Candidate Number

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Chartered Institute of Taxation

Excellence in Taxation

The Chartered Tax Adviser Examination

9 May 2019

AWARENESS

Module B – Inheritance Tax, Trusts & Estates

1. Bob died on 1 February 2019. He left an estate valued at £1 million, which included his main residence valued at £200,000.

   Bob had never married but did have children. His Will states that his estate is to be left equally to his children, except for £80,000 which is to be left to an established charity.

   Bob had made no gifts during his lifetime.

   Calculate the Inheritance Tax payable on the estate.

	£
Value of Estate	1,000,000
(less): RNRB	(125,000)
NRB	(325,000)
Baseline	550,000
@ 10%	55,000

Charitable legacy exceeds 10% so lower rate applies:

	£
Value of Estate	1,000,000
(less): RNRB	(125,000)
NRB	(325,000)
charity legacy	(80,000)
Chargeable to IHT	470,000
IHT @ 36%	169,200.

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2. Jackie has had an income of £100,000 per annum since 2015, which is significantly in excess of her needs. She has recently made various gifts to friends and family members, as follows:

14 February 2019	£10,000 to her son on his marriage
1 April 2019	£5,000 to her friend Kate
15 April 2019	£200 to each of her six grandchildren

Jackie has made no previous gifts apart from paying £1,500 each year towards one of her grandson's school fees.

Briefly explain any exemptions available for Inheritance Tax purposes in relation to her gifts.

- 14 Feb 2019
- £5,000 covered by marriage exemption, £3000 covered by 2018/19 annual exemption, and remaining £2000 covered by 2017/18 annual exemption b/f.
- 01 Apr 2019
- £5,000 - £1,000 covered by remaining 2017/18 AE. £4,000 left will be a PET.
- 15 Apr 2019
- each gift covered by £250 small gifts exemption

- £1,500 towards school fees not in scope of IHT as it is borne out of normal expenditure of income without changing living circumstances.

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3. Paul sold his shares in Argoexe Ltd on 15 January 2019. The shares were relevant business property for the purposes of Business Property Relief.

Paul is considering spending the full proceeds from the sale on acquiring one of the following investments:

1) 30% shareholding in Bigloz Ltd, an unquoted trading company
2) 10% shareholding in Carpt Ltd, an unquoted investment company
3) 3% shareholding in Delk plc, a quoted trading company

Briefly explain whether or not these potential investments would qualify as replacement property for the purposes of Business Property Relief and any further conditions that would need to be satisfied.

i) 30% shareholding would qualify for replacement property as it is a qualifying unquoted trading company.
ii) 10% shareholding would not qualify as Carpt is not a trading company.
iii) 3% shareholding would also not qualify as minimum ownership requirements not met for quoted trade company. Also, BPR would only be available at 50% for quoted companies.

• In order for BPR to apply, Paul would have to reinvest proceeds within 3 years of disposal of Argoexe shares.

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4. Jacob died on 31 March 2019. He had made just one lifetime gift, which was on 1 July 2016 when he transferred cash of £440,000 into a discretionary trust he created for the benefit of his grandchildren. Jacob paid the Inheritance Tax due.

Calculate the Inheritance Tax payable by the trustees as a result of Jacob's death.

Lifetime Tax	£
Gift	440,000
(less): 16/17 + 15/16 AE	(6,000)
CLT	434,000
(less): NRB	(325,000)
Chargeable to IHT	109,000
IHT @ 20/80	27,250.

Death Tax	£
Value of Estate (440000-27,250)	412,750
* (less): NRB	–
Chargeable to IHT	412,750.
IHT @ 40%	165,100.
(less): lifetime credit	(27,250)
IHT payable by Trustees	137,850.

* no nil rate band available as gross CLT of £461,250 erodes it.

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5. In the year ended 5 April 2019 the Gardly Discretionary Trust received property income of £16,000 and dividend income of £4,000. The trustees incurred management expenses of £1,480, which were met from income.

On 15 August 2018 income distributions totalling £14,000 were made to the beneficiaries.

The balance brought forward on the tax pool at 6 April 2018 was £2,200.

Calculate the total Income Tax payable by the trustees for 2018/19.

