

Institution **CIOT - CTA**  
Course **Adv Tech IHT Trusts and Estates**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

| Count (s) | Word (s)    | Char (s)     | Char (s) (WS) |
|-----------|-------------|--------------|---------------|
| Section 1 | <b>576</b>  | <b>2545</b>  | <b>3177</b>   |
| Section 2 | <b>370</b>  | <b>1532</b>  | <b>1992</b>   |
| Section 3 | <b>269</b>  | <b>1174</b>  | <b>1528</b>   |
| Section 4 | <b>375</b>  | <b>1631</b>  | <b>2397</b>   |
| Section 5 | <b>513</b>  | <b>2050</b>  | <b>2737</b>   |
| Section 6 | <b>240</b>  | <b>1071</b>  | <b>1380</b>   |
| Total     | <b>2343</b> | <b>10003</b> | <b>13211</b>  |

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Answer-to-Question- \_1\_

Although he was UK resident (res) on creation, the settlor was not UK domiciled (dom) and the trustees are not UK dom or UK res, the trust is an overseas trust. As he is not a beneficiary, this is not a settlors interested trust so Jacques will not be taxed on the income or CGT personally when he becomes deemed domicile (after the 17 years at that point, but 15/20 years now).

Assuming he's been claiming the remittance basis as a non-dom, and with the funds coming from overseas unremitted capital, there's no UK entry charge on the creation of the trust, but the trust will remaining in his UK estate (once dom) for 7 years from creation. The trust is a excepted asset trust.

Once he becomes UK domicile, the trust may be brought into UK taxes depending on the assets. The trusts UK assets, like the UK property, are subject to principle charges every 10 years with the first one being 6th January 2026. This charge is  $6\% (20\% \times 30\%) \times N/40$  with N being the complete number of quarters the trust has held the relevant property. IHT charge is due to be paid 6 months (month end) from charge, so 31st July 2026.

The income and capital distributions to non res beneficiaries is not subject to UK taxes on the French portfolio.

As Gerome is a beneficiary,so I assume the trust would grant his a right to occupy the UK property. This means the property gets PRR for the period he occupies it.

On the sale of the property, the trust is subject to a CGT charge (trustees to pay). This is a residential property, so the gain must be reported and tax paid within 60 days of the sale,

due 4th July 2025.

CGT calc

|                |                  |
|----------------|------------------|
| Proceeds       | 350,000          |
| Costs of sale  | (4,500)          |
| Improvements   | (100,000)        |
| Costs of purch | (2,500)          |
| Purchase       | <u>(267,500)</u> |
| Gain           | 24,500           |
| PRR (N1)       | (17,818)         |
| AE             | <u>(1,500)</u>   |
|                | 5,182            |

x 24% = £1,244 paid by trustees.

N1- Ownership 110 months

occupied - 71 months + 9 deemed

$24,500 \times 80/110 = 17,818$

The proceeds were then invested into UK shares. The UK dividends are subject to UK tax at 39.35% but carry the tax credit when distributed. But when distributed, it's treated as trust income so the tax credit it is received with is 45%. This may incur an additional charge if there isn't sufficient funds in the tax pool to cover the distribution. This is shown on R185.

As the remaining beneficiaries are overseas, they will use this as a foreign tax credit,

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which is limited to the tax due in France on the income.

With regards to Gerome living in the property tax free, he should have been reporting the equiliant of the rent not charged as income received from the trust. The trust is taxed as if it received the income (taxed at 45% as non-savings income) and the distributed to him, carrying the 45% credit.

I.e.  $\pounds 1,250 \times 12 \text{ months} = 15,000$

received as net  $\pounds 8,250$  and tax of  $\pounds 6,750$  on R185 each year (and pro rata for the non full years)

As a higher rate tax paying, he would actually only be subject to 40% tax so his executors could actually claim back the 5% tax overpaid.

They are out of time to submit tax returns as the 2022/23 window closed on 31st January 2025, but they can submit an overpayment relief claim, going back 4 tax years.

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question- 2

As joint tenants, the residence going to Mike, regardless of the will. Everything else going to Daniel, as per the will. Mike gets the spouse exemption for this.

