

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	422	1999	2331
Section 2	712	3128	3830
Section 3	521	2388	2896
Section 4	499	2397	2783
Section 5	372	1703	2007
Section 6	494	2372	2813
Total	3020	13987	16660

Answer-to-Question- _1_

DOD 05/06/2022

2022/23	NS	S	D		
	£	£	£		
UK rental	39,000				
Foreign divs			Excluded		
Foreign interest		Excluded			
ISA interest (N1)		Exempt			
Less:					
Agent fees	(1,500)				
Maintenance	(2,500)				
Loan interest (N2)	(13,333)				
Total	21,667	Nil	Nil		
Tax @ 20%/20%/8.75%	4,333.4	Nil	Nil		
Distributable income:					
	21,667				
Less: Tax	(4,333.4)				
	17,333.6				
R185 22/23	Net	Tax credit	Gross		
	17,333.6	4,333.40	21,667		

N1 - ISA tax-free wrapper remains for three years post death

N2 - interest on a loan paid within 12 months of taking it out can be deducted from Estate income:

$500,000 * 8\% = \text{£}40,000$
 $(\text{£}40,000 / 12) * 4 = 13,333.333\dots$

5/12/2022 - 5/04/2023 is 4 months

Sale of Bermuda Bank Ltd shares -

As Bermuda Bank Ltd is resident and registered in Bermuda, the shares are not a UK-situs asset and therefore are not chargeable to UK CGT.

2023/24	NS	S	D		
	£	£	£		
UK rental	36,000				
Foreign divs			Excluded		
Foreign int		Excluded			
ISA int		Exempt			
Less:					
Rental expenses (1,500 + 500)	(2,000)				
Rental accounts fee (n3)	(500)				
Total	33,500	Nil	Nil		
Tax @ 20%/20%/8 .75%	6,700	Nil	Nil		

2023/24 CGT					
Proceeds	400,000				
Cost	(350,000)				
Chargeable Gain	50,000	*No annual exemption available on estate CGT			
CGT @ 20%	10,000				

--	--	--	--	--	--

N3 - Accountancy fees for the prep of the Tax Return are not deductible, but an appropriate portion for the preparation of the rental accounts would be deductible from rental income:

20% of £2,500 = £500

2023/24 distributable					
Income (33,500-6,700)	26,800				
R185 23/24	Net	Tax	Gross		
	26,800	6,700	33,500		

R185 -

2)

For the purposes of income tax, if an individual dies UK domiciled but non-resident, their estates residency is determined by the residency of the Executors. If the executors are all UK-resident, the Estate will be treated as UK resident. However, if the Executors are non-UK resident or a mix of UK and non-UK, the residency will be determined by the testator (i.e. the deceased individual). If the testator was non-UK dom or non-UK res, it is treated as a non-resident estate.

For Jane's estate, this means that only UK assets are subject to income tax.

This income tax will be reported on an Estate Self-Assessment Tax Return, due the 31st January following the end of the tax year (i.e. 31 Jan 2024 for 2022/23, 31 Jan 2025 for 2023/24). Any tax payable is also due on the same date.

This will be subject to late filing penalties and interest on late paid tax.

As Jane was UK domiciled, the full Estate (worldwide assets) will be within the scope of UK IHT.

-----ANSWER-1-ABOVE-----

 -----ANSWER-2-BELOW-----

Answer-to-Question- 2

IT + IHT of planning so far and IHT plan for future

Assets:			
Tee Ltd shares	Unquoted trading company, owned for more than 2 years will qualify for 100% BPR		
Woodland	Pay no IHT on underwood + trees on death, this is paid on future disposal or sale (value of the timber		
Quoted investment portfolio	No BPR		

PETs made - £150,000 per year since June 2023

PET + POAT - income tax charge

Gift of dividends to daughter

As the dividends were previously used to fund Donald's lifestyle, this gift cannot be deemed a gift out of normal expenditure. Each gift is therefore classed as a PET. Any PET which Donald dies within 7 years of will be chargeable to IHT (@ 40%) and payable by Mary. Annual exemption deductions will be available as deductions.

Any gain on the sale of his investment portfolio shares will be subject to CGT at 20% (assuming he is a higher rate tax payer) after deduction of his annual exempt amount. Assuming he spends this money on living expenses, this won't increase his estate but will

actually decrease it as the shares would be chargeable to IHT at 40% as they do not qualify for BPR.

Sale of home

The gift of the £1 million proceeds to Mary is a PET and will become chargeable to IHT should Donald die within 7 years of July 2023.

The £350,000 that Mary used to buy Donald a flat falls under the pre-owned assets tax rule. This means that as Donald gifted Mary cash that was used to buy an asset that he benefits from, an annual income tax charge is due. This will be charged on the annual rental value of the property ($£12,000 * 20\% = £2,400$). Any payments that Donald makes to Mary can be deducted from the rental value.

