

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Inheritance Tax, Trusts & Estates

November 2022

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- 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.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a tax senior in a firm of Chartered Tax Advisers. Your tax director, Tony Jones, has received an email (**EXHIBIT A**) from a new client, Mrs Julia Upton.

Julia has not undertaken any previous planning and does not have a Will at present.

Tony has asked you to review the email alongside the updated asset listings (**EXHIBIT B**) and the financial information for Lakeside Home Furnishings Ltd (**EXHIBIT C**) before preparing a draft report to Julia addressing her queries.

The following exhibits are provided to assist you:

EXHIBIT A: Email from Julia Upton to Tony Jones

EXHIBIT B: Valuation of Julia Upton's assets

EXHIBIT C: Financial information for Lakeside Home Furnishings Ltd

EXHIBIT D: Pre-seen information

Requirement:

Prepare a draft report to Julia Upton, for review by Tony Jones, which advises on her current estate situation and recommends any actions which she should take.

Continued

EXHIBIT A

Email from Julia Upton to Tony Jones

From: Julia Upton Juliaupton@email.co.uk
To: Tony Jones tony.jones@taxadvisers.co.uk
Date: 25 October 2022 09:58am

Dear Tony

It was good to meet with you and your team last week and I look forward to working with you over the coming years. I am very interested to hear your suggestions for estate planning options as I am keen to pass as much of my surplus wealth as possible to my children. I would like you to report back to me with your proposals.

As we discussed, I do not have a Will at present. On my death I want to benefit my husband, Jonathan, initially and then for my assets to be split equally between all four of our children. I have attached our current asset list to this email (**EXHIBIT B**).

Jonathan doesn't have a Will either at the moment and is reluctant to make one as it makes him think about his own mortality! In case he doesn't get around to making one, I want to make sure my Will, if I need one, works as a standalone document.

Neither I nor Jonathan have any health concerns, but I thought I should start to get things in order. Jonathan's only assets are his half share of our property, his bank accounts and his pension fund.

I need to leave instructions to Jonathan and the older children to ensure my wishes are followed:

- 1) Jacob is struggling with a gambling addiction. For this reason, I would not want him to receive a large amount of money until he is in recovery and managing his addiction successfully. I have discussed this with him, and he agrees entirely.
- 2) Emma is still very young and so it is hard to judge how financially responsible she will become. If she is not responsible with money, I think she should only receive her inheritance when she reaches 25.

We discussed that now the children are getting older and starting to leave home, we may want to sell our current property and purchase a much smaller home costing around £250,000. We are likely to sell next August but we want to understand the taxation implications in advance. We haven't always lived in our current property and only moved here in August 1998 – before this we used to rent the property out to tourists. Once we have sold, we may at some point in the future consider gifting surplus cash but I don't want to consider this for a few years yet.

We also discussed the company at our meeting. Our accountant, Jenny, has forwarded the latest summary profit and loss account and the balance sheet. I have attached these to this email (**EXHIBIT C**).

I have owned 100% of the company since incorporation and I have no plans to sell the company. The management team run the company and so the children could simply become shareholders in due course and they would not need to be involved in the day to day activities. The business is now well established and we receive only small salaries equal to the level of the personal allowance and company pension contributions but it is sufficient and we don't need this to increase.

I look forward to hearing from you soon.

Warmest regards

Julia

Continued

EXHIBIT BValuation of Julia Upton's assetsLand and Property

<u>Address</u>	<u>Detail</u>	<u>Market Value of property in 1993</u>	<u>Market Value of whole property</u>
		£	£
Lakeside Lodge Coniston Water LA23	Main residence (held as tenants in common with Jonathan)	125,000	900,000

Bank Accounts

	<u>Balance</u>
	£
UK Current account*	10,000
UK Savings account*	<u>40,000</u>
	<u>50,000</u>

*Jonathan holds near identical cash levels in his current and savings bank accounts.

Investments and Related Assets

<u>Investments</u>	<u>Cost</u>	<u>Market Value</u>
	£	£
Stock and Shares ISA Account – all shares quoted on the London Stock Exchange	40,000	90,000
100% shareholding in Lakeside Home Furnishings Ltd	100	700,000
Directors Loan due from Lakeside Home Furnishings Ltd (Interest free)		200,000
	<u>40,100</u>	<u>990,000</u>

Pension

	<u>Market Value</u>
	£
Self-Invested Personal Pension (SIPP)*	500,000

*Jonathan has an identical pension as we have always made the same contributions and investments.

Continued

EXHIBIT CFinancial information for Lakeside Home Furnishings LtdProfit and loss information

	<u>y/e 31 March 2022</u>		<u>y/e 31 March 2021</u>	
	£	£	£	£
<u>Turnover</u>				
Sale of goods		3,240,000		2,800,000
<u>Cost of sales</u>				
Opening stock	180,000		130,000	
Direct costs	2,754,000		2,402,000	
Closing stock	<u>(250,000)</u>		<u>(180,000)</u>	
		(2,684,000)		(2,352,000)
Administration expenses		(456,000)		(373,000)
Profit before tax		<u>100,000</u>		<u>75,000</u>
Taxation		(20,000)		(15,000)
Profit		<u><u>80,000</u></u>		<u><u>60,000</u></u>

Balance sheet information

	<u>31 March 2022</u>		<u>31 March 2021</u>	
	£	£	£	£
<u>Fixed assets</u>				
Plant and machinery		750,000		600,000
<u>Current assets</u>				
Stocks	250,000		180,000	
Debtors	5,000		15,000	
Cash in bank and in hand	<u>3,000</u>		<u>5,000</u>	
	258,000		200,000	
<u>Creditors: amounts falling due within one year</u>				
Trade Creditors	120,000		100,000	
Taxation	20,000		15,000	
Bank loan	128,000		25,000	
Directors loan account	<u>200,000</u>		<u>200,000</u>	
	468,000		340,000	
Net current liabilities		(210,000)		(140,000)
Net assets		<u><u>540,000</u></u>		<u><u>460,000</u></u>

Continued

EXHIBIT D

Pre-seen information

Client

Mrs Julia Upton. She is the Managing Director and 100% shareholder of Lakeside Home Furnishings Ltd. She is a Basic Rate Taxpayer.

Date of birth

11 June 1967

National Insurance Number

HB346701A

Domicile

England & Wales

Residence

Lakeside Lodge
Coniston Water
LA23

Inherited by Julia from her grandmother in August 1990 when valued at £85,000. Transferred into joint names with Jonathan Upton in 1993.

Husband

Mr Jonathan Upton, married since 1988.

Basic Rate Taxpayer.

Domiciled in England & Wales

Children

All children of Julia and Jonathan Upton.

Mr Edward Upton

Born 13 July 1991
Higher Rate Taxpayer – Freelance journalist

Miss Lucy Upton

Born 12 December 1992
Basic Rate Taxpayer – Trainee teacher

Mr Jacob Upton

Born 01 March 1994 (Non-taxpayer)

Miss Emma Upton

Born 12 August 2006 (Non-taxpayer)

Grandchildren

None

Gifting history

None

Lakeside Home Furnishings Ltd

Incorporated 18 January 1998 in England. It has 100 Ordinary shares of £1 each in issue. Its directors are Julia Upton and Jonathan Upton. The company sells home furnishings which it designs and manufactures in-house. It makes up its accounts to 31 March each year.