



Chartered  
Institute of  
Taxation  
Excellence in Taxation

# **The Chartered Tax Adviser Examination**

May 2019

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**Inheritance Tax, Trusts & Estates**

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Suggested solutions

## ANSWER 1

Rock Ltd is a close company as it has five or fewer participators.

The proposed transfers of value made from the company are therefore required to be apportioned to the shareholders by reference to their interests in the company (usually percentage shareholding).

The transfers are deemed transfers of value which are not potentially exempt transfers and are therefore chargeable lifetime transfers (CLT).

In general, lifetime exemptions are not available to reduce the transfers, with the exception of the annual exemption (AE) and the spouse exemption to the extent that the estate of the spouse is increased.

The apportioned transfers of value less available exemptions are treated as net transfers of value and thus grossing up applies.

The gross transfers of value are added to the shareholders' individual cumulative gifting history in the event of death within seven years except where their shareholding is less than 5%.

Business property relief will not apply where the assets concerned have not been used for the business throughout the last two years nor required for future use in the business.

The transfers of value to be apportioned are:

	£
Old studio (£150,000 - £50,000)	100,000
Car	100,000
Cash	75,000
Total	<u>275,000</u>

### James

	£
Apportioned transfers of value (£275,000 x 50%)	137,500
AE 2019/20, 2018/19 (Note 1)	(6,000)
Spouse Exemption	<u>(12,500)</u>
Net transfers of value	119,000
Nil Rate Band (NRB) (Note 2)	<u>(119,000)</u>
Chargeable	<u>0</u>
Gross transfers of value	<u>119,000</u>

Note 1:

The annual gift to the nephew is likely to be exempted as normal expenditure out of income as it is regular and made from surplus income.

Note 2:

The full NRB is available.

## Anne

	£
Apportioned Transfers of Value (£275,000 x 46%)	126,500
AE 2019/20, 2018/19	(6,000)
Net Transfers of Value	120,500
NRB (Note 1)	(28,000)
Chargeable	92,500
Inheritance Tax (IHT) @ 25% (20/80)	23,125
Gross Transfers of Value (£120,500 + £23,125)	143,625

Note 1:

The earlier CLT in 2015/16 of £300,000 - £3,000 (AE 2015/16 only\*) = £297,000 uses up the NRB in priority to the later CLT leaving a balance of £28,000.

\*The cash gift to Debbie in 2014/15 utilises the AE for 2014/15.

## Chris

	£
Apportioned Transfers of Value (£275,000 x 4%)	11,000
AE 2019/20, 2018/19	(6,000)
Net Transfers of Value	5,000
NRB (Note 1)	(0)
Chargeable	5,000
IHT @ 25% (20/80)	1,250
Gross Transfers of Value (Note 2)	0

Note 1:

The earlier CLT of £350,000 - £6,000 (AE 2017/18, 2016/17) = £344,000 fully uses the NRB in priority to the later CLT leaving a balance of £0.

Note 2:

Chris owns less than a 5% shareholding in the company and therefore the gross transfer does not form part of his cumulative gifting history.

Individual forms IHT100 are required to be submitted to HMRC by the company for each of James, Anne and Chris within 12 months of the end of the month that the transfers take place. There is no exception for deemed transfers of value.

Payment of the IHT is due six months from the end of the month in which the transfers take place with primary responsibility to make payment placed on the company. Secondary responsibility is placed on James and Anne to the extent of the transfer of value apportioned to them. Chris has no responsibility to make payment as he holds less than a 5% interest.

Penalties and interest apply respectively for late submission of the forms and payment of the tax liability arising.

