

THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Inheritance Tax, Trusts & Estates

May 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. Jacques Munroe was born in France of French domiciled parents and is unmarried. He moved to the UK for employment in 2000 and intends to return to France on his retirement.

On 6 January 2016 and before breaching the then 17 out of 20 years deemed domicile rule for Inheritance Tax, Jacques settled £1 million in cash from his French bank account onto a discretionary trust for the benefit of his brother's three children. He is specifically excluded from benefit and has appointed his brother, Maurice and Maurice's wife, Raquel as Trustees. Maurice and Raquel reside in France with two of their three children, Angelique, and Cassandra. Their eldest son Gerome moved to the UK in 2015 to live with his new wife Beatrice and her parents.

Immediately on settlement, £740,000 was invested in a French quoted portfolio. This produced income of £45,000 per annum. Angelique and Cassandra each receive a capital distribution of £10,000 every December. The balance is retained in the trust current account in France.

From the current account balance on 6 March 2016 of £267,500 the Trustees purchased a house in England for £200,000 plus costs of purchase £2,500 for Gerome to live in. The Trustees spent £50,000 renovating the trust property before Gerome and Beatrice moved in on 6 April 2017. The rental value of the trust property was £1,250 per month but Gerome did not pay any rent.

Gerome and Beatrice died in a car accident on 5 March 2023. They had no children and Gerome's parents are the named executors of his estate. Gerome had never completed self-assessment returns since moving to the UK. His annual UK employment income was £60,000.

The Trustees liquidated assets in France and spent £50,000 on dilapidations before selling the house for £350,000 on 5 May 2025 (exchange and completion on the same day). Costs of sale were £4,500. The net proceeds were invested in a UK quoted share portfolio on 6 May 2025. Annual dividends will be £15,000.

Requirement:

- 1) Explain with supporting calculations, the Income Tax and Capital Gains Tax implications for the Settlor, the Trustees, and the Beneficiaries in relation to the transactions conducted from the date the trust was settled. (16)
- 2) Explain any missed Income Tax liabilities during Gerome's lifetime and how they should be dealt with by the executors. (4)

You are not required to consider the Trustees' registration obligations in the UK.

Total (20)

2. Thomasina Betts, UK resident and domiciled, died on 29 February 2024. She was survived by her husband Mike, also UK resident and domiciled, and adult son Daniel. She had made no lifetime transfers in the seven years prior to her death. Thomasina’s Will left everything to her son Daniel. She left the following estate:

	<u>Total Value</u> £	<u>Nature and extent of Ownership*</u>	<u>Co-owner(s)</u>
Private Residence	500,000	Joint tenants – 50%	Mike
Cash in current account (non-interest bearing)	200,000	Sole ownership – 100%	
2,000 ABC plc shares	50,000	Sole ownership – 100%	
Commercial property:			
Units 1 & 2	380,000	Tenants In Common – 50%	Mike
Units 4 & 5	360,000	Sole ownership – 100%	
Unit 6	150,000	Tenants In Common – 50%	Mike
Unit 7	210,000	Tenants In Common – 33.33%	Mike, Daniel

*Scots equivalent – owners of common property being joint owners with survivorship, and joint owners pro-indiviso.

Funeral expenses were £5,000 and the estate was due a refund of Income Tax for 2023/24 of £5,250. The Inheritance Tax due of £245,300 was paid when the form IHT400 was submitted on 1 August 2024. The gross value of the estate for probate purposes was £943,250 and the cost of obtaining probate was £1,000.

The following sales at market value were completed by the executors during the administration period:

<u>Date</u>	<u>Asset</u>	<u>Proceeds</u> £	<u>Executors’ Costs</u> £	<u>Purchaser</u>
31/07/2024	Units 4 & 5	350,000	5,100	Tenant
05/01/2025	Unit 6 (50%)	<u>55,000</u>	<u>1,500</u>	Tenant
		£405,000	£6,600	

After Thomasina’s death, the following income was received by the executors:

	<u>2023/24</u> £	<u>2024/25</u> £
Net rents (paid monthly)	10,667	63,333
Dividends (paid quarterly 31/3, 30/6, 30/9, 31/12)	5,000	20,000

Estate administration expenses met from income totalled £1,200 in 2024/25. The executors transferred Thomasina’s share of units 1 & 2 and unit 7 to Daniel on 5 March 2025. The executors sold the 2,000 ABC plc shares on 5 April 2025 for £90,000 less commission of 0.5%. The administration period ended on 30 April 2025.

