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	**25**	**130**	**153**
Section 2	**837**	**3805**	**4505**
Section 3	**585**	**2756**	**3293**
Section 4	**910**	**4196**	**4975**
Section 5	**766**	**3716**	**4295**
Section 6	**167**	**920**	**1074**
Total	**3290**	**15523**	**18295**

Answer-to-Question-_1_

inCOME TAX IMPLICATIONS ON THE SETTLOR

HE CREATED PROFTECTED FOREIGN INCOEM TRUST, As he is ddeemed domicie under 215/20 year rules. he will be protected.

--------------ANSWER-1-ABOVE---------------

--------------ANSWER-2-BELOW---------------

Answer-to-Question-_2_

Post Mortem relief is claimed by executor when assets are sold in the relative period after death for less than the probate value.

S179

The quoted shares, unit trust units the period is 12 months post death.

s191

For Land and building post mortem relief is availbe if asset is sold between death and 3 years after. The properites are sold for a sale proceeds lower value than probate value.

The sale of the porperty in the 4th year at loss is included as well. If the loss is less than £1000, it is ignored.

All sales are taken into account in the 3 year period, even those that give rise to gain.

Relief is restricted if purchases are made in the 3 year post deth, within 4 months of the last sale.

S176

Assets sold with ohter assets (related party rules. Here the standalone value is substituted for probate value.

Where 2 section apply, executor can choose how to make the claim, which is most beneficial to them.

<u>Application to the case:</u>

Executor sold 2 asset related to Land and building and one sale of quoted shares.
Sale of quoted shares ABC plc is at a gain 90,000 plus commision of £450, higher than the probate value of 50,000. ALso, the sale is not made in the 12 months qulaifying window post death. Hence no post Mortem claim in relation to quoted stock sale can be made.

Both units 4 & 5 and Unit 6 was sold within 3 year of the death, qualifying period is between 29th Feb 2024 to 4th Feb 2027. Hence postmartem releif can be made.
T
The sale proceeds were lower tahn the probate value for UNIT 4 & 5.

The cost of sale are ignored.

31/07/2024				
Unit 4 & 5	Sale proceeds	350,000		
	probate cost	360,000		
	Loss	10,000		

Unit 6:

05/01/2025				
	Sale proceeds	55,000		
	probate value	75,000	N1	

	Loss	20,000		

The unit 6 would have been included in the death estate at 50% of the probbate value as it is tenants in common.

s191 IHTA 1984; Both sales will be agregated the total loss is 30,000. The IHT would have been already paid on the death estate. THe net loss will result in IHT repyament of 30,000*40%=12000

If post mortem claim is made under related party the probate value is same £75,000. If this is substituted it will result in the same value. As Unit 6 is jointly owned under Scots by spouses. The claim can be made under land and build pot martem relief. THis calim is s176 is made on asset by asset basis.

Trans fer of share by executor in the administration period is not disposal of the asset. Hence the tansfer to Thomasina of unit 1 & 2 & 7 is ignored.

The maximum post mortem releif that can be made is 30,000 which willresult in IHT repayment of 12,000.

<u>Part 2: Income tax laibilities of Executor:</u>

<u>23/24</u>		<u>NSI(20%)</u>	<u>Dividend (8.75%)</u>	
Net rent		10667		<u>N1</u>
Dividends			5000	N2
<u>Total income</u>		<u>10667</u>	<u>5000</u>	
NSI 20%		2133		
Dividend 8.75%			438	
Net income		8534	4562	

24/25		NSI	Dividned	
rent		63,333		N1
Dividned			20,000	
total income		63,333	20,000	

Income tax 20%/8.75%		12667	1750	
Net income		50666	18250	
less: administration cost		(1200)		
distributable income 2024/25		49466	18250	
distributable income b/f 2023/24		8534	4562	
total distributable income		58,000	22,812	
Total income tax liaiblity for executor	23/24 2133+438 =2571 24/25 12667+1750=144 17 total IT= 16988			

total income tax liability	23/2 4	14417		
plus POA 23/24 31 Jan 2025 first payment 50% of 14417 2nd payment of acount is 1 July 2025		7209		
total income		21626		due by 31 Jan 2025
2024/25 total income tax liability 1698		£16988 POA made on 31 Jan 2025 (50%) & 31 July		no further paymetnof account due as estate's administration period ended in 25/25 TY,

due by 31 Jan 2025 plus POA 23/24 31 Jan 2025 first payment 50% of 14417 2nd payment of acount is 1 July 2025 7209		2025 (50%)= (14417)		executor can madke acliam to reduce POA
CGT laibility		7320		CGT liability does not form part of POA
Total liability		9891		Due on 31 Jan 2026

N1: Rent is taxed on prorata basis, Assuming all the rent recieved is related to period after death.

