

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Inheritance Tax, Trusts & Estates

May 2025

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, 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.

- 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 required by the question, candidates may answer the question using Scottish Income Tax rates or Income Tax rates applying elsewhere in the UK.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2024/25 legislation (including rates and allowances) continues to apply for 2025/26 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a tax manager in a firm of Chartered Tax Advisers. Anna Smith, one of the firm’s tax partners, has forwarded to you an email received from Belinda Martinez. Belinda and her brother, Jason Ryan, are long-standing personal tax clients of the firm and are also trustees of both the Ryan Family Discretionary Settlement and the Margaret Ryan Accumulation & Maintenance Trust. Both trusts are new clients of the firm.

The Ryan Family Discretionary Settlement holds shares in Bonds Chemists plc and the trustees are seeking advice on winding up the trust by either transferring the shares to one of the beneficiaries or selling the shares and transferring the sale proceeds to her.

In addition, they need advice on the tax implications of the beneficiaries attaining an interest in the assets of the Margaret Ryan Accumulation & Maintenance Trust.

Anna has asked you to review the email (**EXHIBIT A**) and other documents provided by the trustees (**EXHIBITS B, C and D**) and to prepare a draft report in relation to the issues raised.

The following exhibits are provided to assist you:

- EXHIBIT A:** Email from Belinda Martinez
- EXHIBIT B:** Edward Ryan’s Letter of Wishes to the trustees of the Ryan Family Discretionary Settlement
- EXHIBIT C:** Extract from trust deed of the Margaret Ryan Accumulation & Maintenance Trust
- EXHIBIT D:** Valuation of assets
- EXHIBIT E:** Pre-seen information

Requirement:

Prepare a draft report to the trustees, for review by Anna Smith, providing advice and recommendations on the winding up of the Ryan Family Discretionary Settlement and in relation to the settlor’s grandchildren becoming entitled to an interest in the Margaret Ryan Accumulation & Maintenance Trust.

EXHIBIT A

Email from Belinda Martinez

To: anna.smith@abc-tax.co.uk
From: belinda.martinez@outmail.co.uk
Date: 7 May 2025
Subject: Ryan Family Discretionary Settlement and Margaret Ryan Accumulation & Maintenance Trust

Dear Anna

Thank you for meeting with Jason and me recently. As requested, I have attached some further information and detailed our queries below.

Ryan Family Discretionary Settlement

As discussed, Jason and I received capital appointments and income distributions out of the discretionary trust during the first 10 years depending on our requirements. In comparison, our sister Alice only ever received a few small income distributions in 1999 and over the years she has never mentioned her finances or the trust, although I know she was aware of its existence. She was busy setting up her pet food business with her husband, Laurant and I did not hear from her very often when she first moved to Switzerland.

No capital distributions were made between 17 September 2009 and 17 September 2019, but Jason and I continued to receive annual income distributions during that period and there was no undistributed income remaining on 17 September 2019. No capital or income distributions have been paid since 17 September 2019, but Jason and I are aware that we have rather selfishly received far more out of the trust to date than Alice. This is not in line with our father’s Letter of Wishes, a copy is provided for your reference (see **EXHIBIT B**).

Bonds Chemists plc recently announced that their entire share capital will be acquired by an overseas company called Sigma Global Inc on 3 June 2025. All shareholders will receive a cash payment of £13.58 per share or the option to exchange the shares for stock in Sigma Global Inc. Shareholders will automatically receive the cash payment unless they opt in for the share exchange by 15 May 2025 and the existing shareholders cannot sell their shares back to the market after this date.

We held a family meeting with our mother, Alice and the grandchildren last week to discuss this, as it is well known that Sigma Global Inc test their products on animals. No one in the family approves of the deal, particularly as our great grandfather, who sold his business to Bonds Chemists plc, was an animal lover and set up the Westlands Animal Shelter, which we all support. Therefore, no one will be opting to exchange their personal shareholdings for stock in Sigma Global Inc and we will also take the cash offer as trustees of the Margaret Ryan Accumulation & Maintenance Trust.

In relation to the Ryan Family Discretionary Settlement, Jason and I, in our capacity as trustees, have decided that we will wind up the trust and the remaining assets should pass solely to Alice.

