

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Inheritance Tax, Trusts & Estates

May 2023

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2022/23 legislation (including rates and allowances) continues to apply for 2023/24 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a tax senior in a firm of Chartered Tax Advisers. Fiona Smith, one of the firm's tax partners, recently met with Priya Watson and Ravi Chandra, who are personal tax clients of the firm. They are also trustees of two settlements, the Avani Chandra Will Trust and the Chandra Discretionary Trust, both of which are new clients of the firm.

The Avani Chandra Will Trust holds shares in an unquoted trading company, Coastal Retreats Ltd, which will be sold by the end of the tax year. Priya and Ravi are seeking advice on the timing of winding up the trust in view of the share sale.

The Chandra Discretionary Trust holds shares in the family business, Traditional Storage Ltd, and Priya and Ravi also have personal shareholdings in this company. The trustees want to transfer five shares to Priya's son and need advice on the tax implications of making an appointment out of the trust compared to a gift of shares from Priya's personal holding.

Fiona has asked you to prepare a draft report to the trustees addressing their concerns.

The following exhibits are provided to assist you:

EXHIBIT A: Email from Priya Watson to Fiona Smith

EXHIBIT B: Valuation of the shares in Coastal Retreats Ltd held by the Avani Chandra Will Trust

EXHIBIT C: Information relating to Traditional Storage Ltd

EXHIBIT D: Jayesh Chandra's letter of wishes dated 10 May 2018

EXHIBIT E: Pre-seen information

Requirement:

Prepare a draft report to Priya and Ravi, for review by Fiona Smith, advising on the sale of the shares in Coastal Retreats Ltd and the timing of winding up the Avani Chandra Will Trust as well as their proposals to transfer shares in Traditional Storage Ltd to Priya's son.

EXHIBIT A

Email from Priya Watson to Fiona Smith

To: fionasmith@taxadvisers.co.uk
From: priya@traditionalstorage.com
Date: 8 May 2023
Subject: Avani Chandra Will Trust & Chandra Discretionary Trust

Dear Fiona

Thank you for meeting with Ravi and me last week in relation to the trusts created by our parents.

As discussed, our biggest concern relates to the 100 shares in Coastal Retreats Ltd that are held within our mother's Will Trust. Our mother's friend, the Managing Director of the company, contacted us recently as she wishes to purchase the trust's holding of 100 shares. We have had a professional valuation prepared (**EXHIBIT B**) which gives a current value of £7,350 per share. As she will not have the funds available until September 2023, the trust will sell the shares to her in September 2023 for £7,350 per share.

She has confirmed that at the present time she has no intention of purchasing my own holding of 60 shares or Ravi's holding of 25 shares in the company and we will continue to hold these shares as investors (we have never been employees or officers of the company).

By coincidence, Ravi and I had only recently discussed the future of the trust and now that we have received the offer to purchase the shares, we would both like to proceed with the sale and then wind up the trust with the net sale proceeds split equally between us. Ravi wants to use the money to extend his family home and I would like to use my half share to purchase a commercial property with Richard, which I have explained further below.

We would like to know if it will be more tax efficient to end the trust prior to the sale of the shares or if we should wait until the sale is complete. Ideally, we would prefer all tax charges to be paid out of the sale proceeds from the shares. I do not expect any material changes to the profitability of Coastal Retreats Ltd and therefore, for these purposes you can assume that the market value at the time of sale will still be £7,350 per share.

The second issue is less urgent and relates to the shares in Traditional Storage Ltd, which my father left on discretionary trust for his grandchildren. I have attached information which I have extracted from files I found in my father's office and which I think may be relevant (**EXHIBIT C**). My son, Sunil, who is the eldest grandchild, started to work for the company three years ago. He will be 25 years old on 18 April 2024 and works in our Madrid office having helped expand the business into Europe. Sunil has not been UK resident for the past four years as he spent some time studying overseas before starting work. We think he is unlikely to return to live in the UK for at least the next five years as he has recently purchased an apartment in Madrid and seems very settled there.

