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- Tick box if you have answered in accordance with Scots Law
- Tick box if you have answered in accordance with Northern Ireland Law



**Please tick which Advanced Technical Paper you have attempted (if not already ticked below)**

- |   |   |
|---|---|
| <input type="checkbox"/> Taxation of Owner-Managed Businesses         | <input type="checkbox"/> Taxation of Individuals        |
| <input type="checkbox"/> Domestic Indirect Taxation                   | <input type="checkbox"/> Cross-Border Indirect Taxation |
| <input checked="" type="checkbox"/> Inheritance Tax, Trusts & Estates | <input type="checkbox"/> Taxation of Major Corporates   |
| <input type="checkbox"/> Human Capital Taxes                          |   |

Please tick here if you have used an extra answer booklet (ensure you attach your second answer booklet to the first using a treasury tag which will be provided).

# Advanced Technical

You must ensure that the Advanced Technical Papers chosen are not the same as the corresponding Awareness Modules you have sat or will be sitting.

## Instructions

- Your script will be scanned electronically. Failure to comply with these instructions may lead to your script not being marked. You must:
- (a) Complete the details on this page and in the booklet using BLACK or BLUE ballpoint pen only.
  - (b) Write on both sides of the page.
  - (c) Not write in the margin areas indicated.
  - (d) Start a new page for each question you answer and indicate the question number in the box provided at the top of each page.
  - (e) Not remove any pages from this answer booklet or damage it in any way.

**Please do all of the above before the end of the examination.**

**DO NOT WRITE ON THIS PAGE**

To TA @ taxadvisor.co.uk  
 from JR @ gmail.co.uk  
 Subject IHT Position  
 Date 05 Nov 2019.

Dear John,

Further to our recent meeting I have estimated your current Inheritance Tax (IHT) exposure as follows:

Notes	Total estate	£ 6,500,000
	(4.5m + £1m + £1m half share house)	
	less NRB	325,000.
1	loss CTs 7yis prior (800,000 - 325,000 - 6000)	
	Available NRB	( <del>144,000</del> <sup>MIL</sup> )
		<u>6,500,000</u>

@ 40% = £2,600,000. estimated liability

Notes 1) The earlier Transfer to Maya in June 2017 was a potentially exempt transfer above the ~~nil rate~~ spousal exemption of £325,000 so if you were to die within 7 years of making the

gift to her this would be your tax exposure.

You are UK domiciled so you are subject to inheritance tax on your worldwide assets whereas Maya is non-UK domiciled so she is only subject to UK IHT on UK situs assets, being the property you both live in.

Ordinarily, the spousal exemption would be unlimited so all assets could be transferred to Maya exempt from IHT, however for a non-domiciled spouse, the exemption is limited to £325,000.

The earlier transfer in June 2017 has used this exemption in full so on your death the whole estate is currently exposed.

It is possible for Maya to elect to be treated as UK domiciled for IHT purposes only, this would mean that the spousal exemption would be unlimited so there would not be IHT payable as a result of your death.

The drawback of the election is that this would expose Maya's worldwide assets to IHT in the future which could lead to a charge of \* ~~40%~~ on the ~~combined assets held less both of your nil rate bands~~  $((6.5m + 2.8m - 650k) \times 40\%)$

\* approximately £3.46 million on her death.

The election can be made by Maya in writing either within 2 years of your death or in lifetime. It can be backdated # to April 2013 but cannot pre-date your marriage. We would suggest that it is backdated to the date of the gift you made in June 2017 so that this can be covered by the annual exemption.

The election <sup>is irrevocable but</sup> lapses after <sup>consecutive</sup> 4<sup>v</sup> years of non-residency, therefore if Maya was to return to UAE in the future then she will no longer be considered UK domicile for IHT after 4 years of living there.

Whilst that would leave upto <sup>approximately</sup> 14 years of

exposure to IHT, given Maya's age and future plans it may be worth making the election ~~now~~ following your death as she is likely to become non-domiciled in the future which would significantly reduce the UK IHT bill.

~~The~~ Once Maya is non-UK domiciled ~~the~~ ~~only~~ ~~asset~~ ~~subject~~ ~~to~~ she would only be subject to IHT on UK assets, being the house and the investments. If these were sold and replaced in the future with overseas assets the liability to UK IHT could be reduced to nil.

One point ~~was~~ to note also is that double tax relief is likely to be available if <sup>overseas</sup> taxes <sup>paid</sup> or suffered.