We plan to either appoint the remaining 16,500 shares in Bonds Chemists plc to Alice as soon as possible before 15 May 2025 for her to sell on to Sigma Global plc or alternatively, we will just accept the cash offer on behalf of the trust and then transfer the gross sale proceeds to Alice. The cash held in the trust bank account will also be transferred to her at the same time and we believe that this will hopefully equalise the benefit we have each had from the trust since creation, just as our father wished. Please could you confirm which option will result in a lower amount of tax overall, so Alice receives the maximum possible amount out of the trust?

In case it is relevant, Alice told me that she sold her personal holding of 25,000 shares in Bonds Chemists plc on 8 April 2025 for £10.20 per share before the announcement was made and she has a £10,800 capital loss brought forward on 6 April 2025 from the sale of a UK property. The average share value this week was £10.75 per share, so please could you use this figure as the current value in any calculations you prepare?

Margaret Ryan Accumulation & Maintenance Trust

Our second query is less urgent and relates to the trust our mother created for Isabella, Matthew and Polly. Jason and I took over as trustees earlier this year and we understand from our Aunt Catherine, who was one of the former trustees and is a retired solicitor, that the children will become entitled to the trust assets when they are 25 years old. I have provided you with the relevant extracts from the deed to review as requested (see **EXHIBIT C**), together with a note from Aunt Catherine.

The trust income has been paid out to the children to help with school trips and university costs, but no capital distributions have been made, so the original assets are still held, although the shares in Bonds Chemists plc will obviously be sold next month. I have provided historic valuations for the assets held in both trusts which also includes some supporting notes made by Aunt Catherine (see **EXHIBIT D**).

Isabella and Matthew (who are twins) will be 25 years old on 14 August 2025 and Polly will be 25 on 18 January 2026. We would like to know if there will be any tax consequences when they become entitled to the trust assets and whether we need to do anything before 14 August 2025 when the twins reach the age of 25.

At the family meeting we discussed Valley Park and Buttercup Field and all three children confirmed that they wish to retain these as long-term investments.

Continued

Isabella, Matthew and Polly also agreed that if any tax is due, they will pay the liabilities out of the cash sum they receive from the trust. We are keen to make sure each child is in the same financial position with their joint ownership of the trust assets following their 25th birthdays and ideally we do not want anyone to end up paying more tax than the others.

Jason and I look forward to hearing back from you shortly regarding the above matters.

Regards
Belinda Martinez

EXHIBIT B

Edward Ryan's Letter of Wishes to the trustees of the Ryan Family Discretionary Settlement

30 September 1999

To The Trustees of the Ryan Family Discretionary Settlement:

This letter is to be read in conjunction with the trust deed for the Ryan Family Discretionary Settlement dated 17 September 1999.

The terms of the settlement provide you with discretionary powers in relation to the distribution of income and capital of the trust to the beneficiaries. I understand that I cannot restrict your discretion as trustees or dictate the way in which you exercise your powers and my wishes, as detailed below, do not impose any binding obligation on you and are not intended to prevent you from acting as you think best.

In exercising your discretionary powers, it is my wish for the trust income and capital to be applied, in the first instance, for the benefit of my children taking into consideration their circumstances and needs at any given time. However, on cessation of the trust I wish for each of my children, or their families, to have benefited equally from the trust throughout its existence.

Edward Ryan

EXHIBIT C

Extract from trust deed of the Margaret Ryan Accumulation & Maintenance Trust

Principal trusts:

- (i) The capital and income of the trust fund shall be held upon trust for such of the Beneficiaries as attain the age of 25 years before the end of the Trust Period or are living and are under the age at the end of the Trust Period and if more than one in equal shares.
- (ii) The Trustees may pay or apply any income for or towards the maintenance, education or otherwise for the benefit of any Beneficiaries who are living and under the age of 25.
- (iii) Subject to the above during the Accumulation Period the income of the Trust Fund shall be accumulated as an addition to capital.
- (iv) The Trustees may pay or apply any capital of a Beneficiary's contingent share in the trust fund for or towards that Beneficiary's maintenance, education or benefit before attaining the age of 25 years.

Default trusts:

Subject as above and if and so far as not wholly disposed of for any reason whatever by the above provisions the capital and income of the Trust Fund shall be held in trust for the Westlands Animal Shelter (UK registered charity number 123456) absolutely.

Note from Catherine Robson (retired solicitor and former trustee):

The principal and default trusts for the Margaret Ryan Accumulation & Maintenance Trust of 1 September 2000 have remained unaltered since creation. However, an amendment was made to the definition of the trust beneficiaries on 20 March 2008 to close the class of beneficiaries in order to comply with the provisions of Section 71D Inheritance Tax Act 1984.

