THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Inheritance Tax, Trusts & Estates

November 2025

TIME ALLOWED

3 HOURS 30 MINUTES

- 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 required by the question, candidates may answer the question using Scottish Income Tax rates or Income Tax rates applying elsewhere in the UK.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2024/25 legislation (including rates and allowances) continues to apply for 2025/26 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Barbara, who had made no lifetime gifts, died in January 2019. Under the terms of Barbara's Will, her husband Albert received a life interest in a holiday property in Devon, which was valued at £200,000 at Barbara's death, and the remainder of her estate, valued at £800,000, absolutely.

Albert died in May 2025 and had the following assets on his death:

	£
Bank account	124,000
Pension (SIPP)	500,000
House (main residence)	850,000
Fine Wine collection	89,500
ISA	368,000
Quoted shares	360,000
12% shareholding in Big Investment Ltd, an investment company	21,000
10% shareholding in ABC Trade Ltd, an unquoted trading company, held since 2010	40,000

At the time of Albert's death, the life interest in the holiday property in Devon (which then passed to his two daughters, Gemma and Isabel, absolutely) was valued at £350,000.

In March 2016, Albert gifted his static caravan to his two daughters. He continued to use the caravan for extended holidays and carried out minor repairs and maintenance but did not pay any rent for his use. The caravan was valued at £16,000 in March 2016 and was valued at £19,000 at the time of Albert's death.

In February 2023, Albert made a gift of £18,000 to Gemma and in March 2023, he made a gift of the same amount to Isabel.

Albert's Will leaves £140,000 to a UK registered animal charity and the shares in ABC Trade Ltd to his nephew Phillip. The remaining estate is divided equally between his two daughters.

Both Barbara and Albert were UK resident and domiciled.

Requirement:

1) **Calculate with explanations, the Inheritance Tax due on Albert's death making any elections which are beneficial.** (14)

2) **State the amounts and due dates for payment of the Inheritance Tax, assuming any appropriate claims are made, and state who is liable for the Inheritance Tax.** (6)

Total (20)

2. Bill died in August 2024 leaving an estate valued at £1.5 million. At the time of his death, he was divorced and was UK resident and domiciled. His estate was left to his two children, Peter and Martha, in equal shares.

Bill had made the following gifts during his lifetime:

1) In February 2019, cash of £200,000 to each of Peter and Martha so they could each buy a property for £200,000. When Bill died, Peter's house was worth £220,000 however due to problems with the building, Martha's apartment was worth £150,000.

2) In May 2021, Bill gifted a book worth £26,000 to Peter. In January 2024 Peter sold the book for £15,000, which was its market value.

3) In February 2023, Bill gifted a table worth £20,000 to Martha. In June 2023, Martha sold the table to Peter for its market value of £10,000.

The UK resident executors have carried out the following transactions during the administration period:

1) At death, the estate held 1,000 shares in BigPharma plc valued at £25,000. In January 2025, the executors purchased a further 200 shares for £4,400. In May 2025, the executors sold 1,000 shares for £15,000 with sales costs of £75. In July 2025, the remaining shares, then valued at £3,200 were distributed in specie to Peter.

2) At death, the estate held 600 shares in AI Tech plc valued at £12,000. In January 2025, there was a bonus issue of one new share for every three shares held. In July 2025, the executors sold 600 shares for £12,000. In September 2025, the remaining shares, then valued at £41,000 were distributed to Martha.

3) In September 2025, Bill's grandfather clock was sold by the executors for £3,000. At death, it was worth £3,500.

4) At death, the estate held 250 shares in Bigdieselcars plc valued at £10,000. In September 2025, the shares were sold by the executors for £7,000 (after costs of sale).

5) At death, Bill's home was valued at £950,000. However, the expansion of a major road close to the property after Bill's death devalued the property. In October 2025, the property was sold by the executors for £800,000. The sales costs were £3,500.

Requirement:

1) State any Inheritance Tax claims which can be made by the children or the executors and calculate any Inheritance Tax savings from making these claims. (9)

2) Calculate any Capital Gains Tax due on the sale of the assets by the executors. (6)

Total (15)

3. Mary is domiciled in Australia but has been resident in the UK since May 2001. On 30 October 2015, she set up a trust for the benefit of her two adult children, Ben and Daisy, who are UK resident. Mary is excluded from benefitting from the trust. The trustees are her sister and brother-in-law who live in Australia. Mary has not made any other gifts.

The trust was settled with £950,000 in cash which was held in an account in Jersey. The cash was subsequently invested in a portfolio of foreign listed shares. On 2 January 2024, the trustees purchased a property in Bristol for £450,000 where Daisy could live whilst at university. However, Daisy decided to take a gap year and the property has been empty since it was purchased. The trustees are considering whether they should make the property available to rent.

The Bristol property is now worth £480,000 and the foreign investments are worth £600,000. The trust has accumulated income of £25,000 and has realised the following capital gains/(losses) on investments:

	£
2017/18	3,000
2018/19	(12,000)
2019/20	3,500
2020/21	2,750
2021/22	(4,000)
2022/23	1,200
2023/24	16,000
2024/25	(12,100)

Ben finished his degree in June 2024 and now has a job paying £38,000 per annum but has no other income. The trustees would like to make a capital distribution to him of £48,000 to pay off his student loan. They are considering whether this should be a one-off payment in December 2025 or whether they should pay him £12,000 per year for four years.

Requirement:

1) **Explain with supporting calculations, any tax consequences for the settlor and the trustees in relation to the UK property.** (7)

2) **Calculate Ben's tax liability in respect of the capital distribution if he receives a one-off payment and explain, with supporting calculations, why it would be better from a tax perspective for him to receive distributions over four years.** (8)

Total (15)

4. Simone Forstater, a UK resident and domiciled individual, died on 20 April 2023. Her estate was valued at £1.5 million on death. The administration period ended on 17 April 2025. No notice to file a tax return has been issued to the trustees.

