Institution **CIOT - CTA**
Course **APS IHT Trusts and Estates**

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Section 1	**3492**	**16303**	**19375**
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Answer-to-Question-_1_

To: The Trustees

From: A Tax Advisor, ABC Chartered Tax Advisors

Date: 8 May 2025

Subject: Ryan Family Discretionary Settlement and Margaret Ryan Accumulation & Maintenance Trust

Introduction:

This report has been written for the Trustees of The Ryan Family Discretionary Settlement and the Margaret Ryan Accumulation and Maintenance Trust in response to an email from Belinda Martinez dated 7 May 2025.

This report is based on current law and legislation as at 8 May 2025. ABC Chartered Tax Advisors is not liable for any changes to thsi legislation and advises that if any such changes occur, additional advice is taken.

ABC Chartered Tax Advisors do not accept responsibility for losses by any third party as a result of taking action based on this report.

The following abbreviations are used in this report:

'A&M' - Accumulation and Maintenance

'IHT' - Inheritance Tax

'CGT' - Capital Gains Tax

'APR' - Agricultural Property Relief

'NRB' - Nil Rate Band

'PET' - Potentially Exempt Transfer

'CLT' - Chargeable Lifetime Transfer

Executive Summary:

In this report, I first discuss two options for distributing capital to Alice from the Ryan Family Discretionary Trust.

Option 1 is that the Trustees sell the shares to Sigma Global Inc for £13.58 per share, and then distribute the cash to Alice. I have calculated the Capital Gains Tax on this sale as £30,489 per appendix 1.

There is no IHT to pay on the distribution as the value of the Trust was below the Nil Rate Band on 17 September 2019, per appendix 2.

This option therefore leaves Alice with £193,581.

Option 2 is that the Trustees distribute the shares to Alice as soon as possible and she receives the payment from Sigma Global Inc herself on 3 June 2025. When the shares are distributed to Alice, this would be a deemed disposal at market value. I have used the current value of £10.75 per share to calculate the capital gains tax liability on this transfer as £21,150 per appendix 3. I have recommended that a loan be made to Alice for this amount as the Trust does not have enough cash to pay the Tax. Alice can then repay the loan when she has received the payment from Sigma Global Inc.

As with option 1 there is no IHT to pay on the distribution as the principle charge in 2019 was nil.

When Alice receives the payment from Sigma Global Inc, there will be a further gain of £46,695 per appendix 4, however thsi is not taxable as she is non-resident and non-resident individuals are only charged to UK CGT on UK land and buildings.

I have therefore recommended that the Trustees choose option 2 and distribute the shares to Alice as soon as possible in order that she receives and additional £9,339 after tax per appendix 4.

I next discuss the two options in respect of distributing assets from the Margaret Ryan Accumulation and Maintenance Trust.

Option 1 is that the Beneficiaries receive their 1/3 share on their 25th Birthday as intended under the Trust deed. This results in an IHT charge of £21,210 each per appendix 5 and a CGT charge of £104,233 per appendix 6.

Per appendix 7, they will receive a net distribution of 752,990.

Option 2 is that they receive their 1/3 share of the Trust assets before 14th May. This reduces the IHT due and enable the Trustees to defer all capital gains tax.

Isabella and Matthew would have an IHT liability of £20,156 each per appendix 8A.

Polly would have an IHT liability of £18,663 per appendix 8B.

They would each have a gain of £92,480 arising on the sale of Bonds Chemists Plc shares in June 2025, per appendix 10, which will be taxed at 10 - 20% CGt on their personal tax returns depending on their individual income.

Their net distributions from the Trust would be £845,847 to Isabella and Matthew per appendix 11A, and £847,362 to Polly per appendix 11B.

This leaves them with unequal amounts, which is not what the Trustees intended per the email from Belinda on 7 May 2025.

I have therefore recommended that the Trustees distribute the assets on each Beneficiary's 25th Birthday as intended in the Trust deed, with no claim for the deferral of Capital Gains Tax. This will leave the Beneficiaries with assets of £752,990 each and maintains equality between them.