EXHIBIT D

Valuation of assets

Margaret Ryan Accumulation & Maintenance Trust

<u>Asset</u>	<u>Value on 01/09/2000</u>	<u>Estimated value after 3/06/2025 (see Note 4)</u>
	£	£
Valley Park, Westlands, Somerset (see Note 1)	625,000	2,100,000
Buttercup Field, Westlands, Somerset (see Note 2)	30,000	120,000
33,000 shares in Bonds Chemists plc	161,700	0
Cash in trust bank account (see Note 3)	500	415,300

Note 1

Valley Park is a business park comprising four commercial units which have been let to the same business tenants since 1 September 2000.

Note 2

Buttercup Field is 30 acres of land which was originally part of a farm run by Margaret Ryan’s parents. It was used as a paddock for the grandchildren’s ponies from 1 September 2000 to 31 December 2018. With effect from 1 January 2019, it has been let to the neighbouring farmer who needed some extra land to graze his sheep. The market value of Buttercup Field is equal to its agricultural value.

Note 3

Anna Smith has already calculated that the trust will have a CGT liability of £56,988 to pay on the sale of the Bonds Chemists plc shares to Sigma Global plc. The estimated balance in the trust bank account after 3 June 2025 includes the proceeds from the sale of the shares and has been reduced by £56,988 to account for the Capital Gains Tax due from the trustees by 31 January 2027.

Note 4

The trustees have advised that the estimated values of the land and property and the cash in the trust bank account are likely to remain the same on 14 August 2025 and 18 January 2026 as the figures shown. These values should be used for the purposes of any calculations.

Ryan Family Discretionary Settlement

<u>Asset</u>	<u>Value on 17/09/1999</u>	<u>Value on 17/09/2009</u>	<u>Value on 17/09/2019</u>	<u>Current May 2025 value</u>
	£	£	£	£
Shares in Bonds Chemists plc	210,375	94,710	135,645	177,375
600 shares in Telecom plc	824	0	0	0
750 shares in Gas Utilities plc	1,245	0	0	0
220 shares in Bright Green plc	556	0	0	0
Trust bank account	10	1,205	283	320

Note 1

Edward claimed Capital Gains Tax holdover relief on the transfer of the 49,500 shares in Bonds Chemists plc into trust on 17 September 1999.

Note 2

On 10 January 2004, 16,500 shares in Bonds Chemists plc were appointed to Belinda and 16,500 shares were appointed to Jason.

Note 3

The shares in Telecom plc, Gas Utilities plc and Bright Green plc were appointed out to Belinda and Jason equally during the 2007/08 tax year.

Note 4

The current value of the shares in Bonds Chemists plc is based on the average price for this week of £10.75 per share.

Continued

EXHIBIT E

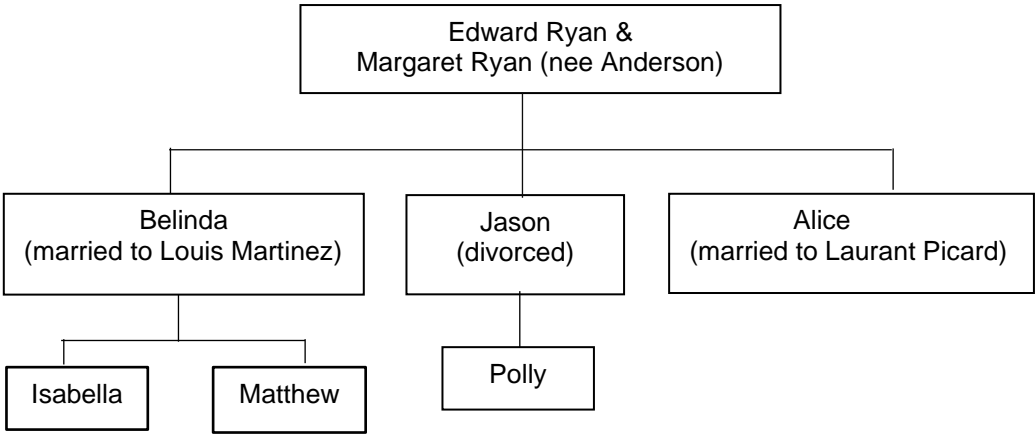
Pre-seen information

Clients

Margaret Ryan, Belinda Martinez, Jason Ryan.

