Tolley® Exam Training

CTA ADVANCED TECHNICAL PAPER

IHT, TRUSTS & ESTATES

PRE-REVISION QUESTION BANK

FA 2023 & F(No 2)A 2023

May and November 2024 Sittings

PQ621

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Tax intelligence from LexisNexis®

INTRODUCTION

This Advanced Technical Pre Revision Question Bank contains 15 exam standard questions all with answers updated to Finance Act 2023 and 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.

As you answer the questions you may refer to either a hard copy or on-screen version of the **CTA Tax Tables 2024** and your own personalised version of the approved online legislation.

Using this question bank

All the CTA Advanced Technical exams are **3.5 hours** in length.

We suggest you **allocate 2 minutes per mark** which allows for 10 minutes initial reading time.

10 mark question = 20 minutes
15 mark question = 30 minutes
20 mark question = 40 minutes

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 the 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 recommend you do this using 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.

Preparing your answers

Questions set on the Advanced Technical papers **do not require a specific format** of answer - all questions will require a direct answer (rather than a letter to a client or an email to the tax partner). Requirements will start with words like "Explain", "Discuss", "Compare" and "Calculate".

There may be scenarios where there is no single correct answer or where the answer is not definitive. You will be expected to **make recommendations** as to actions which should be taken by the subject of the question.

You are expected to produce **full and reasoned answers** sufficient to demonstrate your knowledge and application in order to gain the available marks. **Brief bullet points are unlikely to be sufficient.**

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

The CIOT do not award "presentation and higher skills" (PHS) marks on individual questions nor will they form part of the 100 marks available on a paper. Instead, when they carry out their normal review of a script that is just below a pass, **up to two bonus PHS marks per paper** can be awarded which could therefore boost a candidate from a fail to a pass.

When awarding these bonus marks, the CIOT have stated they will consider:

- The accuracy of spelling and grammar.
- Whether full sentences have been used where appropriate (in some cases appropriately detailed lists may be appropriate, for example setting out the conditions for a relief to apply).
- Whether answers flow well and are presented in a logical order.
- Whether conclusions have been reached where it is appropriate to expect a conclusion.

Reviewing your answers

It is essential to read through your answer when you have finished typing it (within the time allocated 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? A good question to ask yourself is would the reader pay money for your advice? 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?

You may be able to make some small corrections at this review stage – 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 through 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

In the advanced technical papers, it is quite likely that there is no single right answer. The model answer is only one possible solution. You may well have included valid points which are not included in 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?

CONTENTS

QUESTIONS

CTA EXAMINATIONS

2024

TAX TABLES

INCOME TAX - RATES AND THRESHOLDS

	2023/24	2022/23
Rates	%	%
Starting rate for savings income only	0	0
Basic rate for non-savings and savings income only	20	20
Higher rate for non-savings and savings income only	40	40
Additional and trust rate for non-savings and savings income	45	45
Dividend ordinary rate	8.75	8.75
Dividend upper rate	33.75	33.75
Dividend additional rate and trust rate for dividends	39.35	39.35
Thresholds	£	£
Savings income starting rate band	1 – 5,000	1 – 5,000
Basic rate band	1 – 37,700	1 – 37,700
Higher rate band	37,701 – 125,140	37,701– 150,000
Dividend allowance	1,000	2,000
Savings allowance		
– Taxpayer with basic rate income	1,000	1,000
– Taxpayer with higher rate income	500	500
– Taxpayer with additional rate income	Nil	Nil
Standard rate band for trusts	1,000	1,000
Scottish Tax Rates(1)	%	%
Starter rate	19	19
Scottish basic rate	20	20
Intermediate rate	21	21
Higher rate	42	41
Top rate	47	46
Scottish Tax Thresholds(1)	£	£
Starter rate	1 – 2,162	1 – 2,162
Scottish basic rate	2,163 – 13,118	2,163 – 13,118
Intermediate rate	13,119 – 31,092	13,119 – 31,092
Higher rate	31,093 – 125,140	31,093 – 150,000
Top rate	125,140+	150,000 +

INCOME TAX - RELIEFS

	2023/24	2022/23
	£	£
Personal allowance(2)	12,570	12,570
Married couple's allowance(3)	10,375	9,415
– Maximum income before abatement of relief - £1 for £2	34,600	31,400
– Minimum allowance	4,010	3,640
Transferable Tax allowance for married couples and civil partners(4)	1,260	1,260
Blind person's allowance	2,870	2,600
Enterprise investment scheme relief limit(5)	1,000,000	1,000,000
Venture capital trust relief limit	200,000	200,000
Seed enterprise investment scheme relief limit	200,000	100,000

Notes:
(1) Scottish taxpayers pay Scottish income tax on non-savings income.
(2) The personal allowance of any individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.
(3) Only available where at least one partner was born before 6 April 1935. Relief restricted to 10%.
(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.

CTA EXAMINATIONS

2024

TAX TABLES

ISA limits	**2023/24**	**2022/23**
	£	£
Maximum subscription:		
'Adult' ISAs	20,000	20,000
Junior ISAs	9,000	9,000

Pension contributions

	Annual allowance[(1)]	**Minimum pension age**
	£	
2022/23	40,000	55
2023/24	60,000	55

Basic amount qualifying for tax relief	£3,600
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 (FA 2022: £240,000) for individuals with threshold income above £200,000. It cannot be reduced below £10,000 (FA 2022: £4,000).

Employer Supported Childcare	**2023/24**	**2022/23**
Exemption – basic rate taxpayer[(2)]	£55 per week	£55 per week

Note: (2) 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.

ITEPA mileage rates

Car or van[(3)]	First 10,000 business miles	45p
	Additional business miles	25p
Motorcycles		24p
Bicycles		20p
Passenger payments		5p

Note: (3) For NIC purposes, a rate of 45p applies irrespective of mileage.

INCOME TAX - BENEFITS

Car benefits – 2023/24

Emissions	**Electric range (miles)**	**Car benefit %[(4)]**	
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: (4) 4% supplement for diesel cars excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard (not to exceed maximum of 37%).

CTA EXAMINATIONS
2024
TAX TABLES

Fuel benefit base figure	2023/24	2022/23
	£	£
	27,800	25,300

Van benefits	2023/24	2022/23
	£	£
No CO_2 emissions	Nil	Nil
CO_2 emissions > 0g/km	3,960	3,600
Fuel benefit for vans	757	688

Official rate of interest	2.25%	2%

INCOME TAX - CHARGES

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

CAPITAL ALLOWANCES

Annual investment allowance for plant and machinery (AIA)(1)	100%
WDA on plant and machinery in main pool(2)	18%
WDA on plant and machinery in special rate pool(3)	6%
WDA on patent rights and know-how	25%
WDA on structures and buildings (SBA) (4)	3%

Notes: (1) On first £1,000,000 of investment in plant & machinery (not cars) from 1 January 2019.

(2) The main pool rate applies to cars with CO_2 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 CO_2 emissions greater than 50g/km (prior to April 2021 greater than 110g/km).

(4) A 10% rate applies in respect of freeport tax site expenditure (until 30 September 2026) and on investment zone expenditure.

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

Capital expenditure incurred by a person on research and development.
New zero-emission goods vehicles (until April 2025).
New cars which either emit 0 g/km of CO_2 (50g/km prior to April 2021) or are electric (until April 2025).
Electric vehicle charging points (until April 2025).

First year allowances (FYA) available to companies only

	Assets in main pool	Assets in special rate pool
Expenditure on new plant and machinery (other than cars) between 1 April 2023 and 31 March 2026 (5)	100%	50%
Expenditure on new plant and machinery (other than cars) in a freeport tax site (until 30 September 2026)	100%	100%
Expenditure on new plant and machinery (other than cars) in an investment zone	100%	100%

Notes: (5) 130% for expenditure between 1 April 2021 and 31 March 2023.

