

Institution **CIOT - CTA**
Course **Awareness**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 13	114	479	591
Section 14	56	246	293
Section 15	124	487	595
Section 16	89	345	424
Section 17	205	957	1160
Section 18	93	440	521
Section 19	81	362	432
Section 20	46	191	229
Section 21	130	496	619
Section 22	106	477	569
Section 23	175	764	937
Section 24	61	276	325

-----ANSWER-13-BELOW-----

Answer-to-Question- 13

The house is being sold at market value as the advertised price was unlikely to be the market value, based on the lack of interest. As this is a disposal at a market value price there are no IHT implications.

The antique clock is sold for below its market value. There will be a gift made equal to the difference in the market value and the amount actually paid $(12k - 100) = 11,900$. Against this her annual exemptions of 3k from each 2022/23 and 2023/24 can be offset leaving a PET of 5,900, which will become chargeable if Alice dies within 7 years of the date of the gift (by 17 Sep 2030).

-----ANSWER-13-ABOVE-----

-----ANSWER-14-BELOW-----

Answer-to-Question- 14

Gifts to charity are exempt from IHT

Gifts to Nephew use up AEs each year

Immediately before gift to Sarah only had 1 statue valued at 150k

After had 0 statues so 0 value

Loss to donor principle: $150k - 0 = 150k$

Gift: 150k

Less wedding exemption (for granddaughter): (2,500)

Less AEs: (0)

PET: 147,500

-----ANSWER-14-ABOVE-----

-----ANSWER-15-BELOW-----

Answer-to-Question- _15_

Not UK domiciled under common law. Not deemed dom as have not yet been UK res for 15 of last 20 tax years at time of any gift. Non-dom spouse exemptions are limited to 325k.

14 Feb 2018

Gift: 500k

Less spouse exemption: (325k)

Less AEs: (6k)

PET: 169k but no IHT due yet as he has not died within 7 years of the gift so not chargeable

22 Oct 2021

Not subject to UK IHT as it is a non-UK asset gifted by a non-domiciled individual

18 March 2024

UK Bank account of UK currency will be a UK situs asset so subject to UK IHT.

Gift: 850k

Less AEs: (6k)

CLT: 844k

Less NRB: (325K)

Taxable: 519k

IHT @ 20/80 = 129,750

-----ANSWER-15-ABOVE-----

-----ANSWER-16-BELOW-----

Answer-to-Question- 16

1 - Dec 2015 over 7 years prior to death so CLT not taxable on death

Gross CLT: 212,500

Less fall in value relief: $(176k - 163,500) = (12,500)$

All of NRB used in Dec 2015 CLT

Taxable: 200k

IHT @ 40%: 80k

6-7 years

Less taper relief: $80\% \times 80k \times 176k / (176k + 42,500) = (51,551)$

Less lifetime tax paid: (42,500)

IHT due on death: 0

2 - Nil rate band available for death estate is 325k as none was used against any CLTs in
7 years prior

-----ANSWER-16-ABOVE-----

-----ANSWER-17-BELOW-----

Answer-to-Question- 17

BPR is available where there is relevant business property, which meets the ownership requirement (2 years), there is no specifically excluded (investment) property and there is no sale agreement in place at the time of death.

1 - this meets the ownership requirement as it was passed on at death, so the ownership period of the donor on death and donee at death are combined and therefore exceed the two year requirement (1 Oct 2014 - 30 May 2023). A trading partnership is relevant business property which is given BPR @ 100%. There is no specifically excluded (investment) property and there is no sale agreement in place at the time of death.

2 - this meets the ownership requirement as it was passed on at death, so the ownership periods are combined and therefore exceed the two year requirement (1 January 2021 - 30 May 2023). As the building was used in a partnership which Lorraine had a share in, it is relevant business property. This will be given BPR @ 50%. There is no specifically excluded (investment) property and there is no sale agreement in place at the time of death.

3 - this is specifically excluded from BPR as it is investment property.

-----ANSWER-17-ABOVE-----

-----ANSWER-18-BELOW-----

Answer-to-Question- _18_

Gross CLT in 2023 uses up some of NRB but this means no death tax due as all covered by NRB.

