

The Chartered Institute of Taxation

Advanced Technical

Inheritance Tax, Trusts & Estates

May 2025

Suggested answers

ANSWER 1

1) Settlor

Income Tax (IT):

The trust is a protected trust, and the foreign income is protected foreign source income provided the trust is not tainted. The trust is not settlor-interested under s.624 ITTOIA 2005, for IT as Jacques is specifically excluded from benefitting from the trust and he is unmarried.

This also prevents an IT charge under s.720 ITA 2007 under the transfer of assets abroad (TOAA) provisions.

Capital Gains Tax (CGT):

As above, the trust capital gains are protected. The trust is not settlor-interested under s.86 TCGA 1992 as Jacques is specifically excluded from benefitting, and the wider definition applicable for CGT purposes under that section, to include his children and grandchildren does not apply, as the sole beneficiaries of the trust are Jacques' nieces and his nephew.

Trustees

IT:

The trust is non-UK resident for IT (only non-UK resident Trustees).

As such it is only chargeable to UK IT on its UK income (nil up to 6 May 2025).

From 6 May 2025 whilst there are no UK resident beneficiaries the Trustees benefit from the same UK liability restriction as non-resident individuals i.e., the UK dividends would be "disregarded income". There will therefore be no requirement for the Trustees to complete self-assessment trust returns.

CGT:

The trust is also non-UK resident for CGT (see above). This means that it is generally not chargeable to UK CGT.

There is an exception for gains arising in respect of UK land and property.

Gains arising on UK residential property were brought into the charge to UK CGT on non-resident Trustees with effect from 6 April 2015. Such gains are referred to as non-resident capital gains (NRCG).

As the trust property was purchased after that date normal CGT principles apply, and the retrospective method is automatically used to calculate the gain as follows:

	£
Proceeds less costs of sale (£350,000 – £4,500)	345,500
Less	
Cost 6 March 2016 plus costs of acquisition (£200,000 + £2,500)	(202,500)
Enhancement	(100,000)
Gain before relief	43,000
PRR - note 1. ((71+13 +9)/110 x £43,000)	(36,355)
Gain after reliefs	6,645

Note 1:

	Actual	Vacant	Deemed 13 months	Total
6 March 2016 to 5 April 2017*				
6 April 2017 to 5 March 2023	71 months			
6 March 2023 to 5 August 2024		17 months		
6 August 2024 to 30 April 2025			9 months	
6 March 2016 to 5 May 2025				110 months

*As this is within the first 24 months of ownership, the property was not occupied by anyone else as a residence during that time and it was a period of renovation deemed occupation applies.

The CGT chargeable on the Trustees would be as follows:

	£
Gain	6,645
AE	(1,500)
Taxable	<u>£5,145</u>
CGT @ 24%	£1,235

A NRCG return is required to be submitted and payment of the CGT made to HMRC within 60 days of completion i.e., by 4 July 2025.

As the gain is fully charged under NRCGT there is no gain to carry forward against future distributions to UK beneficiaries under s.87 TCGA 1992.

Beneficiaries:

IT:

Where there is no IT charge on the settlor under s.720 ITA 2007 (TOAA), UK resident beneficiaries are instead subject to an IT charge under s.731 ITA 2007 (TOAA) on benefits they receive matched to relevant income.

The benefit of the use of the UK residential property is its market value rent (£1,250 per month) less any rent paid to the trustees (nil).

Gerome should therefore have been charged on the following amounts:

	Relevant income £	Benefit £	Unmatched income c/f £	Cumulative Unmatched income c/f £
			56,250	56,250
2017/18	45,000	15,000	30,000	86,250
2018/19	45,000	15,000	30,000	116,250
2019/20	45,000	15,000	30,000	146,250
2020/21	45,000	15,000	30,000	176,250
2021/22	45,000	15,000	30,000	206,250
2022/23	45,000	13,750	31,250	237,500
Total		88,750		

The benefit should have been taxed as non-savings income (NSI) without the benefit of dividend or savings allowance. Unmatched income is carried forward against future benefits.

