

Tolley[®] Exam Training

ATT PAPER 5

IHT, TRUSTS AND ESTATES

PRE REVISION QUESTION BANK

FA 2023 & F(No 2)A 2023

May and November 2024 Sittings

PQ665

Tolley[®]

Tax intelligence
from LexisNexis[®]

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INTRODUCTION

This Pre-Revision Question Bank for ATT Paper 5 contains four SFQ tests and ten exam standard long questions all with answers updated to Finance Act 2023 & Finance (No 2) Act 2023. This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

You will need a copy of the **ATT Tax Tables 2024** (included in this bank) either as a hard copy on your desk or as a pdf on your screen or on a second screen/device.

Format of the exam

All the ATT exams are **3.5 hours** and will have a mixture of computational and written questions with no question choice. The paper is split into two parts:

Part I consists of “short form” questions (“SFQs”) worth between two and four marks each, which account for 40% of the paper. There will be between 10 and 20 such questions in a paper. There are no presentation marks in this part of the paper and your answers should be bullet points and summary computations.

In Part II the remaining 60% of the paper will be between 3 and 5 **longer questions** carrying from 10 to 20 marks each, usually split into shorter subsections with marks allocated to each subsection. There are also 2 presentation skills marks available in this part of the paper.

Presentation Skills Marks

There are **no marks for ‘format’** within the long form questions in Part II. There are simply **58 marks for technical content and 2 marks for presentation skills across the whole of Part II.**

Typically two marks would be awarded where a candidate’s presentation is very good; full sentences are used where appropriate throughout; answers flow well and are in a logical order; explanations clearly relate to the question scenario.

There are likely to be letter/email style questions and these (together with other questions) will contribute towards awarding the two marks. There will not be separate marks for formats but the absence of the required formats would reduce the likelihood of gaining a full two marks.

Using this question bank

You should attempt each question as if you were in the real exam. Try to **avoid just reading the answers** to questions - it is all too easy to nod as you read our answer saying “yes I know that point, yes I understand that advice given” - the test is, would you have actually put those points in your answer? You won’t find this out, unless you **type up the answers and we therefore recommend you use the on-screen version of this QB.** Ensuring you type up “proper” answers also gives you a good idea of how long an exam standard answer will take you to produce.

We recommend you **allocate 2 minutes per mark** which leaves 14 minutes to be split as you like between some reading time at the start of the exam and some final review time at the end of the exam.

Reviewing your answers

It is essential to read through your answer when you have finished typing it (within the time allocation for that question). We thought it might be useful at this stage to pass on some tips about how to review your answers effectively – before you look at the model answer.

Remember the first thing the marker will do is read your answer through as a whole. What overall impression are you giving of your ability? Have you put the marker in a good mood as soon as they see your script or are they going to be dreading marking what you have handed in?

Key **presentation considerations** include using proformas, spacing out your answer, cross referencing your workings and using subheadings and short paragraphs.

You may be able to make some small corrections at this review stage. For instance, you may find you have missed out a vital word such as “not” or you may at this stage think of another point or two to add while reading your answer. This approach could increase your marks much more effectively than carrying on with the point you were making before you stopped to do this final review.

Reviewing the model answer

Review critically both your answer and the model answer. Are there points in the model answer which you could have included in your answer to get extra marks? Are there points you have included which, with the benefit of hindsight, you should have left out? You may have included valid points which are not included in the model answer.

LAW AND ETHICS

The ATT Paper 5 syllabus includes Law and Ethics and these topics can be tested either as part of a long question or as a short form question.

The required depth of knowledge is “Principles”, ie you will be expected to have an awareness that a principle exists and its main thrust.

To get you familiar with the type of questions that may be examined, elements of law and ethics may appear in some of the questions in this Pre-Revision Question Bank and may also be tested in the Pre-Revision and Revision mock exams. There will also be some short questions for Law and Ethics at the back of your Revision Question Bank. Attempting these questions will be good preparation for your examinations.

Law:

The chapters from the ATT/CIOT Law textbook “Essential Law for Tax Practitioners” (6th edition) that are included in the Paper 5 syllabus are:

Chapter 6	Criminal and Civil Law
Chapter 7	The Law of Property
Chapter 14	The Law of Gifts and Succession Law
Chapter 15	Trust Law
Chapter 16	Establishing and Managing a Trust

Ethics:

The chapters from the ATT/CIOT Ethics textbook “Professional Responsibilities and Ethics for Tax Practitioners” (6th edition) that are included in the Paper 1-6 syllabuses are:

PRPG (2018):

Chapter 4	New clients and engagements
Chapter 5	Client service
Chapter 6	Objectivity (including conflicts of interest)
Chapter 7	Other client handling issues
Chapter 8	Charging for services
Chapter 9	Complaints
Chapter 10	Ceasing to act

PCRT (2023):

Chapter 19	The Fundamental Principles
Chapter 20	The Standards for Tax Planning
Chapter 21	Help sheet A: Submission of tax information and 'tax filings'
Chapter 22	Help sheet B: Tax advice
Chapter 23	Help sheet C: Dealing with errors
Chapter 24	Help sheet C2: Dealing with errors – members in business
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Chapter 26	Help sheet E: Members' personal tax affairs

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LONG QUESTIONS

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- 2 Bailey Discretionary Trust
- 3 Priya Darko
- 4 Rose Discretionary Trust
- 5 Philippa
- 6 Jakob
- 7 Barlow Interest in Possession Settlement
- 8 Michel Blanc
- 9 Mary Lamb
- 10 The Adventure Discretionary Trust

ATT EXAMINATIONS

2024

TAX TABLES

INCOME TAX

	2023/24
Rates (Note 1)	%
Starting rate for savings income only	0
Basic rate for non-savings and savings income only	20
Higher rate for non-savings and savings income only	40
Additional and trust rate for non-savings and savings income only	45
Dividend ordinary rate	8.75
Dividend upper rate	33.75
Dividend additional rate and trust rate for dividends	39.35
Thresholds	£
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,700
Higher rate band	37,701 – 125,140
Dividend allowance	1,000
Savings allowance	
– Taxpayer with basic rate income	1,000
– Taxpayer with higher rate income	500
– Taxpayer with additional rate income	Nil
Standard rate band for trusts	1,000
Scottish Tax Rates and Thresholds (Note 2)	
£	%
1 – 2,162	19
2,163 – 13,118	20
13,119 – 31,092	21
31,093 – 125,140	42
125,140+	47
Reliefs	£
Personal allowance (Note 3)	12,570
Transferable tax allowance for married couples and civil partners (Note 4)	1,260
Blind person's allowance	2,870
Enterprise investment scheme relief limit (Relief at 30%) (Note 5)	1,000,000
Venture capital trust relief limit (Relief at 30%)	200,000
Seed enterprise investment scheme relief limit (Relief at 50%)	200,000

- Notes:** (1) Welsh taxpayers pay income tax using the same rates and thresholds as other UK (but not-Scottish) taxpayers.
- (2) Scottish taxpayers pay Scottish income tax on non-savings income.
- (3) The personal allowance of an individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.
- (4) The recipient must not be liable to tax above the basic rate. The recipient is eligible for a tax reduction of 20% of the transferred amount.
- (5) The limit is £2 million, where over £1 million is invested in knowledge-intensive companies.

ISA limits	Maximum subscription
	£
'Adult' ISAs	20,000
Junior ISAs	9,000

ATT EXAMINATIONS

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TAX TABLES

Pension contributions

Basic amount qualifying for tax relief	£3,600
Annual allowance (Note 1) £	Minimum pension age
2023/24 60,000	55
Maximum tax-free lump sum	£268,275

Note: (1) The annual allowance is tapered by £1 for every £2 of adjusted income above £260,000 for individuals with threshold income above £200,000. It cannot be reduced below £10,000.

ITEPA mileage rates

Vehicles

Car or van (Note 2)	First 10,000 business miles	45p
	Additional business miles	25p
Motorcycles		24p
Bicycles		20p
Passenger payments		5p

Note: (2) For NIC purposes, a rate of 45p applies irrespective of mileage.

Company cars and fuel – 2023/24

Emissions	Electric range (miles)	Car benefit % (Note 3)	
0g/km	N/A	2%	
1-50g/km	>130	2%	
1-50g/km	70-129	5%	
1-50g/km	40-69	8%	
1-50g/km	30-39	12%	
1-50g/km	<30	14%	
51-54g/km		15%	
55-59g/km		16%	
60-64g/km		17%	
65-69g/km		18%	
70-74g/km		19%	
75g/km or more		20%	+ 1% for every additional whole 5g/km above 75g/km
160g/km or more		37%	

Note: (3) 4% supplement for diesel cars, excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard (not to exceed maximum of 37%).

Fuel benefit base figure £27,800

Taxable benefits for vans – 2023/24

Van benefit – No CO ₂ emissions	£ Nil
Van benefit – CO ₂ emissions > 0g/km	3,960
Fuel benefit	757

Official rate of interest - 2023/24 2.25%

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TAX TABLES

Childcare

Employer supported childcare – basic rate taxpayer (Note 1) £55 per week

Note: (1) For schemes joined on or after 6 April 2011 the exempt childcare amounts for higher and additional rate taxpayers (based on the employer's earning assessment only) are £28 and £25 respectively.

STUDENT AND POSTGRADUATE LOAN RECOVERY

Student Loans

	Plan 1	Plan 2	Plan 4
Employee earnings threshold	£1,834 per month	£2,274 per month	£2,305 per month

Rate of deductions is 9% of earnings above the threshold rounded down to the nearest whole pound.

Postgraduate Loans

Employee earnings threshold £1,750 per month

Rate of deductions is 6% of earnings above the threshold rounded down to the nearest whole pound.

STATUTORY PAYMENTS

Statutory sick pay	Weekly rate
Average weekly gross earnings	£123.00 or more £109.40
Statutory maternity/adoption pay	First 6 weeks @ 90% of AWE Next 33 weeks @ the lower of £172.48 and 90% of AWE
Statutory shared parental pay/ paternity pay/parental bereavement pay	For each qualifying week, the lower of 90% of AWE and £172.48

QUALIFYING CARE RELIEF

	Flat rate	Placement < 11	Placement ≥ 11
Year to 5 April 2024	£18,140 per year	£375 per week	£450 per week

CHILD BENEFIT

Year to 5 April 2024

Rates	Weekly rate
	£
First child	24.00
Each subsequent child	15.90

Child benefit charge	Withdrawal rate
Adjusted net income >£50,000	1% of benefit per £100 of income between £50,000 and £60,000
Adjusted net income >£60,000	Full child benefit amount assessable in that tax year

HMRC INTEREST RATES

Late payment interest	6.50%
Interest on underpaid corporation tax instalments	5.00%
Repayment interest	3.00%
Interest on overpaid corporation tax instalments	3.75%

ATT EXAMINATIONS

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TAX TABLES

NATIONAL INSURANCE CONTRIBUTIONS

2023/24

Class 1 limits

	Annual £	Monthly £	Weekly £
Lower earnings limit (LEL)	6,396	533	123
Primary threshold (PT)	12,570	1,048	242
Secondary threshold (ST)	9,100	758	175
Upper earnings limit (UEL)	50,270	4,189	967
Upper secondary threshold for U21 (UST)	50,270	4,189	967
Apprentice upper secondary threshold for U25 (AUST)	50,270	4,189	967

2023/24

Employment allowance

Per year, per employer	£5,000
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Class 1 primary contribution rates

Earnings between PT and UEL	12%
Earnings above UEL	2%

Class 1 secondary contribution rates

Earnings above ST (Notes 3 & 4)	13.8%
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Notes: (3) The rate of secondary NICs for employees under the age of 21 on earnings between the ST and UST is 0%.

(4) The rate of secondary NICs for apprentices under the age of 25 on earnings between the ST and AUST is 0%.

Other contribution limits and rates

Class 1A contributions	13.8%
Class 1B contributions	13.8%

Class 2 contributions

Normal rate	£3.45 pw
Small profits threshold (Note 5)	£6,725 pa
Lower profits limit (LPL) (Note 5)	£12,570 pa

Note: (5) Class 2 NICs are only payable where profits exceed the LPL. However, where profits are between the small profits threshold and the LPL, there will be an entitlement to contributory benefits.

Class 3 contributions	£17.45 pw
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Class 4 contributions

Annual lower profits limit (LPL)	£12,570
Annual upper profits limit (UPL)	£50,270
Percentage rate between LPL and UPL	9%
Percentage rate above UPL	2%

SIMPLIFICATION MEASURES

'Rent-a-room' limit	£7,500
Property allowance/Trading allowance	£1,000

ATT EXAMINATIONS

2024

TAX TABLES

FLAT RATE EXPENSES FOR UNINCORPORATED BUSINESSES

Motoring expenses	First 10,000 business miles	45p per mile
	Additional business mile	25p per mile
Business use of home	25 – 50 hours use	£10 per month
	51 – 100 hours use	£18 per month
	101+ hours use	£26 per month
Private use of business premises	No of persons living there: 1	£350 per month
	2	£500 per month
	3+	£650 per month

CASH BASIS

Turnover threshold to join scheme	£150,000
Turnover threshold to leave scheme	£300,000

CAPITAL ALLOWANCES

Annual investment allowance for plant and machinery (AIA) (Note 1)	100%
WDA on plant and machinery in main pool (Note 2)	18%
WDA on plant and machinery in special rate pool (Note 3)	6%
WDA on structures and buildings (SBA)	3%

- Notes:** (1) 100% on the first £1,000,000 of investment in plant and machinery (except cars) from 1 January 2019.
- (2) The main pool rate applies to cars with CO₂ emissions of not more than 50g/km (prior to April 2021 not more than 110g/km).
- (3) The special pool rate applies to cars with CO₂ emissions greater than 50g/km (prior to April 2021 greater than 110g/km).

