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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID [redacted]

| Count(s) | Word(s) | Char(s) | Char(s) (WS) |
|---|---|---|---|
| Section 1 | **645** | **2884** | **3625** |
| Section 2 | **324** | **1466** | **1760** |
| Section 3 | **591** | **2601** | **3183** |
| Section 4 | **610** | **2974** | **3783** |
| Section 5 | **531** | **2320** | **2794** |
| Section 6 | **425** | **2000** | **2351** |
| Total | **3126** | **14245** | **17496** |

Answer-to-Question-_1_

The residency of a trust prior to change in legislation in April 2025 was that the status of the trust depended upon the domicile status of the settlor.

As George was domiciled in Guernsey, the trust was non-resident for the purpose of IHT. This means that his non-UK assets were not subject to any UK IHT on transfer to the trust as they are excluded property.

From April 2025, a trust's residency status is dependent on the long term UK residence (LTUKR) of the settlor. The assessment for this is if an inidivual has been UK resident for 10 out of the last 20 tax years, they are classed as a LTUKR.

For George, he will become LTUKR in the 2027-28 tax year, starting 6 April 2027. Therefore, under the new rules, the trust will become UK resident for IHT purposes from 6 April 2027.

Whilst an individual is non-LTUKR, they are only subject to UK IHT on UK assets, this includes UK land and property.

Whilst they are LTUKR, they are subject to UK IHT on UK and worldwide assets.

Leaving 5 April 2027

As George would not yet be classed as LTUKR, the trust would remain non-resident meaning the assets remain excluded property. This means that the there is no UK IHT due on these assets, this includes no principal or exit charges on the excluded property.

As George remains Non-LTUKR, his personal foreign assets are not chargeable to IHT. However, the UK home will remain chargeable in the UK. Therefore, his chargeable estate will be on April 2027 as follows:

1,000,000
(325,000) NRB
(175,000) RNRB as to children

500,000

at 40% = 200,000

If he disposes of his UK property, he will be subject to CGT on disposal, but this will be covered by PRR if he has resided in the property since purchase.

The disposal will also remove the UK home from his estate, meaning he will not be taxable on IHT in the UK.

April 2028

From 6 April 2027, the trust assets will become coverted property, this means that they become subject to UK IHT.

As it is a discertionary trust, it becomes a relevant property trust. This means that it is subject to principal and exit charges from the date of conversation.

Therefore on the next 10 year charge date, i.e. 6 April 2028, the principal charge will arise. It still uses the NRB at creation of the trust. The quarters will be apportion to show

the period that it was relevant property.

Principal charge at 1 December 2030

| | |
|---|---|
| Converted value | 1,000,000 |
| NRB | (325,000) |
| Taxable | 675,000 |
| | |
| at 20% | 135,000 |

135,000/1,000,000 = 13.5%

13.5% x 30% x 40 - 36 / 40 = 0.405%

0.405% x 1,000,000 = 4,050

Payable 31st May 2031 by Trustees

Once you became LTUKR, there is an IHT tail for the individual when they exit the UK. This means they will emain LTUKR and be taxable to IHT on worldwide assets until their IHT tail has ceased.

As George will have been UK resident for 10 years, his IHT tail is 3 years.

This means the trust remains subject to exit charges for those 3 years. Once the 3 years have ceased, there will be an exit charge for the trust as the assets are leaving the UK IHT system.

Exit charge at 5 April 2031

Principal rate = 0.405%

0.405% x 1,050,000 = 4,253

Payable 30th September 2031

Disposal of UK Home

IHT charge if dies within 3 years of exiting the UK

1,050,000
2,000,000
(325,000) NRB
(Nil) RNRB restricted to nil as over the taper threshold

2,725,000

at 40% = 1,090,000

Payable by 6 months after death or submission of IHT form if earlier

Taper threshold

3,050,000 - 2,000,000 = 1,050,000
1,050,000 / 2 = 525,000

No RNRB

If he disposes of the UK property, this will be removed from his estate.