If you have any queries please let me know.

Kind regards

Tax advisor

Income Tax 2018-19

	NSI	SI	DI	exp.
UK Interest		14,000		
Dividend			23,000	
Rental	22,000		(2,702)	2,702
less mgmt exp.	<u>22,000</u>	14,000	20,298	2,702

(2500 x 100 / 92.5)  
(Note 1)

SRB (1000 / 2) @ 20% = 100.

NSI	21,500 @ 45% = 9,675
SI	14,000 @ 45% = 6,300
DI	20,298 @ 38.1% = 7,733
exp.	2,702 @ 7.5% = 202.65

IT Liability £ 24,010.65

Tax pool charge £ 7,244

less POAs (3000 x 2) (6000)

Balancing payment 25,254

(note 2) Jan <sup>1st</sup> payment on a/c 15,627

~~24,010~~  
(24,010 + 7,244) / 2

Total payable 31 Jan 2020 £40,881

2nd POA Due 31 July 2020 15,627

Tax Pool Working (w7)

Tax pool b fwd	3,675
Add Tax 18-19	24,010
less Tax on expenses	(202)
	<u>27,483</u>

less Tax on distributions:

$$(30,000 + 10,000) \times \frac{45}{55} \quad (32,727)$$

$$(10,000 \times 20\%) \quad (2,000)$$

Tax pool overdraw (7,244)

∴ Tax pool charge

Tax pool carried forward  
is NIL.

Notes

1) SRB halved as some settlor set up a  
Second trust in 2011 so

$$1000 \div 2 = 500 \text{ at equivalent of BR}$$

2) As tax pool charge not expected next  
year trustees could consider reducing  
payments on account



R185 entriesHazel R185 2018-19

	Net		Tax
NSI	30,000	$\left(\frac{x45}{55}\right)$	24,545.

Lily R185 2018-19

	Net		Tax
NSI	10,000		8,181

Dick R185 2018-19

	Net		Tax
NSI.	8,000		200

note - Annuity deemed to cover net of basic rate tax. If any repayment is due this will be <sup>repayable to</sup> ~~taxable on~~ the trust

Capital Gains Tax 2018-19.

proceeds	177,000.	
less acq. costs	(82,000 + 3000)	
less sale costs	(2000)	
	<hr/>	
gain	90,000	
	<hr/>	
less PPR	$\frac{54}{177} \times 90,000 = (27,457)$	
	<hr/>	
less letting relief	(27,457)	
	<hr/>	
(lowest of 40k & PPR gain in let period)	35,086	
	<hr/>	
less AE	(2,925)	
5,850/2	<hr/>	
	32,161	$\text{@ } 28\% = \underline{\underline{\pounds 9,005}}$
		<u>CGT</u>
		payable by 31 Jan 2020

Notes

- Treasury Stock disposal is exempt from CGT.
  - As Lily, one of the beneficiaries was given the right to occupy as her main residence for a period of the ownership, principal private residence relief covers some of the gain.
 

Total ownership	= 14 × 12 = 168
	= 9
	<hr/>
	177
- 7 July 04 - Aug 04  
 Aug 04 - 31 Aug 07  
 Aug 07 -
- 3 years occupation + 18m deemed = 54m occ.

Tax adviser  
address.

Mr Grey

Address

5 November 2019.

Dear Mr Grey.

Further to your recent call, we are setting out in this letter your current inheritance tax (IHT) exposure and steps which can be taken to mitigate this.

IHT is charged at 40% on the value of the estate less liabilities and the available nil rate bands.

The nil rate band is <sup>currently</sup> £325,000, you will also qualify for a 100% uplift as your spouse did not use her nil rate band due to the use of the spousal exemption on her death. You therefore have a total <sup>transferable</sup> nil rate band of £650,000.

IHT Calculation - (To be inserted as enclosure with letter)

Notes

<del>P70</del> City Homes	190,000.
London flat	2,500,000
Bank Balance	60,000
Stocks & share	430,000.
Large Building Ltd	3,500,000

1 less 100% BPR (3,500,000) nil.

3,180,000.

2 less TNRB (650,000).

2,530,000

@ 40% = £1,012,000

estimated IHT exposure.

Notes

1) 100% Business Property relief on Large Building Contractors Ltd as ~~is~~ trading CO.

