The Chartered Institute of Taxation

Advanced Technical

Inheritance Tax, Trusts & Estates

May 2026

Suggested answers

Answer 1

From April 6, 2025, the UK has changed from a domicile-based system to a residence-based system for determining liability for Inheritance Tax (IHT). Under the new rules, an individual is considered a long-term UK resident if they have been tax resident in the UK for at least 10 out of the previous 20 tax years.

Once classified as a long-term resident (LTR), an individual becomes liable for IHT on their worldwide assets, regardless of their domicile status. This means that transfers of overseas assets, whether during the individual's lifetime or upon their death, will fall within the scope of UK IHT.

There is also a "tail" period, which is the duration for which an individual remains within the scope of UK IHT after ceasing to be a UK resident. The length of this tail period varies based on the length of prior UK residence. For example, if an individual has been UK tax resident for between 10 and 13 out of the last 20 tax years, they will have a 3-year tail. The tail length increases by one year for every additional year of UK residence, up to a maximum of 10 years.

When an individual is a LTR their trusts also fall within the relevant property regime and are subject to ten year charges and exit charges. Once the individual ceases to be LTR the trust also ceases to be a relevant property trust. However, if the settlor dies whilst a LTR the trust will remain a relevant property trust for the duration of its existence.

George became UK resident on 6 April 2018 and therefore he has been resident for nine UK tax years including the 2026/27 tax year. He is not currently regarded as long term resident in the UK and therefore if he ceased to be UK resident on 5 April 2027 his foreign assets would be outside the scope of UK Inheritance Tax (IHT) and he would not have an IHT tail on leaving the UK.

George's UK property is within the scope of UK IHT and this would continue if he retains his UK home after leaving the UK. The IHT if George were to cease to be UK resident at 5 April 2027 whilst retaining his UK home would be as follows:

	£
UK property	1,000,000
Less:	
Nil rate band	(325,000)
Residence NRB*	(175,000)
Net estate	£500,000
IHT @ 40%	£200,000

The RNRB is available as his UK home is closely inherited and the foreign property is excluded property and therefore not taken into account for tapering purposes. IHT would be due six months from the end of the month of death.

If George remains in the UK post 5 April 2027 but dies after 5 April 2028 he will have been UK resident for 10 of the previous 20 UK tax years and therefore would be a long term resident (LTR) of the UK from 6 April 2028. This means that his worldwide assets would be subject to IHT on his death.

The IHT due on his death would be as follows:

	£
Total Estate	3,050,000
Less:	
Nil rate band	(325,000)
Net estate	£2,725,000
IHT @ 40%	£1,090,000

No residence nil rate band would be available as his gross estate exceeds £2.35 million.

As George is a LTR, his Trust would also become a relevant property trust from 6 April 2028. This means that the trust would be subject to IHT exit charges and ten year charges at a rate of up to 6%. If George were to cease to be UK resident on 5 April 2028 he would remain a LTR for a further three years and would cease to be a LTR on 6 April 2031.

During that period he would be subject to IHT on his worldwide assets and the trust would be subject to a ten year charge on 1 December 2030 and an exit charge on 6 April 2031. Since the trust would only have become a relevant property trust on 6 April 2028 the exit and ten year charges would be pro-rata to reflect the fact that the trust has not been within the relevant property regime from inception.

These IHT charges would be as follows:

IHT charge 1 December 2030		**£**
Current value of relevant property		1,000,000
Nil rate band		(325,000)
		675,000
Notional Tax @ 20%		135,000
Effective Rate	£135,000/£1,000,000	13.5%
Actual rate*	13.5% x 30% x (40-29/40)	1.1137%
Tax due	£1,000,000 x 1.1137%	£11,137

*Rate adjusted for complete quarters before the trust became a relevant property trust on 6 April 2028

The IHT is due on 30 June 2031.

IHT charge due on George ceasing to be a LTR on 5 April 2031		
Effective Rate- per 10 year charge		13.5%
Actual rate	13.5% x 30% x 1/40	0.101%
Tax due	(£1,050,000 - £11,137) x 0.101%	£1,049

The Inheritance tax is due on 31 October 2031.