Requirement:

- 1) Calculate, with explanations, the maximum post-mortem relief that can be claimed. (8)
- 2) Calculate the Income Tax and Capital Gains Tax liabilities of the executors during the administration period to date, giving the due dates of payment. (10)
- 3) State the R185 entries for Daniel. (2)

Total (20)

3. Catriona Bronson was born in Jersey to Jersey domiciled parents.

Don was born in the UK, to UK domiciled parents. He moved to Jersey in 1980 when he married Catriona, intending to remain there permanently.

Don and Catriona moved to the UK on 15 April 2016 when Don became ill. Don died in the UK in September 2019, leaving his entire estate, which was valued at £345,000 (net of funeral expenses) and included his share of the family home, to Catriona. He had made no lifetime transfers.

Catriona died on 31 March 2025. Catriona always intended to return to Jersey and wished to be buried there. She had made no lifetime transfers. Catriona left her entire estate to her son Ethan (aged 40) who was born in Jersey and has always lived there.

Catriona held the following assets on her death:

	£
Private residence and contents in UK (of which contents were £10,000)	350,000
Second home in Jersey (occupied by her son Ethan)	400,000
Sterling bank account in UK	100,000
Euro bank account in UK	50,000
Portfolio holdings in Authorised Unit Trusts	250,000
Family trust (of which Catriona was settlor and beneficiary) – no UK assets held	200,000
Loan to Ethan	866,667

Funeral expenses were £7,000 and included repatriation of Catriona’s remains to Jersey for burial there in accordance with her wishes.

The loan to Ethan was made in April 2015. He used it to set up a Jersey company, EJ Properties Ltd, to part fund the purchase of a £1 million residential property investment in the UK with the balance financed by a UK mortgage. EJ Properties Ltd is managed by Ethan in Jersey but pays UK Corporation Tax on its rental income.

Requirement:

Calculate, with explanations, the Inheritance Tax due on Catriona’s death. (10)

4. Vince, who was UK domiciled and resident, died on 6 May 2007. Under his Will, he left £3,000 cash to each of his two children (Stephen and Teresa) with his interest in the family home and the residue of his estate, which had a combined value of £1.3 million net of expenses, passing to his wife Gwen. Vince had made no lifetime gifts. Gwen, who was UK domiciled and resident, died on 7 April 2025 without a valid Will. At the time of her death, she was in a long-term relationship with Arthur.

Gwen made the following gifts during her lifetime:

3 April 2013	£350,000 upon creating a discretionary trust for the benefit of her friend Mabel and her issue. Gwen paid the Inheritance Tax on entry.
13 August 2015	A painting worth £5,000 to her friend Mabel.
1 November 2019	£150,000 addition into the above discretionary trust. Gwen paid the Inheritance Tax on entry.
6 July 2022	£12,000 to her son Stephen on his marriage.
8 April 2023 (Note 1)	£20,000 cash to Party J, a political party.

Note 1: Party J received 510,000 votes and secured one seat in parliament in the general election held on 5 May 2021. At the last general election held on 10 May 2023, the votes fell to 100,000 and the seat in parliament was lost.

At Gwen’s death she held the following assets:

- 1) Her home in Lancashire valued at £600,000 with no mortgage.
- 2) A holiday home in Ibiza valued at £350,000.
- 3) Cash in bank accounts of £750,000.
- 4) A portfolio of shares valued at £100,000, which included AIM shares in trading companies valued at £10,000 which Gwen bought on 1 February 2020.
- 5) Chattels and car with a total value of £15,000.

