The Chartered Tax Adviser Examination

November 2019

Inheritance Tax, Trusts & Estates

Advanced Technical Paper

TIME ALLOWED – 3 ¼ HOURS

- 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 information, you may assume that 2018/19 legislation (including rates and allowances) continues to apply for 2019/20 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.

1. You are a manager in a firm of Chartered Tax Advisers and have just had a meeting with John and Maya Roberts.

   John Roberts is 60 and is UK resident and domiciled. He has been married to Maya for six years.

   John has been diagnosed with a terminal illness and has a life expectancy of between two and three years.

   John Roberts has assets in his sole name which consist of a property and investments totalling approximately £4.5 million of which approximately £1 million are foreign situs.

   Maya Roberts is 53 and has been UK resident for the last nine years. She is not UK domiciled and has a domicile of origin in the United Arab Emirates. Maya will eventually return to the United Arab Emirates, but this is likely to be once she has retired in approximately 10 years' time.

   Maya Roberts has cash in her United Arab Emirates bank account of £2.8 million of which £800,000 was a gift from her husband in June 2017 and £2 million was an inheritance from her father who died in October 2018.

   In addition to the above the couple have a UK property worth £2 million which they own jointly.

   Requirement:

   Write an email to your clients which explains the potential Inheritance Tax exposure on Mr Robert's death and any steps that could be taken by Mr and Mrs Roberts to minimise Inheritance Tax. (15)

2. The Harvey Discretionary Trust was created on 3 March 2003 by Jane Harvey for the benefit of her brother Dick, her children, Hazel and Lily and any grandchildren. Hazel and Lily are now adults and Jane now has five grandchildren.

In 2011, Jane set up a further trust for her nieces and nephews, which is still in existence. All beneficiaries of the trusts are UK resident and domiciled.

The trustees of the Harvey Discretionary Trust have an obligation to pay an annuity of £10,000 (gross) per annum to Jane's brother, Dick.

During the year to 5 April 2019 the trustees received the following income:

1) Interest from Treasury Stock of £14,000.

2) UK dividend income of £23,000.

3) UK rental income net of expenses of £22,000.

Trustee management expenses relating to the trust income were £2,500.

Two payments on account of £3,000 each have been made in respect of the 2018/19 tax liability. The tax pool brought forward at 6 April 2018 was £3,675.

On 27 March 2019, the trustees made distributions of income to Hazel and Lily of £30,000 and £10,000 respectively.

The trustees sold the following assets during the year ended 5 April 2019:

1) Treasury Stock, which was purchased in 2016 for £27,500, was sold for £30,000 on 30 November 2018.

2) A flat in Leeds which was purchased on 1 July 2004 for £82,000 for Lily to live in whilst at University. The costs of purchase were £3,000. The terms of the settlement allowed Lily to live in the flat as her home. She moved into the flat on 1 August 2004 and moved out of the flat on 31 August 2007. The flat was then rented out until it was sold for £177,000 on 31 March 2019. The costs for the sale were £2,000.

Requirement:

1) Calculate the trustees' Income Tax and Capital Gains Tax liability for the year ended 5 April 2019, indicating the due date for payment and the tax pool carried forward. (12)

2) Set out the 2018/19 R185 entries for Hazel, Lily and Dick. (3)

Total (15)

3. You are a tax manager in a firm of Chartered Tax Advisers and an existing client, the trustees of the Fox Discretionary Trust, has recently approached you for advice.

The Fox Discretionary Trust, a Jersey resident trust, was set up by Lawrence Fox on 30 April 2010 with a gift of £2.5 million cash from his Jersey bank account. He had not set up any other trusts previously nor made any prior gifts.

At the time the trust was set up Mr Fox was not domiciled in the UK but had been UK resident for five years. The beneficiaries of the trust are Mr Fox's adult son, Daniel and his nephew, Jonathan.

On 10 May 2010, the trustees used £2.1 million of the initial funds to subscribe for 100% of the shares in a Jersey company, Rabbit Ltd. On 14 July 2010, Rabbit Ltd purchased a flat in London for £2 million, including costs of purchase, which it continues to own. The flat was worth £2.7 million on 6 April 2017 and is currently worth £2.5 million. The company has no other assets or liabilities.

The remaining £400,000 cash was invested by the trustees in non-UK situs stocks and shares.

The trustees have accumulated relevant income of £67,000. The stockpiled gains in the trust are as follows:

	£
2016/17	30,576
2017/18	43,876

The trustees have decided to distribute the shares in Rabbit Ltd to Daniel and would like to understand the tax implications for themselves and Daniel and would like advice as to whether they should distribute the shares either immediately before or after the 10 year anniversary of the trust.

Daniel is UK resident and has a domicile of choice within the UK and is not expected to have any other income or gains in 2019/20.