The Ryan Family Discretionary Settlement and the Margaret Ryan Accumulation & Maintenance Trust.

Family Tree



Family background

Edward Ryan, a UK resident individual who was domiciled in England & Wales, inherited a holding of 349,500 shares in Bonds Chemists plc, a quoted company, from his grandfather in 1983. The shareholding was valued at £850,000 at the time. His grandfather was the owner of a chain of pharmacies which were acquired by the company in the 1970s. Edward’s inherited shares represented 0.33% of the issued share capital of Bonds Chemists plc.

On 20 April 1999, Edward transferred 300,000 shares to his wife, Margaret and £17,000 cash to each of Belinda, Jason and Alice.

On 25 August 1999, Margaret gifted 75,000 shares out of her holding to Belinda, Jason and Alice (25,000 shares to each child) when the share value was £4.05 per share.

On 17 September 1999, Edward created the Ryan Family Discretionary Settlement by transferring his remaining holding of 49,500 shares in Bonds Chemists plc and some other quoted shareholdings to trustees.

On 1 September 2000, Margaret created the Margaret Ryan Accumulation & Maintenance Trust by transferring 33,000 shares in Bonds Chemists plc and some other assets inherited from an elderly relative into trust.

Edward and Margaret also each gifted £1,000 capital to each of their three children on 6 April annually, commencing on 6 April 1999. After Edward’s death, Margaret continued to gift £1,000 capital to each child on this date.

Edward died on 7 January 2006 leaving a legacy of £150,000 to the Westlands Animal Shelter (a registered UK charity) and the rest of his estate to Margaret.

Margaret has recently updated her Will to leave a legacy of £180,000 to the Westlands Animal Shelter and £25,000 to each of her three grandchildren. The residue of her estate will pass to Belinda, Jason and Alice in equal shares.

Margaret has also made some additional lifetime gifts to her children and grandchildren and to the Westlands Animal Shelter during the 2024/25 tax year.

Other information

Belinda is the head teacher of Westlands Secondary School in Somerset and is married to Louis, who is a partner in a veterinary practice. They are both higher rate taxpayers. Jason is a pharmacist and is divorced. He is also a higher rate taxpayer.

Margaret, Belinda, Louis, Jason and all of Edward and Margaret’s grandchildren are UK resident and domiciled. Alice has lived in Switzerland since 2004 when she married Laurent and is non-UK resident, but she has retained an English domicile. Alice and Laurent run a very successful pet food manufacturing company in Switzerland. They jointly own a portfolio of UK residential and commercial properties and have other UK business interests. They are both additional rate taxpayers in the UK.

Isabella, Matthew and Polly are basic rate taxpayers.

Margaret, Belinda and Jason are long-standing personal tax clients of ABC Chartered Tax Advisers. The Ryan Family Discretionary Settlement and the Margaret Ryan Accumulation & Maintenance Trust became clients of the firm on 30 April 2025.

Signed engagement letters and privacy policies for all the individuals and the trusts are held on the firm's files.

ABC Chartered Accountants - New Trust Client Files
Information for permanent section

Name

Ryan Family Discretionary Settlement

Settlor

Edward Ryan (deceased 7 January 2006)

Date of creation

17 September 1999

Trustees

Original trustees were Edward Ryan, Belinda Martinez and Jason Ryan. Belinda and Jason continued as trustees following Edward's death.

Beneficiaries

The children and future grandchildren of Edward Ryan.

SA UTR

1242354568 (2023/24 self-assessment tax return was submitted to HMRC on 15 December 2024).

TRS

Original registration date 7 November 2017.

Last register declaration 9 December 2024 (no updates required, declaration reference 920001247341).

Name

Margaret Ryan Accumulation & Maintenance Trust

Date of creation

1 September 2000

Settlor

Margaret Ryan

Trustees

Original trustees were Margaret Ryan and Catherine Robson (Margaret's sister). They retired on 8 January 2025 and were replaced by Belinda Martinez and Jason Ryan.

Beneficiaries

The grandchildren of the settlor.

SA UTR

9534278161 (2023/24 self-assessment tax return was submitted to HMRC on 5 January 2025).

TRS

Original registration date 4 November 2017.

Last register declaration 3 January 2025 (register amended to show new trustees, declaration reference 920004389247).