2) Gerome

Taxable income £88,750 @ 40% = £35,500 missed income tax liability plus interest from the original due dates.

Gerome failed to notify his liability to complete a self-assessment tax return. Penalties apply under Sch.41. FA 2008 based on a percentage of lost revenue.

The disclosure should be made under the worldwide disclosure facility as it is in respect of an "overseas matter".

The disclosure will be unprompted. The failure was careless and a maximum penalty of 30% could apply as France is a category 0 country.

Given the time elapsed since Gerome should have notified his liability (5 October 2018) is greater than 12 months a minimum penalty of 10% will apply.

MARKING GUIDE

TOPIC	MARKS
Settlor:	
IT: Not settlor interested S.624/s.720. Specific exclusion from benefit/unmarried	1
CGT: non-resident trust, settlor-interested extended definition under s.86 – N/A as beneficiaries are his nieces and nephew	1
Trustees:	
IT: non-UK resident, all Trustees non-UK resident, UK income = nil	1
IT: No UK-resident beneficiaries – disregarded income, no requirement to complete SA	1
CGT: non-UK resident (as above – PAG), generally not chargeable to UK CGT	0.5
CGT: UK land and property, residential property 6/4/15 >	0.5
CGT: retrospective method as purchase after 6/4/15	0.5
CGT: Calculation – Proceeds less COS, cost less COA, enhancement, gain before relief	2
CGT: Calculation – PRR – periods of occupation, deemed occupation, total period of ownership	2
CGT: PPR% x gain before relief, AE, CGT @ 24%,	1.5
CGT: NRCG return and payment 60 days, no residual gain to be charged under s.87 TCGA 1992	1
Beneficiaries:	
IT: no s.720, s.731, matching "benefit" to "relevant income"	1
IT: value of benefit = MV rent (£1,250 per month) less paid (nil)	0.5
IT: Gerome 2017/18 -2022/23 (0.5 for pro-rata, 0.5 for full year, 0.5 total)	1.5
Taxed as NSI, C/f unmatched income	1
Subtotal	16
Gerome – lifetime tax:	
IT: Outstanding liability calculation (plus interest)	1
IT: Use of Worldwide Disclosure – offshore matter,	0.5
IT: Failure to notify penalties % PLR	0.5
1) unprompted, 2) careless behaviour - max 30% (France = Category 0), > 12 months – minimum penalty 10%	2
Subtotal	4
TOTAL	20

ANSWER 2

1) Post-Mortem Relief:

Land or buildings sold within three years of death (s.191 IHTA 1984):

Thomasina's share of Units 4/5 and 6 were sold to unconnected third parties in the requisite three-year period to 28 February 2027. No sales were made in year four.

The probate values of units 4/5 and 6 are as follows:

	£	
Units 4 & 5	360,000	Owned 100%
Unit 6	75,000	Related Property

The losses taking gross proceeds of £350,000 and £55,000 against the respective probate values are as follows:

	£
Units 4 & 5 (£350,000 - £360,000)	(10,000)
Unit 6 (£55,000 - £67,500*)	(12,500)

To make a claim the land must be sold by the appropriate person and Inheritance Tax paid thereon.

Units 4/5 and 6 were sold by the executors who also incurred Inheritance Tax on those assets in arriving at the residue of the estate. The executors are therefore able to make the claim.

The relief does not apply to individual profits/losses of less than the lower of £1,000 or 5% of probate value.

The loss for Units 4/5 is less than 5% of probate value (2.78%) but it is greater than £1,000 and can be claimed. As the loss for Unit 6 is 16.67% of probate value and greater than £1,000 this can also be claimed.

An overall loss of £22,500 can therefore be claimed under s.191 by the executors giving an IHT refund @ 40% of £9,000.

*For purposes of s.191 IHTA 1984 when considering the loss against probate value it is the unrelated property value that is used i.e., the "real" loss, otherwise an inflated loss would be claimable. Here a discount of 10% has been used to arrive at the unrelated property value (marks will be awarded for any discount between 5% and 15%).