## MARKING GUIDE

TOPIC	MARKS
Close company look through (close company definition 0.5, net value apportionment 0.5)	1
Deemed transfer of value, not PET, CLT	1
Exemptions available (annual, spouse) 0.5 each	1
Grossing up required	0.5
Gross transfer of value added to cumulative total, 5% exception	1
No BPR	0.5
Total transfer to be apportioned (deduct payment for old studio)	1
Calculation:	
James – NEOI (0.5), full NRB available (0.5), no grossing (0.5)	1.5
Anne – restricted NRB calculation (0.5), grossing up (0.5), gross transfer value (0.5)	1.5
Chris – PY AE use/NRB fully utilised (1), grossing up (0.5), no cumulation (0.5)	2
<b>Sub-Total</b>	<b>11</b>
IHT100 due date (0.5), payment due date (0.5)	1
Penalties and interest for late submission and payment (0.5 each)	1
Responsibility for filing	0.5
Responsibility for payment (company (0.5) then James and Anne (0.5), not Chris (0.5))	1.5
<b>Sub-Total</b>	<b>4</b>
<b>TOTAL</b>	<b>15</b>

## **ANSWER 2**

Firm address

Client address

X May 2019

Dear Sharon

I refer to our recent discussions and can advise you further as follows:

### **1. RESIDUE**

A deed of appointment (DOA) can be made from the trust to enable your daughters to receive one half of the residue of the estate. The tax implications of this are as follows:

#### **INHERITANCE TAX (IHT):**

##### **Reading back**

An appointment made from a discretionary trust within two years of the date of death is read back into the Will. As there is no change in the liability of the estate there is no requirement for a corrective account to be submitted to H M Revenue & Customs (HMRC).

#### **CAPITAL GAINS TAX (CGT):**

There is no equivalent reading back provision for CGT.

With no plans to sell, and given the increase in land value between the date of death (£200,000) and currently (£1 million) there is the potential for a substantial CGT liability to the trustees of £158,830 (20% x (£800,000 - £5,850)).

This can be avoided if the appointment of the land from the trust is made both within two years of death and prior to estate residue being ascertained or assets being vested in the trustees. In such circumstances, HMRC will accept that this is a disposition by Aaron (read back into his Will) made at the original probate value (effective from the date of his death).

#### **INCOME TAX (IT):**

There is no equivalent reading back provision for IT.

Assuming that no distributions of capital or income are made before ascertainment of residue, one half of any income arising during the estate administration period will pass to the trust at the end of the administration period. The other half will pass to your daughters equally as residuary beneficiaries at that date.

Where distributions of capital and/or income are made during the administration period the person liable for the tax on the attributed estate income will depend on when those distributions are made:

- i) If before the DOA then this will be assessed on the trust.
- ii) To the extent that distributions are made directly to any of you/your daughters/Harry personally before the DOA then there is a flow through the trust.
- iii) If after the DOA then the trust will be assessed on one half and the other half on your daughters equally.
- iv) To the extent that distributions are made directly to you/Harry personally after the DOA then there is a flow through the trust to the extent of one half.

## **2. HOUSE**

It is possible for the house to be the subject of a deed of variation (DOV). The tax implications of this are as follows:

### **IHT:**

The S.142 election within the DOV (in writing and within 2 years of death) deems the redirected half share of the house to be a disposition made by Aaron at the date of his death at its then probate value. There would be no issue with a gift with reservation of benefit (GROB) even if your daughter moved out at a later date.

The original half share valued for probate at £250,000 was exempt as a spousal transfer which will no longer apply if redirected under a DOV. However, as Charlotte is Aaron's direct lineal descendent, this value will instead be covered by the residence nil rate band (£125,000 in 2018/19) and transferable residence nil rate band inherited by Aaron from his first wife (also £125,000).

As there is no change to the IHT liability on the estate there is no requirement for the DOV to be submitted to HMRC.

### **CGT:**

It may be beneficial not to direct that the DOV be effective for CGT purposes if there is any increase in value since death as this will attract principal private residence relief.

Please do not hesitate to contact me if you have any queries.

Yours sincerely

A Tax-adviser

## MARKING GUIDE

TOPIC	MARKS
PHS	0.5
IHT – DOA S.144 IHTA 1984	
DOA – timing, relating back to death and by deceased	1
DOA To daughters, no change IHT therefore no C4 requirement	0.5
CGT:	
DOA prior to ascertainment of residue and vesting in trustees, probate value not disposal by trustees	1
DOA following ascertainment of residue – disposal by trustees at CMV CGT at trust rate - calculated (Reference to lack of sale proceeds to fund CGT)	2
IT:	
No equivalent provision	0.5
At end of administration period – half trust, half daughters	1
During administration period pre/post DOA – wholly trust / half trust, half daughters	1
Potential trust flow through for direct distribution to Sharon/daughters/Harry pre DOA, Sharon/Harry post DOA	2
House:	
DOV – S.142 election, in writing, within 2 years	1.5
Consideration of GROB	0.5
Relating back to death	0.5
Spouse exemption replaced by RNRB & TRNRB – calculated, No requirement for C4	2
Direction to be effective for CGT required? – depends on value at date of DOV, PPR relief effect	1
<b>TOTAL</b>	<b>15</b>

