



# The Chartered Tax Adviser Examination

May 2019

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## Inheritance Tax, Trusts & Estates

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### Advanced Technical Paper

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TIME ALLOWED – 3 ¼ HOURS

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- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation, annotate your question paper and use your calculator. You are not permitted to write in the answer booklet. The Presiding Officer will inform you when you can start writing.
- You should answer all **SIX** questions.
- Start each answer on a fresh page and do not write in the margins.
- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Marks are specifically allocated for presentation.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should tick the appropriate box on the front of each answer booklet.
- Unless otherwise indicated by the provision of additional table information, you may assume that 2018/19 rates and allowances continue to apply for 2019/20 and future years. Candidates referring to actual or pending rates and allowances for 2019/20 and future years will not be penalised.

1. You are a tax manager in a firm of accountants. Your client, Rock Ltd, is a UK company which is owned 50% by James McCallum, 46% by Anne Kirkpatrick and 4% by Chris Scott. None of the shareholders are connected and all are UK resident and domiciled.

The company is worth £1 million and has the following assets and liabilities:

- 1) The 'old' recording studio worth £150,000. This was let to a third party until 2014 but has stood vacant since then and requires a substantial amount of investment to bring it up to date.
- 2) A second recording studio purchased in 2005 and used by the business since then, worth £300,000.
- 3) Cash £200,000 of which £75,000 is surplus to the requirements of the business.
- 4) Debtors £50,000.
- 5) Royalty rights worth £100,000.
- 6) A tour bus worth £150,000.
- 7) A van used for transporting equipment worth £20,000.
- 8) A car purchased 18 months ago and used in a recent video, worth £100,000. This is now surplus to the company's requirements.
- 9) Trade creditors £70,000.

James' nephew Ben is just starting out in the music business and James, with the agreement of his fellow shareholders, has promised that Ben can buy the 'old' recording studio for £50,000. It has also been agreed that the company will gift the car, which is now surplus to its requirements, to Anne's only daughter, Debbie. The shareholders also want the company to gift the surplus cash as to £25,000 to James' wife, £25,000 to Anne's daughter and £25,000 to Chris's partner.

The shareholders have made the following lifetime gifts:

- 1) James has gifted £10,000 out of surplus income to his nephew every 1 September since 2014 to fund him through college and university.
- 2) Anne, a widow, gifted £20,000 in cash to her daughter on her marriage in July 2014, and settled £300,000 into a discretionary trust in favour of her daughter and grandchildren on 31 December 2015.
- 3) Chris, a divorcee who lives with his long term partner, settled £350,000 into a discretionary trust for his three adult sons and any future grandchildren on 1 January 2018.

**Requirement:**

- 1) **Explain the Inheritance Tax implications of the proposed gifts and sale at undervalue, assuming that these transactions all happen on the same day and providing calculations as necessary.** (11)
- 2) **Explain the Inheritance Tax reporting and payment obligations arising from the gifts and sale at undervalue.** (4)

Total (15)

2. You are a private client specialist. Your client, Aaron Jones, was UK resident and domiciled at the time of his death on 10 April 2018. Aaron is survived by his second wife, Sharon, their two daughters, Kelly and Charlotte and a grandchild (Charlotte's son Harry who is eight). All are UK resident and domiciled.

Aaron's first wife, who was UK resident and domiciled, died in 1988 having made no lifetime gifts. Aaron was the sole beneficiary of his late wife's estate, which was valued at £500,000.

The gross value of Aaron's estate is £1.8 million and under the terms of his Will, his half share in the family home passed to Sharon with the estate residue left on discretionary trust in favour of his wife, two daughters and grandson Harry. Sharon (joint Executor and Trustee) would like her daughters to inherit one half of the estate residue between them absolutely leaving the other half of the residue in the discretionary trust. She understands that a deed of variation is not an option due to Harry's age.

Sharon is particularly concerned about a piece of land in Aaron's estate which had been let for some years to a nearby farmer for grazing cattle. Since Aaron's death there has been an unforeseen relaxation of planning restrictions by the local council and an adjoining field, which has now been granted planning permission for a new residential development, has been purchased by a development company for that purpose. As a consequence, the let grazing land which had an agreed probate value of £200,000, is now valued at £1 million. There is no immediate intention to sell the land as it prevents the family house, which Sharon now owns entirely, from being overlooked.

