



The Chartered Tax Adviser Examination

Sample Paper

Application and Professional Skills

Inheritance Tax, Trusts & Estates

TIME ALLOWED – 3 ¼ HOURS

- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation, annotate your question paper and use your calculator. You are not permitted to start writing your answer. The Presiding Officer will inform you when you can start writing.
- In order to secure a pass in this paper, 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.

- Write on one side of the paper only. Do not write in the margins.
- 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 tick the appropriate box on the cover sheet.
- Unless otherwise indicated by the provision of additional table information, you may assume that 2017/18 rates and allowances continue to apply for 2018/19 and future years. Candidates referring to actual or pending rates and allowances for 2018/19 and future years will not be penalised.

APPLICATION & PROFESSIONAL SKILLS – INHERITANCE TAX, TRUSTS & ESTATES

PILOT PAPER QUESTION

You are a tax senior with a firm of Chartered Tax Advisers. Your Tax Director, Andrew Townsend, has recently had a meeting with Tilly Soames and has provided you with notes of that meeting (**EXHIBIT A**). He has also provided you with a letter which he has just received from Tilly (**EXHIBIT B**).

Tilly Soames, who is also a client of your firm, is the daughter of your client, Jill Masterson, who died on 14 October 2018. Tilly is the sole Executor and she has asked your firm to advise on tax issues arising from her mother's death. You have reviewed Jill's file and her Will (**EXHIBIT D**) and you have noted that Jill's 2017/18 tax return has not yet been prepared. You have also noted that Jill has always been a higher rate taxpayer.

All relevant client acceptance procedures have been completed.

The following Exhibits are provided to assist you:

EXHIBIT A: Notes of meeting between Andrew Townsend and Tilly Soames

EXHIBIT B: Letter from Tilly Soames to Andrew Townsend

EXHIBIT C: Financial information for Masterson Metalworks Ltd

EXHIBIT D: Pre-seen information

Requirement:

Prepare a draft report to Tilly Soames for Andrew Townsend to review, advising on tax and related issues arising from Jill's death.

EXHIBIT A

Notes of Meeting between Andrew Townsend and Tilly Soames

Between: Andrew Townsend
And: Tilly Soames
Dated: 28 October 2018
Re: Jill Masterson (deceased)

Sympathies were expressed on behalf of the firm for the passing of Jill.

Tilly explained that she would like us to advise her on tax and any other related issues arising from Jill's death.

The following information was ascertained:

Lifetime gifts

Tilly is only aware of two lifetime gifts.

The first was to the Masterson Family Trust set up in July 2013 for Jill's grandchildren. Information about this transfer is already on file (**EXHIBIT D**).

In March 2018 Jill had transferred a 50% interest in Fort Lodge to Tilly as tenants in common (Scots law – joint ownership with no survivorship clause). Fort Lodge is a holiday cottage in Kent which is let throughout the year on short-lets and produces good rental returns. Jill had inherited the property from her mother in 1986. I asked Tilly to provide a value in 1986 and she will review her files and come back to me. Tilly said that no professional valuation has yet been sought for Fort Lodge although similar properties in that area are currently being sold for around £500,000.

Assets held at the time of death

In addition to her interest in Fort Lodge, Jill had the following assets at the time of her death:

- 1) 3,000 £1 Ordinary shares in Masterson Metalworks Ltd (representing a 30% interest). These had been inherited from George on his death. The company was set up by George and his business partners in the late 1970s. The company operates from a large site at Chalkdown (on the Kent Downs). The company's business has downsized in recent years and now specialises in bespoke gold and silver plating. Tilly has no idea what the shares are currently worth but will speak to the Finance Director of Masterson Metalworks Ltd and obtain copies of accounts and any other relevant information.
- 2) Her house at 23 Knox Terrace. There is no mortgage on the property. Some of the contents may have some resale value but nothing is thought to be of significant worth. Tilly estimates that the house would currently be worth about £1.25 million.
- 3) Bank accounts (including ISAs). Statements have been requested and details will follow.

I agreed that once we have received the further information from her, we would prepare a Report advising on tax and related issues arising from Jill's death.

