

Institution **CIOT - CTA**  
Course **Adv Tech IHT Trusts and Estates**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	<b>963</b>	<b>4572</b>	<b>5493</b>
Section 2	<b>629</b>	<b>2854</b>	<b>3380</b>
Section 3	<b>581</b>	<b>2658</b>	<b>3202</b>
Section 4	<b>838</b>	<b>3827</b>	<b>4540</b>
Section 5	<b>713</b>	<b>3141</b>	<b>3753</b>
Section 6	<b>184</b>	<b>889</b>	<b>1041</b>
Total	<b>3908</b>	<b>17941</b>	<b>21409</b>

Answer-to-Question- \_1\_

### **Income tax implications**

#### **Jacques - settlor**

Jacques set up an excluded property trust in January 2016. He was non domiciled at the time and it contained only foreign situs assets, so this was excluded property.

Jacques is specifically excluded from benefitting from the Trust and he is unmarried so the Trust is not settlor interested for income tax purposes. He therefore is not liable to UK income tax on income arising to the Trustees.

#### **Maurice and Raquel - Trustees**

The Trustees are both non UK residents, as they reside in France. Because all the Trustees are non-resident, the Trust itself is a non-resident trust. This means the Trustees are only liable to UK income tax if UK source income is received.

The Trust held a French quoted portfolio which produced £45,000 of income. This was foreign income and therefore not taxable on the Trustees.

The Trustees purchased a UK quoted share portfolio on 6 May 2025, producing dividend income of £15,000 per annum. Because at this point there are no UK resident beneficiaries (as Gerome has died), this dividend income is disregarded income (as it is investment income). As such no liability to the Trustees will arise. They may however register with the Trust Registration Service and file self assessment returns for 2025/26 onwards, to claim this as disregarded income to ensure compliance and forego a tax

liability.

### **Gerome - Beneficiary**

Gerome was a UK resident beneficiary of the Trust, who received a benefit from it, in the form of living in the UK property owned by the Trust without paying rent.

Because the Settlor, as above, is not taxable on the income of the trust, one must consider if the beneficiaries can be taxed. Non resident beneficiaries (Angelique and Cassandra) are only subject to UK income tax on their UK source income and are therefore not taxable on the benefits they receive from the Trust, as the Trust is non resident.

Gerome is UK resident and receives a benefit from the Trust in the UK. He is therefore taxable on the value of the benefit received, under s.731 ITA 2007. This is the market value of the rent he has not been paying, per annum. The value of this benefit is matched to Trust relevant income arising in the tax year. If it were not matched or only partially matched, the remainder would be carried forward to be taxed to Gerome in a future year when the Trust income could be matched. In this case the Trust has income of £45,000 per year (ignoring distributions made to non-resident beneficiaries). Given that for a full year, the benefit would be £15,000 (£1,250 x 12), this would be matched to Trust income every year and would therefore be chargeable to income tax on Gerome. This amount would be declared on his annual tax return and taxed to his marginal non savings rates. For a typical year, this would be 40% as he was a higher rate taxpayer, meaning the arising income tax liability for Gerome would be £6,000. This would be due by 31 January following the end of each tax year, from 2017/18 onwards until his death.

### **CGT implications**

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### **Jacques - settlor**

Jacques is protected from being taxed on trust gains arising to the Trustees, because it is not settlor interested for CGT purposes. He was unmarried and had no children and was excluded from benefit personally, so there is no possibility of him being taxed on Trust gains.

### **Maurice and Raquel - Trustees**

The Trust is non resident for CGT because none of the Trustees are UK resident.

As such, the Trustees are only liable to pay UK CGT on gains arising from residential property since 6 April 2015. As such, liquidating the portfolio in France in May 2025 was not chargeable to CGT.

The sale of the UK property on 5 May 2025 was chargeable. This disposal needs to be reported on a non-resident CGT on UK property return within 60 days of completion and therefore by 4 July 2025. The CGT arising is also payable by this date.

Private residence relief (PRR) is available to relieve some of the arising gain. This is because the property was occupied by beneficiaries as their main residence. The relief is available for periods when the property was occupied plus the final nine months of ownership. On the basis the property was renovated and could not be occupied by Gerome, relief is also given for this period from 2016 to 2017 whilst renovations were being carried out. As such no CGT is ultimately due.