100% First year allowances (FYA) available to all businesses

Capital expenditure incurred by a person on research and development.

New zero-emission goods vehicles.

New cars if the car either emits 0g/km of CO₂ or it is electrically propelled.

Electric vehicle charging points expenditure.

Further FYAs available to companies

Additional FYA for companies incurring expenditure on new plant and machinery (other than cars) between 1 April 2023 to 31 March 2026:

FYA for assets in main pool	100% (130% for expenditure 1 April 2021 to 31 March 2023)
FYA for assets in special rate pool	50%

VALUE ADDED TAX

Standard rate	20%	VAT fraction	1/6
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Limits

Annual registration limit	£85,000
De-registration limit	£83,000

Thresholds

	Cash accounting	Annual accounting
Turnover threshold to join scheme	£1,350,000	£1,350,000
Turnover threshold to leave scheme	£1,600,000	£1,600,000

ADVISORY FUEL RATES (as at 1 March 2023)

Engine size	Petrol	LPG	Engine size	Diesel
1400cc or less	13p	10p	1600cc or less	13p
1401cc to 2000cc	15p	11p	1601cc to 2000cc	15p
Over 2000cc	23p	17p	Over 2000cc	20p

Electricity rate	9p
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ATT EXAMINATIONS

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TAX TABLES

CORPORATION TAX

Financial year	2023	2022
Main rate	25%	19%
Standard small profits rate	19%	N/A
Augmented profit limit for standard small profits rate	£50,000	N/A
Augmented profit limit for marginal relief	£250,000	N/A
Standard marginal relief fraction	3/200	N/A
Marginal rate	26.5%	N/A

Research and development expenditure

Financial year	2023	2022
Total relief for Small & medium enterprises (SMEs) (Note 1)	186%	230%
R&D tax credit for SME losses	10%	14.5%
Large companies – RDEC	20%	13%

Note: (1) SMEs must have < 500 employees and *either* turnover ≤ €100m or assets ≤ €86m.

INHERITANCE TAX

Death rate	40% (Note 2)	Lifetime rate	20%
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Note: (2) 36% rate applies where ≥10% of the deceased's net chargeable estate is left to charity.

Nil rate bands

6 April 1996 – 5 April 1997	£200,000	6 April 2003 – 5 April 2004	£255,000
6 April 1997 – 5 April 1998	£215,000	6 April 2004 – 5 April 2005	£263,000
6 April 1998 – 5 April 1999	£223,000	6 April 2005 – 5 April 2006	£275,000
6 April 1999 – 5 April 2000	£231,000	6 April 2006 – 5 April 2007	£285,000
6 April 2000 – 5 April 2001	£234,000	6 April 2007 – 5 April 2008	£300,000
6 April 2001 – 5 April 2002	£242,000	6 April 2008 – 5 April 2009	£312,000
6 April 2002 – 5 April 2003	£250,000	6 April 2009 – 5 April 2026	£325,000

Residence nil rate bands (Note 3)

6 April 2017 – 5 April 2018	£100,000	6 April 2019 – 5 April 2020	£150,000
6 April 2018 – 5 April 2019	£125,000	6 April 2020 – 5 April 2026	£175,000

Note: (3) An additional nil rate band is available where a main residence is passed on death to a direct descendant. Tapered withdrawal for estates > £2 million.

Taper relief

Death within 3 years of gift	Nil%
Between 3 and 4 years	20%
Between 4 and 5 years	40%
Between 5 and 6 years	60%
Between 6 and 7 years	80%

Quick succession relief

Period between transfers less than one year	100%
Between 1 and 2 years	80%
Between 2 and 3 years	60%
Between 3 and 4 years	40%
Between 4 and 5 years	20%

Lifetime exemptions

Annual exemption	£3,000
Small gifts	£250
Wedding gifts – Child	£5,000
– Grandchild or remoter issue or other party to marriage	£2,500
– Other	£1,000

ATT EXAMINATIONS

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TAX TABLES

CAPITAL GAINS TAX

Annual exempt amount	2023/24 £6,000
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CGT rates for individuals (Notes 1 & 2)

Gains qualifying for business asset disposal relief/investors' relief	10%
Gains falling within remaining basic rate band (Notes 3 & 4)	10%
Gains exceeding basic rate band (Note 5)	20%

CGT rates for trusts & individuals paying the remittance basis charge

Gains qualifying for business asset disposal relief/investors' relief	10%
Other gains (Note 5)	20%

CGT Rate for personal representatives (PRs)

All gains (Note 5)	20%
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Business Asset Disposal relief (BADR)

Relevant gains (lifetime maximum) (Note 6)	£1 million
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Investors' relief (IR)

Relevant gains (lifetime maximum)	£10 million
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- Notes:**
- (1) For individuals, gains are taxed as if they are the top slice of income.
 - (2) Capital losses and the annual exempt amount may be offset in the most beneficial manner, ie against gains not qualifying for BADR/IR first.
 - (3) The remaining basic rate band is calculated as £37,700 (2023/24) less taxable income less any gains on which BADR/IR has been claimed. The remaining basic rate band can be allocated in the most beneficial manner.
 - (4) The rate is 18% if the gain is in respect of a residential property
 - (5) The rate is 28% if the gain is in respect of a residential property
 - (6) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million

Lease percentage table

Years	Percentage	Years	Percentage	Years	Percentage
50 or more	100.000	33	90.280	16	64.116
49	99.657	32	89.354	15	61.617
48	99.289	31	88.371	14	58.971
47	98.902	30	87.330	13	56.167
46	98.490	29	86.226	12	53.191
45	98.059	28	85.053	11	50.038
44	97.595	27	83.816	10	46.695
43	97.107	26	82.496	9	43.154
42	96.593	25	81.100	8	39.399
41	96.041	24	79.622	7	35.414
40	95.457	23	78.055	6	31.195
39	94.842	22	76.399	5	26.722
38	94.189	21	74.635	4	21.983
37	93.497	20	72.770	3	16.959
36	92.761	19	70.791	2	11.629
35	91.981	18	68.697	1	5.983
34	91.156	17	66.470	0	0.000

ATT EXAMINATIONS

2024

TAX TABLES

Retail Prices Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982	—	—	79.44	81.04	81.62	81.85	81.88	81.90	81.85	82.26	82.66	82.51
1983	82.61	82.97	83.12	84.28	84.64	84.84	85.30	85.68	86.06	86.36	86.67	86.89
1984	86.84	87.20	87.48	88.64	88.97	89.20	89.10	89.94	90.11	90.67	90.95	90.87
1985	91.20	91.94	92.80	94.78	95.21	95.41	95.23	95.49	95.44	95.59	95.92	96.05
1986	96.25	96.60	96.73	97.67	97.85	97.79	97.52	97.82	98.30	98.45	99.29	99.62
1987	100.0	100.4	100.6	101.8	101.9	101.9	101.8	102.1	102.4	102.9	103.4	103.3
1988	103.3	103.7	104.1	105.8	106.2	106.6	106.7	107.9	108.4	109.5	110.0	110.3
1989	111.0	111.8	112.3	114.3	115.0	115.4	115.5	115.8	116.6	117.5	118.5	118.8
1990	119.5	120.2	121.4	125.1	126.2	126.7	126.8	128.1	129.3	130.3	130.0	129.9
1991	130.2	130.9	131.4	133.1	133.5	134.1	133.8	134.1	134.6	135.1	135.6	135.7
1992	135.6	136.3	136.7	138.8	139.3	139.3	138.8	138.9	139.4	139.9	139.7	139.2
1993	137.9	138.8	139.3	140.6	141.1	141.0	140.7	141.3	141.9	141.8	141.6	141.9
1994	141.3	142.1	142.5	144.2	144.7	144.7	144.0	144.7	145.0	145.2	145.3	146.0
1995	146.0	146.9	147.5	149.0	149.6	149.8	149.1	149.9	150.6	149.8	149.8	150.7
1996	150.2	150.9	151.5	152.6	152.9	153.0	152.4	153.1	153.8	153.8	153.9	154.4
1997	154.4	155.0	155.4	156.3	156.9	157.5	157.5	158.5	159.3	159.5	159.6	160.0
1998	159.5	160.3	160.8	162.6	163.5	163.4	163.0	163.7	164.4	164.5	164.4	164.4
1999	163.4	163.7	164.1	165.2	165.6	165.6	165.1	165.5	166.2	166.5	166.7	167.3
2000	166.6	167.5	168.4	170.1	170.7	171.1	170.5	170.5	171.7	171.6	172.1	172.2
2001	171.1	172.0	172.2	173.1	174.2	174.4	173.3	174.0	174.6	174.3	173.6	173.4
2002	173.3	173.8	174.5	175.7	176.2	176.2	175.9	176.4	177.6	177.9	178.2	178.5
2003	178.4	179.3	179.9	181.2	181.5	181.3	181.3	181.6	182.5	182.6	182.7	183.5
2004	183.1	183.8	184.6	185.7	186.5	186.8	186.8	187.4	188.1	188.6	189.0	189.9
2005	188.9	189.6	190.5	191.6	192.0	192.2	192.2	192.6	193.1	193.3	193.6	194.1
2006	193.4	194.2	195.0	196.5	197.7	198.5	198.5	199.2	200.1	200.4	201.1	202.7
2007	201.6	203.1	204.4	205.4	206.2	207.3	206.1	207.3	208.0	208.9	209.7	210.9
2008	209.8	211.4	212.1	214.0	215.1	216.8	216.5	217.2	218.4	217.7	216.0	212.9
2009	210.1	211.4	211.3	211.5	212.8	213.4	213.4	214.4	215.3	216.0	216.6	218.0
2010	217.9	219.2	220.7	222.8	223.6	224.1	223.6	224.5	225.3	225.8	226.8	228.4
2011	229.0	231.3	232.5	234.4	235.2	235.2	234.7	236.1	237.9	238.0	238.5	239.4
2012	238.0	239.9	240.8	242.5	242.4	241.8	242.1	243.0	244.2	245.6	245.6	246.8
2013	245.8	247.6	248.7	249.5	250.0	249.7	249.7	251.0	251.9	251.9	252.1	253.4
2014	252.6	254.2	254.8	255.7	255.9	256.3	256.0	257.0	257.6	257.7	257.1	257.5
2015	255.4	256.7	257.1	258.0	258.5	258.9	258.6	259.8	259.6	259.5	259.8	260.6
2016	258.8	260.0	261.1	261.4	262.1	263.1	263.4	264.4	264.9	264.8	265.5	267.1
2017	265.5	268.4	269.3	270.6	271.7	272.3	272.9	274.7	275.1	275.3	275.8	278.1

PAPER 5
SHORT FORM QUESTIONS
TEST "1" – MAY 2013
(40 MARKS)

1. **Explain the Inheritance Tax consequences for the donor in the following circumstances:**
 - 1) **Making a Potentially Exempt Transfer.** (1)
 - 2) **Dying within seven years of making a Potentially Exempt Transfer.** (2)

Total (3)
2. Robbie died on 19 April 2023. He made his only chargeable lifetime transfer on 25 March 2017 when he gifted £620,000 into a trust and paid the Inheritance Tax due at that time of £72,250.

Calculate any additional Inheritance Tax due on this transfer as a result of Robbie's death. (3)
3.
 - 1) **Explain the difference between the concepts of residence and domicile.** (2)
 - 2) **What effect does an individual's domicile status have on their liability to UK Inheritance Tax?** (1)

Total (3)
4. **Explain when a body of trustees will be treated as UK resident for income tax purposes.** (2)
5. The Nasir Family Accumulation & Maintenance Trust was established on 10 December 2003 with cash of £200,000. The settlor's only previous chargeable transfer had been £95,000 to a relevant property trust in June 2001.

On 1 June 2021, the Trustees distributed £25,000 to a beneficiary. This gave rise to an IHT exit charge. The beneficiary paid the tax on the exit.

On 10 December 2023 the trust assets consisted of cash of £130,000 and a quoted share portfolio worth £320,000.

Calculate the Inheritance Tax payable by the trustees in respect of the 10-year charge in December 2023. (4)
6. Xi gifted £400,000 cash to a discretionary settlement on 25 November 2023.
 - 1) **State the deadline for submission of the necessary Inheritance Tax return to HM Revenue & Customs.** (1)
 - 2) **State the due date for the Inheritance Tax payable.** (1)

- 7.
- 1) Explain when and why the related property rules apply. (2)
 - 2) Briefly explain how they affect the valuation of gifts for Inheritance Tax Purposes. (1)
- Total (3)
8. Antonia owned 70,000 shares in Spirit Ltd. Her son Kyle owned the remaining 30,000 issued shares. On 21 October 2023 Antonia gifted 30,000 of her shares to her daughter Lola.
- Values of shares are as follows:
- | | |
|--------------|-----------------|
| 100% holding | £3.50 per share |
| 70% holding | £3.25 per share |
| 40% holding | £2.50 per share |
| 30% holding | £2.40 per share |
- Calculate the value of the gift made by Antonia for Inheritance Tax purposes.** (2)
9. On 10 March 2023 Patrick transferred 2,000 shares in Piggybank plc to a new discretionary trust. The market value of the shares at that time was £150,000. He had bought 1,250 Piggybank plc shares on 5 April 2004 for £70,000, and a further 1,750 shares on 20 October 2020 for £170,000.
- 1) Calculate the capital gain or allowable loss arising on the transfer of the shares into the trust. (2)
 - 2) Explain the treatment of any capital loss arising on a subsequent transfer of the shares to a beneficiary. (2)
- Total (4)
10. State the penalties which could be payable in respect of an Inheritance Tax return if it is found to contain a deliberate error. (4)
11. Explain when Inheritance Tax exit charges do and do not apply to distributions from a discretionary trust. (4)
12. Rachel gifted some unquoted shares to her son. The shares qualified for Business Property Relief at that time. Rachel died within seven years of making the gift.
- Explain why Business Property Relief may not be available in full when calculating the Inheritance Tax payable upon Rachel's death.** (3)
13. A trust is only valid if it has been created with three certainties.
- State and explain these three certainties.** (3)

**TEST "1" – MAY 2013
ANSWERS**

1. At the time of the gift, a PET is treated as exempt so there is no IHT to pay. [½]

Annual exemptions are still allocated. [½]

The PET becomes chargeable to IHT if the donor dies within seven years of the gift. [½]

The donor's nil rate band is allocated in chronological order to all the chargeable gifts made in the seven years prior to death. [½]

The value of the gift at the time it was made is used in the calculations. [½]

IHT at 40% is payable if the value of the failed PET exceeds the available nil rate band, having considered earlier lifetime transfers chargeable at the donor's death. [½]

Taper relief reduces the tax payable based on the length of time between gift and death (if the death was over three years after the gift). [½]

The failed PET will affect how much of the nil rate band is available to set against the death estate. [½]

Max 3

2.