## ANSWER 3

### Woodland Relief - Notes for presentation

- 1) The three main reliefs available for woodlands for Inheritance Tax (IHT) purposes are:
  - a) If the woodland is managed on a commercial business – business property relief is available on market value. This is an absolute relief.
  - b) If the woodland is part of land used for agricultural purposes - agricultural property relief is available on the agricultural value. This an absolute relief.
  - c) In any other case – A woodlands relief election may be made to leave out value of the trees and underwood (but not the underlying land) in determining the value transferred at death alone. This is a deferral relief.
- 2) Woodlands relief (s125(1) IHTA 1984) applies when:
  - a) Part of the value of a person's estate immediately before his death is attributable to the value of land in the UK/EEA, on which trees or underwood are growing where such land does not attract agricultural property and/or business property relief, and
  - b) The deceased was beneficially entitled to the land throughout the five years immediately preceding his death or had become entitled to it without consideration (gift).
  - c) A qualifying interest in possession is treated as beneficially entitled for this purpose.
- 3) Woodlands relief is claimed by means of formal election by the person liable for all or part of the IHT and must be made in writing within two years of the date of death, or such longer time that HM Revenue and Customs may allow.
- 4)
  - a) The deferred charge will be revived on the subsequent lifetime disposal (by sale or gift) of the trees or underwood to someone (other than the disposers spouse or civil partner) and before the second death. That death could be a chargeable occasion or another occasion for an election.
  - b) The amount subject to the deferred charge is:
    - i) In the case of a sale for full consideration, an amount equal to the net sale proceeds and
    - ii) In any other case, an amount equal to the value of the trees or underwood at the time of disposal net of the cost of replanting within three years of disposal (or longer time at HMRC discretion).
  - c) The tax rate is the rate that would have applied on the original death by treating the value of the trees or underwood as the top slice of the estate. However, if the rate at the date of the chargeable event is lower than that on the original death, the lower rate is used.
  - d) The reduced rate of 36% is disregarded.
  - e) The deferred tax is payable in one sum.



- 5) The deferred charge falls on the person entitled to the proceeds of sale and:
- a) Where tax has been charged it cannot be charged on a further disposal of the same trees in relation to the same death.
  - b) An account (IHT 100f) must be delivered by the person liable within six months of the end of the month in which the disposal occurs.

#### MARKING GUIDE

TOPIC		MARKS
1)	IHT reliefs available	
	Commercial woodland BPR	0.5
	Part of land for agricultural purposes APR	0.5
	Election to leave out value of trees and underwood (not land)	0.5
2)	Stating when woodlands relief applies. Trees and underwood. UK/EEA	1.0
	Beneficially entitled five years/gift, including life tenants	1.0
	Deferment of tax when outright relief via APR/BPR not available	0.5
3)	Election to leave out value of trees and underwood (not land), in writing, two years	1.0
4)	Disposal of trees before second death inc. gift exc. spouse/CP triggers tax charge.	1.0
	Value on which tax charged, net sale proceeds, net value underwood	1.0
	Tax rate refers back to previous death, Top slice of estate	1.0
	No 36% rate available	0.5
5)	Tax payable by person entitled to proceeds,	0.5
	Not taxed twice in relation to same death	0.5
	Account within six months of the end of the month in which the disposal occurs	0.5
<b>TOTAL</b>		<b>10.0</b>

## ANSWER 4

### FILE NOTE:

#### INHERITANCE TAX:

Sheila has both a qualifying interest in possession (QIIP) and a non-qualifying IIP. She became entitled to one half of her interest before 22 March 2006 and the other half on the death of her Aunt Nora after 5 October 2008. As such one half of the trust assets are non-relevant property and the other half are relevant property.

