

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Inheritance Tax, Trusts & Estates

May 2024

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 2023/24 legislation (including rates and allowances) continues to apply for 2024/25 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. Adam Cooper, one of the firm's tax partners, has sent you an email he has received following his recent meeting with Emma and Alex Hill who are trustees of the Lucy Reed Will Trust, a new client of the firm.

The trust was created under the terms of the Will of Lucy Reed, Emma's sister, who died on 15 June 2022, for the benefit of her four daughters, Charlotte, Jessica, Chloe and Grace. The trust assets comprise two residential properties (Avenue House and Lavender Cottage), shares in an unquoted company (Floral Scents Ltd) and cash funds in two bank accounts.

The trustees are seeking advice on the tax consequences of a compulsory acquisition of a quoted shareholding within Lucy's estate, the proposed sale of Lavender Cottage and the appointment of funds to Jessica. They would also like advice on the transfer of shares in Floral Scents Ltd to Charlotte.

Adam has asked you to prepare a draft report to the trustees addressing their concerns.

The following exhibits are provided to assist you:

EXHIBIT A: Email to Adam Cooper from Emma and Alex Hill

EXHIBIT B: Assets held by the Lucy Reed Will Trust

EXHIBIT C: Letter relating to the compulsory acquisition of shares in Honey Group plc

EXHIBIT D: Financial information for Floral Scents Ltd

EXHIBIT E: Pre-seen information

Requirement:

Prepare a draft report to Emma and Alex Hill advising on the tax implications and providing recommendations in relation to the sale of shares in Honey Group plc; the proposed sale of Lavender Cottage and transfer of funds to Jessica; and the transfer of shares in Floral Scents Ltd to Charlotte.

Continued

EXHIBIT A

Email to Adam Cooper from Emma and Alex Hill

To: adam.cooper@xyztax.co.uk
From: hills@floralscents.co.uk
Date: 30 April 2024
Subject: The Lucy Reed Will Trust

Dear Adam

Thank you for meeting with us last week. As explained, Lucy appointed us as guardians of her youngest two daughters, Chloe and Grace (who are now 16 and 13 years old, respectively) and also appointed us as executors and trustees under the terms of her Will. We moved into Avenue House after her death so that Chloe, Grace and Jessica (who is now 21 years old) could continue living in the family home. Our eldest niece, Charlotte, who is 28 years old, is married and she and her husband have their own property nearby. There are no plans to sell Avenue House in the foreseeable future.

There has only been one disposal of assets so far and this was a compulsory acquisition of Lucy's former shareholding in Honey Group plc. This took place in May 2023 when her estate was still being administered. For your reference, we have attached a copy of the letter we were sent at the time of the compulsory acquisition (**EXHIBIT C**). We are not sure what to do about this and nothing has been reported to HMRC about the share sale yet.

Our next and most pressing issue relates to Jessica's university fees. She has been offered a place at an American university to study for the next four years and they have offered her the option to pay her fees as a single lump sum of £90,000, which provides a significant discount on paying them annually. The £90,000 payment will cover her tuition for the full four-year duration of her course, but, the discount will only apply if the payment is made in full by 10 October 2024.

We are very keen to take advantage of the lump sum option offered by the university and whilst there are sufficient funds in the trust's bank and building society accounts right now, we have just had some major repair work done on Avenue House which needs to be paid for by 31 May 2024. Once these bills have been settled there will be less than £90,000 left across the two cash accounts.

We have however received an offer of £75,000 to purchase Lavender Cottage from a cash buyer. He is in a position to exchange contracts and complete the sale at the end of August and as this works with our required timescale, we have decided to accept the offer. The costs of sale for Lavender Cottage will be £1,200 (VAT inclusive). Charlotte and her husband lived in the cottage whilst Lucy was alive from February 2022 and with the agreement of the trustees, they continued to live there after Lucy's death until the end of January 2024 when they bought their own house. Lavender Cottage has remained unoccupied ever since, as we have been unable to find a suitable tenant.