Gwen also had an Income Tax liability of £2,500. The funeral expenses were £6,000 and foreign estate tax paid on the holiday home was £95,000.

Stephen is very close to Arthur and would like to give him £50,000 of his inheritance from Gwen.

Requirement:

- 1) Calculate with explanations the Inheritance Tax due on Gwen’s death and state by whom the tax is payable and the due date for payment. (17)
 - 2) Explain how Stephen could pass £50,000 of his inheritance to Arthur and the tax implications of so doing. (3)
- Total (20)

5. Richard, a UK resident and domiciled individual, died on 7 January 2016. Under the terms of Richard's Will, his entire estate passed on trust for the benefit of his three children. His children are:

Kate born 30 May 2000;

Zoe born 19 October 2005; and

Emma born 25 August 2008.

The terms of the trust provide that the beneficiaries are entitled to their share of the income at age 18 and capital at age 25.

Richard had used his Inheritance Tax annual exemptions on 6 April each year by making various gifts out of capital. He had also settled £20,000 on trust on 9 June 2009 for the benefit of his brother. He made no other lifetime transfers.

On his death the assets transferred into the Will trust consisted of:

	£
Cash deposited into a bank account	290,000
Manzini plc, 45,000 shares valued at	315,000

The income of the Will trust for 2024/25 was:

	£
Bank Interest	15,000
Dividends	27,000

In addition, the trust incurred trust management expenses met from income of £1,200, made payments on account for 2024/25 totalling £4,000 and had a tax pool brought forward of £nil. There have been no capital distributions to date.

During 2024/25, the trustees made an income distribution to Emma of £7,500. Emma had no other income in that year.

The trust currently holds cash of £302,600 and the following shareholding:

<u>Company</u>	<u>No. Shares</u>	<u>Closing Bid/Offer</u> <u>Prices (p)</u>	<u>Marked Bargains</u> <u>(p)</u>
Manzini plc	45,000	728 - 740	730,733,740

The shares are valued cum-div.

Requirement:

- 1) Calculate the trustee's Income Tax liability for the year ended 5 April 2025, stating the due date for payment and the tax pool to be carried forward. State the appropriate R185 entries for the beneficiaries. (6)
- 2) Explain with supporting calculations, the Inheritance Tax and Capital Gains Tax implications for both the trust and Kate when she reaches age 25. (14)

Total (20)

6. The Edwards Trust was settled on 1 August 2014 by Amal Edwards, a UK resident and domiciled individual. Amal had not made any other lifetime gifts.

The assets settled into the trust on 1 August 2014 were 20 shares in Paloma Ltd, an unquoted trading company. Amal had held all 100 £1 ordinary issued shares in Paloma Ltd since 1 January 2003. On 1 August 2014, the agreed value of 100 shares was £5 million, the agreed value of 80 shares was £3.2 million and the agreed value of 20 shares was £1.5 million.

On 1 August 2014, the balance sheet for Paloma Ltd showed a cash balance of £1.5 million of which £1.25 million was deemed to be surplus by the company accountant.

On 1 September 2020, the trustees sold the shares in Paloma Ltd for net proceeds of £2 million which were deposited in a savings bank account. On the date of sale, the balance sheet for Paloma Ltd showed a £300,000 cash balance which HMRC agreed was required as working capital.

On 1 April 2023, the trustees used the proceeds held in the savings bank account together with accumulated interest to buy 100 shares in Sunbeam Ltd, an unquoted trading company, for £2.25 million. The balance sheet has been reviewed by the company accountant who has confirmed there was no surplus cash at that time.

On 1 August 2024, the trust shareholding in Sunbeam Ltd was valued at £2.5 million.

There have been no capital distributions to the beneficiaries during the lifetime of the trust.

Requirement:

- 1) Calculate, with explanations, the Inheritance Tax payable on the original transfer into trust stating the due date of payment. (5)
- 2) Explain, with supporting calculations, the Inheritance Tax charge arising on the trust's 10 year anniversary. (5)

Total (10)