Related Property sold within three years of death (s.176 IHTA 1984):

This relief applies to sales of related property within three years of death to an unconnected third party for less than its probate value. This applies to the sale of Unit 6.

The unrelated property value at the date of death of £67,500 is substituted for the related property value originally used of £75,000 giving a refund of £7,500 @ 40% of £3,000.

As the executors can choose which relief to claim in respect of Unit 6 it is more beneficial to claim under s.191 as this gives an additional refund of £2,000 i.e. £12,500 x 40% = £5,000.

2) Income Tax and Capital Gains Tax (CGT):

Income Tax liability 2023/24:

	NSI £	Dividend £	Total Tax £	Due
Rents	10,667	5,000		
Income Tax Payable				
@ 20%/8.75%	£2,133	£437	£2,570	31 January 2025

Payments on account (POA) of £1,285 will be payable 31 January 2025 and 31 July 2025.

Income Tax liability 2024/25:

	NSI £	Dividend £	Total Tax £
Rents	63,333	20,000	
Income Tax Payable			
@ 20%/8.75%	12,667	1,750	14,417
Less POA			<u>(2,570)</u>
Payable			<u>£11,847</u>

31 January 2026

As all income producing assets were sold or transferred to Daniel in 2024/25 there will be no requirement to complete an estate return for 2025/26 and there will therefore be no POA due for that year.

CGT liability 2024/25:

	£
Units 1 & 2 and 7	No CGT event – Daniel inherits probate value
Units 4 & 5	-
Proceeds	350,000
Less probate value	(360,000)
Less costs of sale	(5,100)
Less costs of obtaining probate (note 2):	<u>(2,880)</u>
SP2/04 0.8% x £360,000	
Loss	(17,980)
Unit 6 (50%)	Post-mortem relief
Revised proceeds (£55,000 + £12,500)	67,500
Probate value £75,000 – post-mortem relief £12,500	(67,500)
Less costs of sale	(1,500)
Less costs of obtaining probate (note 2):	
SP2/04 0.8% x £75,000 (original probate value)	<u>(600)</u>
Loss	(2,100)
2,000 ABC Plc shares	
Proceeds	90,000
Less costs of sale	(450)
Less cost	(50,000)
Less costs of obtaining probate (note 2):	<u>(400)</u>
SP2/04 0.8% x £50,000	
Gain	<u>39,150</u>
Net gain	19,070
Less AE – Note 1	<u>(3,000)</u>
Taxable gain	<u>16,070</u>
CGT payable:	
@ 20%	31 January 2026 £3,214

Note 1 – Full annual exemption available to executors for year of death and following two years.

Note 2 – Gross value of estate between £500,000 and £1million. SP2/04 states allowable expenditure of 0.8% of the probate value of the assets sold. As this exceeds actual probate costs of £1,000 pro-rata this figure should be used.

3) R185 – Daniel:

Capital distributions to Daniel on 5 March 2025 are deemed to be income in priority and exceed the income.

2024/25	NSI	Net	£58,000	Tax	£14,500	Note 3
	DI	Net	£22,813	Tax	£ 2,187	

Note 3 – Estate administration expenses of £1,200 have been deducted from non-savings income (NSI) in priority to dividend income however equal marks will be awarded if candidates deduct expenses from dividend income in priority as there is no strict order of set off of estate administration expenses. The effect on the tax paid by the beneficiary will differ depending on his personal circumstances which are not fully known.