Property & land sales - 3 years from death to claim fall in value.

CGT sales;

Unit 4 & 5

|               |                |
|---------------|----------------|
| Proceeds      | 350,000        |
| costs of sale | (5,100)        |
| probate value | (360,000)      |
| SP 2/04 (N1)  | <u>(2,880)</u> |
| Loss          | (17,980)       |

$N1 - 360,000 \times 0.8\% = 2,880$

Unit 6

|               |              |
|---------------|--------------|
| Proceeds      | 55,000       |
| costs of sale | (1,500)      |
| probate value | (75,000)     |
| SP 2/04 (N2)  | <u>(600)</u> |
|               | (22,100)     |

$$N2 - 75,000 \times 0.8\% = 600$$

$$\text{Estate Rate (ER)} = 245,300/943,250 = 26\%$$

Execs can claim back -  $(17,980 + 22,100) \times 26\% = \text{£}10,421$  IHT. Have 4 years to claim post mortem relief and sales must have taken place within 3 years of death for land and property (12 months for shares).

Income tax

2023/24

$$\text{Rent } 10,667 \times 20\% = 2,133$$

$$\text{divs } 5,000 \times 8.75\% = 438$$

Total tax due 2,571 due 31 January 2025 , plus payments of account of 50% each due 31st January 2025 and 31st July 2025. No scope to reduce the payments on account as the income is higher in 2024/25.

2024/25

$$\text{rent } 63,333 \times 20\% = 12,667$$

$$\text{divs } 20,000 \times 8.75\% = 1,750$$

Tax due = 14,417 less payments on account of 2,571 = 11,846 due January 2026 - no payments on account for 2025/26 as estate ceased 30 April 2025 so these can be reduced to nil.

Income tax payable by execs.

CGT

Distributions of units 1,2 & 7 are deemed to be transferred at probate value so no CGT implications.

Sale of shares

Proceeds        90,000

commission (N3)    (450)

probate        (50,000)

SP 2/04 (N4)    (400)

39,150

AE        (3,000) within 2 years of death so AE

36,150 x 20% = 7,230 CGT to pay

Execs to pay CGT by 31 January 2026 (& report on estate return by same date)

N3- 90,000 x 0.5% = 450

N4 - 50,000 x 0.8% = 400

Daniels R185

2023/24

Net rent = 8,534

Tax = 2,133

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Net divs = 4,562

Tax = 438

2024/25

Net rent = 50,666

Tax = 12,667

Net divs (N5)= 17,050

Tax (N6)= 1,635

N5- 20,000-1,750-1,200 = 17,050

N6 - 17,050/91.25 x 8.75 = 1,635

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-----ANSWER-2-ABOVE-----

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-----ANSWER-3-BELOW-----  
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Answer-to-Question- 3

Don was a FDR (former domiciled resident) so when he died as a UK resident, he's worldwide assets were subject to UK IHT. These were mainly covered by the spouse exemption so most he's NRB (nil rate band) and RNRB (residence nil rate band) were unused.

Catriona had been a UK resident for 8 years. As this is less than 15/20 she was not deemed UK domicile and her domicile remains in Jersey. Therefore only her UK assets are subject to UK IHT, her overseas assets are excepted assets.

Her UK estate is therefore:

|                  |                  |
|------------------|------------------|
| UK home          | 340,000          |
| contents         | 10,000           |
| UK bank          | 100,000          |
| Euro bank in UK  | 50,000           |
| Loan             | 866,667          |
| Funeral expenses | <u>(7,000)</u>   |
|                  | 1,359,667        |
| NRB (N1)         | (630,000)        |
| RNRB (N2)        | <u>(340,000)</u> |

389,667 x 40% IHT = 155,871 due 30 September 2025 by exec

N1 - as non dom, the spouse exemption limited to £325,000 so Don would have used £20,000 of NRB. In 2019 the NRB was £325,000 so she gets an 93.846% increase on her band.  $(93.846\% \times 325,000) + 325,000 = 630,000$

N2 - Don's whole RNRB was used so she gets 100% increase. Available band = 350,000. Limited to value of property at £340,000.