In summary, I recommend that:

- The Trustees of Ryan Farmily Discretionary Trust distribute the shares on Bonds Chemists Plc as soon as possible in order that she receives and additional £9,339 after tax per appendix 4. I have recommended that a loan is made to Alice from the Trust for the CGT due on the transfer to ensure that the liability is covered.
- The Trustees of Margaret Ryan Accumulation and Maintenance Trust distribute the assets on each Beneficiary's 25th Birthday as intended in the Trust deed, with no claim

for the deferral of Capital Gains Tax. This will leave the Beneficiaries with assets of £752,990 each and maintains equality between them.

1 - Ryan Family Discretionary Trust

This discretionay Trust was set up by Edward Ryan on 17 September 1999. It was a Chargeable Lifetime Transfer at the date of creation and exit and principle charges will be due on the Trust under the Relevant Property Trust legislation.
Under the terms of the Trust, the Trustees have absolute discretion over the payment of any income or capital to the Beneficiaries, however Edward wihses for these payments to be kept equal where possible.

Distributing the remaining Bonds Chemists Plc shares to Alice therefore rectifies the imbalance in prior distributions which have only been received by Jason and Belinda.

The exit charge on any distribution may need to be reported to HMRC on an IHT100 form within 6 months from the end of the month of transfer.

The payment of any capital gains by the Trust should be paid alongside the Trust's 2025/26 tax return on 31/01/2027. The gains and any associated claims should be reported on thsi retrun by the Trustees.

1A - Sell shares, then distribute to Alice

CGT:

If the Trustees retain the shares to receive payment from Sigma Global Inc, there will be a capital gain of £153,945 on sale per appendix 1. I calculate that the tax liability on this would be £30,489 which would be payable by the Trustees alongside their 2025/26 tax return, on which the gain should be reported.

The Trust is only entitled to 50% of the standard annual exempt amount, meaning only £1,500 of the gain is exempt from CGT, compared to £3,000 if it were taxed on an individual.

This leaves £193,581 of proceeds to be distributed to Alice after 3 June 2025.

IHT:

On the distribution of capital from a Discretionary Trust, there is an exit charge for IHT.

This is calculated using the rate of the previous principle charge which in this case was 17 September 2019.

Per appendix 2, I calculate that on 17 September 2019 there was no principle charge as the value of the assets held in the Trust was below the Nil Rate Band, icnluding a deduction for the gifts of £17,000 each made to Belinda, Jason and Alice in 1999 which would have become chargeable on his death.

This means that there will be no exit charge on the distribution of assets to Alice before the next principle charge on 17 September 2029.

<u>1B - Distribute to Alice, then sell shares</u>

<u>IHT:</u>

As above, there will be no charge to IHT on the transfer of shares to Alice due to the nil principle charge in 2019, per appendix 2.

<u>CGT:</u>

If the Trustees decided to distribute the shares to Alice ahead of the payment from Sigma Global Inc, this will be treated as a market value disposal for CGT. There is no scope for this gain to be deferred as there is no immediate charge to IHT and Alice is non-resident.

I have therefore calculated the gain based on the current value of £10.75 per share to be £107,250 per appendix 3.

As there is very little cash in the Trust, the Trustees should consider how the capital gains liability of £21,150 will be paid. This will be due on 31 January 2027 and should be reported on the Trust's self assessment tax return. I suggest that in this instance a loan is made to Alice for the value of the CGT due, which she repays when she receives the payment from Sigma Global Inc.

Once Alice receives the payment from Sigma Global Inc, there will be a further gain of £46,695 per appendix 4, being tax on the difference between her base cost of £10.75 per share and the sales proceeds of £13.58 per share. As Alice is non-resident, this gain will not be taxable in the UK. Non-residents only pay UK CGT on UK land and property.

The remaining cash for this option is £202,920 per appendix 4.

<u>1C - Distribution of income</u>

In your email, I note that you mentioned distributing any income to Alice at the same time.

From the information provided on the assets in the Trust it looks as though there is very little cash held in the bank. Income can only be distributed to Alice if there is available unaccumulated income available in the Trust bank account, any income which has been held for over 5 years is considered to be capital.

