

The Chartered Institute of Taxation

Awareness

Module B: Inheritance Tax, Trusts & Estates

May 2024

Suggested answers

Answer 13

CLT on 15 June 2017:	£	£	
Transfer into trust		180,000	
Annual exemption 2017/18 and 2016/17		(6,000)	
Chargeable Lifetime Transfer (CLT)		<u>174,000</u>	1
- No IHT to pay as within the available nil rate band.			
PET on 22 July 2022:			
Not chargeable during lifetime and does not reduce the NRB but does use the 2022/23 annual exemption			1
1 October 2023:			
Transfer into trust		300,000	
Annual exemption 2023/24		(3,000)	
		<u>297,000</u>	1
Nil rate band	325,000		
Less chargeable transfers in previous seven years	(174,000)	(151,000)	1
		<u>146,000</u>	
IHT at 20/80		<u>£36,500</u>	1

Answer 14

The shares are valued using the lower of the quarter up rule and the average of the highest and lowest marked bargains as follows:

Quarter up: $£6.02 + \frac{1}{4} (£6.10 - £6.02) = £6.04$ 1

Average marked bargains: $(£6.02 + £6.08)/2 = £6.05$ 1

Therefore, the transfer value of the gift is $£6.04 \times 20,000$ shares = £120,800. 1

As the gift is on the occasion of his daughter's marriage, the marriage exemption of £5,000 reduces the Inheritance Tax valuation of the gift to $£(120,800 - 5,000) = £115,800$. 1

The gift is a potentially exempt transfer therefore there is no Inheritance Tax due provided Niklaus survives seven years from making the gift. 1

Answer 15

PET becomes chargeable (£70,000 - £6,000)	£	£	
Nil rate band at death	325,000	64,000	
Less chargeable transfers in previous seven years	Nil	(325,000)	
		<u>Nil</u>	1
Gross CLT		536,250	
Nil rate band available	325,000		
Less chargeable transfers in previous seven years	(64,000)	(261,000)	
		<u>275,250</u>	1
IHT at 40%		110,100	1
Less taper relief 3-4 years = $20\% \times £110,100$		(22,020)	1
Less lifetime IHT paid		(42,250)	
Further IHT payable		<u>£45,830</u>	1

Answer 16

As Zedmond was neither domiciled nor deemed domiciled in the UK, only assets located in the UK are subject to UK Inheritance Tax.

- The apartment would be subject to UK Inheritance Tax as it is physically located in the UK. 1
- The Euros in the UK branch of a Spanish bank would be subject to UK Inheritance Tax because the branch is located in the UK. 1
- The Sterling held in the bank account in the Cayman Islands would not be subject to UK Inheritance Tax as the account is held overseas. 1
- The shares would not be subject to UK Inheritance Tax as they are registered overseas. 1
- The debt owed by his cousin would not be subject to UK Inheritance Tax because debts are located where the debtor resides, in this case, Germany. 1

Answer 17

Death estate (£300,000 + £810,000)	£	1,110,000	
Less donation to national heritage museum		(50,000)	1
Less RNRB (£175,000 + £175,000) restricted		(300,000)	1+1*
Less NRB (£325,000 + £325,000)		(650,000)	1
		<u>110,000</u>	
IHT at 40%		<u>£44,000</u>	1

***1 for using both RNRB plus 1 for restriction**

Answer 18

- At the date of the gift to Daniella, as Nathaniel had owned the farm for at least seven years ending with the date of transfer and the land was used for agricultural purposes throughout, agricultural property relief (APR) at 100% would be potentially available on the agricultural value of £390,000. 1
- For APR to still be available on death, Daniella must either still hold the farmland at the date of Nathaniel's death or have replaced it with other qualifying agricultural property. 1
- As she has only partially reinvested the proceeds into replacement farmland, APR will be not be available on death. 1
- Therefore, IHT will be payable at 40% on the PET of the farmland, based on the market value exceeding the nil rate band, i.e. £500,000 - £325,000 = £175,000 x 40% = £70,000. 1

Answer 19

1)

	Non-savings £	Savings £	Dividends £	
Rental income (£88,000 - £8,000)	80,000			
Interest income		20,000		
Dividend income			4,000	
	80,000	20,000	4,000	1
Income tax @ 20%/20%/8.75%	(16,000)	(4,000)	(350)	1
	64,000	16,000	3,650	
Less trustees' management expenses		(850)	(3,650)	
Income available for distribution	£64,000	£15,150	£Nil	1

2)

	Net £	Tax £	
Non-savings income	64,000	16,000	1
Savings income (Working)	15,150	3,788	1

Working:

$$£15,150 \times 20/80 = £3,788$$

Answer 20

Watch – more than five years between Lex's and Oscar's death so no quick succession relief (QSR). 1

Classic car – QSR still available even though sold before Oscar's death. 1

QSR = $\frac{£50,000}{£120,000} \times (\frac{£120,000}{£725,000}) \times 60\% = £4,966$. 3

Answer 21

The cash gift is a PET which will only become chargeable if Ronaldo dies within the next seven years. 1

The pre-owned asset rules apply as Ronaldo has the benefit of the house, the purchase price of which was partially met using money provided by him. 1

The annual rental value of £38,400 is apportioned as Ronaldo only provided part of the consideration, so $£38,400 \times \frac{£450,000}{£600,000} = £28,800$. 1

Ronaldo would pay annual Income Tax on notional income of $45\% \times £28,800 = £12,960$. 1

As the transfer is cash, the gift with reservation of benefit rules do not apply. To avoid the charge, Ronaldo could elect for the gift with reservation rules to apply, so that the property would form part of Ronaldo's estate for Inheritance Tax purposes. 1

Answer 22

As Paula has created a trust that she (and her spouse and minor children) can benefit from, this is a settlor interest trust.

The whole of the trust income of £20,000 (gross) is taxed on the settlor, Paula. As such, there are no tax implications for the other beneficiaries.

Paula is entitled to use the dividend nil rate band of £1,000 against this income.

Paula is also entitled to a tax credit for the income tax paid by the discretionary trustees. Being a higher rate tax payer, her personal tax rate is below the trust rate, therefore this could result in some tax paid by the trustees being repaid.

Any tax repayment received by Paula must be repaid to the Trustees.

Paula must declare the trust income on the supplementary pages of her tax return.

1 mark for each relevant point, maximum 5

Answer 23

	Residential Property gains £	Other gains £	
Shares		28,000	
Residential property	80,000		
Painting	(10,000)		
Chargeable gains	<u>70,000</u>	28,000	1
Annual exempt amount (£3,000/2)	<u>(1,500)</u>		1
	68,500		
Less losses b/f	<u>(12,000)</u>		1
Taxable gains	<u>56,500</u>	28,000	
CGT at 28%/20%	<u>£15,820</u>	£5,600	1+1
CGT payable		<u>£21,420</u>	

Answer 24

The Inheritance Tax due of £15,000 on the June 2019 PET will be payable by Rodger. **1**

The tax is payable six months after the end of the month of death, i.e. 31 January 2024. **1**

The Inheritance Tax due on the death estate is payable by the executors of the estate. **1**

The tax is payable on the earlier of:

- Six months after the end of the month of death, i.e. 31 January 2024. **1**
- The delivery of the Inheritance Tax Return. **1**