

THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Inheritance Tax, Trusts & Estates

November 2022

TIME ALLOWED

3 HOURS 30 MINUTES

- 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 indicated by the provision of additional information in the question, you may assume that 2021/22 legislation (including rates and allowances) continues to apply for 2022/23 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Zennie Bergamot holds substantial business interests through Zennie Group Ltd, an unquoted company in which she has held 100% of the shares for 20 years.

The only assets of Zennie Group Ltd are shares in the following companies. Unless otherwise stated, each of those companies operates luxury hotels in various UK locations and has no activities other than those noted below. With the exception of Amber Ltd, the market value of each company is £5 million. Amber Ltd has a market value of £50 million:

- 1) Amber Ltd (100% shareholding) – it has £5 million held in cash which has accumulated over the 20 years that Zennie has held the shares. £2.5 million of this is needed as working capital.

Amber Ltd also owns Zennie's personal yacht, worth £1.2 million.

- 2) Bloodstone Ltd (100% shareholding) – it operates hotels located in Malta only.
- 3) Citrine Ltd (40% shareholding).
- 4) Diamond Ltd (100% shareholding) – a newly acquired subsidiary, purchased six months ago.
- 5) Emerald Ltd (100% shareholding) – also holds a stock market portfolio worth £500,000.

The group will shortly acquire for £1 million a portfolio of self-catering furnished holiday lets, known as 'The Glade'. This will either be acquired through Emerald Ltd or a newly incorporated 100% subsidiary of Zennie Group Ltd.

Requirement:

- 1) **Explain the application of Business Property Relief to Zennie's shareholding in Zennie Group Ltd. You are NOT required to quantify the relief available.** (12)
- 2) **Discuss whether 'The Glade' should be acquired by Emerald Ltd or a newly incorporated subsidiary.** (3)

Total (15)

2. Theo Pugsley died in September 2016. He was married to his second wife Kaja and had two adult children from his first marriage, which ended in divorce.

Under his Will he left £325,000 of cash to his children and the balance of his estate to the Theo Pugsley Will Trust. In 2003, he had settled another trust but had made no other lifetime transfers apart from within his annual and other lifetime exemptions.

The terms of the Will trust provide for a life interest to Kaja and on her death the trust assets pass to Theo's adult children absolutely. The trustees have wide powers to terminate Kaja's life interest, wind up the trust, appoint assets to the children or onto further trusts as they see fit. Kaja will re-marry on 2 December 2022 and this has prompted the trustees to review the future of the trust. They are considering the following:

- 1) Terminating the trust before Kaja's re-marriage and appointing the assets to the children absolutely.
- 2) Terminating Kaja's life interest before her re-marriage and letting the trust continue.
- 3) Allowing the trust to terminate on Kaja's death when the assets will pass to the children absolutely.

The assets of the Theo Pugsley Will Trust are as follows:

	<u>Probate Value in 2016</u>	<u>Current value</u>
	£	£
Shares in Quality Sausages Ltd (Note 1)	1,300,000	1,700,000
Main residence (Note 2)	500,000	750,000
Quoted share portfolio (Note 3)	610,000	550,000
Investment (residential) property	250,000	310,000
Collection of motorbikes	<u>190,000</u>	<u>700,000</u>
Totals	<u>2,850,000</u>	<u>4,010,000</u>

Note 1

Quality Sausages Ltd is a trading company in which Theo owned all of the shares. The company has not carried out any investment activities.

Note 2

The main residence was purchased by Theo in 2015 and was lived in by Theo and Kaja until Theo's death. Kaja continues to live in the property but will leave it on her re-marriage to live with her new husband elsewhere.

Note 3

Sales and purchases have been made since the creation of the trust. On a realisation of the entire portfolio there would be a capital loss of £50,000. There are no brought forward capital losses.

Kaja has made the following gifts:

- 1) January 2017 – £100,000 in cash to her sister Aggie.
- 2) March 2019 – An asset worth £80,000 to Aggie's 100% personal company, Aggie Ltd.
- 3) May 2020 – £120,000 to an interest in possession trust for Aggie.

