

**THE CHARTERED INSTITUTE OF TAXATION**

**ADVANCED TECHNICAL**

**Inheritance Tax, Trusts & Estates**

**May 2023**

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TIME ALLOWED

3 HOURS 30 MINUTES

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- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2022/23 legislation (including rates and allowances) continues to apply for 2023/24 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. On 17 January 2015, Edward Johnson, a UK resident and domiciled individual, settled the Johnson Discretionary Trust with £900,000 and paid the relevant Inheritance Tax due. The trust was not settlor interested and Edward had made no previous lifetime gifts.

Amanda and Lucia were appointed as trustees. Amanda is UK resident and Lucia is resident in Malta. On 5 February 2023, Amanda resigned as trustee leaving Lucia as the sole trustee.

During 2022/23 the trustees received the following income:

	<u>Income to</u> <u>5 February 2023</u>	<u>Income 6</u> <u>February – 5</u> <u>April 2023</u>
	£	£
UK bank Interest	3,000	600
UK dividends (from Raspberry plc and Strawberry plc)	10,000	1,000
UK rental income from commercial property	10,000	2,000
Accrued income from Treasury Stock sale	nil	300

The trustees incurred expenses in relation to the rental property of £2,500. The trustees incurred professional fees, met from income, of £500. All expenses were incurred evenly over the year.

On 4 March 2023, the trustees sold Treasury stock for £41,000, which had cost £30,000.

The trustees sold 140 Raspberry plc shares in 2022/23. The shareholding history was:

<u>Raspberry plc</u>	<u>Date</u>	<u>No. of shares</u>	<u>Cost</u> £	<u>Proceeds</u> £
Purchase	4 May 2015	450	225,000	
Sale	8 October 2022	50		35,000
Purchase	10 November 2022	55	41,250	
Sale	14 January 2023	50		40,000
Purchase	20 January 2023	75	58,125	
Sale	6 March 2023	40		37,500

The trust held the following assets at 5 February/5 April 2023:

	<u>Cost</u> £	<u>Market Value</u> <u>5 February 2023</u> £	<u>Market Value</u> <u>5 April 2023</u> £
Commercial property	200,000	450,000	475,000
Cash		300,000	320,000
Raspberry plc shares	As above	384,000	363,000
Strawberry plc shares	50,000	70,000	72,000

The trustees made a cash capital distribution of £75,000 to the beneficiary Tilly on 13 January 2023. Tilly will pay the Inheritance Tax due.

**Requirement:**

- 1) Calculate with explanations the Income Tax and Capital Gains Tax arising in 2022/23. (15)
- 2) Calculate the Inheritance Tax arising on the distribution to Tilly. (5)

Total (20)

2. The Gomez Trust is Guernsey resident and was settled by Fernando Gomez in January 2015. At the time the trust was set up Fernando was UK resident and took tax advice to ensure that the trust was tax efficient in the UK. He has a Mexican domicile of origin and in 2019 he left the UK and returned to live in Mexico.

The beneficiaries of the trust are Fernando's two grandchildren, Veronica and Mateo. Veronica is UK resident and domiciled and Mateo is Mexican resident and domiciled.

The trustees would like to make a distribution of £120,000 to Veronica in July 2023 to pay the deposit for a UK house purchase. Veronica is employed, earns £40,000 per annum but has no other sources of income. She has capital losses brought forward of £3,000.

The trustees are also intending to make a capital distribution of £130,000 to Mateo after the distribution to Veronica but before 6 April 2024.

The trust has accumulated income of £8,500 and the following capital gains/losses in the s2(2) TCGA 1992 stockpiled gains pool:

	£
2017/18	11,213
2018/19	(15,250)
2019/20	27,450
2020/21	21,364
2021/22	nil
2022/23	56,457

The trustees are not anticipating selling any other assets before 6 April 2024. The trustees hold no UK situs assets. No income is anticipated in 2023/24.

