate. 1

7)

In August 2013, unless Karina's domicile had been changed by choice, she would not be deemed UK domiciled as she would not have been UK resident for at least 17 out of the previous 20 years. 2

Therefore, at the date of Ismail's death, this would mean that his legacy was to a non UK domiciled spouse and the spouse exemption would have been capped at £325,000. 1

This cap could have been avoided at that point if Karina had made an election to be treated as UK domiciled for Inheritance Tax purposes. 1

In February 2019, as she has been UK resident since 2001, she would be deemed UK domiciled 1

A UK domiciled individual is subject to UK Inheritance Tax on worldwide assets, whereas a non-UK domiciled individual would only be subject to UK Inheritance Tax on assets situated in the UK. 1

Max 5

8)

The shares need to be valued taking into account both the related property rules and the diminution in value principle.

The only related party here is her spouse, not her daughter. 1

The diminution in value principle means we need to consider the value of her total shareholding before and after the gift, rather than simply valuing the shares being given away. 1

	<b>Before</b>	<b>After</b>	
Petra	4,000	2,500	
John	<u>3,000</u>	<u>3,000</u>	
Combined holding	7,000 = 70%	5,500 = 55%	1
Value per share	£125	£110	
Petra's shares	4,000 x £125		
	£500,000		1
		2,500 x £110	
Value of gift (£500,000 – £275,000)		£275,000	
	£225,000		

Value of gift ignoring related property would be £167,500 (£330,000 – £212,500)so higher valuation is used. 1

*\*If calculate any other value (using diminution in value but ignoring the related party points or getting the related party point incorrect) this mark will be awarded for comparing the two*

9)

When the gift of the cottage was made to Michael's son in 2014 it would have been a potentially exempt transfer (PET) and so it did not incur an immediate IHT liability at that time, but it would be reduced by available annual exemptions. 1

However, Michael's right to continue to use the cottage without paying for that use would mean that it was also a gift with reservation (GWR). 1

As Michael ceased to use the property, the reservation was lifted in August 2016. This would create a further PET made at this date, but with no annual exemptions being offset against the value. 1

As Michael died within seven years of these PETs they both become chargeable on his death. 1

The charge would be based on the August 2016 value of £580,000 rather than the 2014 value of £410,000 (less annual exemptions), as the PET generates the higher tax charge. 1

10)

		<b>Residential</b>	<b>Non-Residential</b>	
		<b>£</b>	<b>£</b>	
Commercial property:	£			
Proceeds	400,000			
Cost	<u>(280,000)</u>			
Gain	120,000		120,000	1
Residential property:				
Proceeds	210,000			
Cost = MV Feb 1996	<u>(85,000)</u>			
Gain		125,000		1
Capital loss b/fwd		(8,900)		1*
AEA		<u>(5,850)</u>		1*
Taxable gain		<u>110,250</u>	<u>120,000</u>	
CGT at 28% / 20%		<u>£30,870</u>	<u>£24,000</u>	1

*\*Award just 1 of these 2 if not clearly set against residential rather than non-residential*

11)

The transfer to the nephew is a PET – as no Inheritance Tax is due on this transfer, no return needs to be submitted. 1

The chargeable transfer to the trust should have been declared on form IHT100, which was due to be submitted within 12 months of the end of the month of transfer, i.e. by 31 August 2018. 1

An initial late filing penalty will be due of £100. 1

As the return is more than three months late, daily penalties of £10 per day for a maximum of 90 days will also be due. 1

Once the return is more than six months late (1 March 2019), an additional penalty of 5% of the Inheritance Tax also becomes due (minimum charge of £300). In this case this amounts to £390 (£7,800 x 5%). 1

12)

		£	
Initial value of relevant property		500,000	
Initial value of relevant property of related trust	<i>Not related as not set up on same date</i>	-	
		500,000	1
Nil rate band 1 May 2019	325,000		
Chargeable transfers made by Settlor in 7yrs prior to 1 May 2017			
18 November 2015	<u>(100,000)</u>	<u>(225,000)</u>	1*
		275,000	
Notional IHT at 20%		55,000	1
Effective rate	$55,000 / 500,000 \times 100\%$	11%	1
Actual rate	$\text{Effective rate} \times 30\% \times n/40$ $11\% \times 30\% \times 8/40$	0.66%	1

*\*Only awarded if use only the CLT and ignore the PET*