	£	£	
Chargeable lifetime transfer (£620,000 – £6,000)		614,000	
IHT paid		<u>72,250</u>	[½]
Gross chargeable transfer		686,250	
Less: Nil rate band	325,000		
Less: Previous CLTs	<u>(Nil)</u>		[½]
Nil rate band remaining		<u>(325,000)</u>	
		<u>361,250</u>	
 IHT @ 40%		 144,500	[½]
Less: Taper relief (6 - 7 years = 80%)		<u>(115,600)</u>	[½]
		28,900	
Less: Lifetime tax paid (restricted)		<u>(28,900)</u>	[½]
		<u>Nil</u>	

No further IHT is payable. The balance of lifetime tax cannot be reclaimed. [½]

Total 3

3. Residence is where a person actually lives and can relate to more than one country at the same time. [1]

Domicile is the one country with which someone has the most lasting connection and affiliation, whether they currently live there or not. [1]

An individual who is UK domiciled or deemed domiciled is liable to UK IHT on their worldwide assets. [½]

An individual who is not UK domiciled is only liable to UK IHT on assets situated in the UK. [½]

Total 3

4. A body of trustees will cause the trust to be considered UK resident for income tax purposes if:

1) All trustees are UK resident, or [1]

2) At least one trustee is resident in the UK and the settlor was resident or domiciled in the UK when they made the settlement. [1]

Total 2

5.		£	£	
	Value of trust fund:			
	Cash	130,000		
	Shares	<u>320,000</u>		
			450,000	[½]
	Nil rate band at exit	325,000		[½]
	Less: CLTs in 7 years before trust created	(95,000)		[½]
	Less: Trust distributions in last 10 years	<u>(25,000)</u>		[½]
			(205,000)	
			<u>245,000</u>	
	@ 20%		<u>49,000</u>	[½]
	Effective rate: £49,000 / £450,000 x 100		<u>10.889%</u>	[½]
	Actual rate: 10.889% x 30%		<u>3.2667%</u>	[½]
	Tax payable 3.2667% x £450,000		<u>14,700</u>	[½]

Total 4

6. The deadline for submission of the return is within twelve months of the end of the month of transfer, ie 30 November 2024. [1]

The due date of payment is six months after the end of the month of the transfer, ie 31 May 2024. [1]

Total 2

7. Similar property owned by another person is related to property in a person's estate when:

- It is in the estate of that person's spouse or civil partner, or [½]
- Within the previous five years, the property has been owned by a charity having been donated by either the donor or their spouse/civil partner. [1]

The related property rules prevent the reduction in the value of property by the fragmentation of ownership. [½]

To value the asset when the related property rules apply, take the appropriate portion of the total value of all the related property. [½]

Only use this method if it results in a higher value than using the normal method. [½]

Total 3

- 8.

		£	
Value before transfer:	70,000 x £3.25	227,500	[1]
Value after transfer:	40,000 x £2.50	(100,000)	[1]
Transfer of value		<u>127,500</u>	

Total 2

- 9.

1) Gain / (loss)

	£	
Market value	150,000	[½]
Less: Cost (W)	(160,000)	[½]
Loss	<u>(10,000)</u>	

Working:		£	
April 2004	1,250	70,000	
October 2020	<u>1,750</u>	<u>170,000</u>	
	3,000	240,000	[1]
Disposal	(2,000)	(160,000)	

2) Treatment of capital loss

The loss is set against any of the trustees' current year gains on disposals made before the appointment (known as pre-entitlement gains). [½]

The loss is offset in priority to other losses available to the trustees. [½]

Thereafter, any excess loss may be passed out to the beneficiary. [½]

The beneficiary can only set the loss against any future gain arising on those shares. [½]

Total 4

10.

- If the error in the return was due to deliberate conduct but was not concealed, the penalty is 70% of potential lost revenue. **[1]**
- The penalty can be reduced to 20% for unprompted disclosure or down to 35% for a prompted disclosure. **[1]**
- The penalty for a deliberate understatement with concealment is 100% of the potential lost revenue. **[1]**
- The penalty can be reduced to 30% for unprompted disclosure or down to 50% for prompted disclosure. **[1]**

Total 4

11. An exit charge usually arises when capital leaves the trust **[½]**, eg an absolute distribution of capital to a beneficiary. **[½]**

An exit charge does not arise when:

- Trustees make income distributions **[½]** or use capital to pay capital costs. **[½]**
- Capital leaves the trust within three months of the trust being set up **[½]** or within three months of a ten-year anniversary. **[½]**
- Capital is distributed from a will trust to a beneficiary within two years following the death on which the trust was created. **[1]**

Total 4

12. Her son may no longer own the shares and may not have replaced them with other qualifying property. **[1]** Partial relief is available where some of the shares are retained. **[1]**

The shares may no longer qualify for BPR. For example, the shares might have become quoted on a recognised stock exchange. **[1]**

There may be a binding contract for the sale of the shares at the date of death. **[1]**

Max 3

13. Certainty of intention – The words used by the settlor must clearly indicate that the property is to be held on trust and show that a trust was intended. **[1]**

Certainty of subject matter – The property that is to become the trust property must be precisely identified. **[1]**

Certainty of objects (beneficiaries) – These must be clearly identified or the settlor must provide the means of identifying the persons whom the trustees are to regard as the beneficiaries. **[1]**

Total 3

PAPER 5
SHORT FORM QUESTIONS
TEST "2" – NOVEMBER 2012
(40 MARKS)

1. The Teyo Family Settlement was established in 2023 to hold a UK property let to third party tenants. The trustees now have to submit a 2023/24 tax return to HM Revenue & Customs and pay their 2023/24 Income Tax liability.

- 1) **State the due date for the trustees' 2023/24 tax return.**
- 2) **State the due date for the balancing payment of the 2023/24 Income Tax liability.**
- 3) **State the due dates for the 2024/25 payments on account.** (3)

2. Mia wants to liquidate some assets so she can gift cash into a new trust she is creating.

Give six examples of assets that Mia could sell that are exempt from Capital Gains Tax. (3)

3. Emilio is the sole beneficiary of his brother's estate. The estate received the following income during the 2023/24 tax year:

	£
Bank interest	846
UK dividends	7,311
Rental income	3,280

Allowable expenses of £940 were incurred in respect of the rental income.

The executors incurred general estate administration expenses of £750 during 2023/24.

Calculate the Income Tax payable by the executors for 2023/24. (3)

4. **Following on from Question 3 above, show the figures to be disclosed on the form R185 which will be passed to Emilio.** (2)

5. Aki died on 2 February 2024 leaving an estate valued at £427,000 to her nephew. She made no lifetime gifts. Aki had previously been left £103,000 (tax bearing) by her father, who died in April 2021. The tax suffered on Aki's inheritance was £25,750.

Calculate the Inheritance Tax payable on Aki's estate. (3)

6. Barry sold 2,400 Finkel plc shares on 15 March 2024 to a discretionary trust. The shares had a market value of £195,000 at that date, but Barry sold them for only £145,000. He had purchased the shares in August 2014 for £67,000.

Calculate Barry's chargeable gain assuming he claims hold over relief and show the base cost of the shares in the hands of the trustees. (4)

7. **Explain the Inheritance Tax implications of a UK domiciled individual making lifetime transfers of assets to their non-UK domiciled spouse or civil partner.** (2)
8. **Explain the circumstances in which Private Residence Relief will apply to a disposal by trustees.** (3)
9. **State four categories of persons who are treated as connected with the trustees of a settlement for Inheritance Tax purposes.** (2)
10. The Beaufort Discretionary Trust received the following income during 2023/24:
- | | |
|--------------------|-------|
| | £ |
| UK property income | 5,600 |
| UK dividends | 4,167 |
- The trustees also paid accountancy fees of £360.
- Calculate the Income Tax payable by the trustees for 2023/24.** (4)
11. Jocelyn wishes to gift some assets to a trust. She has been advised that she will have to pay Capital Gains Tax and would like to know whether she can pay by instalments.
- Explain the circumstances in which Capital Gains Tax on a gift can be paid in instalments and state three types of assets to which this treatment applies.** (4)
12. **Following on from Question 11 above.**
- Briefly explain what effect a claim for payment in instalments would have on the payment of Jocelyn's Capital Gains Tax liability.** (4)
13. **State the conditions that must be met in order for a gift to qualify as normal expenditure out of income for Inheritance Tax purposes.** (3)

**TEST "2" – NOVEMBER 2012
ANSWERS**

1.

- 1) 31 October 2024 for a paper return. [$\frac{1}{2}$]
31 January 2025 for an online return. [$\frac{1}{2}$]
Or three months after the return is issued if this is later. [$\frac{1}{2}$]
- 2) 31 January 2025. [$\frac{1}{2}$]
- 3) 31 January 2025 and 31 July 2025. [1]

Total 3

2.

Each [$\frac{1}{2}$]

- Wasting chattels
- Gilt-edged securities or qualifying corporate bonds
- Cars
- Awards for valour or bravery (not if purchased)
- Foreign currency for personal use and foreign currency bank accounts
- National Savings & Investment Certificates
- Premium bonds

Max 3

3.

	Non savings £	Interest £	Dividends £	
Bank interest		846		[$\frac{1}{2}$]
UK dividends			7,311	[$\frac{1}{2}$]
Property income: (£3,280 – £940)	<u>2,340</u>	<u>846</u>	<u>7,311</u>	[$\frac{1}{2}$]
	<u>2,340</u>	<u>846</u>	<u>7,311</u>	
Tax @ 20% / 20% / 8.75%	<u>468</u>	<u>169</u>	<u>640</u>	[1 $\frac{1}{2}$]

Note: no tax deduction for general estate administration expenses.

Total 3

4.

R185:	Net £	Tax £	
Non-savings income	1,872	468	[$\frac{1}{2}$]
Interest	677	169	[$\frac{1}{2}$]
Dividends (W)	5,921	568	[$\frac{1}{2}$]

(W): Net dividends available for distribution = (£7,311 – £640 – £750) [$\frac{1}{2}$]

Total 2

5.

	£	
Estate	427,000	[½]
Less: Nil band	<u>(325,000)</u>	[½]
Taxable	<u>102,000</u>	
 Tax @ 40%	 40,800	 [½]
Less: QSR (2 – 3 years)		
£25,750 x (£103,000 – £25,750) / £103,000 x 60%	<u>(11,588)</u>	[1½]
IHT due	<u>29,212</u>	
Total 3		

6.

	£	
Market value	195,000	[½]
Less: Cost	<u>(67,000)</u>	[½]
Gain	128,000	
Less: Gift ('holdover') relief	<u>(50,000)</u>	[½]
Chargeable gain = (£145,000 – £67,000)	<u>78,000</u>	[½]
 Trustees' base cost:		
Market value	195,000	[1]
Less: Rolled over gain	<u>(50,000)</u>	[½]
	<u>145,000</u>	[½]
Total 4		

7. The first £325,000 of cumulative lifetime transfers from a UK domiciled to a non-UK domiciled spouse or civil partner is exempt. [½]

Any remaining transfer of value to the spouse or civil partner is treated as a PET. [½]

The non-UK domiciled spouse or civil partner may make an election to be treated as domiciled in the UK for IHT purposes (only). [½] Any lifetime transfer is then wholly exempt. [½] However, the spouse or civil partner would then be subject to IHT on their worldwide assets. [½]

Max 2

8. PRR can apply to a disposal by the trustees where, during the trustees' period of ownership, [1] the dwelling house has been the only or main residence of a beneficiary entitled to occupy it under the terms of the settlement. [1]

A joint election for the relief must be made by the trustees and the beneficiary. [1]

Total 3

9.

- The settlor; [½]
- Any person connected with the settlor [½] (eg, spouse or civil partner and relatives). IHT uses the extended definition of 'relative', which includes aunt, uncle, nephew and niece;
- A close company where the participators include the trustees of the settlement; [½]
- The trustees of any other funds which are part of the same settlement. [½]

Total 2

10.

