

# **The Chartered Institute of Taxation**

**Awareness**

**Module B: Inheritance Tax, Trusts & Estates**

**May 2023**

**Suggested solutions**

Answer 13

	£	
<i>Available RNRB on Aria's death</i>		
Unused RNRB on Jackson's death	175,000	1
Aria's RNRB	<u>175,000</u>	
	350,000	
Tapered as Aria's estate exceeded £2 million		
½ £(2,060,000 – 2,000,000)	<u>(30,000)</u>	
	<u>£320,000</u>	1
<i>Available NRB on Aria's death</i>		
Remaining NRB on Jackson's death £(325,000 – 300,000)	25,000	1
Aria's NRB	<u>325,000</u>	1
	<u>£350,000</u>	
IHT payable		
£320,000 x 0%		
£350,000 x 0%		
<u>£1,390,000 x 40%</u>	<u>£556,000</u>	1
<u>£2,060,000</u>		

Answer 14

	£	
Estate value	640,000	
Charitable legacy	<u>(30,000)</u>	
	610,000	
Nil rate band	<u>(325,000)</u>	
	<u>£285,000</u>	1
IHT: £285,000 x 40% ( <i>Working</i> )	<u>£114,000</u>	1
Inherited by Beth	£(640,000 – 30,000 – 114,000)	
	<u>£496,000</u>	1
<i>Working:</i>		
Net chargeable estate:	£(285,000 + 30,000) = £315,000	1
	£315,000 x 10% = £31,500	1

Charitable legacy does not exceed 10% of the net chargeable estate, therefore lower rate of 36% cannot be applied.

Answer 15

- 1) For 2022/23, as Lola has not acquired a domicile of choice in the UK, she still has her domicile of origin of Spain. 1
- If she continues to live in the UK for the foreseeable future, she will be deemed domiciled in the UK from the tax year 2027/28, as she will have been resident in the UK for at least 15 out of the preceding 20 tax years. 1
- 2) Lola could elect to be treated as UK domiciled for Inheritance Tax purposes only. This would remove the £325,000 spousal exemption limit that applies to non UK domiciled spouses so she could inherit Andrew's estate without incurring an IHT charge. 1
- However, Lola would then be liable to UK inheritance tax on her worldwide assets. 1
- The election is irrevocable, but will automatically lapse if Lola is non UK resident for four consecutive tax years. 1

Max 5 marks

Answer 16

July 2022	Gift to son	£	
	Marriage exemption	200,000	
	AE (2022/23 and 2021/22)	(5,000)	1
	PET – no lifetime tax due	(6,000)	1
		<u>£189,000</u>	
October 2022	Gift to charity - exempt		1
February 2023	CLT - No AE (used by PET)	£	
	Nil rate band available in full	400,000	
		(325,000)	1
		<u>£75,000</u>	
	IHT x 20/80		
		<u>£18,750</u>	1

Answer 17

Annual gifts out of capital covered by annual exemption.

1 December 2016	£75,000 PET becomes chargeable but is covered by the nil rate band, so no IHT to pay.			1
1 July 2018	Gross chargeable transfer	£	£	
	NRB 2022/23	325,000	543,750	
	GCT < 7 years	(75,000)		
			(250,000)	1
	Chargeable		<u>£293,750</u>	
	IHT x 40%		117,500	1
	Taper relief 40% (between 4 and 5 years)		(47,000)	1
	Lifetime tax		(43,750)	1
	IHT payable		<u>£26,750</u>	

Answer 18

- 1) Need to know how long Samantha has held the shares in Blaek Ltd – 100% BPR is available on any number of shares in an unquoted trading company provided they have been owned for at least two years. 1
- 2) The investment in Horeen Ltd will not qualify for BPR as it is an investment company. 1
- 3) BPR is not available as the farm has always been tenanted, 1  
 For APR, need to know:
  - how long Samantha owned the land prior to her death – as the farm is tenanted, APR is available if she owned the farm for at least seven years. 1
  - whether the lease pre-dates 1 September 1995 as this could potentially reduce the APR percentage available to 50% rather than 100%. 1
  - the agricultural value of the land, as APR is given on this, not the open market value of the land. 1