2) 100% upgift from unused NRB of spouse  
Assumed > 7yrs since gift shares to daughter -

You will note from the enclosed calculation that your current estimated IHT exposure is just over £1 million.

Your personal pension will not be included as an asset in your death estate if you elect beneficiaries to receive the fund on your death, for example your daughter. // As we are looking to reduce the value of your chargeable estate, we would advise that if you need cash you use your bank balance and investments which are chargeable first to reduce your IHT exposure.

The <sup>proceeds from the</sup> life insurance policy also falls outside of your estate as you have elected your daughter as the beneficiary.

The LBC Ltd Shares <sup>are likely to</sup> qualify for 100% Business Property Relief therefore there will not be an IHT on the value of these shares providing that ~~that~~ they meet the relevant conditions.

As they are shares in an unquoted trading company which is wholly or mainly (>50%) trading ~~or and so~~ they will qualify, providing you have owned them for at least 2 years.

BPR is not available where there is a binding contract for sale in place therefore we recommend that you check the Shareholders agreement to ensure there are not any binding agreements for a sale of the shares on your death - cross options would be acceptable.

There is also a concept of excepted assets where assets not used in the business for 2 years nor required for future use would be excluded. We have assumed this is not the case however if you were to reduce your salary and increase cash reserves this may result in a restriction to BPR under these rules.

There are many lifetime gifting options which would reduce your chargeable estate.

As you have surplus income, a valuable relief for you to use would be the gifts out of income exemption:

This is unlimited providing you are still able to maintain your standard of living. The gifts must form a regular pattern so if you were to gift excess income of £9,000 every month this would be immediately outside your estate under

The charity donations are also exempt so will be reducing your estate. You may wish to consider donating to a charity under your will, if 10% of your estate is gifted you can secure a reduced IHT rate of 36%.

~~The gifts to your dau~~ The property investment company is not likely to be considered a trading company therefore is not qualifying for BPR.

The gift you made of shares to your daughter was a potentially exempt transfer so you

do not have any IHT payable immediately and it will be outside your estate after 7 years. If you survive between 3 and 7 years from the date of the gift, taper relief will reduce the IHT at a rate of 20% per annum.

Any ~~estate~~ tax payable if you do not survive seven years <sup>from gift</sup> is payable by ~~you~~ the donee (in this case your daughter), she may be able to insure against this.

The PETs will have the annual exemption ~~to~~ deducted from them of £3,000 per annum. Any unused allowance from the prior year can be carried forward one year so there would be a maximum <sup>allowance</sup> of £6,000 which would be immediately outside your estate.

If you gift <sup>10% of</sup> the shares each year, you will have made several PETs and will have to survive seven years from each one for them to be fully outside your



estate, it may therefore be worthwhile gifting more shares sooner, for example giving 80% of the shares in one go, as soon as possible. It would then be more likely that you would survive seven years and the value would be outside your death estate.

Other ~~is~~ areas to consider include investing in AIM shares which after 2 years would qualify for 100% BPR. Furthermore you could review your investments to be more income producing so that you have a larger income surplus and can make more considerable gifts out of income.

please let us know if you have any queries.

Yours sincerely,

Tax Advisor.

Tax advisor

Address

Trustees

Address

Nov 2019

Dear Trustees,

Further to your recent enquiry, we are writing to outline the tax position for the trust.

### Inheritance Tax (IHT)

Trusts take the domicile status of the settlor on creation, this trust is therefore non-UK domiciled.

Non-UK domiciled trusts are only subject to UK IHT on UK situs assets. ~~the~~ The non-UK investments held by the trust are therefore outside the scope of inheritance tax.

Whilst the Rabbit Ltd company is Jersey resident and would appear to be outside the scope, the value attributable to the UK residential property is subject to UK IHT from 6 April 2017.

From this date UK residential property held in an offshore envelope is taxable in the UK and is apportioned to shareholders in accordance with their shareholding.

As you are proposing to make a capital distribution, there will be a relevant property exit charge ~~due~~ on the value of the UK residential property exiting the trust.

The trustees will also be subject to a principal charge based on the <sup>current</sup> value of the property at the 10 year anniversary.

An IHT100 return will need to be submitted to HMRC and tax will be due within 6 months of the end of the month of these events.