Requirement:

Write a letter to the trustees, with supporting calculations, explaining:

1) **The Inheritance Tax implications of the distribution of the shares of Rabbit Ltd on either 5 March 2020 or 5 May 2020 and making a recommendation in respect of the timing on the assumption that any Inheritance Tax would be paid by the trustees.** (9)

2) **The Income Tax and Capital Gains Tax implications of the distribution for Daniel.** (11)

Total (20)

4. You are a tax manager in a firm of Chartered Tax Advisers and a client, Peter Robson, has asked you for some Inheritance Tax advice. His brother, Jim, died on 3 July 2018 and Peter is the sole Executor. Jim's Will left all his assets to his children. No nil rate band was available on his death due to a large gift to his children in May 2014.

The estate is still in administration and Peter is now selling some of the estate assets in order to distribute cash to the children. Some of the assets have fallen in value since death and he has queried whether there are any reliefs available to reduce the Inheritance Tax.

He has provided you with the following information regarding the activity during the administration period:

Asset	Probate Value	Date of sale	Sale proceeds (gross)
	£		£
GGB plc shares	45,000	1 October 2018	47,000
Hill plc shares	77,000	5 December 2018	60,000
Small Investments Ltd	12,000	2 January 2019	11,000
Green plc	20,250	7 July 2019	18,000
Holiday Home, Devon	255,000	4 April 2019	250,000

Jim's main home was valued for probate purposes at £350,000. It is currently being marketed for sale at £360,000. The estate agent expects the property to sell for around £358,000.

Jim owned 70% of the shares in Livewire Ltd, an electrical wholesaler business that he set up in 2010 with his son, Philip. Philip owned 20% of the shares and Peter owned 10% of the shares as a result of a gift from Jim in July 2017.

Market Value in July 2017:

Livewire Ltd	£
100%	300,000
80%	180,000
70%	150,000
20%	30,000
10%	15,000

In May 2018, Peter sold his 10% shareholding at its market value of £10,000 to Fred, an unconnected third party. Fred then started to work for the company.

Requirement:

Write an email to Peter advising on the Inheritance Tax reliefs available to the estate and to him personally in respect of the assets which have fallen in value.

(15)

5. Mr Grey, who is aged 61, has called you to say that he is concerned about his exposure to Inheritance Tax. His wife died two years ago leaving all her assets to him. He has an adult daughter, Amélie, who is married and has four minor children.

He provides you with the following details about his assets:

	Current Value
	£
London Flat	2,500,000
Bank balance	60,000
Stocks and shares	430,000

Mr Grey also has a personal pension which is worth £800,000. The pension scheme providers have discretion over the payment of death benefits.

He has a life insurance policy held in trust under which he is the life assured and his daughter is the beneficiary. The proceeds payable on death are £250,000.

Mr Grey owns 100% of the shares in Large Building Contractors Ltd, a long established trading company. The shares are worth £3.5 million and he receives a post-tax salary each month of £18,300 from the company. He has calculated that over the last two years his average spending per month has been £9,150. He is concerned that the remaining funds are building up and increasing the value of his estate and he is therefore considering reducing his salary and leaving the cash in the company.

Mr Grey also owns 90% of the shares in his property investment company, City Homes Ltd. The remaining 10% belong to Amélie and was gifted to her by him in October 2018. Mr Grey intends to give Amélie a further 10% each year until he has given away his 90% shareholding.

The shares have the following values:

	£
100%	200,000
90%	190,000
80%	180,000
70%	155,000
60%	105,000
50%	70,000
40%	30,000
30%	20,000
20%	10,000
10%	5,000

Mr Grey has set up his own charity and makes regular gifts to it.

Requirement:

Write a letter to Mr Grey advising him of the potential liability to Inheritance Tax on his death estate and provide details of any reliefs or exemptions which would be available to reduce the size of his estate or his Inheritance Tax liability on death.

(20)

6. Your firm has just taken on a new personal tax client, Craig Red, who wishes to understand his Inheritance Tax position. Following a recent meeting with Craig you have established the following information:

1) Craig, who is 55 years of age, was born in the UK to a UK domiciled father. He moved to New Zealand when he was two years old and he considers himself to be domiciled there. He has never been married but has two adult children, who live in New Zealand.

2) In December 2010, Craig set up a trust in New Zealand for the benefit of himself and his children and transferred to it cash of £1 million. The trust has corporate trustees resident in New Zealand.

3) He has made a Will in New Zealand which leaves his entire estate to his children.

4) In October 2019, he moved to the UK to take up a new employment, which he expects to last for five years, following which he will return to New Zealand. He lives in rented accommodation.

Craig has the following assets:

	£
Home in New Zealand	700,000
Bank account	20,000
Stocks and shares	240,000

Requirement:

Write a letter to Craig Red explaining the Inheritance Tax position for him and his trust whilst he is UK resident and what would happen once he leaves the UK in five years. Calculations are not required. (15)