



The Chartered Tax Adviser Examination

May 2019

Application and Professional Skills

Inheritance Tax, Trusts & Estates

TIME ALLOWED – 3 ¼ HOURS

- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation, annotate your question paper and use your calculator. You are not permitted to start writing your answer. The Presiding Officer will inform you when you can start writing.
- In order to secure a pass in this paper, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- Write on one side of the paper only. Do not write in the margins.
- 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 tick the appropriate box on the cover sheet.
- 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 table information, you may assume that 2018/19 rates and allowances continue to apply for 2019/20 and future years. Candidates referring to actual or pending rates and allowances for 2019/20 and future years will not be penalised.

You are a tax senior in a firm of Chartered Tax Advisers. Your Tax Partner, Anne Lloyd, has recently received a letter from Rose Williams, Abby Williams and Steven Jones (**EXHIBIT A**), new clients of your firm, who are executors and beneficiaries of the estate of Adam Jones.

Adam, a widower with no children, died on 10 October 2017. He was resident and domiciled in the UK and the administration of his estate is ongoing. He held substantial assets at the date of his death including various investment properties, quoted shares and shares in the family company, Jones Pet Foods Ltd which is an unquoted trading company with no investment assets.

Rose, Abby and Steven would like advice relating to the possible sale or transfer of some of the estate assets. Anne has asked you to review the letter and other documents she has passed to you and to prepare a draft report to the executors addressing the points raised.

The following exhibits are provided to assist you:

EXHIBIT A: Letter from Rose Williams to Anne Lloyd on behalf of the executors of Adam Jones' Estate

EXHIBIT B: Current valuations and disposals of estate assets

EXHIBIT C: Pre-seen information

Requirement:

Prepare a draft report to the executors of Adam Jones' Estate, which provides recommendations to the executors in relation to the sale of estate assets and the potential transfer of assets to Abby.

Continued

Continuation

EXHIBIT A

Letter from Rose Williams to Anne Lloyd on behalf of the executors of Adam Jones' Estate

ABC Chartered Tax Advisers
25 Croft Road
Westville, Hampshire
NV1 2CD

Mrs Rose Williams
10 Grange Avenue
Westville, Hampshire
NV3 3AB

30 April 2019

Dear Anne

Thank you for meeting with Steven, Abby and me last week. I am writing to you on behalf of all of us as we have been discussing Adam's estate and what we plan to do with his assets.

As you know, we obtained probate for the estate in June 2018 and sold Adam's holiday home, Sandy Bay Chalet and one of his rental properties, Mulberry Lodge, in September 2018. In order to fund the first instalment of Inheritance Tax, we also sold Adam's quoted share portfolio. Blue Cottage was left to Steven in Adam's Will and he is currently looking for a long-term tenant for the property as he needs the rental income to supplement his self-employment profits.

Our biggest issue now relates to The Haven in Northville, which has been on the market since June 2018. We have only had a few viewings on the house and we have recently received a "best and final offer" of £600,000 from a cash buyer who wants to move things forward quickly.

As you know, The Haven was valued at £800,000 when Adam died in October 2017 and the estate agent is adamant that this value was correct. He has told us the reason the property market in Northville has dried up so drastically in the past year is because Westville Grammar School announced a change in policy in April 2018 which has doubled the number of school places they will offer. He says the property market in Westville is now buoyant and people are moving there to be within the catchment area for the school but there has been corresponding downturn in Northville property prices. Had we put the house on the market at the end of 2017, we could have achieved a quick sale at the asking price of £800,000.

Steven and Abby's opinion and that of the estate agent is that we should accept the current offer to sell The Haven as they think we may not get another offer above £600,000 for at least two or three years. Personally, I would rather take The Haven off the market and put it back on in maybe three or four years' time with the hope that the Northville market may have picked up again by then. I would be happy if we could get an offer of say £650,000 after this length of time. The estate agent has indicated that The Haven is a tricky property to let, but he may be able to find us a tenant for a two to three year period if we are willing to accept a lower than market value rent. Steven and Abby are not keen to do this and are pushing for me to agree to a sale now!

Our query is whether there are any tax issues that we need to be aware of which may influence whether we sell The Haven now or retain it for a few years and are there any tax issues with the other assets that have already been sold by the estate?

The second matter I have been thinking about is Red Cottage, which Adam left to me in his Will. This property has been let to the same tenant for the past two years and is producing a good level of rental income. However, following Adam's death I have been considering my own Inheritance Tax position and I have decided that I want to reduce my estate by gifting some of my assets to Abby.