We also do not hold information regarding the tax pool, if the tax pool is positive and the Trust does hold unaccumulated income, I would recommend utilising this in order to reclaim a small amount of Trust tax. This will be a minimum of 5% as Alice is a higher rate taxpayer.

If you would like further advice on this, please provide us with details of the Trust's unaccumulated income and tax pool from the 2023/24 tax return.

1D - Recommendation

I note that your main objective is to gift Alice the highest value of funds possible, as such I recommend that you distribute the shares to Alice ahead of the payment on 3 June 2025.

As a reminder, the remaining funds from each option are:

Option	Proceeds	Tax	Remaining funds
Option 1	224,070	30,489	193,581
Option 2	224,070	21,150	202,920

Therefore, by distributing the shares to Alice as soon as possible, she will receive an additional £9,339 after tax.

She will receive the Bonds Chemists Plc shares with a base cost of £10.75 per share.

The Trustees will be responsible for paying and reporting the capital gain on transfer on the Trust's 2025/26 tax return which should be filed and paid by 31/01/2027.

2 - Margaret Ryan A&M Trust

As this Trust was created before 6 April 2008, it was a qualifying accumulation and maintenance Trust. This means no Inheritance Tax was paid by Margaret on creation, as it was treated as a Potentially Exempt Transfer which is only chargeable on death within 7 years.

Originally these Trusts had no principle or exit charges, however the rules on this changed. The Trusts had up until 6 April 2008 to amend the terms of the Trust in order that it be treated instead as an age 18-25 Trust. This means that the terms of the Trust must state that:

1 - The class of beneficiaries closed on or before 6 April 2008
2 - All beneficiaries receive a right to capital at age 25

The Margaret Ryan Trust satisfied both of these conditions so it shall be treated as an age 18-25 Trust.

With either option, the Beneficiaries may make a deduction for the IHT paid on each of Valley Park and Buttercup Field on exit from the Trust in the event that they sell the assets in future.

The exit charge on any distribution must be paid by the Beneficiary and reported to HMRC on an IHT100 form within 6 months from the end of the month of transfer.

The payment of any capital gains by the Trust should be paid alongside the Trust's 2025/26 tax return on 31/01/2027. The gains and any associated claims should be reported on thsi retrun by the Trustees.

<u>2A - Distribute on 25th Birthdays</u>

Option 1 is that the Trustees follow the terms of the Trust and appoint the assets at each Beneficiary's 25th Birthday.

<u>IHT:</u>

If the distributions are made on each Beneficiary's 25th birthday, there will be an exit charge on 1/3 of the value of the Trust.

The exit charge is calculated as in a Discretionary Trust as the number of complete quarters out of 40. The difference with an A&M Trust is that instead of using the value at the last principle charge we use the initial value of the Trust.

We then use the number of complete quarters which have passed since the Beneficuary's 18th birthday, being a maximum of 28 between 18 - 25.

This means all 3 beneficiaries have an exit charge of £21,210 per appendix 5.

CGT:

The distribution of assets from the Trust is deemed to be a disposal at market value for CGT. This means there will be capital gains tax to pay on the appointment of assets to the benficiaries.

There is an option to defer the CGT where there is an immediate charge to IHT.

With that in mind, it is important to note that where land and buildings are part of an age 18-25 Trust, no part of the asset may be distributed until all Beneficiaries have attained 25 or received their share of Trust capital.

This means that, in this option, all Beneficiaries will receive their shares of Valley Park and Buttercup Field on 18 January 2026, even though the distribution is charged to IHT on their respective birthdays.

As only Polly's 1/3 will then have an immediate charge to tax, there will be a total CGT liability of £208,367 per appendix 6 which is attributable to Isabella and Matthew's shares if a deferral claim is made.

In the interest of keeping things fair and equal, I expect that in reality, the deferral relief will not be claimed and the full value charged to CGT, creating a liability of £312,700, per appendix 6, being £104,233 each.

They will each receive the assets with a base cost equal to 1/3 market value at the date of transfer, being £700,000 for Valley Park and £40,000 for Buttercup Field.

