

Institution **CIOT - CTA**  
Course **Adv Tech IHT Trusts and Estates**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	<b>871</b>	<b>4015</b>	<b>4860</b>
Section 2	<b>777</b>	<b>3497</b>	<b>4177</b>
Section 3	<b>262</b>	<b>1157</b>	<b>1395</b>
Section 4	<b>832</b>	<b>3705</b>	<b>4450</b>
Section 5	<b>657</b>	<b>2888</b>	<b>3442</b>
Section 6	<b>590</b>	<b>2673</b>	<b>3225</b>
Total	<b>3989</b>	<b>17935</b>	<b>21549</b>

## Answer-to-Question- \_1\_

### Part 1

The trust set up by Jacques is an excluded property trust. The trust was set up by a non UK domiciled individual with non uk situs assets.

Jacques has since become deemed domicile (DD) by way of the 15/20 rule, a long term resident (LTR) this does not disturb the EPT status of the trust.

The trust is non UK resident as Maurice and Racquel are trustees, both are non UK resident and therefore the trust is non UK resident.

### Income tax

For income tax purposes the trustees are only subject to UK income tax on UK source income, of which there was none whilst the cash was invested in French securities.

The trust is not settlor interested for income tax purposes as Jacques cannot benefit.

Under the transfer of assets abroad provision the UK would look to tax UK resident beneficiaries on any benefits received, up to the value of the relevant income pool.

The relevant income pool is made up of the foreign income not taxed in the UK of the trust.

Benefits can be distributions or use of an asset.

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The beneficiary would be taxed on the income in the year they receive the benefit under s. 731 ITA 2007.

The trustees purchased a house in the UK which Gerome lived in, the house is not an income generating asset so no UK income tax will be suffered on this.

Gerome is however receiving a benefit by living in the house, the annual rental value of £15,000 will be taxable on Gerome as a UK resident beneficiary each tax year from 2017/18 until Geromes death in 2022/23.

Gerome is a higher rate tax payer with earnings of £60,000, therefore the £15,000 will be taxable on Gerome at 40% with a tax liability of £6,000 per year.

Once the funds have been invested in UK portfolio. The trust will only be subject to UK income tax on this should it have any UK resident beneficiaries. The income is considered disregarded income and whilst the trust has no UK beneficiaries it would not be taxable in the UK on the trustees. As Gerome has died and Angelique and Cassandra remain abroad this will be the case.

#### Capital gains tax

For capital gains tax purposes, the trust is not settlor interested, whilst the net for settlor interested is wider for CGT purposes, it consists of the settlor, their spouse, children, grandchildren and spouses thereof. Jacques brothers children are not included within this. Therefore the purchase of the UK property does not disturb this for Jacques.

The trust is non resident for CGT purposes as the trustees are non resident and the settlor non domiciled.

The UK will tax UK resident beneficiaries who receive a benefit under s.87 TCGA.

whilst the trust was invested in French securities, any gains would not be subject to UK CGT, Jacques deemed domicile status does not change this.

The benefits received are first matched with relevant income as discussed above, any excess is matched to the stockpiled gains pool.

All of the annual rent benefit received by Gerome during his time living in the property was matched to the income of the trust and therefore no gains are taxed on Gerome by way of s.87 TCGA 1992.

The capital distributions to Angelique and Cassandra who are both non resident do not take away from the stock piled gains pool.

When the trustees liquidated the assets in France, any resulting gains would have been added to the stockpiled gains pool.

Any future gains on the UK share portfolio will not be subject to UK tax as they are not within the NRCG.

When the trustees sold the UK house in May 2025 they will have been subject to UK CGT as a NRCG.

The base cost does not need to be rebased as the property was purchased after the NRCG rules came in for UK residential property in April 2015.

The gain on the property can be reduced by PRR as Gerome a beneficiary of the trust was permitted to by the trustees and resided in the property as his main residence. T

CGT of £3,450 (see below) and the NRCG form will need to paid and submitted within 60 days online by the trustees.