Appendix One Exit charge prior to 10 year - March 2020

Notes: £

1 Initial value ~~276~~  
Relevant property 2,700,000

less NRB (325,000)

less Settler CD (nil)  
7 yrs prior transfer (325,000)

2,375,000

2,375,000 @ 20% = 475,000 NT

$\frac{475,000}{2,700,000} \times 100 = 17.592\%$  ER

2  $17.592\% \times 30\% \times \frac{11}{40}$  AR

$1.451\%$  x 2,500,000 = £36,275  
Loss to trust

Notes: ~~100~~  $\left(\frac{1.451}{100 - 1.451}\right) \times 100 = 1.472\%$  GROSSED UP AS TRUSTEES PAYING

1) Based on IV of residential property at date it became relevant property.

2) Quarters from Apr 2017 when it became relevant property  
Apr 2017 - March 2020 =  $3 \Rightarrow 2 \times 4 = 8$   
 $+ 3 = 11$

DO NOT WRITE IN THIS AREA

Exit charge if May 2020 = nil as within three months anniversary but principal charge below would be payable if still in trust at 10 year anniversary on 30 Apr 2020.

Principal charge

Current value 2,500,000.

Loss<sup>NRB</sup> (325,000)

~~2,175,000~~  
2,175,000

@20% = 435,000 NT

$\frac{435,000}{2,500,000} \times 100 = 17.4\%$  ER

$17.4\% \times 30\% \times \frac{12}{40} = 1.566\%$  AR

$1.566\% \times 2,500,000 = \underline{\underline{39,150}}$

Notes

• Quarters 6 Apr 2017 to May 2020 =  $3 \times 4 = 12$ .

• No grossing up of AR for 10yr charges.

(End of Appendix)

~~Please see~~ The IHT treatment will depend on the timing of the distribution. If it is in March 2020, prior to the principal charge ~~the~~ the tax will be in the region of £36,800 (refer to appendix one). There will be no principal charge.

Whilst there would not be an exit charge in May 2020 as the distribution would be in the 3 months following ~~an exit~~ a principal charge the principal charge would be £39,150.

It is therefore best to distribute the shares ~~in~~ in March 2020 prior to the principal charge.

### Income Tax and Capital gains tax

The trust is non-resident as all trustees are non-residents, it is therefore generally only assessable to income tax on UK situs income, which <sup>we understand</sup> there is not any. With regard to capital gains tax the trust is not liable to CGT in the UK except on UK residential property.

There are anti-avoidance provisions which create a tax charge ~~on~~ <sup>when a UK resident</sup> the beneficiary receives a benefit.

~~The~~ The benefit is matched with pooled income and gains on a last in first out basis. Income takes priority to gains in the matching process.

The £2.5 million value of the property ~~is~~ ~~current~~ will therefore be matched with the brought forward accumulated income of £67,000 and the stockpiled gains ~~of~~ totalling £74,452.

~~As~~ Daniel will therefore be charged to income tax on £74,452, assuming he is a higher rate taxpayer the charge would be £29,780 which would be payable under self assessment due 31 Jan ~~2020~~ 2021.

Where capital gains are not matched to benefits in the year of gain or following year, a supplementary charge will apply of 10%

per annum.

The gains from 2016-17 will therefore have a supplementary charge of 30% and the 2017-18 gains would have a charge of 20%.

Daniel can offset his annual exemption of £11,700 against the gain however he can't offset personal losses.

His estimated CGT liability may therefore be as follows:

<del>Net</del> Gain	30,576	43,876
Less AE	(11,700)	
	<u>18,876</u>	<u>43,876</u>
@ 20%	3,775	8,775
plus Supp 30% charge	<u>30%</u>	<u>20%</u>
	<u>4,907</u>	<u>10,530</u>

P

This will be payable under self assessment due by 31 January following the end of the tax year



Please let us know if you have any queries

Yours sincerely

Tax adviser

To : Jim@email.com

From : TA@email.com

Re : Estate Jim Robson

Date : 5 November 2019

Peter  
Dear ~~Mike~~,

As the estate have sold some ~~pro~~ assets at a loss, some post mortem reliefs are available which could result in a repayment of inheritance tax.

### Land and Property

Where land and property is sold by the executors, all <sup>gains & losses from</sup> property sales in the <sup>3 year</sup> period ~~of~~ following the date of death are pooled. Any losses from the fourth year are also taken into account. Note that if any property / land is purchased in period from DOD to 4 months after last sale ~~is~~, there will be a restriction of relief.

We note that the holiday home has been sold at a loss of £5,000 but the executors are also considering a sale of the deceased's main residence which is likely to

be at a gain of around £8,000 compared to the probate value (if sold for £358,000).