MARKING GUIDE

	Marks	**Tolley chapter**
Explanation of LTR rules post April 2025 10/20 years	0.5	
Trust continue to be a relevant property trust if die whilst LTR	0.5	
Not currently LTR	0.5	
Cease residence before 5 April 2027 foreign assets outside scope of IHT	0.5	
No IHT tail	1.0	
UK property still within scope of IHT	1.0	
IHT exposure on UK assets, nil rate band 0.5, IHT calc 0.5	1.0	
IHT due date of death	0.5	
Residence NRB and explanation	1.0	
Remains in UK post April 2027		
Will be LTR	0.5	
Worldwide assets subject to IHT	0.5	
IHT calc	1.0	
No RNRB	0.5	
Trust would become a relevant property trust	1.0	
Three year tail on leaving the UK	1.0	
Subject to IHT on worldwide assets during the three years	0.5	
Trust would remain relevant property for 3 years if left in April 2028	1.0	
Ten year charge calc		
Notional tax x 20%	1.0	
Effective rate	0.5	
Actual rate	0.5	8.4
No of complete quarters before became relevant property	1.0	
Calculate actual rate	0.5	
Calculate tax due	0.5	
Tax due date	0.5	
Exit charge:		
Effective rate- per ten year charge	0.5	
No of complete quarters	1.0	
Calculate actual rate	0.5	
Calculate tax due	0.5	
Tax due date	0.5	
TOTAL	**20**	

Answer 2

1) The trust is not UK resident as the corporate trustee is resident in Jersey and therefore the trust would be regarded as Jersey resident for UK tax purposes. As a non-UK resident trust it is therefore only subject to UK Income Tax (IT) on UK source income and Capital Gains Tax (CGT) on gains realised on UK real property or UK property rich company disposals.

   Prior to April 2025 the income and gains of the trust would have been "protected" and therefore not taxable on Balraj because all the assets were foreign and Balraj was not UK domiciled or deemed domiciled when the trust was created. However, since April 2025 the trust protections have been removed.

   A trust is settlor interested for IT purposes if the settlor or their spouse can benefit. Therefore this Trust is settlor interested for IT purposes because Balraj's wife is a beneficiary. Balraj is assessed under s.624 ITTOIA 2005 on the income of the trust as if it is his own income. The £8,000 of income in 2025/26 will be taxable on Balraj and will not form part of the relevant income pool. There is a right to reimbursement from the trust for the IT paid by him.

   The trust is settlor interested for CGT purposes includes if the settlor or the settlor's spouse can benefit from the trust. Therefore, capital gains are assessable on Balraj under s.86 TCGA 1992. Balraj would have a statutory right to reimbursement of the CGT paid from the trustees.

2) A distribution received by a UK resident such as Daniel is subject to UK tax to the extent that there is accumulated income or there are undistributed gains (stockpiled gains) in the trust.

   The UK anti-avoidance rules state that where a trust is set up with a UK tax avoidance motive a distribution to a UK resident beneficiary would first be matched with any undistributed accumulated income in the trust and taxed to IT on the beneficiary. This is likely to be the case for this trust as there was a UK tax avoidance motive for the creation of the trust.

   Once the accumulated income in the trust has been exhausted then the remaining distribution is matched with realised gains in the stockpiled gains pool. Any distribution matched to the stockpiled gains pool is subject to CGT on the beneficiary. The distribution is matched to gains on a last in first out basis. Once a capital gain has remained in the trust for more than one year after the tax year in which the gain is realised there is a supplementary charge imposed which will increase the effective CGT rate for the beneficiary on the distribution by 10% of the standard CGT rate (up to a maximum of six years thus 60%) for each year the capital gain has remained in the trust.

	£	£
Distribution matched to income*	27,000	
Less Personal Allowance	(12,570)	
	14,430	
£14,430 x 20%		
Total Income Tax		**2,886**
Distribution matched to capital gains	24,025	
Less annual exemption	(3,000)	
	21,025	
Tax at 18% x £21,025	3,784	
Total CGT charge		**3,784**

Loss in 25/26 carried forward for use by Balraj against future trust gains attributed to him.

	£
Supplementary charge	
Matched to 2024/25 gains 20% charge (£15,000-£6,500 c/fwd loss)	8,500
Matched to 2022/23 gains 40% charge	3,525
Matched to 2021/22 gains 50% charge	12,000
£(8,500/24,025 x 3,784)	1,338 x 20% = £267
£(3,525/24,025 x 3,784)	555 x 40% = £222
£(12,000/24,025 x 3,784)	1,891 x 50% = £945

Summary	£
Income Tax charge	2,886
Total CGT due	3,784
CGT supplementary charge	267
CGT supplementary charge	222
CGT supplementary charge	945
Total tax due 31 January 2028	**£8,104**

The remaining £8,975 (£60,000 – (£27,000+£24,025)) of distribution is currently unmatched and carried forwards until such time income or gains are added to the pools.