	2023/24	2024/25	2025/26
	£	£	£
Dividend from 100% shareholding in Forstater Properties Ltd, an investment company (1)	10,000	200	14,000
Interest from ISA	2,000	2,000	-
Net rents received (cash basis) (2)	15,000	100	10,000
Administration expenses incurred	2,500	-	-

1) The dividend received in 2025/26 was received on 7 April 2025.

2) The net rents received in 2025/26 were received between 7 April 2025 and 15 April 2025.

Under her Will, Simone made a specific legacy of her shareholding in Forstater Properties Ltd to her sister, Tabitha. The shares were assented to Tabitha on 14 April 2025.

Simone left her ISA to her wife, Abigail and the residue of her estate to her sister Helen. The executors gave Simone's watch (probate value £20,000) to Helen on 5 January 2024. The ISA was passed to Abigail on 7 April 2025.

On 3 March 2025, Helen entered into a deed of variation. This passed 50% of her share of the estate residue to a life interest trust for Simone's wife Abigail and the remaining 50% share on trust for Simone's daughter Jennifer, who was 17 at the date of the deed. The trust for Jennifer provides that she will be entitled to the income of the trust at 18 and the capital at 25. The deed included the relevant statements under s.142 IHTA 1984.

Requirement:

1) **Calculate with explanations, the Income Tax payable by the estate and the amounts that will be treated as received for Income Tax purposes by Tabitha and Helen for each tax year and explain how and when that Income Tax liability will be reported and paid to HMRC by the executors.** (14)

2) **Explain the Inheritance Tax treatment of the trusts created under the Deed of variation. Calculations are not required.** (6)

Total (20)

5. Magdalena Titley, a divorced UK resident and domiciled individual, made the following lifetime gifts. In each case the assets gifted had been held by Magdalena for at least 10 years:

<u>14 December 2011</u>

£100,000 of cash to the MT Trust, a discretionary trust for her nieces and nephews.

<u>14 October 2018</u>

A factory (market value £350,000) used by her 100% owned trading company, Tipton Ltd to the Titley Factory Settlement, a discretionary trust for her sisters and their issue. The factory was still used by the company at her death.

<u>11 November 2020</u>

Farmland (market value £400,000) used in Magdalena's farming business to a disabled persons trust for her daughter Christiana. At Magdalena's death the land was let by the trustees to the local riding stables for their use. The land has no value in excess of its agricultural value.

<u>10 May 2022</u>

Quoted shares in RingMe plc a company controlled by Magdalena to the RingMe Discretionary Trust, for the benefit of Magdalena's grandchildren. The diminution in value of Magdalena's estate was £1 million. Magdalena paid the Inheritance Tax due. The trustees signed an unconditional contract to sell the shares on 15 May 2025.

<u>19 June 2023</u>

Unquoted shares in Veganize Ltd (market value £700,000) to the Titley Grandchildren's Trust, a further trust for the benefit of Magdalena's grandchildren. Veganize Ltd owned and ran a restaurant at the time of the transfer. The nature of the business has changed and by the time of Magdalena's death the restaurant trade had ceased to be carried on by the company and the premises were let. No dividends have been received on the shares. The shares were still held at Magdalena's death.

Magdalena died on 21 June 2025. In her Will she left a further £1 million of cash to the existing Titley Grandchildren's Trust (created on 19 June 2023) which will shortly be paid to the trustees. The trustees will make a cash capital distribution of £100,000 to Magdalena's granddaughter, Edwina on her 21st birthday on 1 December 2025.

Requirement:

1) Explain how any Inheritance Tax charges arising in respect of each of the gifts made by Magdalena in her lifetime and on her death will be calculated. Calculations are not required. (16)

2) Calculate the Inheritance Tax due on the capital appointment from the Titley Grandchildren's Trust on 1 December 2025, assuming that no nil rate band is available to the trustees and that the trustees pay the Inheritance Tax arising. (4)

Total (20)

6. Mandeep Singh died in May 2025. He was born in Canada with a Canadian domicile of origin and came to the UK in May 2000, remaining here until his death.

At his death, his estate liabilities were as follows:

1) £250,000 to the bank borrowed on 12 April 2011 to purchase AIM shares. The loan was secured against his main residence. At death his main residence was worth £1 million and the AIM shares were worth £300,000.

2) £100,000 to the bank borrowed on 13 August 2013 to acquire a 10% shareholding in Teapot Ltd, an unquoted trading company. The bank loan was secured against his property letting portfolio. In September 2015, he gifted half of these shares to the Singh family trust (a discretionary trust for his adult children) and the other half to his to son Harpal. Mandeep retained the obligation to repay the bank loan.

3) £150,000 to the bank borrowed on 31 March 2006 to purchase a property in Canada. The bank loan was secured against a stock market portfolio of listed shares.

In May 2006, Mandeep made a gift to a non-resident trust which purchased a residential property in Wolverhampton. The trust was for the benefit of his niece, Sharan and her children. Mandeep and his family were excluded from benefit. Sharan, a UK resident, used the property as her main residence from November 2023. The non-resident trustees disposed of the property on 7 October 2025 at a significant gain over its original base cost. The proceeds will be reinvested and no capital distribution will be made by the trust.

Requirement:

1) For each liability above, explain whether a deduction is available from Mandeep's estate for Inheritance Tax purposes and if so where each liability will be deducted. Calculations are NOT required. (5)

2) Explain the Capital Gains Tax treatment of the disposal of the property by the trust. Calculations are NOT required. (5)

Total (10)