	Non savings £	Dividends £	
Dividends		4,167	[½]
Property income	5,600		[½]
Less expenses: £360 x 100/91.25		(395)	[1]
	<u>5,600</u>	<u>3,772</u>	
Tax:			
£1,000 @ 20%		200	[½]
£4,600 @ 45%		2,070	[½]
£3,772 @ 39.35%		1,484	[½]
£395 @ 8.75%		<u>35</u>	[½]
Tax payable		<u>3,789</u>	

Total 4

11. CGT can be paid in instalments if the gain is not eligible for gift relief [1] or if gift relief has been restricted so part of the gain remains taxable. [1]

CGT on the following assets may be paid in instalments:

- Land; [½]
- Shares or securities from a controlling holding in any company; [1]
- Any unquoted shares or securities. [1]

Max 4

12. Jocelyn's first instalment will be due on the day on which the tax would normally be payable. [1]

A total of ten equal annual instalments are paid. [1]

The interest on the unpaid tax is added to each instalment and paid accordingly. [1]

The outstanding balance of tax and interest becomes payable immediately if the asset is subsequently sold. [1]

Total 4

13. Taking one year with another, the transfer must have been made out of surplus income. **[1]**

The gift must leave the transferor with sufficient income to maintain their usual standard of living. **[1]**

The gift must have been made as part of the normal (ie annual) expenditure of the transferor. **[1]**

Total 3

**PAPER 5
SHORT FORM QUESTIONS
TEST "3" – NOVEMBER 2014
(40 MARKS)**

1. Bianca gave £630,000 to her son on 19 May 2019. Bianca had previously given £1,500 to her aunt on 30 September 2018. Bianca died on 1 May 2024.

Calculate the Inheritance Tax due on the gift as a result of Bianca's death. (3)

2. Income received by the trustees of a discretionary trust is subject to Income Tax.

Explain how the income of a discretionary trust is taxed. (3)

3. **State the HMRC forms used and the filing deadlines to report the following:**

- 1) **Trust 10-year anniversary Inheritance Tax charge.**
- 2) **Assets and liabilities of an individual on death.**
- 3) **Capital gain on the disposal of assets by the executors during the administration period, using a paper return.**
- 4) **Trust income, using an electronic form. (4)**

4. Many individuals own property in the UK and overseas.

Explain when double taxation relief (DTR) applies and how relief is given for Inheritance Tax purposes. (3)

5. Carol died on 16 August 2023 leaving her whole estate to her granddaughter, Eva. Carol's estate comprised of the following assets:

	£
Holiday home in Spain	90,000
Family home	700,000
Investments	450,000

Funeral expenses were £5,000. Expenses incurred administering the foreign property were £4,750.

Carol's husband, David died in January 2021 leaving 75% of his estate to Carol and the remaining 25% to Eva. David had made no previous lifetime transfers and his estate at death was valued at £325,000.

Calculate the Inheritance Tax payable on Carol's death. (4)

6. When assets are appointed out of trust, it is treated as a deemed disposal for Capital Gains Tax purposes.

Explain how trustees claim hold over relief on qualifying disposals for Capital Gains Tax purposes and the effect of making a hold over relief claim. (3)

7. Daniel owned 6,000 shares (a 40% holding) in Star Ltd. His wife Rachel owned a 20% holding. Daniel transferred 1,500 of his shares to his daughter Phoebe in February 2024. Share values in February 2024 were as follows:

	£
60% holding	130,000
50% holding	100,000
40% holding	60,000
30% holding	45,000
10% holding	10,000

1) Calculate the value of Daniel's gift for Inheritance Tax purposes. (3)

2) State two parties, apart from a spouse or civil partner, whose assets are taken into account under the related property rules. (1)

8. Petra died on 18 March 2024 leaving an estate valued at £548,000. Petra had previously been left £124,000 (gross) by her mother who died in July 2020. The tax suffered on Petra's gross inheritance was £27,000.

Calculate the Inheritance Tax payable on Petra's estate. (3)

9. Nicki won £100,000 on the lottery and as a result made the following gifts:

25 December 2023:	£300 to her grandson
1 April 2024:	£5,000 to her daughter, two months after her daughter's marriage, for a belated honeymoon
1 October 2024:	£4,000 to her favourite political party (one member is elected to the House of Commons having polled 100,000 votes)

Calculate the chargeable transfers for Inheritance Tax purposes. State, with reasons, any exemptions which would apply. (3)

10. Chandra died on 31 March 2022. In January 2023 the executors sold a painting at auction for £52,000. It was valued at probate at £57,600. In March 2024 the executors sold a plot of land for £108,000 which had been valued at probate at £89,000. Legal fees of £520 were incurred in connection with the sale.

Calculate the Capital Gains Tax payable by the executors for 2023/24. (3)

11. The Inheritance Tax position on gifts between spouses and civil partners can depend on their individual domiciles.

Explain the Inheritance Tax effect of a non-domiciled spouse or civil partner electing to be domiciled in the UK. (3)

12. There are a number of different types of trust which can be created.

Explain the features of a bare trust. Your answer should include Inheritance Tax, Capital Gains Tax and Income Tax aspects. (4)

**TEST "3" – NOVEMBER 2014
ANSWERS**

1.

	£	
Gift	630,000	
Less: AE 2019/20	(3,000)	[½]
Less: AE 2018/19 (£3,000 - £1,500 gift to aunt)	(1,500)	[½]
	625,500	
Less: Nil band	(325,000)	[½]
Taxable	300,500	
Tax @ 40%	120,200	[½]
Less: Taper relief (4 – 5 years = 40%)	(48,080)	[1]
	<u>72,120</u>	

Total 3

2. Income falling within the £1,000 standard rate band (SRB) is taxed at the basic rates. [½]

This is 8.75% for dividends and 20% for interest and non-savings income. [½]

The SRB is divided by the number of settlements made by the same settlor [½], with a minimum amount of £200 for each trust. [½]

Remaining income is taxed at the rate applicable to trusts (RAT). [½] This is 39.35% on dividends and 45% on other income. [½]

Trust management expenses are grossed up and deducted from gross trust income. [½]
They are set against dividend income in priority to other sources. [½]

Expenses relating to a specific source of income (eg rental expenses) are deducted directly from that income. [½]

Max 3

3.

	<u>Form</u>	<u>Filing deadline</u>	
1)	IHT 100	6 months from the end of the anniversary month	[1]
2)	IHT 400	12 months from the end of the month of death	[1]
3)	SA 900	31 October after the end of the tax year	[1]
4)	SA 900	31 January after the end of the tax year	[1]

Total 4

4.

- Double taxation relief (DTR) is given on transfers of assets situated overseas which are charged to both IHT in the UK and to foreign tax of an equivalent nature.
- Relief may be given under the terms of a treaty; if there is no treaty, unilateral relief will apply.
- DTR is given as a tax credit against the IHT payable on the overseas asset.
- Relief is given at the lower of the foreign tax liability and the IHT payable on the asset in the UK.

[1] each - Max 3

5.

Carol – Death estate

	£	£	
Holiday home in Spain	90,000		
Less: 5% x expenses (max)	<u>(4,500)</u>		[½]
		85,500	
Family home		700,000	[½ for both]
Investments		<u>450,000</u>	
		1,235,500	
Less: Funeral costs		<u>(5,000)</u>	[½]
		1,230,500	
Less: RNRB		(175,000)	[½]
Less: Husband's b/f allowance		(175,000)	[½]
Less: Nil rate band		(325,000)	[½]
Less: Transferred nil rate band (£325,000 x 75%)		<u>(243,750)</u>	[½]
		<u>311,750</u>	
IHT @ 40%		<u>124,700</u>	[½]

Total 4

6.

A joint claim must be made by the trustees and the donee. [½]

The claim is made on a specific form (HS 295) [½] which is normally submitted alongside the trustees' SA return. [½]

The claim must be submitted within four years of the end of the tax year. [½]

The donor is not charged tax on the gain that is held over. [½]

The donee acquires the asset at market value less the held over gain. [½]

The donee makes a larger gain [½] or smaller loss [½] when they eventually dispose of the asset.

Max 3

7.

1) Value of giftTotal shares in issue = $6,000 / 0.4 = 15,000$

1,500 shares = 10% holding

		Stand-alone value £	Related value £	Higher £	[½]
Before transfer:	40%	60,000			[½]
	$40/60 \times £130,000$		86,667	86,667	[½]
After transfer:	30%	45,000			[½]
	$30/50 \times £100,000$		60,000	(60,000)	[½]
Transfer of value				<u>26,667</u>	[½]

2) Related property

Two from the following:

- Charities (including a trust for charitable purposes) [½]
- Political parties [½]
- Housing associations [½]
- Bodies for national purposes [½]

Max 4

8.

Estate	£	
	548,000	
Less: Nil rate band 2023/24	<u>(325,000)</u>	[½]
	<u>223,000</u>	
IHT @ 40%	89,200	[½]
Less QSR: $£27,000 \times (£124,000 - £27,000) / £124,000 \times 40\%$	<u>(8,448)</u>	[2]
Tax payable	<u>80,752</u>	

Total 3

9.

25 December 2023:	Small gifts exemption does not apply Can use AE 2023/24	£ 300 <u>(300)</u> Nil	[½] [½]
1 April 2024:	Gift not "in consideration of marriage" AE 2023/24 AE 2022/23 b/f	5,000 (2,700) <u>(2,300)</u> Nil	[½] [½] [½]
1 October 2024:	No political party exemption applies Need 2 MPs or if not, 1 MP with at least 150,000 votes Use AE 2024/25 (2023/24 is used and the balance from 2022/23 has lapsed)	4,000 <u>(3,000)</u> <u>1,000</u>	[½] [½]

Max 3

10.

	£	
Proceeds	108,000	
Less: Costs of sale	(520)	[½]
Less: Probate value	<u>(89,000)</u>	[½]
	18,480	
Less: AEA	<u>(6,000)</u>	[½]
	12,480	
Less: Losses b/f (W)	<u>(5,600)</u>	[½]
Taxable gain	<u>6,880</u>	
CGT @ 20%	<u>1,376</u>	[½]
Working: Losses b/f		
Proceeds on sale of painting	52,000	
Less: Probate value	<u>(57,600)</u>	
Loss	<u>(5,600)</u>	[½]

Total 3

11.

- The election allows transfers from a UK-domiciled spouse or civil partner to a non-domiciled spouse or civil partner to be fully exempt from IHT. [1]
- Otherwise, the spouse or civil partner exemption is limited to £325,000 for all transfers (lifetime and death). [1]
- The non-UK domiciled spouse or civil partner's worldwide property would also then be subject IHT. [1]

Total 312. Bare trust features

A bare trust is a nominee arrangement. [½]
 The trustee is the legal owner and the beneficiary is the beneficial owner. [½]
 The trustee holds property on behalf of the beneficiary and acts in accordance with the beneficiary's wishes. [½]

IHT

Transfers to a bare trust are PETs. [½]
 The trust assets are in the beneficiary's estate for IHT. [½]

CGT

The creation of a bare trust is a disposal for CGT purposes by the donor. [½]
 Any trust gains or losses are the beneficiary's gains and losses (not the trust's). [½]
 Transfers of assets out to a beneficiary are not disposals for CGT purposes (as they already beneficially own them). [½]

Income Tax

Income tax is levied on the beneficiary at their marginal rate of tax. [½]

Max 4

PAPER 5
SHORT FORM QUESTIONS
TEST "4" – NOVEMBER 2016
(40 MARKS)

1. Mr Wild has made the following cash gifts:

£10,000	To his best friend	20 July 2016
£5,000	To his godson upon marriage	18 March 2018
£50,000	To Birmingham University	31 December 2021

 - 1) **Calculate the values of these gifts for Inheritance Tax purposes, after deducting any available exemptions.** (2)
 - 2) **Explain the IHT implications of these gifts if Mr Wild were to die today.** (2)

2. On 10 October 2015, Paulo transferred shares valued at £200,000 to a life interest trust for the benefit of his daughter. This was his first ever gift.

Paulo then created a discretionary trust on 21 August 2017 by settling cash and shares with an initial value of £410,000. Paulo paid the tax. On 18 December 2023 the trustees appointed £100,000 to a beneficiary. The beneficiary agreed to pay any IHT due.

Calculate the IHT payable on the appointment on 18 December 2023 and state the due date. (4)

3. Trusts for disabled persons receive special treatment for Inheritance Tax purposes.

Explain the Inheritance Tax implications of trusts for disabled persons. (3)

4. Doris intends to give her children some holdings of quoted and unquoted shares and wants to know how they will be valued for Inheritance Tax purposes.

Explain the basis of valuing quoted and unquoted shares for IHT purposes. (4)

5. The trustees of the Wendy May Life Interest Settlement sold 1,000 Cupcake Ltd shares on 17 September 2023 for net proceeds of £288,000. Cupcake Ltd is an unquoted trading company. The trustees originally acquired their shares on 6 May 2018 for £200,000. The settlor has not created any other settlements.

The life tenant, Sophia, owns 5,000 Cupcake Ltd shares personally. This gives her 6% of the issued share capital and voting rights. Sophia acquired her shares in June 2020 and has worked full time for the company since May 2021. Sophia has used £600,000 of her lifetime Business Asset Disposal relief limit to date.