Our original plan was to sell Lavender Cottage within the trust and then distribute £90,000 to Jessica after 15 September 2024 when we have access to the funds in the fixed rate bond. However, we are wondering if it would be a better option to transfer Lavender Cottage to Jessica to sell herself, followed by an additional cash distribution after 15 September 2024, so that she has the required £90,000 lump sum to pay to the university. We want any tax charges to be paid by the trust, not by Jessica, but for the costs of selling Lavender Cottage to be settled out of the sale proceeds.

Please could you confirm which option is the most tax efficient and how the sale of the shares in Honey Group plc fits in with our plans to sell Lavender Cottage? We also need to know how much additional money we will need to withdraw from the cash accounts to make up the required £90,000 payment to Jessica with each option, so please could you also confirm this?

The final matter we are seeking your assistance with is less urgent and relates to the shares in Floral Scents Ltd. We have recently had meetings with two international cosmetic brands and both firms have expressed an interest in acquiring the entire share capital of Floral Scents Ltd. They were impressed that we manufactured all our products in the UK and seemed particularly interested in the fact that the company owns two large leasehold premises in prominent city locations. Each property has a Floral Scents shop on the ground floor and several residential flats above, all of which have been fully occupied by third party tenants at premium rents since they were purchased in 2015.

Lucy died unexpectedly after a short illness, but we know she planned to gift 250 of her shares in Floral Scents Ltd to Charlotte in recognition of her excellent work raising the profile of the company with her award-winning marketing and social media campaigns over the last few years. Lucy did not make the gift before she passed away and we would like to know if we can vary her Will to transfer 250 shares to Charlotte now as Lucy had always intended and the tax consequences of doing this.

Negotiations with the two cosmetic brands are still very much in the early stages, but we are very optimistic as follow up meetings have been scheduled with both firms in early September 2024. Would it be better for us to wait until these meetings have taken place before we proceed with the transfer of shares to Charlotte, as we will then be better placed to know if the company sale will come to fruition, or should we just deal with this now?

The share valuation experts at our company accountants have put together some figures for the cosmetics brands and they believe that the current value of 250 shares in the company, after accounting for all relevant discounts, is £6,995 per share. We are aware that the numbers could alter, but for now, please could you use this figure in any calculations relating to the gift of shares to Charlotte?

We have attached full details and valuations of the trust assets and some financial information for Floral Scents Ltd with notes added by Alex, as requested.

We look forward to hearing back from you shortly.

Yours sincerely, Emma and Alex

Continued

EXHIBIT BAssets held by the Lucy Reed Will Trust

<u>Asset</u>	<u>Current value</u>	<u>Value on 15 June 2022</u>
	£	£
480 ordinary £1 shares in Floral Scents Ltd	3,357,600	3,072,000
Avenue House, Townsville, Warwickshire (Lucy's former family home)	675,000	650,000
Lavender Cottage, Greenville, Warwickshire (A residential investment property)	75,000	60,000
13,500 ordinary 25p shares in Honey Group plc (A quoted company – shares sold in May 2023)	-	70,200
Cash held in bank current account	21,620	79,435
Cash held in building society account (High interest fixed rate account opened September 2023 - no withdrawals from the account permitted until 15 September 2024)	80,000	-
Total	<u>4,209,220</u>	<u>3,931,635</u>

Notes

- 1) The balance of £21,620 in the bank current account represents the balance after the expenses relating to Avenue House have been paid.
- 2) Lucy held a life insurance policy which did not form part of her estate for Inheritance Tax purposes. The proceeds from this policy were used to settle the full Inheritance Tax liability on her estate on 15 December 2022.

Continued

EXHIBIT C

Letter relating to the compulsory acquisition of shares in Honey Group plc

Executors of the Estate of Ms L Reed
Avenue House
Townsville
Warwickshire
WR5 3DG

ABC Share Registrars
Registry House
London
WC1 2AB

31 May 2023

Dear Sir / Madam

All cash offer by Sugar Sweet plc for Honey Group plc

The recommended all cash offer by Sugar Sweet plc for Honey Group plc was declared unconditional on 15 May 2023.

All the ordinary shares in Honey Group plc have now been acquired and are no longer traded on the London Stock Exchange.

Following receipt of your Honey Group plc share certificate, we enclose a cheque for £43,200 which represents your entitlement to 320 pence in cash for each Honey Group plc ordinary share held under the terms of the cash offer.