Gross chargeable estate before charitable legacy: 935k

Less NRB: 325K

Reduced by CLTs in 7 years prior: (130k)

(195k)

Baseline amount: 740k

Charitable legacy exceeds 10% of this amount (10% of 740k = 74,000 which is exceeded by 75k). Therefore, IHT @ 36%.

Less charitable legacy: (75k)

RNRB available as qualifying residential property left to a lineal descendant.

Less RNRB: (175K)

Taxable: 490k

IHT @ 36%: 176,400 IHT due on death estate

-----ANSWER-18-ABOVE-----

-----ANSWER-19-BELOW-----

Answer-to-Question- 19

In euros:

Max probate costs are 5% of foreign property: $5\% \text{ of } 495\text{k} = 24,750$

Therefore, whole 19,800 allowable against the property

No RNRB as not left to a lineal descendant

Foreign death duties deductible from value of property

495k

(75k)

(19,800)

Value in euros subject to UK IHT: 400,200

Convert to GBP: divide by 1.10

Value in pounds subject to UK IHT: 363,818

Executors are liable to pay UK IHT on villa as it is part of his death estate

-----ANSWER-19-ABOVE-----

-----ANSWER-20-BELOW-----

Answer-to-Question- 20

Initial value: 800k

Less NRB: (325K)

No CLTs in 7 years prior to set up of trust

Taxable: 475k

Notional IHT @ 20% = 95K

Effective rate: $95k/800k = 11.875\%$

Actual rate: $30\% \times 11.875\% \times 28/40 = 2.49375\%$

Exit charge: $50k \times 2.49375\% = 1,247$

-----ANSWER-20-ABOVE-----

-----ANSWER-21-BELOW-----

Answer-to-Question- 21 _

No reinvestment so no restriction of fall in value relief

Murrty Plc shares fall in value: $75k - 60k = 15k$

Risshi Plc shares rise in value: 5k

The rise in value will not restrict the fall in value relief

Commercial land in value: $95k - 88k = 7k$

Fall in value relief: $15k + 7k = 22k$

As the assets have been sold within 3 years of death for a loss, fall in value relief can be claimed of 22k. This will reduce the avlue of the death estate by 22k. As the whole estate is being taxed at 40% due to no NRB or RNRB, this will mean the IHT has been overstated by $22k \times 40\% = 8,800$ so the executors can receive a repayment of 8,800.

-----ANSWER-21-ABOVE-----

-----ANSWER-22-BELOW-----

Answer-to-Question- 22

1 - No RNRB as no residential property

Qualifying IIP as created pre-2006 so included in the beneficiary's death estate.

Nothing left to spouse by Evelyn so none can be spouse exempted.

Full NRB left to Evelyn by husband.

Death estate: $575k + 825k = 1.4 \text{ mil}$

Less NRB: $(325K \times 200\%) = (650K)$

Taxable: 750k

IHT @ 40%: 300k

Portion of this relevant to trust

$300k \times 825k / 1.4 \text{ mil} = 176,786$ payable by trustees of IIP

2 - Remaining trust assets go to Paul

Rest of estate: 575k

Less IHT payable by executors: $(300k - 176,786) = (123,214)$

Amount of inheritance received by Jennifer: 451,786

-----ANSWER-22-ABOVE-----

-----ANSWER-23-BELOW-----

Answer-to-Question- 23

Jane was born with a UK domicile of origin, taken from her father on birth. She has not acquired a domicile of dependence or choice to replace this. Jane is therefore UK domicile.

Francine was born with a UK domicile of origin, taken from her father on birth. She acquired a domicile of dependence in the UK as while she was under the age of 16, her parents domicile gained a UK domicile of choice, through their intention to settle here permanently. Francine takes on this UK domicile and has not lost it since.

Zoya was born with a Greek domicile of origin, taken from her father on birth. She has not acquired a domicile of dependence or choice to replace this (still intends to return to Greece) so is Greek domiciled under common law. However, for tax purposes she will be considered deemed domicile as she has been resident in the UK for at least 15 of the last 20 tax years and is resident in the UK in the 2023/24 tax year itself.