MARKING GUIDE

TOPIC	MARKS
Post-mortem relief	
Land and buildings < 3 years	
Consider all sales within 3 years to unconnected 3 rd parties (net off profits and losses) – units 4/5 & 6, plus any losses within 4 years – N/A	0.5
Probate values of property sold (0.5 each)	1
Losses taking gross proceeds less probate value	0.5
Calculate losses (0.5 each)	1
Appropriate person and IHT paid – executors – Units 4/5 & 6 – Yes	0.5
No relief for losses < £1,000 / 5% - unit 4/5 < 5% > £1,000 - Yes	1
Loss unit 6 > 5% - Yes, relief @ 40% £9,000	1
Related property < 3 years	
Unit 6 – loss on sale of property valued together with other related property (0.5) to an unconnected 3 rd party, within 3 years (0.5)	1
Substitute discounted probate value (PAG) for original related property value – relief @ 40% £3,000	1
£3,000 less than £5,000 so should claim for Unit 6 under s.191 – total relief £5,000	0.5
Subtotal	8
Income Tax & CGT:	
IT: 2023/24 rents @ 20%, Dividends @ 8.75%, payment due date, POA	1.5
IT: 2024/25 rents @ 20%, Dividends @ 8.75% (PAG), less POA, due date, no POA 2025/26	1.5
CGT: 2024/25 Units 1/2 and 7 – no CGT event – Ethan inherits at probate value	0.5
CGT: 2024/25 Units 4/5 – Proceeds less probate value, less costs of sale, SP2/04, net loss	1.5
CGT: 2024/25 Unit 6 – Revised proceeds less probate value after PM relief, costs of sale, SP2/04, net loss	1.5
CGT: ABC Plc, Proceeds - costs of sale – cost – SP2/04, gain	2
CGT: net gain – AE, @ 20%, date of payment	1.5
Subtotal	10
R185/Cash Distribution:	
R185 2024/25 – capital distribution of assets 5 March 2025 deemed income (0.5) – expenses against NSI/dividend (0.5), NSI x 20/80 (0.5), DI x 8.75/91.25 (0.5)	2
Subtotal	2
TOTAL	20

ANSWER 3

IHT computation on Catriona's death:

	£	
Private residence and contents in UK	350,000	UK Situs
Second home in Jersey (occupied by her son Ethan)	0	Non-UK Situs – Note 1
Sterling bank account in UK	100,000	UK Situs – Note 1
Euro bank account in UK	50,000	UK Situs (Catriona is UK resident)
Portfolio holdings in Authorised Unit Trusts (AUTs)	0	Non-UK Situs – Note 1
Family trust (of which Catriona was settlor and beneficiary) – no UK assets held	0	Non-UK Situs – Note 1
Loan to Ethan	866,667	Note 2
Less funeral expenses	(7,000)	
Total chargeable estate	1,359,667	
Less nil rate band	(325,000)	
Less transferable nil rate band x 93.846%	(305,000)	Note 3
Less residence nil rate band/transferable residence nil rate band (restricted)	(340,000)	Note 4
Taxable estate	£389,667	
IHT @ 40%	£155,867	

Note 1 - Catriona is non-UK domiciled as she was born in Jersey and always intended to return there, she was not deemed domiciled as she had only been a UK resident for nine years when she died. Generally, only UK situs assets should be included in her death estate for purposes of UK IHT.

Note 2 - Although the loan to Ethan would usually have situs in Jersey as Ethan is domiciled there, Sch.A1 IHTA 1984 brings this into charge as a participating interest in respect of a relevant loan because it was used by Ethan to finance the acquisition of a close company which has acquired UK residential property. As the entire value of EJ Properties Ltd is represented by UK residential property less liabilities the loan is wholly represented by UK residential property and therefore fully chargeable.

Note 3 - Don was a formerly domiciled resident when he died as he had both a UK domicile of origin and was born in the UK, he was also resident in the UK from April 2016 to September 2019. His worldwide net estate of £345,000 was subject to IHT in the UK. As Catriona was non-UK domiciled, the spouse exemption was restricted to £325,000. His chargeable estate exceeded this amount by £20,000 and so the nil rate band available to transfer to Catriona's estate is restricted by $20/325 \times 100 = 6.154\%$ to 93.846%.

