The Chartered Institute of Taxation

Application and Professional Skills

Inheritance Tax, Trusts & Estates

May 2025

Suggested answer

Report to the trustees of the Ryan Family Discretionary Settlement and the Margaret Ryan Accumulation & Maintenance Trust

This report is prepared for the above trustees and is issued in accordance with our engagement letter dated 30 April 2025. It may not be relied upon by any other person or entity without our prior written consent.

The report considers the tax implications of winding up the Ryan Family Discretionary Settlement and the beneficiaries of the Margaret Ryan Accumulation & Maintenance Trust becoming entitled to the trust assets.

It is based on the information provided by the trustees and information held in our files and is based on legislation in force on today's date. If there is a delay in implementing our recommendations, a significant fiscal event or a change in circumstances, advice should be sought to confirm whether our recommendations have changed.

1. Executive Summary

i. The trustees of the Ryan Family Discretionary Settlement ("RFDS") should transfer 16,500 shares in Bonds Chemists plc ("BC plc") to Alice before 15 May 2025 to sell on to Sigma Global plc ("SG plc"). No inheritance tax ("IHT") exit charge will be payable on the appointment and this will result in a capital gains tax ("CGT") saving of £9,339.

ii. Alice should obtain advice on the Swiss tax implications of acquiring and selling the shares in BC plc.

iii. The beneficiaries of the Margaret Ryan Accumulation & Maintenance Trust ("MR A&M") will become entitled to the trust assets on 14 August 2025 and 18 January 2026 and IHT exit charges will arise of £22,224 each for Isabella and Matthew and £21,212 for Polly.

iv. CGT disposals will arise on Valley Park and Buttercup Field on 18 January 2026 due to the rule in "Crowe v Appleby". Holdover relief is available to defer the CGT on Polly's share in both assets and Isabella and Matthew's interests in Buttercup Field, but Isabella and Matthew will have a CGT liability of £98,333 each to pay in relation to Valley Park.

v. The trust deed allows trust capital to be provided to the beneficiaries before they are 25. We recommend that the trustees use this power, so Polly receives her share in the trust on 14 August 2025 allowing Isabella and Matthew to claim holdover relief on Valley Park and providing a tax saving of £98,333 each plus a reduction of £578 in Polly's IHT exit charge.

2. Ryan Family Discretionary Settlement

The RFDS is a relevant property trust meaning it is liable to IHT principal charges based on the value of the assets on each ten year anniversary of its creation and any interim capital distributions will be subject to an IHT exit charge.

The trust is over 20 years old, so two principal charge events have arisen on 17 September 2009 and 17 September 2019.

The trustees want to wind up the RFDS by appointing 16,500 shares in BC plc to Alice or by selling the shares themselves and transferring the proceeds to her.

a. Appointing the shares to Alice

IHT

An IHT exit charge will arise when the shares are appointed to Alice. The IHT rate will be based on the principal charge rate that applied on 17 September 2019 but reduced by the number of quarters that have elapsed since then.

However, the value of the assets on 17 September 2019 was £135,928 and as this is lower than £274,000 (which is the 2019/20 nil rate band of £325,000, as reduced by Edward's £51,000 failed potentially exempt transfers ("PETs") of 20 April 1999; being his only chargeable transfers in the seven years before creating the trust), the IHT rate applicable on 17 September 2019 was 0%. This means a 0% tax rate will apply on the appointment to Alice and no IHT will be due.

As the value of the trust assets on 17 September 2019 fell below 80% of the current nil rate band less the £51,000 of chargeable transfers referred to above, the trustees will not be required to report the exit to HMRC.

CGT

The appointment of the shares to Alice will be a deemed disposal by the trustees for CGT purposes based on the difference between the current market value and Edward's original cost, as a claim for holdover relief was made when the trust was created.

The 2025/26 trust annual exemption is available to reduce the gain and a 20% CGT rate will apply. We calculate a taxable gain of £135,746 will arise on which £27,149 CGT is due (see **Appendix 1**). The deemed disposal must be declared on the trust's 2025/26 tax return and the CGT will be payable by 31 January 2027.

It is usually possible for trustees to defer the payment of CGT by making a joint holdover relief claim with the beneficiary when assets are transferred out of a relevant property trust as the appointment usually results in chargeable events for both CGT and IHT purposes. However, in this case, a holdover claim is not possible because Alice is non-UK resident.