#### QIIP:

As a QIIP 50% of the trust falls within Sheila's estate for IHT.

Any lifetime disposal of her interest (other than for consideration) in favour of an absolute interest by an individual will be a Potentially Exempt Transfer (PET).

As a lifetime gift it will benefit from the annual exemption (AE) for 2019/20 and 2018/19 if Sheila notifies the trustees accordingly.

As James is intending to marry soon Sheila could claim the benefit of the £5,000 gifts in consideration of marriage exemption applicable to gifts by parents to their children in anticipation of or on their marriage. Again subject to Sheila having notified the trustees.

As a PET there is no immediate charge to IHT, however James may incur a charge, as transferee, should Sheila die within seven years of the gift (failed PET) calculated as follows:

	£
Transfer of value (Note 1)	1,257,292
Less AE 2018/19, 2019/20	(6,000)
Less gift in consideration of marriage	(5,000)
	<u>1,246,292</u>
Net Transfer of Value	1,246,292
Less NRB, TNRB (Note 2)	(650,000)
Chargeable	<u>596,292</u>
IHT @ 40%	<u>238,517</u>

#### Note 1

Proceeds of sale:

Shares (£2.5million x 40%) = £1million + Property (£600,000 x 50%) = £1.3million less CGT thereon (£42,708 (W1)) = £1,257,292.

#### Note 2

Sheila was sole beneficiary of her late husband's estate and therefore benefits from the full transferable nil rate band (TNRB). As she has made no previous gifts within seven years the failed PET will be the first to utilise her personal nil rate band (NRB).

#### W1

Total CGT £85,415 (see below) / 2 = £42,708.

The IHT charge would be subject to taper relief should Sheila survive for at least three years from giving up her QIIP.

Sheila or James may wish to consider taking out an insurance policy on Sheila's life to ensure that this potential liability is covered. If taken out by Sheila the policy should be written into trust and the premiums paid should be covered by the normal expenditure out of income provisions.

## Non-qualifying IIP:

### Proportionate Charge

Surrender of the non-qualifying life interest and advance of the trust assets to James before the end of the current quarter on 30 June 2019 would attract an exit charge based on the rate established at the last TYA (31 December 2010), calculated as follows:

	£
Relevant property before relief (Note 1)	810,000
Business Property Relief (Note 2)	<u>(450,000)</u>
Relevant property after relief	360,000
Nil Rate Band (NRB)	<u>(325,000)</u>
	35,000
Notional IHT @ 20%	<u>7,000</u>
Effective rate (£7,000/£360,000)	1.944%
Actual rate - (1.944% x 30/100 x 33/40 – Note 3)	0.481%
Exit charge (£1,257,292 @ 0.481% -Note 4)	<u>6,048</u>

#### Note 1

Relevant property value based on legal ownership of the trustees of the relevant property only i.e. a 40% shareholding and one half of the property (£450,000 + £360,000 = £810,000).

#### Note 2

Business Property Relief (BPR) applies to the shares at a rate of 100% as the company is a trading company with no investments assets and the shares have been held in the legal ownership of the trustees for at least two years. Nil BPR applies to the property as, despite having been owned by the trustees for at least two years, only the trustees' legal ownership of the shares held as relevant property (40%) is taken into account when considering whether the shareholding gives the trustees' control of the company.

#### Note 3

Number of complete quarters between date of last 10 year anniversary (31 December 2010) and the exit date (28 June 2019).

#### Note 4

Proceeds of sale (£2.5million x 40%) = £1million + £300,000 = £1.3 million less CGT thereon (£42,708 (W1)) = £1,257, 292.

#### W1

Total CGT £85,415 (see below) / 2 = £42,708.

## CAPITAL GAINS TAX:

### Consideration of Entrepreneur's Relief (ER)

Property:

The trustees do not qualify for ER on the sale of the property as it is not an asset used in Sheila's business. It is instead used in her personal trading company.

