

THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Inheritance Tax, Trusts & Estates

November 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2023/24 legislation (including rates and allowances) continues to apply for 2024/25 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Jane died on 5 June 2022. She was a UK domiciled, non-resident individual and had been resident in Bermuda since 2010. Jane left her entire estate to her daughter Kate, who is UK resident.

On her death, Jane held the following assets:

	£
Home in Bermuda	400,000
Rental flat in London	350,000
100% shareholding in Property Ltd (Note 1)	750,000
Bermuda Bank Ltd shares (Note 2)	250,000
Non-UK Bank account	200,000
ISA	225,000

Note 1

Property Ltd is a Bermudian resident company which owns three rental properties in the UK.

Note 2

Bermuda Bank Ltd is Bermudian resident quoted company.

Jane's Executors are Rob, who is Bermudian resident and Billy who is UK resident.

The Executors took out a loan of £500,000 on 5 November 2022 to help pay the Inheritance Tax due. Interest at 8% per annum was paid monthly on the loan commencing on 5 December 2022. The loan was repaid on 5 March 2024.

The Executors have received the following estate income:

	<u>2022/23</u>	<u>2023/24</u>
	£	£
UK rental Income	39,000	36,000
Foreign dividends	20,000	25,000
Foreign interest	5,000	4,000
ISA interest	1,000	1,000
Rental Expenses:		
Agent's fees	1,500	1,500
Maintenance	2,500	500

In March 2024, the Executors incurred accountancy fees of £2,500 for the preparation of the estate accounts and tax return.

In February 2023, the Executors sold the Bermuda Bank Ltd shares for £275,000.

In March 2024, the Executors sold the London rental flat for £400,000.

On 5 April 2024, the shares in Property Ltd were appropriated to Kate when they were worth £765,000.

Requirement:

- 1) **Calculate the estate tax liability for 2022/23 and 2023/24 and show the R185 entries for Kate.** (10)
- 2) **Explain the extent of the executors' liability to UK tax and how this will be reported.** (5)

Total (15)

2. Donald is 76 years old and divorced. Donald has one daughter, Mary. He currently has the following assets:

- 1) 90% of the shares in Tee Ltd, an unquoted trading company which Donald started in 2006. The remaining 10% of the shares are owned by unrelated third parties. Tee Ltd trades as a golf club in Devon.

Tee Ltd's accountants have confirmed that the value of the company is £4 million and that Donald's shares are worth £3.2 million. They have also confirmed that the business holds surplus cash of £400,000 and a boat for Donald's personal use worth £500,000.

Donald receives dividends of £150,000 per annum from Tee Ltd.

- 2) Woodland next to the golf club which he holds for investment purposes and to shield the golf course from neighbouring houses. Donald was advised that woodlands are a tax efficient investment. The total value of the woodland is £400,000, which includes trees valued at £240,000.
- 3) A quoted investment portfolio worth £900,000 which is invested for growth so has minimal income.

Donald has historically funded his living expenses from his state pension, portfolio income and the majority of his dividends from Tee Ltd. In order to reduce his estate, since June 2023 Donald has gifted all of his dividends from Tee Ltd to his daughter, Mary and has been selling shares in his investment portfolio to fund the income shortfall needed to meet his living expenses.

In July 2023, Donald sold his home for £1 million and gifted the proceeds to Mary. Mary used £600,000 to purchase a house for her and her family. She used £350,000 to purchase a flat in which Donald now lives. The flat has a rental value of £12,000 per annum.

In May 2009, Donald inherited some artwork from his sister on her death. He gifted the artwork to Mary in August 2010 in order to remove this from his estate. The artwork remained in Donald's house until he sold the property in July 2023. Mary now has the artwork in her new family home.

Except as described above, Donald has made no other gifts.

Requirement:

Explain the Income Tax and Inheritance Tax implications of the estate planning carried out by Donald to date and discuss the steps that Donald could take to reduce the Inheritance Tax due on his death.