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

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

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Answer-to-Question-_2_

1)

For the purpose of income tax and capital gains tax, the residency of a trust is dependent on the trustees.

If one of the following conditions apply then the trust is UK resident and therefore taxable on worldwide income and gains:

a) all Trustees are Uk resident
b) at least one of the trustees are UK resident and the settlor was LTUKR or UK domciled (pre April 2025) at date of settlement.

As these do not apply, the trust is non-resident.

Therefore as the trust is non-resident, it is not taxable in the UK on worldwide income and gains.

For income tax purposes, s720 does not apply as Balraj does not have the power to benefit from the trust. Therefore, it is taxable on the beneficiaries when distributions are made to the beneficiaries.

As Balraj is a UK resident and has an interest in the trust (due to his spouse benefiting),

he is taxable on the foreign gains as they arise under section 86.

2) As the settlor was not taxable under s720, we review if it is taxable under s 731.

The conditions of this are as follows.

This means that Daniel becomes taxable on the foreign income when he receives a benefit from the trust, this is on a FIFO basis.

It is first offset against the foreign income, then if the foreign income pool is exhausted, it can then be matched against gains if s87 applies.

| | Foreign income | Match | | |
|---|---|---|---|---|
| 21/22 | 6,000 | 6,000 | 1st | 54,000 |
| 22/23 | 6,500 | 6,500 | | 47500 |
| 23/24 | 7,000 | 7,000 | | 40,500 |
| 24/25 | 7,500 | 7,500 | | 33,000 |
| 25/26 | 8,000 | 8,000 | | 25,000 |
| | | | | |
| | | | | |
| | | | | |

So 35,000 is taxable on Daniel as N-S income, this does not have a tax credit associated.

35,000
(12,570)

22,430

22,430 x 20% (NS) = 4,486

As the income is now exhausted, if s87 applies, then it is matched with gains on a LIFO basis. Any unmatched distribution is carried forward and allocated against any future income aas it arises.

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----------ANSWER-2-ABOVE----------
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----------ANSWER-3-BELOW----------
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Answer-to-Question-_3_

The most suitable type of trust that should be created for Hannah is a Disabled Person's trust.

In order to qualify for a disable person's trust, the individual must be classed as disabled. A disabled person is defined as a person:

- who receives Disabled living allowance, AA, PIP
or
- who is under the mental health act 1983 is incapable of adminsterating their own affairs.

The treatment of a Disabled Person's trust is that it is treated as a QIIP and therefore there is no IHT charge under CLT.

As Hannah has a dengenerative condition, she is able to self settle into this type of trust. This means that as it is a QIIP, it remains a part of her estate. Therefore, it is IHT neutral, meaning it is not a PET or a CLT.

For the self settlement trust is be classed as a Disabled Person's trust, Grace cannot be a beneficiary of the trust. This is due to the fact that the objective of self settlement rules are for indivdiuals with a degenrative health condition to use for themselves.

As she does not meet the current conditions of a Disabled Person's trust, Brian cannot set this up on her behalf, therefore he could set up an Accumulation and Maintenance trust or a Bare Trust. Due to the nature of the conditions, it would be more beneficial to use a Bare Trust. Bare trusts ae not subject to IHT under CLT.

However, as the assets are leaving Brian's estate, this will be classed as a PET. Therefore, it will become taxable if Brian dies within 7 years. If the assets ae not cash, this will be a deemed disposal for Brian and therefore, there will be CGT due on the gain arising. As it is a PET, it is not chargeable to IHT, therefore gift relief under s260 is unavalable. If it is a business asset, gift relief under s 165 is still available.

This trust can include Grace as a beneficiary as they are no health condition requirements.

2)

Self settlement

As the DPT is classed as a QIIP, this will be included on Hannah's death estate. therefore, this will be subject to IHT on death.

Unless a election for special income and gains treatment for vulnerable person is made. This election is made by trustees and Hannah on an annual basis.