This leaves each Beneficiary with £752,990, per appendix 7.

2B - Distribute everything before 14 May 2025

Option 2 is that the Trustees distribute all assets before 14 May 2025, as allowed under the Trust deed. This will reduce the amount of tax due.

IHT:

As with option 1, there will be an exit charge on the distribution of assets to the Beneficiaries.

By making the distributions earlier, the IHT charge is reduced. This is because the number of complete quarters which have passed since their 25th Birthday is lower. They will also receive Bonds Chemists Plc shares rather than the proceeds from the purchase by Sigma Global Inc less the Trust's CGT liability.

Isabella and Matthew will receive their assets 1 quarter early and so their IHT charge is reduced to £20,156 per appendix 8A.

Polly will receive her assets 3 quarters early and so her IHT charge is reduced to £18,663 per appendix 8B.

CGT:

As all distributions will carry an immediate charge to IHT, all capital gains may be deferred, per appendix 9.

This means the Beneficiaries will recieve the assets with a base cost equal to 1/3 of the value on creation of the Trust, for Valley Park this will be £208,333 and for Buttercup Field this will be £10,000. They will receive the shares in Bonds Chemists Plc at a base cost of £53,900.

Per appendix 10, they will each have a taxable gain of £92,480 on the sale of shares in Bonds Chemists Plc which will be taxed at 10 - 20% dependant on their individual income levels.

Per appendix 11, their distribution from the Trusts less IHT will be:

Isabella and Matthew - £845,847

Polly - 847,362

2C - Recommendation

As you can see, Option 2 leaves each Beneficiary with a higher value of assets after the deduction of tax liabilities.

However, I note in your email you state that you wish for each distribution to be equal. It is for this reason that I recommend the assets are distributed to the Beneficiaries as per the intentions of the Trust deed on their 25th Birthdays.

I recommend that a claim is not made to defer the capital gains tax on Polly's share, as the same claim cannot be made in respect of Isabella and Matthew's shares.

This leaves each Beneficiary with £752,990 per appendix 7.

They will each receive the assets with a base cost equal to 1/3 market value at the date of transfer, being £700,000 for Valley Park and £40,000 for Buttercup Field.

Appendix:

1 - CGT on sale of shares by Trust

Proceeds	13.58 x 16,500	224,070	
Base cost	210,375 x 16,500/49,500	(70,125)	
IHT on creation	W1	0	
Capital gain		153,945	
Trust AEA	3,000/2	(1,500)	
Taxable gain		152,445	
Tax at 20%		30,489	
Funds available for distribution	224,070 - 30,489	193,581	

W1)

Lifetime tax:

Transfer into Trust			
Bonds Shares	210,375		
Telecom Plc Shares	824		
Gas Utilities Plc Shares	1,245		
Bright Green Plc Shares	556		
Bank	10		
		207,740	
NRB	231,000		
Gifts in 7 years prior	PETS		
		(231,000)	
Lifetime tax		0	

Death tax:

Transfer into Trust		207,740	
NRB	275,000		
Gifts in 7 years prior	(17,000)		
	(17,000)		
	(17,000)		
		(224,000)	
Death Tax		0	

2 - IHT on 10 year anniversary (2019)

Value of Trust at 17/09/2019			
Shares		135,645	
Bank		283	
		135,928	
NRB	325,000		
Gifts by Settlor in 7 years prior to Trust	(17,000)		
	(17,000)		
	(17,000)		
		(274,000)	
Taxable value of Trust		0	
Principle charge 2019		0	

<u>3 - CGT on distribution of shares to Alice</u>

Proceeds	10.75 x 16,500	177,375	
Base cost	210,375 x 16,500/49,500	(70,125)	
IHT paid on creation of Trust	W1	0	
Gain		107,250	

Trust AEA	3,000/2	(1,500)	
Taxed on Trust		105,750	
CGT at 20%		21,150	

4 - Capital Gain on sale of shares by Alice

Proceeds	13.58 x 16,500	224,070	
Base cost		(177,375)	
Gain		46,695	
		Not taxable	
Remaining funds	224,070 - 21,150	202,920	