(15)

3. Stefan is Swedish domiciled and has been UK resident since March 2012.

Stefan has never been married nor had a civil partner and has two adult children and three grandchildren. His current worldwide assets are as follows:

	£
UK home	2,500,000
UK bank account	23,000
UK investments	150,000
Swedish home	600,000
Dubai holiday home	300,000
Foreign investment account	1,500,000
UK pension fund	200,000

In February 2020, Stefan set up a discretionary trust to fund his grandchildren's education. This currently holds £250,000 in a Jersey bank account; his grandchildren are the only beneficiaries.

In March 2023, Stefan gifted £150,000 to each of his children from his foreign investment account.

Stefan intends to continue to use all three of his homes. He is likely to receive an inheritance from his parents in the future but this may be after he has become deemed domiciled in the UK.

Requirement:

- 1) **Explain the date Stefan will become deemed domiciled in the UK and his exposure to Inheritance Tax after this date assuming he leaves his estate to his children.** (5)
- 2) **Discuss any actions Stefan could take should he wish to protect his assets from UK tax but retain access to them and any resulting tax considerations.** (15)

Total (20)

4. On 31 January 2015, Andrew Logan settled the Logan 2015 Discretionary Trust for the benefit of his grandchildren. Andrew, who had made no previous gifts, was excluded from benefit and paid the Inheritance Tax arising. Andrew and his wife are the trustees and are both UK resident. No further additions to the trust have been made.

The assets transferred to the trust were:

- 1) Beckett's Fields: A 100 acre parcel of land and a cottage let on a 40 year lease dated 1 September 1990. 50 acres of the land are used by the tenant for growing swedes, 20 acres are sub-let by the tenant to a local riding school for grazing, and the remaining 30 acres are used by the tenant to run an outdoor activity centre. The cottage is run by the tenant as a furnished holiday let.
- 2) Symes Farm: Let on a Farm Business Tenancy and consists of 200 acres of arable land and a modest farmhouse occupied by the tenant farmer.

A holdover claim was made in respect of the gains which arose on the creation of the trust. Both Beckett's Fields and Symes Farm have been zoned for development and an offer has been made for them (though no sale contract has been entered into) and it is likely that any sales would be in May 2025.

The relevant values are:

	31 January 2015		<u>Current Estimated Agricultural Value</u>	<u>Current Estimated Market Value</u>
	<u>Trustees' Base Cost</u>	<u>Market Value</u>		
	£	£	£	£
<u>Beckett's Fields</u>				
100 acres of land	150,000	750,000	800,000	2,000,000
Cottage	25,000	120,000	105,000	150,000
<u>Symes Farm</u>				
200 acres of land	300,000	1,500,000	1,600,000	4,000,000
Farmhouse	80,000	250,000	210,000	300,000
Total	<u>£555,000</u>	<u>£2,620,000</u>	<u>£2,715,000</u>	<u>£6,450,000</u>

Andrew had always intended for the assets to be appointed out to the beneficiaries when his youngest grandchild reached 25 in December 2024, although there was no age contingency in the trust deed. The trustees are considering the following actions:

- 1) Distributing all of the trust assets to the beneficiaries in December 2024 as initially planned; or
- 2) Selling the assets in May 2025 and distributing the cash realised to the beneficiaries immediately afterwards.

Requirement:

Calculate with explanations, the Inheritance Tax and Capital Gains Tax arising on the trustees in respect of each proposed action, assuming that elections are made where possible. (20)

5. Sir Philip Robles inherited Robles Castle together with its contents on his Uncle Charles's death in 1997. A successful claim for conditional exemption was made at that time. Inheritance Tax was paid on the remainder of Charles's estate.

In 2024/25, Sir Philip sold of some of the castle contents to unrelated third parties as follows:

<u>Asset from castle contents</u>	<u>Purchaser</u>	<u>Sales proceeds</u>	<u>Costs of sale</u>	<u>Probate value on Charles's death</u>
		£	£	£
Amethyst necklace	Private purchaser	20,000	1,200	15,000
Broad Sword	The British Museum	80,000	7,500	60,000
Clock	Private purchaser	8,500	750	7,500
Dining table	Private purchaser	25,000	2,750	17,000
		<u>£133,500</u>	<u>£12,200</u>	<u>£99,500</u>

In 2024/25, Sir Philip also made a substantial residential property gain on the sale to a third party of a property he had purchased personally in 2003.