Currently, Kaja's only asset is a stock market portfolio of shares with a value of £250,000. This will pass to Aggie under Kaja's new Will drawn up in contemplation of her impending marriage.

The trustees will pay any tax liabilities arising and any appropriate elections will be made.

Requirement:

Explain, with calculations, the Inheritance Tax and Capital Gains Tax consequences of the three options for the Will trust assuming they each occur on 1 December 2022. (20)

3. On 10 May 2020, Cora Evans settled a portfolio of residential properties on trust for her husband and adult children ('the Property Trust'). She was not excluded from benefiting from the trust. At that time, the properties were worth £2.5 million with a base cost of £800,000 and Cora paid the Inheritance Tax arising. Cora was a higher rate income taxpayer and had made no other chargeable disposals during 2020/21.

The only other lifetime gift made by Cora was cash of £100,000 into a trust for her adult daughter, Vanessa, in June 2018 ('Vanessa's Trust').

Cora died on 31 July 2022 and left her estate to her adult children absolutely. Her net assets on death comprised the following:

	<u>Value</u>
	£
Main residence	1,000,000
Commercial property	1,200,000
Stock Market portfolio	450,000
Antique statue collection	60,000
Total	<u>£2,710,000</u>

As at 31 July 2022, the Property Trust was valued at £2.6 million.

Requirement:

- 1) **Calculate the Inheritance Tax and Capital Gains Tax arising from setting up the Property Trust, stating who was responsible for payment and when it was due. Ignore any penalties and interest that may have arisen.** (6)
- 2) **Calculate the Inheritance Tax that will be charged on Cora's death stating who is responsible for payment and when it is due.** (9)

Total (15)

4. Yossi Goldberg, UK resident and domiciled, died on 30 September 2019 aged 83. His estate was as follows:

	£
Sleepy Hollow & contents – his main residence	500,000
Bank account	450,000
The Dingle, a commercial property	120,000
Residential investment properties:	
Hilltop	450,000
The Mill	200,000
Share portfolio (ISA £100,000, non-ISA £50,000)	150,000
Credit cards, lifetime taxes and funeral expenses	<u>(20,000)</u>
Total estate (net of liabilities)	<u>£1,850,000</u>

The Inheritance Tax paid thereon by the executors was £360,000.

By his Will, the estate was left as follows:

<u>Beneficiaries</u>	<u>Assets</u>	<u>Notes</u>
Rebecca (his daughter)	Sleepy Hollow & contents	Distributed to Rebecca on 31 December 2020
Eva (Rebecca's adult daughter)	£60,000 cash	Paid on 31 December 2020. The Will provides for interest at a rate of 3% from the date of death
Goldberg Discretionary Will Trust – beneficiaries Rebecca and lineal descendants	Residue	An income distribution of £8,000 was made to Leah (Eva's daughter aged 10) on 31 December 2020 An income distribution of £11,000 was made to Rebecca on 31 October 2021

Income was received by the executors/trustees as follows:

	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>
	£	£	£
<u>Rent</u>			
The Dingle	2,400	4,800	4,800
The Mill	2,700	5,400	5,400
Hilltop	<u>6,300</u>	<u>12,600</u>	<u>12,600</u>
Total	<u>£11,400</u>	<u>£22,800</u>	<u>£22,800</u>
<u>Bank interest</u>	<u>2,250</u>	<u>750</u>	<u>300</u>
<u>Dividends</u>			
ISA portfolio	1,200	2,400	2,400
Non-ISA portfolio	600	1,200	1,200
Total	<u>£1,800</u>	<u>£3,600</u>	<u>£3,600</u>

The executors will make an informal payment of the Income Tax due for the administration period, which ended on 5 April 2021. The trustees have registered the ongoing trust and have received a notice to file self-assessment trust tax returns for 2020/21 and 2021/22.

