

The Chartered Institute of Taxation

Awareness

Module B: Inheritance Tax, Trusts & Estates

May 2022

Suggested solutions

Answer 13

Hannah was born in the UK to UK domiciled parents so her domicile of origin is the UK 1
When Hannah's parents moved to Canada and changed their domicile by choice, her domicile changed to a domicile of dependency as she was under 16 years of age. 1
However, as she was born in the UK, is resident for the current tax year (2021/22) and was UK 1+1
resident for at least one of the previous two tax years, she is a formerly domiciled resident and 1
is deemed UK domiciled for Inheritance Tax purposes in 2021/22. 1

Max 5 marks

Answer 14

	Gilead Trust £	Osbourne Trust £	
Transfers into discretionary trusts	100,000	500,000	
Annual exemptions 2021/22 and 2020/21	(1,000)	(5,000)	1+1
Net CLT	99,000	495,000	
NRB	-	(325,000)	1
	<u>99,000</u>	<u>170,000</u>	
IHT at 20%/25%	19,800	42,500	1
Gross CLT	<u>£99,000</u>	<u>£537,500</u>	1

Answer 15

As Moira was not domiciled in the UK on her death, only assets of UK situs and where not otherwise exempted will be subject to UK Inheritance Tax. 1

1) As the judgement debt is recorded in the UK, this is a UK asset and therefore subject to UK IHT. 1

2) As the register of shares is kept in Spain, these are Spanish assets and therefore not subject to UK IHT. 1

3) A foreign currency account held in the UK by an individual who is neither UK domiciled nor resident is excluded property and therefore not subject to UK IHT. 1

Answer 16

The payment of the school fees are exempt as normal expenditure out of income as: 1
- They are paid out of Afzal's disposable income, and 1
- Afzal still has enough income to maintain his usual standard of living, and 1
- They are part of a regular pattern of giving. 1

The gifts to his family are exempt under the small gifts exemption, as they are valued at no more than £250 per gift per person. 1

Answer 17

	<u>Shares</u> £	<u>Sculptures</u> £	£	
<u>Standalone/unrelated values</u>				1
Value of 60% holding	800,000			
£150,000 x 2		300,000		
Related value: 60% x £1.6 million	960,000			1
Related value: £300,000/(£300,000 + £150,000) x £750,000		500,000		1
Take the <u>higher</u> :	960,000	500,000	1,460,000	1
Marriage exemption			(2,500)	
Annual exemptions (2021/22 and 2020/21)			(6,000)	
PET			<u>£1,451,500</u>	1*

* For offsetting ME and AEs only, with no deduction for BPR on the shares.

Answer 18

	£	£	
House in Cheshire	350,000		
Less repayment mortgage secured on the house	<u>(200,000)</u>		
		150,000	1
Shares in Blaine Ltd (no BPR as company is being wound up)		600,000	1
Investments, car and personal chattels		<u>230,000</u>	
		980,000	
Less personal loan		(30,000)	
Vet's bill not deductible (as not legally enforceable)		-	
Gross Chargeable Estate		<u>950,000</u>	1
Less RNRB (restricted to value of house less mortgage)		(150,000)	1
Less NRB		<u>(325,000)</u>	
		<u>£475,000</u>	
IHT @ 40%		<u>£190,000</u>	1*

* For using full NRB and applying 40% tax rate

Answer 19

	<u>24/6/16</u>	<u>19/10/18</u>	
	<u>NOP trust</u>	<u>QRS trust</u>	
	£	£	
Gross Chargeable Transfer	386,250	817,500	
Less Fall in Value relief £(380,000 – 250,000)	(130,000)	-	
	<u>256,250</u>	<u>817,500</u>	1
NRB	(325,000)		1
For 19/10/18 transfer = £(325,000 – 386,250)		Nil	
	<u>Nil</u>	<u>817,500</u>	
IHT @ 40%		327,000	1*
Less taper relief (3 – 4 years = 20%)		<u>(65,400)</u>	1
		261,600	
Less lifetime tax paid		<u>(163,500)</u>	
IHT due on death		<u>£98,100</u>	1

* For no NRB and applying 40% tax rate.

Answer 20

The shares are valued at the lower of:

- 316 + ¼ (320 – 316)	317p	1
- (310 + 320)/2	315p	1

Quoted ex-dividend, so 315 + 6 = 321p

1,500 x £3.21	<u>£4,815</u>	1
---------------	---------------	---

The apartment is valued at	234,000	
Less additional admin expenses of the <u>lower</u> of:		1
- £14,000		
- 5% x £234,000 = £11,700	<u>(11,700)</u>	
	<u>£222,300</u>	1*

* For deducting expenses only and not the overseas tax.

Answer 21

1)	<i>Property</i>	<i>Shares</i>	<i>Net</i>	
	£	£	£	
Proceeds	75,000	32,000		
Selling expenses	(5,000)	(1,600)		
Cost	(62,000)	(95,000)		
Capital gain/(loss)	<u>£8,000</u>	<u>£(64,600)</u>	<u>£(56,600)</u>	1+1

Net capital losses in the year of death can be carried back against taxable gains for up to three years (LIFO). 1

2) As the net capital loss in the year of death will be carried back against the taxable gains in 2020/21 and 2019/20, a refund of CGT of £56,600 x 20% = £11,320 will be due. 1

This amount will be treated as an asset in Rita's death estate computation and therefore subject to IHT. 1

Answer 22

1)	<i>Non-savings</i> £	<i>Savings</i> £	<i>Dividends</i> £	
Rental income	95,000			
Interest income		77,000		
Dividend income			30,000	
	95,000	77,000	30,000	
Income Tax @ <u>20%/20%/7.5%</u>	(19,000)	(15,400)	(2,250)	1+1
	76,000	61,600	27,750	
Less trustees' management expenses			(4,625)	
Income available for distribution	<u>£76,000</u>	<u>£61,600</u>	<u>£23,125</u>	1

2)	<i>Net</i> £	<i>Tax</i> £	
Non-savings	76,000	19,000)
Savings	61,600	15,400)1
Dividends (working)	23,125	1,875	1

(Working) £23,125 x 7.5/92.5 = £1,875

Answer 23

The RNRB of £175,000 must be tapered if the value of Josef's net estate exceeds £2 million.

Net estate = assets less liabilities before the deduction of APR, BPR and exemptions.

Assets less liabilities before exemptions	£	1,990,000	1
Add back BPR		<u>175,000</u>	1
		2,165,000	
Threshold		<u>(2,000,000)</u>	1
		165,000	
RNRB is therefore £175,000 – ½ x £165,000		<u>£92,500</u>	1

IHT:

£92,500 x 0% (RNRB)			
£325,000 x 0% (NRB)			
<u>£872,500</u> x 36% (charitable legacy clearly exceeds 10% of net chargeable estate)		£314,100	1
<u>£1,290,000</u>			

Answer 24

The Inheritance Tax return was due 12 months from the end of the month of death, so 31 March 2021. 1

An initial penalty of £100 could be imposed for late filing. 1

A daily penalty of £60 per day could be imposed (if the failure is declared by a court or tribunal), but if not, then a further penalty of £100 could be imposed when the return is more than six months late. 1

A further penalty of £3,000 could be imposed as the return is more than 12 months late 1