Ravi and I would like to transfer five shares in Traditional Storage Ltd to Sunil in recognition of the work he has done for the company. Ideally, we would like to transfer these from the discretionary trust as there is about £15,000 in the trust bank account which can hopefully be used to pay any tax charges. We do recall that our father set out some stipulations relating to transfers to the children out of the trust in his letter of wishes and we would always want to act in accordance with this, but we do not remember the full details. We will check our records and send you a copy of his letter of wishes once we find it. If, from a tax point of view, it is better for me to transfer the shares from my personal shareholding, then I do not mind doing that instead. Please could you confirm your recommendations in this respect?

Finally, I mentioned above that Richard and I intend to jointly purchase a commercial property using my share of the net appointed trust sale proceeds from shares in Coastal Retreats Ltd. This new property will become the manufacturing base for Traditional Storage Ltd as we plan to relocate from our existing factory after the lease expires in the Spring of 2024.

The company has insufficient funds to purchase the property, but Richard has some savings set aside and combined with my share of the Trust money from the Coastal Retreats Ltd shares, we will be in a position to purchase it together in equal shares. We do not plan to charge the company any rent for their use of the property. I am not sure if this acquisition will have any impact on the advice we have asked for but thought you should be fully aware of everything that we are doing.

Yours sincerely

Priya

EXHIBIT B

Valuation of the shares in Coastal Retreats Ltd held by the Avani Chandra Will Trust

You have requested that we provide our opinion of the current value of the shares in Coastal Retreats Ltd held by the Avani Chandra Will Trust. You have advised us that the trust has a holding of 100 shares which represent 10% of the shares of the company.

The company is a successful unquoted company which trades as a property letting and management business. It provides services to owners of furnished holiday lets on the South coast of England. The company does not own any investment properties or hold any other investment assets.

You have advised that values used for Inheritance Tax purposes were:

On the death of Avani Chandra on 15 January 2016 – £4,250 per share.

On the death of Jayesh Chandra on 20 April 2020 – £6,100 per share.

These values were based on a holding of 185 shares which represented 18.5% of the shares of the company. In our opinion, the minority discount for an 18.5% holding and for a 10% holding would be the same.

In our opinion, the current market value of the 100 shares is £735,000 (£7,350 per share).

AB Valuations Ltd
2 May 2023

EXHIBIT C

Information relating to Traditional Storage Ltd

Background

Traditional Storage Ltd is an unquoted company which manufactures wooden coat hangers. The company holds no investments. The company was incorporated by Jayesh and Avani Chandra on 1 October 1985.

Current shareholders

Ravi Chandra	26
Priya Watson	54
Chandra Discretionary Trust	<u>20</u>
Total (ordinary shares of £1 each)	100

Directors

Priya Watson	Managing Director since 2020 (full-time)
Richard Watson	Operations Director since 2020 (full-time)

Ravi and Meena Chandra have never been officers or employees of the company.

Share history – Avani Chandra

<u>Date</u>	<u>No. of ordinary shares</u>	<u>Valuation</u>	<u>Notes</u>
		£	
1 October 1985	50	50	Incorporation of company
16 March 1998	<u>(20)</u>	125,000	Gift to Ravi Chandra
Holding carried forward	30		
20 May 2012	<u>(30)</u>	580,000	Gift to Priya Watson
Holding carried forward	<u>Nil</u>		

Share history – Jayesh Chandra

<u>Date</u>	<u>No. of ordinary shares</u>	<u>Valuation</u>	<u>Notes</u>
		£	
1 October 1985	50	50	Incorporation of company
16 March 1998	<u>(24)</u>	150,000	Gift to Priya Watson
Holding carried forward	26		
20 May 2012	<u>(6)</u>	116,000	Gift to Ravi Chandra
Holding carried forward	20		
			Transfer to the Chandra Discretionary Trust
20 April 2020	<u>(20)</u>	1,800,000	
Holding carried forward	<u>Nil</u>		

Both Avani Chandra and Jayesh Chandra claimed capital gains holdover relief in relation to their gifts of shares in Traditional Storage Ltd to Priya and Ravi on 20 May 2012. No Capital Gains Tax claims were made in relation to the gifts made on 16 March 1998.