If the main residence was sold for a smaller gain for example a gain of £2,000\*, there would be an overall loss and a claim could be made by you as executor to reduce the properties value in the death estate.

~~At~~

A claim can be made not more than 4 years after the end of the <sup>three year sale</sup> period.

⚡ \* Note that if the property is sold at a small gain ~~or~~ <sup>the lower of</sup> loss of £1000 or 5% of the property value, the gain would be ignored so the full loss could be claimed for the holiday home which could result in <sup>an HT</sup> repayment of approximately £2,000 ( $40\% \times 5000$ ).

### Quoted share sales

Where quoted shares are sold at a loss in the 12 months following death, a similar claim can be made ~~to~~ if there

is an overall loss to reduce the value in the death estate resulting in a refund of HT.

The Small Investments Ltd. are not quoted therefore do not qualify for relief. Similarly the Green PLC shares were sold ~~off~~ on 7 July, just outside the 12 month window so will not qualify for the relief.

	Probate value	Proceeds	gain/(loss)
GGB PLC	45,000	£47,000	<del>£2,000</del>
Hill PLC.	77,000	60,000	(17,000)
			<u>(15,000)</u>

Overall there is a loss of £15,000 so a claim for relief can be made by the executor by 4 years after the end of the 12 month post death sale period.

This would be restricted by any purchases in the 2 months following the lost sale in the 12 month period, as this has now passed we have assumed this is not an issue.

A tax repayment of approximately £6,000 will be due ( $40\% \times £15,000$ ).

With regard to the Livewire Ltd Shares, ~~the~~  
~~shares~~ ~~to~~ ~~state~~ these are likely to qualify for  
100% business property relief so ~~there would not~~  
~~be any HFR~~ as it is an unquoted trading company.

You will have a captain

Kind regards

Tax adviser

Tax adviser  
address.

Craig Red  
Address

NOV 2019

Dear Craig

We are writing further to our recent meeting to outline your inheritance tax (IHT) position in the UK.

~~Yes~~ The concept of domicile is important when considering IHT. This is not based on where you are resident but your connection to a country for example where you are permanently settled.

Currently you have a domicile of choice in New Zealand as you permanently settled there. At birth you had a domicile of origin of your father so were <sup>had a</sup> UK domicile of origin.

UK domiciled people pay IHT on worldwide

assets whereas non-UK domiciled only pay IHT on UK assets.

There is a concept of deemed domicile which will apply to you as you are a formerly domiciled resident of the UK. This applies where the taxpayer is born in the UK, has a UK domicile of origin and has been UK resident for at least one of the two previous tax years.

You will therefore become deemed UK domicile from 6 Apr 2020. This will mean that you will be exposed to UK IHT on your worldwide assets <sup>at 40%</sup> ~~tax~~ on the value above the nil rate band (currently £325,000).

Double tax relief would be available if any death duties are suffered in New Zealand, this would be the lower of the tax paid in New Zealand and tax payable in the UK.

Deemed Domicile status lapses after four consecutive years of non-residency, therefore

on returning to ~~the~~ New Zealand your deemed domicile status will cease after 4 years.

### Implications for the Trust

Trusts take the domicile status of the settlor on creation, the trust is currently therefore non-UK domiciled so is outside the scope of UK IHT.

However there are not protections in place for trusts created by formerly domiciled residents therefore once you become deemed domicile, the trust will be within the scope of UK IHT.

As the trust is settlor interested, due to you being a beneficiary, the ~~trust~~ assets <sup>in the trust</sup> will be deemed to be a gift with reservation of benefit meaning that they will be subject to IHT ~~as~~ on your death as though the assets ~~are~~ form part of your estate.



Furthermore, the trust will become relevant property so will be subject to IHT in the UK on capital distributions (exit charges) and ~~on~~ on ten year anniversaries (principal charges).

~~For income tax~~ If you could be excluded from benefiting from the trust, prior to becoming deemed domicile, ~~the trust could remain~~

A: this will prevent the trust from coming into the scope of UK IHT as it would retain its non-UK domiciled status and <sup>would</sup> not be settlor interested for IHT.

As you are able to benefit from the trust, all <sup>trust</sup> income will be taxable on you in the UK on an arising basis & you will not be able to claim the remittance basis once deemed domicile.

Please let me know if you have any queries.

yours sincerely

Tax Advisor























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REA