INCOME TAX - SIMPLIFICATION MEASURES

	2023/24	2022/23
	£	£
'Rent-a-room' limit	7,500	7,500
Property allowance/Trading allowance	1,000	1,000

CTA EXAMINATIONS

2024

TAX TABLES

Flat Rate Expenses for Unincorporated Businesses

Motoring expenses	First 10,000 business miles		45p per mile
	Additional business miles		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 for Unincorporated Businesses

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

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 limits		**2023/24**			**2022/23**	
	Annual	**Monthly**	**Weekly**	**Annual**	**Monthly**	**Weekly**
Lower earnings limit (LEL)	£6,396	£533	£123	£6,396	£533	£123
Primary threshold (PT)	£12,570	£1,048	£242	£11,908	£1,048	£242
Secondary threshold (ST)	£9,100	£758	£175	£9,100	£758	£175
Upper earnings limit (UEL)	£50,270	£4,189	£967	£50,270	£4,189	£967
Upper secondary threshold for under 21 (UST)	£50,270	£4,189	£967	£50,270	£4,189	£967
Apprentice upper secondary threshold for under 25 (AUST)	£50,270	£4,189	£967	£50,270	£4,189	£967
Freeport upper secondary threshold (FUST)	£25,000	£2,083	£481	£25,000	£2,083	£481

Class 1 primary contribution rates		
Earnings between PT and UEL	12%	13.25%
Earnings above UEL	2%	3.25%
Class 1 secondary contribution rates		
Earnings above ST (1)	13.8%	15.05%

Note: (1) Rate of secondary NICs between the ST and the UST, AUST & FUST is 0%.

	2023/24	**2022/23**
Employment allowance		
Per year, per employer	£5,000	£5,000
Class 1A contributions	13.8%	15.05%
Class 1B contributions	13.8%	15.05%
Class 2 contributions		
Normal rate	£3.45 pw	£3.15 pw
Small profits threshold (SPL) (2)	£6,725	£6,725 pa
Lower profits limit (LPL) (2)	£12,570	£11,908

Note: (2) From 2022/23, Class 2 NICs are only payable where profits exceed the LPL. However, where profits are between the SPL and the LPL, there will be an entitlement to contributory benefits.

Class 3 contributions	£17.45	£15.85 pw
Class 4 contributions		
Annual lower profits limit (LPL)	£12,570	£11,908
Annual upper profits limit (UPL)	£50,270	£50,270
Percentage rate between LPL and UPL	9%	9.73%
Percentage rate above UPL	2%	2.73%

OTHER PAYROLL INFORMATION

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
Statutory sick pay		£109.40 per week
Student Loan	Plan 1:	9% of earnings exceeding £22,015 per year (£1,834.58 per month/ £423.36 per week)
	Plan 2:	9% of earnings exceeding £27,295 per year (£2,274.58 per month /£524.90 per week)
	Plan 4:	9% of earnings exceeding £27,660 per year (£2,305 per month /£531.92 per week)
Postgraduate Loan		6% of earnings exceeding £21,000 per year (£1,750 per month/£403.84 per week)

National living/minimum wage (April 2023 onwards)

Category of Worker	**Rate per hour**
	£
Workers aged 23 and over	10.42
21–22 year olds	10.18
18–20 year olds	7.49
16–17 year olds	5.28
Apprentices	5.28

Accommodation Offset £9.10 per day

HMRC INTEREST RATES (assumed)

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%

CTA EXAMINATIONS

2024

TAX TABLES

CAPITAL GAINS TAX

	2023/24	2022/23
Annual exempt amount for individuals	£6,000	£12,300

CGT rates for individuals, trusts and estates

Gains qualifying for business asset disposal[(1)]/investors' relief	10%	10%
Gains for individuals falling within remaining basic rate band[(2)]	10%	10%
Gains for individuals exceeding basic rate band and gains for trusts and estates[(3)]	20%	20%

Notes: (1) Formerly called entrepreneurs' relief
(2) The rate is 18% if the gain is in respect of a residential property
(3) The rate is 28% if the gain is in respect of a residential property

Business Asset Disposal relief	**2023/24**	**2022/23**
Relevant gains (lifetime maximum) [(4)]	£1 million	£1 million

Investors' relief		
Relevant gains (lifetime maximum)	£10 million	£10 million

Note: (4) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million.

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

CTA EXAMINATIONS

2024

TAX TABLES

Lease percentage table

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

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
Patent rate	10%	10%

EU definition of small and medium sized enterprises

	Small (2)	Medium (2)	Extended definition for R&D expenditure
Employees(1)	< 50	< 250	<500
Turnover(1)	≤ €10m	≤ €50m	≤ €100m
Balance sheet assets(1)	≤ €10m	≤ €43m	≤ €86m

Notes: (1) Must meet employees criteria and either turnover or balance sheet assets criteria.
(2) Thresholds apply for transfer pricing and distributions received by small companies.

Research and development expenditure

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

CTA EXAMINATIONS
2024
TAX TABLES

VALUE ADDED TAX

	Standard rate	VAT fraction
Rate	20%	1/6

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

OTHER INDIRECT TAXES

	2023/24	2022/23
Insurance premium tax(1)		
Standard rate	12%	12%
Higher rate	20%	20%

Tobacco products duty	**From 15.03.2023**	**From 27.10.2021**
Cigarettes	16.5% x retail price + £294.72 per thousand cigarettes (or £393.45 per thousand cigarettes (2))	16.5% x retail price + £262.90 per thousand cigarettes (or £347.86 per thousand cigarettes (2))
Cigars	£367.61 per kg	£327.92 per kg
Hand-rolling tobacco	£351.03 per kg	£302.34 per kg
Other smoking/chewing tobacco	£161.62 per kg	£144.17 per kg
Tobacco for heating	£302.93 per kg	£270.22 per kg

Notes: (1) Premium is tax inclusive ($^3/_{28}$ for 12% rate and $^1/_6$ for 20% rate).
(2) The £393.45/£347.86 per thousand cigarettes is a minimum excise duty (if higher than the first calculation)

CTA EXAMINATIONS

2024

TAX TABLES

INHERITANCE TAX

Death rate	40%(3)	**Lifetime rate**	20%

Note: (3) 36% rate applies where 10% or more of the deceased person'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(4)

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

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

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

Residential property value	**From 1.4.23**	**From 1.4.22**
>£0.5m - ≤ 1m	£4,150	£3,800
> £1m - ≤ 2m	£8,450	£7,700
> £2m – ≤ 5m	£28,650	£26,050
> £5m – ≤ 10m	£67,050	£60,900
> £10m – ≤ 20m	£134,550	£122,250
> £20m	£269,450	£244,750

STAMP DUTY/SDRT

Stamp duty(1)	- On shares transferred by physical stock transfer form	0.5%
Stamp duty reserve tax(2)	- On agreements to transfer shares(2)	0.5%
	- On shares transferred to depositary receipt schemes	1.5%

Notes: (1) Does not apply to UK securities traded on a recognised growth market (eg AIM).
(2) Does not apply to units in UK unit trust schemes or shares in UK OEICS bought from fund managers.

CTA EXAMINATIONS

2024

TAX TABLES

STAMP DUTY LAND TAX

Qualifying purchases in a Freeport receive full SDLT relief

Stamp Duty Land Tax on purchase price / lease premium / transfer value – England & NI

Basic Rate %(3)(4)(5)(6)	Residential(3)(4)(5)(6)	Rate %	Non-Residential
0	£0 - £250,000	0	£0 - £150,000
5	£250,001 - £925,000	2	£150,001 - £250,000
10	£925,001 - £1,500,000	5	£250,001 +
12	£1,500,001+		

Notes: (3) The basic rates are increased by 3% (the 'higher rates') where the purchase is of an additional residential property for individuals. Companies and trusts pay the additional 3% on all purchases of residential properties, subject to Note 4 below.