Note 4 - The residence nil rate band is available as Catriona's UK residence is subject to UK IHT and is left to her lineal descendant (Ethan). The transferable residence nil rate band is also available to Catriona's estate. The total amount of £350,000 is restricted to £340,000 being the value of the UK residence excluding contents.

MARKING GUIDE

TOPIC	MARKS
Inheritance Tax Computation	
Situs	
Normal rules – excluding Jersey property, excluded property trust and Jersey portfolio	1.5
Normal rules – including UK house and contents, UK Sterling, and Euro accounts (UK resident)	1.5
UK residential property – anti-avoidance - loan to Ethan relevant loan – used to acquire EJ Properties Ltd holding UK residential property = participating interest 100%	2
Deduct funeral expenses – reasonable	0.5
NRB	0.5
TNRB (restricted by excess over non-domiciled spouse exemption)	2
RNRB/TRNRB – residence to direct lineal descendant (Ethan), restricted by value of UK residence	1.5
IHT @ 40%	0.5
TOTAL	10

ANSWER 4

1) Gwen is domiciled in the UK so her worldwide estate will be chargeable to Inheritance Tax (IHT).

As Gwen has died intestate her two children will inherit the estate in equal shares.

The initial transfer into trust in 2013 and the gift to Mabel in 2015 fall outside of the seven-year cumulation period and therefore do not attract IHT on Gwen's death.

The trust addition in 2019 is chargeable as an addition into a relevant property trust (RPT) therefore to determine the amount chargeable the initial 2013 chargeable lifetime transfer (CLT) which was made less than seven years earlier must also be reviewed:

03 April 2013

Initial CLT

		£
Cash		350,000
AE	2012/13 and 2011/12	<u>(6,000)</u>
		344,000
NRB		<u>(325,000)</u>
		£19,000
IHT @ 20/80		£4,750
Gross value of transfer	£(344,000+4,750)	£348,750

01 November 2019

Addition to trust

		£
Cash		150,000
AE	2019/20 and 2018/19	<u>(6,000)</u>
		144,000
NRB	£(325,000-348,750)	<u>0</u>
		£144,000
IHT @ 20/80		£36,000
Gross value of transfer	£(144,000+36,000)	£180,000

IHT by reason of death

		£
Transfer of value		180,000
NRB	£(325,000-348,750)	<u>0</u>
		£180,000
IHT @ 40%		72,000
Less taper (Note 1)		(43,200)
		28,800
Less IHT already paid		<u>(36,000)</u>
Payable by trustees		<u>£nil</u>

Note 1 - As the transfer into trust occurred between 5-6 years before Gwen's death the IHT rate of 40% is tapered by 60% to give a tax rate of 16%.

The gift to Stephen by reason of his marriage will use two annual exemptions and the marriage exemption of £5,000 for a parent:

06 July 2022

Wedding Gift

	£
Cash	12,000
AE 2022/23 and 2021/22	(6,000)
Marriage exemption	<u>(5,000)</u>
	£1,000

IHT by reason of death

	£
Failed Pet	1,000
NRB £(325,000-180,000)	<u>(145,000)</u>
	£0

The gift to the political party will be exempt due to the gift being made to a qualifying political party, as at the last general election preceding the transfer, one member of the party was elected, and the party received at least 150,000 votes.

All the assets will be included within the death estate calculation less the Income Tax liability and the funeral expenses.

Death Estate

	£	£
House	600,000	
Holiday Home	350,000	
Cash at bank	750,000	
Portfolio	100,000	
Chattels	<u>15,000</u>	
	1,815,000	
BPR (Note 1)	<u>(10,000)</u>	
		1,805,000
Liabilities		
Income tax - £2,500		
Funeral - £6,000	<u>(8,500)</u>	
		1,796,500
NRB (Note 2)	144,000	
TNRB (Note 3)	318,500	
RNRB	175,000	
TRNRB	<u>175,000</u>	
		<u>(812,500)</u>
		£984,000
		£
Tax at 40%		393,600
Foreign Tax Credit Relief (FTCR) (Note 4)		<u>(76,685)</u>
Tax payable by executors by 31 October 2025 or the date the IHT400 is submitted if earlier		£316,915

Note 1 - As the AIM shares are held in trading companies which have been held for over two years, business property relief (BPR) at 100% will be available.

