(Ensure this number matches your candidate number on your desk label and on your candidate attendance form)

Chartered Institute of Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

2 May 2018

AWARENESS

Module B – Inheritance Tax, Trusts & Estates

1. On 20 February 2009, Ernest (who had made no lifetime transfers) died leaving an estate valued at £650,000 of which £150,000 was left to his daughter Amelia and the remainder to his wife Emily.

On 1 November 2017, Emily died leaving a chargeable estate valued at £950,000 to Amelia. During Emily's lifetime, she had made cash gifts of £3,000 out of capital to her grandson on 6 April every year and on 14 February 2014 she had gifted £380,000 cash into a discretionary trust on which she paid the tax due of £13,750.

Neither Ernest's nor Emily's estate included residential property.

Calculate the Inheritance Tax payable on Emily's death, assuming all beneficial elections are made.

1-Nov-17	£	£
Chargeable Estate		950,000
Less: NRB (2017/18) x 15[illegible]% W1	535,040	
Less: Gross CTs in previous 7yrs W2	(393,750)	
		(141,290)
Taxable		808,710
IHT @ 40%		323,484
~~Less:~~		

FOR EXAMINER USE ONLY

(W1)

20-Feb-2009

	£	£
NRB available (2008/09)		312,000
less: gift to daughter		(150,000)
gift to wife	500,000	
spousal exemption	(500,000)	
		nil
NRB remaining		162,000

$162^k / 312^k \times 100\% = 51.9\% = 52\%$

(W2)

14-Feb-14

	£
Gift to Trust	380,000
Add: tax due	13,750
Gross CT	393,750

NB: Annual exempt amounts used each year.

FOR EXAMINER USE ONLY

2. During 2017/18, Betty (who had made no previous lifetime transfers) made the following transactions:

30 April 2017 Sold a painting for £40 to her neighbour. It was subsequently discovered that the painting was actually worth £150,000.

20 July 2017 Sold a necklace to her cousin for £300 when she knew that it was actually worth £10,000.

Briefly explain the Inheritance Tax implications of Betty's transactions.

1)

2) For IHT purposes, the value of the necklace will be its actual value of £10,000 ∴ Betty has made a gift to her cousin.
The gift of the necklace will be a Potentially Exempt Transfer for IHT purposes and ∴ no lifetime tax will arise. However, should Betty die within 7 years of making the gift the PET will become chargeable within her death estate.

FOR EXAMINER USE ONLY

FOR EXAMINER
USE ONLY

3. In May 2000, Alice acquired 3,000 ordinary shares (a 30% holding) in Belongro Ltd, an unquoted investment company. At the same time, her husband Arthur acquired 5,000 ordinary shares in the same company.

In August 2015, Arthur gifted 1,000 of his Belongro Ltd shares to a charity. The charity disposed of the shares in January 2017.

In December 2017, Alice gifted 2,000 of her Belongro Ltd shares to her daughter Victoria.

The values of the shares in December 2017 were as follows:

	Per share £
80% holding	130
70% holding	115
60% holding	75
50% holding	60
40% holding	45
30% holding	30
20% holding	12
10% holding	8

Calculate the Inheritance Tax valuation of the gift of shares to Victoria in December 2017.

May 2000:

Alice	3,000	
~~Ann~~ Arthur	5,000	
	8,000	⇒ 80% holding
August 2015	(1,000)	
	7,000	⇒ 70% holding

Transfer of value in Dec 2017:

	£
Value of shs b4 gift	
$3{,}000/7{,}000 \times (£115 \times 7{,}000)$	345,000
Value of shs after gift	
$1{,}000/5{,}000 \times (£60 \times 5{,}000)$	(60,000)
IHT value of gift	285,000

FOR EXAMINER USE ONLY

FOR EXAMINER USE ONLY

4. On 4 October 2017, James (who was domiciled in the UK) died, leaving his entire estate to his wife, Dolores. His only previous lifetime gift was £500,000 cash to Dolores on the occasion of their marriage in 2004.

Dolores is domiciled in Brazil but moved to the UK when she married James. Her intention is to return to Brazil within the next few years.

You are required to briefly explain:

1) **The Inheritance Tax implications of both James's lifetime gift to Dolores and the inheritance received by her.**

2) **Any options available to Dolores with regard to her Inheritance Tax position and the implications thereof.**

1) As the lifetime transfer of £500,000 was to a non-UK domiciled spouse the spousal exemption is restricted to £325,000. However as the was a gift of cash to an individual the gift would be a PET and not subject to any IHT provided James survived for 7 years after the gift. The PET would have also been reduced by James annual exemption for 2004/05 and any unused annual exemption brought forward from 2003/04.