(4) Companies (and certain other entities) pay 15% on purchases of residential property valued > £500,000 (subject to exceptions).

(5) First-time buyers purchasing a single dwelling as their only/main residence may benefit from a reduced rate. (This includes qualifying shared ownership properties.) SDLT will not be due on properties up to £425,000. For homes between £425,000 and £625,000, SDLT will be payable at 5% on the amount above the £425,000 threshold. Homes bought for more than £625,000 will incur the rates as per column 1 in above table.

(6) Non-resident individuals and companies will pay an additional 2% surcharge for purchases of residential property. This is in addition to the basic rate, the higher rate (where applicable, in Note 3), and the 15% rate (where applicable, in Note 4).

New leases – Stamp Duty Land Tax on lease rentals – England & NI

Rate (%)	Net present value of rent	
	Residential	**Non-residential**
0	Up to £250,000	Up to £150,000
1	Excess over £250,000	£150,001-£5m
2	N/A	Over £5m

Land and Buildings Transaction Tax (LBTT) on purchase price – Scotland

Basic Rate %(1)(2)(3)	Residential	Rate %(1)	Non-Residential
0	up to £145,000	0	£0 - £150,000
2	£145,001 - £250,000	1	£150,001 - £250,000
5	£250,001 - £325,000	5	£250,001 +
10	£325,001 - £750,000		
12	£750,001 +		

Notes: (1) Rates are charged on the portion of consideration that falls in each band. The same tax is payable for a premium granted for a land transaction, except for residential leases which are generally exempt. Special rules apply to a premium for non-residential property where the rent exceeds £1,000 a year.

(2) The 'Additional Dwelling Supplement' of 6% of the relevant consideration applies broadly to purchases of an additional dwelling by individuals & trusts (over which the beneficiary has substantial rights) & to purchases of a dwelling by certain businesses, companies & other trusts.

(3) There is a relief for first-time buyers where a 0% rate is applied to the first £175,000 of the purchase consideration.

New leases – Land and Buildings Transaction Tax (LBTT) on lease rentals - Scotland

Rate (%)	Net present value of rent(4)
	Non-residential
Zero	Up to £150,000
1%	£150,001 to £2,000,000
2%	£2,000,001+

Note: (4) Residential leases are generally exempt

QUESTIONS

1. On 21 November 2004, Len Demetris settled funds on an accumulation and maintenance trust for the benefit of his grandchildren, being Jimmy, who was born on 23 December 2000, and Ellen, who was born on 5 January 2003. The beneficiaries are entitled to a 50% share of trust income from age 21 but capital does not vest until age 30.

The trustees own a commercial investment property which is let on a rolling 12-month lease at a monthly rental of £2,000.

The other income of the trustees for the tax year 2023/24 was as follows:

Date	Shares	£
30.6.23	Dividend on shares in ABC plc	8,100
31.7.23	Interest on Treasury stock	4,000
30.9.23	Dividend on shares in XYZ plc	4,400
31.12.23	Building society interest	7,500
31.1.24	Interest on Treasury stock	4,000
31.3.24	Dividend on shares in XYZ plc	3,500

On 30 June 2024, the trustees incurred professional fees of £740 in connection with the preparation of the trust accounts for the year ended 5 April 2024. There were no other trust management expenses.

The following payments were made to the beneficiaries:

		£
30 September 2023:	Jimmy	5,000
	Ellen	5,000
31 March 2024:	Jimmy	5,000
	Ellen	5,000

Requirement:

1) **Compute the total tax payable by the trustees for 2023/24.** (10)

2) **State the entries necessary on forms R185 in respect of the payments to the beneficiaries in 2023/24.** (5)

Total (15)

2. Carol Regis died, aged 81, on 1 November 2023. She was domiciled in Florentania but had been resident in the UK since June 2008. She had never married but had an adopted daughter, Sylvie, who still lives in Florentania. Carol left her flat in Florentania to Sylvie and the rest of her estate to Sylvie's daughter, Edith.

Her estate at death consisted of:

- A house in London, value £515,000;
- A flat in Florentania, value £300,000. £75,000 of Florentanian death duties were paid;
- A farm in Gloucestershire, bought in 2005, value £2 million (agricultural value £1.5 million). It is let to a farmer on a business farming tenancy entered into on 26 March 2008;
- A 2% shareholding in a UK AIM listed trading company, value £100,000;
- A 5.2% shareholding in a UK quoted trading company, value £3.5 million.

On Christmas Day 2012 she gave a house in Norfolk to Edith. From then, until her death, she spent many weekends at the house with Edith and her family. The value of the house was £60,000 in 2012 and was £185,000 in November 2023.

On 17 March 2014 she settled £200,000 in cash on a UK discretionary trust for her nieces and nephews. On 19 May 2019 she added a further £600,000 to the trust. Carol paid any IHT due.

The cash settled was used by the trustees to buy a portfolio of UK quoted stocks and shares, which had a value of £1 million in March 2024. No capital appointments have been made.

Requirement:

1) Calculate the Inheritance Tax payable as a result of Carol's death. (7)

2) State (with brief explanations) who is liable to pay the tax and when. (4)

3) Suggest what arrangements could have been made during her lifetime to reduce the liability you have calculated in 1) above. (5)

4) Calculate the IHT due on the 10-year anniversary of the trust in March 2024. (4)

Total (20)

3. Rose Vine, a widow who was UK domiciled, died on 14 February 2024. She left 2 children (David and Grace) and 1 grandchild (Chardonnay who is 23). Her husband had died in March 2005 leaving his estate of £225,000 to their children. He had made no lifetime transfers.

At the date of Rose's death she owned 100% of the ordinary shares in Merlot Properties Ltd, an unquoted property investment company, with a value of £640,000, a home in the UK valued at £180,000, and quoted investments and bank accounts with a total value of £302,000.

She also owned a house in Sicilia, a foreign country, valued at $200,000. The rate of exchange at 14 February 2024 was £1 = $8. The costs of administration of the property in Sicilia due to the death had been £2,000 (this would have been £600 if the property had been located in the UK). Sicilian death duties amounted to £9,800.

In her Will, Rose left the shares in Merlot Properties Ltd to David, and the property in Sicilia to Grace. Her home was left to the children in equal shares. The Will states that all specific gifts should bear their own tax. The residue of her estate was left equally between her granddaughter and a UK charity.

Before her death, Rose had made two lifetime gifts. In January 2017 she gave cash of £200,000 to a discretionary trust. In July 2018 she had loaned £195,000 to her friend, Holly, who had fallen on hard times after her divorce. Rose wrote off the loan in August 2020 as a gesture of goodwill since it was obvious that Holly was never going to be in a position to repay.

Chardonnay has recently divorced a professional footballer and therefore has substantial assets of her own. Her tax adviser has suggested that a deed of variation should be carried out and her inheritance should be settled upon a discretionary settlement for her and other members of her family as beneficiaries.

Requirement:

1) **Calculate the Inheritance Tax payable as a result of Rose's death, and state by whom this tax will be borne.** (13)

2) **Comment on the effect of the proposed deed of variation for the purposes of Income Tax, Inheritance Tax and Capital Gains Tax.** (7)

Total (20)

4. Garry Thompson died in a car accident on 28 June 2023.

Garry had built up two successful businesses.

The first was a clothing company, G&G Clothing Ltd, which he ran with his friend and business associate, Geoff Jones. Both had a 50% shareholding and neither shareholder had a ‘casting vote’. A 50% interest was valued at £200,000 in June 2023. A 100% interest was valued at £500,000. Garry also held £80,000 of interest-bearing loan stock in G&G Clothing Ltd.