* Income does not include the £8,000 taxable on Balraj in 25/26. Income for subsequent years will also be taxable on Balraj whilst he is UK resident and not available to match with a distribution to a beneficiary.

MARKING GUIDE

	Marks	**Tolley chapter**
Trust non UK res /Trustees not taxable on foreign income	1.0	IHTTE 20.4
Only taxable on gains real property and property rich cos	0.5	IHTTE 21.1
Settlor interested definition Income Tax	1.0	IHTTE 20.4
Balraj taxable on income	0.5	IHTTE 20.4
Right to reimbursement	0.5	IHTTE 20.4
Why trust settlor interested CGT	0.5	IHTTE 21.7
Balraj taxable on capital gains	0.5	IHTTE 21.7
Right to reimbursement	0.5	IHTTE 21.7
Sub-total	5	
Distribution to Daniel		
No motive defence	0.5	
Match distribution first to income	1.0	IHTTE 20.1
Remaining distribution matched in capital gains	1.0	IHTTE 21.8
Explanation re matching	1.0	
Explanation re Supplementary charge	1.0	IHTTE 22.1
Gains of 25/26 not form part of S87 pool	0.5	
Relevant income of 25/26 not form part of relevant income pool	0.5	
Income tax calc	1.0	IHTTE 20/21/22
CGT calc	1.0	
Supplementary charge due	1.5	
Total tax due	0.5	
Remaining distribution unmatched	0.5	
Sub-total	10	
TOTAL	**15**	

Answer 3

1. With Hannah's condition the most suitable trust for her benefit would be a disabled person trust, which can be set up by:

   - A parent or guardian of the disabled individual, or anyone else
   - The disabled individual themselves, if they have the legal capacity

   Hannah must meet the definition of a disabled person, which is:

   a) someone who by reason of mental disorder within the meaning of the Mental Health Act 1983, is incapable of administering their property or managing their affairs; or
   b) a person in receipt of:
      - attendance allowance
      - a disability living allowance by virtue of entitlement to either:
      - the care component at the highest or middle rate, or
      - the mobility component at the higher rate
      - personal independence payment
      - disability assistance for working age people, by virtue of entitlement to either:
      - the daily living component at the standard or enhanced rate, or
      - the mobility component

      (a full list of the categories is in s.1 Finance Act 2005 Schedule 1A)

   For the trust to meet the Income Tax (IT), Capital Gains Tax (CGT) and Inheritance Tax (IHT) qualifying conditions it must be an interest in possession trust (IIP) for the disabled person or a discretionary trust where no other beneficiary is entitled to have income applied for their benefit during the lifetime of the disabled person.

   Non-disabled beneficiaries may have trust capital applied for their benefit up to £3,000 per annum or 3% of the trust capital if lower. Therefore Grace can be a beneficiary of the trust provided her ability to benefit is restricted.

   To meet the qualifying conditions for IT and CGT Hannah must meet the definition of a disabled person (as above). For IHT purposes additionally the settlor can self-settle a trust for themselves at a time when they have a condition which it is reasonable to expect will lead them to becoming a disabled person.

   Therefore it would be possible for Hannah to self- settle a disabled person trust if she is expected to meet the definition in the future. Brian couldn't settle a disabled person trust if Hannah doesn't currently meet the definition.

   CGT holdover relief wouldn't be available if Brian settled chargeable assets. However, s260 TCGA 1992 holdover would be available if Hannah self-settled chargeable assets.

2. For IT and CGT purposes the trustees and the beneficiary (or an appointed person acting on their behalf) can jointly make a "vulnerable person election" using form VPE1 within 12 months following the normal filing date for the first return it applies to. If not made, the trust is taxed using normal trust rules. The election is irrevocable but ends when the beneficiary ceases to qualify as a vulnerable beneficiary. The trustees must inform HMRC at that point.

   The trustees can decide each tax year whether or not to claim "Special tax treatment" on trust income and gains. This claim is made on the trust tax return.

