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

(am) 07112017 Date of Examination

Chartered Institute of Taxation

Excellence in Taxation

☐ Tick box if you have answered in accordance with Scots Law

☐ Tick box if you have answered in accordance with Northern Ireland Law

Please tick which Advisory Paper you have attempted (if not already ticked below)

- ☐ Taxation of Owner-Managed Businesses
- ☐ VAT on UK Domestic Transactions, IPT & SDLT
- ☑ Inheritance Tax, Trusts & Estates
- ☐ Human Capital Taxes
- ☐ Taxation of Individuals
- ☐ VAT on Cross-Border Transactions & Customs Duties
- ☐ Advanced Corporation Tax

☐ Please tick here if you have used an extra answer booklet (ensure you attach your second answer booklet to the first using a treasury tag which will be provided).

Advisory

You must ensure that the Advisory Papers chosen are not the same as the corresponding Awareness Modules you have sat or will be sitting.

- For those candidates on the Indirect Tax Route you must sit the VAT on UK Domestic Transactions, IPT & SDLT Advisory Paper.
- For those candidates on the Indirect Tax Route you must sit the VAT on Cross-Border Transactions & Customs Duties Advisory Paper.

Instructions

Your script will be scanned electronically. Failure to comply with these instructions may lead to your script not being marked. You must:

(a) Complete the details on this page and in the booklet using BLACK or BLUE ballpoint pen only.
(b) Write on both sides of the page.
(c) Not write in the margin areas indicated.
(d) Start a new page for each question you answer and indicate the question number in the box provided at the top of each page.
(e) Not remove any pages from this answer booklet or damage it in any way.

Please do all of the above before the end of the examination.

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1		6	
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5		10	

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QUESTION NUMBER 2

06 April 2016 - 5 July 2016	NS	S	D
Dividends			15,000
Interest		7,000	
Expenses (2,000/12 x 3 = 500/92.5 x 100)			(541)
'RAT'		7,000	14,459

Tax;

1,000 x 20% = 200

6,000 x 45% = 2,700

7,000

14,459 x 38.1% = 5,509

8,409

541 x 7.5% = 41

Tax due. 8,450

Tax pool b/f 06 April 2016	-
Tax payable above (Prior to expenses)	8,409
Tax credits claimed;	-
~~20,000~~ Tax pool c/f 06 July 2016.	8,409

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QUESTION NUMBER 2

	S	D
~~[illegible]~~ 00 July 2016 - 5 April 2017		
Dividends		42,000
Interest	22,000	
IIP trust (1/4)	(5,500)	(10,500)
'RAT'	16,500.	31,500
Expenses (2,000 / 12 x 9 = 1,500 / 4 x 3 = 1,125 / 92.5 x 100)		(1,216)
'RAT'	16,500.	30,284

Tax;

1,000 x 20% = 200
15,500 x 45% = 6,975
16,500
30,384 x 38.1% = 11,538
18,713
1,216 x 7.5% = 91
18,804.

Tax on IIP;

5,500 x 20% = 1,100
10,500 x 7.5% = 788
1,888.

Total tax due 20,692

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QUESTION NUMBER 2

CGT;

Roth well bank Ltd proceeds	167,000
Base cost;	
820,000 - 135,000 = 685,000	
820,000 - 685,000 = 135,000	
135,000 / 15,000 x 3,000	(27,000)
Gain	140,000

Wan PLC shares proceeds	8,000
Cost	(2,000)
Gain	6,000

Treasury stock is exempt for CGT thus ignored.

RB Ltd	140,000
Wan PLC shares	6,000
	146,000
Annual exemption	(11,100)
	134,900.
CGTC 20%	26,980.

No ER as not an interest in possession trust (assumed disposals pre 6 July 2016).