Alice will acquire the shares at their market value of £10.75 per share and will sell them to SG plc for £13.58 per share. However, her gain will not be liable to UK CGT as she is not UK resident. Her £10,800 capital loss will be available to carry forward against gains on future disposals on which she is liable to UK CGT, such as the sale of UK properties.

We recommend that she obtains professional advice on the Swiss tax implications of receiving the shares from the trust and the onward sale to SG plc.

b. Selling the shares to SG plc and appointing the proceeds to Alice

IHT

The appointment of the cash proceeds to Alice will be a chargeable event for IHT purposes. However, as referred to above, the IHT rate for the exit charge will be 0%, so no IHT will be due.

CGT

The sale of the shares by the trustees will result in a capital gain based on the difference between the sale proceeds of £13.58 per share and the trustees' base cost. The trust's CGT annual exemption will be available to reduce the gain and the 20% CGT rate will apply.

We calculate a taxable gain of £182,441 will arise on which £36,488 CGT will become payable (see **Appendix 1**). The disposal must be reported on the trust's 2025/26 tax return and the CGT will be payable by 31 January 2027.

There are no CGT implications of transferring the proceeds to Alice as cash is not a chargeable asset.

c. Recommendation

We recommend that that the trustees appoint the shares to Alice and for her to sell to SG plc personally.

No IHT exit charge will be payable with either option but the CGT liability on a transfer of the shares to Alice will be £27,149 compared to £36,488 if the trustees sell the shares, providing a tax saving of £9,339 for the trust. This arises because the current market value at which the deemed disposal takes place is lower than the sale agreement price with SG plc and there is no option to holdover the gain to utilise Alice's higher annual exemption or capital losses due to her residence status.

The trustees must report the cessation of the trust on HMRC's online Trust Registration Service within 90 days of the appointment to Alice.

3. Margaret Ryan Accumulation & Maintenance Trust

The trust created by Margaret was an accumulation and maintenance trust ("A&M"), so was not originally subject to IHT exit or principal charges.

Changes to the trust tax rules on 22 March 2006 meant that no new A&M trusts could be created after this date and depending on their terms, existing A&M's either became relevant property trusts or were treated as 18-25 trusts with effect from 6 April 2008.

The 18-25 trust treatment only applied if the trust terms provided beneficiaries with an entitlement to capital at the age of 25 or earlier and both the class of the potential beneficiaries was closed by 6 April 2008 and no further beneficiaries were added after 21 March 2006.

The MR A&M met these criteria, as the original terms provide the beneficiaries with an entitlement to the capital and income when they attain the age of 25 and the amendment to the trust deed on 20 March 2008 operated to close the class of beneficiaries with no ability to add new beneficiaries.

18-25 trusts are not liable to IHT principal charges on each ten year anniversary and until a beneficiary attains the age of 18, no IHT exit charges apply to capital appointments made by the trust.

If the trust continues after the beneficiaries attain the age of 18 and provides for capital entitlement on or before the age of 25, IHT exit charges will apply if either capital is applied for the benefit of a beneficiary over the age of 18, if a beneficiary aged over 18 dies or when a beneficiary becomes absolutely entitled to the trust assets.

a. Tax implications when Isabella, Matthew & Polly are 25

IHT

The grandchildren become absolutely entitled to a one-third share of the income and capital of the trust when they are 25 and the trust will cease when Polly is 25 on 18 January 2026.

IHT exit charges will arise on 14 August 2025 and 18 January 2026 using the 18-25 trust rules resulting in an IHT liability of £22,224 each when Isabella and Matthew are 25 and a liability of £21,212 on Polly's 25th birthday (see **Appendix 2**).

Even though the trust is more than 20 years old, the applicable IHT rate under the 18-25 trust rules is based on the initial value of the trust, the current IHT nil rate band and the settlor's chargeable transfers in the seven years before creating the trust. In this case, Margaret's gifting history will not affect the calculation, as the PETs made on 25 August 1999 did not become chargeable as she outlived the gifts by seven years. The number of quarters used in the calculation relates to the period elapsed from when each beneficiary was 18 years old until they become 25 years old.