<b>CGT on property</b>	<b>£</b>	<b>£</b>	<b>£</b>

Sale proceeds			350,000
Less purchase price and costs			(202,500)
Less renovation costs			(50,000)
Less further enhancement expenditure			(50,000)
Less costs of sale			(4,500)
Gain			43,000
Less PRR (see below)	100% x 43,000		(43,000)
Chargeable			nil

### Notes

#### 1. PRR

Ownership from 06.03.2016 to 05.05.2025 = 110 months

Occupied from 06.04.2017 to 05.03.2025 = 95 months

Final nine months = 9 months

Add period of renovations = 13 months

Gain is fully relieved

### **Gerome - beneficiary**

Gerome received no capital distributions from the Trust and therefore was not liable to CGT.

### **Gerome's missed income tax liabilities**

As above Gerome was liable to pay income tax on his benefit of living rent free in the trust property. The liabilities are deductible from his death estate as they were due at each 31 January following each tax year. The executors should make a disclosure to HMRC to declare the benefits and pay the tax due.

As this is an offshore matter (relating to a non-resident trust) HMRC have 12 years to investigate and raise assessments for the lost revenue here. Interest will have accrued for

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each tax year that tax on the benefit was not paid by Gerome.

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question- 2

### **Post mortem reliefs**

#### **ABC plc shares**

The executors sold the quoted ABC shares at a gain more than 12 months from the death of Thomasina. As such no post mortem relief can be claimed here under s.179 IHTA 1984.

#### **Commercial property**

The executors sold units 4 & 5 together and unit 6 all within three years of Thomasina's death. Provided they were sold to unconnected third parties, there is a possibility of relief being claimed.

All of the units are interests in land. This means that relief under s.191 IHTA 1984 can apply. Where the executors make sales within three years of death at a loss, compared to the probate value, the sale value can replace the probate value in the death estate and generate an IHT refund. The value of the refund is the loss multiplied by the IHT rate applicable at death, assuming here 40%. The executors have not made any purchases of land so the relief to be claimed is not reduced. There are no losses in the fourth year since death so this is not considered further.

The total aggregate gains and losses for the land transactions are totalled to arrive at the loss available for relief to be claimed. Sale costs are ignored for these purposes. This is shown below:

<b>s.191 relief</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
	Probate value	Sale proceeds	Loss / gain	
Unit 4 & 5	(360,000)	350,000	(10,000)	
Unit 6	(75,000)	55,000	(20,000)	
Total			(30,000)	
Available relief at 40%	12,000			

The executors will need to claim this relief and apply for a tax refund from HMRC.

Relief could also be available for the units that are valued under related property rules. This applies only to Unit 6 because this was valued as a 50% share of the unit owned with Thomasina's spouse Mike. Therefore, relief under s.176 IHTA 1984 can be available to replace the related property value in the death estate with the sale proceeds received.

The impact of this is identical to the relief under s.191 as shown above.

Therefore, the executors can only claim a maximum of £12,000 in relief as shown above, under s.191. A claim under s.176 would only apply to the related property valued unit and, as s.191 relief is an all or nothing claim, would involve missing out on the relief for units 4 & 5.

### **Executors' CGT and income tax**

#### **Income tax**

<b>2023/24</b>	£	£	£	£
			NS	DIV
Rents	10,667 x 1		10,667	
Dividends				5,000
Total			10,667	5,000
Tax at 20% or 8.75%			2,133	438
Balancing payment due 31.01.2025	2,571			
First POA 2024/25 due 31.01.2025	1,286			
Second POA 2024/25 due 31.07.2025	1,285			
<b>2024/25</b>			NS	DIV
Rents			63,333	
Dividends				20,000
Total			63,333	20,000
Tax at 20% or 8.75%			12,667	1,750



Balancing payment	14,417			
Less POAs	(2,571)			
Total due 31.01.2026	11,846			
No POAs due for 2025/26 as administration period ended				

### Notes

1. No relief for expenses is available.

### **Capital Gains Tax (CGT)**

2024/25	£	£	£	£
	Probate value	Costs of sale	Sale proceeds	Gain / loss
Unit 4 and 5	(360,000)	(5,100) + (2,880)	350,000	(17,980)
Unit 6	(75,000)	(1,500) + (600)	55,000	(22,100)
ABC shares	(50,000)	(0.5% x 90,000 = 450) + (400)	90,000	39,150
Loss				930
No CGT due				

### Notes

1. Transferring units 1 and 2 and unit 7 to Daniel were not disposals by the executors for CGT because these were dispositions made in Thomasina's will and were made during the administration period.

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2. Relief for probate costs under HMRC SP 2/04 can be claimed. This is 0.8% of the probate value of the assets sold because the estate is valued at over £500,000 but under £1 million.