State the conditions to be satisfied for the trustees to claim Business Asset Disposal relief and calculate the Capital Gains Tax payable by the trustees for 2023/24. (4)

6. A non-UK domiciled spouse is able to make an election in relation to Inheritance Tax.

Explain the effect such an election has on their Inheritance Tax position. (4)

7. The term 'excluded property' is a technical term which includes certain types of assets.
- 1) **Define excluded property and explain its treatment for Inheritance Tax purposes.** (2)
 - 2) **Give two examples of excluded property.** (2)
8. On 24 August 2023 Henry transferred land to a new interest in possession trust for the benefit of his goddaughter. The market value of the land at that time was £540,000, but a recent problem with a noisy neighbour may affect its future value.
- Explain the treatment of any capital loss arising on a subsequent transfer of the land out of the trust to his goddaughter.** (2)
9. The executors of the late Mr Hart were issued with a self-assessment tax return in respect of the administration period for the 2022/23 tax year. The executors submitted the tax return online on 8 September 2024.
- State the deadline by which the return should have been submitted online to HM Revenue & Customs and the penalties which will be payable by the executors as a result of the late submission.** (3)
10. On 18 March 2024 Diana transferred a residential property to a trust for the benefit of her grandchildren. At that time, the property was valued at £310,000, however the trustees only paid Diana £250,000. Diana bought the property in August 2022 for £200,000. Diana made no other disposals during the year and is a higher rate taxpayer.
- Calculate, showing all your workings, the Capital Gains Tax payable by Diana in respect of the 2023/24 tax year, assuming holdover relief is claimed.** (3)
11. The executors of the late Mrs Horton incurred the following expenses during 2023/24:
- a) Insurance of £600 and repairs of £800 in respect of a rental property generating £3,000 rental income.
 - b) Interest of £1,000 paid on 17 May 2023 in respect of a loan taken out to pay Inheritance Tax. The loan was taken out on 7 January 2023.
 - c) General administration expenses of £500 in relation to the income of the estate.
- Explain how these expenses will be treated in calculating the Income Tax liability of the estate.** (3)
12. The trustees of the Tony Hutch interest in possession settlement received the following income during the year ended 5 April 2024:
- | | £ |
|--|-------|
| Dividends | 5,000 |
| Interest on solicitor's client account | 1,000 |
- The trustees incurred trust management expenses of £600 during the year.
- Calculate the trustees' net distributable income for 2023/24.** (2)

**TEST "4" – NOVEMBER 2016
ANSWERS**

1.

	£	
Gift 1:	10,000	
Less: AE 2016/17	(3,000)	[½ for both]
Less: AE 2015/16	(3,000)	
PET (now exempt as > 7 years old)	<u>4,000</u>	[½]
 Gift 2:	 5,000	
Less: Marriage exemption (£1,000 anyone else)	(1,000)	[½]
Less: AE 2017/18 only (2016/17 used already)	(3,000)	[½]
PET (chargeable on death before March 2025)	<u>1,000</u>	[1]
 Gift 3:		
Gift for national purposes (s.25 & Sch 3 IHTA 1984)	<u>Exempt</u>	[1]
		Total 4

2.

	£	£	
Initial value of trust		410,000	
Nil rate band 2023/24	325,000		[½]
Less: CLTs in the 7 years before the gift (£200,000 – £6,000)	<u>(194,000)</u>		[½]
		<u>(131,000)</u>	
		279,000	
 Tax @ 20%		<u>55,800</u>	[½]
 Effective rate: £55,800 / £410,000 x 100		13.61%	[½]
 Actual rate: 13.61% x 30% x 25/40		2.552%	[1]
 Exit charge: £100,000 x 2.552%		£2,552	[½]
Due date 30 June 2024			[½]
			Total 4

3.

The disabled person is treated as having a qualifying IIP (QIIP) for IHT. [½]

The trust forms, and is charged as, part of the disabled person's estate on death. [½]

If there is a lifetime termination of their interest, this will be a PET. [½]

Where the trust has been established on death, IHT will have been paid before arriving at the available trust fund. [½]

For lifetime creation, the value transferred will be a PET by the settlor. [½]

This type of trust does not fall within the relevant property regime so will not be subject to ten year [½] or exit charges. [½]

Max 3

4. The valuation of quoted shares for IHT purposes is the lower $[\frac{1}{2}]$ of:
- The quarter up price: This is the value given by taking a quarter of the difference between the quoted prices $[\frac{1}{2}]$ and adding this to the lower of those figures. $[\frac{1}{2}]$
 - The average marked bargain price: This is halfway between the highest and lowest marked bargains for the particular shares recorded for the relevant day $[\frac{1}{2}]$ excluding bargains at special prices. $[\frac{1}{2}]$

Unquoted shares should be valued based on what they might be expected to fetch assuming they are sold on the open market $[\frac{1}{2}]$ by a willing seller to a willing buyer. $[\frac{1}{2}]$

The valuation will be affected by voting rights held $[\frac{1}{2}]$, for example a holding which gives control will be worth more per share than a minority shareholding. $[\frac{1}{2}]$

Max 4

5. For the trustees to qualify for BADR, the life tenant (ie Sophia) must also be eligible to BADR in their own right. This means firstly, that Cupcake Ltd must qualify as Sophia's personal company. $[\frac{1}{2}]$

To be Sophia's personal company, Sophia needs to own at least 5% of the shares personally $[\frac{1}{2}]$ and exercise at least 5% of the voting rights, $[\frac{1}{2}]$ throughout a two-year period ending not earlier than three years before the disposal date. $[\frac{1}{2}]$

Secondly, Sophia must work as an officer or employee of the company, $[\frac{1}{2}]$ throughout the same two-year period. $[\frac{1}{2}]$

Sophia needs a sufficient part of her £1 million lifetime allowance still available to cover the trustees' gain $[\frac{1}{2}]$ and a joint claim by Sophia and the trustees is necessary for the trustees to use Sophia's unused allowance. $[\frac{1}{2}]$

Assuming they make a joint claim for Sophia's unused BADR allowance, the CGT payable would be:

	£	
Proceeds	288,000	
Less: Cost	<u>(200,000)</u>	$[\frac{1}{2}]$
Gain	88,000	
Less: AEA	<u>(3,000)</u>	$[\frac{1}{2}]$
Taxable gain	<u>85,000</u>	
CGT @ 10%	<u>8,500</u>	$[\frac{1}{2}]$

Max 4

6. The person making the election will be treated as domiciled in the UK for IHT purposes only **[1]** from the date stated in the election. $[\frac{1}{2}]$

Any transfers received from a UK domiciled spouse after that date qualify for the full spouse exemption, **[1]** instead of just the limited exemption of £325,000. $[\frac{1}{2}]$

However, the worldwide assets of the non-UK domiciled spouse will then be within the scope of IHT and not just UK situs assets. **[1]**

Total 4

7.

- 'Excluded property' refers to assets that are outside the charge to IHT.
- Excluded property is not included in the deceased's estate on death.
- During lifetime, a transfer of excluded property will be disregarded.
- Excluded property is not subject to the relevant property charges in trusts.

[1 each]**Max 2**Any two of the following examples:

- Non-UK situs assets owned by non-UK domiciled persons
- UK unit trusts and OEICS owned by non-UK domiciled persons
- Treasury Stock owned by persons who are non-UK domiciled and non-UK resident
- National Savings products owned by persons domiciled in the Channel Islands or the Isle of Man
- Reversionary interests in settled property that has not been purchased
- Decorations awarded for bravery (not if purchased)
- Settled property situated outside the UK settled by a non-UK domiciled person

[1 each]**Max 2**

8. As there are no other assets in the trust, any loss arising on the transfer of the land will be passed on to Henry's goddaughter. **[1]**

She can only set the loss against future gains arising when disposing of the land. **[1]**

Total 2

9. Filing deadline 31 January 2024 **[½]**

Initial late filing penalty £100 **[½]**

More than 3 months late: daily £10 penalty for up to 3 months **[1]**

More than 6 months late: 5% of tax due or £300 if greater **[1]**

Total 3

10.

	£	£	
Market value		310,000	[½]
Less: Cost		<u>(200,000)</u>	[½]
		110,000	
Actual payment	250,000		
Less: Original cost	<u>(200,000)</u>		
Excess proceeds	<u>50,000</u>		[½]
Gift relief	(£110,000 – £50,000)	<u>(60,000)</u>	[½]
Chargeable gain		50,000	
Less: AEA		<u>(6,000)</u>	[½]
Taxable gain		<u>44,000</u>	
CGT @ 28%		<u>12,320</u>	[½]

Total 3

11. The insurance and repair costs are specific to the rental property and will therefore be deducted from the associated income (the rents) to calculate the taxable rental profit. [1]

The interest paid on the loan taken out to fund the IHT liability is deductible from total income because it is paid within 12 months from when the loan was taken out. [1]

The general administration expenses are not deductible when calculating the executor's liability to income tax. They are instead taken into account when calculating the income taxable on the residuary beneficiary. [1]

Total 3

12.

	£	£	
Dividends		5,000	[½ for both]
Interest	1,000		
Less: Tax @ 20% / 8.75%	<u>(200)</u>	<u>(437)</u>	[½]
	800	4,563	
Less: Expenses	<u>Nil</u>	<u>(600)</u>	[1]
Net distributable income	<u>800</u>	<u>3,963</u>	

Total 2

**PAPER 5
LONG QUESTIONS**

1. Elliot died on 8 December 2023.

His only lifetime gift was £90,000 in cash to his daughter on 10 July 2020.

Elliot's death estate was valued as follows:

	£
House	700,000
Quoted shares:	
10,000 A plc, quoted at 310 – 318, bargains at 308, 312, 314	
15,000 B plc, quoted at 280 – 284, bargains at 282, 284	
Unquoted shares:	
10,000 C Ltd, acquired 2006	250,000
Personal chattels	40,000
Cash at bank	25,000

C Ltd is a manufacturing company. At the date of Elliot's death it had net assets of £1.25m of which £150,000 was in respect of land held as an investment.

Elliot's funeral expenses (including the cost of a tombstone) were £5,000. He had unpaid credit card bills of £1,500 and outstanding income tax of £2,000.

Elliot left his entire estate to his son, Walter, who was also the sole executor of Elliot's will.

Elliot's wife had died on 12 May 2005. She left £50,000 to each of her son and daughter and £10,000 to her brother. The residue of her estate was left to Elliot.

Requirement:

- | | | |
|----|---|------|
| 1) | Calculate the IHT payable as a result of Elliot's death; and | (12) |
| 2) | Explain what Walter must do to account for the IHT payable. Ignore the availability of the instalment option if relevant. | (3) |
| | Total | (15) |

2. The Bailey Discretionary Trust was created on 1 June 2012 by the settlor, Edna Bailey. The class of beneficiaries includes Edna's three adult children, Freddie, George and Harry. Edna created one other discretionary trust in 2006, making a chargeable lifetime transfer of £213,000 at that time.

On 1 June 2022, the Bailey Trust reached its ten-year anniversary. The value of the trust fund at that time was £500,000.

On 27 October 2023, the trustees made a capital distribution of £50,000 to Freddie Bailey, with the trustees agreeing to pay any tax due.

The trustees of the Bailey Discretionary Trust have agreed to make an income payment of £4,500 to Harry Bailey in 2023/24. They have a tax pool brought forward of £50 and received dividend income of £9,500 during the year.

Also during 2023/24, the trustees sold some shares for proceeds of £25,000. The shares were acquired in 2020 at a cost of £2,000.

Edna is considering creating a third trust soon but is unsure whether to use an interest in possession trust or a discretionary trust.

Requirement:

- | | | |
|----|--|-------------|
| 1) | Calculate the Inheritance Tax payable by the trustees as a result of the ten-year charge on 1 June 2022. | (4) |
| 2) | Calculate the Inheritance Tax payable by Freddie Bailey as a result of the capital distribution on 27 October 2023. | (2) |
| 3) | Calculate the Income Tax payable by the trustees for 2023/24. | (4) |
| 4) | Calculate the Capital Gains Tax payable by the trustees for 2023/24. | (2) |
| 5) | Compare the tax treatment of a discretionary trust and an interest in possession trust created during the settlor's life, both on creation and during its lifetime. | (6) |
| | Total | (18) |

3. Priya Darko is non-UK domiciled. She is single and has lived in the UK since May 2010.

She has become wealthy over the years and now feels that an Inheritance Tax review is required. Her assets currently consist of the following:

A holiday home near her family in Utopia £200,000

An offshore bank account in Utopia £104,050

A reversionary interest in a UK trust. This trust was set up by Priya's grandfather. The life interest was given to Priya's father. The capital will pass to Priya on her father's death

The capital assets are currently worth £200,000. The reversionary interest is currently valued at £50,000.

305 quoted shares in Zebra-3 Plc, a UK trading company

The shares are quoted between £10.08 and £10.56.

1,500 unquoted shares in Huggy Ltd, a UK trading company held since 2010 £725,000

A property currently let in the UK £235,000

Her home in the UK £460,000

A UK cash ISA £1,480

Her will leaves her estate to her brother who lives in Utopia.

Priya has previously made the following lifetime gifts:

	Date of gift	£
300 shares in Huggy Ltd (held since 2011) to her brother, Nick, who has since sold these shares	27 August 2018	93,000
£4,000 in cash to each of her three godchildren	16 May 2019	12,000
A transfer of 500 shares in Huggy Ltd (held since 2011) into a discretionary trust. (No Inheritance Tax was previously paid in relation to this transfer)	9 November 2021	230,000
£1,500 to her friend Dinesh, when he got married	9 May 2023	1,500

Priya is currently thinking about returning to Utopia to look after her frail mother. Alternatively, she may decide to stay in the UK and make regular trips to Utopia. She would like to know if this will affect her Inheritance Tax position in any way.

Requirement:

- 1) Calculate Priya's Inheritance Tax liability assuming she dies today (you can assume that today's date is 27 June 2024). (11)

- 2) Explain the effects that:

- a) Staying in the UK; and
- b) Leaving the UK will have on Priya's Inheritance Tax position. (4)

Total (15)

4. The Rose Discretionary Trust was created on 19 May 2013 by the settlor, Laura Rose, for the benefit of her adult grandchildren. This trust was her only lifetime gift and Laura paid the Inheritance Tax arising on the transfer.

The assets settled on the trust were:

- a) Cash of £550,000.
- b) A painting valued at £50,000 which Laura had purchased for £30,000. Laura claimed hold over relief in respect of this gift.
- c) Farmland with an agricultural value of £200,000, although its market value due to development potential was £300,000. The farmland had been let to a local farmer for many years, and a new lease had recently been signed.