The shareholders’ agreement between Garry Thompson and Geoff Jones stipulated that the surviving shareholder shall purchase the deceased’s shares from their Executors at an agreed market value in the event of their death.

The second business was a consultancy company, GT Consultancy Ltd, which he established ten years ago with his wife, Helen. Both Gary and Helen held 50% of the ordinary voting shares and again neither shareholder had a ‘casting vote’. A 50% interest was valued at £200,000 in June 2023. A 100% interest was valued at £500,000. Garry also held £75,000 of interest-bearing loan stock in GT Consultancy Ltd.

Garry’s other assets at the date of his death were as follows:

	Value at date of death £
Home	280,000
Quoted shares:	
Alpha plc	18,000
Bravo plc	11,000
Charlie plc	75,000
Cash deposits	50,000
Chattels	12,000
Rental properties:	
11 Mortimer Way	140,000
22 Mortimer Way	122,000
76 Platt Road	160,000

Alpha plc and Bravo plc are listed on the London Stock Exchange. Charlie plc is listed on the Alternative Investment Market. Garry had bought shares in Delta Ltd (an unlisted trading company) in January 2020. Delta Ltd was taken over by Charlie plc in July 2022 under an offer in which Garry received new shares in Charlie plc in exchange for his Delta Ltd shares.

Funeral expenses were £5,000 and other liabilities at death were £10,000.

The G&G Clothing Ltd shares have been paying regular dividends for a number of years and, as he did not need the money, Garry had been paying the amounts received to his children Anna (aged 22) and Robert (aged 20) in equal shares.

The dividends (all gross amounts) received and paid out were:

	£
25 July 2019	4,500
22 July 2020	5,400
29 July 2021	24,000
3 August 2022	5,800

Garry's younger brother, Alan, died in August 2020. Alan had made no lifetime transfers. Alan was single with no dependants, so he left his estate worth £310,000 on interest in possession trust for Garry with capital reversion to Anna and Robert on Garry's death. The trust assets (being cash and quoted shares) were valued at £375,000 in June 2023.

Garry's Will stated that:

1 The proceeds from the sale of his G&G Clothing Ltd shares should be left to his children in equal shares.

2 His shares in Alpha plc, Bravo plc and Charlie plc (or the cash proceeds of these shares if the Executors thought fit) should be left to his children in equal shares.

3 The home, chattels, his GT Consultancy Ltd shares and the Platt Road property should be left to his wife.

4 The Mortimer Way properties and cash deposits should be placed on discretionary trusts for the benefit of his wife and two children.

Requirement:

1) Calculate the Inheritance Tax due on Garry Thompson's death and state the due date for payment. (11)

2) Outline ways in which lifetime planning could have been put in place so as to reduce the IHT due and suggest any possible courses of action now open. (5)

3) Calculate the repayment due to the Executors if you are told that the shares in Alpha plc, Beta plc and Charlie plc fell in value and the Executors sold the shares on 1 May 2024 before distributing the proceeds to Anna and Robert. Assume that the proceeds of sale were £10,000, £12,000 and £66,000 respectively. (4)

Total (20)

5. Stephen McMahon died on 31 March 2022 leaving an estate of residential let properties, quoted shares and bank deposits worth £950,000. He bequeathed his whole estate to his son Michael.

The administration period ended on 31 August 2023. The details below represent the income and expenditure during the period 1 April 2022 to 31 August 2023.

	2022/23	2023/24
Income:	£	£
Rents received	34,750	15,600
UK dividends received	6,000	3,000
Bank interest	3,550	1,500
Expenditure:		
Expenses of obtaining probate	3,000	
Property expenses	4,230	2,200
Administrative expenses	840	510
Interest on loan to pay IHT (repaid 31 October 2022)	1,000	

Michael received payments on account of income as follows:

31 July 2022	10,000
31 January 2023	8,000

The Executors sold one of the let properties on 5 April 2023 for £219,000 (after sales expenses). The property had a probate value of £190,000.

Requirement:

1) **Compute the Executors' Income Tax and Capital Gains Tax liabilities for 2022/23 and 2023/24.** (7)

2) **Show Michael's income from the estate for 2022/23 and 2023/24 and how this will be treated for Income Tax purposes. You are not required to calculate his Income Tax liability.** (8)

Total (15)

6. Andrew Blair died on 2 May 2023 aged 72. He left his wife (Thelma), his son (Lionel) and two grandchildren.

Andrew's only lifetime transfer had been a gift of £320,500 (in cash) to a discretionary trust for Lionel and the grandchildren in January 2017. Andrew paid any IHT due.

Andrew's death estate was as follows:

	£
Family home (50% share)	475,000
Investment properties	500,000
Quoted investments & gilts	500,000
Bank deposits	400,000
	1,875,000

The family home was held as joint tenants with Thelma.

Andrew's Will left a cash legacy of £299,500 to the trust (specified to be free of tax) with the balance of the estate to be divided equally between Thelma and Lionel.

The trustees have decided to exercise their discretion and will appoint £100,000 to Lionel's eldest son, Anthony, on the occasion of his 21st birthday which will be on 29 December 2024. Anthony will pay any IHT due.

Requirement:

1) **Calculate the Inheritance Tax payable as a result of Andrew's death.** (10)

2) **Show how Andrew's estate will be distributed.** (5)

3) **Calculate the exit charge on the appointment to Anthony in December 2024.** (5)

Total (20)

7. Sir Randolph Lerner died on 7 April 2023. He was UK domiciled. He left a wife (Fiona), one adult daughter (Laura) and three grandchildren.

The following information is held:

1) In January 2006 he subscribed for 70,000 shares (a 70% shareholding) in Lerner Ltd, an unquoted trading company.

2) In February 2013 he gifted 30,000 Lerner Ltd shares to trustees of a discretionary trust for his grandchildren.

3) In May 2016 he gifted 20,000 Lerner Ltd shares to a trust in which his daughter Laura has a life interest.

4) In February 2019 Lerner Ltd became listed on the Alternative Investment Market.

The agreed share values at the time of both the two gifts were:

Shareholding	Per share value
	£
51% – 75%	12.00
40% – 50%	6.00
below 40%	3.00

He was excluded from benefit under both trusts and the trustees retained the shares until his death.

5) In August 2007 he inherited a 51% shareholding in Cleveland plc, a small company whose shares are listed on the London Stock Exchange. In July 2018 he gifted a 10% shareholding to Laura. A 10% holding was then valued at £700,000 but the transfer resulted in a loss to his estate of £900,000. Laura held the shares at Sir Randolph's death when they were worth £550,000.

6) No other transfers had been made.

At death his estate comprised the following:

7) He had a life interest in his uncle's estate. The uncle had died in June 2018 with an estate worth £235,000 on which Inheritance Tax of £27,500 was suffered. On Sir Randolph's death the trust assets then worth £300,000 reverted to Laura.

8) The following quoted shares were held at death:

Number / %	Company	Value at death
		£
7,000	Green plc	107,000
3,500	Blue plc	42,000
6,000	Red plc	8,000
41%	Cleveland plc	2,550,000

In the six months following death the following share sales occurred:

Shares sold	Company	Gross Proceeds
		£
6,000	Green plc	99,428
2,000	Blue plc	13,000
600	Red plc	650

9) Sir Randolph's Will left his 20,000 shares in Lerner plc to Laura, then valued at £10 per share.

10) At death, his house, then worth £300,000, was left equally to Fiona and Laura subject to Fiona having full rent-free use and enjoyment of the house for her lifetime or for so long as she wished. The balance of his estate was left to the grandchildren's trust.