5 - IHT on distribution of 1/3 Trust on 25th Birthday

Initial value of Trust			
Valley Park	625,000		
Buttercup Field	30,000		
Bonds shares	161,700		

Cash	500		
		817,200	
NRB	325,000		
(Chargeable) gifts made by Margaret in 7 years prior	0		
		(325,000)	
Taxable value		492,200	
Notional tax	x 20%	98,440	
Effective rate	/ 817,200	12.046%	
Actual Rate	x 30% x 28/40	2.530%	
Exit charge	x 838,433 (W2)	21,210	

W2)

Valley park		2,100,000	
Buttercup Field	120,000		
100% APR	(120,000)		
		0	
Bonds Shares		0	
Cash		415,300	
Chargeable value of Trust		2,515,300	
1/3		838,433	

6 - CGT on distribution of Valley Park & Buttercup Field on 18 January 2026

Valley Park			
Market Value	2,100,000		
Base cost	(625,000)		
Gain		1,475,000	
Buttercup Field			
Market Value	120,000		
Base cost	(30,000)		
		90,000	
Cash	no gain		
Total gains		1,565,000	
Deduct 1/3		(521,667)	
Chargeable gain		1,043,333	
AEA		(1,500)	
Taxable gain		1,041,833	
CGT at 20%		208,367	

or

Total gains		1,565,000	
AEA		(1,500)	
Taxable gain		1,563,500	
Tax at 20%		312,700	

1/3		104,233	

7 - Value to Beneficiaries

Value of Trust			
Valley Park	2,100,000		
Buttercup Field	120,000		
Cash	415,300		
		2,635,300	
1/3		878,433	
Less IHT		(21,210)	
Less CGT		(104,233)	
Net		752,990	

8 - IHT on distribution to all Beneficiaries before 14th May

A - Isabella & Matthew

Initial Value of Trust			
Valley Park	625,000		
Buttercup Field	30,000		
Bonds Shares	161,700		
Cash	500		
		817,200	
NRB		(325,000)	

Taxable value		492,200	
Notional IHT	x 20%	98,440	
Effective Rate	/ 817,200	12.046%	
Actual Rate	x 30% x 27/40 (W3)	2.439%	
Exit charge	x 826,299 (W4)	20,156	

W3)

15/08/2018 - 14/05/2025 = 27 complete quarters

W4)

Valley Park		2,100,000	
Buttercup Field	120,000		
100% APR	(120,000)		
		0	
Bonds Shares	33,000 x 10.75	354,750	
Cash	415,300		
Deduct 13.58 x 33,000	(448,140)		
Add back CGT	56,988		
		24,148	
Taxable value		2,478,898	
1/3		826,299	

<u>B - Polly</u>

Effective rate as above		12.046%	
Actual Rate	x 30% x 25/40 (W4)	2.259%	
Exit charge	x 826,299 (W4)	18,663	

W4)
19/01/2019 - 14/05/2025 = 6 yrs + 1 qtr = 25 complete quarters

9 - CGT on distribution to all Beneficiaries before 14th May

Valley Park			
Market value	2,100,000		
Base cost	(625,000)		
Gain		1,475,000	
Buttercup Field			
Market value	120,000		
Base cost	(30,000)		
		90,000	
Bonds shares			
Market value	354,750		
Base cost	(161,700)		
Gain		193,050	

Cash	No gain	0	
Total gain		1,758,050	

10 - Sale of Bonds Shares

Proceeds	11,000 x 13.58	149,380	
Base cost	161,700 / 3	(53,900)	
Gain		95,480	
Less AEA		(3,000)	
Taxable gain		92,480	

11 - Value to Beneficiaries

Value of Trust			
Valley Park	2,100,000		
Buttercup Field	120,000		
Bonds shares	354,750		
Cash	24,148		
		2,598,898	
1/3		866,299	

A - Isabella and Matthew

1/3 of Trust value		866,299	
Less IHT		(20,452)	
Net		845,847	

B - Polly

1/3 of Trust value		866,299	
Less IHT		(18,937)	
Net		847,362	