Requirement:

- 1) Calculate, with explanations, the executors' Income Tax liability for the administration period and state the R185 (estate) entries, as appropriate, for each of the beneficiaries. (8)
- 2) Calculate the initial value of the trust. (2)
- 3) Calculate, with explanations, the trustees' Income Tax liabilities for 2020/21 and 2021/22, including payment due dates and state the R185 (trust) entries for Rebecca. (10)

Total (20)

You are NOT required to construct a tax pool nor to consider any interest and penalties on late payment of the trustees' Income Tax liabilities.

5. Tom Davies died on 8 June 2022. Tom was UK resident and domiciled and was predeceased by his wife June, who was also UK resident and domiciled. Tom inherited June's entire estate, valued at £800,000, on her death in December 2018. June had made no lifetime gifts in the seven years prior to her death.

Tom always used up his annual exemption on 6 April each year with gifts to godchildren. In addition, Tom made a potentially exempt transfer of £300,000 to his nephew, Harold on 5 April 2020.

Tom left the following estate:

	£
Windy Ridge & contents – his main residence	450,000
Bank account	900,000
Share portfolio (ISA & Non-ISA)	300,000
Household bills, lifetime taxes and funeral expenses	<u>(15,000)</u>
Total estate (net of liabilities)	<u>£1,635,000</u>

Tom left Windy Ridge and its contents to his niece Mabel. He left the residue of his estate in equal shares to the Conservative Party and Harold.

Requirement:

- 1) Calculate, with explanations, the Inheritance Tax arising by reason of Tom's death, and state by whom the tax is borne. (13)
- 2) Show the estate distribution and state the due date for payment of Inheritance Tax to HMRC. (2)

Total (15)

6. Ahmet Badem died on 31 December 2020. Ahmet was UK resident and domiciled and had made no lifetime transfers above the relevant annual exemption. His sons Cahil and Yusef are his named executors and trustees.

The probate and current market values of his estate are as follows:

	<u>Probate</u> <u>Value</u>	<u>Current</u> <u>Market Value</u>
	£	£
Family home	500,000	550,000
Cash	200,000	200,000
Jewellery	50,000	60,000
Let property:		
Flats	170,000	180,000
Shop	100,000	105,000
Car Park	10,000	180,000
	<u>£1,030,000</u>	<u>£1,275,000</u>

Under his Will, he left the family home in favour of his UK domiciled wife Jubaila on trust for life and then to his two children Cahil and Yusef absolutely as remaindermen. He left the estate residue to the Badem Discretionary Will Trust. The discretionary class comprises his wife, his children, and their issue.

Both Cahil and Yusef, as remaindermen and of majority, have agreed that the family home should be distributed absolutely to Jubaila. This will be appointed to her by the executors on 30 November 2022. Jubaila has resided there since Ahmet's death and will be responsible for any tax due.

On 31 December 2022, the estate administration will be concluded, and the executors will pass the residue of the estate to the trustees of the Badem Discretionary Will Trust.

The executors have recently obtained planning permission for the car park to be converted into four self-contained flats. The trustees are looking to sell this and distribute the net proceeds to Cahil. Cahil will be responsible for any tax due. It is anticipated that the costs of sale of the car park will be approximately £5,000 and that the sale will take place in April 2023.

The trustees have also decided to distribute the shop, flat and jewellery to Yusef who will be responsible for any tax due. Each individual piece/set of jewellery has a probate and current market value of less than £6,000.

The trustees are considering whether the executors' should distribute all of the residual assets directly to the discretionary beneficiaries before the end of the administration period, leaving Cahil to deal with the sale of the car park himself.

Cahil, having recently left university, currently earns a salary of £21,000 per annum and has no other income. He has made no chargeable disposals in 2022/23 to date.

Requirement:

Explain the Inheritance Tax and Capital Gains Tax consequences for the executors, trustees and beneficiaries, as appropriate, of the following alternate actions:

- 1) The distribution of the assets by the executors before 31 December 2022;**
- 2) The distribution of the assets by the trustees after the sale of the car park in April 2023.**

(15)