Notes

2nd home is excepted as it's in Jersey

Family trust is settlor interested, so the UK assets would form part of her estate, but there's no UK assets.

The loan was used to purchase UK assets and as Ethan is her son, this is deemed to be a UK asset so forms part of her UK estate.

Unit trust - s64(1b) not relevant property as unit trust

Estate under £2m so no RNRB tapering

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- \_4\_

Gwen died intestate. Intestacy rules state that her estate goes to her next of kin. As her and Arthur are not married, her estate goes to her children.

Lifetime gifts

3/4/2013 - outside of 7 years

13/8/15 - outside of 7 years

1/11/2019 CLT into trust

Gift 150,000

NRB (N1) 0

2 x AE (6,000)

144,000 IHT x 20% x 100/80 as Gwen paid = 36,000

N1 - 325,000 - 350,000 (CLT within 7 years) reduces NRB to nil

CLT = 144,000+36,000 = 180,000 x 40% = 72,000

Tapering 5-6 years = 60% (43,200)

less tax paid (36,000)

nil

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No further tax for trustees to pay

6/7/22 £12,000 less £10,000 marriage exemption, less AE = nil PET

8/4/23 £20,000 would have been exempt, but as the party no longer holds a set and has too few votes on death (125,000 is the min), this is a PET less 23/24 AE, less 1,000 of unused 22/23 AE = 16,000 PET.

NRB - husband used £6,000 of NRB. NRB is 2007 was £300,000 so she gets 98% uplift = £643,500

Less gifts in last 7 years = 643,500 - 16,000 - 180,000 = £447,500

RNRB - husbands was unused so she gets 100% uplift = £350,000

### Estate

|             |                      |                  |
|-------------|----------------------|------------------|
| Home        | 600,000              | 600,000          |
| Ibiza house | 350,000              | 350,000          |
| Cash        | 750,000              | 750,000          |
| shares      | 100,000 BPR (10,000) | 90,000           |
| Chattels    | 15,000               | 15,000           |
| Liability   |                      | (2,500)          |
| Funeral     |                      | <u>(6,000)</u>   |
|             |                      | 1,481,500        |
| NRB         |                      | (447,500)        |
| RNRB        |                      | <u>(350,000)</u> |
|             |                      | 684,000          |

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x 40% = 273,600 less 95,000 = 178,600 payable by execs by 31st October 2025

#### Notes

AIM shares - held more than 2 years so qualify for 100% BPR

Foreign tax limited to UK tax due, as this is under 40% we can deduct all from UK IHT due.

If Stephen gifts Arthur £50,000 then this is a PET (of £44,000 as it's less 2 years of AEs) and remains in his estate for 7 years.

Alternatively, to avoid the 7 year clock, Stephen could do a deed of variation. This must be done within 2 years from date of death (7 April 2027). As neither Stephen or Arthur are exempt beneficiaries, this will not change Gwen's estates IHT liability, but would effectively treat the £50,000 as having come from Gwen on death instead of Stephen and therefore avoiding the 7 year IHT clock.

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question- \_5\_

Kate - 18 on 30 May 2018, 25 on 30 May 2025

Zoe - 18 on 19 October 2023, 25 on 19 October 2030

Emma - 18 on 25 August 2026, 25 on 25 August 2033

2024/25 income

In 2024/25, Kate and Zoe have an IIP. They are therefore entitled to their 1/3 of the income and this 1/3 is taxed as an IIP trust.

The remaining income 1/3 is treated as being accumulated in a discretionary trust.

IIP

interest  $10,000 \times 20\% = 2,000$

Divs  $18,000 \times 8.75\% = 1,575$

Trust tax on IIP = 3,575

This is treated as all having been distributed to Kate and Zoe.