			£
Proceeds			350,000
Cost of sale			(4,500)
			345,500
Cost		200,000	
Purchase costs		2,500	
Renovations	N1	50,000	
Dilapidations	N2	-	
			(252,500)
			93,000
PRR	N3	93,000 x 93/110	(78,627)
			14,373
CGT at 24%			3,450

N1 Renovations, assumed capital as before anyone lived there.

N2 Dilapidations, assumed repairs and replacing like with like.

N3 PRR

March 2016 purchased - period of non occupation whilst renovations being done, can count towards occupation. Therefore 7 years occupation.

The final 9 months can be deemed occupation.

Giving 93 months out of 110 months PRR

Part 2

Gerome has not declared the trust income of £15,000 for the period he resided in the

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house.

The window for amending any of Geromes income tax returns has passed. The amendment window is 1 year after the usual due date.

The executors should write to HMRC to declare the income and settle the liability as soon as possible.

The liability will need to be included in Geromes estate for IHT purposes.

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question- 2

Part 1 - Post mortem relief

Under s.191 IHTA 1984 sales of land or property at a loss that were comprised in a persons estate at death can qualify for post mortem relief.

Post mortem relief effectively reworks the IHT due by substituting the new value of the assets with the old value. Where a loss is made this would generate a refund of IHT.

For s.191, all sales within 3 years of the date of death are aggregated, this will include losses and profit made on sale.

Further sales made at a loss in the 4th year following death can also be included.

The post mortem relief is restricted by any purchases made during the 3 year period.

The gross proceeds of sale are compared to the probate value for the purpose of the calculation.

The executors sold Units 4, 5 and 6 within the 3 year period the profit and loss is as follows:

		Probate value £	Gross sales proceeds £	profit/(loss) £
Unit 4 & 5		360,000	350,000	(10,000)
Unit 6	N 1	75,000	55,000	(20,000)
				30,000

N1 - Unit 6 was owned tenants in common with Thomasinas husband Mike, under related property rules the Unit would have been valued in her estate simply at 50% of the value, with no tenanted deduction of the co-owner. PV = £75,000 (£150,000 x 50%)

The post mortem relief will be on the loss of £30,000 at 40%, generating a IHT refund of £12,000.

Any further sales up to and including 29 Feb 2027 will need to be included should there be any.

The distribution of the units to Daniel is not a sale.

s.179 Post mortem relief on shares sold within a year of the date of death. These were sold at a profit and after the 12 month period.

## Part 2

### Income tax

Executors are taxed like an IIP, no personal allowance or dividend allowance available to them.

Income tax of:

£2,571 will be due 31 January 2025 (see below)

Payments on account will be required to be made on 31 January 2025 and 31 July 2025 for £1,285.50 each towards the liability in 2024/25.

Income tax of £14,417 (see below) less the payments on account made of £2,571 resulting in £11,843 will be due 31 January 2026.

The executors should make a claim to reduce the payments on account for 2025/26 as the estate administration period ended on 30 April 2025.

<b>2023/24</b>		Non savings £	Dividends £	Total
Net rents		10,667		
dividends			5,000	
Tax at 20%/8.75%		(2,133)	(438)	2,571
Expenses				
Net distributable income		8,534	4,562	
<b>2024/25</b>				



Net rents		63,333		
Dividends			20,000	
Tax at 20%/8.75%		(12,667)	(1,750)	14,417
Expenses	N 1	(1,200)		
Net distributable income		50,666	18,250	
distributable income 24/25 and 23/24 b/fwd		59,200	22,812	

N1 - there is no specific income source in which expenses of the executors have to be offset, it is most likely more efficient to deduct them from Non savings income for the beneficiary.

### Capital gains tax

Assuming the executors claim the post mortem relief, the new value of Units 4, 5 and 6 will be substituted for the original value for their base cost for CGT purposes.