	£
Balance b/f : 06/04/18	2,200.
Add-	
STD - 1000 @ 20% =	200
15,000 @ 45% =	6,750.
2,400 @ 38.1% =	914.
1,600 @ 7.5% =	120.
	10,184.
(less): dist (14,000 × 45/55)	(11,455)
Tax Payable by Trustees	(1,271)
Bal c/f 05/04/19	-

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6. Nadia died on 18 December 2018 leaving assets totalling £800,000. The executors made the following payments from estate funds:

1) £12,800 to settle the hire purchase liability outstanding on her car.

2) £2,900 to a Spanish solicitor in relation to a villa in Spain owned by Nadia at death. The villa is included in the death estate at a value of £45,000.

3) £500 to a family friend to whom Nadia had verbally promised to make a gift shortly before her death.

4) £3,400 to the funeral directors for the cost of the funeral.

Briefly explain the extent to which each of these payments can be deducted in the death estate for Inheritance Tax purposes.

1) Liability of £12,800 to settle car is a deductible expense.

2) Foreign asset have 5% limit of value in terms of deductible expense - therefore only £45,000 × 5% = £2,250 will be deducted in death estate.

3) As there was no written agreement in place, the £500 repayment will not be deducted from value of death estate.

4) Costs of funeral arrangements will be deductible. Therefore, £3,400 can be deducted from death estate.

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7. Ismail died in August 2013 leaving his entire estate to his wife Karina. He had made no lifetime gifts for Inheritance Tax purposes.

Ismail was born in London to UK domiciled parents and had lived in the UK all his life.

Karina was born overseas to non UK domiciled parents but had moved to the UK and become UK resident, when she married Ismail in 2001.

Karina remained UK resident after Ismail's death and did not remarry before her death in February 2019.

Briefly explain how Karina's domicile would be determined in August 2013 and February 2019 and the effect thereof for Inheritance Tax purposes.

- In August 2013, Karina would not be deemed domicile in UK as she was not resident in UK for 15 of preceding 20 tax years.
- Therefore, upon Ismail's death, Karina would only be entitled to non-dom spouse exemption of £325,000. The remainder of Ismail's death estate would be liable to UK IHT, including overseas assets.
- By February 2001, Karina would be deemed domicile, as she was resident for necessary 15 of 20 previous tax years, including 1 of previous 4 before transfer.
- For IHT purposes, this means her death estate will consist of her worldwide assets and will be liable to UK IHT.

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8. Petra gifted 1,500 ordinary £1 shares in McGoggle Ltd to her niece on 15 January 2019. Before making the gift, the shares in the company were owned as follows:

Shareholder	Number of shares
Petra	4,000
John, Petra's husband	3,000
Clara, Petra's daughter	3,000
Total issued shares	10,000

The shares in the company were valued on 15 January 2019 as follows:

% Shareholding	Value per share
	£
15%	80
25%	85
40%	95
55%	110
70%	125
85%	135
100%	150

Briefly explain, with supporting calculations, how the shares gifted on 15 January 2019 are valued for Inheritance Tax purposes.

- Shares gifted will be valued in line with related property rules.
- Instead of taking the stand alone value of shares, they will be valued at Petra's share of related property.

	£
Value before gift - $4,000/7000 \times (125 \times 7000)$	500,000.
Value after gift - $2,500/5,500 \times (110 \times 5500)$	275,000.
Transfer of Value	225,000.

- Transfer of value is determined through loss to donor: i.e, how much Petra's value of shareholding has fallen.

9. Michael died on 10 March 2019.

Michael had made just one lifetime gift, which was in 2014, of a cottage in Cornwall to his son when its market value was £410,000.

Michael and his son agreed that Michael would continue to use the cottage for two weeks each winter and summer without paying any rent.

Michael took his last holiday in the cottage in August 2016 after which he became too ill to travel. At this time the cottage had increased in value to £580,000.

Briefly explain how the gift of the cottage will be treated for Inheritance Tax purposes. You are not required to calculate any Inheritance Tax payable.