Kate R185

Net interest = 4,000

Tax = 1,000

Net div (N1)= 7,813

Tax (N2)= 703

Zoe R185

Net interest = 4,000

Tax = 1,000

Net div (N1)= 7,813

Tax (N2)= 703

$N1 - 9,000 - 787.50 - 400 = 7,813$

$N2 - 7813 / 91.25 \times 8.75 = 703$

Zoe's 1/3

interest =  $5,000 \times 45\% = 2,250$

Divs =  $9,000 \times 39.35\% = 3,542$

Tax pool

|                   |            |
|-------------------|------------|
| b/fwd             | 0          |
| 2024/25           | 5,792      |
| distribution (N3) | (6,136)    |
| additional charge | <u>344</u> |
| C/fwd             | 0          |

$$N3- 7,500 \times 45/55 = 6,136$$

Zoe R185

Net trust income = 7,500

Tax = 6,136

Trust tax

$$344 + 5,792 + 3,575 = 9,711$$

Less POA        (4,000)

5,711

Plus jan POA    4,856

10,567 due 31 January 2026

and a further £4,855 due 31 July 2026

On 30 May 2025 Kate will turn 25 and be absolutely entitled to her 1/3 of the capital.

Trust value

cash = 302,600

shares(N4) = 328,950

Total = 631,550

1/3 = 210,517

N4 - quarter up bid =  $(740-728)/4 = 3 + 728 = 731$

average of bargains =  $(730+733+740)/3 = 734.333$



Lowest is quarter up bid so we use that.  $731 \times 45,000 = £328,950$

The trust is subject to an exit charge on the distribution of the capital.

$NRB = 325,000 / 2 = 162,500$  as 2 trusts set up in 7 years

This is calculated as  $6\% (20\% \times 30\%) \times N/40$  (with N being the complete quarters) x loss to the trust.

The trust started on 7 January 2016 so the quarters to 30 May 2025 are 37.

$(210,517 - 162,500) \times 6\% \times 37/40 = 2,665$  IHT due by 30 November 2025 payable by trustees.

There is also a 10 year charge for 7 January 2026.

This will be:

remaining  $2/3 - 421,033$  less IHT liability  $2,665 = 418,368$  remaining assets

$(418,368 - 162,500) \times 6\% \times 40/40 = 15,352$  due 31 July 2026

When distributing, Kate the distribution is deemed a capital disposal too with no hold over available. So the trust will also have a CGT liability for the shares (not the cash).

These are distributed at market value, so again we take the quarter up bid price as it's the lowest.

Deemed proceeds 109,650

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1/3 probate     (105,000)

4,650

AE             (1,500)

3,150 x 20% = 630 CGT payable by trustees by 31 January 2026

Going forward, Kate's 1/3 is then hers to do as she pleases with and any income earned is reported on her personally.

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-----ANSWER-5-ABOVE-----

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-----ANSWER-6-BELOW-----  
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Answer-to-Question- \_6\_

Paloma Ltd shares are unquoted, the company is trading and the shares have been held for more than 2 years. These qualify for 100% BPR

The value is on loss to donor - so that shares are valued at £5,000,000 less 3,200,000 = 1,800,000 for 20 shares. BPR is restricted for the excepted assets. As 1.25m of the company value relates to surplus cash, this is not required for trade and does not qualify for BPR. Therefore  $1.25/5 = 25\%$  of the value is an excepted asset. Transfer = 1,800,000 with 450,000 being excepted, so only 1,350,000 BPR.

IHT on original transfer

Shares 1,800,000

BPR (1,350,000)

450,000

NRB (325,000)

125,000

x 20% x 100/80 = 31,250 IHT due 28 February 2015

10 year charge 1 August 2024 with IHT due 28 February 2025.

share value £2,500,000

BPR (N1) (2,222,222)

277,778

NRB (325,000)

nil - no IHT charge at 10 year charge

N1 - company shares not held for 2 years yet, so don't qualify for BPR fully, but as some was reinvested from a BPR qualifying sale, we can carry it over to meet the criteria, but it's restricted to the amount reinvested.

$2.5m \times 2m / 2.25m = 2,222,222$  no restriction for the cash as it's been agreed that it's working capital.

Although there's no IHT due, as the assets are over 80% value of the NRB, the charge is still required to be reported even though no tax is due.