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QUESTION NUMBER	2

IT due to 5 July 16	8,450	} 29,142
IT due to 5 April 17	20,092	
CGT due	26,980	
	56,122	
POA's made	(20,000)	
Balancing payment due 31 Jan 18	36,122	
POA due 31 Jan 18 (29,142/2)	14,571	
POA due 31 July 18 (29,142/2)	14,571	

R185 - Anatasia;

	Net	Tax
Trust income (Pre 6 July 16)	–	–
Bank interest	5,500	1,375
Dividends	10,125	821

BI	5,500	
D		10,500
Expenses (375)		(375)
	5,500	10,125

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QUESTION NUMBER 2

Capital distribution;

Initial value of trust property		820,000
NRB at exit	325,000	
CT'S prior 7 yrs of trust	-	
		(325,000)
		495,000
IHTC 20%		99,000.
99,000 / 820,000 x 100		12.073%
12.073% x 30% x 28/40.		2.535%.
QTRs from 06/05/2009 - 18/05/2016.		28.

Gross as trustees pay tax;

$2.535 \times \frac{100}{100-2.535}$ = 2.60%.

20,000 x 2.60% = 520.

Tax due 6 months from end of month of transfer i.e. 30 November 2016.

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QUESTION NUMBER 6

Lifetime transfers;

Feb 2010 - PET.

Gift		315,000
AE 2009/10 + AE b/f 2008/09		(6,000)
PET		309,000

Sept 2010 - CLT

Gift		250,000
AE 2010/11 + AE b/f (utilised)		(3,000)
		247,000
NRB at gift	325,000	
CT's in 7 yrs prior	-	
		(325,000)
No lifetime tax.		-

Death;

PET now chargeable Feb 2010	309,000
NRB at death (No CTs in 7 yrs prior)	(325,000)
No tax due.	-

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QUESTION NUMBER 6

Additional tax on CLT Sept 2010		247,000
NRB at death	325,000	
CT's in prior 7yD	(309,000)	
		(16,000)
CLT		231,000
IHT @ 40%		92,400.
No tax relief for lifetime as none.		-
Taper relief (5-6yD = 60%)		(55,440)
IHT due 6 months from end of month		36,900
of death i.e. 29 Feb 2017 by trustees.		

Death estate:

TNRB

Harrison - NRB at death	215,000
Utilised	(161,250)
	53,750

53,750 / 215,000 × 100 = 25%

Gordon - NRB at death	263,000
Utilised	(223,550)
	39,450.

39,450 / 263,000 × 100 = 15%

Total uplift = 25% + 15% = 40%

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QUESTION NUMBER 6

SHOULD HAVE UPLIFTED NRB ON PET AND CLT ON DEATH

Emily;

Net estate 617,750.

Single grossing applies - Tax free legacy fully exempt residue.

36% rate applies as 10% baseline clearly met.

Tax free gift (UK asset).		286,000
NRB at death;		
325,000 x 140%	455,000	
CT's in prior 7yr.	(556,000)	
		–
		286,000.
IHT @ 36/64 due		160,875.
QSR available;		
52,800 x 80% x 457,000 / (457,000+52,800)		(37,865)
IHT due 6 months from end of month of death ie. 29 Feb 2017 by Executors.		123,010

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QUESTION NUMBER 6

Estate rate = 123,010 / 286,000 × 100 = 43%

Estate distribution;

Frances	286,000.
HMRC IHT	123,010.
Charity (Balance)	208,740
	617,750

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QUESTION NUMBER 3

memo

To: Audit Partner

From: Tax manager.

Date: XXXX

Subject: Deed of variation requirements.

In order for a deed of variation to be legally binding the following conditions must be met:-

- It must be in writing;
- signed by the person making the variation;
- made within 2 years of the death (Being Charles cousin)
- made for no consideration

If the variation results in additional tax being due this must be agreed by the executors in order to be binding.

The variation can be back dated to the date of death for both inheritance tax (IHT) and capital gains tax (CGT) but not for income tax (IT) purposes.

For IT it will be deemed to be varied at the date it is made and any income prior to the variation (None here) will be taxable on Charles before the variation and the BOT after.

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QUESTION NUMBER 3

for IHT, the variation will result in a transfer of value by Charles being a chargeable lifetime transfer to the Baron Discretionary Trust resulting in IHT becoming due.