N2: dividned is taxed when received.

Administration expesnes are not allowable expense for tax purposes,However it will be deducted from the net income before distributions made to beneficiaries

CGT liaiblity:
Transfer of asset to Thomasina is not sale of asset, it is merely distribution of the asset.

ABC plc Share sale	Sale proceed	90000	net of commision
	Probate value	(50,000)	
	SP 2/04 cost of obtaining probate 0.8%*50000	(400)	
Gain		39600	
AEA		(3000)	
20% CGT	36600	7320	

Annual exemption is avaible in the year of sale and 2 years after.
The due date of CGT for share sale is 31 Jan 2026 as the sale was made in 24/25 tax year.

Daniel R185 entries

at the date administration period ended 30th April 2025

	Net income	tax	
NSI	58,000	14500	20/80
Dividned	22,812	2187	8.75/91.25

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

--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

IHT due on Catriona 's Death

Catrona had domicile of origin in Jerseyas she was born in Jersy to UK non domicile father.

Don was UK born and has domicile of origin in the UK. He chose to live in Jesey and chose domicle of choice of Jersey as he decided to remain there permenantly.

Dom moved back to UK on 15th April 2016, an individual who had domicile of origin of UK and emigrated overeseas, when he came back to UK he will keep his non-domicile status from 15th April 2016 to 5th April 2017, one tax year after moving back to the UK. Which means in this period if he dies his overseas asssets will not be subject to UK IHT.

From 6th April 2017 he became former domicile resident. (FDR) which means the protection is gone, and all his world wide asets will be subject to UK IHT if transferred.

He dies in September 2019 as a FDR. His wntire estate of £345,000 will be subject to UK IHT, regardless of where the assets are based.

Catriona:
Catriona was non-dom at his death as she was in the UK from 16/17 tax year,s he will become deem domicile udner 15 out of 20 year rule (If an individual remains in the UK for 15 out of the 20 preceeding tax year, they will become deem dom).

As she was non domcile spouse to a UKL domicile spouse Don, she will get spousal exemption of a total value of £325,000.It is aggregated amount regardless of 7 year period.

Assuming she did not elect to become deem dom on Don's death. We nned to calculat her transferrable Nil rate band from Don.

Don's estate		345000	
Spousal exemption		(325000)	
Chargeable		20,000	
Nil rate band	Don's NRB (325000)	(20,000)	

£20,000 of Don's Nil rate band is used, remaing transferrable Nil rate band available on Catroina's death= 325000-20000=**300,500**

Catrina Death estate:

She left her entire state to son, who is based overseas. As she was non domicile in the UK, only her Uk assets will be subject to UK IHT. Th erest of the esate is excluded proeprty from UK IHT.

Had she lived to 6th April 2031 she would have become deem-dom, in the 16th year of residence, her entire estate (world wide) would have been subject to UK IHT

UK private reisdence		£350,000	includsive of contents
seecond home in Jersey	excluded property		
Sterling bank in UK		**100,000**	
Euro bank account in UK	non-UK currency accounts excluded prperty		
Portfolio holding in Authorised unit trust	excluded property		
Family trust	excluded property		
Funeral		(7000)	
Loan to Ethan			
total estate		443,000	
Nil rate band		(625,500)	
Chargeaable estaate		0	
IHt 40%		0	

Total NIL rate band=325000+300500=625,500

Family trust

Set up by an overseas domiciled individual, which had only overseas assets would be excluded proeprty. For inheritance tax purposes teh domicle states of the settlor adn location of asset is relevant not taht she was trustee based in the UK. Trustee status would have been relevant to Income tax and CGT purposes.