-----ANSWER-23-ABOVE-----

-----ANSWER-24-BELOW-----

Answer-to-Question- 24

No BPR as investment property.

IHT paid is added to the base cost.

Gift: $780k + 250k = 1,030,000$

Less AEs: N/A as used up

CLT: 1,030,000

Less NRB: (325K)

Taxable: 705k

IHT @ 20% = 141K

Portion for investment property: $780k / (780k + 250k) \times 141k = 106,777$

Proceeds: 975k

Less base cost: $(780k + 106,777) = (886,777)$

Chargeble gain: 88,223

-----ANSWER-24-ABOVE-----

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-----ANSWER-25-BELOW-----

Answer-to-Question- 25

$$250k \times 9/12 = 187,500 > 170k$$

$$170k > 50k$$

$$\text{Corp tax @ 25\%: } 155k @ 25\% = 38,750$$

$$\text{Less marginal relief: } 3/200 \times (250k - 155k) \times 155k/170k = (1,299)$$

CT due: 37,451

-----ANSWER-25-ABOVE-----

-----ANSWER-26-BELOW-----

Answer-to-Question- 26

Accounting profit: 420k

Pension contributions given relief when actually paid. Add back 2,500

Loss on disposal of a fixed asset is an allowable trading cost

15% disallowance as dirty car (over 50 g/km)

Add back 15% of 8,000 = 1,200

Petty thefts by employees is an allowable expense against trading profit

Depreciation not allowable so add back 12,500

TATP before CAs: 436,200

-----ANSWER-26-ABOVE-----

 -----ANSWER-27-BELOW-----

Answer-to-Question- 27

Second-hand integral features not eligible for FYA as they are second hand

	AIA	FYA @ 100%	General pool	SRP
TWDV BF			120k	62k
Additions	30k	25k		10k
Disposals			(12k)	
To write down	30k	25k	108k	72k
@ 100%	(30k)			
@ 100%		(25k)		
@18% x 9/12			(14,580)	
@ 6% x 9/12				(3,240)

Max CAs claimable: $30k + 25k + 14,580 + 3,240 = 72,820$

 -----ANSWER-27-ABOVE-----

-----ANSWER-28-BELOW-----

Answer-to-Question- 28

Property income for companies is on accruals basis - late payment of rent due on 1 June 2024 not relevant

Income: $2k \times 12 = 24k$

Less letting agents fees: (3,600)

Less replacement boiler: (3,000) as a replacement

Less new dishwasher: N/A as this is an improvement to the property

Less interest payable on loan: N/A as this will be dealt with under the NTLR rules

Property business profits: 17,400

-----ANSWER-28-ABOVE-----

-----ANSWER-29-BELOW-----

Answer-to-Question- 29

As there has been a change in control of a company (over 50%), where there has been a significant change in the nature or conduct of trade within a period of 3 years, losses from before the date of ownership are blocked from usage.

There has been a major change in the customer base of the company from members of public visiting the shop to supermarkets and farm shops which represents a significant change in the conduct of trade. There is also a significant change in the conduct of trade as the outlet from which the goods are sold has changed from the shop to on the road.

Therefore, the losses will be blocked from usage against profits for the entire year ending 31 Dec 2024, and onwards, as there has been a major change in the nature or conduct of trade.

-----ANSWER-29-ABOVE-----

 -----ANSWER-30-BELOW-----

Answer-to-Question- 30

CY and CB claims all or nothing

Overseas property business loss can only be offset against future overseas property business profits.

	YE 30 Sep 22	Ye 30 Sep 23	YE 30 Sep 24
Trade profit	180k	0	30k
UK property business profits	10k	12k	14k
Overseas property business profits	0	0	0
Capital gain			25k
Capital loss relief			(22k)
Less QCDs		Wasted	
Trade loss relief	(68K)	(12k)	
TTP	122K	0	47K

 -----ANSWER-30-ABOVE-----

-----ANSWER-31-BELOW-----

Answer-to-Question- 31

Tweed: 1 Oct 23 - 30 Sep 24

Ayevon: 1 Sep 23 - 30 June 24

The 2 companies are in a group relief group as the direct and indirect company shareholdings are above 75% (Tweed owns 80% of Ayevon both directly and indirectly).

