

The Chartered Institute of Taxation

Awareness

Module B Inheritance Tax, Trusts & Estates

November 2021

Suggested solutions

Answer 13

21 January 2021	The gift to her husband is covered by the <u>spouse exemption</u> .	1
14 March 2021	The gift to her daughter is a <u>PET, so no lifetime tax is due</u> but it does use the annual exemptions for 2020/21 and 2019/20.	1
10 April 2021	The gift to a discretionary trust is a CLT. The value of the gift is <u>reduced by the annual exemption for 2021/22</u> .	1
	The full nil rate band of £325,000 is available and the Inheritance Tax on the excess is at 25% as it was paid by Wendy (<u>25% x £(497,000 – 325,000) = £43,000</u>).	1
25 April 2021	The gifts to her nephews and nieces are covered by the <u>small gifts exemption</u> as they are no more than £250 per gift per recipient.	1

Answer 14

Death estate	£ <u>4,200,000</u>	
IHT payable		
£325,000 x 0%		1*
<u>£3,875,000</u> x 40%	1,550,000	1
<u>£4,200,000</u>		
Less Quick Succession Relief (QSR)		1
<u>£1.5 million x £790,000/£2,300,000 x 60%</u>	(309,130)	1+1
IHT payable	<u>£1,240,870</u>	
* For no RNRB		

Answer 15

During lifetime:	£	
Transfer into a discretionary trust	650,000	
Annual exemptions 2018/19 and 2017/18	<u>(6,000)</u>	1
	644,000	
IHT: 25% x £(644,000 - 325,000)	<u>79,750</u>	
Gross Chargeable Transfer	<u>723,750</u>	1
On death:		
Fall in Value relief £(650,000 – 620,000)	<u>(30,000)</u>	1
	693,750	
IHT: 40% x £(693,750 – 325,000)	<u>147,500</u>	1
Less lifetime IHT paid	<u>(79,750)</u>	1
	<u>£67,750</u>	

Answer 16

- 1) Ken's shares in Petlip Ltd are valued using the related property rules. 1
Related property includes any shares in Petlip Ltd held by his wife, Joyce. 1
Ken's shares are valued as a proportion of the value of their joint holding.
- 2) Joyce's quoted shares will be valued at the lower of the 1/4 up rule and the mid-bargain price. 1+1
Unit trusts are valued at the lower of the two quoted prices. 1

Answer 17

	£	£	
Current value of relevant property		1,350,000	
Nil rate band (2021/22)	325,000		
Less			
William's gross chargeable transfers in the seven years before setting up the trust	(100,000)		1
Exits from trust in the last 10 years	(180,000)		1
Nil rate band available	<u>45,000</u>		
IHT: 20% x £(1,350,000 – 45,000)		261,000	1
Effective rate: £261,000/£1,350,000 = 19.333%			
Actual rate: 19.333% x 30% = 5.800%			1
Principal charge: 5.800% x £1,350,000		78,300	1

Answer 18

	£	£	
Assets		1,500,000	
Less charitable legacy		(250,000)	
Gross chargeable estate		<u>1,250,000</u>	1
RNRB x 2	350,000		1
NRB x 2	650,000		1
IHT: 36% (W) x £(1,250,000 – 1,000,000)		<u>90,000</u>	1
(W)			
Net chargeable estate is £1,500,000 – £650,000 = £850,000			
Charitable legacy of £250,000 > £85,000 (10% x £850,000), therefore the 36% rate of IHT applies			1

Answer 19

- 1) In 1972, the year of Daniella's birth, her domicile of origin was Portugal, which was taken from her father. 1
- In 2021, the year of Daniella's death, she was still domiciled in Portugal as she had not acquired a domicile of choice in the UK and was not deemed domiciled in the UK as she had not been UK resident for at least 15 from the previous 20 years. 1+1
- 2) Dani Lda is registered overseas and therefore the shares would normally be excluded property for a non-UK domiciled individual. However, the value of a UK residential property owned by a non-UK domiciled taxpayer through a non-UK company is not excluded property. 1
- £12 million will be subject to UK IHT on Daniella's death. 1

Max 5 marks

Answer 20

- The lifetime gift of the shares in CDSAF Ltd from Patrick to Saoirse is a PET so there will only be an Inheritance Tax charge if Patrick dies within seven years. 1
- Business Property Relief (BPR) at 100% may be available as CDSAF Ltd is an unquoted trading company and Patrick had owned the shares for at least two years prior to the gift. 1
- As Patrick died within seven years of making the gift, the PET becomes chargeable. Although Saoirse does not still own the CDSAF shares at the date of Patrick's death, she appears to have replaced them with qualifying business property, but since only part of the proceeds on sale have been reinvested, the new asset will not qualify as a replacement and therefore no BPR is available. 1

Max 5 marks

Answer 21

- A trust for a bereaved minor is a trust set up via a Will (or intestacy) by a deceased parent for the benefit of a child which has not yet reached the age of 18. 1
- Until Sophie reaches the age of 18 the trustees can apply the capital and the income from the trust assets for her benefit. 1
- Although the estate assets passing into the trust will be charged to IHT on Paula's death, once the trust is in existence there is no IHT within the trust itself. 1
- This is on the condition that Sophie becomes absolutely entitled to the trust property on or before her 18th birthday. 1

Answer 22

1)

	<i>Savings</i>	<i>Dividends</i>
	£	£
Interest income	19,500	
Dividend income		5,400

Tax @ 20%/7.5%	(3,900)	(405)	1
	15,600	4,995	
Less PR expenses met from income		(600)	1
Income available for distribution	£15,600	£4,395	

2)			
2019/20		<i>Taxable Income</i>	
Savings		£	
£6,000 x 100/80		7,500	1
2020/21			
Savings			
£(15,600 – 6,000) x 100/80		12,000	1
Dividends			
£4,395 x 100/92.5		4,751	1

Answer 23

- 1) The disposal of the shares in Hoppykins Ltd qualifies for Business Asset Disposal Relief as although the trust's holding was less than 5%, the shares qualify as both beneficiaries of the IIP trust are employed by the company and each own at least 5% of the shares, and have done so for at least two years. 1+1
1

2)		£	£	
Gain on residential property			12,000	
Gain on Hoppykins Ltd shares		23,800		
Annual exemption			(6,150)	1
Taxable gains		23,800	5,850	
CGT at 10%		2,380		-
CGT at 28%		1,638		
Total CGT		£ 4,018		1

Answer 24

1) 5 April 2020			1
2)		£	
Proceeds		992,000	
Less base cost (W)		<u>(508,800)</u>	
Gain		<u>£483,200</u>	
(W)		£	
IHT transfer value		675,000	
Less Annual exemptions 2015/16 and 2014/15		<u>(6,000)</u>	1
		<u>669,000</u>	
IHT: 20% x £(669,000 – 325,000)		68,800	1
		£	
CGT proceeds		675,000	
Less cost		<u>(440,000)</u>	
Gain		235,000	
Less deferred under s.260 TCGA 1992		<u>(235,000)</u>	
		<u>Nil</u>	
Base cost for trustees:			
Market value		675,000	
Less deferred under s.260 TCGA 1992		<u>(235,000)</u>	1*
Plus IHT paid by trustees		68,800	1
		<u>508,800</u>	

* Given for arriving at initial base cost of £440,000 before IHT