



Chartered  
Institute of  
Taxation  
Excellence in Taxation

# **The Chartered Tax Adviser Examination**

May 2017

Suggested solutions

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**Awareness Module B Inheritance Tax, Trusts & Estates**

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**1.**

	£	£	
Cash		540,000	
AEs 2012/13 and 2011/12		<u>(6,000)</u>	
		534,000	
Lifetime Inheritance Tax		<u>114,750</u>	
Gross chargeable transfer		648,750	1
NRB 2016/17	325,000		
Less transfer in previous 7 years	<u>(250,000)</u>		
		<u>(75,000)</u>	1
		<u>573,750</u>	
IHT @ 40%		229,500	1
Less taper relief 40%		<u>(91,800)</u>	1
		137,700	
Less lifetime tax		<u>(114,750)</u>	1
		<u>22,950</u>	

**2.**

If not married, value of painting = £250,000. 1

If married, the spousal exemption would apply to exempt the legacy to Bradley but the value of the painting under related property rules would be:

$$250,000 / (250,000 + 450,000) \times £1,000,000 = £357,143 \quad \mathbf{1+1}$$

Therefore, increase in IHT if married = (increase in painting value less spouse exemption on bequest to Bradley) at 40% i.e.  $£(357,143 - 50,000 - 250,000) @ 40\% = £22,857$  1+1

**3.**

	£	
B/f at 6 April 2016	12,400	
Add tax on income in 2016/17		
£1,000 × 20%	200	1
£(10,000 – 1,000 + 3,000) × 45%	5,400	1
£6,000 × 38.1%	<u>2,286</u>	1
	20,286	
Less tax credit on distribution		
£20,000 × 45/55	<u>(16,364)</u>	1+1
Balance c/f at 5 April 2017	<u>3,922</u>	

4.

Where the land is situated – only land in the UK, the Channel Islands, the Isle of Man or an EEA state qualifies for APR. 1

How long Jason owned the land prior to the gift/his death and whether the land was tenanted or farmed by Jason himself. APR is available if owned for seven years if tenanted or two years if farmed by Jason. 2

If tenanted, whether the lease pre-dates 1 September 1995 as this would reduce the APR percentage available to 50%, rather than 100%. 1

Whether Sally still owns the farmland on Jason's death (or has sold it and replaced it with other agricultural property), otherwise APR is no longer available. 1

The agricultural value of the land, as APR is given on this, and not the open market value of the land. 1

**5 marks maximum**

5.

	£	
Value at 1 July 2013	750,000	
NRB	<u>(325,000)</u>	
	425,000	1
Tax at 20%	85,000	1
Effective rate $85,000/750,000 \times 100\%$	11.333%	1
Actual rate $11.333\% \times 30\% \times 12/40$	1.020%	1
Exit charge $1.020\%/(1 - 1.020\%) \times £200,000$	<u>£2,061</u>	1

6.

	£	£	
Death estate		950,000	
Less political donation		(100,000)	1
Less charitable donation		(50,000)	1
Less NRB	325,000		
Transfer from Adam			
$(300,000 - 240,000)/300,000 \times £325,000$	<u>65,000</u>		
		<u>(390,000)</u>	2
		410,000	
IHT @ 36%		<u>147,600</u>	1
$(£50,000 > 10\% \text{ of } £460,000 \text{ (} £410,000 + £50,000))$			

7.

<u>Business property relief (BPR)</u> is available on the shares in Metric Ltd because	1
there have been successive transfers, at least one of which was due to death, and <u>the first transfer qualified for BPR as Gabi had owned the shares for more than two years</u>	1
in an <u>unquoted trading company</u> .	1
<u>Quick succession relief</u> reduces Inheritance Tax because the <u>gift of the house</u>	1*
was a chargeable transfer which increased Colin's estate <u>in the five years before death</u> .	1

***\*lose if say no QSR as don't own the house, or if refer only to shares***

8.

Trust A – the trust assets were charged to Inheritance Tax as part of Briony's death estate as Briony has a qualifying interest in possession.	1
Trust B – there was no charge arising on 1 May 2016 as trusts for bereaved minors do not suffer principal charges.	1
There was no Inheritance Tax charge on 1 September 2016 on the use of trust assets applied for the benefit of the bereaved minor.	1
There was no Inheritance Tax charge on 1 March 2017 when Simone became absolutely entitled to the trust assets.	1
Trust C – there was no Inheritance Tax charge on 31 March 2017 as Dwight already owned the assets absolutely.	1

9.

Gift by Jade is not a gift with reservation of property as she is virtually excluded from benefiting from the asset, only returning for the <u>domestic reason</u> of babysitting.	1
Gift by Kate is a gift with reservation, as she continues to derive benefit from the asset, and <u>does not pay full market value rent for this benefit</u> .	1
Gift by Lucy is a gift with reservation as she continues to derive benefit from the car, as she receives more than occasional ( <u>three times a month</u> ) lifts in the car.	1
Where the gift with reservation rules apply, the asset is deemed to remain in the donor's death estate.	1
The gift would also be a PET which may become chargeable on death within seven years thereof, and <u>the higher of the two tax charges</u> is then taken to be the Inheritance Tax payable.	1

**10.**

Net loss on relevant sales

	Value £	Proceeds £	Relevant profit/(loss) £	
Plot A	230,000	260,000	30,000	) 1
Plot B	<u>180,000</u>	<u>100,000</u>	<u>(80,000)</u>	)
Total	410,000	360,000	(50,000)	2*
			£	
Allowable loss			(50,000)	
Less: loss × amount invested/proceeds = £50,000 × £90,000/360,000				1
			<u>12,500</u>	
			<u>(37,500)</u>	
Therefore, value			625,000	
Less loss			<u>(37,500)</u>	
Value of land			<u>587,500</u>	1

**\*excludes plot C as the loss is less than £1,000 and also plot D as this was sold at a profit in the fourth year after death**

**11.**

<u>50%</u> of the gain on disposal qualifies for entrepreneurs' relief because:	1
Vaultt Ltd is a <u>trading company</u>	1
Louis, <u>one of the beneficiaries, has an interest in possession</u> in 50% of the fund	1
Louis personally owns at least <u>5%</u> of the shares	1
Louis is an <u>employee</u> of the company	1
The conditions have been met for at least <u>one year</u>	1

**5 marks maximum**

**12.**

	£	
Necklace (90,000 – 17,000)	73,000	1
Pentath plc shares (W1)	-	
Land (W2)	<u>336,741</u>	
Total gains	<u>409,741</u>	

Working 1 Pentath plc shares

	£	
Market value on transfer	168,000	
Cost	<u>(10,000)</u>	
	158,000	
Gift relief (s260)	<u>(158,000)</u>	
Gain	-	1*

Working 2 Land part disposal

	£	
Proceeds	400,000	
Less legal fees	(4,000)	1
Cost $\text{£}200,000 \times 400,000 / (400,000 + 950,000)$	<u>(59,259)</u>	2
Gain	<u>336,741</u>	

**\*for nil gain because of gift relief – quantification of gift relief not required**