

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Inheritance Tax, Trusts & Estates

November 2025

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- 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.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a tax senior in a firm of Chartered Tax Advisers. You and your Tax Director, Harriet Watson, recently met with Margie Briggs, one of the trustees of the Colin Northwood Discretionary Trust (“the Trust”). The trustees would like some advice in relation to some proposed distributions from the Trust. Margie is also the sole executor and beneficiary of the estate of Owen Briggs (Margie’s husband) who died on 2 August 2024.

You have received an email (**EXHIBIT A**), some documents relating to the Trust’s assets (**EXHIBITS B and C**) and some information from Margie relating to her late husband’s estate (**EXHIBIT D**). You have been asked to review this information and prepare a draft report to the trustees and Margie in her personal capacity, addressing the questions raised.

The following exhibits are provided to assist you:

EXHIBIT A: Email from Margie Briggs

EXHIBIT B: The Colin Northwood Discretionary Trust: asset details

EXHIBIT C: Financial information for Beechcroft Ltd

EXHIBIT D: Estate of Owen Briggs: probate schedule and valuation

EXHIBIT E: Pre-seen information

Requirement:

Prepare a draft report to Margie Briggs and the trustees of the Colin Northwood Discretionary Trust, which provides recommendations in relation to Margie’s proposals for the transfer of assets to Rose Briggs and Lily Briggs.

EXHIBIT A

Email from Margie Briggs

From: margiebriggs@quickmail.co.uk
To: hbwatson@xyz-taxadvisers.co.uk
Date: 27 October 2025
Subject: The Colin Northwood Discretionary Trust

Dear Harriet

It was good to speak with you last month. Anne and I have finally had a chance to discuss our father's Trust and we agreed I would write to you with an update. As you know, we have had a very difficult time following my husband Owen's death last year. I have been preoccupied with dealing with the estate for the last few months, although it is relatively straightforward as everything passes to me under Owen's Will. I wanted to get the probate application completed and the assets transferred to me before thinking about the Trust.

My father settled the Trust on 15 February 2016 for his grandchildren. Rose and Lily (and their future children) are the main beneficiaries. He appointed my sister and me as trustees and does not want any ongoing involvement with the Trust. We are struggling to find the paperwork, but my father says he paid any tax on creation of the settlement from other funds and did not make any Capital Gains Tax elections, so please advise on that basis for now. I've attached a schedule of the Trust's current assets (**EXHIBIT B**).

The Trust's largest asset is its shareholding in Beechcroft Ltd, which my father formed with my brother and sister-in-law in 2009. After some success renovating properties for sale, the company started to undertake larger new build projects, some of which were sold and some retained and rented out. Business slowed a few years ago and for a short time the company relied heavily on rental income. I have attached some financial information for Beechcroft Ltd (**EXHIBIT C**).

Rose recently approached us with a plan for her own business, an online wine and confectionary company, and after some deliberation we have agreed to transfer £500,000 to her from the Trust to fund the new venture. The cash for Rose is available now so we could, in theory, go ahead with the distribution as soon as next week. However, I wanted to check the tax implications of this, as Rose will not need the funds to invest until March 2026, so we could wait until then to make the transfer. Please could you let us know what you think?

I'd like to keep things reasonably equal between Rose and Lily and have been thinking about how we can benefit Lily too. My first idea was to gift Lily my entire holding in KA Motors Ltd received as part of Owen's estate. I've attached a note from the valuers indicating the share value as at September 2025, together with details of the assets that passed to me under Owen's Will. These figures are reflected in the updated asset list I provided when I returned your engagement letters (**EXHIBIT E**). Please assume that the value of the shares will remain the same when advising on this.

The alternative option is to transfer an 8% share in Beechcroft Ltd to Lily from the Trust. This should also have a value of £500,000 but we will get an up-to-date valuation if necessary.

We have discussed this with Lily, who currently lives in London but plans to buy her first home in Essex in five or so years' time. Lily expects to sell the shares at that point, when she will need cash for the purchase. She wants all the shares to be in the same company for simplicity, so please give us your thoughts on transferring one or the other, rather than part of each holding. We do not yet know which holding will be easier to sell, so would like your recommendation based on the tax implications. We will not gift the shares to Lily until next year when she turns 30 so you can assume that transfer or distribution will occur in June 2026.

I think that's everything for now, please let me know if you need any other information.

With best wishes, Margie

Continued

EXHIBIT B

The Colin Northwood Discretionary Trust: asset details

Asset	Value	
	15 February 2016	27 October 2025
	£	£
40% shareholding in Beechcroft Ltd (N1, N2)	1,700,000 (N3)	2,500,000
Investment portfolio (N4)	1,105,000	875,000
Cash (N5)	150,000	660,000
Totals	<u>£2,955,000</u>	<u>£4,035,000</u>

Notes

N1

The other shareholders are the two directors John Northwood (Colin’s son) (40%) and John’s wife, Sheila Northwood (20%) who formed the company with Colin in 2009 and now run the business day-to-day without his involvement. Sheila and John manage the larger development projects between them and employ a part-time property manager who helps organise the contractors and looks after the rental properties.

N2

See financial information for Beechcroft Ltd (**EXHIBIT C**).

N3

This is based on a valuation of £42,500 per share with the same discount applying to all minority holdings.

N4

The trustees utilise the Capital Gains Tax annual exempt amount on quoted share disposals each tax year.

N5

Proceeds of sale of investments.

