

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Inheritance Tax, Trusts & Estates

November 2023

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 indicated by the provision of additional information in the question, you may assume that 2022/23 legislation (including rates and allowances) continues to apply for 2023/24 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 associate in a firm of Chartered Tax Advisers. Your Tax Partner, Alice Green, has received a letter (**EXHIBIT A**) from a longstanding client, Mrs Audrey Talbot.

Alice wants you to review the letter alongside a copy of the report received from the local land agent (**EXHIBIT B**) and Audrey's updated asset listing (**EXHIBIT C**) before preparing a draft report advising on the creation of a trust and the timing of the potential gifts.

The following exhibits are provided to assist you:

EXHIBIT A: Letter dated 1 November 2023 from Audrey Talbot to Alice Green

EXHIBIT B: Extract of report on Boundary Field (dated 13 October 2023)

EXHIBIT C: Updated Asset Listing – October 2023

EXHIBIT D: Pre-seen information

Requirement:

Prepare a draft report to Audrey Talbot, for review by Alice Green, which advises on her current situation and makes recommendations concerning the creation of a trust to enable her grandchildren to achieve maximum benefit from her estate and the timing of the intended gifts to her friends.

Continued

EXHIBIT A

Letter dated 1 November 2023 from Audrey Talbot to Alice Green

1 November 2023

Mrs Alice Green
Fictitium Tax Advisers
Enterprise Way
Bolton
BL1 1BB

Dear Alice

I hope you and your family are all well.

As we have discussed on the telephone a few times in recent months, I have been revisiting my estate planning and I would like your advice on how best to achieve my goals while mitigating the tax burden.

Over the past 12 months I have received a handful of letters from residential property developers regarding Boundary Field. They are only trying to gauge my interest and no offers have been made but this has got me thinking about the field.

This field is on the edge of a new housing development and is apparently prime residential development land. It has long been the plan to see this site developed at some point although I would want to sell the site to a developer rather than be involved in the development of the site. I have had an independent land agent value the field in its current form. He has also suggested what the potential value of the site may be in five years' time when the new road is completed.

I do not need the capital and am thinking that I should create a trust during my lifetime, perhaps early next year, and transfer this land to it so that my grandchildren can receive maximum benefit from the field. Is this a good idea?

My grandchildren are now adults, but I think that to receive such large a sum of money at their ages is unwise. None of them are very settled and they all seem to fall out with each other so I would want to use a trust that would be retained for the foreseeable future if I do transfer the field during my lifetime.

I have no need for any further cash. Now that I have stopped travelling, I am accumulating the rent received from the field in my building society account. My expenses have dropped, and my pensions and income from my ISA comfortably covers my outgoings. As the rents are only accumulating, I would also like to gift £65,000 to a selection of good friends. Can you please advise me if I should make this gift now or wait until we decide if we are setting up a trust early next year?

In regard to my life expectancy, given my age I think it is unrealistic to assume that I will live another seven years. Can we please work on me surviving five years from today for the purposes of any calculations – I am in good mental and physical health at the moment but things can change quickly at my age.

I would like you to report back to me with your view on how I can ensure my grandchildren receive maximum benefit from this field and my estate generally.

I look forward to hearing from you. If you need anything further from me, do let me know.

Kind regards

Audrey

Continued

EXHIBIT BExtract of report on Boundary Field (dated 13 October 2023)Tenancies

The Land is let under a Farm Business Tenancy, the terms of which we understand to be as follows:

Tenant	North West Agriculture Ltd
Rent	£8,400.00 per annum (£140 / acre) payable annually in advance
Tenancy Start Date	29 September 2004
Break Notice	Landlords 12 months' notice at any time for any non-agricultural use
Permitted use	For the trade or business of growing arable crops, grazing or mowing
Repairing and Maintenance	Tenant to keep the land in good state of repair and to keep all hedges trimmed, ditches clear, land free from weeds and keep in good environmental condition

Valuation

Boundary Field is used for growing arable crops. It is currently difficult to access and therefore the chances of successful planning are in the balance.

However, the new A79 bypass will offer alternative access and will greatly improve the chances of successful planning permission. The new bypass is anticipated to be completed by 2028.