The executors have a personal annual exempt amount available to them for the year of death and 2 further tax years.

The transfer of units 1&2 and unit 7 to Daniel on 5 March 2025 are not chargeable to CGT for the executors.

CGt of £5,262 (see below) will be payable by 31 January 2026 with the income tax above.

2024/25				Non resi gains £
Units 4 & 5				
Proceeds			350,000	
Less cost of sales			(5,100)	
			344,900	
Base cost - substituted		350,000		
Cost of obtaining probate SP 2/04	N1	2,800		

			(352,800)	
Loss				(7,900)
unit 6 50% proceeds			55,000	
cost of sales			(1,500)	
			53,500	
Base cost - substituted		55,000		
Cost of obtaining probate SP 2/04	N1	440		
			(55,400)	
				(1,940)
Sale 2,000 ABC shares				
proceed			90,000	
cost of sale 0.5% commision			(450)	
			89,550	
Base cost		50,000		
Sp 2/04		400		
			(50,400)	
				39,150
Net gains and losses				29,310
Less annual exempt amount				(3,000)
				26,310
CGT at 20%				5,265

N1 - SP 2/04 allows a maximum of 0.8% of probate value of asset sold as the estate is greater than £500,000. As this is greater than the

### Part 3

#### R185s

The transfer of Unit 1 & 2 and Unit 7 will distribute the income available to Daniel in 2024/25 up to the value of these assets or the distributable income. As the assets are greater in value than the distributable income all of the net distributable income from

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23/24 and 24/25 is on the R185 for daniel in 24/25

		Net £	Tax £
Non Savings		59,200	14,800
Savings		22,812	2,187

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question- 3

Catriona has a non UK domicile of origin.

When Catriona moved to the UK in 2016 she did not displace her domicile of origin with a domicile of choice as she always intended to return to Jersey.

Catriona has only been a UK 9 tax years, 2016/17 - 2024/25 and therefore did not become deemed domicile by way of long term resident, 15/20 tax years.

When Dons estate passed to Catriona only £325,000 will be exempt as the spousal exemption is restricted to this where the spouse is non domiciled. This is a lifetime limit. Therefore Don does not pass any unused NRB to Catriona.

There is no quick succession relief as Don passed away more than 5 years before Catriona.

As a non domicile Catriona will only be subject to UK IHT on her UK situs assets.

	Notes		£
UK home			350,000
Jersey home	Excluded - overseas		-
UK bank account			100,000
Euro bank account , in UK	Excluded - overseas		-
Unit trusts	Excluded		-
Family trust	Excluded - no UK assets		-
Loan to Ethan	N1		866,667
Funeral expenses			(7,000)
			1,309,667
RNRB	N2		(340,000)
NRB			(325,000)
			644,667
IHT at 40%	Due by 30 September 2025		257,867

N1 - the loan is to a non UK company, EJ Properties Limited, however as the company

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derives the majority, 75%, from UK residential property the value is deemed to be a loan to a UK company.

N2 - Catriona can use Dons unused RNRB, bringing her RNRB to £350,000. This is reduced to the value of her qualifying residence which is £340,000

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- \_4\_

Part 1

IHT due on Gwens death

Firstly lifetax must be calculated to work out the gross chargeable transfers into trusts and use of AEs.

Lifetax

		Notes		£
Cash gift to trust		CLT 3/04/13		350,000
Less AE 12/13 and 11/12 bfw				(6,000)
				344,000
NRB				(325,000)
				19,000
IHT at 25%		Payable by Gwen 31 October 2014		4,750
Gross chargeable transfer				354,750
13/08/2015 Painting		PET		5,000
AE 15/16 & 14/15 bfw				(5,000)
				nil
1/11/19 cash to trust		CLT		150,000
AE 19/20 and 18/19 bfw				(6,000)
				144,000

NRB			325,000	
Less gross chargeable transfers in 7 year prior to gift		Gift to trust 2013	(354,750)	
				Nil
				144,000
IHT at 25%				36,000
Gross chargeable transfer				186,000
6/7/22 Cash		PET		12,000
AE 22/23 and 21/22				(6,000)
Marriage exemption				(5,000)
				1,000
8/4/23 Gift to political party		N1		

N1 - PET to political party is exempt as the party got 1 member in the House of Commons and more than 150,000 votes at the general election preceeding to transfer.