On 20 September 2024, Sir Philip made the following gifts to his children:

<u>Asset from castle contents</u>	<u>Donee</u>	<u>Market Value</u>	<u>Probate value on Charles's death</u>
		£	£
18 th century silver	Holly	15,000	10,000
Freud painting	Matthew	30,000	12,000
		<u>£45,000</u>	<u>£22,000</u>

Holly immediately sold the silverware but Matthew intends to keep the painting. The silverware is considered to be pre-eminent in its own right, but the painting is not. No elections or undertakings have been made to date.

On 31 October 2024, Sir Philip gifted a garden statue to Holly worth £15,000. He had purchased the statue at auction in March 2016 for £10,500. The statue is pre-eminent for its artistic interest and Holly has no plans to sell it.

Sir Philip has no nil rate band remaining after a gift into trust in 2022 and uses his annual exemption every year with a capital gift on 6 April. Sir Philip has recently been diagnosed with a terminal illness and has been given a life expectancy of 12 to 18 months.

Requirement:

- 1) **Calculate with explanations, any Inheritance Tax and Capital Gains Tax consequences of the disposals of the assets by Sir Philip.** (10)
- 2) **Explain how any charges that arise on the gifts to Matthew and Holly could be mitigated including the type of undertakings that must be given by them to qualify for any relief.** (5)

Total (15)

6. Ian Roshko, resident and domiciled in the UK, died on 4 January 2023. Ian's first wife Faye died in 1990 and left her whole estate of £50,000 to Ian having made no lifetime gifts. Ian used his annual exemption on 6 April every year by making cash gifts from capital and his only other gift was £110,000 of cash to his daughter Jenny on 14 October 2016.

Ian left the following gifts in his Will:

	<u>Legatee</u>	<u>Probate value</u> £	<u>Value in November 2024 (Note 4)</u> £
95 Woodlands Park, Dudley (main residence)	Discretionary trust (Note 1)	150,000	150,000
67 Coyne Street, Fleet (let property)	Discretionary trust (Note 1)	850,000	851,000
40% shareholding in Woodwater Ltd	Daughter – Jenny (Note 2)	100,000	115,000
ComputerLine plc shares	Friend – Lewis (Note 3)	250,000	275,000
Jewellery collection	Son – Paul	200,000	220,000
Residue of estate (cash and personal effects)	Daughter – Jenny	20,000	20,000

Note 1

The discretionary trust is for the benefit of his widow, Karen and his two children, Jenny and Paul.

Note 2

Ian received the unquoted shares on the death of his sister Lucy in January 2022. Woodwater Ltd has no non-trading activities and all assets are used in the business. It has always been a trading company and Lucy had held the shares for 10 years prior to her death.

Note 3

The gift was made in 'the hope that Lewis would pass these to a registered charity of his choice'.

Note 4

The November 2024 values are not expected to alter within the next few months.

On 14 January 2024, the two properties were assented to the trustees of the discretionary trust. The trustees intend to appoint 95 Woodlands Park to Ian's daughter, Jenny and 67 Coyne Street to Ian's widow, Karen on 14 December 2024.

On the same date:

- 1) Jenny will execute a deed of variation to pass the shares in Woodwater Ltd to her son Sean; and
- 2) Paul will execute a deed of variation to pass the jewellery collection to his mother, Karen and in exchange Karen will give Paul £240,000; and
- 3) Lewis will gift the shares in ComputerLine plc to Cat Defence, a UK registered charity.

A statement will be made under s.142 Inheritance Tax Act 1984 in respect of the deeds of variation.

The administration period has not yet concluded.

Requirement:

- 1) **Calculate with explanations, the Inheritance Tax due on Ian's death before and after the proposed transactions of 14 December 2024, including any carried forward allowances available for Karen after the transactions have been undertaken.** (11)
- 2) **Explain the Capital Gains Tax consequences of the transactions to be undertaken on 14 December 2024. Calculations are NOT required.** (4)

Total (15)