Andrew Townsend

EXHIBIT B

Letter from Tilly Soames to Andrew Townsend

7 Ingot Mews
Sandwich
Kent
CT13 3JB

Andrew Townsend
Prestige Tax Solutions LLP
Hamilton House
33 Blackman Street
London
EC4A 1GF

5 November 2018

Dear Andrew,

MY MOTHER'S ESTATE

Further to our meeting last week, I am now able to provide some further information.

Fort Lodge

According to the paperwork for my grandmother's estate, Fort Lodge was valued at £180,000 in April 1986.

Masterson Metalworks Ltd

I spoke to the Finance Director at Masterson Metalworks and he has emailed me the company accounts for the years ended 31 March 2017 and 2018 which I duly attach (**EXHIBIT C**).

He said that the company is probably worth around £7.5 million (and this wouldn't have changed much since March 2018) with most of the value coming from the land, which has good development potential. The underlying metalshop business only makes modest profits in a declining market and may be hard to sell on. The site is very large and several of the units which were previously used by the company for metal casting and moulding are no longer required and have been leased to other traders.

Bank and building society accounts and ISAs

The total value is £275,000. I have paid the bill for the funeral which was £16,500 (including the headstone) and will get this reimbursed in due course. I have also paid my mother's final credit card bill of £1,130.

Please let me know if you need anything else.

Thank you very much for your assistance in this matter. I look forward to receiving your Report soon.

Yours sincerely

Tilly Soames

EXHIBIT C

Financial Information for Masterson Metalworks Ltd

Summarised Balance Sheet

	Year ended 31 March 2018 £	Year ended 31 March 2017 £
<u>Fixed Assets</u>		
Land and buildings at cost	400,000	400,000
Plant and machinery at net book value	50,000	55,000
<u>Current Assets</u>		
Stock	10,000	12,000
Trade debtors	10,000	8,000
Cash at bank	200,000	190,000
<u>Current Liabilities</u>		
Trade creditors	20,000	40,000
	<u>650,000</u>	<u>625,000</u>
<u>Net Assets</u>		
Share capital	10,000	10,000
Reserves	<u>640,000</u>	<u>615,000</u>
	<u>650,000</u>	<u>625,000</u>

Notes to the accounts

The value of the land and buildings is as follows:

	Year ended 31 March 2018 £	Year ended 31 March 2017 £
Factory	4,250,000	4,000,000
Industrial units let out	<u>2,750,000</u>	<u>2,500,000</u>
	<u>7,000,000</u>	<u>6,500,000</u>

An analysis of the profit and loss accounts shows the following:

	Year ended 31 March 2018 £	Year ended 31 March 2017 £
<u>Turnover</u>		
Metalworking	410,000	420,000
Rent from industrial units	125,000	120,000
<u>Net profits</u>		
Metalworking	90,000	95,000
Rental profits	105,000	100,000

EXHIBIT D

Pre-Seen Information

Extracts from Permanent File of Jill Masterson (Deceased)

Client: Mrs Jillian (Jill) Shirley Masterson (nee Fleming) (deceased)
UK resident: Yes
UK domiciled: Yes
Address: 23 Knox Terrace, Sandwich, Kent, CT13 9GS
Date of birth: 8 August 1946
Place of birth: Kent, England
Date of marriage: 21 March 1974
Date of death: 14 October 2018
Will: Yes (30 November 2016 – see below)
Lifetime gifts: July 2013: £250,000 on trust for her grandchildren

Spouse: Mr. George Ian Masterson (deceased)
UK resident: Yes
UK domiciled: Yes
Date of birth: 18 May 1947,
Place of birth: Sussex, England
Date of marriage: 21 March 1974
Date of death: 11 October 2016
Lifetime gifts: None
Will: Yes (dated 2 April 1979)
Beneficiaries: £200,000 tax free legacy to Tilly Jane Soames
Balance of estate left in residue to spouse
Current status: Estate administered on 5 August 2017

Extract from Jill's Masterson's Will

LAST WILL & TESTAMENT OF JILLIAN SHIRLEY MASTERSON

I, Jillian Shirley Masterson of 23 Knox Terrace, Sandwich, Kent, England hereby revoke all former testamentary dispositions made by me and declare this to be my last Will.

I appoint Mrs. Tilly Jane Soames of 7 Ingot Mews, Sandwich, Kent, England as the sole Executor of my Will.

I direct my Executor to distribute my estate in its entirety to Mrs. Tilly Jane Soames for her own use absolutely.

Dated: 30 November 2016