The inheritance received by Dolores on James' death will be subject to IHT to the extent that it exceeds the nil rate band of £325,000 and the spousal exemption of £325,000, i.e. the value of James' estate over £650,000 will be subject to IHT @ 40%

FOR EXAMINER USE ONLY

2) Dolores may wish to elect under s.267ZA IHTA 1984 to be treated as domiciled in the UK. This would mean that the inheritance on James' death would be covered in full by the spousal exemption, there would be no restriction.
However, if Dolores elects to be treated as UK domiciled for IHT purposes, then she would be liable to IHT on her world wide assets not just those situated in the UK, as she would if she remained non-UK domiciled.
As her intention is to return to Brazil she may not wish to make the election.

FOR EXAMINER USE ONLY

5. George, who was domiciled in the UK and had never married, died on 12 March 2018. He left the following assets to his brother:

	£
House in Cheshire	600,000
Apartment in Spain	185,000
Personal chattels	17,000
5,000 units in the Sunlight unit trust, quoted at 200 – 216p	–

The house in Cheshire had an outstanding mortgage of £150,000.

On George's death, Spanish administration expenses of £10,000 were incurred in respect of the apartment in Spain.

George had made no lifetime gifts.

Calculate the Inheritance Tax payable on George's death.

	£	£
Value of estate @ death		
House in Cheshire	600,000	
Less: ds mortgage	(150,000)	
		450,000
Apartment in Spain	185,000	
Less: admin expenses	(9,250)	
(rest. to 5% x value of property)		175,750
Personal chattels		17,000
Sunlight unit trust		
5,000 x [(200p+216p)/2]		10,400
		653,150

FOR EXAMINER USE ONLY

	£	£
Value of estate		653,150
Less: NRB (2017/18)	325,000	
Less: Gross CTs in last 7yrs	nil	
		(325,000)
Taxable		328,150
IHT payable @ 40%		131,260

FOR EXAMINER USE ONLY

6. Joaquin is domiciled in Spain, but has lived in the UK for 10 years. He owns the following assets:

	£
Shares in Zubalei GmbH, a company resident in France but whose Register of Shares is kept in Germany	25,000
Cash in the London branch of a Spanish bank	50,000
A holiday cottage in Cornwall	250,000
A debt owed by his cousin Juan who is resident in Spain Juan used the money to purchase shares in Bubaloo plc, a company listed on the London Stock Exchange	35,000

You are required to briefly explain:

1) Where each of the four assets are located for the purposes of UK Inheritance Tax.

2) Why this is important to Joaquin.

1)(i) Zubalei GmbH shares - situated in Germany as this is where the Register of Shares is kept

(ii) Cash - situated in the UK as this is where the money is physically held

(iii) Holiday cottage - situated in the UK

(iv) Debt - situated in Spain as this is were the debtor is resident

2) As a non-UK resident individual, Joaquin is only liable to UK IHT on his UK situs assets.

FOR EXAMINER USE ONLY

FOR EXAMINER
USE ONLY

7. Harry had made only one lifetime gift, a gross chargeable transfer of £250,000 to a discretionary trust in November 2015. Harry died on 25 February 2018, leaving an estate valued at £875,000 of which £300,000 was left to his wife.

Harry's will left a bequest to charity on his death; the amount of the bequest was not stated but Harry stipulated that he wished to leave an amount sufficient so as to qualify for the reduced rate of Inheritance Tax to apply to his chargeable estate. The residue of the estate was left to his nephew.

You are required to calculate:

1) The minimum amount that must be left to charity in order for Harry's estate to qualify for the reduced rate of Inheritance Tax.

2) The Inheritance Tax payable on Harry's chargeable estate if the minimum charitable legacy is made.

		£	£
	Value of estate		875,000
	less: spousal exemption		(300,000)
			575,000
	less: NRB (2017/18)	325,000	
	less: Gross CTs in last 7 yrs	(250,000)	
	NRB remaining		(75,000)
	Chargeable estate		500,000
	1) 36% rate applies where 10% or more of deceased's net chargeable estate is left to charity ∴ minimum donation to charity is £50,000, i.e. £500,000 @ 10%.		
	2) IHT payable @ 36%		
	£(500k - 50k) x 36%	£162,000	

FOR EXAMINER USE ONLY

FOR EXAMINER USE ONLY

8. Charlie owned a vintage motor car worth £250,000 which he drove every Sunday. On 17 September 2017, he gave the car to his son, Will. As a condition of the gift, Will was obliged to allow his father to drive it as usual every Sunday.

Briefly explain the Inheritance Tax implications of the gift of the motor car.