Requirement:

Calculate, with explanations, the Inheritance Tax payable as a result of the death of Sir Randolph, clearly showing who will bear any liability. (20)

8. Kevin Richardson died on 5 April 2024 aged 63. He was domiciled and resident in the UK. He left his wife (Miranda, aged 47), his son (Joey, aged 38) and three grandchildren.

Miranda is Kevin's second wife. She was born in South Africa and had been resident in the UK since 2013. It is now her intention to return to South Africa to be with her family and she will do so once Kevin's estate has been administered.

Kevin and Miranda had a controlling interest in and ran 'Cumfy Camp Ltd'. The company owns land on the east Yorkshire coast near Scarborough and provides luxury tents, wigwams and tepees for campers to hire on short-term lets.

Cumfy Camp Ltd provides the external tent and a ground sheet. Folding tables and chairs can be hired (free of charge on payment of a deposit) from the small shop on site. The campers bring their own sleeping bags, cooking equipment, cutlery and crockery, although these items are available to purchase from the shop. There is a small café attached to the shop.

The site has 36 tents for hire as well as space for campers to park up and pitch their own tents.

The shares of Cumfy Camp Ltd had originally been subscribed for in July 2017 as follows:

	No of shares
Kevin Richardson	5,500
Miranda Richardson	2,500
Lee Henry	2,000
Total	10,000

Kevin retired on 31 March 2021, at which point he gave 3,500 shares to Joey who then (with Lee Henry) took over day-to-day management of the business.

Every month since April 2019, Kevin had put £350 into building society accounts for each of his three grandchildren with the intention that they should have access to their account on their 18th birthdays. Joey has the relevant passbooks.

Prior to his retirement, Kevin had net income of £80,000 per annum of which he spent (on average) £30,000 and invested the rest. His net income dropped to £45,000 after retirement and his annual expenditure increased to £40,000.

His only other lifetime transfer was £20,000 to his niece, Julie, as a wedding gift in May 2019.

Kevin's death estate consisted of the following:

	£
Family home	400,000
2,000 shares in Cumfy Camp Ltd	See below
100,000 shares in Tyburn plc	200,000
150,000 shares in Cincinnati plc	150,000
Bank deposits	250,000

Kevin's Will left a cash legacy of £400,000 to Miranda and the residue of the estate to Joey.

In order to meet Miranda's legacy and settle IHT, on 3 September 2024 the Executors sold the Tyburn plc shares for £182,000 (after £2,000 selling expenses) and 90,000 of the Cincinnati plc shares for £92,500 (after £500 selling expenses).

Requirement:

1) **Discuss the availability of Business Property Relief in respect of Kevin's shares in Cumfy Camp Ltd. Support your answer with reference to legislation and case law.** (5)

2) **Assuming that no BPR is available on the Cumfy Camp Ltd shares, calculate the IHT payable on Kevin's death.** (9)

3) **Discuss whether any tax can be paid in instalments and (if so) how much tax is payable on the normal due date.** (3)

4) **Explain the election that Miranda may make and whether it would be beneficial in this case** (3)

Total (20)

The shares of Cumfy Camp Ltd have had the following values (per share):

Holding	MV @ 31.3.21	MV @ 5.4.24
	£	£
0 – 25%	20	30
26 – 50%	30	40
51 – 75%	40	50
Over 75%	50	60

9. Paul Birch died on 1 May 2023 aged 64 after a short illness. He left his whole estate to his daughters, Zoe (aged 34) and Kate (aged 29). He had made no lifetime transfers.

Paul's estate consisted of the following:

	£
Family home & possessions in Birmingham	350,000
Residential investment property	100,000
UK quoted shares	230,000
Shares in Trinity Estates Ltd (5% holding)	35,000
UK bank deposits	70,000
Total	785,000

Trinity Estates Ltd is an unlisted property investment company.

Zoe and Kate are Executors of the estate. The Executors' estate return for 2023/24 has not been completed. Income and expenses in 2023/24 are as below:

Income:	£
Bank interest	5,000
Dividends	20,000
Expenses:	
Estate management expenses	450

The above income includes a dividend of £1,500 accrued at death, but not received by the Executors until after death.

The Executors made the following capital disposals in 2023/24:

1) The residential investment property was sold for £130,000 (before estate agents fees at 2%) on 20 June 2023;

2) 10,000 shares in AV Bank plc were sold on 31 January 2024 for £2.05 per share. This was before broker's commission at ½%. Paul had originally bought 16,000 AV Bank plc shares in May 2018 for £1.75 per share. The probate value of the shares was £3.25. The Executors bought a further 4,000 AV Bank plc shares in July 2023 at £2.80.

The administration of the estate ended on 3 April 2024 at which point all the remaining assets were transferred to Zoe and Kate.

Zoe is a director of a travel company. In 2023/24 her remuneration package was £175,000. Kate had twins in 2022 and is currently on a career break. Apart from a small amount of building society interest (£50 or so), Kate has no income.

Requirement:

1) Calculate the IHT payable as a result of Paul's death. (6)

2) Calculate the income tax and CGT payable by the Executors for 2023/24. (8)

3) Show the additional income tax payable by Zoe on her Estate income for 2023/24. (6)

Total (20)

10. The Beta Discretionary Trust was created on 1 May 1996 by John Brian for the benefit of his adult children and grandchildren. John Brian set up two further trusts the following year which are still in existence.

During the 2023/24 tax year the Trustees of the Beta Discretionary Trust made the following disposals:

1) A 17th century antique clock was sold for £250,000. The clock was purchased for £200,000 five years ago.

2) A sculpture was sold for £210,000. It had been purchased for £45,000 in 1998.

3) A leasehold flat was sold for £350,000 on 1 December 2023. The Trustees paid £300,000 on 1 June 2019 for a 40-year lease. The flat was rented to a third party.

4) A painting purchased for £2,500 in 2006 was sold at auction for £8,500.

The trustees received the following income in 2023/24:

1) Rental income (from the leasehold flat) net of expenses for the period until sale of £4,500.

2) Dividends of £9,444.

3) Bank interest of £1,000.

4) Treasury Stock interest £1,000.

The Trustees incurred expenses of £2,500. These include £2,000 for the preparation of the tax return (of which £1,480 relates to the trust's income) and £500 investment management fees.

Payments on account have been made towards the 2023/24 tax liability of £1,000 on each of the due dates.

The tax pool as at 6 April 2023 was £2,413.

The trustees made an income distribution of £5,000 to Alex, one of the beneficiaries, on 1 February 2024.

Requirement:

Calculate the Income Tax and Capital Gains Tax for 2023/24 and the payments on account for 2024/25 indicating the date(s) for payment. (15)

11. Des Bremner died in January 2024. He was 39 and left a wife (Faye) and two young children. He had made no lifetime gifts.

Des was a 50% shareholder and co-Director of Ice House Ltd (a frozen food company). The other 50% of the shares were owned by Des's brother, Brian. The sons had inherited the shares on the death of their father, George, who died of cancer in March 2022 aged 67. George Bremner had set up the company in 1991, but he had been ill since 2018, so Des and Brian had run the company in the period up to his death.

The company ran into cash-flow difficulties shortly after George fell ill, so in May 2020 both Des and Brian injected £175,000 cash into the company in return for interest bearing loan stock. None of this stock has thus far been redeemed, but the company is now stable and making healthy profits.

A 100% shareholding in Ice House Ltd was valued at £480,000 in January 2024 with a 50% shareholding discounted to £200,000.

Des was also a shareholder (30% share) in Kindon Allotments Ltd. Faye had 30% of the shares and Faye's brother, George Kindon, had 40%. They set up the company in 2010 when the company acquired four acres of arable land. Kindon Allotments Ltd lets small parcels of the land to local residents who use it to grow fruit and vegetables.