We have therefore offered our opinion on not only the current valuations but also the anticipated value of the land on the basis that the A79 is completed on time which will improve the chances of successful planning permission being obtained.

As at inspection date – October 2023

	£
Market Valuation – agricultural value only	400,000
Market Valuation – allowing for Hope Value	875,000

Anticipated value – October 2028 (assuming new bypass is completed on time)

	£
Market Valuation – agricultural value only	400,000
Market Valuation – allowing for Hope Value	1,075,000

Continued

EXHIBIT CUpdated Asset Listing – October 2023

	<u>Notes</u>	<u>Cost</u> £	<u>Value</u> £
<u>Land and Property</u>			
12 Carnival Way, Bolton	Always used as main residence	95,000	175,000
Boundary Field	Inherited from spouse in 2008 Probate valuation £500,000	Inherited	See report
<u>Bank account balances</u>			
Cash ISA			20,000
Current Account			35,000
Building Society Account			<u>65,000</u>
			120,000
<u>Investments</u>			
Stock and Shares ISA		220,000	380,000
<u>Pension</u>			
Self-Invested Pension Plan	In drawdown		640,000

Continued

EXHIBIT D

Pre-seen information

Client

Mrs Audrey Talbot.

Higher Rate Taxpayer.

Mrs Talbot signed the firm's GDPR compliant engagement letter covering compliance and advisory services on 17 June 2021.

Born

18 October 1934

National Insurance Number

YC875678A

Domicile

England & Wales

Residence

12 Carnival Way
Upper High Street
Bolton
BL1 1BH

Husband

Mr David Talbot

Died 6 January 2008.

His Will left all his assets to his wife absolutely.

Children

Children of Audrey and David Talbot

Mr Jack Talbot (Never married)
born 09/11/1969
died 19/08/2017

Grandchildren

Grandchildren (Jack's children) of Audrey and David Talbot

Mr Peter Talbot	born 02/03/1994
Miss Laura Talbot	born 19/08/1995
Miss Sarah Talbot	born 19/08/1995
Miss Claire Talbot	born 07/08/1997

Gifting history

None

Copy of Mrs Audrey Talbot's Will dated 28 August 2018

1. This is my last Will. It replaces and revokes any earlier Wills I have made.
2. I appoint as my Executors and Trustees the partners in Bolton Solicitors LLP.
3. My Trustees shall hold my estate upon trust to retain, postpone or sell it and will pay any debts, funeral expenses and any Inheritance Tax in respect of property passing under this Will. My Trustees shall hold the residue ('my residuary estate') on the trusts of the following clauses:

4. Definitions

In this clause:

- 4.1 'my Beneficiaries' means such of the following as are alive at my death: my grandson PETER TALBOT; my granddaughter LAURA TALBOT; my granddaughter SARAH TALBOT and my granddaughter CLAIRE TALBOT.
- 4.2 My Trustees shall hold my residuary estate upon the following trusts:
 - 4.2.1 For not more than 125 years from my death to apply the capital of the Trust Fund for the benefit of such of my Beneficiaries as my Trustees think fit.
 - 4.2.2 To apply the income of the Trust Fund for the benefit of such of my Beneficiaries as my Trustees think fit or to accumulate the whole or any part of it as an addition to the capital of the Trust Fund.
 - 4.2.3 To exercise their discretionary powers over capital or income when and how they think fit without having to make payments to or for the benefit of all my Beneficiaries or to ensure equality among those who have benefited.
- 4.3 At the end of the trust period the trustees must hold the Trust Fund for the beneficiaries and remoter issue of the beneficiaries absolutely.
- 4.4 The standard provisions of the Society of Trust and Estate Practitioners (2nd Edition) will apply to this Will.

As Witness my hand this 28 day of August in the year 2018

Audrey Talbot.

Signed by the Testator in our presence and attested by us in the presence of the Testator and of each other.

First Witness
P Jones

Second Witness
J Evans

P Jones
Solicitor
Bolton Solicitors LLP
Bolton

J Evans
Office Manager
Bolton Solicitors LLP
Bolton