The trust's liability to CGT on the sale of the property will be as follows:

	£
Proceeds	600,000
Less cost (Note 1)	<u>(690,000)</u>
Gain/(loss) before AE	(90,000)
AE*	<u>(0)</u>
Net chargeable gain/(loss)	(90,000)
Utilised against gain on shares (above)	<u>90,000</u>
Carried forward	<u>Nil</u>

\*restricted to nil

Note 1

50% of the probate value at Henry's death (£375,000) plus 50% rebased at the date of Nora's subsequent death (£315,000) = £690,000.

Shares:

Sheila holds at least 5% shares directly and is an employee and director of the company. She will therefore qualify for ER on the sale of her shares.

The QIIP can piggy back on her entitlement (with her agreement) and will also therefore qualify for ER on the sale of the shares by the trustees.

Although the non-qualifying IIP is relevant property for IHT purposes for Capital Gains Tax (CGT) purposes it is still an interest in possession and therefore will also qualify for ER on the sale of the shares by the trustees.

James lives abroad. He will therefore receive the proceeds from the sale of his shares free from UK CGT although he will need to determine his tax position in Australia.

The trust's liability to CGT on the sale of the shares will be as follows:

	£
Proceeds (£2,500,000 x 80%)	2,000,000
Less cost (Note 1)	<u>(1,050,000)</u>
Gain before losses/AE	950,000
Less loss on property (above)	(90,000)
AE*	<u>(5,850)</u>
Net chargeable gain	<u>854,150</u>
CGT @ 10% (Note 2)	<u>85,415</u>

\*18/19

Note 1

50% of the probate value at Henry's death ((£1,500,000 x 80%) x 50% = £600,000) plus 50% rebased at the date of Nora's subsequent death (£450,000) = £1,050,000.

Note 2

It is assumed that Sheila has not used any of her £10 million lifetime allowance for ER to date and so the trustee's gain should therefore qualify in full leaving Sheila with a balance to carry forward against any future entrepreneurial gains after deducting both the trustees', and her own personal gains.

## MARKING GUIDE

TOPIC	MARKS
IHT:	
Identify QIIP & non qualifying IIP (pre 22/3/06 & post 5/10/08), non-relevant property & relevant property	1
Qualifying IIP:	
Identify as PET (not if consideration) 0.5 each	1
AE x 2, Gifts in consideration of marriage exemption 0.5 each	1.5
Death within 7 years – consequences – failed PET, transfer of value (after CGT), NRB, TNRB utilisation, calculation of prospective IHT 0.5 each	3
Mitigation – Taper relief, life insurance	1
Non-qualifying IIP:	
Sale & exit both pre TYA – PC calculation (RP only value, BPR shares, no BPR property, NRB, NT, ER, AR, loss to trust principle and value (minus CGT), proportionate charge) 0.5 each	5
CGT	
Property – CGT computation – Base cost (1), loss utilisation against shares (1)	2
Shares:	
Sheila – qualifying ER shares	1
Trust – piggy back ER shares – 10%	1
James – non-resident therefore not subject to UK CGT, Australia advice	1
CGT computation – Trust	
Shares - Base cost (1), AE (0.5), property loss (points awarded above)	1.5
ER lifetime allowance consideration & c/f	1
<b>TOTAL</b>	<b>20</b>

## ANSWER 5

### Lifetime gifts

16 October 2010	Gift to discretionary trust		£	£	£
	Less			330,000	
	Annual exemptions	2010/11	3,000		
	(note 5)	2009/10	3,000	(6,000)	
	Chargeable transfer				£324,000

Value of transfer £324,000 is within the nil rate band for 2010/11 of £325,000. Therefore, the tax payable is nil.

21 April 2012	Gift of cash to Maria		£	£	£
	Less			172,000	
	Annual exemptions	2012/13	3,000		
	(note 5)	2011/12	3,000		
	Marriage exemption		2,500	(8,500)	
	Potentially exempt transfer				£163,500

25 February 2014	Gift of shares to Simon.		£	£	£
	Less			140,000	
	Annual exemptions	2013/14	3,000		
	(note 5)	2012/13	nil	(3,000)	
	Potentially exempt transfer				£137,000

4 May 2016	Gift of cash to Lance.		£	£	£
	Less			20,000	
	Annual exemptions	2016/17	3,000		
	(note 5)	2015/16	3,000	(6,000)	
	Potentially exempt transfer				£14,000