To prevent this, Donald could start paying Mary market value rent to live in the property. However, Mary would then need to complete a self-assessment Tax Return each year to report the rental income and pay tax on it.

An alternative to this is a gift with reservation of benefit election can be made. This has to be agreed by the donee and donor and is an irrevocable election. If this election is made, no POAT charge is payable but the asset is treated as a GWROB and will therefore enter Donald's death estate.

Artwork

The gift of the artwork to Mary is a PET that again, falls under the POAT rules, unless Donald paid Mary rent for keeping the artwork in his house. A POAT charge will be due annually of HMRC's interest % on the value of the artwork.

The sale of the artwork, assuming it was sold at the MV, will have removed the artwork from Donald's estate and stopped POAT charges being due.

Future plans

As the quoted investment portfolio will not qualify for any BPR relief, it makes sense to keep selling these assets and using the cash in lifetime. This will reduce any shares or cash liable to 40% IHT.

A woodland relief election can be made for the value of the trees and underwood in the woodland next to the golf club. The £240,000 value will not be chargeable to IHT on

Donald's death (only £400,000 - £240,000 = £160,000 chargeable). It will only become chargeable upon future gift or disposal (the value of the timber). This election should be made by the executors within 2 years of the date of death.

Donald's 90% shares in Tee Ltd will qualify for BPR at 100% as they are shares in an unquoted trading company, owned for more than 2 years. This will fully exempt them from IHT in Donalds' estate. However, the surplus cash and Donald's boat will not qualify. It may therefore be sensible to sell the boat and distribute all the cash to be used by Donald to fund his living expenses. If the money is spent it cannot be subject to IHT.

There is nothing to stop Donald gifting his dividends to Mary and if he survives 7 years, it may well be beneficial. But as previously mentioned, please be aware that these will become chargeable to IHT if Donald dies within 7 years of the gift.

-----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

Answer-to-Question- 3

UK-res and non-dom

1 -

Assuming Stefan never had a UK domicile and therefore won't fall under the formerly domiciled resident rules, Stefan will be treated as deemed UK domicile under the long-term resident rules once he has been UK resident for 15 out of the last 20 tax years.

As he has been resident since March 2012, this means his first year of UK residence was 2012/13. His 15th year of residence will be 2026/27 and therefore, assuming he has no years of non-residence in the interim, he will be treated as deemed UK-domicile from 2027/28.

If Stefan dies and leaves his estate to his children while he's deemed UK domicile, his worldwide assets will fall into the scope of UK IHT and be fully chargeable. He will be eligible for the nil rate band (currently £325,000) as well as the RNRB (currently £175,000) on his main residence, as this will be passing to a lineal descendant.

Any foreign tax charged on his foreign assets will qualify the asset for foreign tax credit relief so double tax is not charged. This will be given as the lower of:

- UK tax charged
- foreign tax charged

Setting up a discretionary trust is usually a chargeable lifetime transfer. As Stefan did this while he was not UK-domiciled and it holds non-UK situs assets (foreign bank account), it was not chargeable to UK IHT. As the transfer was made in February 2020, additional lifetime tax would only become due if he became deemed domiciled and died within 7 years of the gift (February 2027). As he won't become deemed domicile until 2027/28, this is not applicable.

The gift of £150,000 to each of his children was from a foreign investment account while he was non-UK domiciled so wouldn't have fallen under the PET IHT rules. However, if he dies within 7 years of the gift (March 2030) while he is deemed domicile, these gifts will become failed PETs chargeable to IHT:

Gift (150,000 * 2)	300,000		
Less:			
AE (2022/23)	(3,000)		
AE (2021/22)	(3,000)		
	294,000		
IHT @ 40%	117,600		

PFSI - non-dom/deemed dom under long-term resident rules: as long as distributions don't come from foreign income/assets, not chargeable UK tax

2 -

If Stefan is planning to continue to use all three of his homes, he could plan his year as such that he is not considered a UK resident under the statutory residency test (i.e. spend a sufficient number of days abroad).

In which case, he would not be UK resident or UK domiciled. Therefore only UK assets would be subject to UK tax.

His Swedish and Dubai homes would not fall into the scope of UK IHT or UK CGT (should he sell them). His foreign investment account would also not fall into UK IHT and any dividends or interest from this would not be chargeable to UK IHT.

The gifts to his grandchildren would also remain outside the scope of UK IHT, even if he died within 7 years of them.

Additionally, if the inheritance from his parents remains outside of the UK, this will not be caught by UK tax.

-----ANSWER-3-ABOVE-----

 -----ANSWER-4-BELOW-----

Answer-to-Question- 4

IHT + CGT on Trustees - each proposed action, assuming elections made

The settlor and Trustees are UK resident so this is a UK resident Trust.