Note 2 – Gwen has a nil rate band of £325,000 which is reduced by the addition into trust on 1 November 2019 and the failed PET on July 2022, being $£(325,000 - 180,000 - 1,000 = 144,000)$

Note 3 - Gwen has also inherited Vince's nil rate band, which is reduced by the chargeable gifts made on death of £6,000. Vince died in 2007 when the nil rate band was £300,000 so $£294,000/£300,000 = 98\%$ remains available. Gwen's estate inherits Vince's unused nil rate band of 98%. This is applied to the current nil rate band at her death ($£325,000 \times 98\% = £318,500$).

Gwen has a property which qualifies for the residence nil rate band as it is being inherited by her children. Gwen's estate is also entitled to Vince's residence nil rate band, as even though the residence nil rate band was not introduced until 2017/18, if it had been available, he would have been entitled to it.

Note 4 - Relief for the tax suffered on the property in Ibiza is given at the lower of the IHT due on the asset at the estate rate or the actual foreign tax paid. In this case the estate rate of $£(393,600/1,796,500 = 21.91\% \times £350,000 = £76,685)$ is lower than the foreign tax paid of £95,000 and so this is the figure deductible from the IHT payable.

The estate will be distributed as follows:

	£
HMRC	316,915
Unused Foreign Tax Credit (Note 1)	18,315
Stephen	735,635
Teresa	<u>735,635</u>
	£1,806,500

Note 1 – Tax suffered in Ibiza was £95,000, however only £76,685 has been utilised against the UK IHT and therefore the balance of £18,315 is unavailable for distribution.

- 2) Stephen can make a direct gift to Arthur, this would be a potentially exempt transfer (PET) from Stephen for IHT purposes and a disposal for Capital Gains Tax (CGT), unless the gift is cash.

Alternatively, Stephen can enter into a Deed of Variation (DOV) to redirect the £50,000 to Arthur. The DOV must be made in writing and signed by Stephen the original beneficiary within two years of Gwen's death, i.e. 7 April 2027. The DOV should not be made for consideration in money or money's worth.

For the DOV to be effective for IHT it must contain a statement made under s142. IHT 1984 and to be effective for CGT a statement under s.62 TCGA 1992. This enables the disposition to be treated as being made by Gwen at the date of death and at the probate value for both IHT and CGT purposes.

MARKING GUIDE

TOPIC	MARKS
1)	
<i>Lifetime Gifts:</i>	
Gifts outside of seven years	1
Annual exemption (allocation 0.5 each)	1.5
Addition into trust:	
Cumulation of previous CLT	1
Gross up original CLT	1
Gross up for lifetime tax	1
Additional tax on death, less credit payable by Trustees and due date (PAG)	2
Marriage exemption	0.5
Gift to political party	0.5
<i>Death Estate:</i>	
Intestacy	1
Gross estate before BPR	0.5
BPR on AIM shares	0.5
Liabilities of estate	0.5
Calculation & explanation Inherited NRB	1.5
Not cumulating original trust on death	0.5
Calculation & explanation RNRB & inherited RNRB	1
FTCR – offset, lower of average estate rate or actual	1.5
IHT payable by executors and due date	1.5
Subtotal	17
2)	
Outright gift	1
DOV (in writing, signed, timing, tax statements)	2
Subtotal	3
TOTAL	20

ANSWER 5

1)

Income Tax

Discretionary – 1/3 relating to Emma (under 18 years)

	Savings £	Dividends £	Total £
Bank Interest	5,000		
Dividends		9,000	
	5,000	9,000	14,000
£438 x 8.75% (TMEs £1,200/3 x 100/91.25)		38	
£5,000 x 45%	2,250		
£8,562 x 39.35%		3,369	
	<u>£2,250</u>	<u>£3,407</u>	<u>£5,657</u>