The agreed share values at Des's death were as follows:

% holding	Value
100	£400,000
60	£200,000
30	£80,000

The allotment land owned by Kindon Allotments Ltd was valued at £350,000 in January 2024 and had an agricultural value of £275,000. The company also owns a small area of scrubland close to the allotments (estimated to be worth £50,000) which is let to a local greyhound racing trainer to exercise his dogs.

Des's death estate consisted of the following:

	£
Family home & contents	350,000
Shares in Ice House Ltd (50% holding)	See above
Loan stock in Ice House Ltd (valued at par)	175,000
Shares in Kindon Allotments Ltd (30% holding)	See above
UK quoted shares	300,000
UK bank deposits	70,000

Des had liabilities of £13,500 at his death and his funeral cost £6,500.

Des's Will left the shares in Ice House Ltd and the family home & contents to Faye, the loan stock in Ice House Ltd to his brother Brian, and the residue of the estate on trust for his children until their 21st birthday.

Requirement:

1) **Discuss the availability of BPR or APR on the assets in the estate.** (9)

2) **Assuming APR is available, calculate the IHT payable on Des's death.** (7)

3) **Suggest any ways in which the tax can be reduced (computations are not required).** (4)

Total (20)

12. Mark Draper died on 4 February 2024. Mark was married with two children and had made no lifetime transfers. He had always lived in the UK.

His estate consisted of the following:

	£
Family home & possessions in Oxford	500,000
Commercial investment property in London	500,000
Apartment in Paris (let to tenants)	500,000
Collection of classic cars (kept at the house in Oxford)	500,000
UK quoted shares & government stocks	500,000
UK bank deposits (net of deductible expenses)	500,000
	3,000,000

Mark's Will left:

- His home and personal possessions to his wife, Mary;
- The apartment in Paris to his daughter, Marian;
- The classic cars to his son, Alex; and
- The residue to be divided equally between Mary, Marian & Alex.

Requirement:

Calculate the inheritance tax payable on the death of Mark Draper and show how the estate will be divided between the beneficiaries. (20)

13. Michael Schofield died on 27 February 2024, domiciled in the UK. He left his estate to his children. His only lifetime transfers were:

1) On 10 December 2017 he gave a flat in London to his sister, Millie. Michael lived in Edinburgh but used the flat on his regular business trips to London as it saved money on hotels. He continued to use the flat (on average about once a week) until he retired on 1 July 2020. Thereafter the flat was let by Millie to a long-term tenant. The flat was worth £295,000 in 2017 and £340,000 in 2020.

2) On 15 March 2018 he settled cash of £350,000 on to a bare trust for his four grandchildren in equal shares.

On his death Michael Schofield, owned the following:

1) Shares in Schofield Investments Ltd, an unquoted investment company. The shareholdings were as follows:

	No.
Michael Schofield	45,000
Sarah (wife)	25,000
Alexa (daughter)	15,000
Other unrelated shareholders	15,000
Total	100,000

Share values had been agreed as follows:

% holding:	Value per share
Over 75%	£9.00
50 – 75%	£7.50
Less than 50%	£6.00

2) A 60% shareholding in River State Investments Ltd, an unquoted investment company, worth £300,000 at his death. At that time the company had assets of £500,000, including Fox Farm, which had an estimated agricultural value of £200,000. The farm was let to a tenant on a 45-year lease granted in 1990.

3) A 60% shareholding worth £270,000 at death in Burrows Ltd, an unquoted trading company. Michael Schofield had acquired 20% in 2017 and a further 40% in January 2023.

4) A factory, bought in 2019, used by Burrows Ltd and worth £220,000 at death.

5) A French holiday cottage worth £100,000 at death, available for use by Michael and wider family members. French death duties of £28,500 were paid on death.

6) A UK house (her main residence) worth £1 million at death.

7) Personal possessions worth £70,000. Included in this was a painting worth £40,000, received as a specific legacy on his brother's death in December 2021. At that time the painting had been worth £30,000 and tax of £7,500 had been paid in respect of it.

At his death Michael Schofield had an outstanding mortgage of £132,500 charged on his UK home. Funeral expenses were £10,000. Legal and other costs of £5,250 were incurred in administering and realising the French holiday cottage.

Requirement:

Calculate, with supporting explanations, the Inheritance Tax payable as a result of the death of Michael Schofield. (20)

14. Alfie Aitken died in March 2024. His brother Charlie is the Executor of the estate.

Alfie had never married and had no children. His Will left a couple of specific gifts to his niece and nephew and the residue of his estate to Charlie.

Charlie is in the process of making a substantial business acquisition and would like to know (approximately) what his net entitlement will be from Alfie's estate in order that he can work out whether the legacy will be sufficient to cover fully the acquisition costs or whether he will need any bank funding to make up the shortfall.

The attached Schedule provides further information.

Charlie does not intend to keep any of Alfie's assets and will sell them as soon as it can be arranged. He has already been offered £350,000 for the house and is inclined to accept this for a quick sale. The partnership share has already been sold for £150,000 as this was part of the agreement Alfie had with his fellow business partners. He is looking for a buyer for the shares.

Requirement:

Calculate Charlie's net entitlement from Alfie's estate, supporting your answer with explanations, and any relevant advice. Include an explanation of what will happen with the trust and whether Alfie's death will cause there to be a tax charge.
(15)

Information Schedule

Assets at Alfie's death:

	£
Family home	400,000
15% share in 'First Editions'	150,000
Shares in Aitken Antiques Ltd	300,000
Aston Martin car	80,000
Ski chalet in Switzerland	120,000
Cash and quoted shares	200,000
Total	1,250,000

Notes:

1) 'First Editions' is a partnership which owns and runs a chain of antique bookshops. Alfie worked in the business for around 10 hours each week.

2) Aitken Antiques Ltd is an unlisted trading company with no excepted assets. The shares had been held for many years. Alfie held all of the shares.

3) Alfie's Will leaves the car to his nephew Jonathan, the ski-chalet to his niece Angela and the residue of the estate to Charlie. There were no lifetime transfers.

4) Alfie Aitken was also the sole income beneficiary of a trust set up by his mother just before her death in April 2016. The trust assets (consisting of quoted shares and securities) were worth £500,000 in March 2024. On Alfie's death, Charlie takes a successive life interest with capital reversion to charity thereafter.

15. The following information is relevant to “Mr Q”:

1) Mr Q is a Freedonian citizen who, for personal and business reasons, is thinking of coming to live in London for the foreseeable future.

2) Mr Q’s wealth is held in an interest in possession trust, which he settled in 2004.

3) The trust holds a very substantial portfolio of quoted stocks and bonds in overseas corporations and various offshore funds.

4) The trust owns 100% of Mr Q’s unquoted overseas holding company under which all Mr Q’s various business interests are held.

5) The terms of the trust provide that the settlor is entitled to the trust income. The Trustees can appoint or advance capital at their discretion, subject to the consent of the settlor.

6) The Trustees of the trust are Mr Q’s overseas solicitor and the settlor.

7) Mr Q’s plans are to buy a London house and move his family to London. His wife originally came from London and they have two children. The children will move to UK schools. Mr Q will base himself in London, returning to the UK after trips abroad. The intention is to be based in London for at least five years until the children have completed their education and the new business enterprises established are up and running. Thereafter, Mr Q intends to return to Freedonia.

Requirement:

Explain the UK Capital Gains Tax and Inheritance Tax consequences for the trust of the settlor’s move to the UK and, where appropriate, make recommendations. Ignore non-UK tax issues. (15)

ANSWERS

1. LEN DEMETRIS TRUST

1) TAX LIABILITY OF TRUSTEES

The beneficiaries are entitled to an interest in possession from their 21st birthday.

Jimmy has had an IIP since December 2021 and is entitled to 50% of the net trust income.

Ellen became 21 on 5 January 2024. She is therefore entitled to 50% of the trust income from that date. An apportionment of income and expenses will be required.