The transfer of the car to his son is a gift with reservation of benefit as will ~~Charlie~~ ~~he~~ does not have the benefit of the asset to the total exclusion of Charlie. Charlie still retains the benefit of being able to drive the car every Sunday.

The gift of the car is a PET for IHT purposes and therefore is no subject to lifetime IHT. However as the GWR rules may apply there will be an annual income tax charge on Charlie based on the market value rent of the asset.

Also, the vintage motor car will remain part of Charlie's estate at his death and be subject to IHT on death. HMRC will do two calculations one based on the value of car at the time of the PET and one based on the value at death, HMRC will use whichever calculation ~~[illegible]~~ produces the higher IHT liability.

FOR EXAMINER USE ONLY

FOR EXAMINER
USE ONLY

9. Joe died on 15 July 2017 leaving a chargeable estate of £1.2 million which included quoted shares in Zoggy plc, valued at £165,000, and an antique vase.

The antique vase was one of a set of two, the other of which was owned by his wife. The unrelated value of Joe's vase was £42,000 and the related value was £50,000.

Joe had made no lifetime gifts.

During January 2018, the executors sold the Zoggy plc shares for £150,000 and the vase for £35,000 to unconnected third parties.

Briefly explain the reliefs available to the executors and calculate the reduction in the Inheritance Tax liability if these claims are made.

FOR EXAMINER USE ONLY

FOR EXAMINER
USE ONLY

10. The Goldie Trust (an interest in possession trust) had the following income and expenses for 2017/18:

	£
Property income receivable	40,000
Interest receivable	30,000
Expenses relating to property income	(6,000)
Trustee expenses met from income	(1,000)

Stephanie was the sole life tenant of the trust.

You are required to calculate:

1) The income available for distribution in 2017/18.

2) The amounts taxable on Stephanie in 2017/18.

1)

	NS	S
	£	£
Property income (net)	34,000	
Interest rec'able		30,000
Less: tax 20%	(6,800)	(6,000)
	27,200	24,000
Less: trust exp.		(1,000)
Net income for distribution	27,200	23,000

2) Amounts taxable on Stephanie:

	Net	Tax	Gross
NS	27,200	6,800	34,000
S	23,000	5,750	28,750

FOR EXAMINER USE ONLY

FOR EXAMINER
USE ONLY

11. On 18 March 2008, William created the Buckley Trust (a discretionary trust) and transferred to it assets valued at £350,000. His only previous lifetime gift had been a gross chargeable transfer of £75,000 in September 2003.

On 14 March 2015, the trustees made a gross capital distribution of £100,000 to one of the beneficiaries.

The value of the Buckley Trust property on 18 March 2018 was £280,000.

Calculate the principal charge arising on 18 March 2018.

	£	£
Value of trust @ 10yr		280,000
Less: NRB (2017/18)	325,000	
Less: capital dist. in 10yrs	(100,000)	
NRB remaining		(225,000)
		55,000
Theoretical tax @ 20%		11,000
Effective rate:		
11,000/280,000 x 100%		3.928%
Actual rate:		
3.928% x 30% x 40/40		1.178%
IHT payable: 1.178% x £280,000		£3,298

FOR EXAMINER USE ONLY

FOR EXAMINER
USE ONLY

12. On 20 February 1988, Edward bought a 10 acre plot of investment land for £62,000 incurring legal and professional fees of £2,000.

On 18 May 2005, he sold two acres for £32,000, incurring legal and professional fees of £3,500 on the disposal. The remaining eight acres were then valued at £136,000.

On 17 January 2018 he transferred the remaining land to a discretionary trust when its market value was £196,000.

Calculate the taxable gain arising on Edward in 2017/18 and the base cost of the land for the trustees, assuming all available reliefs are claimed.

18 May 2005

	£	£
Disposal proceeds	32,000	
less: Legal & prof fees	(3,500)	
		28,500
Less: Cost × A/A+B		
£64,000 × 32k/32k+136k		(12,190)
		16,310

Base cost remaining for 8 acres:

£64,000 − 12,190 = £51,810

Jan 2018

	£	£
Value @ gift		196,000
Less: base cost		(51,810)
		144,190
Less: ~~[illegible]~~ gift relief (w1)		(132,890)
~~Taxable gain~~ * Chargeable gain		11,300

FOR EXAMINER USE ONLY

* Chargeable gain	11,300
Less: AE	(11,300)
Taxable gain	nil
Base cost for Trust:	£
Value @ gift	196,000
Less: gift relief	(132,890)
Base cost	63,110

FOR EXAMINER
USE ONLY

THIS PAGE IS LEFT INTENTIONALLY BLANK