A statement can be made in order to re write the will for IHT purposes so that it is deemed the transfer was made on death of Charles cousin 12 months ago. This is not going to result in any IHT liability changes as it is simply swapping the shares from one chargeable person to another.

For CGT, the variation will result in a deemed CGT disposal at market value by Charles to the BDT resulting in a CGT liability being due.

A similair statement can be made for CGT whereby it is deemed the transfer was made on death and the deemed disposal is ignored for CGT purposes thereby no CGT being due.

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QUESTION NUMBER | 1

Our address
Date

Your address

Dear Tom,

POTENTIAL INHERITANCE TAX AND CAPITAL GAINS TAX IMPLICATIONS

Following our meeting, I am writing this letter to outline the tax consequences based on the issues raised which I detail below in turn.

Inheritance tax due on death (IHT)
At the date of death an individual is deemed to make a disposal of their assets which results in IHT being due on the net value of their assets at the date of death.

Each person has a nil rate band (NRB) of currently £325,000 in 2016/17) available which allows the first £325,000 worth of assets to be subject to IHT at 0%.

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QUESTION NUMBER | 1

The death rate of IHT on all other assets is 40%. This can be reduced to 36% if enough funds are left to charity however this is not the case here.

There are also implications for gifts made in the 7 years prior to death however as these have not been made here I will not consider it further. If these are considered I would be happy to discuss this further down the line.

Attached at the end of this letter at Appendix 1 is a draft IHT liability position based on the assets currently held by you.

Based on the current position I will explain reliefs available to you.

Agricultural property relief (APR)
APR is a relief available on assets held at death or gifted if they are for the purpose of agriculture.

This covers land, buildings and woodland and also pasture.

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QUESTION NUMBER | 1

The poperty must be held in the UK, Channel Islands, Isle of man or EEA state, which is the case for you here.

APR is available mostly at 100%. however can be reduced to 50% in the following situation:-
- Pre 01 September 1995 lease
- still having 2 years or more to run
- Tenanted (ie. let)

In this case the APR will be at 50%.

I do believe in your case, APR will be available at 100%.

For farms occupied by the farmer it must be held for atleast 2 years to qualify.

For farms tenanted, this is increased to 7 years.

As you have occupied the farm for over 7 years there will be no issues here.

Business poperty relief (BPR)
BPR is another relief available for assets deemed 'relevant

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Business Property'. This includes:-

- A business or share in partnership
- unquoted trading company shares.
- land and buildings used in business of which control was held
- Quoted trading companies if control is held.

As you are in business, the relief has been considered.

BPR is given at 100% for a business or unquoted trading companies and 50% elsewhere.

Again the property must be held for atleast 2 years to qualify for BPR.

Any contracts in place to sell the property or 'excepted assets' held will reduce the availability of BPR.

No APR of BPR will be available on the farmhouse as it is not occupied by you for the purpose of running the business. If you were to occupy the property, APR would be available subject to the property being 'character appropriate' to the land ie not of a ridiculous size.

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QUESTION NUMBER | 1

The farm property used by you will qualify for APR at 100% as it is running the farm from there which you occupy.

The furnished holiday let on the farm will not qualify for APR as not used in farming and no BPR unless non land related activities are also provided by you, which they are not.

APR at 100% is available on the 200 acres of land on the agricultural value. BPR is available on the value left as it is used in trade.

The land let for grazing horses will not qualify as grazing land is not agricultural.

BPR is available on the farm outbuildings as used in trade. at 100%. 50% BPR is given on the assets used in trade.

Woodland not for agriculture thus no APR. BPR in future as used for commercial business. Woodland relief on trees and underwood otherwise.

