

# **Awareness**

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

**November 2024**

**Suggested answers**

### Answer 13

There are no Inheritance Tax implications on the sale of the house as there was no gratuitous intent.	1
The sale at undervalue of the antique clock results in a loss to the donor (i.e. Alice) of £(12,000 – 100) = £11,900.	1
The <u>annual exemptions</u> for 2023/24 and 2022/23 will be available, leaving a <u>potentially exempt transfer (PET)</u> of £5,900.	1 1
This will only become chargeable if Alice dies within 7 years (i.e. before 17 September 2030).	1

### Answer 14

Standalone value of one sculpture:	<u>£150,000</u>	1
Related value of one sculpture £900,000 x £150,000/£(150,000 + 450,000)	<u>£225,000</u>	1+1
	£	
Take the <u>higher</u> , so	225,000	1
Less marriage exemption	<u>(2,500)</u>	
PET	<u>£222,500</u>	1

### Answer 15

	£	
<u>14 February 2018</u> Gift to Maria – exempt spouse transfer	Nil	1
<u>22 October 2021</u> Gift to a discretionary trust – not chargeable to UK IHT as excluded property (overseas asset of a non UK domiciled individual)	Nil	1
<u>18 March 2024</u> Gift to a discretionary trust Annual exemption x 2	850,000 <u>(6,000)</u>	1
	844,000	
NRB	<u>(325,000)</u>	1
Net CLT	<u>£519,000</u>	
IHT @ 20/80	<u>£129,750</u>	1

### Answer 16

1) CLT on 1 November 2017	£	
Less fall in value relief £(176,000 – 163,500)	212,500	
	(12,500)	1
	<u>200,000</u>	
No NRB due to CLT on 6 December 2015		
IHT @ 40%	80,000	1
Less taper relief (6 – 7 years) = 80%	(64,000)	1
	<u>16,000</u>	
Less lifetime IHT paid	(42,500)	
Further IHT due	<u>£Nil</u>	1
2) Nil rate band available for Rupert's death estate: £(325,000 – 212,500)	<u>£112,500</u>	1

### Answer 17

BPR is available on qualifying assets held for at least two years. Although Lorraine does not meet this requirement, her ownership period can be combined with George's as the transfer was between spouses on George's death. 1

- 1) BPR is available at the rate of 100% on a share of a trading partnership. 1
- 2) BPR is available at the rate of 50% on buildings personally owned by an individual and used by a partnership in which they are a partner. 1
- 3) No BPR is available on the shares as they are not in a trading company. 1

### Answer 18

Gross Chargeable Estate	£	
Less RNRB	860,000	
Less available NRB £(325,000 – 130,000)	(175,000)	1
	(195,000)	1
	<u>£490,000</u>	

IHT @ 36% (*working*) £176,400 1

<i>Working – net chargeable estate</i>	£	
Gross Chargeable Estate	860,000	
Add charitable legacy	75,000	
Less available NRB	(195,000)	
	<u>£740,000</u>	1

As the charitable legacy of £75,000 is at least 10% of the net chargeable estate (10% x £740,000 = £74,000), the 36% rate of IHT applies. 1

### Answer 19

1)	£	£	
Villa: €495,000/1.1		450,000	1
Less additional overseas administration expenses:			
Lower of:			
- Actual additional overseas administration expenses			
€19,800/1.1	18,000		1
- 5% x £450,000	22,500		1
		(18,000)	
<i>No deduction of overseas death duties from value</i>			1
		<u>£432,000</u>	
2) The UK IHT on the villa is payable by Lucas, the recipient.			1

### Answer 20

	£	
Initial value of the trust assets	800,000	
Less NRB at exit	<u>(325,000)</u>	
	<u>£475,000</u>	1
IHT @ 20%	95,000	1
Effective rate: $95,000/800,000 \times 100$	11.875%	
Actual rate: $11.875\% \times 30\% \times 28/40$	2.494%	1
Tax on exit paid by Trustees so rate grossed up:		
$2.494/(100 - 2.494) \times 100$	2.558%	1
Exit charge: $£50,000 \times 2.558\%$	<u>£1,279</u>	1

### Answer 21

Where the Executors sell quoted shares <u>within 12 months</u> of the date of death for less than their probate value, then a claim can be made for the loss to <u>reduce the value of the estate</u> for IHT purposes which will result in a refund of IHT paid.	1
All sales must be considered, including those that give rise to a profit, so the overall loss on the quoted shares is $£(60,000 - 75,000) + £(55,000 - 50,000) = \underline{£10,000}$ .	1
A similar relief is available where land and buildings are sold <u>within three years</u> of the date of death, so the loss is $£(88,000 - 95,000) = \underline{£7,000}$ .	1
The refund of IHT paid will therefore be $£(10,000 + 7,000) \times 40\% = \underline{£6,800}$ .	1

### Answer 22

1)	£	
Free estate	575,000	
Settled property	825,000	
Gross Chargeable Estate	<u>1,400,000</u>	1
Less NRB x 2	<u>(650,000)</u>	1
	<u>£750,000</u>	
IHT @ 40%	<u>£300,000</u>	1
Amount payable by the Trustees = £300,000/£1,400,000 x £825,000	<u>£176,786</u>	1
2) Amount received by Jennifer: £575,000 - (£300,000 – 176,786)	<u>£451,786</u>	1

### Answer 23

Jane is domiciled in the UK due to her domicile of origin being the UK. 1

Although Francine has a domicile of origin of France, as her father changed his domicile to the UK before Francine was 16 years old, her domicile changed with his and so she has a domicile of dependency in the UK. 1

Zoya has a domicile of origin of Greece, but as she has been resident in the UK for at least 15 of the 20 tax years immediately preceding 2023/24 and was resident in the UK for at least one of the four tax years ending with 2023/24, she is deemed domiciled in the UK for Inheritance Tax purposes. 1

### Answer 24

	£	
Proceeds	975,000	
Less base cost ( <i>working</i> )	<u>(886,777)</u>	
Chargeable gain	<u>£88,223</u>	1
<i>Working</i>	£	
Transfer to trust:		
Investment property	780,000	
Unlisted investment company shares	<u>250,000</u>	
	<u>1,030,000</u>	
Nil rate band	<u>(325,000)</u>	1
	<u>£705,000</u>	
IHT @ 20%	<u>£141,000</u>	1
Attributable to the investment property: £141,000/£1,030,000 x £780,000	<u>£106,777</u>	1
CGT base cost of investment property for the trustees = £(780,000 + 106,777)	<u>£886,777</u>	1