ABC shares:  $0.8\% \times £50,000 = £400$

Unit 4 and 5:  $0.8\% \times £360,000 = £2,880$

Unit 6:  $0.8\% \times £75,000 = £600$

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question- \_3\_

### **IHT due on Catriona's death**

#### **Position at Don's death**

Don was a formerly domiciled resident of the UK and acquired deemed domicile status as an FDR from 6 April 2017, the start of the second year of UK tax residence. Don was an FDR because he had a UK domicile of origin, being born to UK domiciled parents and was born in the UK.

This meant that at Don's death he was UK domiciled and Catriona was not. Catriona had a domicile of origin in Jersey and had not become deemed domiciled in the UK by virtue of having spent 15 of the prior 20 tax years in the UK. Catriona would not become deemed domiciled until April 2031, but she died before this occurred.

As such when Don died, the estate he left to Catriona was only exempt up to the £325,000 limit for transfers between a UK domiciled spouse and non-domiciled spouse. The remaining £20,000 of his estate was covered by his nil rate band.

#### **Position at Catriona's death**

Catriona had not acquired a domicile of choice in the UK at her death because she always intended to return to Jersey. She therefore remained non domiciled.

The scope of IHT at her death was therefore limited to her UK situs assets. The remainder of her estate, being foreign situs, was excluded property and not subject to IHT.

The loan to Ethan is an asset in her death estate because it remains unpaid. It was used to purchase UK residential property via an offshore company, so despite the fact that Ethan is the debtor and is non-resident and non-domiciled, the loan is considered UK situs.

<b>Death estate and IHT due</b>	£	£	£
UK residence and contents			350,000

Sterling cash in UK account			100,000
Euro cash in UK account			50,000
Loan to Ethan			866,667
Total			1,366,667
Less funeral expenses	7,000 x 1,366,667 / 2,216,667		(4,316)
Gross estate			1,362,351
Less nil rate band			(630,000)
Less residence nil band			(350,000)
Chargeable			382,351
IHT at 40%			152,940

### Notes

1. The authorised unit trust holdings and second home in Jersey are excluded property because they are non UK situs and Catriona was non domiciled at death.
2. The family trust, which is settlor interested for Catriona and otherwise a gift with reservation of benefit (and included in her estate), does not have any UK situs assets. As such the GWROB regime does not apply and her interest in the trust is not included in her death estate for UK IHT as it is excluded property.
3. The funeral expenses are apportioned according to the UK IHT chargeable value of the estate as some of this is deductible against the non-UK situs excluded property.
4. An enhanced nil rate band and transferable residence nil band are available. This is because Catriona's spouse did not use his entire nil bands at death. The unused portion of Don's band is available and he never used his residence nil band so this is also available.

Nil rate band = £650,000 - £20,000 = £630,000  
 RNRB = £175,000 x 2 = £350,000

5. A residence nil band is available because Catriona had her main residence in her death estate and left it to Ethan who is a lineal descendant. Her estate was also valued at less than £2 million so no tapering applied.

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6. The IHT due at Catriona's death is payable by the executors to HMRC by 30.09.2025.  
Ethan as sole beneficiary will ultimately bear this liability.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- \_4\_

**IHT arising on Gwen's death**

**Lifetime transfers and death estate**

	£	£	£
<b>03.04.2013 CLT</b>			
Cash to trust			350,000
Less AE 2012/13 and 2011/12			(6,000)
Net			344,000
Less nil band	325,000 - nil		(325,000)
Chargeable			19,000
Lifetime IHT at 20/80			4,750
Gross CLT	4,750 + 344,000		348,750
No additional tax due on death as outside prev. seven years.			
<b>13.08.2015 PET</b>			
Painting to friend			5,000
Less AE 2015/16 and 2014/15			(6,000)
PET fully exempt			nil
<b>01.11.2019 CLT</b>			
Further cash to trust			150,000
Less AE 2019/20 and 2018/19			(6,000)
Net			144,000
Less nil band	325,000 - 348,750		(nil)
Chargeable			144,000
Lifetime IHT at 20/80			36,000

Gross CLT	36,000 + 144,000		180,000
Additional tax on death			
Gross CLT			180,000
Less nil band at death	643,500 - 348,750		(180,000)
Chargeable			nil
No additional tax due			
<b>06.07.2022 PET</b>			
Cash to Stephen at marriage			12,000
Less marriage exemption			(5,000)
Less AE 2022/23 and 2021/22			(6,000)
Net PET			1,000
Additional tax on death			
PET			1,000
Less nil band at death	643,500 - 180,000		(1,000)
Chargeable			nil
No additional tax due on death			
<b>08.04.2023</b>			
Cash to political party - exempt			

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### Notes to lifetime transfers