31 Jan 2015 - CLT by Andrew, CGT also due

Beckett's Fields - pre 1995 lease, 20 acres disallowed, activity centre - BPR? 50 - APR?

Symes Farm - APR?

Holdover claim:

Proceeds (31/01/2015)	2,620,000		
Less: Cost	(555,000)		
Gain	2,065,000		
Less: holdover relief	(2,065,000)		
Chargeable gain	Nil		
Revised base cost:			
New base cost	2,620,000		
Less: holdover relief	(2,065,000)		
Revised	555,000		

1 - all assets distributed in December 2024:

Exit charges will be due on all of the assets leaving the Trust:

Initial value of Trust (no BPR/APR etc.)	2,620,000		
--	-----------	--	--

Less:			
NRB		325,000	
Less: CTs in 7yrs pre Trust		(nil)	
	(325,000)		
	2,295,000		
Notional tax @ 20%	459,000		
Effective rate (459,000/2,620,000 * 100)	17.519		
Actual rate (17.519 * 30% * 39/40)	5.124		

n =

31 Jan 2015 - December 2024 is 9 years 11mo

9 * 4 = 36

11 = 3 full quarters

36+3= 39

Beckett's Field:		Value chargeable to IHT	
50 acres of land for growing swedes	Assuming these are for human consumption, this will qualify for APR. As the land is let on a pre September 1995 lease with more than 2 years to go, this will qualify for 50% APR		
20 acres for grazing	Land used for horses to graze does not qualify		

	for APR		
30 acres for outdoor activity centre	Doesn't qualify for APR or BPR		
Cottage	Used as FHL, not for agricultural purposes so does not qualify for APR.		
Symes Farm:			
200 acres of arable land	Qualifies for 100% APR on agricultural value		
Farmhouse	Occupied by tenant farmer so qualifies for 100% APR		

Beckett's Fields:

MV (2,000,000 + 150,000)	2,150,000		
APR relief (800,000/2) * 50%	(200,000)		
Chargeable	1,950,000		
Exit charge (1,950,000 * 5.124%)	99,918		

Symes Farm:

MV (4,000,000 + 300,000)	4,300,000		
Less:			
APR (100% * (1,600,000 + 210,000))	(1,810,000)		
	2,490,000		

Exit charge (2,490,000 *5.124%)	127,587.6		

Total exit charge = £227,505.60

2 - selling assets in May 2025

Principle charge will be due on 31 January 2025 anniversary. Payable within 6months of the end of the month of the anniversary (31 July 2025).

Current value	6,450,000		
Less:			
NRB			
		325,000	
Less:			
CTs 7yrs pre Trust		(nil)	
Y1-10 distributions		(nil)	
	(325,000)		
	6,125,000		
Notional tax @ 20%	1,225,000		
ER (1,225,000/6,450,000) * 100	18.992		
AR (18.992 * 30%) (n1)	5.698		
Principle charge (4,440,000 * 5.698%) (n2)	252,991.20		

N1 - no n/40 as n = 40

N2 - Principle charge on: $1,950,000 + 2,490,000 = 4,440,000$

Sell assets:

CGT	Non-res	Res	
Proceeds	6,000,000	450,000	
Less: Cost (holdover relief)	(450,000)	(105,000)	
	5,550,000	345,000	
CGT @ 20%/28%	1,110,000	96,600	
(non-res due 31 Jan 2027, res due 60days after sale)			

An exit charge will then be due on the distribution of the cash from the sale:

Cash (6,000,000 + 450,000)	6,450,000		
Actual rate (18.992 * 30% * 1/40)	0.142		
Exit charge: 6,450,000 * 0.142%	9,159		

n =

31 Jan 2025 - May 2025 = 3mo = 1 quarter

 -----ANSWER-4-ABOVE-----

 -----ANSWER-5-BELOW-----

Answer-to-Question- 5

1 - IHT and CGT on disposals

As a successful conditional exemption claim was made on Charles' death, this means that Robles Castle and its contents was exempt from IHT providing that it was made available for reasonable use by the public (i.e. 1 month per year) and HMRC were allowed to advertise these details on their website.

The sale of the castle contents would make the IHT exempted on Charles' death, chargeable:

Asset	Probate value		
Amethyst	15,000		
Broad Sword	60,000		
clock	7,500		
Dining table	17,000		
Total	99,500		
Tax @ 40%	39,800	Payable by Phillip	

These sales would also be liable to CGT:

Proceeds	133,500		
Less: Cost (99,500 + 12,200)	(111,700)		
Chargeable	21,800		
Less: AEA	(nil)	Makes more sense to deduct from residential property gain as charged at higher rates (18/29)	
CGT @ 20% (assume HR)	4,360		

Selling to museum exempt from IHT/CGT?