The overlapping period is 1 October 2023 - 30 June 2024. The group relief which can be claimed is equal to the lower of the time apportioned profit made by Tweed for the period 1 October 2023 - 30 June 2024 ($9/12 \times 120k = 80k$) or the time apportioned loss for Ayevon for the period 1 October 2023 - 30 June 2024 ($9/10 \times 90k = 81k$). Therefore, the group relief claimable is 80k.

-----ANSWER-31-ABOVE-----

-----ANSWER-32-BELOW-----

Answer-to-Question- 32

S455 charges only apply to directors with a shareholding in the company so only Mrs Edn is relevant for this question

The s455 charge is equal to 33.75% of the lower of the amount due by Mrs Edn on the last day of the accounting period (31 Dec 23 = 50k - 10k = 40k) or on normal the due date for corporation 9 months and 1 day from the end of the accounting period (1 October 2024 = 50k - 10k - 15k = 25k). There is no bed and breakfasting here as there is no loan taken out within 30 days of the due date for corp tax.

33.75% of 25k = 8,438 S455 liability

-----ANSWER-32-ABOVE-----

-----ANSWER-33-BELOW-----

Answer-to-Question- 33

75% of 1,400,000 = 1,050,000 proceeds on trading element (only element which will qualify for rollover relief)

Proceeds: 1.4 mil

Less cost: (560k)

Less indexation allowance: $(278.1 - 241.8)/241.8 = 0.150$ (3dp)

$0.150 \times 560k = (84,000)$

Gain before rollover relief: 756k

Less rollover relief: $639k - 756k = (117k)$

Chargeable gain non-trading element of gain plus proceeds retained on trading element:
 $25\% \text{ of } 756k + 1,050,000 - 600k = 639k$

Cost of building two: 600k

Less rollover relief: (117k)

Revised base cost for building two: 483k

-----ANSWER-33-ABOVE-----

-----ANSWER-34-BELOW-----

Answer-to-Question- 34

Teemm and Donn were in a gains group as Teemm held at least a 75% direct shareholding and 50% indirect shareholding of Donn (100% for both). As an asset was transferred at no gain, no loss within the six years prior to leaving the gains group (it left the gains group as the ownership changed on 1 Nov 2024), which was still held at the date of leaving the group, a degrouping charge will arise.

This degrouping charge will be equal to the gain which would have arisen on the sale of the land and buildings if the market value at the date of sale had been charged. This degrouping charge is added to the consideration for the shares. The base cost is then deducted from this and proceeds to give the chargeable gain.

Proceeds for shares: x

Add degrouping charge: x

Less base cost of shares: (x)

Chargeable gain on sale of shares: x

-----ANSWER-34-ABOVE-----

-----ANSWER-35-BELOW-----

Answer-to-Question- 35

The transfer pricing rules will apply here as Ribl has control of Bannn (over 50%) and prices have been shifted away from an 'arm's length' price (£1.80 per item), leading to a tax advantage for one of the companies. This will be a tax advantage as artificially high costs will reduce the TTP, and therefore the corporation tax liability.

The effect of the rules will be to account for the distortion in prices by an add back of 20p per item purchased by Bannn to their accounting profits, in order to reach their taxable profits. If Ribl is subject to any UK corporation tax they will be able to make a corresponding deduction from their accounting profits, which have been artificially inflated, to reach taxable profits.

This is unless a small or medium sized enterprises exemption is met by Bannn, in which case no transfer pricing rules will take effect.

-----ANSWER-35-ABOVE-----

-----ANSWER-36-BELOW-----

Answer-to-Question- 36

First payment: 14th day of month 7 of AP: 14 July 2024

$$3/8 \times 960k = 360k \text{ due}$$

Second payment: 3 months on from first 14 October 2024

$$3/8 \times 960k = 360k \text{ due}$$

Final payment: 3 months and 14 days from end of AP: 14 December 2024

$$2/8 \times 960k = 240k \text{ due}$$

No room between second and final payment for another instalment.

-----ANSWER-36-ABOVE-----

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