A vulnerable person means:

- a disabled person
- a relevant minor

Once the election is made it s irrecoverable.

The benefit of this election is that if it is made for income tax purposes, the income is taxable as if it was directly to the beneficiary. So the beneficiary's personal allowance and basic rate bands would be available to use.

However as Hannah is the settlor of the trust, she is unable to make this claim for income tax purposes. Therefore it is taxable under normal IIP rules.

If it is made in relation to CGT, the use of the AEA and basic rate CGT become available. The settlor of trust rule do not apply to CGT, therefore, she can make the vulnerable person election for CGT purposes.

Bare trust

Whilst the girls are under the age of 18, any income arising on the Bare Trust will be taxable on Brian on an arisng basis as section 629 applies. This rule applies when a parent make a settlement and their minor children receive benefit. Once they are over the age of 18, the s629 ceases to apply so it is then taxable on the girls.

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----------ANSWER-3-ABOVE----------
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----------ANSWER-4-BELOW----------
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Answer-to-Question-_4_

steph to Alex - exempt transfer

full rnrb and nrb

As Steph and Alex were both UK domiciled at the time of her death, the transfer from Steph to Alex was fully exempt under the spousal exemption.

This means as she made no lifetime transfers, her full NRB and RNRB are avalable and transferred to Alex.

200% x 325,000 = 650,000
200% x 175,000 = 350,000

Lifetime transfers - Alex

AE used so no AE

15/03/2020

Full APR as Alex has been farmin in the partnership for at least two years on date of transfer.

150,000
APR at 100% (150,000)
Nil

23/04/2024 - Shares in unlisted trading company owned for at least 2 years

300,000
BPR at 100% (300,000)
Nil

27/12/2024

25,000
(5,000) Marriage exemption
20,000 but Pet so Not yet chargeable

At death

PETs within 7 years of death become chargeable.

Lifetime transfers

As shares in partnership are disposed of by the date of Alex's death, APR is withdrawn.

15/03/2020

Josh

Nil

50,000 (150,000/3) Withdrawn APR

NRB 650,000

Nil chargeable

Layla

Nil

Withdrawn APR 50,000

BPR at 50% (25,000)

Net 25,000

Nrb (600,000)

As it is a warehouse, BPR is available at 50%.

As her shares were withdrawn, APR is withdrawn. However, as the partnership share was also eligible for BPR, she can claim BPR reinvestment relief. This means that as long as she has reinvested full proceeds to purchase another asset that qualifies for BPR and the total ownership of the BPR assets are at least 2 out of the 5 years prior to Alex's death, then BPR is available.

Tom

Nil

APR is not withdrawn as he still own the asset

23/04/2024

Nil as Josh still owns shareholding, BPR still applies.

27/04/2024

20,000
NRB (575,000)
Nil chargeable

Death estate

1,050,000
200,000
105,000
230,000
600,000
65,000

Total 2,250,000

Total estate 2,250,000
APR at 100% (1,050,000)
BPR at 100% (200,000)
BPR at 50% (52,500)
APR at 100% (185,000)
762,500
NRB 650,000
(50,000)
(20,000)
(25,000)
(555,000)
RNRB (45,000)

Funeral costs (5,000)

Chargeable estate 157,500

at 40% 63,000

Payable by Executors on the earlier of:

- 6 months from death or
- Submission of IHT form

So due 30th September 2026

Payments via instalments are available for UK land and property (eg Rental units and Farmhouse), partnership share an dcertain shares.

Instalments are payable in ten equal annual payments staarting with 30/09/2026.

Taper RNRB

2,250,000 - 2,000,000 = 250,000
250,000 / 2 = 125,000

350,000 - 125,000 = 225,000

Restricted to chargeable value of main residence property

225,000 or 230,000 - 185,000 = 45,000

Notes:

RNRB is available as Alex's main residence is being left to his lineal descandent (daughter).

Full APR is available on the Moore Farmin Partnership as Alex worked on the farmhouse and had the partnership share fo at least 2 years prior to death.