Loan to Ethan:
Generally loan are deductable again the asset they are taken against, but since 6th April 2013 changes to finance act have been made. A non dom indiviaul lending money from mortgaging UK asset to purchase excluded property abroad is not allowable deduction for IHT purposes.

However the loan was used to fund the UK asset, purchase of the property.

Person borrowing the loan is a UK company

866,667/1350,000*340,000=218,272 partial deduction against the property will be allowed.

--------------ANSWER-3-ABOVE---------------

--------------ANSWER-4-BELOW---------------

Answer-to-Question-_4_

Vince estate

Two specific legacies of £3000 are left to chilren in his will, these aretax free as situated in the UK, meaning residuary legatee will bear the inheritance tax, eventhough she Gwen received spousal exemtpions on the transfer. However, he did not use up his nil rate band: the treatment is as follows:

£6000 will be covered by his Nil rate band:

Transferrable NIL rate band:

300,000-6000=294,000
% unused= 294,000/300000=98%

Gwen Death:

She died intestate, without any valid will.

She was in a long term relationship with Arthur but she was not married to him.

Her husband is dead. Her entire estate will pass over to her issues, Her children net of inheritance tax.

Life time gifts:

1) 3 April 2013	Gift to DT	350,000	
AE	2012/13 2011/12	(3000) (3000)	
CLT		344,000	
Nil rate band		(325000)	
Chargeable		19000	
IHT 20/80	N1	4750	
Gross chargeable transfer	CLT=344000+4750	348,750	IHT paid by Gwen on 31 October 2013

NI: IHT rate is 20/80 as paid by Gwen, the settlor.

2) 13th August 2015			
	Painting	5000	
	AE 2015/16 AE 2014/15	-3000 -2000	
PET		0	

This gift of painting was covered by Annual exemptions, hence no PET made

3) 1 Nov 2019			
	Addition to the DT	150,000	
	AE 2019/20 AE 2018/19	(3000) (3000)	
	CLT	144,000	
	NRB 325000 GCT <u>(348,750)</u>	0	N2
	Chargaeble	144,000	
IHT 20/80		36,000	IHT paid by Gwen by 31 May 2020
	GCT=144000+36,000=180,000		

N2: Nil rate band at 2019 less any chargeable transfers in 7 years of it. Gross chargeable transfer mad ein the 7 years of the gift used the entire NIL rate band

6th July 2022			
	Gift to son on Marriage	12000	
	Marriage allowance	(5000)	
	AE 22/23 AE 21/22	(3000 (3000)	
	PET	1000	

<u>Gift of cash to Political party:</u>

Party is exempt as long as at least one seat is held with 150,000 votes. Henne there isno furhter charges should arises.

However, in 10th May 2023 the vote fell to 100,000 and with one seat, this is no longer exempt if made in 2023, however it was for an election in the past.
exemption was met then.

	5th May 2021	20,000	
Cash to political party		(20,000)	exempt

<u>Death tax on gifts in the 7 years of death:</u>

Gwen rceived transferrable nil rate band on her heasband's death. Her total nil rate band=

325000*198%=643,500

1) Cash gift to Discretionary trust is outside the 7 years window, hence no further IHT liability.

2)PET of painting to friend in 13th August 2015 is outside 7 year window, no furthr inheritacne tax liabloity arises.

3) Additions to Discretionary trust 1 Nov 2019

	Gross CLT	180,000	
	NRB 643,500 USed up (348,750)	(294,750)	

The use of nil rate band in 2013 is within 7 years when made the first Gross chrgeable transfer. Remaining NIL rate band covers the additions to the gift amount, no further IHT.

4) Gift of marriage to son PET of £1000 will become chargeable, however
covered by the remaining NRB= 114750-1000=113,750

IHt due to Gwen Death:

Her home in Lancashire		600,000	
holiday home in Ibiza	350,000*95%	332,500	N1
Cash at bank		750,000	
Portfolio of shares	MV= 100,000- AIM (10,000)	90,000	N2
Chattels		15,000	
Income tax liability		(2500)	N3
Funeral exepnes		(6000)	
Total estate		1,779,000	
RNRB		(350,000)	N4
Nil rate band		(113,750)	
Taxable estate		1,315,250	
IHT 40%		526,100	
Foreign estate credit		(95000)	
IHT payable		431,100	

N1: holiday home in Ibiza will get maximum 5% deduciton for obtaining probate.