   The claim allows the trustees to stand in the shoes of the beneficiary and be taxed as if the beneficiary had received the trust income/gains personally. Any discretionary trust income distributed to a discretionary beneficiary is treated as net of 45% tax for which the trustees must account for under normal rules i.e. utilising the tax pool. This can result in an increase in the liability to tax on the trustees so they have the option to elect for special tax treatment not to apply.

The special IT treatment cannot apply if the trust is settlor interested trust and the income will be assessed firstly on the trust and secondly on the settlor who may take a credit for the trust tax paid. However, a settlor interested trust will still qualify for special CGT treatment.

For IHT purposes, a disabled person's trust is not a relevant property trust and not subject to the ten year anniversary or the exit charge. A transfer into a disabled person's trust by a person, such as Brian, who is not a disabled person, will be a potentially exempt transfer. A transfer by the settlor into a self-settled disabled person's trust during their lifetime is not treated as a transfer of value.

The trust is taxed as though it were a qualifying IIP i.e. trust capital aggregated with the disabled person's estate on death.

The special CGT treatment doesn't apply in the year of death. The special IT treatment can apply in the year of death until the date of death.

The trustees must withdraw the election within 90 days if the trust is no longer for a vulnerable person.

MARKING GUIDE

	Marks	**Tolley chapter**
1. Who can set up	1.0	
Who qualifies		
Mental health disorder	0.5	IHTTE 13.5
Benefits test	0.5	
Examples of benefits 0.5 each (max 1.5)	1.5	
Qualifying conditions		
Can be IIP or discretionary	0.5	IHTTE 13.5
Income only to disabled person	0.5	
£3k or 3% capital to non-disabled beneficiary	1.0	IHTTE 13.1
Beneficiary qualifying conditions		
Meet definition of disabled person	0.5	
Self-settle in anticipation	1.0	IHTTE 13.8
CGT on settling assets	1.0	
	8	
2.		
VPE, joint	1.0	
Effect of election	0.5	
Election deadline	0.5	IHTTE13.4
Annual claim	0.5	
Tax treatment if election not made	1.0	
IHT		
No entry/exit/ten year charges	1.0	IHTTE 13.7
PET	0.5	
Part of estate on death	0.5	
Special treatment does not apply in year of death CGT	0.5	IHTTE 13.4
Income tax treatment until date of death	0.5	
Withdraw election within 90 days	0.5	IHTTE 13.4
	7	
TOTAL	**15**	

Answer 4

Inheritance Tax calculation

Failed Potentially Exempt Transfers (PETs) – Lifetime Gifts:

15 March 2020

	£
Gift to Josh of Partnership share	50,000
Less: Agricultural property relief/Business property relief (APR/BPR)	(Nil)
PET now chargeable	50,000
Less: Nil rate band (NRB)	(50,000)
PET taxable on death	£Nil

Note: No Annual Exemption can be claimed as it was already used by the gift made each 6 April. There is no APR or BPR due as while APR or BPR would have been available at the date the gift was made, Josh did not reinvest in a qualifying replacement asset when he left the partnership as he used the monies from his partnership share to buy a house to live in. The gift therefore used £50,000 of the £325,000 nil rate band (NRB) and so £275,000 NRB is carried forward.

	£
Gift to Tom of Partnership interest	50,000
Less: APR/BPR	(50,000)
PET now chargeable	Nil
Less: NRB	N/A
PET taxable on death	£Nil

Note: Tom was still in the trading partnership at the date of Alex's death and so APR remains available on the failed PET. NRB carried forward remains £275,000.

	£
Gift to Layla of Partnership interest	50,000
Less: APR/BPR	(50,000)
PET now chargeable	Nil
Less: NRB	Nil
PET taxable on death	£Nil

Note: Layla reinvested the monies from her partnership share into replacement business assets. Even though the original PET was given 100% APR in priority to BPR it qualified for 100% BPR and so the replacement business asset within three years of selling the original asset means that BPR is available on the failed PET. NRB carried forward remains at £275,000.

23 April 2024

	£
Gift to Josh of AM Contracting Ltd shares	230,000
Less: BPR	(230,000)
PET now chargeable	Nil
Less: NRB	Nil
PET taxable on death	£Nil

Note: No Annual Exemption can be claimed as it was already used by the gift made each 6 April. Josh has retained his shares in AM Contracting Ltd and the company remains unquoted, so BPR is available in full at Alex's death. NRB carried forward remains £255,000.