On 19 May 2023, the capital value of the trust fund was £1,400,000. This included the farmland which had an agricultural value of £250,000 but a market value of £350,000. There were no capital distributions in the first 10 years of the trust.

On 1 February 2024 the trustees paid £200,000 to Iris, a beneficiary. £25,000 of this payment was made from trust income. Iris agreed to pay any tax arising on the appointment.

In the 2023/24 tax year the trustees received the following income:

	£
Rental income for use of the farmland	12,000
Bank interest	35,000
Dividends	12,500

During the year they paid £500 to repair a fence on the farmland which had fallen down due to severe weather.

Fees for preparing the 2023/24 trust tax return were £305.

On 30 April 2023 the trustees sold the painting for £63,000. Costs of disposal were £1,250.

Requirement:

- 1) Calculate the Inheritance Tax payable on the creation of the trust. (3)
 - 2) Calculate the Inheritance Tax payable on the Rose Discretionary Trust's ten-year anniversary on 19 May 2023. (3)
 - 3) Calculate the Inheritance Tax payable on the capital distribution made to Iris. (2)
 - 4) Calculate the Income Tax payable by the trustees for 2023/24. (4)
 - 5) Calculate the Capital Gains Tax payable by the trustees for 2023/24. (2)
- Total (14)

5. Philippa died on 17 June 2023. She was divorced and had no children. On the date of her death she owned the following assets:

	£
"Fir Trees" (her home)	500,000
Porsche motor car	50,000
Barclays bank account	12,000
Portfolio of quoted shares	750,000
10,000 shares in Greenfly plc (an AIM listed trading company)	200,000

Philippa bought the shares in Greenfly plc when she retired in January 2023. Prior to that date, she had owned a design company for many years. She sold the business for £180,000 in January 2023 and reinvested the proceeds into the shares in Greenfly plc.

In the dining room at Fir Trees is an antique painting worth £100,000. This was bought by Philippa at auction in 2010 for £50,000 and gifted to her sister, Judith, in 2011 as a 50th birthday present. As Judith lives in a small flat, she agreed that the painting should be hung at Fir Trees where she could enjoy it whenever she visited her sister.

Philippa was the life tenant of an interest in possession trust set up by her father in 2001. The market value of the assets in the trust on 17 June 2023 was £550,000.

Other than the painting, Philippa did not make any lifetime gifts. Her will states that her estate should pass equally to her two sisters, Judith and Alison.

Requirement:

- 1) **Explain whether the shares in Greenfly plc will qualify for Business Property Relief.** (3)
 - 2) **Explain the IHT consequences of gifting the antique painting.** (2)
 - 3) **Calculate the IHT payable as a result of Philippa's death.** (4)
 - 4) **Explain who is responsible for the payment of the IHT liability due on Philippa's death. (Calculations are not required for this part.)** (3)
 - 5) **State the administrative advantage of an estate qualifying as an excepted estate for IHT purposes.** (1)
 - 6) **Briefly explain the three categories of excepted estates. Your answer should include the conditions that must be met for each category to qualify as excepted.** (7)
- Total (20)

6. Jakob Lapp died on 11 May 2023. He was UK domiciled.

Jakob made the following lifetime gifts:

- a) Cash gift to his goddaughter, Ava, on 31 July 2017 of £187,000.
- b) Settled cash of £625,000 upon trust for Ava on 1 March 2018. The trustees paid the Inheritance Tax due. The trustees invested the cash in a property and, by the time of Jakob's death, the property was worth £700,000.

Jakob left his entire estate to Ava consisting of the following:

	£
House	800,000
Chattels	30,000
Works of art (conditions for national heritage property are met)	750,000
Investments	300,000

There was a mortgage secured on the house of £500,000. Jakob took out an insurance policy four years ago which paid out £600,000 to his executors on death.

The executors incurred funeral costs of £8,000 and £1,000 for the tombstone. The executors honoured an informal oral agreement with Jakob's friend and repaid a cash loan of £250. Income Tax of £7,810 was due on 31 January 2023 but remains unpaid.

During the period to 5 April 2024 the executors received the following income:

	£	
Bank interest	2,700	
Employment income (paid 31 May 2023)	800	(no tax deducted)
Dividends	3,000	

The executors took out a loan to fund the IHT payable. Interest was paid on 31 March 2024 of £1,200. The executors incurred costs of £500 in administering the estate.

The executors sold a car on 8 January 2024 for £12,000 (probate value £10,000). They also sold an antique dresser on 1 February 2024 for £5,000 (probate value £4,500).

The executors have indicated that they now feel confident finalising the administration of the estate and have no further need for the services of your firm of tax advisers.

Requirement:

- 1) Calculate the Inheritance Tax payable on the lifetime gifts during lifetime and as a result of Jakob's death. (6)
 - 2) Calculate the Inheritance Tax payable on Jakob's death estate. (5)
 - 3) Calculate the Income Tax payable by Jakob's executors for 2023/24. (3)
 - 4) Explain the Capital Gains Tax position for Jakob's executors for 2023/24. (2)
 - 5) Explain the difference between an executor and an administrator. (2)
 - 6) State four of the recommended clauses to include in a letter of disengagement when ceasing to act for a client. (2)
- Total (20)

7. The Barlow Interest in Possession Settlement was created on 8 October 2005. This is the only trust ever created by the settlor. The life tenant, Sophie, receives quarterly income payments from the trustees. As well as the income from the settlement, Sophie receives a salary and dividends from Echo Ltd, a company where she has worked for many years. Sophie owns a 20% shareholding in Echo Ltd, whilst the trustees own a 2% shareholding.

Neither Sophie nor the trustees have ever claimed Business Asset Disposal Relief and Sophie has confirmed that she would be happy to join with the trustees in any claims required to reduce the amount of tax payable by the trustees.

The initial trust property was as follows:

	<u>Value at 8 October 2005</u>
	£
Cash	20,000
Land	230,000
2% shareholding in Echo Ltd	320,000

On 1 August 2023 the trustees sold their shareholding in Echo Ltd for £500,000.

The land was also sold on 6 December 2023 for £280,000. Professional costs of £3,500 were incurred in connection with the sale. The land was let for £1,025 per month and the trustees incurred maintenance fees in respect of the land totalling £200, up to the date it was sold. The land has never been used for business purposes.

Bank interest of £650 was received during the year ended 5 April 2024. The trustees received a dividend in respect of their shareholding on 5 May 2023 of £1,000.

Requirement:

- 1) Calculate, showing all your workings, the Income Tax payable by the trustees for 2023/24 and state the due date for a tax return to report this income. (3)
 - 2) Explain the Income Tax consequences for Sophie of receiving income as the life tenant. (2)
 - 3) Calculate the Capital Gains Tax payable by the trustees for 2023/24, clearly explaining your treatment of the annual exempt amount. (5)
 - 4) Explain the Inheritance Tax implications if the proceeds from the sale of the shares and land are distributed to Sophie. Explain how the position would be different if the settlement had been created after 22 March 2006. (4)
 - 5) Explain the types of ownership the Trustees, the Life Tenant and the Remaindermen have in a Life Interest Trust. (3)
 - 6) Statutory powers facilitate the appointment of new or additional trustees. State three scenarios when these powers can be used. (3)
- Total (20)

8. Michel Blanc, a widower, made the following gifts during his lifetime:

1 November 2010	£335,000 into a discretionary trust for the benefit of his grandchildren. Michel paid the tax due.
15 September 2013	£5,000 to a hospice charity who cared for his late wife. His wife had left her estate valued at £500,000 to their son.
21 April 2016	£100,000 to his son on the occasion of his wedding.
17 July 2017	£100,000 to his niece on the occasion of her wedding.
30 May 2019	£100 to each of his 10 grandchildren on the occasion of Michel's 60th birthday.

Michel died on 5 April 2024 with an estate consisting of the following assets:

- 1) His home worth £500,000 (with an outstanding mortgage of £100,000).
- 2) A portfolio of quoted shares worth £650,000.
- 3) Cars worth £50,000.
- 4) Shares in Blanc Check Ltd (a trading company) worth £1 million. These shares had been held for ten years.

Michel left his entire estate to his son. Michel was born and raised in France but had lived in the UK for more than 40 years.

Requirement:

- 1) Calculate the lifetime Inheritance Tax payable on each of the above gifts, clearly showing any available exemptions. (6)
 - 2) Calculate the additional Inheritance Tax payable in respect of the above gifts as a result of Michel's death. (3)
 - 3) Calculate the Inheritance Tax payable on Michel's death estate and state the due date. (6)
- Total (15)

9. Mary Lamb died in June 2023. Her executors are currently administering her estate, which received the following income in 2023/24:

	£
Rental income from The Schoolhouse	15,000
Interest received on Mary's ISA	10,000
Dividend income	6,000

The Schoolhouse is a residential rental property owned by Mary. The executors paid expenses in connection with that property as follows:

	£
Replacement guttering	500
Legal costs in relation to the sale	5,000

The Schoolhouse was sold on 31 March 2024 for £405,000 after an upturn in the local property market. Its probate value was only £350,000.

Mary's adult son, Larry, is the sole beneficiary of the estate and the executors paid all of the estate income to him on 5 April 2024. Larry is a higher rate taxpayer with no investment income.

Requirement:

- 1) Explain the treatment of the interest arising on Mary's ISA. (2)
 - 2) Calculate the Income Tax payable by Mary's executors for 2023/24. (3)
 - 3) Calculate the Income Tax payable by Larry on the estate income received by him in 2023/24. (3)
 - 4) Calculate the Capital Gains Tax payable by Mary's executors as a result of the sale of The Schoolhouse. (2)
 - 5) State the due dates for the submission of the estate tax return for 2023/24 and for the payment of any Income Tax and Capital Gains Tax due. (2)
 - 6) Outline the consequences of submitting the estate tax return and paying the tax four months late. (4)
 - 7) State two of the responsibilities of a member of the Association of Taxation Technicians in connection with the preparation of tax returns/tax filings for a client. (2)
- Total (18)

10. The Adventure Discretionary Trust was created on 1 October 2021 by Mr Desai, who had previously created seven other trusts.

The trustees immediately purchased the following assets:

	Cost £
1 Commercial Row (a commercial investment property)	695,000
33 Professional Avenue (a residential investment property)	575,000
220,000 shares in Return 4 Investments plc	880,000

In the 2023/24 tax year, the trustees received dividend income of £50,000 and net rental income from the properties of £55,000. Legal fees of £5,450 were incurred over a border dispute for 33 Professional Avenue.

On 12 January 2024 the trustees sold 33 Professional Avenue for £900,000 as they had been unable to find a suitable tenant.

Requirement:

- 1) Calculate the Adventure Discretionary Trust's Income Tax liability for the year ended 5 April 2024. (3)
 - 2) Calculate the Capital Gains Tax payable by the Adventure Discretionary Trust for the year ended 5 April 2024 and state the due date for payment. (3)
 - 3) Explain the penalties applicable if the Capital Gains Tax is paid on 31 August 2025. (2)
 - 4) Explain the minimum and maximum number of trustees that can become trustees if land is settled in a trust. (2)
- Total (10)

ANSWERS TO LONG QUESTIONS

1. ELLIOT

1) IHT on death

Lifetime gift:

	£	
Gift (10 July 2020)	90,000	[½]
Less: AEs (x 2)	<u>(6,000)</u>	[½]
PET now chargeable on death (within nil rate band)	<u>84,000</u>	

Death estate – 8 December 2023:

	£	£	
House		700,000	[½]
A plc shares (W1)		31,100	
B plc shares (W2)		42,150	
C Ltd shares	250,000		[½]
Less: BPR			
£250,000 x 100% x 1.25 – 0.15/1.25 (excluded assets)	<u>(220,000)</u>	30,000	[1½]
Personal chattels		40,000	[½]
Cash at bank		<u>25,000</u>	[½]
		868,250	
Less: Liabilities			
Funeral expenses	5,000		[½]
Credit card bills	1,500		[½]
Income tax	<u>2,000</u>		[½]
		<u>(8,500)</u>	
Chargeable estate		859,750	
Less: Residence nil rate band (W3)		(350,000)	
Nil rate band at death (W4)	520,000		
Less: Transfers in previous 7 years	<u>(84,000)</u>		[½]
Nil rate band available		<u>(436,000)</u>	
Taxable estate		<u>73,750</u>	
IHT @ 40%		<u>29,500</u>	[½]

WorkingsW1) A plc shares:

(i)	$(318 - 310) / 4 = 2 + 310$	=	312p	
or				
(ii)	$(314 + 308) / 2$	=	311p	[1]

Take lower

IHT value = 10,000 x 311p	=	<u>£31,100</u>
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W2) B plc shares:

(i)	$(284 - 280) / 4 = 1 + 280$	=	281p	
or				
(ii)	$(284 + 282) / 2$	=	283p	[1]

Take lower

IHT value = 15,000 x 281p	=	<u>£42,150</u>
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W3) RNRB

	£	
Own RNRB	175,000	
Add: Wife's b/f allowance (death pre-6.4.17)	<u>175,000</u>	[1]
	<u>350,000</u>	

W4) Nil rate band

	£	
Wife's chargeable estate	110,000	[½]
Less: Nil rate band 2005/06	<u>(275,000)</u>	[½]
Unused	<u>165,000</u>	

% unused = £165,000/£275,000 60% [½]

Elliot's nil rate band: £325,000 x 160% 520,000 [½]

Total 12

2)

Walter must submit an IHT account of the death estate and pay the IHT due before he can obtain the grant of probate. [1] He will therefore wish to do this as soon as possible.