31 January 2017	Gift of painting to Violet.		£	£	£
	Less			120,000	
	Annual exemptions	2016/17	nil		
	(note 5)	2015/16	nil	nil	
	Potentially exempt transfer				£120,000

### Seven year cumulative transfer working Lifetime gifts chargeable on death

		Gross £	Tax £
16 October 2010	Discretionary Trust	324,000	nil
21 April 2012	Gift to Maria	163,500	nil
	(£487,500-£487,500=nil)	487,500	nil
25 February 2014	Gift to Simon (note 1)	137,000	54,800
	(£624,500-£487,500=£137,000@40%)	624,500	54,800
4 May 2016	Gift to Lance	14,000	5,600
	(£638,500-£487,500=£151,000@40%)	638,500	60,400
31 January 2017	Gift to Violet	120,000	
	Less Conditional exemption (note 2)	(120,000)	
		638,500	60,400

24 September 2018	Darren Chandler Date of death		
	Less transfer made more than seven years		
	Before death	(324,000)	
	Cumulative transfers seven years to date of death	314,500	nil
	<b>Nil rate band on death</b>		
	Darren nil rate band 2018/19	325,000	
	Transferrable nil rate band (note 3)	162,500	
		487,500	
	<b>Residence nil rate band</b>		
	Darren 2018/19	125,000	
	Transferrable from wife (note 4)	125,000	
		250,000	

#### Estate on death

Assets	£	£	£
Home		450,000	
Cash		300,000	
Investments		250,000	
Chattels		75,000	
		1,075,000	
Less			
Debts	4,000		
Funeral expenses	6,000	(10,000)	
Net estate		1,065,000	
Nil rate band and Transferrable nil rate band	487,500		
Cumulative chargeable transfers	(314,500)		
Residence nil rate band	250,000	(423,000)	
Chargeable estate @ 40%		642,000	256,800
Option to pay IHT on property in 10 annual instalments 450,000/1,065,000 x £256,800			108,507

#### Inheritance Tax payable

Date of gift/event	Tax payable by	Tax due £	Taper £	Tax payable £
21 April 2012	Maria	nil	80%	nil
25 February 2014	Simon (note 1)	24,000	40%	14,400
4 May 2016	Lance	5,600	0%	5,600
24 September 2018	Estate	148,293		148,293
	Estate (first instalment)	108,507		10,851
<b>Total IHT due for payment by 31 March 2019</b>				<b>£179,144</b>
Remaining nine instalments payable on 31 March each year (£10,851 each) plus interest				<b>£97,656</b>

## Explanatory Notes

### Note 1

The gift of shares to Simon is included in the calculation at the value at the time of the gift. Simon can make a claim for the tax on his gift to be recalculated taking into consideration the fall in value at death.

		£
Value of gift		140,000
Less: Value on death	14,000 @ £4.50	(63,000)
Reduce transfer by		<u>77,000</u>
Revised chargeable transfer	£137,000-£77,000	<u>60,000</u>
Tax due	£60,000 @ 40% x 60%	<u>14,400</u>

### Note 2

The painting is of pre-eminent artistic interest. Conditional exemption as a work of art can be claimed deferring the Inheritance Tax charge. The claim must be made within two years of the date of death. The claim must be accompanied by an undertaking that there will be reasonable public access, preservation and the art will remain in the UK. Violet could meet these conditions by allowing the painting to be displayed in a public art gallery.

### Note 3

Sally died in 1996/97. The nil rate band for that year was £200,000 of which £100,000 (half) was set against non-exempt legacies. The TNRB is calculated by the formula:

(Unused NRB at DOD)/NRB at DOD x current NRB

$(£200,000 - £100,000)/200,000 \times 325,000 = £162,500$

### Note 4

Sally died before 6 April 2017 when the Residence Nil Rate Band (RNRB) became available. The transfer of unused RNRB is available for first spousal deaths before 6 April 2017 even if no property was held at the time of death. In order to qualify, Darren's estate must include a qualifying residential interest and that interest must be closely inherited. On Darren's death his home, as part of the residue of the estate, has been left to his granddaughters therefore both his and Sally's RNRB are available in full at the 2018/19 rate of £125,000 each.