1. Settling cash on trusts was a chargeable lifetime transfer for Gwen.
2. The gift to Stephen on his marriage qualifies for the £5,000 marriage exemption as he was Gwen's son.
3. Gifts to qualifying political parties are exempt from IHT. Party J at the time of gift in April 2023, had 1 MP and received more than 150,000 votes at the last election of May 2021 held before the gift was made. Therefore this gift qualified as exempt.
4. Gwen's executors can claim for an enhanced nil rate band to be used at death. This is because her husband Vince did not use his full nil band when he died in 2007, though most of his estate was left to Gwen in an exempt transfer. This is calculated below.  
 Nil band 2007/08 = £300,000  
 Gifts to children (not exempt) = £6,000 so £294,000 remains.  
 $\text{£}294,000 / \text{£}300,000 \times 100 = 98\%$   
 Thus the band available is  $198\% \times \text{£}325,000 = \text{£}643,500$
5. Transfers made by Gwen in the seven years before she died are re-examined at death.

<b>Death estate</b>	<b>£</b>	<b>£</b>	<b>£</b>
Lancashire home			600,000
Ibiza home			350,000
Cash			750,000
Share portfolio	100,000		
Less AIM shares 100% BPR	(10,000)		90,000
Chattels and car			15,000
Less tax liability			(2,500)
Less funeral expenses			(6,000)
Gross estate			1,796,500
Less nil band (as above)	643,500 - 1,000 - 180,000		(462,500)
Less residence nil band			(350,000)



Chargeable			984,000
IHT at 40%			393,600
Estate rate	$393,600 / 1,796,500 \times 100$		21.909%
IHT credit on Ibiza home	$21.909\% \times 350,000$		76,682
Total IHT due	$393,600 - 76,682$		316,918

### Notes to death estate

1. The AIM shares held in the portfolio qualify for 100% BPR, as they are in trading companies and have been owned by Gwen for more than two years at death.
2. A residence nil band is available at death. This is because Gwen had a main residence in her death estate and under intestacy (see below) her lineal descendants will receive the property, and her estate is valued at under £2 million so no tapering applies. This band is also enhanced by her husband's unused RNRB. Thus  $200\% \times £175,000 = £350,000$
3. Gwen is intestate with no surviving legal spouse. Arthur is not a legal civil partner or spouse. As such, under intestacy law her entire estate is left to her issue which is Stephen and Teresa.
4. As the UK IHT on the foreign home is lower than the foreign estate tax paid of £95,000, only the UK applicable IHT is allowable as a deduction from the total IHT liability due.
5. The IHT due is payable by the executors by 31.10.2025.

### Deed of variation to Arthur

Stephen could sign a deed of variation to Arthur, including a declaration under s.142 IHTA 1984, to pass £50,000 from his original inheritance to Arthur as the new beneficiary. This needs to be made before 7 April 2027 (two years after death), should be in writing, must be signed by Stephen and Arthur, and must not be made for consideration as this will invalidate the Deed.

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A deed of variation as above containing the IHT declaration is effectively read back, so that the redirecting of the estate is as if it was made in the Will of the deceased. This means that if Stephen makes such a valid deed, he will not be making a PET to Arthur and it will be as though Gwen directly left the money to Arthur in her Will.

If no Deed is made as above (or a disclaimer is used instead), Stephen will be making a PET to Arthur of the £50,000. This will remain on his IHT cumulative total (less any annual exemptions) and will be taxable on death if he does not survive seven years.

As the legacy here is cash there are no CGT implications to consider because Sterling cash is not a chargeable asset to CGT.

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question- \_5\_

### **Income tax 2024/25**

The Trust was created by Richard on his death by his will, for his children, providing an entitlement to capital at age 25. From the childrens' perspective, at least one of their parents has died.

As such, this is an Age 18 to 25 Trust. This is also a mixed trust in 2024/25 because some of the beneficiaries have an entitlement to income and some do not. Therefore, the share of the trust income relating to the beneficiaries which have an income entitlement, is taxed at the basic and ordinary rates, whereas the element of trust income not subject to an income entitlement, is taxed at the rates according to trusts (ie 45% for interest and non savings and 39.35% for dividends).

The beneficiaries became so entitled to income and capital as below:

Kate: 30.5.2018 for income and 30.5.2025 for capital

Zoe: 19.10.2023 for income and 19.10.2030 for capital

Emma: 25.8.2026 for income and 25.8.2033 for capital.

Therefore in 2024/25, 2/3 of the trust income is taxed to IIP or basic rates and the other third is taxed to RAT discretionary rates.