The latest date for submission of the IHT account is 31 December 2024. [1]

He should pay the IHT due by 30 June 2024 to avoid a charge to interest. [1]

Total 3**Total for question 15**

2. BAILEY DISCRETIONARY TRUST

1)

	£	£	
Value of trust at 10-year anniversary (1 June 2022)		500,000	[½]
Nil rate band at June 2022	325,000		[½]
Less: Settlor's transfers b/f	<u>(213,000)</u>		[½]
		<u>(112,000)</u>	
		<u>388,000</u>	
Notional tax @ 20%		<u>77,600</u>	[½]
Effective rate: £77,600 / £500,000 x 100		<u>15.52%</u>	[½]
Actual rate: 15.52% x 30%		<u>4.656%</u>	[1]
Principal charge: £500,000 x 4.656%		<u>23,280</u>	[½]
		Total 4	

2)

	£	
Actual rate (above): 4.656% x 5/40	<u>0.582%</u>	[1]
Gross-up as trustees pay tax: 0.582 / (100 – 0.582) x 100	<u>0.585%</u>	[½]
Exit charge: £50,000 x 0.585%	<u>292</u>	[½]
	Total 2	

3)

	£	
Dividend income	<u>9,500</u>	
First £500 at 8.75% [[½] as settlor created 2 trusts]	44	[½]
Remaining £9,000 at 39.35%	<u>3,542</u>	[½]
Tax payable by trustees	<u>3,586</u>	
Tax pool b/f	50	[½]
Add: Tax paid on dividends	3,586	[½]
Less: Tax on distribution (£4,500 x 45/55)	<u>(3,682)</u>	[1]
Tax pool charge	<u>(46)</u>	
Total income tax payable (£3,586 + £46)	<u>3,632</u>	[½]
	Total 4	

4)

	£	
Sale proceeds	25,000	[½]
Less: Cost	<u>(2,000)</u>	[½]
Gain	23,000	
Less: AEA (½ x £3,000 as settlor created 2 trusts)	<u>(1,500)</u>	[½]
Taxable gain	<u>21,500</u>	
CGT @ 20%	<u>4,300</u>	[½]
	Total 2	

5)

Inheritance tax:

Both discretionary trusts and interest in possession (IIP) trusts created during the settlor's life fall within the relevant property regime for IHT purposes. [½]

Any gifts into such trusts are chargeable lifetime transfers (CLTs). [½]

IHT is also charged on every tenth anniversary of creation (10-year charge), and on payments of capital from the trust (exit charge). [½]

There are a few exceptions to this treatment. For example, gifts to disabled persons trusts (whether discretionary or IIP in nature) are treated as PETs for IHT purposes, so there is no IHT on creation nor any exit or 10-year charges. [½]

Capital gains tax:

Transfers into trusts that fall within the relevant property regime are immediately chargeable to IHT [½] and, as such, any capital gains arising on the creation of the trust are usually eligible for gift relief under s.260 TCGA. [½]

Capital gains on assets held within either type of trust are treated the same, with CGT payable at 20% (28% if the asset is residential property) subject to any available losses and the annual exempt amount. [½]

Income tax:

The life tenant of an interest in possession trust has an automatic right to the net income generated by the trust fund. [½] The trustees pay tax at basic rates only, [½] with the net income after deduction of trust management expenses passing to the beneficiary together with a basic rate and / or dividend ordinary rate tax credit. [½]

Beneficiaries of discretionary trusts have no automatic right to the income. [½] The trustees pay income tax at the rates applicable to trusts (RAT) [½] with any income passing to the beneficiaries being paid net of a 45% tax credit. [½]

Max 6

Total for question 18

3. PRIYA DARKO

1) Priya's 2024/25 inheritance tax positionAdditional tax on lifetime gifts

	£	
Shares (August 2018) - No BPR as shares sold	93,000	[½]
Less: AEs 2018/19 & 2017/18	(6,000)	[½]
PET chargeable on death	<u>87,000</u>	

Covered by nil rate band so no tax due. Nil [½]

Gifts to godchildren (May 2019)	12,000	[½]
Less: AE 2019/1920 (2018/19 already used)	(3,000)	[½]
PET chargeable on death	<u>9,000</u>	

Covered by nil rate band so no tax due. Nil [½]

Shares (9 November 2021):		
CLT of shares into a discretionary trust	230,000	[½]
Less: BPR @ 100%	(230,000)	[½]
	<u>Nil</u>	

Cash (9 May 2023)	1,500	[½]
Less: Marriage exemption	(1,000)	[½]
Less: AE 2023/24	(500)	[½]
	<u>Nil</u>	

Nil rate band remaining on death: (325,000 – 87,000 – 9,000) 229,000 [½]

Death estate

		£	
Holiday home in Utopia	Excluded property	Nil	[½]
Bank account in Utopia	Excluded property	Nil	[½]
Reversionary interest in a trust	Excluded property	Nil	[½]
Quoted shares in Zebra-3 Plc	305 x £10.20 (1/4 up)	3,111	[½]
1,500 shares in Huggy Ltd	Covered by 100% BPR	Nil	[½]
UK property		235,000	[½]
UK home		460,000	[½]
UK bank account		<u>1,480</u>	[½]
Total		699,591	
Less: Remaining nil rate band		(229,000)	[½]
Taxable		<u>470,591</u>	

IHT @ 40% 188,236 [½]

Total 11

2)

Once Priya is UK resident for 15 out of the previous 20 tax years, she is deemed to be UK domiciled for IHT purposes and her worldwide assets become chargeable to IHT. **[1]**

2024/25 will be her 15th consecutive year of UK residence so she will become deemed UK domiciled from 6 April 2025. **[1]**

If she dies after this date her IHT liability will increase by $(200,000 + 104,050) \times 40\% = £121,620$. **[1]**

However, if she returns to Utopia before 6 April 2025 and does not become UK domiciled under the “15/20 rule”, IHT will continue to be charged on her UK assets only. **[1]**

Total 4

Total for question 15

4. ROSE DISCRETIONARY TRUST1) IHT on creation of trust

	£	£	
Chargeable lifetime transfer:			
Cash		550,000	
Painting		50,000	
Farmland – market value	300,000		[½]
Less: APR @ 100% x agricultural value	<u>(200,000)</u>		[½]
Chargeable transfer		<u>100,000</u>	
		700,000	
Less: AE 2013/14		(3,000)	[½] for
Less: AE 2012/13		<u>(3,000)</u>	Both
		694,000	
Nil rate band 2013/14		<u>(325,000)</u>	[½]
Taxable transfer		<u>369,000</u>	
Inheritance Tax payable @ 20/80		<u>92,250</u>	[1]
			Total 3

2) 10-year charge

	£	
Value of trust fund at 10-year anniversary	1,400,000	
APR on farmland:		
Less: APR @ 100% x agricultural value	<u>(250,000)</u>	[½]
Net value of fund	1,150,000	
Less: Nil rate band 2023/24	<u>(325,000)</u>	[½]
	<u>825,000</u>	
Notional tax @ 20%	<u>165,000</u>	[½]
Effective tax rate: £165,000 / £1,150,000 x 100	<u>14.3478%</u>	[½]
Actual rate: 14.3478% x 30%	<u>4.3043%</u>	[½]
IHT payable: £1,150,000 x 4.3043%	<u>49,499</u>	[½]
		Total 3

3) Exit charge

Only capital liable to exit charge: (200,000 – 25,000)	<u>175,000</u>	[½]
Rate of tax applicable at 10-year anniversary	4.3043%	[½]
Quarters between 10-year anniversary and distribution: 19 May 2023 to 1 February 2024	2	[½]
Exit charge: 4.3043% x 2/40 x £175,000	<u>£377</u>	[½]
		Total 2

4) Income tax payable

	Non-savings £	Interest £	Dividends £	
Rental income	12,000			
Less: Allowable repair	(500)			[½]
Bank interest		35,000		
Dividend income			12,500	} [½]
	<u>11,500</u>	<u>35,000</u>	<u>12,500</u>	
Less: Expenses (£305 x 100/91.25)			(334)	[½]
Taxable at trust rates	<u>11,500</u>	<u>35,000</u>	<u>12,166</u>	
Tax:				
£1,000 @ 20%			200	[½]
(£11,500 – £1,000) @ 45%			4,725	[½]
£35,000 @ 45%			15,750	[½]
£12,166 @ 39.35%			4,787	[½]
£334 @ 8.75%			29	[½]
Total income tax payable			<u>25,491</u>	

Total 45) CGT payable

	£	
Proceeds	63,000	
Less: Costs of disposal	(1,250)	
Net proceeds	61,750	[½]
Less: Base cost (adjusted for hold over relief claim)	(30,000)	[½]
Capital gain	31,750	
Less: AEA	(3,000)	[½]
Taxable gain	<u>28,750</u>	
CGT @ 20%	<u>5,750</u>	[½]

Total 2**Total for question 14**

5. PHILIPPA1) Greenfly plc shares and BPR

AIM listed trading company shares are usually eligible for BPR. [1]

The Greenfly plc shares were held for less than two years at death, so would not normally qualify for BPR. [1]

However, the shares replaced a previous qualifying asset (the shares in Philippa's personal company), which were eligible for BPR and had already been held for more than two years. [½]

Since the shares were acquired within three years of the sale of her personal company, and together the two assets have been held for at least two out of the five years before the transfer, the Greenfly plc shares will qualify for BPR on Philippa's death. [½]

Total 32) IHT consequences of gifting the antique painting

The transfer of the antique painting was a PET and also a gift with reservation of benefit (GWROB), as Philippa continued to have the use and enjoyment of the painting whilst it was in her home without paying rent to Judith for this benefit. [1]

Philippa survived seven years from making the gift, so the original gift is completely exempt. [½]

However, the probate value of the painting must now be included in the estate calculation as a GWR. [½]

Total 2**Tutorial Note:**

If the PET had become chargeable on Philippa's death, it is still likely that including the painting's value in the death estate instead of charging the PET would have produced a higher tax charge, so HMRC would have chosen that amount. A double charges relief calculation would have confirmed this.

3) IHT payable

Estate:	£	£	
Fir Trees (family home)		500,000	
Porsche motor car		50,000	[1½]
Barclays bank account		12,000	
Portfolio of quoted shares		750,000	
Portfolio of AIM shares	200,000		
Less: BPR at 100%	<u>(200,000)</u>		[½]
		Nil	
Antique painting (GWROB)		<u>100,000</u>	[½]
Free estate		1,412,000	
Qualifying IIP		<u>550,000</u>	[½]
Total value of Philippa's estate:		1,962,000	
Less: Available nil rate band		<u>(325,000)</u>	[½]
Chargeable estate		<u>1,637,000</u>	[½]
IHT @ 40%		<u>654,800</u>	

Total 4

4) Responsibility for IHT

The total IHT liability will be split on a pro rata basis between the following parties:

- Executors (responsible for the IHT on the free estate) [1]
- Judith (responsible for the IHT on the painting, as recipient of the gift subject to a GWROB) [1]
- Trustees of the IIP trust (responsible for IHT on the settled property). [1]

Total 3

5) Excepted estate administrative advantage

If an estate is 'excepted' the Executors do not need to file [½] a form IHT 400 [½] with HMRC.

Total 1

6) Excepted estatesLow value estates

Such estates have no IHT liability as the gross value of the estate, before APR or BPR, [½] is within the available nil rate band at death. [½]

The deceased must not have made chargeable transfers exceeding £250,000 in the seven years before death [½]. They must not have more than £250,000 in a qualifying interest in possession (QIIP) trust [½] or £100,000 in foreign assets [½], and must not have made a gift with reservation of benefit. [½]

Exempt estates

Such estates, although above the IHT threshold, have no IHT liability as the gross value of property passing to non-exempt beneficiaries does not exceed the IHT threshold (i.e. most of the estate passes to a spouse or civil partner, or charity). [½]

The gross value of the estate (before APR/BPR), plus lifetime transfers in the seven years before death, must be less than £3 million. [½]

The deceased must not have made chargeable transfers exceeding £250,000 in the seven years before death [½]. They must not have more than £1 million in a QIIP trust [½] and that trust must not have made transfers over £250,000 to someone other than a UK-domiciled spouse or civil partner, or a charity [½]. They must not have more than £100,000 in foreign assets. [½]

Foreign domiciliaries' estates

The estate will qualify as excepted where the deceased was not UK domiciled and was never actually or deemed UK domiciled [½]. The deceased's UK assets must not be valued at more than £150,000 [½] and these assets must not include direct or indirect interests in UK residential property. [½]

Max 7

Total for question 20

6. JAKOB1) Tax payable during lifetime:

	£	
Gift 31 July 2017	187,000	
Less: AEs	<u>(6,000)</u>	[½]
PET so no lifetime tax due	<u>181,000</u>	[½]
 Gift 1 March 2018		
CLT	625,000	
Less: AEs (used)	Nil	[½]
Less: Nil rate band 2017/18	<u>(325,000)</u>	[½]
	<u>300,000</u>	
 Tax payable @ 20%	<u>60,000</u>	[½]

Tax payable as a result of Jacob's death:

	£	
PET 31 July 2017	181,000	
Less: Nil rate band	<u>(325,000)</u>	[½]
Chargeable	<u>Nil</u>	
 CLT 1 March 2018	625,000	[½]
Less: Nil rate band remaining (325,000 – 181,000)	<u>(144,000)</u>	[½]
	<u>481,000</u>	
 IHT @ 40%	192,400	[½]
Less: Taper relief (5-6 years = 60%)	<u>(115,440)</u>	[1]
	76,960	
Less: Lifetime tax paid	<u>(60,000)</u>	[½]
Tax payable	<u>16,960</u>	

Total 6

2)

