Chartered Institute of Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

6 November 2019

AWARENESS

Module B – Inheritance Tax, Trusts & Estates

1. On 18 May 2018, Peter died leaving an estate valued at £2.12 million of which £1.5 million in cash and investments was left to his daughter, Rebecca, and the remainder of the estate to his wife, Julia.

On 17 March 2019, Julia died leaving a chargeable estate valued at £675,000 to her daughter, Rebecca. This included the family home which was valued at £150,000.

Neither Peter nor Julia had made any lifetime transfers.

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

peter used full nRB so no transfer to Julia.

peter estate left to Julia
= 2.12m - £1.5m.
= 620,000.

died within 1 year.

death of Julia

estate	675,000
nRB	(325,000)
RNRB	(125,000)
	£225,000

tax @40% = 90,000.

QSR = $\frac{620,000}{675,000}$ x 100% x 90,000
= 82,667

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Tax due 90,000 - 82,667

= £7,333

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2. On 22 December 2018, Alice (who had made no previous lifetime transfers) made the following transfers of value:

1) £600,000 to the XYZ Discretionary Trust for the benefit of her godchildren. The trustees agreed to pay the Inheritance Tax on this transfer.

2) £900,000 to the ABC Discretionary Trust for the benefit of her nephews and nieces. Alice agreed to pay the Inheritance Tax on this transfer.

Calculate, with brief explanations, the Inheritance Tax payable on the transfer to the ABC Discretionary Trust and state the due date for payment.

both transfered made on the same day. + where alice is sole provider of 2 trust the allowance will be split.

payment due earlier of 6 months or 30 April ie 2

30 June 2019.

value	900,000
less NRB(½)	(162,500)
less AE (2018/19 + 2017/18)	(6,000)
	£731,500

tax @ 20% = 146,300.

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3. On 20 July 2015, Charles gave his son, William, a house valued at £350,000 on the occasion of William's marriage. Charles's only previous lifetime transfer was in January 2011 when he transferred quoted shares valued at £230,000 to a discretionary trust.

Charles died on 22 March 2019. At the time of his death, the quoted shares held in the trust were worth £195,000.

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

share value can be transfered no
mv however as this is over 7
years it was an exempt transfer.
~~PET becoming chargeable~~

House to son	350,000.
~~AE NRB~~	~~(325,000)~~
AE (2015/16 + 2014/15)	(6,000)
wedding gift	(5,000.)
NRB (325,000)	
gift prev 7 years (195,000)	(130,000)
	209,000.
tax @40%. =	£83,600.

taper relief 3-4 years on death.
350-6-5 x 20%. = (67,800).
350,000
less AE less wedding
tax due = 15,800.

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4. Richard (who had never married) died on 1 February 2019. At the date of his death, he owned the following assets:

   1) A residential property, which was jointly owned in equal proportions with his cousin, Sam. The value of the entire property was £480,000.

   2) Shares and loan stock in an unquoted trading company which Richard and Sam had purchased in 2008. The shares and loan stock were valued and held at the date of Richard's death as follows:

	Total	Richard	Sam
	£	£	£
Shares	1,200,000	400,000	800,000
Loan stock	300,000	180,000	120,000

Richard had made no lifetime gifts and he left his entire estate to Sam.

Calculate the Inheritance Tax payable on Richard's death.

1. value of property less tennanted deduction.

£480,000 x 1/2 = 240,000

less 10% = (24,000)

216,000.

2. shares 400,000

loan stock 180,000

total estate 796,000.

less nrb (325,000)

less ~~BPR on shares (w1) (400,000)~~

~~BPR on loan (w2) (90,000)~~

~~381,000~~ 471,000

@40% = 188,400. c/f

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w1. Shares unquoted company but doesn't hold ~~need~~ minimum holding - no BPR ~~[illegible]~~.

w2. loan stock who richard has main control - BPR @ 50%.

CF tax 188,400
~~BPR@100%~~
BPR@50% - (36,000)
£152,400.