Max 5 marks

Answer 19

Transfer to daughter		<i>Before</i> £	<i>After</i> £	
A set of two antique chairs, worth		35,000		
One antique chair, worth			15,000	
Value of transfer	£(35,000 - 15,000)		<u>£20,000</u>	1
Transfer to son		<i>Before</i> <i>No. of shares</i>	<i>After</i> <i>No. of shares</i>	
Jakob's holding		8,000	7,000	
Related party holding: Civil partner		2,000	2,000	
Relevant holding		<u>10,000</u>	<u>9,000</u>	1
Value per share		£150	£120	
Jakob's shares	Before: 8,000 x £150	<u>£1,200,000</u>		1
	After: 7,000 x £120		<u>£840,000</u>	1
Value of transfer	£(1,200,000 – 840,000)		<u>£360,000</u>	1

Answer 20

- 1) If Rodriguez transfers assets to the trust, this would usually be a chargeable transfer immediately chargeable to Inheritance Tax, so any gain should qualify for gift holdover relief and can be deferred under s.260 TCGA 1992. 1  
 As the donee is a trust, the claim will only need to be made by the settlor, Rodriguez. 1  
 A claim for gift relief must be made within four years after the end of the tax year in which the assets are transferred. 1
- 2) It is not possible to make a gift relief claim on a gift into a trust if the settlor of the trust has an 'interest' in the trust. 1  
 An interest in the trust means that trust property can be paid or applied for the benefit of the settlor or their spouse/civil partner or minor child, therefore if Rodriguez added his wife as a beneficiary, then the trust would become a settlor interested trust. 1  
 If this happened within six tax years, there would be a clawback of gift holdover relief. 1

*Max 5 marks*

Answer 21

	£	£	
Current value of relevant property at 10 year anniversary		980,000	1
Nil rate band	325,000		
Less Alex's CLTs < 7 years of creation	(0)		
Less distributions in last 10 years	<u>(150,000)</u>		
		<u>(175,000)</u>	1
		<u>805,000</u>	
Notional tax x 20%		<u>161,000</u>	1
Effective rate (£161,000/£980,000) x 100%		<u>16.429%</u>	
Actual rate (16.429 x 30)%		<u>4.929%</u>	1
Principal charge £980,000 x 4.929%		<u><u>£48,304</u></u>	1

Answer 22

	Non savings £	Savings £	Dividends £	
Property income	18,000			
Interest		7,000		
Dividends			6,000	
Trustees' expenses				
£1,100 x 100/91.25			<u>(1,205)</u>	1
	<u>18,000</u>	<u>7,000</u>	<u>4,795</u>	
Income tax liability				
£1,000 x 20%	200			1
£(17,000 + £7,000) x 45%	10,800			1
£4,795 x 39.35%	1,887			1
£1,205 x 8.75%	105			1
	<u><u>£12,992</u></u>			

Answer 23

	£	£	
Proceeds (£175,000 – £2,300)		172,700	1
Less cost			
Original cost	70,000		
Cost of acre sold: £ (70,000 x 25,000/(25,000 + 105,000))	(13,461)	(56,539)	2
Gain		116,161	
Annual exempt amount (£6,150 / 2)		(3,075)	1
Taxable gains		113,086	
CGT x 20%		£22,617	1

Answer 24

The gift to her daughter is a PET, therefore no tax is due and no return needs to be submitted. 1

The transfer to the trust should have been declared on form IHT100, which should have been submitted within 12 months of the end of the month of transfer, so by 30 September 2022. 1

An initial late filing fixed penalty of £100 will apply. 1

As the return is over six months late, a further fixed penalty of £100 can be charged, but only if the daily penalty of £60 has not been sought. The total fixed penalties cannot exceed the IHT payable. 1