EXHIBIT C

Financial information for Beechcroft Ltd

Balance sheet information

	<u>31 August 2025</u>		<u>31 August 2024</u>	
<u>Fixed assets</u>	£	£	£	£
Tangible fixed assets (Note 1)		<u>3,125,000</u>		<u>2,750,000</u>
<u>Current assets</u>				
Stock and work in progress (Note 2)	6,260,000		3,500,000	
Debtors	1,051,848		471,620	
Cash in bank	<u>178,655</u>		<u>47,625</u>	
		<u>7,490,503</u>		<u>4,019,245</u>
<u>Current liabilities</u>				
Creditors: amounts falling due within 12 months (Note 3)		<u>(1,610,403)</u>		<u>(550,102)</u>
<u>Net current assets</u>		<u>5,880,100</u>		<u>3,469,143</u>
<u>Total assets less current liabilities</u>		9,005,100		6,219,143
Creditors: amounts due after more than 12 months		<u>(2,755,100)</u>		<u>(1,830,358)</u>
<u>Net assets</u>		<u>6,250,000</u>		<u>4,388,785</u>

Extract from Income Statement

	<u>y/e 31 August 2025</u>	<u>y/e 31 August 2024</u>
Turnover:	£	£
Rental income	197,812	157,500
Sales of development property	<u>645,075</u>	<u>-</u>
	<u>842,887</u>	<u>157,500</u>

Notes

Note 1

The figure for tangible fixed assets relates to rental properties.

Note 2

This is broken down as follows:

	<u>31 August 2025</u>	<u>31 August 2024</u>
	£	£
Grace Road Development*	550,000	1,125,000
Broad Park Development**	3,835,000	2,375,000
Land at Sandy Lane***	<u>1,875,000</u>	<u>-</u>
Total	<u>6,260,000</u>	<u>3,500,000</u>

* Consists of four new build semi-detached houses that were built by sub-contractors during the 2024 financial year. They are both now complete and two of the houses have been sold, the others are currently under offer.

** Consists of 10 semi-detached houses currently being built by sub-contractors. All are expected to be ready for sale in the next financial year.

*** Purchased in current financial year. Planned development work has not yet started.

Note 3

Short-term debt largely consists of payments due to sub-contractors for building works.

EXHIBIT D

Estate of Owen Briggs: probate schedule and valuation

	<u>Probate value</u>	
	<u>Date of death: 2 August 2024</u>	
	£	£
<u>Assets</u>		
Orchard House, Essex (half share)	750,000	
30 ordinary shares in KA Motors Ltd	480,000	
Cash held in savings accounts and ISAs	<u>52,567</u>	
<u>Gross estate</u>		<u>1,282,567</u>
<u>Liabilities</u>		
Funeral costs	3,706	
Water	363	
Credit card	<u>2,351</u>	
		<u>(6,420)</u>
<u>Net estate</u>		<u>1,276,147</u>

Notes

- 1) Owen did not make any gifts in the seven years before his death.
- 2) Owen had held the shares in KA Motors Ltd since 2013 and was a director until 2022.

Financial and valuation information for KA Motors Ltd – September 2025

We have been asked to provide our opinion of the probate value and current value of the shares in KA Motors Ltd. You have advised us your husband’s estate includes a holding of 30 ordinary shares which represents a 0.006% interest in the company.

The company is an unquoted company which trades as a manufacturer of metal parts for the specialist automotive sector. The company does not own any investment properties or hold any other investment assets.

We understand that the directors and main shareholders are considering floating the company in the next few years but there are no firm plans at this stage.

Taking all of this into consideration we believe the value of a 0.006% holding was £480,000 on 2 August 2024 and is now £520,000.

Continued

EXHIBIT E

Pre-seen information

File information for the Colin Northwood Discretionary Trust

Client name

Trustees of the Colin Northwood Discretionary Trust.

Settlor

Colin Northwood.

Current trustees

Margie Briggs and Anne Northwood (the settlor’s daughters).

Engagement letter

The firm’s GDPR compliant engagement letter was signed by the trustees on 12 October 2025.

Family background

Colin Northwood (born 6 September 1948) is widowed and UK resident and domiciled. Colin had made no other lifetime transfers at the date of the trust’s creation and paid any Inheritance Tax due on the transfer of assets to the trust. Colin has three children, Margie Briggs (55), John Northwood (52), and Anne Northwood (50). Neither John nor Anne has any children.

Principal trusts

The trust is discretionary and primarily held for the benefit of the settlor’s grandchildren, Lily and Rose Briggs (Margie’s children), and their remoter issue. The trustees have wide powers to appoint any trust assets on trust for the benefit of any of the discretionary beneficiaries during the trust period, which is 125 years from the date of the trust’s creation.

File information for Margie Briggs

Client name

Margie Briggs.

Occupation

Retired teacher.

Engagement letter

The firm’s engagement letter was signed on 1 October 2025 and covers both tax compliance and tax advisory work.

Client background

Margie Briggs was on born 12 August 1970. She and her late husband, Owen Briggs, have two adult children Rose (31) and Lily (29).

Neither Rose nor Lily is married or in a civil partnership and they do not have any children or other dependants.

Margie, Rose and Lily are all UK resident and domiciled in England and Wales. They are all higher rate taxpayers and all utilise their Capital Gains Tax annual exempt amounts on quoted share disposals each tax year.

Both Rose and Lily live and work in London: Rose in the retail industry and Lily as a solicitor.

Will

Margie’s Will leaves her residuary estate on discretionary trusts for the benefit of her children and remoter issue. The letter of wishes to Margie’s Will requests that Lily and Rose are broadly treated equally, with any substantial lifetime gifts after the date of the Will brought into account. The trustees have wide powers to appoint any part of the estate on trust for the benefit of any of the discretionary beneficiaries.

Assets

	<u>Current value</u>
	£
Orchard House, Essex (Margie’s home)	1,500,000
30 ordinary shares in KA Motors Ltd (a trading company)	520,000
Cash held in savings accounts and ISAs	320,000
Quoted share portfolio	<u>2,600,000</u>
Total	<u>4,940,000</u>