

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Inheritance Tax, Trusts & Estates

November 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. The Tax Director, Chris Photi, has received a telephone call (**EXHIBIT A**) from new clients, Claire Ireland and Paul Wood as trustees of the Susan Wood Will Trust. The trust was created on the death of Susan, who was Claire's sister and Paul's wife. Paul is also a personal client of your firm.

Chris has asked you to review the information provided by the trustees, including details of the trust's assets (**EXHIBIT C**) and prepare a draft report for his review addressing the issues raised.

The following exhibits are provided to assist you:

- EXHIBIT A:** Notes of a telephone call from Claire Ireland and Paul Wood
- EXHIBIT B:** Email from Paul Wood
- EXHIBIT C:** Valuations and details of the assets held by the Susan Wood Will Trust
- EXHIBIT D:** Pre-seen information

Requirement:

Prepare a draft report to the trustees of the Susan Wood Will Trust, advising on the tax implications and providing recommendations in relation to the trustees' proposed restructuring and distributions from the trust.

Continued

EXHIBIT A

Notes of a telephone call from Claire Ireland and Paul Wood

Call taken by: Chris Photi
Received from: Claire Ireland and Paul Wood
Date: 10 November 2024
Client Matter: Susan Wood Will Trust

Claire and Paul telephoned to discuss their current plans in relation to the trust established by Susan's Will (the "Trust").

Background information

Susan left a letter of wishes setting out her expectations for how the Trust would eventually be distributed. Susan had wanted Rebecca and Shaun to benefit from Beach Farm and her rental property, Fairview. The family home, Sunnyside, and any remaining assets were to pass to Paul or, if Paul preferred, to his daughter Poppy.

Paul was badly injured in a car accident shortly after Susan's death and needed all the income from the Trust while he was unable to work. He has since made a full recovery and is in very good health generally. Paul's earnings have increased significantly in the last few years and he no longer needs any of the Trust income.

Susan had been concerned about the children receiving assets too early and her letter of wishes asks the trustees to consider delaying any substantial distributions to Shaun and Rebecca until they reached at least age 30.

Rebecca has been very unwell with depression in the last few years and is currently receiving treatment for a drug addiction. The trustees have decided that it would not be in Rebecca's best interests for her to receive substantial funds as she is focusing on her treatment and does not feel ready to make any significant financial decisions. They expect this to remain the case for the foreseeable future.

Shaun's 30th birthday is coming up in February 2025 and with Paul no longer needing income from the Trust, the trustees feel it is time to restructure and make distributions where appropriate.

Distribution to Shaun

The trustees would like our advice on the tax implications of several proposals. Firstly, they have decided that either Beach Farm or Fairview should be transferred to Shaun on his birthday in February 2025. The trustees will use their power of appointment to vary the terms of the existing trusts so that the asset not distributed is retained long term on the terms of the remainder discretionary trust, primarily for Rebecca's benefit, but with the potential to benefit Shaun or others if appropriate.

Rebecca has already benefitted from cash gifts from Susan (in lifetime and on death) of £325,000 in total and both children are beneficiaries of a substantial trust settled by their grandparents. It is therefore not necessary to achieve complete equality between Shaun and Rebecca in relation to Susan's Will trust.

Beach Farm and Fairview produce similar levels of income. Shaun will retain whichever asset he receives as an investment in the short term and then sell in the next few years. The trustees would like our advice on which asset to distribute and which to retain on discretionary trust from a tax perspective and are likely to choose whichever option enables them to pay less tax on the distribution (ideally from the Trust's cash without needing to sell assets). However, as the trustees are yet to discuss the matter fully with Shaun they would like our advice on anything that can be done to reduce the tax charge on a distribution of either asset. Any cash funds remaining after payment of tax will be retained on the life interest trust for now but will likely be used up by other costs in the next couple of years.

Sunnyside

Secondly, the trustees would like advice on how to deal with Sunnyside. Paul would like to remain living at Sunnyside but the trustees are not sure whether the property should be retained on the life interest trust until his death (at which point a transfer from the remainder discretionary trusts could be made to Poppy) or pass to Paul outright now. As either option is acceptable to Paul and Claire, they would like our recommendation based on any tax implications for both the Trust and Paul's estate on his death. Paul is happy for the advice relating to his estate to be addressed in the report to the trustees and he will send us some more information to assist with this.

Continued

EXHIBIT B

Email from Paul Wood

To: cphoti@taxadvisers.co.uk
From: pwood@email.com
Date: 10 November 2024
Subject: Susan Wood Will Trust

Chris

Thank you for your time on the call earlier. You asked for some further information about my estate and plans for the future.