27 December 2024

	£
Gift to Layla for wedding	25,000
Less: wedding exemption - daughter	(5,000)
PET now chargeable	20,000
Less: NRB	(20,000)
PET taxable on death	£Nil

Free Estate on death:

	£	£
87.5% share in Moore Farming Partnership		1,050,000
Less: APR (Note 1)		(1,050,000)
40% shareholding in AM Contracting Co Ltd		200,000
Less: BPR (Note 2)		(200,000)
Barn (Note 3)		105,000
Riverside Farmhouse		230,000
Less: APR (Note 4)		(185,000)
Commercial rental units		600,000
Cash & chattels		65,000
Less: Liabilities		(5,000)
Chargeable Estate		810,000
Nil rate band at death	325,000	
Less chargeable transfers in 7 years before death	(70,000)	
Transferrable NRB from Steph	325,000	
Residence nil rate band & transferable residence nil rate band (Note 5)	45,000	
Nil rate bands		(625,000)
Taxable estate		185,000
IHT at 40% due 31 October 2026		£74,000

Note 1 – an interest in a partnership:
The partnership assets are agricultural land, a grain store and a barn which are all used in the trade of the partnership. The agricultural value is equivalent to the probate value and so 100% APR is available on death.

Note 2 – shares in an unquoted trading company:
AM Contracting Ltd is an unquoted trading company the shares in which have been held for more than two years. All the assets are used in the business so there are no excepted assets to consider and there is no binding contract for the sale of the shares in place. The shares qualify for 100% BPR.

Note 3 – Barn used by AM Contracting Ltd:
This is an asset used in Alex's personal trading company. However, as he has gifted 60% of the shares to Josh before his death he no longer controlled the company and the barn does not therefore qualify for 50% BPR.

Note 4 – Riverside Farmhouse:
APR is available on the farmhouse provided the farmhouse is of a character appropriate to the farm, and it is occupied and used for the purposes of agriculture. There is common occupation of the farmland and farmhouse. APR is available on the agricultural value only. BPR is not available on any market value premium.

Note 5 – Residence nil rate band (RNRB) and transferrable residence nil rate band (TRNRB):
Alex left the farmhouse to a direct descendant and so a claim for RNRB can be made on the estate. The amount of RNRB is the lower of the value of chargeable property transferred or the residential enhancement. The chargeable property transferred is the value of the farmhouse £230,000 less APR of £180,000 = £45,000.

The residential enhancement is £175,000. Steph did not use her RNRB and so 100% of her residential enhancement is available to transfer = £175,000, Alex's Estate is over £2million at £2,245,000. Residence nil rate band is therefore tapered – 0.5 x (£2,245,000 - £2million) = £122,500 so £350,000 (which is 2 x £175,000) - £122,500 = £227,500.

As £45,000 is lower than £227,500 only £45,000 can be relieved against the Estate.

MARKING GUIDE

	Marks	**Tolley chapter**
Available nil rate band		
No AE available on lifetime gifts as already used	1	2 IHTTE - IHT 2.2
Gift to Josh – failed PET using NRB	1	6 IHTTE - IHT 6.2
Gift to Tom – failed PET but covered by APR	1	10 IHTTE - IHT 10.2
Gift to Layla – failed PET but covered by BPR - & reasoning	1.5	10 IHTTE – IHT 10.2
Gift to Layla – failed PET with wedding exemption	0.5	2 IHTTE - IHT 2.2
Gift to Josh of shares – failed PET but covered by BPR	1	10 IHTTE – IHT10.2
General comment on replacement assets still being in use at death and within correct timescale	1	10 IHTTE – IHT 10.2
Transferrable NRB from spouse	0.5	13 IHTTE – IHT 13.1
RNRB transferrable from spouse	0.5	13 IHTTE – IHT 13.7
RNRB restricted as over £2m	1	13 IHTTE – IHT 13.6
RNRB calculation of tapered allowance	2	13 IHTTE – IHT 13.6
RNRB Reduce value of residence by APR	1	13 IHTTE – IHT 13.5
Lower of tapered allowance and chargeable transfer value of residence claimed against death estate	1	13 IHTTE – IHT 13.5
Death Estate		
APR on partnership share in full (AV same as MV and all underlying assets used for the purposes of agriculture)	1	9 IHTTE – IHT 9.6
BPR on company shares, unquoted	1	7 IHTTE – IHT 7.2
No BPR on barn as not controlling holding	1	7 IHTTE – IHT 7.3
APR farmhouse up to AV only – 100%, no BPR	1	9 IHTTE – IHT 9.8
Comment that APR available on farmhouse as occupied for the purposes of agriculture, subject to character appropriate, common occupation conditions	2	9 IHTTE – IHT 9.8
Tax at 40%	0.5	12 IHTTE – IHT 12.3
Due date for payment	0.5	12 IHTTE – IHT 12.4
TOTAL	**20**	