IIP – 2/3 relating to Kate and Zoe (both over 18 years)

	Savings £	Dividends £	Total £
Bank Interest	10,000		
Dividends		18,000	
	10,000	18,000	28,000
£10,000 x 20%	2,000		
£18,000 x 8.75%		1,575	
	<u>2,000</u>	<u>£ 1,575</u>	<u>£3,575</u>

Total tax payable:

	£	
Income tax Disc	5,657	
Income tax IIP	3,575	
Payments on account	(4,000)	
Excess pool charge s.496 ITA 2007	517	
	<u>£5,749</u>	payable by 31 January 2026

Tax Pool:

	£
Balance b/fwd.	-
tax paid (note 1)	5,619
Less: credits	
£7,500x45/55	<u>(6,136)</u>
Deficit	<u>£(517)</u>
Balance c/fwd.	<u>£nil</u>

Note 1 – tax on TMEs not included and therefore £2,250+£3,369 = £5,619

R185s**Kate/Zoe**

		Savings £	Dividend £
	Bank Interest	5,000	
	Dividends		9,000
	Tax	(1,000)	(788)
	TME (£1,200 x 1/3)		(400)
R185	Net income	4,000	7,812
	Tax (x 20/80)	1,000	
	Tax (x 8.75/91.25)		749

Emma

£

R185	Net income	7,500
	Tax (x 45/55)	6,136

2)

The trust is an 18-25 trust - it was created on the death of a parent and provides for capital entitlement at age 25 (it is irrelevant that there is an income entitlement at age 18). When Kate reaches age 25, she will become entitled to her one third share of the trust fund and this event will trigger a modified exit charge.

Manzini plc, valuation for IHT purposes is the lower of:

Quarter up: $728 + \frac{1}{4} \times (740 - 728) = 731p$

Average of high/low bargains: $(730 + 740)/2 = 735p$

Value = 45,000 shares x 731p = £328,950

Value of trust:

	£
Cash	302,600
Manzini plc (see above)	328,950
	<u>£631,550</u>
1/3 share	£210,516

Illustrative IHT on exit

	£	£
Initial value of trust		605,000
NRB	325,000	
CLTs	(20,000)	(305,000)
		<u>£300,000</u>

Notional Tax @ 20% £60,000

Effective rate	$\frac{£60,000}{£605,000} \times 100$	9.917%
Actual rate	$9.917\% \times 30\% \times 28/40$	2.083%

Exit charge – Kate - £210,516 x 2.083% £4,385

The tax is due by 30 November 2025.

Capital Gains Tax (CGT)

The appointment of chargeable assets is chargeable event for CGT.

Cash is not a chargeable asset so will not attract a CGT charge.

As the shares are standing at a gain, holdover relief may be claimed under s260 TCGA 1992 as there is an immediate charge to IHT. The effect is any gain is deferred with Kate taking the shares at the trustees base cost. A holdover relief claim should be made jointly by the trustees and Kate within four years of the end of the tax year i.e. by 5 April 2030.

Share valuation for CGT:

	Nominal	Price (p)	Value (£)
Manzini plc	15,000	734*	£110,100

*For CGT purposes, the valuation of the shareholding is the average of bid and offer prices.

CGT calculation:

	Manzini plc £
Market value	110,100
Base cost £(315,000 x 15,000/45,000)	<u>(105,000)</u>
Gain	5,100
Held over gain	<u>(5,100)</u>
	-
	£

Base cost for the beneficiary:

Market value	110,100
IHT attributable (note 1)	2,284
Held over gain	<u>(5,100)</u>
Base cost	<u>£105,000</u>

Note 1 - share of IHT attributable to shares on the appointment, $£328,950 \times \frac{1}{3} \times 2.083\% = £2,284$