Gifts to kids are PETs but also trigger IHT charge due to conditional exemption claim.

IHT			
Value	22,000		
IHT @ 40%	8,800		

PET - Holly

Gift	15,000		
Less: AE	(nil)		
PET	15,000		
Failed PET (IHT @ 40%)	6,000		

PET - Matthew

Gift	30,000		
Less: AE	(nil)		
PET	30,000		
Failed PET (IHT @ 40%)	12,000		

The IHT paid in lifetime (total £8,800) will be apportioned and deducted from any failed PET liable to IHT @ 40%.

The gift of the garden statue is a PET which, if it fails and Phillip dies within 7 years, will be chargeable to IHT on Holly.

Gift	15,000		
Less: AE	(nil)		
PET	15,000		
If PET fails, IHT @ 40%	6,000		

This is also a deemed disposal by Phillip for CGT purposes, taking place at MV:

Proceeds	15,000		
Less: Cost	(10,500)		
Gain	4,500		
CGT @ 20%	900		

2 - mitigate charges

Holly could make a conditional exemption election on the garden statue. Providing this is done within 2 years of Phillip's DOD and she then makes the statue available for one month per year for public viewing and allows HMRC to advertise this, the statue will not be chargeable in Phillip's death estate.

As the painting is not pre-eminent in it's own right, a conditional exemption election cannot be made. If he loans it for a month per year to the castle, it could qualify?

-----ANSWER-5-ABOVE-----

 -----ANSWER-6-BELOW-----

Answer-to-Question- _6_

Transferrable NRB + pot RNRB

IHT due pre 14 Dec 2024 -

IHT due post 14 Dec 2024 -

C/fwd allowances for Karen post

IHT on death			
Woodland park	150,000		
Coyne Street	850,000		
Woodwater Ltd	100,000	Ian held the shares for less than 2 years and as they weren't inherited from spouse, cannot combine years held - they therefore do not qualify for BPR	
ComputerLine	250,000	Not definitively left to a charity and therefore will not qualify estate for 36% rate	
Jewellery	200,000		
Residue	20,000		
Total	1,570,000		
Less:			
NRB		325,000	
Less: any CTs 7yrs pre DOD		(110,000)	
	(215,000)		
Chargeable	1,355,000		

IHT @ 40% (1,355,000 * (570,000/1,570,000))	196,777	Payable by executors		542,000
IHT @ 40/60 (1,355,000 * (1,000,000/1,570,000))	575,372	Payable by Trustees		

* I forgot to add the transferrable NRB. As Faye used none of her NRB (estate passed to Ian under spousal exemption), 100% brought forward would be available so an extra £325,000 can be deducted from Ian's Estate.

*No RNRB as main residence passing to a trust, not a direct lineal descendant

Estate rate:

$$1,355,000 * 40\% = 542,000$$

$$(542,000/1,570,000) * 100 = 34.522\%$$

$$570,000 * 34.522\% = 196,775.4$$

$$1,000,000 * 34.522/(100-34.522) = 527,230.5$$

Post 14 Decembr 2024:

Any distributions from discretionary Trust created on death made within 2yrs of DOD are deemed as being distributions per Will.

The distribution of Woodland Park to Jenny would revise the Estate calc as it would now be passing to a lineal descendant and would qualify for RNRB.

The distribution of Coyne Street to Karen would be exempt under the spousal exemption.

Total (pre dis)	1,355,000		
-----------------	-----------	--	--

Less:			
RNRB (no tapering as estate less than £2mill)	(175,000)		
Less:			
Coyne	(850,000)		
	330,000		
Will give IHT refund			

*I forgot to add in Faye's brought forward allowance for the RNRB. As none of her RNRB was used, 100% uplift is available on Ian's estate. $£175,000 * 2 = £350,000$

I believe by adding in Faye's NRB and RNRB, this will reduce the Estate to the point that there will be transferrable NRB (and possibly RNRB) for Karen to use in her death estate.

Currently, the full NRB and RNRB has been used.

Assuming the deeds of variation are done properly:

- within 2 years of DOD
- signed by individual making the change
- in writing

Jenny passing the shares in Woodwater Ltd to her son instead will have no bearing on the Estate's IHT.

A deed of variation confirming that the shares must go to a UK reg charity must be made in order for the estate to potentially qualify for the 36% rate.

As Karen is giving monetary consideration for the jewellery, this deed of variation will not alter the estate.

2 -

As Jenny is passing the shares to Sean under a DoV, this is not a disposal for CGT purposes and no CGT liability will be charged.

As Paul is passing the jewellery for monetary consideration, CGT will be chargeable.

Gifts to UK registered charities are exempt from CGT.