Answer 5

(1)

Income Tax:

		2023/24		**2024/25**		**2025/26**
Rental profit		10,650		9,800		1,835
Less: deductible loan interest		(1,750)				
Taxable non-savings income – NSI		8,900		9,800		1,835
Bank interest - SI		6,700		6,000		2,000
Dividends - DI		2,750		3,275		400
Taxable Estate Income		**18,350**		**19,075**		**4,235**
Tax at 20% - NSI		1,780		1,960		367
Tax at 20% - SI		1,340		1,200		400
Tax at 8.75% - DI		241		287		35
Total tax payable		**3,361**		**3,447**		**802**
Net NSI		7,120		7,840		1,468
Already paid to Max		(1,300)		0		0
Remaining net NSI		5,820		7,840		1,468
Net SI		5,360		4,800		1,600
Net DI		2,509		2,988		365
		Max	**Dean**	**Evie**	**Jack**	
2023/24 R185 entry:						
Net NSI		1,300				
Tax NSI		325				
2025/26 R185 entries:						
Each beneficiary entitled to 1/4						
Total net NSI		16,428				
¼ entitlement		4,107	4,107	4,107	4,107	
Less already received		(1,300)				
Net R185 NSI		**2,807**	**4,107**	**4,107**	**4,107**	
Tax R185 NSI		**701**	**1,026**	**1,026**	**1,026**	
Total net SI		11,760				
¼ entitlement		2,940	2,940	2,940	2,940	
Net R185 SI		**2,940**	**2,940**	**2,940**	**2,940**	
Tax R185 SI		**735**	**735**	**735**	**735**	
Total net DI		5,862				
¼ entitlement		1,466	1,466	1,466	1,466	
Net R185 DI		**1,466**	**1,466**	**1,466**	**1,466**	
Tax R185 DI		**141**	**141**	**141**	**141**	

The executors are not entitled to a personal allowance and are taxable at the basic rates of tax.

The loan interest is tax deductible against the non-savings income as it was paid within 12 months of death.

The dividend income from the ISA holdings is not taxable and so does not form part of the Income Tax computation or R185 income.

The beneficiaries of the estate did not receive a specific legacy and so R185s are prepared only when they receive a distribution (of income or capital) from the estate or at the end of the administration period.

Max will have received an R185 for the 2023/24 tax year and will also receive an R185 for the 2025/26 tax year marking the end of the administration period. The other three beneficiaries will receive an R185 for the 2025/26 year only as they did not receive a distribution of either income or capital prior to the end of the administration period.

(2)

As the tax liability for the whole of the administration period is more than £10,000 and the sale proceeds of Alison's home sold by the executors in the 2023/24 tax year was more than £500,000, the estate is regarded as complex by HMRC.

Therefore, the executors should have registered the estate on the Trust Registration Service by 5 October 2024, to receive a Unique Taxpayer Reference (UTR) and completed annual tax returns for the period of the estate administration.

In addition, as there was Capital Gains Tax (CGT) payable on the sale the executors should have submitted an online CGT return within 60 days of completion i.e., by 1 April 2024 and paid the CGT on that date.

The annual tax returns should have been/be submitted by 31 January following the end of the tax year, so 31 January 2025 for 2023/24, 31 January 2026 for 2024/25 and 31 January 2027 for 2025/26. The final tax return will specify the date that the estate was wound up, being 31 May 2025.

Income tax was initially payable on 31 January 2025 for 2023/24 with payments on account due on 31 January 2025 and 31 July 2025 for 2024/25 with a balancing overpayment on 31 January 2026 being set against the first payment on account due for 2025/26 due 31 January 2026. It is likely that this could be reduced based on the tax due for 2025/26 and that a refund could be claimed on submission of the return before 31 July 2026 making the July 2026 payment unnecessary.