No IHT is payable on assets which qualify for 100% business property relief ("BPR") or 100% agricultural property relief ("APR"). None of the trust assets qualify for BPR as Valley Park is an investment asset and the trustees are not farming Buttercup Field personally. However, Buttercup Field has been let to the neighbouring farmer for agricultural purposes since 1 January 2019 and APR is available on the agricultural value of land and buildings occupied for agricultural purposes.

100% APR is available where qualifying land and buildings are owned and occupied for agricultural purposes for two years and are farmed in hand or where the land has been owned for seven years and occupied throughout by someone else during that period for agricultural purposes.

The trust has owned Buttercup Field since 1 September 2000 and it will have been let for agricultural purposes for seven years on 1 January 2026 at which point 100% APR will become available. This means the land will not qualify for relief when Isabella and Matthew are 25 on 14 August 2025, but 100% APR will be available when Polly becomes entitled on 18 January 2026, so her IHT exit charge will be £1,102 lower (see **Appendix 2**).

<u>CGT</u>

A CGT disposal arises on the trust's chargeable assets when the beneficiaries of an 18-25 trust become absolutely entitled based on the difference between the market value and the trustees' base cost. However, due to the rule in "Crowe v Appleby" the CGT position differs for trust land and property.

This provides that where a beneficiary is entitled to an undivided share in land or property, there is no disposal by the trustees until such a time as all the beneficiaries become absolutely entitled. This means there will be no CGT liability on Valley Park or Buttercup Field on 14 August 2025 when Isabella and Matthew are 25 and instead the capital gains are treated as arising on 18 January 2026 when Polly is also 25 and all three beneficiaries are absolutely entitled.

The creation of the MR A&M on 1 September 2000 was a PET for IHT purposes and as none of the assets were qualifying business assets, CGT holdover relief would not have been available. Therefore, the trustees' CGT base cost is the market value of the assets on 1 September 2000.

This means the CGT liabilities that will arise on 18 January 2026 are £295,000 for Valley Park and £18,000 for Buttercup Field (see **Appendix 3**).

CGT holdover relief is available if an event results a CGT disposal and a chargeable event for IHT purposes or if the asset transferred is a business asset. In this case, Valley Park is not a business asset, but the transfer to Polly results in both a CGT disposal and an IHT exit charge, so holdover relief may be claimed on her one-third share of the gain. No CGT will be payable if the relief is claimed, and Polly will acquire the property at a base cost of £208,333 (one-third of £625,000) plus the IHT attributable to the asset for future CGT purposes.

In comparison, Isabella and Matthew's IHT exit charges arise on 14 August 2025 but the CGT disposal of the properties does not occur until 18 January 2026, so holdover relief will not be available on their share of the Valley Park gain. This leaves them with a CGT liability of £98,333 each (one-third of £295,000 each) to pay.

Buttercup Field will qualify for 100% APR by 18 January 2026, so it can be treated as a business asset for CGT holdover relief purposes for all three beneficiaries. If holdover relief is claimed by Isabella, Matthew and Polly, no CGT will be payable in respect of Buttercup Field and all three beneficiaries will acquire the property at a base cost of £30,000 (£10,000 for each one-third share) plus the IHT attributable to the asset for future disposals.

b. Recommendation

In addition to the one-third share in the land and property, Isabella, Matthew and Polly will receive cash funds of £138,433 each from the trust when they are 25. For Isabella and Matthew, their cash entitlement will cover the CGT liability of £98,333 each relating to Valley Park and the IHT exit charge of £22,224 each, leaving them with a balance of £17,876 each. In comparison, Polly will still have £117,221 at her disposal after settling her IHT exit charge of £21,212, as she will have no CGT to pay due to the holdover relief claims.

Polly will however acquire her share of Valley Park at a much lower base cost than Isabella and Matthew and this means her future CGT liability will be higher if the property is eventually sold. The grandchildren regard the land and property as a long-term investment, so this may not be an issue.

The trustees want to ensure the grandchildren are in the same financial position with their joint ownership of assets and that no one ends up paying more tax than the others, but this will not be the case if no action is taken.