**Requirement:**

**Calculate with explanations the Income Tax and Capital Gains Tax arising on the proposed distribution to Veronica.** (15)

3. In November 2018, Hitesh, settled a UK resident trust for his four nieces and nephews. Hitesh, a UK resident and domiciled taxpayer, had made no other lifetime transfers and was excluded from benefitting from the trust. Hitesh paid the Inheritance Tax on the assets gifted into trust which comprised:

	£
100% of shares in Candle Ltd (qualified for 100% Business Property Relief)	1,500,000
Office building (see below)	400,000
Cash	300,000
Quoted shares	250,000

For the last four years prior to its transfer into trust, the office building had been used by a partnership of which Hitesh was a partner.

On 7 May 2022, the shares in Candle Ltd were sold for £1.8 million. The costs of sale were £150,000.

The trustees received cash which they are currently holding in their bank account. No capital distributions have been made to beneficiaries to date.

Hitesh died on 5 April 2023.

**Requirement:**

- 1) **Calculate with explanations the Inheritance Tax payable by the trustees by reason of Hitesh's death.** (8)
- 2) **Explain any options available to the trustees for reducing the Inheritance Tax due by reason of Hitesh's death.** (7)

Total (15)

4. Peter Jerram died on 23 October 2007 and his wife, Maria died on 16 February 2023. They were both UK resident and domiciled. During their lifetimes they made the following cash gifts:

<u>Date</u>	<u>Recipient</u>	<u>Maria</u> £	<u>Peter</u> £
14 November 2006	Daughter Jeanie	100,000	100,000
27 April 2018	Granddaughter (Wedding gift)	20,000	-
30 September 2019	Grandson	20,000	-

#### Peter's Estate

Peter's Will left his estate to his wife and daughter in the following shares:

<u>Asset</u>	<u>Value at death</u> £	<u>Recipient</u>
50% share of family home	250,000	Jeanie subject to a life interest for Maria
20% shareholding in Jerram Ltd	50,000	Maria
Life interest in Jerram Family Trust	300,000	Successive life interest to Maria
Cash	100,000	Jeanie

Jerram Ltd is an unquoted company. It is a wholesale food distributor which has been trading since incorporation in 1980. All of the company's assets are used in the business. Aside from Peter's 20% shareholding and that of the Jerram Family Trust, the remaining 30% shareholding is owned by Peter's cousin.

The Jerram Family Trust was created by Peter's grandfather in 1991. Since commencement, the trust assets have comprised a 50% shareholding in Jerram Ltd and the industrial unit from which the company trades. Peter had held the life interest since the trust commencement and the value of his interest at his death was covered in full by Business Property Relief. Under the terms of the Trust, the interest passed to Maria on Peter's death.

#### Maria's Estate

At the date of Maria's death her personal estate, other interest and liabilities consisted of the following:

- Her 50% share of the family home. The property was occupied solely by Maria and at death the value of 100% was £1.2 million.

- Quoted UK investments:

<u>Company</u>	<u>Number</u>	<u>Bid prices</u>
Pineapple Crush plc	15,000	203p - 207p
Peach Melba plc	30,000	164p - 172p
Fruit Salad Unit Trust	5,321.94	98p - 102p

- The 20% shareholding in Jerram Ltd inherited from Peter.

- Bank account balance £43,987.

- Premium Bonds £50,000.

- Other assets:

	£	
Personal and household goods	25,000	
Motor vehicles	15,000	
Victoria Cross medal for gallantry	225,000	Awarded to great-grandfather

- Life interest in the Jerram Family Trust. At the time of Maria's death, the trust assets continued to comprise the shares in Jerram Ltd and the industrial unit. The industrial unit was valued at £500,000. The company was valued as follows:

<u>Shareholding</u>	£
20%	210,000
50%	600,000
70%	960,000
100%	1,450,000

- Liabilities £10,013.

Under Maria's Will, 50% of the estate is left to her daughter Jeanie and 50% is left in trust for her grandchildren, subject to a legacy being paid to charities per Maria's letter of wishes. Her letter of wishes says that the charitable gifts should be sufficient to make a claim for the Inheritance Tax charity rate.

The executors have decided to pay any Inheritance Tax arising in full and not take advantage of the instalment option.