Where both APR and BPR apply, APR applies first then BPR.

Full BPR on shareholding in unquoted trading company shares.

Where a farmhouse is used by the farmer/employees, APR is allowable at 100% on agricultural value. This is on the basis that the farmhouse is just and reasonable in comparison to the farm.

APR is based on agricultural value.

Commerical rental units are not classed as a trading assets. As rental properties are classed as investment rather than trade. This applies unless substantial services are provided to the tenants, e.g. providing food and additional services, then it can be classed as a trading business. As this does not apply to these units, it is not a trade.

Funeral costs are allowable if they are just and reasonable.

When an asset that qualifies for APR/BPR is disposed of before death, the APR/BPR is withdrawn.

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----------ANSWER-4-ABOVE----------
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----------ANSWER-5-BELOW----------
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Answer-to-Question-_5_

2023-24

| | NS | S | D | | |
|---|---|---|---|---|---|
| Interest | | 6,700 | | | |
| Dividends | | | 2,750 | | |
| Rents | 10,650 | | | | |
| Dividends ISA | | | - | | |
| Total | 10,650 | 6,700 | 2,750 | | |
| Loan | | | (1,750) | | |
| Net | 10,650 | 6,700 | 1,000 | | |
| Tax | | | | | |
| NS at 20% | 10,650 x 20% = 2,130 | | | | |
| S at 20% | | 1,340 | | | |
| D at 8.75% | | | 88 | | |

Income are ISAs are exempt until the earlier of three tax years from death or end of administration.

Where a loan is taken out to pay IHT, the interest within 12 months of the loan being taken is an allowable deduction.

Distributable income 23-24

| | NS | S | D | |
|---|---|---|---|---|
| INCOME | 10650 | 6,700 | 1,000 | |
| TAX | (2,130) | (1,340) | (88) | |
| NET | 8,520 | 5,360 | 912 | |
| | | | | |

Entitlement per beneficiary 23-24

| | NS | S | D | |
|---|---|---|---|---|
| Net | 2,130 | 1,340 | 228 | |

Max to c/f

| | NS | S | D | |
|---|---|---|---|---|
| Entitlement | 2,130 | 1,340 | 228 | |
| Distribution | (1,300) | - | - | |
| c/F | 830 | 1,340 | 228 | |

2024-25

| | NS | S | D | | |
|---|---|---|---|---|---|
| Interest | | 6000 | | | |
| Divs | | | 3275 | | |
| Rent | 9800 | | | | |
| Divs ISA | | | - | | |
| Net | 9,800 | 6,000 | 3725 | | |
| NS at 20% | 1960 | | | | |
| S at 20% | | 1,200 | | | |
| D at 8.75% | | | 326 | | |
| | | | | | |
| | | | | | |

2025-26

| | NS | S | D | | |
|---|---|---|---|---|---|
| Interest | | 2000 | | | |
| Divs | | | 400 | | |
| Rent | 1835 | | | | |
| ISA | | | | | |
| Total | | | | | |
| NS | 367 | | | | |
| S | | 400 | | | |
| D | | | 35 | | |

Distributable income 24-25 and 25-26

| | NS | S | D | |
|---|---|---|---|---|
| 24-25 Income | 9,800 | 6000 | 3275 | |
| 24-25 Tax | (1960) | (1,200) | (326) | |
| 25-26 Income | 1835 | 2000 | 400 | |
| 25-26 Tax | (367) | (400) | (35) | |
| Total | 9,308 | 6,400 | 3,314 | |
| | | | | |
| Entitlement | 2327 | 1600 | 829 | |
| | | | | |
| | | | | |

When the adminstration ends, the beneficiaries are deemed to receive their entitlements. Therefore all remaining income is reported.

R185s

Dean, Evie and Jack have the identical R185s

| | net | tax |
|---|---|---|
| NS | 4,457 | 1,114 |
| S | 2,940 | 735 |
| D | 1,057 | 101 |

Max

| | Net | tax |
|---|---|---|
| NS | 3,157 | 789 |
| S | 2,940 | 735 |
| D | 1,057 | 101 |

2)

The disposal of Alison's home must be reported via a 60 day return. The CGT due on this disposal must be paid within 60 days of the disposal, i.e. 2nd April 2025.

