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Candidate Number

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Chartered Institute of Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

4 May 2017

AWARENESS

Module B – Inheritance Tax, Trusts & Estates

1. On 1 February 2008, Katarina made a gift of cash into a discretionary trust. The gross chargeable transfer was £250,000.

   On 1 January 2013, Katarina made a further gift of cash of £540,000 into the same discretionary trust. She paid the lifetime Inheritance Tax due of £114,750.

   Katarina died on 31 March 2017, having made no other lifetime gifts.

   Calculate the Inheritance Tax payable on the gift in 2013 as a result of Katarina's death.

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2. Jessica and Bradley live together with their daughter, Laura. They are not married and have made no lifetime gifts. Jessica owns the following assets with values as shown:

	£
Cash and chattels	380,000
One painting from a set of three paintings	250,000

Bradley owns the remaining two paintings in the set. His two paintings are together worth £450,000. The whole set of three paintings is worth £1,000,000.

Jessica is in ill-health and is expected to die soon. She will leave £50,000 cash to Bradley and the remainder of her estate to Laura. She wants to know whether the Inheritance Tax would be different on her death, if she and Bradley were to marry before she dies.

Calculate the effect on the Inheritance Tax payable on Jessica's death, if Jessica and Bradley marry before Jessica dies.

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3. The Hay Discretionary Trust received rental income of £10,000, bank interest of £3,000 and dividends of £6,000 in 2016/17.

   On 17 July 2016, the trust made an income payment to a beneficiary of £20,000.

   The balance on the tax pool at 6 April 2016 was £12,400.

   The settlor of the Hay Discretionary Trust had not created any other trusts.

   Calculate the balance on the tax pool at 5 April 2017.

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4. Jason died on 1 February 2017.

Jason had only made one lifetime gift, which was of farmland to his daughter, Sally, on 1 January 2015, when the land was worth £500,000. Included in Jason's death estate, was another farm valued at £400,000.

Jason had never owned any other agricultural land or buildings.

State, with reasons, the further information you need in order to determine the availability and amount of agricultural property relief on these farms, on Jason's death.

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5. The following information relates to the Kenney Discretionary Trust:

1 July 2003	Creation of the trust by Larry for his sister Tonia, with a gift of cash. The initial value of the trust assets was £680,000.
1 July 2013	The value of the trust assets was £750,000.
31 July 2016	The trustees made a capital distribution of £200,000 to Tonia. The trustees paid the Inheritance Tax due.

Larry made no other lifetime gifts.

Calculate the Inheritance Tax exit charge payable by the trustees on the distribution to Tonia.

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6. Judith and Adam had been married for many years when Adam died on 31 December 2007. He left his entire estate of £240,000 to their daughter Lisa.

   Judith died on 1 October 2016 with an estate of property and cash worth £950,000. She left £100,000 to a UK political party with 130 Members of Parliament, £50,000 to a UK registered charity, and the remainder to Lisa.

   Judith and Adam had made no lifetime gifts.

   Calculate the Inheritance Tax payable on Judith's death.

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7. Colin died on 30 April 2016, owning chattels, cash and a 7% shareholding in Metric Ltd, an unquoted trading company. Colin left his entire estate to his son.

Colin had inherited the shares in Metric Ltd and a house, on the death of his mother Gabi on 31 October 2014. Gabi had owned these assets for more than 10 years. Colin sold the house in November 2014.

Briefly explain the availability of any reliefs that mitigate the Inheritance Tax payable on Colin's death.

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8. Trusts A, B and C were not connected and were not settlor-interested.

Trust A was a trust for a disabled person, Briony, who died on 30 April 2016.

Trust B was a trust for a bereaved minor, Simone. The 10th anniversary of the creation of the trust was on 1 May 2016. On 1 September 2016, trust assets were used to pay Simone's school fees. On 1 March 2017, Simone became absolutely entitled to the trust assets on her 18th birthday.

Trust C was a bare trust, holding shares in an investment company. The shares were transferred to the beneficiary, Dwight, on 31 March 2017.

Briefly explain whether Inheritance Tax arose on each date given above.

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9. Jade, Kate and Lucy are unconnected individuals. They have each given assets to their adult children as follows:

   1) Jade gave her house to her daughter and moved into an apartment 20 miles away. Jade returns to stay overnight in the house for one night every two or three weeks in order to babysit her grandchildren.

   2) Kate gave her house to her son. Kate continues to live in the house with her son and pays the council tax in respect of it.

   3) Lucy gave her car to her son David. David drives Lucy to work every weekday in the car.

   Briefly explain whether the gifts with reservation of benefit rules apply to these transfers, and if so, the Inheritance Tax implications.

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10. Albert died on 15 March 2014, leaving an estate which included four plots of land (A – D). Albert's personal representatives have sold the plots of land as follows:

Plot	Market value on 15 March 2014	Date of sale	Gross sale proceeds
	£		£
A	230,000	31 January 2015	260,000
B	180,000	30 June 2016	100,000
C	75,000	10 January 2017	74,500
D	140,000	30 April 2017	160,000
	£625,000		£594,500

The personal representatives purchased a plot of land E, on 3 February 2015, for £90,000.

None of the plots of land qualified for agricultural property relief or business property relief.

Calculate the value of land in Albert's death estate after claiming any available reliefs.

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11. The Wit interest in possession trust was created in January 2005 by Max. Max's sons, Louis and Bing, are life tenants of the Wit trust, with 50% income entitlement each.

Louis has worked full time for Vaultt Ltd, a trading company, since 2 January 2010 when he purchased 20% of the shares of Vaultt Ltd. The Wit trust purchased a 4% shareholding in Vaultt Ltd on that date.

Bing has operated a sole trader plumbing business since January 2010 and does not own shares in Vaultt Ltd.

On 1 July 2016, the trustees sold their Vaultt Ltd shares, realising a chargeable gain of £40,000.

Louis and Bing have made no capital disposals during their lifetimes.

Briefly explain whether entrepreneurs' relief is available in respect of the disposal of the Vaultt Ltd shares by the trustees, assuming Louis and Bing agree to any possible claims.

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12. During 2016/17, the trustees of the Ruthie Discretionary Trust undertook the following transactions:

    1) They sold a necklace for £90,000. The necklace had been bought by the trustees for £12,000 in February 1980 and it was worth £17,000 in March 1982.

    2) They distributed their entire holding of shares in Pentath plc, a quoted investment company, to a beneficiary when the shares were worth £168,000. They had bought the shares (a 0.1% shareholding) for £10,000 in May 2002.

    3) They sold one hectare of land for gross proceeds of £400,000 in January 2017, and incurred legal fees of £4,000. This was part of a plot of three hectares which the trustees had bought for £200,000 in January 1992. The remaining two hectares were worth £950,000 in January 2017.

    The trustees always make claims which are beneficial to them.

    Calculate the chargeable gains arising on the trustees in 2016/17, showing clearly your treatment of each transaction.

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