The Chartered Institute of Taxation

Awareness

Module B: Inheritance Tax, Trusts & Estates

November 2022

Suggested solutions

13)

		£	£	
Estate value			782,000	
Nil rate band		325,000		
	10 April 2014: more than 7 years old	-		1
	5 August 2019: PET (£10,000 – (2 x £3,000))	(4,000)		1 + 1
	No deduction of RNRB for this purpose		(321,000)	1
	Net chargeable estate		£461,000	
Minimum to charity	10% x £461,000		£46,100	1

14) Shares in Xert plc	Lower of:				
	¼ up	310 + ¼ (316-310)	311.5p		1
	Mid bargain	(311+318) /2	314.5p		1
	1,000 x 311.5p			£3,115	1
Shares in Yake Ltd	Before: (5,000 + 3,000) = 80%				
	£130,000 x 5,000/8,000		£81,250		1
	After: (4,500 + 3,000) = 75%				
	£122,000 x 4,500/7,500		£(73,200)		
				£8,050	1

15)

	£	
Initial value of trust	480,000	
Nil Rate Band 2022/23	(325,000)	
	£155,000	1
Notional IHT at 20%	£31,000	1
Effective rate: £31,000 / £480,000 x 100	6.458%	1
Actual rate: 6.458% x 30% x 21/40	1.017%	1
Exit charge: £100,000 x 1.017%	£1,017	1

16)

		£	
Net assets in estate	Excluding the BPR claimed	540,000	1
Tax to be paid	Tax on estate only	(92,400)	1 + 1
Charitable legacy		(5,000)	1
		£442,600	
Split equally		£221,300	1

17)

As Roy has a home in the estate which is being left to a direct descendent (his son) the RNRB would be available. 1

However, as Roy's estate has a net value of more than £2 million, the RNRB will be tapered. 1

Net value means assets less liabilities but before deducting reliefs and exemptions. For Roy's estate this is £2,267,200.

1

The restriction to the RNRB is calculated as £1 for every £2 of value exceeding £2 million:
£(2,267,200 – 2,000,000) / 2 = £133,600 1

The tapered RNRB is therefore £41,400 (£175,000 - £133,600) 1

18)

The sole trade business was not owned by Trudi for the two years normally needed for BPR to be available on the gift to her son. 1

However, as it was inherited from her spouse, the combined ownership period of Trudi and her spouse can be taken into account and as the necessary two year ownership requirement is therefore met, BPR is available at 100%. 1

The business continued to be relevant business property at her death as her son continued to own it and so BPR is available 1

As Trudi's daughter sold the shares in Plin Ltd before Trudi died, BPR is only available if her daughter purchased replacement relevant business property. 1

The proceeds from sale of Plin Ltd shares were reinvested in Raro plc. However, BPR is only available for shares in quoted trading companies where a controlling holding is owned. 1

As only 2% of the shares of Raro plc were purchased, this does not qualify as relevant business property and therefore no BPR is available on the gift to the daughter. 1

Max 5

19)

Jacob's gift to Adam on 1 November 2021 is a potentially exempt transfer (PET), so there is no immediate Inheritance Tax charge. The PET would only become chargeable if Jacob were to die within seven years. 1

However, as Jacob has continued to use the holiday cottage, this is also a gift with reservation of benefit (GWR). 1

If Jacob should die within seven years of the PET with the GWR in place, two calculations will be needed:

1) The Inheritance Tax due on the PET, ignoring the GWR.

1

2) The Inheritance Tax due if the PET is ignored and instead the holiday cottage is included in Jacob's death estate, based on the market value at that date. 1

HMRC will use the calculation which results in the higher tax charge. 1

20)

A claim to pay Inheritance Tax by instalments can be made for certain assets, which would include the house and unquoted trading company shares. 1

However, as the shares qualified for BPR, there is no tax due in relation to them and therefore nothing to pay by instalments. 1

For the house, a proportion of the overall Inheritance Tax can be paid by instalments:

£400,000 / £(1,400,000 -250,000) x £240,000 = £83,478

This amount will be payable in 10 equal annual instalment of £8,348 each, starting on 30 November 2022. 1+1

The remainder of the Inheritance Tax (£240,000 - £83,478) = £156,522 will be due on 30 November 2022.

1

21)

	Non savings	Savings	Dividends	
	£	£	£	
Rental (£42,000 – £10,000)	32,000			1
Interest		8,000		
Dividends			5,000	
Taxable income	32,000	8,000	5,000	1*
NS: £32,000 x 20%			6,400	1
S: £8,000 x 20%			1,600	1**
D: £5,000 x 7.5%			375	1**
Income tax payable			£8,375	

**For not deducting management expenses*

***For no savings allowance or dividend allowance*

22)

		Residential Property gain	Other gain	
		£	£	
Gains during year		28,600	14,400	
Current year loss		(4,450)		1
AEA –£6,150 shared between 7 in total = £879 but replace with Minimum allowance		(1,230)		1+1*
Taxable gains		22,920	14,400	
CGT @ 28%/20% = £9,298	9,298	6,418	2,880	1
Tax paid in year	(7,664)			1
Payable 31 January 2023	£1,634			

**1 mark for offsetting loss and AEA against residential property gain*

23)

An initial penalty of £100 would be charged for late filing. 1

Additional penalties of up to £60 per day can be levied for every day after the court or tribunal declare the failure to file a return.
1

Once the return is more than six months late, a further £100 penalty can be charged, but only if the £60 daily penalties have not been charged. 1

These fixed penalties cannot exceed the amount of Inheritance Tax due of £1,100 1*

As the return is over one year late, a further penalty of £3,000 can be levied. 1

This final penalty can exceed the Inheritance Tax due. *

**This one mark can be awarded for reference in any way (correctly) to capping the penalties without need for this to be mentioned in relation to both the fixed and final penalties*

24)

Casey had a domicile of origin of the UK based on the domicile of his father at his birth, but in 2015 this was replaced by a domicile of choice in Germany.

An individual will be deemed domiciled for Inheritance Tax purposes where they are a formerly domiciled resident. 1

A formerly domiciled resident is somebody who:

Was born in the UK;) 1
With a UK domicile of origin;)
Is resident in the UK for the tax year in question; and 1
Was resident in the UK for at last one of the last two tax years immediately preceding the year. 1

Casey was resident in the UK from April 2020 until July 2022 so will have been resident for both 2020/21 and 2021/22. He will therefore be deemed domiciled in the UK in 2021/22. 1