### Note 5

Lifetime gifts have been reduced by the annual exemptions available of £3,000 for the tax year, and the previous tax year if unused, applied in strict chronological order. An additional marriage exemption is claimed in respect of the gift to Darren's granddaughter, Maria, on her wedding, at the rate available for gifts on marriage to remoter ancestor.



## MARKING GUIDE

TOPIC	MARKS
Lifetime gifts	
Calculation of value of transfers and identify no tax payable (5 at 0.5 each)	2.5
Allocation of annual exemptions in chronological order	1.0
Marriage exemption at correct rate	0.5
Seven year cumulative transfer calculation	
Inclusion of discretionary trust in calculation	0.5
Calculation of tax due on each gift (4 at 0.5 each)	2.0
Claim of conditional exemption in calculation	0.5
Cumulative transfer seven years to date of death	1.0
Calculation of nil rate band	0.5
Calculation and explanation of TNRB	1.5
Calculation of RNRB	0.5
Explanation of transferrable RNRB	1.0
Explanation of conditional exemption. Work of Art deferring IHT charge.	1.0
Undertaking to allow public access.	1.0
Calculation of taxable estate on death and tax due on estate	2.0
Calculation of IHT available to be paid in instalments	0.5
Claim for relief for fall in value of shares at date of death made by Simon.	1.0
Calculation of tax due on fall in relief claim	1.0
Calculation of tax due by recipients of gifts including taper (3 at 0.5)	1.5
Due date for payment of IHT	0.5
<b>TOTAL</b>	<b>20.0</b>

## ANSWER 6

### (1) Tax Computations

Income		Non-Savings	2017/18 Savings	Dividends
		£	£	£
18 Mountbatten Close	Income	6,325		
20 Mountbatten Close	Income	7,800		
22 Mountbatten Close	Income	6,000		
Unit 4	Income	7,200		
Bank interest			1,200	
Dividends	Portfolio ISA			4,800
				600
		<hr/>		<hr/>
		27,325	1,200	5,400
Allowable loan interest		(2,000)		
		<hr/>		<hr/>
		25,325	1,200	5,400
Tax due @	20%	5,065.00	240.00	
	7.5%			405.00
		<hr/>	<hr/>	<hr/>
Distributable income		20,260.00	960.00	4,995.00
Total Income tax due	2017/18			£5,710.00
<b>Capital Gains Tax</b>	<b>18 Mountbatten Close</b>			
		£		
Proceeds		310,000		
Cost (Probate Value)		(275,000)		
SP2/04 costs	Per working	(815)		
		<hr/>		
Gain		34,185		
Annual exemption		(11,300)		
Chargeable gain		<hr/>		
		22,885		
Capital Gains Tax @	28%	£6,407.80		£6,407.80
Total tax liability	2017/18			<hr/>
				£12,117.80

No Capital Gains Tax liability on the Aston Martin since as a motor vehicle it is an exempt asset.

Credit will be given for any allocation of the allowable interest with explanation and totals following through to second part of the question.

Income		2018/19		
		Non-Savings £	Savings £	Dividends £
20 Mountbatten Close	Income	7,800		
22 Mountbatten Close	Income	6,000		
Unit 4	Income	7,200		
Bank interest			1,200	
Dividends	Portfolio ISA			4,800 600
		<u>21,000</u>	<u>1,200</u>	<u>5,400</u>
Tax due @	20%	4,200.00	240.00	
	7.5%			405.00
Distributable income		<u>16,800.00</u>	<u>960.00</u>	<u>4,995.00</u>
Total tax liability	2018/19			<u>£4,845.00</u>

Income		2019/20		
		Non-Savings £	Savings £	Dividends £
20 Mountbatten Close	Income	1,300		
22 Mountbatten Close	Income	500		
Unit 4	Income	600		
Bank interest			200	
Dividends	Portfolio ISA			800 100
		<u>2,400</u>	<u>200</u>	<u>900</u>
Tax due @	20%	480.00	40.00	
	7.5%			67.50
Administration expenses		<u>(1,000.00)</u>	<u>160.00</u>	<u>832.50</u>
Distributable income		<u>920.00</u>	<u>160.00</u>	<u>832.50</u>
Total Income tax due	2019/20			£587.50