MARKING GUIDE

TOPIC	MARKS
1.	
<i>IIP Calculation</i>	
Apportionment	0.5
Tax rates	0.5
Less expenses, net income	0.5
<i>Tax pool</i>	0.5
Additional taxes added	0.5
Take off distribution	0.5
s.496 ITA 2007 liability	0.5
POA, tax payable & due date	1
<i>R185s</i>	
Disc Ben	0.5
2*IIP ben / 2, tax	1
Subtotal	6
2	
<i>IHT</i>	
18-25 trust, triggers exit	1
Quoted investment - lower of quarter up v average of marked bargains x no. shares, result	2
Calculate total share	0.5
Initial value	0.5
Less NRB	0.5
Less previous gift	0.5
IHT @ 20%	0.5
Effective rate	1
Actual calculation, n/40 reducer	1.5
Applied to transfer	0.5
<i>CGT</i>	
Appointment of chargeable assets triggers CGT	0.5
Cash no gain accrues	0.5
Accompanying IHT therefore s.260 TCGA 1992 Holdover can be claimed jointly by trustees and Kate	1
Value of quoted investments – average bid and offer x no. shares	1
CGT calculation for investment inc. base cost for number of shares, holdover, and base cost for beneficiary to include share of IHT paid	2.5
Subtotal	14
TOTAL	20

ANSWER 6

1) Business property relief (BPR) is potentially available where unquoted shares in a trading company have been held for more than two years (s106 IHTA 1984).

Surplus cash is classed as an excepted asset where it is neither used wholly or mainly in the trading business for the past two years nor required for the business future use. (s112 IHTA 1984).

Therefore, the BPR claim needs to be restricted to exclude the value of the surplus cash.

	£
Gift - Loss to donor (Note 1)	1,800,000
Less: BPR (Note 2) x 75%	(1,350,000)
Less: annual exemptions	<u>(6,000)</u>
	444,000
Nil rate band	<u>(325,000)</u>
Net chargeable transfer	£119,000

Lifetime tax at 20/80	£29,750
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The tax is due by 30 April 2015.

Note 1 - loss to donor	£
100 shares	5,000,000
80 shares	(3,200,000)
	<u>£1,800,000</u>

Note 2 – BPR	£
Total value	5,000,000
Surplus cash	1,250,000
Restriction £1,250,000/£5,000,000	25%

2) Under general principles the shares held at the 10-year anniversary date would not receive BPR as they have only been held for 16 months. However, s107 IHTA 1984, permits BPR to attach to 'replacement property' where all the proceeds from the sale of the original qualifying shares have been reinvested in qualifying property within three years.

When combining the ownership period of both shareholdings, this is more than two out of the last five years and therefore the minimum ownership condition is satisfied.

The new investment must also qualify for BPR. This can be shares in a company that has a different trade. There must be a tangible connection between the sale proceeds and the replacement property.

BPR is to be restricted to the amount on the original property had it not been replaced but HMRC will allow an adjustment to reflect any increase in value at the chargeable event date. As the shares in Sunbeam Ltd have increased in value since purchase, the BPR available on the original £2million proceeds reinvested can be increased pro rata by the growth in value of Sunbeam Ltd (£2.5million x £2million/£2.25million = £2,222,222).

	£
Value at TYA	2,500,000
Less: BPR	(2,222,222)
NRB	(325,000)
	Nil

Notional tax @ 20%	Nil
Effective rate	£Nil/£2,500,000
Actual rate	0%x30%
	0%

TYA charge £277,778 x 0%	Nil
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MARKING GUIDE

TOPIC	MARKS
1)	
<i>Original CLT</i>	
Loss to donor' value	0.5
Availability of BPR, calculation of restriction	1.5
2*annual exemption	1
Nil rate band	0.5
Gross up for lifetime tax	1
Date payable	0.5
Subtotal	5
2)	
<i>TYA</i>	
BPR replacement - combined ownership	1
All proceeds reinvested	0.5
Replace with another property which qualifies	1
Tangible connection between sale and reinvestment	0.5
Calculate BPR available	1
TYA charge nil	1
Subtotal	5
TOTAL	10