Sharon would also like to transfer half of the house to Charlotte, as Charlotte and Harry live with her. The house was valued at £500,000 at the date of Aaron's death.

The estate is still in administration as it is quite complex but is nearing the point where residue should be able to be ascertained and the residual assets vested in the trustees.

No distributions of capital or income have been made to date.

**Requirement:**

**Draft a letter to Sharon advising on the transfer of one half of the residue to her daughters and of a one half share of the house to Charlotte.**

(15)

3. You have been invited as a guest lecturer to talk to a group of tax students on the three main Inheritance Tax reliefs available for woodlands, with the main focus on Woodlands Relief.

In particular, you have been asked to address:

- 1) The circumstances when each relief would apply.
- 2) The criteria for qualifying for Woodlands Relief.
- 3) How Woodlands Relief is claimed.
- 4) When the Inheritance Tax will become payable, at what rate, and on what.
- 5) Who is responsible for reporting and paying the Inheritance Tax liability arising.

**Requirement:**

**Write notes in preparation for your lecture.**

(10)

4. You have been newly appointed as the tax partner of a boutique firm. Your client, Sheila Thomas, was the sole beneficiary of her late husband's estate. He had made no gifts exceeding the annual exemption in the seven years preceding his death in March 2004.

Sheila, who is UK resident and domiciled, is a beneficiary of the Thomas Family Trust created on the death of her father, Henry, on 31 December 2000. Henry had made no gifts in the seven years prior to his death.

Sheila has a life interest over the entire trust property: a 50% interest was acquired when the trust was created in December 2000 and the remaining 50% interest was acquired on the death of her Aunt Nora on 5 November 2008. Both her father and her aunt were UK resident and domiciled. Sheila's son James is the sole remainderman.

There was no Inheritance Tax liability arising on her Aunt Nora's death.

The trust property includes 80% of the shares in Thomas Logistics Ltd, which were transferred to the trust under Henry's Will. Thomas Logistics Ltd is a courier company which holds no non-business assets. Sheila, who works full time in the company and is the sole director, owns 15% of the shares. The remaining 5% are held by James. Sheila and James inherited their shares from Henry on his death.

The trust also owns the property from which Thomas Logistics Ltd trades.

On 31 December 2000, the company had an agreed probate value of £1.5 million and the shares qualified for 100% Business Property Relief. The property had an agreed probate value of £750,000 and qualified for 50% Business Property Relief (the nil rate band at that date was £234,000).

Later valuations are as follows:

	<u>5 November</u> <u>2008</u>	<u>31 December 2010</u>	<u>May 2019</u>
	£	£	£
Shareholding:			
100%	1,500,000	1,500,000	2,500,000
80%	1,125,000	1,125,000	1,900,000
55%	701,250	701,250	1,168,750
40%	450,000	450,000	750,000
15%	112,500	112,500	187,500
5%	7,500	7,500	12,500
Property:			
100%	700,000	800,000	600,000
50%	315,000	360,000	270,000

Contracts have recently been exchanged with a third party for the sale of all of the shares of Thomas Logistics Ltd and of the property for their combined current market value of £3.1 million. Completion will take place in two weeks' time. Sheila wants to know the tax implications of the sale.

James, who left the UK 10 years ago to reside permanently in Australia with his girlfriend (an Australian national), is 39 and getting married on 28 June. Sheila thinks that it is time that he had access to the trust capital and plans to give up her life interest in his favour as a wedding gift. Sheila has made no lifetime gifts.

**Requirement:**

**Write a file note, using supporting calculations, setting out the Inheritance Tax and Capital Gains Tax implications of the sale and the subsequent giving up of the life interest by Sheila in favour of James.** (20)

5. You are a tax manager at a firm of Chartered Tax Advisers. Following the death of his client, Darren Chandler, on 24 September 2018, a partner at the firm has asked you to prepare notes for a meeting with Darren's family to discuss the Inheritance Tax implications of his death.