### Death Tax

On Gwens death gifts in the 7 years prior to her death become chargeable to IHT.

The gifts on 3 April 2013 and 13 Aug 2015 and now exempt and no IHT will be due on these as enough time has elapsed.

The following gifts become chargeable.

Taper relief is available where the gift was made longer than 3 years prior to Gwens death.

Gwen is able to uplift her NRB for deathtax for her husbands unused NRB.

Vince died in May 2007 when the NRB was £300,000 only £6,000 of the NRB will have been used on the cash left to his children. The remainder of his estate passed to Gwen and

would have been exempt.

Vince had unused NRB of £294,000 being 98% of his NRB

Gwens NRB to use is therefore £643,500 (£325,000 x 198%).

	Ref			£
1/11/19 GCT				186,000
NRB			643,500	
Less chargeable transfers in 7 years prior to gift		Gift to trust 2013	(354,750)	
				(288,750)
				-
6 July 2022 PET				1,000
Less NRB			643,500	
Less chargeable transfers in 7 years prior to gift		Gift to trust in 2019	(186,000)	
				(457,500)
				Nil
8 April 2023 N2	N2			Exempt

N1 - lifetax already paid is deducted from the IHT payable on the gift, but will not create a refund.

N2 - the gift was exempt at the date of the transfer and although the votes have now fallen, the exemption applies to the votes at the general election preceeding the gift being May 2021 and therefore remains exempt.

### Death tax - Death estate

Finally death tax is calculated on the death estate, the assets held by Gwen at the date of her death.

Gwen is UK domiciled and is subject to UK IHT on her worldwide assets

Under the rules of intestacy her estate will pass to her children on statutory trust as Gwne leaves no suviving issue. Arthur is not her spouse.



	Note			£
Home				600,000
Ibiza home			350,000	
Less a 5% deduction for foreign probate costs			(17,500)	
				332,500
Cash				750,000
Shares			100,000	
100% BPR on AIM shares	N1		(10,000)	
				90,000
Chattels and car				15,000
Less liabilities - income tax				(2,500)
Less funeral costs	N2			(6,000)
				1,779,000
NRB at death			643,500	
Less Gross chargeable transfers in 7 years before death		PET July 2022	(1,000)	
		CLT 1 Nov 19	(186,000)	
				(456,500)
RNRB	N4			(350,000)
				972,500
IHT at 40%	N3			389,000

N1 - AIM shares are treated like unquoted shares. The shares have been owned by Gwen for longer than 2 years and are in trading companies, therefore qualify for 100% BPR

N2 reasonable funeral costs are allowable deduction

N3 - The IHT will be payable by the administrators of Gwens estate as she died without a will, this is likely to be her children Stephen and Teresa. The IHT will be due the earlier of 31 October 2025 or on submission of the IHT400.

N4 - The administrators of Gwens estate can claim the RNRB, residential nil rate band, as her home is passing to a lineal descendant, her children. Gwen can also use Vince her deceased spouse unused RNRB and as he used none of this even though it was before it's

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introcuton Gwen can use it all and therefore have £175,000 x 200% deductible.

## Part 2

Stephen has two options for giving £50,000 of his inheritance to Arthur.

1 direct gift

2 Deed of variation (DOV)

A direct gift of £50,000 would be a potentially exempt transfer by Stephen and be chargeable to IHT should he die within 7 years.

A direct gift of cash would have no CGt consequences.

A DOV can be undertake within 2 years of the date of Gwens deaths, 7 April 2027.