(CONTINUE AFTER APPENDIX)

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QUESTION NUMBER 1

Appendix 1

Farmhouse	350,000	
No business property relief (BPR)	-	
No agricultural property relief (APR)	-	350,000
Farm property	200,000	
APR @ 100%	(200,000)	-
FHL house	100,000	
No BPR	-	100,000
200 acres of farm land	1,500,000	
APR @ 100% of agricultural value	(1,200,000)	
BPR on balance	(300,000)	-
20 acres land let to neighbour	175,000	
No APR	-	
No BPR	-	175,000
Farm outbuildings	40,000	
BPR @ 100%	(40,000)	-
Farm equipment	200,000	
BPR @ 50%	(100,000)	-
100 acres of woodland	600,000	
No APR		
BPR @ 100%	(600,000)	-
Net estate		625,000
Residence nil rate band		-

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QUESTION NUMBER | 1

NRB at death	(325,000)	
Chargeable estate.	300,000	
IHT @ 40%.	120,000	
(Due 6 months from end of month of death or submission of IHT 400 return if earlier)		

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QUESTION NUMBER | 1

Capital gains tax (CGT)

The disposal of the gift of farmhouse to James will result in a deemed CGT disposal at market value being £350,000.

A gift relief claim can be made to reduce any gain on the property against the base cost for James in the future. This must be a joint claim between you within 4 years from the end of the tax year of the gift.

If the gift is given to James on your death, no CGT charge will arise and James' base cost on any future sale made by him will be uplifted to the probate value on death, i.e. the market value of the asset on your death. Therefore resulting in a lower gain for James in the future. IHT would however be payable on your death unless you occupy the farmhouse as your residence.

Any further queries please let me know.

Kind regards

Tax manager.

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QUESTION NUMBER | 4

~~Capital~~

Qualifying interest in possession trust pre 22 march 2006.
Relevant property trust from 30 march 2009 as discretionary.

14 feb 2006 - Chargeable death transfer.

Property to trust (cash)		195,000
Moonshine Ltd shares	129,600	
BPR @ 100% (>2 years held)	(129,600)	-
		195,000
NRB at death (fully utilised)		-
		195,000
IHT @ 40% due by 6 months from end		78,000

of month of death i.e. 31 August 2006 by Executors.
(or submission of IHT 400 if earlier).

30 march 2009 - chargeable death transfer
(included in death estate as QIIP pre 22 march 2006 IIP on death)

Free estate		419,000
QIIP trust interest (368,000 + 132,750)		500,750
		919,750.
NRB at death	312,000	
CT's in prior 7 years	(203,000)	
		(109,000)

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QUESTION NUMBER 4

Chargeable estate	810,750
IHT @ 40%	324,300
QSR;	
78,000 x 60% x 195,000 / 195,000 + 78,000	(33,429)
IHT due 6 months from end of	290,871

month of death or submission of IHT400 if earlier. i.e. 30 September 2009 by Executors.

27 September 2013 - Exit charge

(Exit and principal charges on relevant property trust)

initial value of trust assets (129,600 + 195,000)		324,600
NRB at exit	325,000	
CT's in prior 7 years	–	
		(325,000)
		–

No IHT charge as covered by NRB.

Distribution = 175,000 + 32,000 = 207,000.

14 Feb 2016 - Principal charge.

(10 year anniversary of the trust)

Current value of trust assets (412,500 + 98,750)		511,250
NRB at PC date	325,000	
CT's in prior 7 years	(324,600)	

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QUESTION NUMBER 4

Distributions in prior 10 years	(207,000)
	–
	511,250
IHT @ 40%	204,500
204,500 / 511,250 × 100	40%
40% × 30% × (40 − 12)/40	0.084%

(No grossing as trustees always pay tax)

511,250 × 0.084%	42,945

IHT due by 6 months from the end of the month of the PC date ie 31 August 2010 by trustees

QTRS from 14 Feb 2006 - 30 March 2009 deducted as not relevant property trust as QIIP then.

[BPR should have been deducted from the £511,750 for the ~~the~~ £412,500 unquoted trading shares] = £99,250.
(Have continued by my original figures)

[BPR also deductible from £207,000 distribution for the same shares of £175,000 = £32,000]

5 May 2016 - Exit Charge

Value of trust asset at PC date (14 Feb 2016)		511,250
NRB at EC date	325,000	

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QUESTION NUMBER 4

CT's in prior 7 years (324,600)
Distributions in 10 prior 7years
to PC date (207,000)

	–
	511,250
IHT @ 40%	204,500
204,500/511,250 x100	40%
40% x 30% x 0.140	

Exits within 3 months of the principal charge are not subject to exit charges thus no IHT payable.