The terms of the trust allow the trustees to apply the capital of a beneficiary's contingent share before they are 25 years old. If the trustees apply Polly's one-third share in the capital for her benefit on 14 August 2025 when Isabella and Matthew become entitled to their share of the assets, the trust will end at that point. The CGT disposal of Valley Park and Buttercup Field and the IHT exit charges will arise at the same time for all the beneficiaries, allowing Isabella and Matthew to also claim holdover relief on their share of Valley Park.

A claim for holdover relief on Buttercup Field will no longer be available on the basis that it is a business asset, as it will not qualify for APR on 14 August 2025. However, general holdover relief may still be claimed as an IHT exit charge will now arise at the same time as the CGT disposal for all the beneficiaries.

The holdover relief claims are joint elections between the trustees and each beneficiary and the effect for future CGT disposals will be that all three grandchildren will acquire Valley Park and Buttercup Field at the trustees' base cost as increased by the proportion of the IHT exit charge relating to each asset. The claims must be submitted to HMRC by 5 April 2030 (four years from the end of 2025/26).

The disposals must also be included on the 2025/26 trust tax return which is due to HMRC by 31 January 2027 and the Trust Registration Service must also be updated by 12 November 2025 (90 days from the trust's cessation).

Polly's IHT exit charge will reduce from £21,212 to £20,634 even though APR will no longer be available on her share of Buttercup Field because she will obtain her share of the capital before she is 25 years old, so the number of quarters and the IHT tax rate used in her calculation will be lower (see **Appendix 2**).

The trustees must complete form IHT100c to report the IHT exit charges to HMRC by 28 February 2026, which is six months following the end of August 2025. The IHT exit charges are payable by the same date.

Isabella and Matthew will each be left with £116,209 cash from the trust fund and Polly will have £117,799 if this option is taken.

Appendices

Appendix 1

RFDS – CGT on appointment of shares to Alice / sale of shares by trustees

	Appointment of shares to Alice	Sale of shares by trustees to SG plc
	£	£
Market value / sale proceeds	177,375	224,070
Less: Trustees base cost 16,500 / 349,500 x £850,000	(40,129)	(40,129)
Chargeable Gain	137,246	183,941
Less: 2025/26 Trust Annual Exemption	(1,500)	(1,500)
Taxable Gain	135,746	182,441
CGT @ 20%	£27,149	£36,488

Appendix 2

MR A&M – 18-25 Trust IHT Exit Charges

Initial values 1 September 2000	£	£
Valley Park	625,000	
Buttercup Field	30,000	
33,000 shares in BC plc	161,700	
Bank account	500	
		817,200
2025/26 nil rate band	325,000	
Less: Settlor's CLT's in seven years prior to trust creation	0	
		(325,000)
		492,200
Notional tax @ 20%		98,440

Effective rate $\frac{£98,440}{£817,200}$ x 100% 12.046%

When Isabella & Matthew become entitled:

Complete quarters between 18 and 25 years
14/08/2018 to 14/08/2025 28 quarters

Actual rate $\frac{28}{40}$ x 30% x 12.046% 2.530%

Assets leaving the trust (each) – 1/3 share of:	£
Valley Park	700,000
Buttercup Field	40,000
Cash in bank account	138,433
	878,433
IHT payable by Isabella & Matthew (each) = £878,433 x 2.530%	£22,224

<u>When Polly becomes entitled:</u>

Same IHT rate as above will apply
28 quarters between 18/01/2019 and 18/01/2026

Assets leaving the trust – 1/3 share of:	£
Valley Park	700,000
Buttercup Field (100% APR available)	0
Cash in bank account	138,433
	838,433
IHT payable by Polly = £838,433 x 2.530%	£21,212

<u>If Polly receives capital on 14/08/2025:</u>

Complete quarters 18/01/2019 to 14/08/2025 26 quarters

Actual rate $\frac{26}{40}$ x 30% x 12.046% 2.349%

	£
Assets leaving the trust (from above)	878,433
Revised IHT payable by Polly = £878,433 x 2.349%	£20,634

Appendix 3

MR A&M– CGT computations

	Valley Park	Buttercup Field
	£	£
Market value	2,100,000	120,000
Less: Trustees base cost	(625,000)	(30,000)
Taxable gain	1,475,000	90,000
2025/26 trust annual exemption used on sale of BC plc shares		
CGT @ 20%	£295,000	£18,000

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