'Jimmy's fund' (fully interest in possession)

		Rent / Interest	Dividends
		£	£
Rents	£2,000 x 12 x 50%	12,000	
Gilt interest	£8,000 x 50%	4,000	
BS interest	£7,500 x 50%	3,750	
Dividends	£16,000 x 50%		8,000
Total income		19,750	8,000
Tax due @ 20% / 8.75%		3,950	700

'Ellen's fund' (IIP from 5.1.24)

		Rent / Interest	Dividends
		£	£
Rents	£2,000 x 12 x 50%	12,000	
Gilt interest	£8,000 x 50%	4,000	
BS interest	£7,500 x 50%	3,750	
Dividends	£16,000 x 50%		8,000
Total income		19,750	8,000
Less: Income subject to IIP			
Rents	£12,000 x 3/12	(3,000)	
Gilt interest	£4,000 x 50%	(2,000)	
Dividends	£3,500 x 50%		(1,750)
		14,750	6,250
Less Expenses: (£740 x 50% x 9/12) x 100/91.25			(304)
Liable at discretionary rates		14,750	5,946

	£
Tax:	
£1,000 @ 20%	200
£13,750 @ 45%	6,187
£5,946 @ 39.35%	2,340
£304 @ 8.75%	27
Tax on discretionary fund	8,754

Tax on IIP fund:		
Rents	£3,000 @ 20%	600
Gilt interest	£2,000 @ 20%	400
Dividends	£1,750 @ 8.75%	153
Tax on Ellen's fund		9,907

Tax payable by Trustees:

	£
Tax on Jimmy's fund (£3,950 + £700)	4,650
Tax on Ellen's fund	9,907
	14,557

2) FORMS R185

JIMMY:

Jimmy has an IIP and is entitled to 50% of the trust income (after tax & expenses).

	Rent	Interest	Dividends
	£	£	£
Total gross income	12,000	7,750	8,000
Less: Tax @ 20% / 20% / 8.75%	(2,400)	(1,550)	(700)
Less: Expenses (£740 x 50%)			(370)
Distributable income	9,600	6,200	6,930

R185:

	Net	Tax
	£	£
Rents	9,600	2,400
Interest	6,200	1,550
Dividends	6,930	665

Any distributions made to Jimmy are treated as payments on account of his income entitlement and are therefore ignored.

ELLEN:

Ellen has an IIP from 5 January 2024 and is entitled to 50% of the trust income (after tax & expenses) from that date.

	Rent	Interest	Dividends
	£	£	£
Total gross income	3,000	2,000	1,750
Less: Tax @ 20% / 20% / 8.75%	(600)	(400)	(153)
Less: Expenses (£740 x 50% x 3/12)			(92)
Distributable income	2,400	1,600	1,505

R185:

	Net	Tax
	£	£
Rent	2,400	600
Interest	1,600	400
Dividends	1,505	144

In addition, the distribution made to Ellen before 5 January 2024 would have been at the discretion of the Trustees and would carry a 45% credit.

R185:

	Net	Tax
	£	£
Trust income (£5,000 x 45/55)	5,000	4,091

MARKING GUIDE

TOPIC	MARKS
Part 1	
Identify beneficiary interests	1
Identify income subject to IIP (Jimmy)	1
Tax at IIP rates	1
Identify Ellen's total income	1
Identify Ellen's income subject to IIP	1
Deduct gross expenses	1
Tax at DT rates	2
Tax at IIP rates	1
Total tax	1
	10
Part 2	
Jimmy distributable income	1
Jimmy R185	1
Ellen distributable income	1
Ellen R185s x 2	2
	5
TOTAL	**15**

2. CAROL REGIS

1) IHT PAYABLE AS A RESULT OF CAROL'S DEATH

Carol had a Florentanian domicile of origin under common law.

She had been resident in the UK for 16 tax years (2008/09 to 2023/24 inclusive), so satisfied the "15/20 rule" and she was resident for at least one of the four tax years up to the year of her death.

Therefore she had acquired a deemed UK domicile for IHT at the date of her death.

IHT will therefore apply to her worldwide assets. Relief is given for foreign taxes.

Lifetime transfers

i) Gift to Edith (December 2012):

	£
House	60,000
Less:	
AE 2012/13	(3,000)
AE 2011/12	(3,000)
PET (exempt at death)	54,000

The gift was a gift with reservation of benefit (GWROB), so the value of the house is included in Carol's death estate.

ii) Gift to trust (March 2014):

	£
Cash	200,000
Less: AE 2013/14	(3,000)
CLT	197,000

No lifetime tax as < NRB.
No tax on death as Carol survived seven years.

iii) Gift to trust (May 2019):

	£	£
Cash		600,000
Less:		
AE 2019/20		(3,000)
AE 2018/19		(3,000)
CLT		594,000
Nil rate band 2019/20	325,000	
Less: Chargeable transfers b/fwd	(197,000)	
		(128,000)
Taxable		466,000
IHT @ 20/80		116,500
Gross transfer (594,000 + 116,500)		710,500

Additional tax is due on Carol's death as follows:

iv) Gift to trust (May 2019):

	£	£
CLT		710,500
Nil rate band 2023/24	325,000	
Less: Chargeable transfers b/fwd	(197,000)	
		(128,000)
Taxable		582,500
IHT @ 40%		233,000
Less: Taper relief (4 – 5 years = 40%)		(93,200)
Less: Lifetime tax		(116,500)
Additional tax payable on death		23,300

Death estate

	£	£
Home in London		515,000
Flat in Florentania		300,000
Farm	2,000,000	
Less: APR @ 100% x agricultural value	(1,500,000)	
		500,000
AIM listed shares	100,000	
Less: BPR @ 100%	(100,000)	
		Nil
UK company quoted shares		3,500,000
House in Norfolk – GWROB		185,000
		5,000,000
Nil rate band (fully utilised by transfer May 2019)		(Nil)
Taxable		5,000,000
IHT @ 40%		2,000,000
Less: DTR (Foreign tax paid at less than 40%)		(75,000)
Tax payable		1,925,000

2) WHO IS LIABLE TO PAY THE TAX AND WHEN

The tax on the house subject to the GWROB is payable by Edith in her capacity as the recipient.

The tax on the flat in Florentania is payable by Sylvie (although Sylvie will benefit from the DTR attaching to the legacy). Sylvie will therefore be liable for:

		£
IHT on flat	£300,000 @ 40%	120,000
Less: DTR		(75,000)
Payable by Sylvie	Due by 31.5.24	45,000

Sylvie could elect to pay this tax in instalments, in which case 10% of this (being £4,500) is payable by 31.5.24.

The rest of the tax will be suffered by the residuary legatee (Edith).

IHT on land (eg, the house, the farmland and the house subject to the GWROB) can be paid by the Executors in instalments as land is 'qualifying property' under s.227.

However, the tax on the quoted shares cannot be paid in instalments because the holding will not satisfy the qualifying conditions in s.228.

Executors' instalment claim:

Qualifying property:	£
Home in London	515,000
Farm	500,000
House in Norfolk – GWROB	185,000
	1,200,000
IHT @ 40%	480,000
Payable by Executors on normal due date (31.5.24):	
Instalment tax: (£480,000 x 10%)	48,000
Non-instalment tax: (2,000,000 – 120,000 - 480,000)	1,400,000
	1,448,000

3) ARRANGEMENTS TO REDUCE THE LIABILITY

Carol has not made use of neither her annual exemptions nor her small gifts exemptions.

She could have gifted assets to Edith at an earlier date in order to utilise these exemptions available annually. These would have been PETs, which would have been exempt after seven years (or subject to taper relief if Carol had survived three years). A gift would also have frozen the value of the transfer for IHT.