Other than the cash and investments you are aware of, I have no other assets and I do not expect this to change significantly in the future. I plan to retire in a few years with a very good workplace pension. The lump sum death benefit is written in trust for Poppy.

I recently made a Will leaving everything to Poppy. I might update it in the future to give a percentage of the estate to Emily directly (I do not want to use any trusts) but I need to give this some more thought.

I want to remain living at Sunnyside for the foreseeable future as it is close to where Poppy lives.

My first wife, Anna, died in 1996 and her entire estate (which was approximately £40,000 in total) passed to me under her Will – Anna had made no lifetime gifts.

If you need anything else at this stage just let me know.

Best wishes

Paul

Continued

EXHIBIT CValuations and details of the assets held by the Susan Wood Will Trust

<u>Asset</u>	<u>Details</u>	<u>Probate value 8 June 2012 (Notes 2.3)</u>	<u>Current value (Notes 2.3)</u>
Fairview, Charles Town, Norfolk	Commercial property let to tenants	£2,750,000	£4,300,000
Beach Farm, Norfolk (Note 1)	Long Field consists of 420 acres of arable land let to local farmer John Croft since May 2017 for growing wheat crops. John owns and farms 2,600 acres of arable land next to Beach Farm.	£1,300,000 AV £1,700,000 MV	£2,450,000 AV £2,700,000 MV
	Three dilapidated barns with very little development potential, unoccupied until August 2019 when they were let to John Croft for equipment storage.	£100,000 MV/AV	£220,000 MV/AV
	Beach Cottage has been let to John Croft and occupied by a full-time farm labourer and his family since May 2017. The labourer has worked for John's farming business for several decades and is due to retire next summer.	£200,000 MV/AV	£300,000 MV/AV
	Bulls Paddock consists of 80 acres of land let to a local farmer for cattle farming since February 2016.	£300,000 AV £400,000 MV	£620,000 AV £740,000 MV
	Red Cottage has been a qualifying furnished holiday let since April 2009.	£150,000 MV/AV	£215,000 MV/AV
Sunnyside, Charles Town, Norfolk	Residential property used as Susan and Paul's family home. Paul has continued to live in the property following Susan's death.	£550,000	£850,000
Cash	Remaining proceeds from an investment portfolio sold shortly after Susan's death.		£465,000

Notes

- 1) Susan inherited Beach Farm from her uncle in 2007. Susan's uncle had farmed the land until his death.
- 2) AV = Agricultural Value
- 3) MV = Market Value

Continued

EXHIBIT D

Pre-seen information

Client 1: Trustees of the Susan Wood Will Trust

Settlor: Susan Wood

Date of Settlement: 8 June 2012

Current trustees: Claire Ireland (Susan's sister) and Paul Wood (Susan's husband)

Client 2: Paul Wood (personally)

Paul's assets consist of cash and quoted investments of just over £400,000. Paul has not made any lifetime gifts in the last seven years.

Family background

Susan Wood died on 8 June 2012 domiciled in England and Wales. Susan was survived by her husband, Paul Wood (born 31 July 1956) and two children from her previous marriage, Rebecca (born 15 October 1989) and Shaun (born 1 February 1995).

Paul has one daughter from his previous marriage, Poppy (born 1 March 1982) and one grandchild (Poppy's daughter), Emily (born 30 April 2006).

Susan and Paul had been married for 12 years at the time of Susan's death.

All family members are domiciled in England and Wales and UK resident. Both Paul and the trustees of the Susan Wood Will Trust have up to date and GDPR compliant engagement letters in place covering compliance and advisory work.

Provisions of Susan's Will

Legacies

A cash gift of her nil rate band to Rebecca.

Residuary estate

The balance of Susan's estate is left to her trustees on the following trusts:

- 1) On a life interest trust for Paul.
- 2) Subject to the above, on a discretionary trust for the benefit of a class of discretionary beneficiaries.

The above provisions are subject to the trustees' wide overriding powers to benefit any of the discretionary beneficiaries during the trust period, which is 125 years from the date of Susan's death. These powers include appointing any trust assets for the benefit of any discretionary beneficiary and the creation of any other provisions as the trustees see fit including any dispositive trusts or other powers for the benefit of any discretionary beneficiary.

The class of discretionary beneficiaries includes Paul, Shaun, Rebecca, Poppy and remoter issue of both Susan and Paul.