Capital Gains Tax		22 Mountbatten Close £	Unit 4
Proceeds		295,000	145,000
Cost (Probate Value)		(250,000)	(135,000)
SP2/04 costs	Per working	<u>(741)</u>	<u>(400)</u>
Gain		44,259	9,600
Annual exemption		-	-
Chargeable gain		<u>44,259</u>	<u>9,600</u>
Capital Gains Tax @	28%	£12,392.52	£14,312.52
	20%		£1,920.00
Total tax liability	2019/20		<u>£14,900.02</u>

#### Note

No annual exemption available this year. Only available for year of death and subsequent two tax years.

SP2/04 Working Allowable share of Probate costs – Fixed sum £8,000 (estate >£1million and <£5million)

<u>Asset</u>	<u>Probate Value</u>	<u>£8,000 x</u>	<u>SP2/04</u>
18 Mountbatten Close	£275,000	275,000/2,700,000	£815
22 Mountbatten Close	£250,000	250,000/2,700,000	£741
Unit 4	£135,000	135,000/2,700,000	£400
Total Estate	<u>£2,700,000</u>		

### Reporting requirements

As the estate receives untaxed income the executors are required to account for the tax liabilities arising to HMRC.

The estate does not qualify for informal treatment as the assets exceed £2.5 million. Therefore the executors were required to register the estate on the HMRC online Estate registration service by 5 October 2018.

Self-assessment trust and estate tax returns for each tax year in the period of administration will be required under the normal self-assessment rules with filing deadlines of 31 October following the end of the tax year (paper) or 31 January following the end of the tax year (online).

### (2) Income distributions and R185s

		<b>Non-savings</b>	<b>Savings</b>	<b>Dividends</b>	<b>Total</b>
		£	£	£	£
2017/18	Income	20,260.00	960.00	4,995.00	26,215.00
31 March 2018	Distribution	(15,000.00)			(15,000.00)
Carried forward		5,260.00	960.00	4,995.00	11,215.00
2018/19	Income	16,800.00	960.00	4,995.00	22,755.00
31 March 2019	Distribution	(20,000.00)			(20,000.00)
Carried forward		2,060.00	1,920.00	9,990.00	13,970.00
2019/20	Income	920.00	160.00	832.50	1,912.50
31 May 2019	Final Distribution	(2,980.00)	(2,080.00)	(10,822.50)	(15,882.50)

R185	Alice	<b>Net</b>	<b>Tax</b>
		£	£
2017/18	Savings		
	Non-savings	7,500.00	1,875.00
	Dividends		
2018/19	Savings		
	Non-savings	10,000.00	2,500.00
	Dividends		
2019/20	Savings	1,040.00	260.00
	Non-savings	1,490.00	372.50
	Dividends	5,411.25	438.75

### Note:

The 31 March 2018 distribution of jewellery and personal items, although capital, is deemed to be an income distribution up to the lower of the value of the item or income received by the estate for the year of distribution.

## MARKING GUIDE

TOPIC	MARKS	
(i)	Analysis of income. Savings, Non-Savings and Dividends	1.0
	Total income for three tax years (0.5 each,)	1.5
	Allocation of loan interest	1.0
	Tax rates applied (20%, 7.5%)	1.0
	Total income tax liabilities (0.5 per tax year)	1.5
	Administration expenses not tax deductible	1.0
	Presentation	1.0
	Capital Gains Tax computations 2017/18 & 2019/20 (1.0 each)	2.0
	Rates of tax applied (28%, 20%)	1.0
	SP2/04	1.5
	Annual exemption in full for 2017/18. None for 2019/20	1.0
	Capital gains tax liabilities 2017/18, 2019/20	1.0
	No CGT on sale of Aston Martin	0.5
	Registration of estate with HMRC online by deadline (not small)	1.0
	Sub total	16.0
(ii)	Distribution equivalent to chattels received	0.5
	Distributions from Non-savings income	0.5
	Final distribution total of undistributed income from each type (0.5 each)	1.5
	Net distributions gross-up for tax paid by estate	1.0
	Total distributions agree	0.5
	Sub total	4.0
<b>TOTAL</b>		<b>20.0</b>