The Chartered Tax Adviser Examination

November 2019

Suggested solutions

Module B - Inheritance Tax, Trusts & Estates

Answer 1

	£	£	
Available RNRB on Julia's death			
Unused RNRB on Peter's death	125,000		
Tapered as Peter's estate exceeded £2 million			
½ £(2,120,000 - 2,000,000)	(60,000)		
		65,000	1
Julia's RNRB		125,000	1
		£190,000	
Lower of:			
Available RNRB	190,000		
The value of the residential property	150,000		1
IHT payable			
£150,000 x 0%			
£325,000 x 0%			1
£200,000 x 40%		£80,000	1
£675,000			

Answer 2

As both transfers were made on the same day, the available annual exemptions must be apportioned between them but the transfer on which Alice pays the tax is deemed to have been made first. 1 1

	£	
Transfer of value	900,000	
AE (2018/19 and 2017/18) = £6,000		
£6,000 x £900,000/(£900,000 + £600,000)	(3,600)	1
Net CLT	£896,400	
IHT		
£325,000 x 0%		
£571,400 x 25%	£142,850	1
£896,400		

Payable by Alice by 30 June 2019. 1

Answer 3

	£	£	
Transfer of value to William		350,000	
Marriage exemption		(5,000)	1
AE (2015/16 and 2014/15)		(6,000)	1*
PET becomes chargeable as Charles dies within 7 years		£339,000	
NRB	325,000		
Less CLT January 2011 (£230,000** - £6,000)	(224,000)		1*
	£101,000		
IHT			
£101,000 x 0%			
£238,000 x 40%		95,200	1
£339,000			
Less taper relief: 20 July 2015 – 22 March 2019 = 3 – 4 years, therefore 20%		(19,040)	1
		£76,160	

* For deducting AEs against both transfers

** For using £230,000 rather than £195,000

Answer 4

	£	£	
Residential property (£480,000/2)	240,000		1
Less 10% tenanted deduction	(24,000)		1*
		216,000	
Shares in unquoted trading company	400,000		
Less BPR at 100%	(400,000)		
		Nil	1
Loan stock in unquoted trading company	180,000		
(No BPR as Richard does not control the company)	-		
		180,000	1
		£396,000	
IHT			
40% x £(396,000 – 325,000)		£28,400	1

* Any deduction up to 15% is acceptable.

Answer 5

Ulrich is not UK domiciled, therefore only his UK assets are subject to UK Inheritance Tax so the apartment in Berlin is excluded. 1

The £300,000 loan on the apartment in Berlin cannot be deducted in calculating the chargeable UK estate as the funds were used to purchase excluded property. 1

As the loan on the farm in Yorkshire was taken out before 6 April 2013, the restriction on relief for loans to acquire relievable property does not apply, therefore the £400,000 loan can be deducted 1
from the value of the asset on which the loan is secured, ie the house in Surrey. 1

In Ulrich's death estate:

	£	£	
House in Surrey	2,800,000		
Less loan thereon	(400,000)		
		£2,400,000	
Farm in Yorkshire	1,200,000		
Less APR at 100% of the agricultural value	(950,000)		1
		£250,000	

Answer 6

	£	£	
Transfer to daughter			
Related property rules apply			1
£(90/(90 + 90)) x £240,000		120,000	1
Transfer to son			
Lower of			
225 + ¼(231 – 225) = 226.5p			1
(224 + 232)/2 = 228p			1
10,000 x 226.5p		22,650	1*

* for not adding in dividend of 5p per share.

Answer 7

	£	£	
Cash, personal chattels and investments		365,000	
Apartment in Italy	185,000		
Less additional administration costs			
Lower of:			
£4,600 - £2,200 = £2,400	(2,400)		1
5% x £185,000 = £9,250			1
		182,600	
		£547,600	
IHT: 40% x £547,600 (no NRB available)		£219,040	1
Amount received by Olive:			
Cash, personal chattels and investments		365,000	
Less administration costs in relation to the apartment in Italy		(4,600)	1
Less IHT		(219,040)	1
		£141,360	

Answer 8

	Non savings Income £	*Savings Income* £	
Property income	40,000		
Interest income		22,000	
Less trustee expenses			
£900 x 100/80		(1,125)	1+1
	£40,000	£20,875	
Income Tax liability			
£1,000 x 20%		200	1
£1,125 x 20%		225	1
£39,000 + £20,875 = £59,875 x 45%		26,944	1
		£27,369	

Answer 9

1) The Wakeford Discretionary Trust is a ‘settlor interested’ trust as Karen has created a trust from which her spouse, Simon, can benefit. 1 1

Under s.169B TCGA 1992, transfers into a settlor interested trust are not eligible for gift relief, therefore a chargeable gain will arise on Karen in 2018/19 as follows: 1

	£	
Proceeds (market value at 1 May 2018)	675,000	
Less cost	(550,000)	
Chargeable gain	£125,000	1

2) As a settlor interested trust, under s.624 ITTOIA 2005 the whole of the trust income of £12,000 is taxed on Karen, the settlor. 1

Answer 10

	Dividend Income £	*Savings income* £	*Total* £	
Dividend income	3,480			1
Interest income (£3,300 - £225)		3,075		1
Taxable income	3,480	3,075	6,555	
			£	
Tax at dividend rate (7.5%)	261		261	1
Tax at basic rate (20%)		615	615	1
Income Tax payable			876	
Due 31 January 2020				1

Answer 11

	£	
1)		
Main residence	780,000	
Investments	650,000	
	1,430,000	
Charitable legacy*	(600,000)	
	£830,000	1
IHT at 36% x £(830,000 – 325,000)	£181,800	1

* The size of the charitable legacy means that the 36% rate of IHT is clearly available.

2)
The Inheritance Tax on land and buildings (ie the main residence) can be paid by instalments. 1
The amount payable by instalments is £181,800/£830,000 x £780,000 = £170,848. 1
This is payable in ten equal annual instalments and the first instalment is £170,848/10 = £17,085. 1

Answer 12

1) The pre-owned asset rules would not apply to the gift to Florence, as Louise does not benefit from the house. 1

The pre-owned asset rules would apply to the gift to Pearl as Louise has the benefit of a chattel, the purchase price of which was partially met using money provided by her. 1

The charge is calculated by multiplying the value of the painting by the official rate of interest, but this would be apportioned by £250,000/£300,000 as Louise only provided part of the purchase price. 1 1

2) To avoid this charge, Louise could elect for the 'gift with reservation' rules to apply. 1