



Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

November 2017

Suggested solutions

Awareness Module B Inheritance Tax, Trusts & Estates

November 2017 Module B IHT Trusts and Estates

- 1) To be able to use the 36% rate of tax, the charitable legacy needs to be at least 10% of the chargeable estate, after NRB.

		Current	Proposed	
Assets – liabilities		850,000	850,000	
Charitable legacy		<u>(40,000)</u>	<u>(52,500)</u>	1
		810,000	797,500	
Nil rate band	2016/17	<u>(325,000)</u>	<u>(325,000)</u>	1
		<u>485,000</u>	<u>472,500</u>	
Charitable legacy	$40,000 / (485,000 + 40,000) = 7.6\%$ $52,500 / (472,500 + 52,500) = 10\%$			1
IHT @ 40%		<u>194,000</u>		1
36%			<u>170,100</u>	
Legacy to children	$850,000 - 40,000 - 194,000$ $850,000 - 52,500 - 170,100$	<u>616,000</u>	<u>627,400</u>	
Increase in legacy to children			<u>£11,400</u>	1

- 2) 1 June 2016 Both PETs making use of £2,500 of the 2016/17 AE. 1*
- 1 August 2016 Further PETs but each < £250 so covered by small gift relief 1
- 1 March 2017 Marriage exemption £2,500 1
- Remainder of 2016/17 AE (3,000 – 2,500) £500 1*
- BF unused 2015/16 AE £1,000 1*

**Lose 1 of these if used 2015/16 before making use of 2016/17.*

- 3) Jack died 18 March 2017 so the PET to son, which was made more than seven years ago, is fully exempt. The only lifetime gift to revisit is the CLT.

1

Gross value		<u>411,250</u>	
NRB available	2016/17	325,000	
	Chargeable transfers < 7 years	<u>Nil</u>	
		<u>325,000</u>	
IHT charge	$(411,250 - 325,000) \times 40\%$	34,500	1
Taper relief	3-4 years = 20% x 34,500	(6,900)	1
IHT paid in lifetime		<u>(17,250)</u>	1
IHT payable by trustees		<u>£10,350</u>	1

4)

	Total £	Non-savings £	Dividends £	
Property income	10,000	10,000		
Dividends	8,000		8,000	
Management expenses x 100/92.5	<u>(1,000)</u>		<u>(1,000)</u>	1
Taxable income	<u>17,000</u>	<u>10,000</u>	<u>7,000</u>	
1,000 x 20%	200			1
9,000 x 45%	4,050			1
7,000 x 38.1%	2,667			1
1,000 x 7.5%	<u>75</u>			1
Income tax payable	<u>£6,992</u>			

5) 1) The shares would be valued using the related property rules 1

Tony and his wife only (not children) own 70% so Tony's shares would have been valued as
 $40/70 \times £410,000 = £234,286$ 1

2) The sale would have taken place within three years of Tony's death so a claim under s176
 IHTA 1984 should be considered. All four conditions are met: 2*

- Executors are selling an asset previously valued with other assets
- Sold to an unconnected third party
- The sale is made within three years of death
- Gross proceeds are less than the value previously calculated

The effect is that the value of £234,286 used for the shares in the death estate would be replaced with the stand alone value of the shares at the date of Tony's death, being £200,000, thus reducing the Inheritance Tax charge on the estate.

1

* Split marks as 1 for identifying claim and 1 for discussing the three conditions.

- 6) The conditions to be met for APR are that the farm is:
- Situated in the UK/Channel Islands/the Isle of Man or an EEA State 1
 - Farm 1 meets this condition but Farm 2 doesn't so no APR would be available for Farm 2 1
 - Owned more than seven years if tenanted 1
 - Billy has only owned Farm 1 since his wife died in 2014 but taking the total ownership period of Billy and his wife, the seven-year condition is met. 1
- If the lifetime gift of Farm 1 becomes chargeable as a result of Billy dying within seven years of making it, APR will only remain available if the farm is still owned by the donee (or the donee owns qualifying replacement assets) and it qualifies for APR by reference to the donee. 1
- As Billy's son **plans** to sell Farm 1, the ongoing availability of APR at Billy's death would need to be confirmed as this may make the relief unavailable.
- 7) The situation cannot be considered a GWR as the gift made by Bob is of cash, and he has not retained use of that asset. 1
- Instead the situation will fall under the Pre-owned asset tax regime as Bob has provided Mark with the necessary funds to purchase an asset which Bob will continue to use, satisfying the contribution condition. 1
- Bob will suffer a POAT charge under the income tax system. 1
- The charge will be based on the notional value of the house which is the commercial rent which could be achieved if the property were let, here £24,000. This can be reduced if any rent is paid but here Bob is not being charged anything. 1
- No charge would be levied if the charge were less than £5,000 but this is not relevant here.*
- The charge will be added to Bob's income and subject to income tax at his marginal rate. 1
- Bob could elect out of the POAT charge and into the GWR rules instead. 1