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QUESTION NUMBER 5

Our address
Date

Your address

Dear max,

INCOME TAX AND CAPITAL GAINS TAX IMPLICATIONS

Following our meeting to discuss your tax queries I set out in this letter my poind raised.

The Owen Company Trust

On the initial establishment of the trust in 2002, as your grandfather Nathan gifted the assets to the trust this would have been a deemed disposal for capital gains tax (CGT). As he elected to holdover the gain, the trust were deemed to take a 'base cost' of the assets at the cost for Nathan originally, being £50.

This is because a S.260 claim called gift relief allows this when there is an inheritance tax charge.

On establishment the trust was deemed a discretionary

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QUESTION NUMBER 5

trust in the UK whereby any income or gains made would have been taxable in the UK.

On 1st October 2014 when your parents (Being the trustees of the trust) emigrated to Canada, this would have resulted in the trust becoming non resident in the UK as the trustees were all non resident.

At this point the trust is deemed to dispose all of its assets at market value for CGT purposes and immediatley repurchase them. I have attached at Appendix 7 the liability which would have arisen in October 2014. This would have been liable by your parents as the trustees of the trust by 31 January 2016.

From this date, as the trust is non resident, it would only be liable to UK income tax on any income arising from UK assets held.

For CGT purposes, non resident trusts do not pay CGT in the UK unless relating to trades undertaken in the UK being Panda Productions Ltd or any sales of UK residential property.

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QUESTION NUMBER 5

The capital distribution made in october 2017 to yourself of £500,000 will be taxable by you in the UK as you are deemed UK resident.

As the trust is non UK resident determining the distribution in the UK must be considered.

If income has not been distributed previously by a non UK resident trust, HMRC will first deem any distributions to be made from income first before capital gains regardless of how it was actually distributed.

As £38,000 of the trust income has not been distributed you will deemed to have received £38,000 of income in 2017/18 taxable at 45% as you are an additional rate taxpayer being £17,100 due by 31 January 2019.

The balance of the cash being £462,000 (£500,000 - £38,000) will be deemed a capital gain in 2017/18 subject to CGT at 20%. ~~being £~~ You will receive relief for your annual exemption of £11,100 and any capital losses you may have. This would result in a CGT liability of £90,180 due by 31 January 2019.

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QUESTION NUMBER 5

As the distribution from capital gains have been made since 2 tax years from the disposal in January 2016, no supplementary charge will arise.

The disposal in January 2016 will give rise to a CGT liability as although non resident the trust is carrying on a trade in the UK.

I have attached at Appendix 2 a calculation of the liability due by the trustees on 31 January 2017.

This would need reporting on the 2015/16 trust return by 31 January 2017

The Owen Property Will Trust

This trust is also deemed a discretionary trust however this is UK resident.

The appointment of property by the trust to you will be deemed a disposal for CGT purposes subject to CGT at 20%.

As the value of the trust is less than the cost for the

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QUESTION NUMBER 5

trust, it will result in a capital loss arising of £79,000 (Being £315,000 - £394,000). This loss will be used against any capital gains made by the trust between the start of the tax year, 6 April to the date of the distribution.

Any capital loss not utilised, will be deemed a loss of the beneficiary, being yourself, and can only be used by you against any future gains made on the sale of the property distributed to you.

It cannot be utilised against any other of your gains.

I hope this covers any queries you may have, please let me know otherwise.

Kind regards

Tax manager

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QUESTION NUMBER | 5

Appendix 1

01 October 2014

Proceeds (Deemed mv)	1,200,000
Base cost	(50)
	1,199,950.
Gift relief s.165 (Business asset)	(1,199,950)
	-

Appendix 2

Proceeds	1,300,000
Base cost	1,199,950
	2,499,950.
Annual exemption	(5,550)
	2,494,400.
CGT @ 20%	498,880

Due by 31 Jan 2017.

No ER as not a IIP trust.

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