The DOV has to be in writing and signed by both Stephen and Arthur.

A s.142 IHTA 1984 statement can be included to deem the transfer to have come from Gwen. This will then be inherited by Arthur from Gwen. There will be no change in the IHT liability as both Stephen and Arthur are chargeable beneficiarys.

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-----ANSWER-4-ABOVE-----  
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 -----ANSWER-5-BELOW-----  
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Answer-to-Question- \_5\_

### Part 1

Trustees income tax liability 5 April 2025

As an 18 - 25 trust the beneficiaries are entitled and taxed differently depending on their ages.

Kate turned 25 on 30/5/2025 and therefore in 2024/25 she had an IIP in the income of her share of the trust. kate gets her capital in 25/26.

Zoe was 18 on 19/10/2023 and therefore in 2024/24 also has an IIP. With capital in october 2030.

Emma is not yet 18, she turns 18 on 25/8/2026, in 2026/27. therefore for 2024/25 her part of the trust is held on discretioanry trust.

The trust is taxed as a mixed trust:

		Savings £	dividends £	Total £
Income in 24/25		15,000	27,000	
Less IIP 2/3		(10,000)	(18,000)	
		5,000	9,000	
Expenses 400 x 100/91.25	N1		(438)	
		5,000	8,562	
Tax at 45%/39.35%		2,250	3,369	5,619
Tax at 8.75% x 438				<u>38</u>
Total tax for discretionary fund				5,657

tax on IIP at 20% and 8.75%		2,000	1,575	3,575
total IIP and discretionary income tax				9,232
Plus tax pool charge				<u>517</u>
				9,749
Less payments on account				(4,000)
Total due 31 January 2026				5,749

N1 Expenses are apportioned between the IIP and discretionary fund  $\pounds 1,200 \times \frac{1}{3} = \pounds 400$  for Emmas

The due date of the payment for income tax of  $\pounds 5,749$  will be 31 January 2026. A further  $\pounds 4,616$  will be due on 31 January 2026 as a payment on account towards 2025/26.

Tax pool

			£
Brought forward			nil
Add tax at RAT			5,619
Less tax on distribution		$7,500 \times \frac{45}{55}$	(6,136)
			(517)
Tax pool carried forward			nil

R185s

Emma		Net £	Tax £
Trust income - Non savings		7,500	6,136

Zoe and Kate are distributed the net income after tax and expenses from the IIP share.

		Non savings £	Savings £
IIP income		10,000	18,000
Less tax		(2,000)	(1,575)
Less expenses	1,200 x 2/3		(800)
		8,000	15,625

Their R185s are half of this distributable income each.

R185s - Kate and Zoe

		Net	Tax
Non savings income	x 20/80	4,000	1,000
Savings	x 8.75/91.25	7,812	749

## Part 2

Kate is entitled to her capital at the age of 25 on 30 May 2025.

### IHT

This will give rise to an exit charge for the trust for IHT.

The exit charge is based upon the initial value of the settlement as an 18-25 trust is not subject to principle charges.

The exit charge will be 1/3 of the value of the assets multiplied by the actual rate and time apportioned for the quarters between 18 and 25, being 28/40.

The exit charge of £4,416 (see below) will be payable by 30 November 2026.

### CGT

The exit will also give rise to a disposal for CGT purposes of the shares by the trustees.

A gain of £6,112 will be taxable on the trustees at 20% in 2025/26. (£333,336 - 315,000)/3

As the disposal gives rise to an IHT charge the trustees can defer the gain using s.260 TCGA 1992. No CGT will be due by the trustees.

This is a joint claim by the trustees and Kate and would be due 4 years from the end of the tax year, 6 April 2030.

The deferral claim passes the original base cost of the shares on to Kate.

Kate would therefore have shares with a value of £105,000 (£315,000/3). Kate can add the IHT exit charge to the base cost of her shares should she dispose of these in the future.