Any queries relating to this matter should be addressed to ABC Share Registrars at the above address.

Yours faithfully

J Smith

Head Registrar
For and on behalf of ABC Share Registrars

Enc.

Continued

EXHIBIT DFinancial Information for Floral Scents LtdBalance sheet information

	<u>31 March 2024</u>		<u>31 March 2023</u>	
	£	£	£	£
Fixed assets at market value:				
Land and buildings (retail premises)	2,100,000		2,100,000	
Investment property (residential flats)	3,400,000		3,400,000	
Plant and machinery	<u>202,000</u>		<u>195,000</u>	
		5,702,000		5,695,000
Current assets:				
Stocks	213,000		225,000	
Debtors	25,000		23,000	
Cash in bank and in hand	<u>162,000</u>		<u>110,000</u>	
	400,000		358,000	
Creditors: amounts falling due within one year	<u>(276,000)</u>		<u>(270,000)</u>	
Net current assets		<u>124,000</u>		<u>88,000</u>
Net assets		<u>5,826,000</u>		<u>5,783,000</u>

Profit and loss information

	<u>y/e 31 March 2024</u>		<u>y/e 31 March 2023</u>	
	£	£	£	£
Turnover:				
Retail and online sales	2,130,000		2,110,000	
Residential property letting	<u>659,000</u>		<u>650,000</u>	
	<u>2,789,000</u>		<u>2,760,000</u>	
Profit:				
Retail and online sales	1,152,000		1,144,000	
Residential property letting	<u>496,000</u>		<u>471,000</u>	
	<u>1,648,000</u>		<u>1,615,000</u>	

Current shareholders:

	<u>Ordinary £1</u> <u>shares</u>
Lucy Reed Will Trust	480
Emma Hill	260
Alex Hill	<u>60</u>
Total issued share capital of the company	<u>1,000</u>

Additional notes from the Finance DirectorFixed assets

The company's plant and machinery relates to the shop fittings in the two Floral Scents shops and computer equipment used by the sales team. We let the residential flats to tenants unfurnished.

Staff

We have 12 employees and three directors; eight staff members work in the two Floral Scents shops and the remaining four staff work on the online side of the business.

Residential lettings

None of the company employees are involved with the letting side of the business. This is all outsourced to a letting agency to which we pay a monthly fee. They deal with payment of the service charges and ground rents on the flats, repairs, leases, rent collection and any tenant-related issues.

Continued

EXHIBIT EPre-seen informationClient name

Lucy Reed Will Trust

Background

Lucy Reed died on 15 June 2022. She was domiciled in England and Wales and UK resident. Lucy never married and was survived by her four daughters, Charlotte, Jessica, Chloe and Grace.

Under the terms of her Will, after the payment of any debts, funeral and testamentary expenses, her entire residuary estate was left on discretionary trust for the benefit of her children and future grandchildren.

Lucy appointed her sister, Emma Hill and her brother-in-law, Alex Hill, as her executors and trustees.

The administration of Lucy's estate was completed on 31 August 2023.

Other information

Lucy, a cosmetic chemist, was a director and shareholder of Floral Scents Ltd, an unquoted company which manufactures scented candles, perfumes and other beauty products. Lucy, Emma and Alex set up the company together in 2001. Emma is the managing director of the company and Alex is the finance director.

Lucy's eldest daughter, Charlotte, has also worked as a marketing director for the company for the past seven years, successfully developing the social media presence and online side of the business.

Lucy made no lifetime gifts in the seven years prior to her death.

Emma, Alex and Charlotte are higher rate taxpayers. Jessica, Chloe and Grace are non-taxpayers.

The trustees signed a copy of the firm's letter of engagement and privacy policy on 31 March 2024 which covers advisory and compliance services.

Extract from the Estate Accounts

Estate of Ms L Reed Deceased
Estate at date of death 15 June 2022
Capital Account

	£	£
Gross Estate		3,931,635
Less:		
Liabilities		
Harbrook & Sons – funeral account	(6,400)	
HMRC – Income Tax liability to 15 June 2022	(8,510)	
XYZ Bank – credit card bill	<u>(1,280)</u>	
		<u>(16,190)</u>
Net estate		<u><u>3,915,455</u></u>