MARKING GUIDE

	Marks	Tolley chapter
Income tax		
Split into tax years (3) & income types	1	25 IHTTE – TE 25.2
Offset IHT interest against NSI 2023/24	0.5	25 IHTTE – TE 25.4
Exclusion of ISA income	0.5	25 IHTTE – TE 25.4
Correct tax rates	1	25 IHTTE – TE 25.4
No personal allowance	0.5	25 IHTTE – TE 25.4
Max – R185 2023/24	0.5	26 IHTTE – TE 26.3
Amounts available for distribution at end of administration period -1/4 each, (3 sources) – less net income already distributed from NSI – Max	1.5	26 IHTTE – TE 26.3
R185 figures for Max, 25/26 NSI	1	26 IHTTE – TE 26.3
R185 figures for other three - 25/26 NSI	0.5 (same figures so only counted once)	26 IHTTE – TE 26.3
R185 figures for all including Max 25/26 SI	1 ("")	26 IHTTE – TE 26.3
R185 figures for all including Max 25/26 DI	1 ("")	26 IHTTE – TE 26.3
Subtotal	**9**	
Reporting requirements		
Complex estate due to total tax > £10K/proceeds > £500K	1	25 IHTTE – TE 25.9
Needs to be registered with HMRC TRS to obtain UTR – date	1	25 IHTTE – TE 25.4
Online CGT return – date submission & payment	1	21 IHTTE – TE 21.2
Tax returns required & due dates	1	25 IHTTE – TE 25.4
Payment dates, initial BP, POA 1 & 2, BP offset 1st POA, early submission refund	2	25 IHTTE – TE 25.4
Subtotal	**6**	
TOTAL	**15**	

Answer 6

(1)

Abbas had no wife, civil partner or children and so would only be entitled to nil rate band of £325,000. He is not entitled to the residence nil rate band as his estate is not closely inherited. As he made no lifetime gifts, the nil rate band would be allowable in full against his death estate.

£2,127,000 - £325,000 = £1,802,000 x 40% = £720,800.

Land and Buildings (s.191 IHTA 1984):

For disposals of land and buildings profit and losses realised in the three years after death together with any losses in the fourth year after death must be aggregated. This covers all sales up to 19 August 2025, and any losses from 20 August 2025 to 19 August 2026. Any profit or loss is ignored if it is less than the lower of £1,000 and 5% of probate value. The Lodge and Townhouse were sold at a profit in the fourth year and so are not included.

Gross proceeds are compared to probate value.

	£	£
Bungalow		
Proceeds	275,000	
Probate value	(310,000)	
Allowable loss		(35,000)
(>5% and £1,000) s.191 IHTA 1984 claim		

Quoted shares (s.179 IHTA 1984):

Abbas died on 19 August 2022 and so for quoted shares, the latest date for share sales to qualify for post-mortem relief is 19 August 2023. Quoted shares sold in the 12-month period must be aggregated. Citrus plc was sold after 19 August 2023 and so is not included in the claim.

Dragon plc – there is a rights issue between date of death and sale and so the holding and value at death is increased by the rights issue - 2,000 x £4 = £8,000. Revised holding becomes 6,000 shares and revised probate value becomes £58,000.

Gross proceeds are compared to probate value.

	£	£
Dragon plc		
Proceeds	52,000	
Probate value	(58,000)	
Allowable loss		(6,000)
Banana plc		
Proceeds	95,000	
Probate value	(100,000)	
Allowable loss		(5,000)
s.179 IHTA 1984		£(11,000)

IHT refund:

	£
Original estate value	2,127,000
Less s.179 IHTA 1984	(11,000)
Less s.191 IHTA 1984	(35,000)
Revised estate value	2,081,000
Less NRB	(325,000)
Taxable estate	1,756,000

Tax at 40%	702,400
Less tax already paid	(720,800)
IHT refund due	£(18,400)

(2)

Where claims under s.179 IHTA 1984/s.191 IHTA 1984 have been made, the base cost is revised for CGT purposes. Under SP2/04 actual costs of obtaining probate can be used or the prescribed amount if higher. For estates valued between £1 million and £5 million the prescribed amount is £8,000 apportioned across the gross value of the estate.