N2: Aims share will qualify for BPR 100, it is treated as unquoted trading company stock. It was held for over 2 years by Gwen, hence qualified for 100% BPR

N3: Income tax liability: is treated as liability of the estate, hence deductible

N4:
RNRB is avaible as the estate is passed on to the lineal descendent and is under £2m. Also,transferrable residence nil rate band is avaialble as Vince did not use his at his death. Main home is over £350,000 hence RNRB is available in full for both £175,000*2).

Foeeign estate tax paid is deductable if it is more than the amount applicable to the Property.

Inheritance tax liaiblity is payable by he executor and borne by beneficiaries (her children) on the earlier of IHT 400 filed and 6 months from the end of the month of death. Gwen died on 7th APril 2025 IHt is payable no later than 31st October 2025.

2) Part 2: Stephen could pass £50,000 of his inheritance to Arthur, he would have to do deeed of vaiartion. DOV has to be done within 2 years of death, has to be in writing and by original beneficiary.

This will not result in extra IHT liaiblity. However it will be a PET for Stephen. If he survives 7 yers of making this gift, there is no furthert IHT due. However, if he survives more than 3 years, taper relkeif will be available

If he includes S142 IHTA 1984 statement, this will rewrite the terms of the will as if this £50,000 amount is left by Gwen in her estate to Arthur.

In terms of Capital gains tax, it will be a chargeabel transfer by Stephen on the increase from probate value and teh DOV, however it is cash.
If he incldues s62 statement, no increase will be chargeable to him if transfer in in the any other form than cash.

There is no income tax issue, unless the interest is received on cash in bank, this will be taxable on Stephen, there is no retrospective relief for this.

--------------ANSWER-4-ABOVE---------------

--------------ANSWER-5-BELOW---------------

Answer-to-Question-_5_

Richard estate is for 18-25 year old trust.

Estate left in will to bebeficiaries who have not attained 25 yet.

At least one of their parents have died.

Kate	turned 18 on 30th May 2020	turned 25 on 30th May 2025	
Zoe	19th October 2023	Turned 25 on 19th OCtober 2030	
Emma	not 18 yet, will become 18 on 25th August 2008		

Kate has an IIP in the trust. subject to basic rate of tax.
Also, she became entited to capital. Her share of the trust ends.

Zoe has IIP since 19th October 2023, however her capital has not been distributed to her

Emma: has Discretionary trust her incoem will besubject to 45% Non saving income, 45% saving income and 39.35% dividned income.

Also, she has not becoem entitled to capital yet.

Income tax liability for trusteee:

	Interest	Dividned	
Bank interest	15000	27000	
IIP Kate (1/3)	(5000)	(9000)	
IIP Zoe (1/3) for 6 months	(2500)	(4500)	
Income subject to DT	7500	13500	

1/3 IIP as Kate is entitled to full income net of tax.

1/3 IIP for Zoe from 19th October 2023, her incoem will be split between Discretionary trust and IIP.

6months of income for Zoe and 12 motnhs for Emma

Income subject to DT	Interest (45%) 7500	Dividend (39.35%): 13500	total tax by trustee
Management expenses 1200*1/3*100/91.25 1200*1/3*6/12*100/91.25		(438) (201)	
Net income	7500	12861	
Tax: 45%/39.35%	3375	5061	8436
8.75% *(438+201)		(56)	56
Net income	4125	5005	

IIP for Kate=

	interest (20%)	dividned	
	5000	9000	
Incoem tax 20%/8.75%	1000	788	1788

net income	4000	8212	
Manageemnt exp=1200*1/3		(400)	
distributable income	4000	7812	

Zoe IIP

	interest 20%	Dividned (8.75%)	
total income	2500	4500	
Incoem tax: 20%/8.75%	(500)	(394)	894
net income	2000	4106	
Management expenses 1200*/1/3*1/2		(200)	
Distributable income	2000	3906	

incoem tax is due on 31 Jan 2026 by trustees,

the total incoem tax liability for 24/25 tax year is= 11,174
Paymenbt on accounts made= (4000)

