



The Chartered Tax Adviser Examination

May 2018

Awareness Module B Inheritance Tax, Trusts & Estates

Suggested solutions

Answer 1

	£	£	
Lifetime gift on 14 February 2014			
Gross CLT (£380,000 + £13,750)		<u>393,750</u>	1
Nil rate band at death £493,750 (working) so no further tax to pay on death.			
<i>Death estate</i>		<u>950,000</u>	
Nil rate band at death	493,750		
Less lifetime gift	<u>(393,750)</u>		1
Nil rate band available	<u>100,000</u>		
IHT at 40% x (£950,000 – £100,000)		<u>340,000</u>	1
Working			
Emily's nil rate band at death		325,000	
Plus Ernest's unused <u>proportion</u> of his nil rate band			1
(£312,000 – £150,000) = £162,000/£312,000 x £325,000		<u>168,750</u>	1
		<u>493,750</u>	

Answer 2

30 April 2017	There are no Inheritance Tax implications on the sale of the painting as there was no 'gratuitous intent'.		1
20 July 2017	This sale at undervalue of the necklace results in a 'loss to the donor' (i.e. Betty) of (£10,000 – £300) = <u>£9,700</u> .		1
	The <u>annual exemptions</u> for 2017/18 and 2016/17 will be available, leaving a <u>potentially exempt transfer</u> (PET) of £3,700.		1
			1
	This will only become chargeable if Betty <u>dies within seven years</u> (i.e. before 20 July 2024)		1

Answer 3

Before the gift to Victoria:	Number of shares	£	
Alice	3,000		
Arthur	4,000		1
Charity (ignoring January 2017 sale)	<u>1,000</u>		
	<u>8,000</u>		
Alice's shares therefore valued at £130 per share (based on 80% holding)			
3,000 x £130		390,000	1
After the gift to Victoria:			
Alice	1,000		1
Arthur	4,000		
Charity (ignoring January 2017 sale)	<u>1,000</u>		1*
	<u>6,000</u>		
Alice's remaining shares therefore valued at £75 per share (based on 60% holding)			
1,000 x £75		<u>(75,000)</u>	1
IHT valuation of the gift to Victoria		<u>315,000</u>	

Related property includes the shares acquired by the charity from Arthur within the previous five years.

* 1 mark for including the charity shares both before and after the gift by Alice.

Answer 4

- 1) The gift of £500,000 in 2004 is an exempt PET as it was made more than seven years prior to James's death. 1

In James's death estate, the spouse exemption is limited to £325,000 as Dolores is not UK domiciled. 1
- 2) Dolores could elect to be treated as domiciled in the UK for Inheritance Tax purposes only, which would remove the £325,000 spouse exemption limit. However, she would then be liable to UK inheritance tax on her worldwide assets. 1
1

The election is irrevocable, but will automatically cease if Dolores is non UK resident for four consecutive tax years. 1

Max 5 marks

Answer 5

	£	£	
House in Cheshire	600,000		
Mortgage thereon	<u>(150,000)</u>		1
		450,000	
Apartment in Tenerife	185,000		
Less Spanish administration expenses (Maximum 5% x £185,000)	<u>(9,250)</u>		1
		175,750	
Personal chattels		17,000	1
Unit trust (5,000 x 200p)		<u>10,000</u>	1
Chargeable estate		<u>652,750</u>	
IHT: 40% x (£652,750 – £325,000)		<u>131,100</u>	1

Answer 6

- 1) The shares in Zubalei GmbH are located where the Register of Shares is kept, therefore Germany. 1

The cash is located where the branch is situated, therefore the UK. 1

The holiday cottage in Cornwall (land and buildings) are located where physically situated, therefore the UK. 1

The debt is located where the debtor resides, therefore Spain. 1
- 2) This is important to Joaquin as he is not UK domiciled, therefore only his UK located assets are potentially subject to UK Inheritance Tax. 1

Answer 7

1)	£	£	
Estate valuation		875,000	
Less spouse exemption		(300,000)	1
Less available nil rate band			
Nil rate band	325,000		
Less gross chargeable transfer	<u>(250,000)</u>		
		<u>(75,000)</u>	1
		<u>500,000</u>	
10% x £500,000		<u>50,000</u>	1
2)			
Estate valuation		875,000	
Less spouse exemption		(300,000)	
Less charitable legacy		<u>(50,000)</u>	1
Chargeable estate		<u>525,000</u>	
IHT payable 36% x (£525,000 – £75,000)		<u>162,000</u>	1

Answer 8

The gift of the motor car is a gift with reservation as Charlie continued to derive a benefit from the car after the gift was made by driving the car every week which is above HMRC's de minimis limit of less than three times a month. 1

The gift of the car is treated as a potentially exempt transfer (PET) in September 2017. 1

If Charlie lives for seven years or more after the gift is made, the PET is exempt, but the car will be included in Charlie's death estate computation at its value at the date of death. 1

If Charlie dies within seven years, then two calculations are required and the higher overall IHT selected by HMRC; 1

1. Treat the gift as a normal PET and ignore the car in the death estate. 1
2. Ignore the gift and simply include the car in the death estate. 1

Max 5 marks

Answer 9

The executors can claim post mortem reliefs as follows:

The sale of quoted shares at a loss within 12 months of death – in the death estate, replace market value with gross sale proceeds. 1

Therefore, loss of £15,000 (£165,000 - £150,000) 1

The sale of related property within three years of death – in the death estate, replace related value with unrelated value. 1

Therefore, loss of £8,000 (£50,000 - £42,000) 1

Reduction in IHT liability is therefore $40\% \times (£15,000 + £8,000) = £9,200$. 1

Answer 10

1) Income available for distribution in 2017/18

	<i>Non Savings Income</i>	<i>Savings income</i>	
	£	£	
Property income (£40,000 - £6,000)	34,000		1
Interest income		30,000	
Less tax at 20%	<u>(6,800)</u>	<u>(6,000)</u>	1
	27,200	24,000	
Less trustee expenses		<u>(1,000)</u>	1
Available for distribution	<u>27,200</u>	<u>23,000</u>	

2) Income taxable on Stephanie in 2017/18

	<i>Net</i>	<i>Tax</i>	<i>Gross</i>	
	£	£	£	
Non savings	27,200	6,800	34,000	1
Savings	23,000	5,750	28,750	1

Answer 11

	£	£	
Current value of trust property		280,000	
Nil rate band	325,000		
Less William's CLTs in the seven years prior to the creation of the trust	<u>(75,000)</u>		
	250,000		1
Less distributions in the last ten years	<u>(100,000)</u>		1
		<u>(150,000)</u>	
		<u>130,000</u>	
IHT at 20% x £130,000		<u>26,000</u>	1
Effective rate: £26,000/£280,000 x 100		9.286%	1
Actual rate: 9.286% x 30%		2.786%	1
Principal charge: 2.786% x £280,000		7,801	1
			Max 5 marks

Answer 12

	£	
Market value of land transferred	196,000	
Less cost (£62,000 + £2,000 = £64,000)		
$\text{£64,000} - (64,000 \times \frac{32,000}{32,000+136,000})$	<u>(51,810)</u>	3
	144,190	
Less gift relief	<u>(144,190)</u>	1
Gain	<u>Nil</u>	
Base cost of land for trustees:		
Market value of land transferred	196,000	
Less gift relief	<u>(144,190)</u>	
	<u>51,810</u>	1