Adam and I discussed his Will before he became ill and he purposely left a large part of his estate to Abby as he knew that I already have significant assets of my own. I own three residential investment properties and The Factory (which is the manufacturing plant for Jones

Continued

Continuation

Pet Food Ltd, currently worth £990,000), as well as the shares in Jones Pet Foods Ltd and a substantial quoted share portfolio. Adam, Steven and I inherited our shares in Jones Pet Foods Ltd from our father in 1988 when the value was £7,500 per share and there have been no share transfers or reorganisations since then. There are no plans to sell the business and we want to keep the shares within the family.

I would like to make a gift to Abby on her 30th birthday in July 2019 and I would like this to be either Red Cottage or 10 shares in Jones Pet Foods Ltd. I will then think about a second gift to her in maybe five years' time when she is 35.

Red Cottage and the 10 shares are worth roughly the same amount and each asset will probably generate a similar amount of annual income in rental profits or dividend income for Abby going forward, so it does not make too much difference to me either way, unless of course one option results in adverse tax consequences for either of us.

Many thanks in advance for your assistance on these matters. I look forward to hearing from you shortly.

Yours sincerely

Rose Williams on behalf of the executors of Adam Jones

EXHIBIT B

Current valuations and disposals of estate assets

Current valuations:

<u>Asset</u>	<u>Current value</u>
	£
56 ordinary £1 shares in Jones Pet Foods Ltd	2,688,000
The Haven, Northville, Hampshire (former main residence)	600,000
Red Cottage, Westville, Hampshire	480,000
Cash in bank and building society accounts	92,000

Disposals of estate assets:

<u>Asset</u>	<u>Date of sale</u>	<u>Gross sale proceeds</u>
		£
Quoted share portfolio	19 April 2018	857,200
Sandy Bay Chalet, Cornwall	10 September 2018	355,000
Mulberry Lodge, Westville	21 September 2018	280,000
Household goods and chattels*	All sold at a household goods auction on 20 November 2018	50,000

* No single item was valued at more than £6,000 for probate purposes nor was any single item sold for more than £6,000. There were no sets of items or collections included in the estate.

Continued

Continuation

EXHIBIT C

Pre-seen information

Permanent file details

Client: Estate of Adam Jones

Client background: Adam Jones died on 10 October 2017. His wife Judith died on 25 November 2010 leaving her estate to Adam – she had made no lifetime gifts. Adam and Judith had no children.

Adam was the Managing Director of the family business, Jones Pet Foods Ltd.

Provisions of Adam's Will: The following tax free specific legacies:

28 shares in Jones Pet Foods Ltd and Red Cottage to his sister, Rose Williams.

28 shares in Jones Pet Foods Ltd and Blue Cottage to his brother, Steven Jones.

The remainder of his assets to be split equally between Steven Jones and his niece, Abby Williams, as they choose.

The Will appointed Rose, Steven and Abby as his executors.

Other information: Adam had made no lifetime gifts in the seven years prior to his death.

Rose Williams (aged 65) is divorced and has one child, Abby (aged 29). Abby is married with no children.

Rose is the Production Director of Jones Pet Foods Ltd and has worked in this role for many years. Abby has also worked for the company for the past five years as a Marketing Manager.

Steven Jones (aged 57) is single and has no children. He has never worked for Jones Pet Foods Ltd. He recently set up an organic vegetable box delivery business as a sole-trader.

Both Rose and Abby are additional rate taxpayers but Steven is a higher rate taxpayer. All three individuals utilise their capital gains annual exemptions on quoted share disposals each tax year.

Abby and Steven have unused capital losses of £20,000 and £35,000, respectively, carried forward from 2010/11.

Rose has no capital losses carried forward.

Continued

Continuation

Assets of the Estate of Adam Jones as at 10 October 2017

	<u>Probate value</u>
	£
56 ordinary £1 shares in Jones Pet Foods Ltd	2,688,000
The Haven, Northville, Hampshire (former main residence)	800,000
Sandy Bay Chalet, Cornwall	350,000
Mulberry Lodge, Westville, Hampshire	250,000
Blue Cottage, Westville, Hampshire	400,000
Red Cottage, Westville, Hampshire	400,000
Quoted share portfolio	852,000
Cash in bank and building society accounts	95,000
Household goods and chattels	52,000
Total	<u>£5,887,000</u>

Details of the shareholdings in Jones Pet Foods Ltd as at 10 October 2017

	<u>Ordinary Shares of £1 each</u>
Adam John Jones	56
Rose Andrea Williams	28
Steven Mark Jones	<u>16</u>
	<u>100</u>

Each share is entitled to one vote in any circumstances.