Valuation

Based on a recent professional valuation which considered all relevant discounts, the current market value of five ordinary shares in Traditional Storage Ltd is £490,000.

EXHIBIT D

Jayesh Chandra's letter of wishes dated 10 May 2018

10 May 2018

Dear Priya and Ravi

This letter is to be read in conjunction with, albeit it does not form part of, my Last Will and Testament dated 5 May 2018.

Under the terms of my Will, you are appointed as trustees of the Chandra Discretionary Trust to hold 20 ordinary shares in Traditional Storage Ltd on trust for the benefit of my grandchildren who are living at the date of my death.

The terms of the trust confer discretionary powers on you in relation to the trust income and capital and I understand that I cannot restrict your discretion as trustees or dictate the way in which you exercise your powers. However, in the hope that this may be of help to you in exercising those powers, but without imposing any binding obligations on you or seeking to prevent you from acting as you think best, it is my wish that whilst any grandchild is below the age of 25, any transfers of the capital from the trust should not exceed 10% of the trust assets.

Jayesh Chandra

EXHIBIT E

Pre-seen information

New client 1

Trustees of the Avani Chandra Will Trust
Settlor name: Avani Chandra
Date of settlement: 15 January 2016
Current trustees: Priya Watson and Ravi Chandra

New client 2

Trustees of the Chandra Discretionary Trust
Settlor name: Jayesh Chandra
Date of settlement: 20 April 2020
Current trustees: Priya Watson and Ravi Chandra

Family background

Jayesh Chandra, a widower, who was domiciled in England and Wales and UK resident, died on 20 April 2020. His wife, Avani, who was also domiciled in England and Wales and UK resident, died on 15 January 2016.

Jayesh and Avani are survived by two adult children. They are Priya, aged 53, who is married to Richard Watson and has two children, and Ravi Chandra, aged 49, who is married to Meena and also has two children.

Provisions of Avani's Will

Avani's Will provided the following:

- 1) 100 ordinary shares in Coastal Retreats Ltd to her trustees to hold on the following trusts to be known as the "Avani Chandra Will Trust":
 - (a) To pay the income from the settled assets to Jayesh Chandra during his life.
 - (b) Thereafter to pay the income from the settled assets to Priya Watson and Ravi Chandra in equal shares during their lives.
 - (c) The trustees have the power to advance the life tenants' share of the settled assets to them absolutely as they think fit.
 - (d) In default of the exercise of the above power and subject to the above clauses, the settled assets to be held in trust for Avani's grandchildren in equal shares absolutely.
- 2) 60 ordinary shares in Coastal Retreats Ltd to Priya Watson
- 3) 25 ordinary shares in Coastal Retreats Ltd to Ravi Chandra
- 4) Pecuniary legacy of £150,000 to Ravi Chandra.
- 5) The residue of the estate to Jayesh Chandra.

Under the terms of Avani's Will, Jayesh, Priya and Ravi were appointed as her executors and trustees.

Provisions of Jayesh's Will

Jayesh's Will provided the following:

- 1) 20 shares in Traditional Storage Ltd to his trustees to hold on discretionary trust for the benefit of his four grandchildren. The trust is to be known as the "Chandra Discretionary Trust". The terms of the trust allow the trustees to appoint income and/or capital to the beneficiaries as they see fit.
- 2) The residue of his estate to be split equally between Priya and Ravi.

Jayesh's Will appointed Priya and Ravi as his executors and trustees.

Other information

Priya, Richard, Ravi and Meena are all higher rate taxpayers and all utilise their capital gains annual exemptions on quoted share disposals each tax year. They are all domiciled in England and Wales and UK resident. They are all personal tax clients of the firm and have up to date engagement letters in place.

The trustees of the Avani Chandra Will Trust and the trustees of the Chandra Discretionary Trust signed the firm's GDPR compliant engagement letter on 1 May 2023 covering trust tax compliance and advisory services. Both trusts are registered on the Trust Registration Service in the UK.