- As Michael gifted the cottage which he continued to benefit from, he will be caught by GWROB rules.
- Here, his original gift of the cottage will be a PET, valued at £410,000.
- However, GWROB will deem the cottage to still form part of his estate.
- In August 2016, his use of the cottage was released - this will be taken to be a second PET, at value of £580,000.
- As a result of Michael's death in March 2019, both PETs under the GWROB will have failed, and therefore IHT will be due.
- GWROB will determine the IHT due using one of two calculations -
  - on first PET, ignoring the release of cottage.
  - on release of cottage, whilst ignoring first PET.
- The calculation that yields higher IHT due will be the one used.

In this case, it is very likely to be on release of cottage as value has increased and lower taper relief will be available.

10. The Monza Trust sold two properties during 2018/19.

Property One was a commercial warehouse which was sold on 1 September 2018 for £400,000. The property was originally purchased by the Trust for £280,000 in July 2001.

Property Two was a house which was sold on 1 December 2018 for £210,000. It had been commercially let to a third party throughout the Trust's ownership of it. This property was the main residence of the settlor until it was transferred into the Trust in February 1996. The property was originally purchased for £40,000 by the settlor and had a market value at February 1996 of £85,000. The gain of £45,000 on the transfer into trust was entirely exempt as a result of the principal private residence relief available.

The Monza Trust had unused capital losses at 6 April 2018 of £8,900. This was the only Trust created by the settlor.

Calculate the Capital Gains Tax payable by the trustees on the two disposals made during 2018/19.

	20%	28%
	Property One	Property Two
	£	£
Proceeds -	400,000	210,000
(less): cost	(280,000)	(85,000)
Gain	120,000	125,000
(less): capital losses	-	(8,900)
	120,000	116,100
(less): AE	-	(5,850)
	120,000	110,250
CGT payable (20%/28%)	24,000	30,870.

11. In January 2017 Jean made a gift to her nephew and in August 2017 she made a transfer into a discretionary trust. At the time she did not realise that there might be Inheritance Tax implications and so no returns have yet been submitted or payments made of Inheritance Tax.

Jean has recently realised that this is incorrect and is planning to submit any necessary returns in June 2019. She has been advised that Inheritance Tax of £7,800 is payable in respect of the transfer to the discretionary trust.

Briefly explain, with supporting calculations, the penalties Jean will be liable for in respect of the late filing of any necessary returns.

- Gift to nephew is PET - no return necessary, and no IHT payable.

- Transfer into Trust - return due by 31 August 2018.
IHT due by 30 April 2018.
Return -
- initial £100 late fee.
- if more than 3 months late - £10 daily penalties up to 90 days - £900.
- more than 6 months - 5% of PLR - £7,800 × 5% = £390.
- more than 12 months - 5% of 30% of £7,800 = £117 → £300
Tax - initial 5% penalty: £7,800 × 5% = £390.
- more than 3 months late: 5% penalty = £7,800 × 5% = £390.
- more than 9 months late: 5% penalty = £7,800 × 5% = £390.
* 5% penalty of tax outstanding

* As Jean was careless, her penalty % will be 30% of PLR -

£7,800 x 30% = £2,340 x 5% = £117.

However, £300 will apply as greater.

12. Arthur made the following lifetime gifts:

14 February 2014	£200,000 cash gift to his son
18 November 2015	£100,000 cash to the Miles Discretionary Trust
1 May 2017	£500,000 cash to the Yard Discretionary Trust

Arthur paid any Inheritance Tax arising as a result of these gifts.

On 1 May 2019, the Yard Discretionary Trust made a capital distribution of £80,000 to one of the beneficiaries. On that date, the relevant property held in the Miles Discretionary Trust was valued at £310,000 and the relevant property held in the Yard Discretionary Trust was valued at £640,000.

Calculate the actual rate of tax to be used by the trustees in calculating the exit charge for the capital distribution on 1 May 2019. You should ignore annual exemptions.

		£
Initial Value of Trust		431,250
Initial Value of Related Trust		100,000
		531,250.
(less): NRB	325,000	
CT in 7yrs pre trust	(375,000) -	-
		531,250
Notional tax - 20%		106,250
Effective rate: 106,250/531,250		20%
Actual rate = 20% x 30% x 8/40		1.20%

Exit Charge would be therefore - 80,000 x 1.2% = £960.

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