Module B
Inheritance Tax, Trusts & Estates

1. Jan died on 14 October 2016. The executors have valued her estate at £850,000. The terms of Jan's will state that £40,000 should be left to her favourite charity, with the rest of her estate passing to her children. The executors have suggested that a deed of variation be made to make a minimal increase to the charitable legacy sufficient to reduce the rate of Inheritance Tax payable on the estate.

   Jan had made no lifetime gifts and only one nil rate band available to her.

   Calculate the increase/decrease in the children's legacy if the charitable legacy is increased as proposed.

2. Ethel, who has not yet died, has made the following gifts:

1 June 2016	A necklace to her niece worth £1,500 and a painting to her nephew worth £1,000
1 August 2016	Trinket boxes to each of her three grandchildren, worth £180 each
1 March 2017	£4,000 cash to her grandson as a wedding present

   Ethel has made no other gifts.

   Briefly explain any exemptions which may be available to reduce each of these transfers.

3. Jack died on 18 March 2017. He had made two lifetime gifts:

20 June 2008	A gift to his son Tom of £50,000 in cash
4 August 2013	A gift into a discretionary trust for his grandchildren. The gift had a gross chargeable value of £411,250, including the tax paid by Jack of £17,250

   Calculate the Inheritance Tax due on the lifetime gifts as a result of Jack's death and state who is responsible for paying it.

4. The Wright Discretionary Trust (the only trust created by the settlor) had the following income for the 2016/17 tax year:

	£
Property income	10,000
Dividends	8,000

   The management expenses paid by the trust totalled £925 for the year.

   Calculate the Income Tax payable by the trustees for the year ended 5 April 2017.

5. Tony died on 11 January 2017 owning 40% of the shares in an investment company.

The remaining shares were owned by his wife (30%) and two children (15% each).

The shares in the company were valued as follows on 11 January 2017:

	£
40% shareholding	200,000
70% shareholding	410,000
100% shareholding	700,000

Briefly explain, with supporting calculations:

1) How the shares would be valued in the death estate.

2) How this valuation would change if the executors of Tony's estate sold the 40% shareholding to an unconnected third party for £190,000 on 1 September 2017.

6. On 1 June 2016 Billy gifted a farm in Wales to his son. The farm was originally purchased by Billy's wife, Emma, in 2006. His wife died on 22 August 2014 and left her entire estate, including this farm, to Billy. Billy's son plans to sell the farm to the tenants who have operated the farm ever since Emma purchased it.

On 1 July 2016 Billy gifted a farm in Australia to his daughter. This farm was purchased by Billy in 2013. Billy's daughter plans to keep the farm, which will continue to be operated by Joe who occupied it on a long-term tenancy agreement in December 2016, when the previous tenant retired.

Briefly explain whether agricultural property relief will be available for the two farms:

1) When the gifts were made by Billy.

2) On Billy's death assuming he dies before 1 June 2023.

7. Bob made his first lifetime gift on 1 July 2016 when he gifted cash of £500,000 to his son Mark.

Mark used the money to buy the family home from Bob but Mark does not and will not live in the property. Mark agreed that Bob could continue to live in the family home until Bob dies or needs to move into a nursing home. The property could be commercially let for £24,000 per annum but Mark has not charged Bob any rent to occupy it.

Briefly explain the tax consequences for Bob of continuing to live in the property.

8. At the time of her death on 14 August 2017 Hannah, who was UK domiciled, was the sole owner of a villa in Spain and the joint owner of two investment properties in the UK.

   Hannah had owned the villa in Spain since 2009. This property was valued locally at £102,000 on 14 August 2017. Administration costs of £8,000 relating to this property were paid by the executors of Hannah's estate.

   The first investment property was acquired jointly with her husband in 2004. The property was valued at £160,000 on 14 August 2017.

   The second property was inherited jointly as tenants in common with her sister in 2006. The property was valued at £88,000 on 14 August 2017.

   Briefly explain, with supporting calculations, how the value of each of the properties will be calculated for inclusion in Hannah's death estate.

9. Stella transferred a property worth £500,000 to a discretionary trust for her grandchildren on 1 July 2017. A claim for gift relief was made to defer any gain arising and the trustees agreed to pay any Inheritance Tax due on the transfer.

   Stella had inherited the asset from her husband Pat when he died on 18 December 2015. Pat originally purchased the property for £300,000 in 2008 and it was valued at £420,000 on his death.

   Stella has made no other lifetime transfers.

   Calculate the capital gains base cost of the property should the property be sold at a profit to an unconnected third party at a later date.

10. Art died on 10 September 2013 leaving a complex estate valued at £2 million which continues to be in the period of administration.

    The executors of the estate have made three disposals during the period of administration, as follows:

    1) Shares in Beat plc were sold on 1 May 2015 for £48,500 net of selling costs. The shares had been purchased by Art for £21,000 and were valued at £28,000 on 10 September 2013.

    2) Shares in Xcite plc were sold on 1 August 2016 for £52,000 net of selling costs. These shares had been purchased by Art for £30,000 and were valued at £34,000 on 10 September 2013.

    3) A racehorse was sold on 14 January 2017 for £22,000 incurring a 5% auction fee. Art had purchased the horse for £7,000 and it was valued at £10,000 on 10 September 2013.

    Calculate the Capital Gains Tax payable on the disposals, if any.

11. Jeannie died on 30 April 2017. Prior to her death, Jeannie inherited assets as follows:

1) On 14 February 2010, she had inherited a diamond necklace on the death of her friend Amy. At that time the necklace was valued at £25,000. Amy's total estate on death was valued at £800,000 and Inheritance Tax was charged of £160,000 in total. Jeannie still owned the necklace at the date of her death when it was valued at £42,000.

2) On 18 October 2015 she inherited a painting on the death of her friend John. At that time the painting was valued at £18,000. John's total estate on death was valued at £600,000 and Inheritance Tax was paid by the executors of £85,000 in total. Jeannie did not like the painting so sold it on 10 January 2017 for £20,000.

Calculate the quick succession relief available, if any, to set against the Inheritance Tax liability arising on the death estate of Jeannie.

12. Sean retired on 10 August 2014, transferring the business he had run for 30 years as a sole trader to his children, Annie and Matt who then ran it as equal partners. The business was valued at £450,000 on 10 August 2014.

In December 2016, Annie and Matt decided to sell the business. The sale was completed in January 2017 and Matt intends to use the whole of his share of the money from the sale to buy a 20% shareholding in Beta Ltd, a friend's unquoted manufacturing company. The purchase has not yet been finalised as Matt is awaiting the completion of further due-diligence work on the company.

Annie used the proceeds from the sale to purchase a farm. Whilst she will live in a house built on part of the land, she has agreed to lease the remainder of the farm to a local farmer.

Briefly explain the availability of business property relief on the initial transfer of the business and in the event of Sean dying before August 2021.