The Chartered Institute of Taxation

Awareness

Module B: Inheritance Tax, Trusts & Estates

November 2023

Suggested solutions

Answer 13

	£		
Gift of an antique clock to her civil partner = spouse exemption		Nil	1
Sale of a racehorse to her cousin: £(75,000 – 55,000)		£20,000	1
Gift of units in a unit trust to her brother: 32,000 x 315p		£100,800	1
Gift of shares to her sister:			
Before the gift: 30,000 shares x £25	750,000		
After the gift: 20,000 shares x £18	(360,000)		
		£390,000	1+1

Answer 14

	£	£	
1 November 2019 – PET (no lifetime tax)			
Original value of the PET (£500,000 – 2 x AE £6,000)		494,000	1
20 October 2023 - PET becomes chargeable	494,000		
Less fall in value relief (£500,000 – £440,000)	(60,000)		1
		434,000	
Nil rate band at death		(325,000)	1
		£109,000	
IHT @ 40% x £109,000		43,600	1
Less taper relief (3-4 years) 20%		(8,720)	1
IHT payable by Flora		£34,880	

Answer 15

	£	£	
House in UK		750,000	
Apartment in Mexico		0	
Investments and personal chattels		620,000	
		1,370,000	1
Less liabilities			
Income Tax	5,750		
Gambling debts	0		
		(5,750)	1
		1,364,250	
Less spouse exemption		(750,000)	1*
Gross chargeable estate		614,250	
Nil rate band		(325,000)	1**
		£289,250	
IHT @ 40% x £289,250		£115,700	1

* No restriction to spouse exemption where both spouses are non-UK domiciled.
** No RNRB as the UK house is not left to a direct descendant.

Answer 16

Cash

IHT – due to the availability of the marriage exemption, this would be a PET of £(250,000 – 5,000) = £245,000. 1

CGT – no chargeable gain would arise on Vivienne as cash is an exempt asset. 1

Painting

IHT – this would be a PET of £8,000. 1

CGT – a chargeable gain would arise which would be the lower of:

- £(8,000 - 4,500) = £3,500 1
- 5/3 x £(8,000 – 6,000) = £3,333 1

Answer 17

1) Net chargeable estate:	£	
Assets less liabilities	915,000	
Less available nil rate band £(325,000 – 250,000)	(75,000)	
Net chargeable estate	£840,000	1
Charitable legacy must be a minimum of 10% x £840,000	£84,000	1
2) Inheritance Tax payable:	£	
Net chargeable estate	840,000	
Less charitable legacy	(84,000)	
Less RNRB	(150,000)	1
	£606,000	1
IHT @ 36% x £606,000	£218,160	1

Answer 18

		£	
18 May 2022	Transfer into the trust (working): 20,000 x £21.60	432,000	
	Less 2 x AE	(6,000)	
		£426,000	1
	IHT @ 20/80	£106,500	1

Due 30 April 2023. 1

Working – Transfer value

Lower of: £21.80 + ¼ £(22.00 – 21.80) = £21.85 1

£(21.30 + 21.90) ÷ 2 = £21.60 1

Answer 19

1. If Derrick gives the business to Peter, it would be a PET that would potentially qualify for 1
   BPR. No IHT would be payable at the time of the gift.

   If Derrick dies within seven years of the gift and Peter still owns the business (which is still
   trading) at that time, 100% Business Property Relief (BPR) will be available as it is an 1
   unincorporated trading business and so there would be no IHT to pay.

2. If Peter sells the business soon after receiving it and Derrick dies within seven years of
   the gift, then BPR would not be available and the PET would become chargeable. The 1
   chargeable amount would be reduced by the annual exemptions for both the tax year of 1
   the gift and the previous tax year, and IHT would be charged at 40% after the deduction 1
   of the nil rate band.

Answer 20

1) Post mortem reliefs may be available where certain assets in the death estate are subsequently sold by the Executors for less than their probate value.

   Quoted shares must be sold within 12 months of death, and so relief is not available. 1

   Land and buildings and related property must be sold within 3 years of death, and so 1
   relief is available.

2) For land and buildings, relief is given by substituting actual proceeds in the death estate. 1

   For related property, relief is given by substituting the unrelated value in the death 1
   estate.

   As the value of the death estate has been reduced as a result of these claims, there will 1
   be a repayment of IHT already paid by the Executors.

Answer 21

1) The maximum relief available for additional overseas administration costs in relation to the villa is the lower of:
   - The actual administration costs incurred of £12,000 and 1
   - 5% x the value of the overseas asset of £235,000 = £11,750. 1

2) QSR = 20% x £25,000 x £((220,000 – 25,000)/220,000) = £4,432. 1+1+1

Answer 22

A controlling interest in a quoted trading company is relevant business property for Business 1
Property Relief (BPR).

The shares have been owned by Tomoko for the required minimum two year period. 1

The rate of relief is 50%, however the company has excepted assets (the Villa in Spain) which 1+1
will restrict the BPR available.

The potential BPR will therefore be calculated as follows:

£2.4 million @ 50% x £(3,850,000 – 385,000)/£3,850,000 = £1,080,000. 1

Answer 23

	£	
Tax pool brought forward at 6 April 2022	1,675	
Add tax for 2022/23 (working)	18,650	1
Less tax credit on payment to beneficiary: £16,500 x 45/55	(13,500)	1+1
Tax pool carried forward at 5 April 2023	£6,825	

Working – Income Tax computation:	Non savings	Savings	
	£	£	
Property income (net of allowable expenses)	29,000		
Interest		17,000	
Less Trustees' expenses: £3,200 x 100/80		(4,000)	1
	29,000	13,000	
Income Tax added to tax pool:			
£1,000 x 20%		200	
£(28,000 + 13,000) x 45%		18,450	
		£18,650	1

Answer 24

	Shares	House	Total	
	£	£	£	
Proceeds	135,000	520,000		
Less deemed cost	*(98,000)	**(475,000)		
Chargeable gain	37,000	45,000		1+1
Annual exempt amount		(6,150)		1
Taxable gains	£37,000	£38,850		
CGT @	20%	28%		1+1
CGT payable by the trustees	£7,400	£10,878	£18,278	

* As gift relief was claimed on the transfer of the shares into the trust, the Trustees' base cost is Edna's original cost of £98,000.

** The gain arising on the house on transfer into the trust would have been covered by PRR, therefore the Trustees' deemed cost is market value at the date of the transfer.