5. Ulrich, who was domiciled in Germany, died on 2 November 2018. He left his estate, which comprised the following assets, to his brother:

1) A house in Surrey, valued at £2.8 million.

2) An apartment in Berlin, valued at £440,000. The apartment had been purchased for £300,000.

3) A farm in Yorkshire, which had been purchased for £400,000 and had always been farmed by tenants. On 2 November 2018, the farm was valued at £1.2 million and the agricultural value was £950,000.

Ulrich had purchased both the apartment in Berlin and the farm in Yorkshire in 2002. The funds required were provided by a loan from a UK bank of £700,000 which was secured on the house in Surrey. The full amount of the loan was outstanding at the date of Ulrich's death.

Briefly explain, with supporting calculations, the values of the assets to be included in Ulrich's death estate computation for UK Inheritance Tax purposes.

ulrich is not uk domiciled + therefore only taxed on his uk assets.

1. house in surrey uk asset £2.8m
2. Apartment in berlin will not be included as located in berlin.
3. farm included use mv but will be eligible for ~~AP~~ APR @ 100%.
4. loan is held in a uk bank account ~~so~~ will be an allowable deduction against the surrey house value

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house (2.8m - 700 loan) 2.1m
Apartment —
Farm (covered by APR) 1.2m

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6. On 10 June 2001, Sarah bought a matching set of two sculptures for £100,000. In June 2017, she gave one of the sculptures to her husband, Robert. On 6 April 2018, she gave the remaining sculpture to her daughter, Sophia. On that day, the market value of a single sculpture was £90,000 and the market value of the set was £240,000.

On 17 October 2018, she gave 10,000 shares in Reine plc to her son, Lewis. On that day, the shares were quoted at 225p – 231p ex dividend with marked bargains of 224p, 227p and 232p. On 25 October 2018 the company paid a dividend of 5p per share.

Calculate the value for Inheritance Tax purposes of the transfers made by Sarah in 2018/19.

sculpture to daughter will need to
take related value as it is
higher than unrelated value on
sale.

related $1/2 \times 240,000 = \underline{\underline{120,000}}$.
unrelated $= 90,000$

£120,000.

PET and will only become
chargeable if Sarah were to die
in the next ~~8~~ 7 years.

Shares.

lower of:
1/4 up value or Average bargins
$1/4(231-225) + 225 = 226.5p$

$\frac{224+232}{2} = 228p$

value £10,000 × 226.5p = £22,650

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dividend inc in share price

5p × 10,000 = £500.

Again this is PET of shares, becoming chargeable on death if its within 7 years.

7. Joseph, who had never married, had made only one lifetime gift, a gross chargeable transfer of £400,000 to a discretionary trust in September 2012. Joseph died on 20 July 2018, leaving the following assets:

	£
Cash, personal chattels and investments	365,000
Apartment in Italy	185,000

The costs of administration relating to the apartment were £4,600. Had the apartment been located in the UK, the administration costs would have been £2,200.

In his will, Joseph left the apartment tax-free to his brother, Kenneth, and the residue of the estate to his niece, Olive.

Calculate the amount that Olive will receive as a result of Joseph's death.

Cash 365,000.
Apartment 185,000.
less Admin cost (4,600.)
neB(used by trust transfer)
545,400.
tax @40%. £218,160.

Joseph.
tax on aparment
£185,000 @40% = 74,000.

Olive will receive:
£365000
less expenses (4600)
less tax (218,160)

142,240.

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8. The Breen Discretionary Trust, the only trust created by the settlor, had the following income and expenses during the year ended 5 April 2019:

	£
Property income	40,000
Interest income	22,000
Trustees' expenses met from income	(900)

Calculate the trustees' Income Tax liability for 2018/19.

	NS	S	expenses.
property	40,000		
interest		22,000	
expenses(900x100/80)		(1,125)	1125
	40,000	20875	1,125.

NS 1000 @20%. = 200
39,000 @45%. = 17,550
S. 20,875@45%. = 9,394
e 1125 @ 20%. = 225
27,369

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9. On 1 May 2018, Karen created the Wakeford Discretionary Trust. She transferred into the trust an investment property worth £675,000 which she had purchased in 2015 for £550,000.