<b>2024/25 income tax</b>	£	£	£	£
			INT	DIV
Interest			15,000	
				27,000
Remove 2/3 for IIP rates			(10,000)	(18,000)
Total for RAT			5,000	9,000
Less expenses	1,200 x 1/3 x 100/91.25			(438)
Total to tax			5,000	8,562
Tax at 45% and 39.35%			2,250	3,369
Tax at 8.75% on expenses				38

IIP income to tax			10,000	18,000
Tax at 20% and 8.75%			2,000	1,575
Total tax due RAT	38 + 3,369 + 2,250	5,657		
Total tax due IIP rates	2,000 + 1,575	3,575		
Total		9,232		
Less POAs already made		(4,000)		
Balancing payment due 31.01.2026		5,232		
First POA 2025/26 due 31.01.2026		4,616		
Second POA 2025/26 due 31.07.2026		4,616		
<b>R185 Emma</b>	Net income received	Tax paid / credit		
	7,500	6,136		

### **IHT and CGT implications on Kate turning 25**

When Kate turns 25 on 30.5.2025 she will be entitled to her share of the Trust capital. Distributing this capital to her will give rise to an exit charge to IHT and a disposal for the Trustees to CGT.

### **IHT**

Richard was the settlor of the Trust because it was established by his Will at death. The initial value of the Trust and his nil rate band at death are relevant for the exit charge calculation. As this is an Age 18 to 25 Trust, the exit charge rate is adjusted for the number of complete quarters from when Kate arising from Kate's 18th to her 25th

birthday. This is when her share of the capital is regarded as relevant property. No ten year charge has arisen so the value at settlement needs to be examined to calculate the exit charge.

<b>Exit charge</b>	<b>£</b>	<b>£</b>	<b>£</b>
Initial value	290,000 + 315,000		605,000
Less settlor's nil band	325,000 - 20,000		(305,000)
Chargeable			300,000
Notional IHT 20%			60,000
Effective rate	$60,000 / 605,000 \times 100$		9.917%
Actual rate	$9.917\% \times 30\% \times 28/40$		2.083%
Value of property at exit			
Cash	$1/3 \times 302,600$		100,867
Manzini shares	$728 - 740 = 12$		
	$12 / 4 = 3$		
Quarter up	$728 + 3 = 731p$		
Avg marked bargains	$730 + 740 / 2 = 735p$		
Value to use	$735 / 100 \times 45,000$		330,750
Third share of Manzini shares	$1/3 \times 330,750$		110,250
Total	$110,250 + 100,867$		211,117
Exit charge	$211,117 \times 2.083\%$		4,398

### Notes

1. The higher of the average marked bargains or the quarter up valuation is used for the valuation of the Manzini plc shares.
2. The exit charge IHT is due by 30.11.2025 and is payable by the TRustees.

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## CGT

Because there is a charge to IHT arising, the Trustees can claim s.260 TCGA 1992 gift relief on the gain arising on the Manzini plc shares. This means no gain is chargeable and the heldover gain will be deducted from Kate's base cost, to be charged when she disposed of the shares later. It must be claimed within four years of the 2025/26 tax year and a joint claim must be made by Kate and the Trusees. In practice this will just be made on the tax return for the Trust for 2025/26 and will be claimed by 31.01.2027.

There is no gain arising on the cash distributed as it is not a chargeable asset.

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-----ANSWER-6-BELOW-----  
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Answer-to-Question- \_6\_

### **IHT arising on transfer to Trust**

This was a chargeable lifetime transfer made by Amal. By default he is primarily liable to pay the lifetime IHT arising from this transfer. The IHT is due by 30 April 2015.

BPR at 100% is available on the Paloma Ltd shares. This is because these were shares in a wholly or mainly trading company, over which no binding contract of sale was in place. Amal had also owned the shares for at least two years before the transfer.

The company held surplus cash of £1.25 million. As such this is an excepted asset and the value of the transferred shares attributable to this asset will not be eligible for 100% BPR.

<b>CLT</b>	<b>£</b>	<b>£</b>	<b>£</b>
Total company value			5,000,000
Less excepted cash			(1,250,000)
Relievable value			3,750,000
Percentage relievable	$3,750,000 / 5,000,000 \times 100$		75%
Total value of shares			5,000,000
Less value of 80 shares			(3,200,000)
Loss to donor			1,800,000
Value of shares transferred			1,800,000
Less 100% BPR (see above)	$1,800,000 \times 75\%$		(1,350,000)
Chargeable			450,000
Less nil band			(325,000)
Taxable			125,000

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Lifetime IHT 20/80			31,250
Gross CLT			