	£	£	
House	800,000		
Less: Mortgage	<u>(500,000)</u>		[½]
		300,000	
Insurance proceeds		600,000	[½]
Works of art		Nil	[½]
Chattels		30,000	[½ for both]
Investments		<u>300,000</u>	
		1,230,000	
Less:			
Income tax payable	7,810		[½]
Funeral costs	8,000		[½ for both]
Tombstone	1,000		
Debt (N1)	Nil		[½]
Executors' costs (N2)	<u>Nil</u>		[½]
		<u>(16,810)</u>	
		1,213,190	
Less: Nil rate band (used in lifetime)		<u>Nil</u>	[½]
		<u>1,213,190</u>	
Tax payable @ 40%		<u>485,276</u>	[½]

Notes:

N1: Debt of £250 not deductible as not legally enforceable

N2: Any costs incurred by the Executors in administering the deceased's estate are not allowable deductions in calculating IHT

Total 5

3)

	Non savings £	Interest £	Dividends £	
Bank interest		2,700		
Employment income	800			
Dividends	<u>800</u>	<u>2,700</u>	<u>3,000</u>	[1]
Less: Interest paid	<u>(800)</u>	<u>(400)</u>	<u>3,000</u>	[1]
	<u>Nil</u>	<u>2,300</u>	<u>3,000</u>	
Tax:				
£2,300 @ 20%			460	[½]
£3,000 @ 8.75%			<u>263</u>	[½]
Tax due			<u>723</u>	

Total 3

4)

There is no CGT payable on the sale of the car as it is an exempt asset. [1]

There is no CGT payable on the sale of the antique dresser as it is covered by the chattels exemption (both cost and proceeds were less than £6,000). [1]

Total 2

5)

An executor is a personal representative appointed under the deceased's will to carry out the terms of that will. [1]

An administrator is a personal representative appointed by the court [½] because:

- The deceased dies without having made a valid will; [½] or
- The will does not appoint an executor; [½] or
- The executor(s) identified in a will renounce their appointment [½] or do not take out a grant of representation. [½]

Max 2

6)

Any four of the following:

- A summary of services provided up to the date of ceasing to act
- A note of any further action to be taken by the member
- A note of outstanding matters that either the ex-client or the new advisers will need to address
- Details of any impending deadlines and the action required
- The member's willingness or otherwise to assist the new advisers to resolve outstanding issues with HMRC or others
- The member's willingness or otherwise to provide copy papers to the new advisers
- Details of any outstanding fees
- A note indicating whether a member or their successor is to advise HMRC of the change

[½ each]**Max 2****Total for question 20**

7. BARLOW INTEREST IN POSSESSION SETTLEMENT

1)

	Non savings £	Interest £	Dividends £	
Bank interest		650		[½ for both] [½]
Dividends			1,000	
Rental £(1,025 x 8) – 200	<u>8,000</u>	<u>650</u>	<u>1,000</u>	
	<u>8,000</u>			
Tax @ 20% / 20% / 8.75%	<u>1,600</u>	<u>130</u>	<u>88</u>	[1]
Total tax payable		<u>£1,818</u>		

The due date for a return is 31 October 2024 (paper) or 31 January 2025 (online). [1]

Total 3

2)

As the trust is an Interest in Possession settlement, the income paid to Sophie retains its nature, ie interest, dividends or non-savings [½] and these amounts are included gross on her tax return [½] and are taxed at her marginal rate of income tax. [½]

Sophie will be able to utilise her Personal Savings Allowance and Dividend Allowance (if still available) against the interest and dividend income respectively that she receives from the trust. [½]

She will receive a form R185 from the trustees which summarises the net income she is entitled to for the year [½] and the associated tax credits. [½]

The net income is the income for the year after deducting tax and expenses settled out of the income. [½]

Max 2

3)

	Shares £	Land £	
Proceeds	500,000	280,000	
Less: Costs of sale		(3,500)	
Less: Cost	<u>(320,000)</u>	<u>(230,000)</u>	
Gain	180,000	46,500	[1]
Less: AEA		<u>(3,000)</u>	[½]
Taxable	<u>180,000</u>	<u>43,500</u>	
CGT @ 10% / 20%	<u>18,000</u>	<u>8,700</u>	[1]
Total CGT payable		<u>26,700</u>	

The AEA is allocated in the most beneficial way, [½] so is first set against gains having the highest rate of CGT, being the gains on the sale of the land. [½]

Business Asset Disposal relief will apply to the sale of the shares such that the gain on the shares will be taxed at 10%. [½] The Trustees will be entitled to claim part of Sophie's BADR allowance since Sophie, being the life tenant for more than two years, has personally owned at least 5% of the ordinary share capital and is also an employee. [1]

Total 5

4)

As the trust is an IIP created before 21 March 2006, it is a Qualifying Interest in Possession (QIIP) trust [½] and, as such, the trust property is treated as part of Sophie's estate for IHT purposes. [½]

If the sale proceeds are distributed to her, they move from being part of her settled estate [½] to part of her free estate which is liable to IHT. [½] An appointment out to Sophie therefore has no IHT implications. [½]

If the settlement had been created after 22 March 2006, it would be a Relevant Property Trust (RPT). [½]

The value of the trust would not be treated as part of Sophie's estate for IHT. Instead IHT is charged through exit charges and 10-yearly charges. [½]

If an appointment is made to Sophie, it would be an event for IHT purposes and would be subject to an exit charge. [½] Thereafter, the sale proceeds would be liable to IHT as part of her estate. [½]

Max 4

5)

Trustees are the persons who control [½] and have legal ownership of trust property. [½]

A life tenant is a beneficiary who has a life interest, [½] ie an immediate entitlement to the net income produced by the trust property as the income arises [½] or has the immediate enjoyment of the use of the trust property, [½] lasting for the person's lifetime or for the term set out in the trust deed. [½]

The remaindermen are also beneficiaries of the trust, [½] but they will only become absolutely entitled to the trust property when the intervening interests in possession have ended. [½]

Max 3

6)

[1 each any three of the following]

- A trustee dies
- A trustee remains outside the UK for 12 months
- A trustee wishes to retire
- A trustee refuses to act
- A trustee is unfit to act
- A trustee is incapable of acting

Max 3**Total for question 20**

8. MICHEL BLANC1) Lifetime IHT payable

	£	
Gift to discretionary trust 1.11.10	335,000	[½]
Less: AEs 2010/11 & 2009/10	(6,000)	[½]
CLT	329,000	
Less: Nil rate band	(325,000)	[½]
Taxable	<u>4,000</u>	

IHT @ 20/80	<u>1,000</u>	[½]
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Gift to charity 15.9.13	<u>Exempt</u>	[½]
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	£	
Gift to son 21.4.16	100,000	[½]
Less: Marriage exemption	(5,000)	[½]
Less: AEs (2016/17 & 2015/16)	(6,000)	[½]
PET	<u>89,000</u>	

	£	
Gift to niece 17.7.17	100,000	[½]
Less: Marriage exemption	(1,000)	[½]
Less: AE 2017/18 only	(3,000)	[½]
PET	<u>96,000</u>	

Gifts to grandchildren (covered by small gifts exemption)	<u>Exempt</u>	[½]
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Total 62) Additional IHT payable on death

The gifts on 1 November 2010 and 21 April 2016 were made more than seven years before death, therefore no additional tax is payable. [½]

	£	£	
PET to niece 17.7.17		96,000	[½]
Nil rate band	325,000		[½]
Less: CLT 1.11.10 (329,000 + 1,000)	<u>(330,000)</u>		[½]
		(0)	
Taxable		<u>96,000</u>	

IHT @ 40%	38,400	[½]
Less: Taper relief (6 – 7 years = 80%)	<u>(30,720)</u>	[½]
Payable by niece	<u>7,680</u>	

Total 3

3) IHT payable on death estate

	£	£	
House	500,000		[½]
Less: Mortgage	<u>(100,000)</u>		[½]
		400,000	
Quoted shares		650,000	[½]
Cars		50,000	
Blanc Check Ltd shares	1,000,000		
Less: BPR @ 100%	<u>(1,000,000)</u>		[½]
		<u>Nil</u>	
Chargeable estate		1,100,000	
Less: RNRB (W)		<u>(300,000)</u>	[½]
Nil rate band	325,000		
Less: PET 17.7.17	<u>(96,000)</u>		[½]
		<u>(229,000)</u>	
Taxable		<u>571,000</u>	
IHT @ 40% (due 31 October 2024) [½]		<u>228,400</u>	[½]
	£	£	
(W): Residence nil rate band			
Own		175,000	
Wife's b/f allowance (died before 6 April 2017)		<u>175,000</u>	[½]
		350,000	
Restriction:			
Chargeable estate	1,100,000		
Add: BPR	<u>1,000,000</u>		[½]
Gross estate	2,100,000		
Less: Taper limit	<u>(2,000,000)</u>		[½]
	<u>100,000</u>		
x 50%		<u>(50,000)</u>	[½]
		<u>300,000</u>	

Total 6**Total for question 15**

9. MARY LAMB1) ISA interest

Interest earned on an ISA during an individual's lifetime is exempt from income tax. [½]

The tax-free status of the ISA continues at death, [½] so income (and gains) are tax-free. [½]

This "continuing ISA" status lasts for up to three years from the date of death. [½]

Total 22) Income tax payable – Executors

	Non-savings £	Dividend £	
Rental income	15,000		[½]
Less: Allowable repair	(500)		[½]
[Legal costs disallowed as capital]			[½]
Dividend income		6,000	[½]
	<u>14,500</u>	<u>6,000</u>	
Income tax at 20% / 8.75%	<u>2,900</u>	<u>525</u>	[1]

Total 33) Income tax payable – Larry

	Non-savings £	Dividend £	
Gross income (as above)	14,500	6,000	[½]
Less: Dividend allowance		(1,000)	[½]
	<u>14,500</u>	<u>5,000</u>	
Income tax at 40% / 33.75%	5,800	1,687	[1]
Less: Tax credit	(2,900)	(525)	[1]
Tax payable	<u>2,900</u>	<u>1,162</u>	
Total tax payable	<u>4,062</u>		

Total 34) CGT – Executors

	£	
Sale proceeds	405,000	
Less: Legal costs	(5,000)	[½]
Net sale proceeds	400,000	
Less: Probate value	(350,000)	[½]
Gain	50,000	
Less: Annual exempt amount	(6,000)	[½]
Chargeable gain	<u>44,000</u>	
CGT @ 28% (Residential property)	<u>12,320</u>	[½]

Total 2

5) Return and payment deadlines

The estate tax return should be submitted online by 31 January 2025. [½]

A paper return should be submitted by 31 October 2024. [½]

The above dates are replaced by three months after the date of issue, if later. [½]

The income tax due should be paid by 31 January 2025. [½]

The sale of the residential property should be reported on an online return [½] and the CGT paid within 60 days [½] of completion.

Max 2

6) Late return and payment

A fixed £100 penalty applies to a late return. [½]

Once the return is three months late, there may be a penalty of £10 for each additional day the return is outstanding (up to 90 days). [1]

A return that was four months late could therefore incur an additional penalty of £300. [½]

Interest is charged on any tax paid late. [½]

A penalty of 5% of the unpaid tax applies after 30 days. [1]

No penalty is applied if the taxpayer has a reasonable excuse for the delay. [½]

Total 4

7) Preparing tax returns / tax filings [1 each any two from the following]

The member is responsible to the client for the accuracy of the return/filing based on the information provided.

The member has a duty of confidentiality to the client.

The member has a duty to act in the best interests of their client.

The member must act in good faith in dealings with HMRC.

The member must take reasonable care and exercise appropriate professional scepticism when making statements or asserting facts on behalf of their client.

The member is not required to audit figures given by their client but should take care not to be associated with facts they know or believe to be incorrect/misleading.

The member should consider whether they need to make it clear to HMRC that they are relying on information that has been supplied by the client or a third party.

Max 2

Tutorial Note:

See Chapter 21, para 21.5 of the 6th edition Professional Responsibilities & Ethics for Tax Practitioners' book.

Total for question 18

10. THE ADVENTURE DISCRETIONARY TRUST**1) Income Tax liability**

	Non-Savings £	Dividend £	
Dividend income		<u>50,000</u>	[½ for both]
Rental income (net)	<u>55,000</u>		
Income Tax at Standard Rate: £200 @ 20%		40	[½]
Income Tax at 45%: £(55,000 – 200) @ 45%		24,660	[½]
Income Tax at 39.35%: £50,000 @ 39.35%		<u>19,675</u>	[½]
Income tax liability		<u>44,375</u>	
Standard rate band split between trusts: £1,000/8 = £125			[½]
But minimum standard rate band = £200			[½]

Total 3**2) Capital Gains Tax**

	£	
Disposal proceeds	900,000	
Less: Cost	(575,000)	[½]
Less: Legal fees	<u>(5,450)</u>	[½]
Capital Gain	319,550	
Less: AE (Note)	<u>(600)</u>	[½]
Taxable gain	<u>318,950</u>	
CGT at 28% (residential property)	<u>89,306</u>	[½]
Note: AEA split between trusts: £3,000/8 = £375 (but minimum £600)		[½]
As this is UK land and property, the due date for payment of the CGT is 60 days from the completion of the disposal.		[½]

Total 3**3)**

A penalty is only charged if the tax is unpaid after 31 January following the tax year of disposal **[½]**. A penalty of 5% of the unpaid tax will be incurred if the tax is unpaid 30 days after 31 January 2025 **[1]**. A further penalty of 5% will be applied five months after the first penalty date. **[½]**

Total 2**4)**

Where land is settled in trust there must be at least two trustees **[½]** because a single trustee cannot give valid receipt to a purchaser of the land should it be sold. **[½]** However, if the trustee is a trust corporation it may act alone as trustee. **[½]**

Only the first four named trustees become trustees of the land **[½]** because the legal ownership of land is limited to a maximum of four persons at any one time. **[½]**

Max 2**Total for question 10**