From 1 May 2018 to 5 April 2019, the property produced income (net of expenses) of £12,000.

On 31 March 2019, the trustees distributed £2,200 of income to each beneficiary. The beneficiaries of the trust were Karen's husband, Simon and their two children, Mia (age 11) and Luke (age 7).

You are required to briefly explain, with supporting calculations:

1) **The Capital Gains Tax implications for Karen of the transfer of the property to the trust.**

2) **The way in which the distributed trust income will be taxed in 2018/19.**

1. The transfer would have been eligible for CGT gift relief so it is transferred in at mv £675000. ~~[illegible]~~ and the increase of £125,000 could have been rolled forward to increase the gain on sale.

2. income is taken out of the company and grossed up to a rate using 55/45, assuming tax had been paid at 45%,

Simon will be taxed on receiving the following

net	2,200
tax	1800
gross	4,000

As mia + luke are below 16 they will not be taxed individually on their income, instead this will be taxed on karen.

10. Henry died on 22 June 2018, leaving the whole of his estate to his son, Austin. The personal representatives received the following income during the administration of the estate, which was completed on 5 January 2019:

	£
Dividend income	3,480
Interest income	3,300
(of this amount, £225 was interest on an ISA)	

The personal representatives' expenses during the administration period were £375.

Calculate the Income Tax payable by the personal representatives in respect of 2018/19 and state the due date for payment.

tS 0

Dividends 3,480.

interest 3005 (3300 -225)

isa not included

tax at 20/7.5% (601) (261.)

personal representative expenses aren't an allowable deduction.

tax due £ 862

payable by 31 Jan 2019.

11. Carl (who had never married) died on 18 March 2019. His assets at the date of death were his main residence, valued at £780,000 and investments in various quoted companies, valued at £650,000. Carl's holding in each of the companies was less than 1%.

In his will, Carl left £600,000 to charity and the residue of his estate to his friend, Enid. He had not made any lifetime transfers.

You are required to:

1) **Calculate the Inheritance Tax payable on Carl's death.**

2) **Calculate, with brief explanations, the Inheritance Tax that can be paid by instalments and state the amount of the first instalment.**

1. estate	780,000
investments	680,000
	1,430,000
NRB	(325,000)
	1,105,000
charity donation	(600,000)
	505,000
IHT @36%	=£181,800
note 1-	

note 1
Charity limit £1,105,000 @10%.
= £110,500

as donation is above this tax is charged at 36%.

2. 1984 s.227.

Tax on 'qualifying property' can be paid in instalments.

can be paid in 10 instalments yearly.

As he did not have control over the companies for the shares, these do not qualify

amount for qualifying.

$$£181,800 \times \frac{780,000}{1430,000} = 99,163.$$

can be paid £9,916.
by 30 April yearly.

12. On 25 December 2018, Louise gave £250,000 to each of her daughters, Florence (age 27) and Pearl (age 25).

On 1 March 2019 Florence used the money towards the £400,000 purchase price of a house for her and her husband to live in.

On 1 April 2019, Pearl used the money towards the £300,000 purchase price of a painting by Louise's favourite artist. Pearl hung the painting on the wall in Louise's dining room.

You are required to briefly explain:

1) **Whether the pre-owned asset rules apply as a result of these transactions and if so, how the charge would be calculated.**

2) **Any elections that may be available to Louise.**

1. POAR doesn't apply to the money given to Florence as she lives in the house without her mum.

pre-owned asset rule applies to pearl as she hasn't got 'virtually exclusive' benefit of the painting as it is hung in louise's house.
POAT charge would apply.
Charge of ~~£300,000~~ £250,000 would be treated as income on Louise.

2. Louise can elect for GWROB to apply instead, ~~so the transfer~~
charge would be valued at higher of:
~~A~~ £250,000 valued as a PET
or painting included in Louises

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death estate. ax

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