Calculation of SP2/04	£ Probate Value	£ Probate cost	£ SP2/04 workings
10,000 Banana plc shares	95,000	250	8,000/2,081,000x 95,000 = £366
12,300 Citrus plc shares	12,000	250	8,000/2,081,000 x 12,000 = £46
4,000 Dragon plc shares	52,000	250	8,000/2,081,000 x 52,000 = £200
Townhouse	700,000	2,000	8,000/2,081,000 x 700,000 = £2,691
Lodge	500,000	2,625	8,000/2,081,000 x 500,000 = £1,922
Bungalow	275,000	750	8,000/2,081,000 x 275,000 = £1,057

CGT Calculations	£	£
2022/23		
Dragon plc		
Proceeds	52,000	
Costs of sale	(260)	
Probate value – revised	(52,000)	
Probate costs - actual	(250)	
Capital loss		(510)
Loss c/fwd		(510)
2023/24		
Loss b/fwd		(510)
Banana plc		
Proceeds	95,000	
Costs of sale	(475)	
Probate value – revised	(95,000)	
Probate costs – SP2/04	(366)	
Loss		(841)
Citrus plc		
Proceeds	12,000	
Costs of sale	(60)	
Probate value – original	(25,000)	
Probate costs - actual	(250)	
Loss		(13,310)
Loss c/fwd		(14,661)

2024/25			
Loss b/fwd & c/fwd			(14,661)
2025/26			
Loss b/fwd			(14,661)
Lodge			
Proceeds	565,000		
Costs of sale	(14,125)		
Probate value – original	(500,000)		
Probate costs - actual	(2,625)		
Gain			48,250
Bungalow			
Proceeds	275,000		
Costs of sale	(6,875)		
Probate value – revised	(275,000)		
Probate costs – SP2/04	(1,057)		
Loss			(7,932)
Townhouse			
Proceeds	750,000		
Cost of sale	(18,750)		
Probate value - original	(700,000)		
Probate costs – SP2/04	(2,691)		
Gain		28,559	
Less: PPR relief		(28,559)	0
Net Gain			40,318
Less AE	3rd tax year after year of death – N/A		(Nil)
Less loss brought forward			(14,661)
Chargeable gain			£25,657

A claim for PPR relief can be included on the sale of the Townhouse under TCGA 1992 s.225A as Zara is entitled to 75% or more of the net proceeds of sale under the terms of the Will by being the only beneficiary of the Will, and also by virtue of the Townhouse being her main residence both before and after the death of Abbas.

MARKING GUIDE

	Marks	Tolley Chapter
Post-mortem relief		
Calc of original IHT	0.5	12 IHTTE – IHT 12.3
s.191 IHTA 1984 3-year qualifying period (all), 4th year losses only	0.5	17 IHTTE – IHT 17.7
Calculation of loss on bungalow (using gross proceeds against probate value)	1	17 IHTTE – IHT 17.7
Exclusion of lodge profit 4th year	0.5	17 IHTTE – IHT 17.7
s.179 IHTA 1984 12 months qualifying period	0.5	17 IHTTE – IHT 17.2
Exclusion of Citrus plc	0.5	17 IHTTE – IHT 17.2
Rights issue Dragon plc added to probate value	0.5	17 IHTTE – IHT 17.5
Calculation of loss Dragon plc and Banana plc (using gross proceeds against probate value)	1	17 IHTTE – IHT 17.2
Calc of refund due @ 40% *N.B. full credit will be awarded for simple calculation i.e., £46,000 (£11,000 + £35,000) x 40% = £18,400.*	1	17 IHTTE – IHT 17.1
Subtotal	**6**	
CGT		
Replace PV with revised figures per post-mortem relief claim – use original probate value Citrus plc, Lodge, Townhouse	2	25 IHTTE – TE 25.7
SP2/04 actual costs more beneficial – use actual costs except Banana Plc, bungalow and townhouse	2	25 IHTTE – TE 25.8
2022/23 loss c/f	0.5	25 IHTTE – TE 25.7
2023/24 loss c/f	1	25 IHTTE – TE 25.7
2025/26 net gain including PPR claim on townhouse, no AE, less loss b/f , chargeable gain	2.5	25 IHTTE – TE 25.7
2025/26 PPR on sale of townhouse explanation	1	25 IHTTE – TE 25.8
Subtotal	**9**	
TOTAL	**15**	