#### **Requirement:**

**Calculate with explanations the Inheritance Tax liability arising on Maria's estate and state the due date for payment.** (20)

5. Lisa, who was UK domiciled and tax resident, died on 23 November 2022 without leaving a Will. She was survived by her husband Shemar who is UK resident but domiciled in the Dominican Republic. He is not deemed domiciled in the UK. They did not have any children together, but Shemar has adult children from a previous relationship who are resident in the Dominican Republic. Lisa and Shemar were married on 10 January 2010.

The value of Lisa's UK estate at death was £4.5 million.

In addition to that UK estate, the couple jointly own a villa in Italy valued at £550,000. This was purchased on 16 December 2019 for £400,000 by Lisa and she immediately gifted half of the property valued at £200,000 to Shemar. The estate tax charge in Italy on Lisa's share of the property is £107,500.

Lisa had previously gifted Shemar £250,000 cash on 15 November 2014. Lisa made no other gifts in her lifetime.

Shemar's estate (excluding that inherited from his wife) currently totals £1.5 million of which £1.2 million (including his share of the Italian villa) is situated outside the UK.

**Requirement:**

- 1) **Explain the Inheritance Tax arising on Lisa's estate.** (8)
- 2) **Discuss how the Inheritance Tax on Lisa's death and on Shemar's future death could be mitigated and the factors to consider when deciding whether to take such actions.** (7)

Total (15)

6. The Geoff Slater Accumulation and Maintenance Trust was created by Geoff (UK resident and domiciled) on 7 January 1983 for the benefit of his grandchildren and their spouses and issue. Geoff had not made any other gifts prior to the creation of this trust.

The terms of the trust provide that the beneficiaries are entitled to their share of the income at age 25. There is no entitlement to capital, although the Trustees do have the power to appoint capital at their discretion.

The grandchildren, all UK resident and domiciled, are:

	<u>Date of Birth</u>
Adriana	16 April 1978
Sam	21 October 1982
Jamie	6 May 1984
Lou	30 November 1989
Xavier	18 January 2001
Celina	18 January 2001

On 7 January 2023, the trust held the following assets:

<u>Asset</u>	<u>Value</u> £
Portfolio of UK shares listed on the Stock Exchange	3,458,000
Portfolio of shares in AIM listed trading companies held for more than 5 years	500,000
Interest bearing securities	296,354
Commercial property portfolio	960,000

The commercial property portfolio consists of an industrial park with 12 purpose built individual units. The park was purchased in December 1983 for £360,000. All 12 units are the same size and carry the same initial cost.

The cash at bank includes £164,000 undistributed discretionary income as follows:

<u>Year ended 5 April</u>	<u>Undistributed Discretionary Income</u> £
2023 (estimate to 7 January)	20,000
2022	30,000
2021	20,000
2020	40,000
2019	24,000
2018	30,000

The income is received evenly throughout the year on a monthly basis. All income subject to an interest in possession is distributed as it is received.

The rate of Inheritance Tax at the 2013 10-year anniversary was 4.6%. Since that date, capital distributions have been made as follows:

<u>Date</u>	<u>Recipient</u>	£
31 January 2013	Adriana, Sam, Jamie and Lou – cash of £25,000 each	100,000
16 April 2018	Adriana – cash	150,000
21 October 2022	Sam – cash	150,000
21 October 2022	Sam – Unit 7 Industrial Park (market value)	95,000
21 October 2022	Jamie – Unit 8 Industrial Park (market value)	95,000
21 October 2022	Adriana – Unit 3 Industrial Park (market value)	106,200

Legal costs for appointing the three units at the industrial park totalled £1,650, which the trustees have allocated equally between the three units.

The trustees have paid any Inheritance Tax arising. The trustees also accept liability for the Capital Gains Tax arising on the appointment of the units at the industrial park, whilst making full use of any reliefs available.

**Requirement:**

**Calculate with explanations the exit charge due on the capital distributions made since 7 January 2013, the principal charge arising on 7 January 2023 and state its due date for payment.** (15)