This must also be reported on the tax return for the year that it was disposed. Any other gins thta are not UK property must be included in the self assessment tax return.

The income tax is reportable via a self assessment tax return for the estate. This only includes any income that is receiveable after death and before appointment. The deadline for the tax return's submission is the 31/01 following the end of the tax year.

This also applies to the payment date of the balancing liability.

In circumstances where the tax due on the tax return exceeds £1,000 and more than 20% of the total tax liability is collected via self assessment, then payments on account apply.

this is two equal instalments for the next tax year that equal the tax liability in the previous year's tax return. I.e. total tax liability for 2023-24 is £3,558. Therefore the total from both POAs must equal £3,558.

the due dates for these payments are 31/01 following the end of the tax year and 6 months after that (31/07).

If an estate believes that the income will reduce and they have completed adminstration, they can make a claim to reduce payments on account.

If it was due to be paid prior to death, this should be included in the deceased's final tax return. if it is after, it is taxable on the individual who has received the asset.

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----------ANSWER-5-ABOVE----------
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----------ANSWER-6-BELOW----------
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Answer-to-Question-_6_

pre April 2025, your IHT status was dependent on your domcile status. Therefore as he was UK domicile, he is taxable on worldwide assets.

PMR

Current IHT position

No RNRB as house was not passed to lineal descendant.

On the assumption that none of his quoted shareholdings gave him control of the companies, no BPR is available.

2,127,000
NRB(325,000)
1,802,000

at 40% = 720,800

As some of the assets held have since been sold, we can review if post mortem relief applies.

For UK land and property, if a property is disposed with 3 years at a loss, PMR may be available.

We also aggregate for land and property. An electio can be made to include transactions between 3rd and four year if it is a loss.

Lodge

565,000
(500,000)
65,000
Gain

Bungalow

275,000

(310,000)
(35,000)

Townhouse

750,000
(700,000)
50,000

gain so no claim for fourth year.

As the total is a gain of £30,000, PMR is not available.

For quoted shares, if the shares were sold within 12 months of death, PMR may apply.

With quoted shares, we look at all disposals in the 12 months and aggregate them to get the loss available for PMR.

We ignore all sale costs and probate costs for these calculatons.

Banana Plc

95,000
(100,000)
(5,000)

Dragon plc

As the rights issue was purchase between death and two months after sale, the loss is reduced by the portion of purchases.

52,000

58,000

(6,000)

6,000 x 50/58 = (5,172)

4 x 2000 = 8,000

Citrus is the day after 12 months so PMR is not available for these shares.

Total PMR available for quoted shares £10,172

Impact on estate

10,172 x 40% = 4,069 reduction in IHT.

Claim must made with 4 years.

2)

Property

Lodge

565,000
(14,125)
(500,000)
(4520) (0.8%)

Gain 46,355

Bungalow

275,000
(6,875)
(2480)
(310,000)
(44,355)

Townhouse

750,000
(18750)
(5,600)
(700,000)
25,650
PRR(25,650)
Nil Net

As Zara is the main beneficiary and has resided in the Townhouse since Abbas died, PRR is available on the Townhouse. As she has resided there the whole time, she has full PRR. Final 9 months are always allowable if it has ever been occupied as beneficiaries main residence.

Banana Plc

95,000
(475)
(100,000)
(800)
(6,275)Net

Higher of

0.8% x 100,000 = 800
250

Dragon plc

52,000
(58,000)
(260)
(400)
(6,660)Net

0.8% x 50,000 = 400
250

Citrus plc

12,000
(25,000)
(60)
(250)
(13310) Net

Higher of:

0.8 x 25,000 = 200
250

Where probate costs have occured, the executors can chose the higher of 0.8% or the actual probate cost.