Max 5

8) The villa in Spain is valued at the £102,000 given in the question but a deduction is allowed for (part of) the overseas expenses, but restricted to a maximum 5% of property value. Here that would restrict the expenses to £5,100 leaving the net value of the villa valued as £96,900. 1

The property owned jointly with Hannah's husband will be valued using the related property rules such that Hannah is deemed to own a 50% share of the total property. The value included in the death estate will be £160,000 x 50% = £80,000. 2

However the property owned jointly with her sister will not be valued in the same way as siblings are not related for Inheritance Tax purposes. Instead the value for Hannah's estate will be based on the value of her half share of the property. 1

The value of the half share will be discounted to reflect its less marketable interest. A deduction from the 50% share of the total value is permitted and can be negotiated with HM Revenue and Customs at between 5% and 15%. Generally 10% is agreed such that this house would be valued at:

50% x £88,000	44,000	
10% discount	<u>(4,400)</u>	
Value for death estate	<u>£39,600</u>	1*

**As the 10% is not an agreed rate, any rate of discounting in the range of 5 – 15% would be accepted here following the explanation.*

9)

Market value	500,000	
Deferred gain under gift relief	(80,000)	1
IHT paid by trustees	<u>33,800</u>	1
Base cost c/f	<u>£453,800</u>	

Capital gain on transfer to the trust

Market value	500,000	
Stella's base cost	<u>(420,000)</u>	1
	80,000	
Gift relief	<u>(80,000)</u>	
Remaining chargeable	<u>£ -</u>	

Inheritance tax on transfer to the trust

Market value	500,000	
Annual exemptions x 2	<u>(6,000)</u>	1
	494,000	
NRB	<u>(325,000)</u>	
	<u>£169,000</u>	
IHT at 20%		£33,800 1

10)

		2015/16	2016/17	
1.5.15	Shares in Beat plc – proceeds	48,500		
1.8.16	Shares in Xcite plc – proceeds		52,000	1*
14.1.17	Racehorse = wasting chattel		-	
	Probate value	(28,000)	(34,000)	1
	SP2/04 expenses to realise assets			
	Estate £1m-£5m = Max £8,000			
	28,000/£2m x £8,000	<u>(112)</u>		1
	34,000/£2m x £8,000		<u>(136)</u>	
	Gain	20,388	17,864	
	Annual exemption	(11,100)	Nil	1*
	Taxable gain	<u>£9,288</u>	<u>£17,864</u>	
	 CGT @ 28%/20%	 <u>£2,601</u>	 <u>£3,573</u>	 1

**1st mark for not including racehorse and spreading other two disposals over separate tax years*

*** AE only available for year of death (2013/14) + two years so awarded if recognise that 2016/17 is beyond this*

11)

- 1) Diamond necklace from Amy – more than five years before Jeannie’s death so no QSR 1
 - 2) Painting from John – still available even though sold before Jeannie’s death 1
- QSR = Value of asset on John’s death x estate rate x %
- $18,000 \times (85,000/600,000) \times 80\% = £2,040$ 3

12)

On the initial transfer of the business from Sean to Annie and Mark, the conditions for BPR appear to be met – relevant business property owned for at least two years. Relief would be available at 100% of the value of the business but has no effect as the transfer is a PET. 1

On the death of Sean, BPR will only continue to be available if the asset in question is still owned by the donee or has been replaced with relevant business property, and continues to qualify for BPR with reference to the donee. 1

In the case of Matt, BPR would potentially still be available as he will have replaced the partnership share with other relevant business property, being a shareholding in an unquoted trading company. 1

However, in order for this to be the case, Matt needs to ensure the proceeds are invested within three years of the sale of the partnership business. 1

In the case of Annie, although she is using her proceeds to reinvest in another asset, BPR would no longer be available as the farm is not being operated by her as a business. Although the farm may qualify for APR, BPR is denied when the replacement property is only APR qualifying. 1