			£
Initial value:			
Cash			290,000
Manzini plc shares			<u>315,000</u>
			605,000
NRB		325,000	
Less settlor chargeable transfers 7 years before creation		(20,000)	
			(305,000)
			300,000
Notional tax at 20%		300,000 x 20%	60,000
Effective rate		60,000 / 605,000	9.917%
Actual rate		9.917% x 30% x 28/40	2.083%
Current value:	N1	Cash 302,600 Manzini plc 333,336	635,936
1/3 share			211,979
Exit charge		211,979 x 2.083%	4,416

N1 Manzini shares are valued at lower of averaged marked bargains 735p (730+740)/2, or quarter up on offer/bid prices, 731p (740-728)/4 +728.

731p x 45,600 shares

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question- \_6\_

Part 1

IHT due on the original transfer into trust

Amal settled 20 shares in Paloma Ltd into trust on 1 August 2014. This would have been a chargeable lifetime transfer subject to IHT.

The value of the gift will have been valued at a loss to donor basis.

Amal held 100 shares before the transfer valued at £5 million. After the transfer Amal held 80 shares at a value of £3.2 million, therefore the loss to Amal, the transfer of value is £1.8 million.

Unquoted trading company shares typically qualify for 100% Business property Relief, BPR where the donor has owned them for longer than 2 years. This applies to Amal shares.

However BPr is restricted where a company holds excepted assets.

Excepted assets are ones that are not used in the trade or intended for future use in the trade. Surplus cash is an excepted asset.

BPR is restricted by the proportion of excepted asset value of the total asset value of the company.

Based on a company value of £5 million, BPR will be restricted by 25% being (1.25 million / 5 million).

The transfer of value after BPR is £450,000.

Amal can offset his annual exemptions and NRB as these are unused.

IHT is calculated at 25% as the primary responsibility to pay the IHT is that of the donor.

If the trustees were to pay the IHT would be at 20%.

The IHT of £29,750 (see appendix 1) will be due 30 April 2025. Being the later of 6



months or 30 April following the end of the month of gift.

The IHT can be paid in instalments as immediately before the transfer, the transferor had control of the company. The IHT can therefore be paid in 10 annual instalments on each anniversary of the normal due date, 30 April. The instalments will be interest bearing with interest accruing on the amount outstanding at each due date.

## Appendix 1

			£
20 shares			1,800,000
100% BPR		(1,800,000)	
Restricted for excepted asset		450,000	
			(1,350,000)
			450,000
Annual exemption 2014/15 and 2013/14 bfw			(6,000)
			444,000
NRB			(325,000)
			119,000
IHT at 25% - amal pays			29,750

## Part 2

IHT on trust ten year anniversary

The trust Ten year anniversary on 1 aug 2024 is based on the current value of the assets held in trust at this date net of BPR.

The shares in Sunbeam Ltd qualify for 100% BPR as an unquoted trading company.

Sunbeam has no excepted assets.

However the trustees have not owned the shares in Sunbeam for the qualifying ownership period of 2 years at the date of the ten year charge.

The trustees however replaced the previous qualifying BPR property with replacement property and under s.107 IHTA 1984 will be able to make a claim for BPR as it and the previous shares have been owned for 2 years out of the previous 5 from the ten year charge.

The BPR on the replacement property is restricted to the BPR given on the previous property. Therefore the value of the proceeds of £2,000,000 will obtain BPR, Paloma no longer held any excepted assets and so it is not restricted.

the ten year charge is calculated on the current value net of BPR £500,000 at the actual rate (appendix 1) 2.1% which is £10,500 of IHT due by the trustees.

#### Appendix 1

			£
Current value		Sunbeam Ltd	2,500,000
100% BPR	N1		(2,000,000)
			500,000
NRB			(325,000)
			175,000
Notional tax 20%			35,000
Effectiv rate			7%
Actual rate		7% x 30%	2.1%

N1 - Restricted to original BPR property