On reviewing the file, you have extracted the following information.

- 1) A record of lifetime gifts made by Darren:

<u>Date of gift</u>	<u>Recipient</u>	<u>Gift</u>	<u>£</u>
16 October 2010	Discretionary Trust	Cash	330,000
21 April 2012	Maria (granddaughter)	Cash for her wedding	172,000
25 February 2014	Simon (brother)	Shares (Note 1)	140,000
4 May 2016	Lance (nephew)	Cash	20,000
31 January 2017	Violet (granddaughter)	Painting (Note 2)	120,000

Note 1: The gift was of 10,000 £1 shares in Chandler & Sons plc which were valued at £14 each at the time of the gift to Simon. On 15 May 2016 the company was purchased by Smith Chandlery plc and under the terms of the sale Simon received 14,000 10p shares in Smith Chandlery plc worth £8 each. At the date of Darren's death, those shares were worth £4.50 each. These shares do not qualify for Business Property Relief.

Note 2: The painting gifted to Violet was of pre-eminent artistic interest.

- 2) Darren's wife, Sally, died on 3 April 1997. Her estate consisted of £200,000 held in investments. In her Will Sally bequeathed four legacies of £25,000 each to named friends, with the residue left to Darren. Sally had made no gifts during her lifetime.
- 3) Darren's assets/(liabilities) at the date of death consisted of the following:

		<u>£</u>
Home	Main residence for 40 years	450,000
Cash		300,000
Investments		250,000
Chattels		75,000
Credit card debts	Household	(4,000)
Funeral expenses		(6,000)

The whole of the estate has been left to his two granddaughters, Maria and Violet.

All members of the family are UK resident and domiciled.

**Requirement:**

**Prepare notes for the meeting showing your calculation of the Inheritance Tax liability arising by reason of Darren's death stating who is liable and the due date(s) for payment. Provide supporting workings and explanations where appropriate.** (20)

6. Paula Hopper, who was UK resident and domiciled, died on 3 April 2017. The executors have asked your firm, of which you are a tax manager, for assistance with both the calculation of the tax arising throughout the period of administration which will end on 31 May 2019, and on the distributions made to the residuary beneficiaries who are Paula's sisters, Alice and Emily. They have also asked for advice on the reporting requirements for the estate.

The executors have provided the following information:

Estate Assets and Income

<u>Asset</u>	<u>Probate Value</u> £	<u>Income 2017/18</u> £	<u>Income 2018/19</u> £	<u>Income 2019/20</u> £
<u>UK Residential property</u>				
18 Mountbatten Close	275,000	6,325		
20 Mountbatten Close	325,000	7,800	7,800	1,300
22 Mountbatten Close	250,000	6,000	6,000	500
<u>UK Commercial property</u>				
Unit 4 White's Yard	135,000	7,200	7,200	600
<u>Investments and other</u>				
Bank account	100,000	1,200	1,200	200
Share portfolio	400,000	4,800	4,800	800
Aston Martin Car	250,000			
Stocks and shares ISA (shares only)	100,000	600	600	100
Chattels	65,000			
Other assets	800,000			
	<u>2,700,000</u>			

There was no income received between 3 April 2017 and 5 April 2017.

Estate disposals

<u>Asset</u>	<u>Date sold</u>	<u>Net Sale proceeds</u> £
18 Mountbatten Close	28 February 2018	310,000
22 Mountbatten Close	30 April 2019	295,000
Unit 4 White's Yard	30 April 2019	145,000
Aston Martin Car	31 March 2018	275,000

Interest of £2,000 was incurred on 15 May 2017 on a loan taken out to pay Inheritance Tax. Estate administration expenses of £1,000 were paid from income on 30 April 2019.

On 31 March 2018, Alice and Emily were given some of Paula's jewellery and personal items with a total value of £15,000, shared equally.

On 31 March 2019, Alice and Emily were paid £10,000 each on account of the income received by the estate.

**Requirement:**

- 1) Calculate the estate's liability to Income Tax and Capital Gains Tax for all relevant years and state the reporting requirements for the estate during the period of administration. (16)
- 2) Set out the R185 entries for Alice for each tax year. (4)

Total (20)