Income tax payable =7174

Payment on account for 25/26= 11,174/2= 5,587 first payment due on 31 Jan 2026 and second payment due on 31 July 2026

Total amount due = 7174+5587 =12761 payable on 31 Jan 2026

Taxpool

b/f	0			
income tax	8426	no deduction for managment exepnese		

IT paid 7500*45/55=	6136			
c/f	2290			

R185 entries

	Net income	Tax		
Kate				
SI	4000	1000		20/80
Div	7812	749		8.75/91.25

Zoe	Net income	tax	
SI	2000	500	
Div	3906	375	

Emma had Discretionary trust:45/55
R185 entries

	Net income	tax	
	7500	6136	

2)
Inheritance tax implication for Kate:

Will trust:

initial value of the trust			
	Cash deposited	290,000	

	Manzini Plc shares	315,000	
	Totale estate	605,000	
	Nil rate band= 325000-20000	(305000)	
	Taxable	300,000	
	IHt 40%	120,000	

Richard set up another trust which willuse up some of his nil rate band.

Trustees wouldhavbe paid IHT from the estate at 40%
Initial value of trust=

605,000-120,000=485,000

As this is 18-25 year old trust there is no prinicple charges or exit charges when the beneficiaries are under 18.

The exit charge will arise, when a beneficiary attains the age of 18, as the trust for the beneficiary wil become reelvcant proepty then

Maximum numbers of quarters between the age 18 to 25 are 28.

When Kate turns 25, exit cahrge will arise.

	Inital value of the trust	485,000	
	Nil rate band (325000-20,000)	(305,000)	
	taxable	180,000	
	notional rate of tax 20%	36,000	
	Effectibve rate of tax	36k/485k= 7.423%	
	Actual rate of tax 30%*7.423%	2.227%	

Exit charge on Kate will arise based on 28 quarters and the current share of the Kate capital in the trust.

Exit chartge= Actaul charge*loss to the trust

605,000/3=201,667*28/40*2.2227%=3137,

it is paid by beneficiary. However if trustee pays this tax, this needs to be grossed up.

Capital gains;

total calue of the shares =45000
1/4 up= 740-728=12/4=3
1/4 up price= 728+3=731

Average bartgain: higheest and lowest value is taken= 740+730=735
1/4 up gives lower value hence this will be sued to value shares

Market value of the shares= 45000*7.31=328,950

chargeable disposla for the trust = 328,950/3= 109,650

Capital gain = 219,030/3=73010

However, as the exit charge is immediatrely chargeable to IHTY, trustees can make a claim for s260 rellief.
Kates base cost of the shares will be equal to market value of the shares transferred to her. However if claim under s260 gift relief claim is made, the gain will be deferred and the base cost will be lower.

when she sells the shares in future, she will have higher CGT liability.
in order to claim s260 gfit releif, it is a joint claim made by both beneficiary and trustees.

THis is the value i should have used for the exit charge.

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

--------------ANSWER-6-BELOW---------------

Answer-to-Question-_6_

Inheritance tax payable on the transfer to the trust:

Life time transer:
20 shares in trust:

Amal ahd 100 shares before transfer. 100 shares valued at =5000,000
after tranfer 80 share left= 80% sharholding is worth=3200,000
Trannsfer of value= 1800,000

BPR is avaialbe on the transfer of value, as it is trading company, Amal has held the shares for over 2 years, and satisifes teh conditions for BPR.

BPR is applied before Annual exemptions. Paloma Lt is a trading company, but hodls cash of £1.5m of whcih 1.25m is surplus ot the buisness needs.

THis is excepted asset. This will restrict the amount of relief
1800,000*(net assets- 1.25)/Net assets=

1800,000*(2500,000-1250000/2.5m=936,000

There was a sale of the sahres, hence BPR will be denied, if the net sale proceedds are not fully investe inasseets qualifying for BPR.

Princople charges (maximum 6%) on trust 10th anniverary.

current alue of the trust=2500,000
less nil rate band=325000

taxable=2175,000
notional tax 20%=435,000
Efective rate of tax= 4350000/2500,000=17.4%

Actual rate of tax= 40/40*17.4%*2500,000*30%=130,500