In particular, Carol should have given away her foreign assets before she became deemed domiciled in the UK on 6 April 2023. This would have been a gift of excluded property and therefore not a PET for IHT.

Alternatively, Carol could have transferred her foreign assets into a trust before April 2023. The trust would have been an excluded property trust as it would have been non-UK domiciled (as a result of having been settled by a non-UK domiciliary) and it would have owned non-UK situs assets. The trust assets would have remained outside the scope of UK IHT, even after Carol had acquired a deemed UK domicile.

The house in Norfolk was a gift with reservation of benefit (GWROB) and included in the death estate of Carol. The GWROB rules would not have applied if Carol had either ceased to use the house or had paid Edith a market rent for her stays.

Another idea would have been for Carol to have gifted Edith a half share in the property and thereafter shared occupation (and outgoings) with Edith and her family. This would not have been a GWROB.

The 5.2% holding in the quoted trading company does not qualify for BPR since the company was quoted. Investment in an unquoted or AIM listed company would have qualified for 100% BPR and hence saved £1,400,000 of IHT.

Carol could have gifted the quoted shares to Edith before death. This would have been a PET chargeable to IHT. However, it would have reduced the value of the estate below £2 million which would have triggered access to the residence nil rate band. The RNRB would be available as Carol's house is in her estate and passes to Edith (a lineal descendant).

This would have saved £175,000 @ 40% = £70,000.

4) IHT DUE ON THE 10-YEAR ANNIVERSARY OF THE TRUST IN MARCH 2024

Principal charge:

	£	£
Trust assets in March 2024		1,000,000
Nil rate band 2023/24	325,000	
Less: Settlor's transfers b/fwd	(Nil)	
		(325,000)
		675,000
Notional IHT @ 20%		135,000
Effective rate: 135,000/1,000,000 x 100		13.5%
Actual rate on original property:		
13.5% x 30%	4.05%	
Actual rate on added property:		
13.5% x 30% x (40 – 20)/40 (Note)	2.025%	
Principal charge:		
£1,000,000 x 4.05% x 200/800		10,125
£1,000,000 x 2.025% x 600/800		15,187
		25,312

Note:

Quarters 17 March 2014 – 17 March 2024	40
Quarters 17 March 2014 – 19 May 2019	20

MARKING GUIDE

TOPIC	MARKS
Part 1	
Identify deemed dom under 15/20 rule	½
IHT on worldwide assets	½
PET 2012 exempt	½
CLT 2014 no further tax	½
CLT 2019 calculate lifetime tax	1
CLT 2019 calculate extra tax on death	1
Death estate:	
APR on farm	1
BPR on shares	½
House in Norfolk subject to GWROB	1
IHT @ 40%	½
DTR	7
Part 2	
Tax on house payable by Edith	½
Tax on flat in Florentania payable by Sylvie	½
Show tax / show due date	1
Identify instalment option for Sylvie	½
Calculate instalments for estate	1
Show due date	½
	4
Part 3	
Use lifetime AEs / small gifts	1
Make earlier lifetime gifts to Edith	1
Gift foreign assets before becoming deemed dom	1
Transfer foreign assets to trust before becoming deemed dom	1
Stop GWR by ceasing to use the asset or paying rent	1
Reduce estate below £2m to access RNRB	1
Max	5
Part 4	
Calculate effective rate	1
Adjust for added property	1
PC for original property	1
PC for added property	1
	4
TOTAL	**20**

3. ROSE VINE

1) INHERITANCE TAX PAYABLE AS A RESULT OF ROSE'S DEATH

Lifetime transfers:

	£	£
January 2017		
Gift to discretionary trust		200,000
Less: AEs 2016/17 & 2015/16		(6,000)
CLT		194,000
No tax on death as seven years expired		
August 2020		
Write-off of loan to Holly		195,000
Less: AEs 2020/21 & 2019/20		(6,000)
Chargeable transfer		189,000
Nil rate band 2023/24 (W1)	371,962	
Less: CTs in previous 7 years	(194,000)	
Nil rate band remaining		(177,962)
Taxable		11,038
IHT @ 40%		4,415
Less: Taper relief (3 – 4 years = 20%)		(883)
Tax payable by Holly		3,532

Workings

W1) Nil rate band 2023/24

The Executors can make a claim for the unused nil rate band from Rose's husband's estate to be transferred to her.

Husband's death estate:

	£
Chargeable estate	225,000
Less: Nil rate band 2004/05	(263,000)
Nil rate band unused	38,000
% of nil rate band unused: 38,000 / 263,000 x 100	14.45%

Therefore, when Rose dies, we uplift the nil rate band by 14.45% as follows.

	£
Nil rate band 2023/24: £325,000 x 114.45%	371,962

Death estate:

	£	£
Merlot Properties Ltd shares (no BPR)		640,000
UK House		180,000
Cash and investments		302,000
House in Sicilia: $200,000/8	25,000	
Less: Expenses (additional)		
(2,000 – 600) = £1,400 limited to 5%	(1,250)	
		23,750
		1,145,750
Less exempt gift to charity: £302,000 x 50%		(151,000)
Chargeable estate		994,750
Less: Residence Nil Rate Band (W2)		(180,000)
Less: General Nil rate band 2023/24 (see above)	371,962	
Less: CTs in previous seven years	(189,000)	
		(182,962)
		631,788
IHT @ 36% (W3)		227,444
Less: DTR (W4)		(5,430)
IHT payable by Executors		222,014

W2) Residence Nil Rate Band

The RNRB will apply because Rose's home is left to a lineal descendant (in this case her children). The RNRB is £175,000. In addition, Rose's Executors can claim a brought forward allowance of £175,000 because the RNRB was not used in the estate of Rose's husband. The RNRB is therefore increased to £350,000. However, the RNRB is limited to the value of the qualifying residence in the estate which in this case is £180,000.

W3) Lower rate

The lower rate of 36% applies here as the donated amount (£151,000) is clearly more than 10% of the baseline amount.

W4) DTR

Estate rate: 227,444 / 994,750 x 100 22.8644%

DTR is lower of:
(i) Foreign tax (£9,800)
(ii) IHT on foreign asset (£23,750 x 22.8644%) £5,430

This is borne as follows:

	£	£
David: £640,000 x 22.8644%		146,332
Grace: £23,750 x 22.8644%	5,430	
Less: DTR	(5,430)	Nil
David & Grace: £180,000 x 22.8644%		41,156
Chardonnay: £151,000 x 22.8644%		34,526
IHT as above		222,014

Tutorial Note:

Double grossing does not apply here because the question clearly tells you that: "The Will states that all specific gifts should bear their own tax". For double grossing to apply, at least one of the specific gifts must be tax free.

2) DEED OF VARIATION

Inheritance Tax

For IHT purposes, if the variation is made within two years after the death it will be treated as made by the deceased under s.142(1)(b) IHTA 1984. The variation should include a statement that s.142 is to apply. As a result, the settlement will not be caught by the gifts with reservation of benefit provisions, and the trust property will be outside Chardonnay's estate.

The variation will have no effect on the IHT payable from the estate as the variation is neither to nor from an exempt beneficiary.

Capital Gains Tax

For CGT purposes, under s.62 TCGA 1992, Chardonnay will not be treated as making a disposal of the assets transferred to the trustees. Again, the variation must be made within two years of the death and include a statement that s.62 applies.

For CGT purposes, Chardonnay will be the settlor of the discretionary trust under s.68C(2) TCGA 1992. However, this will have marginal effect since trust gains are taxed on the trustees.

However, any subsequent gifts made by Chardonnay to the trust will not be eligible for CGT gift relief as the trust is settlor interested.

Income Tax

The deed of variation creates an income tax settlement of which Chardonnay is the settlor. Consequently, since Chardonnay retains an interest in the settlement, any income received by the trust will be treated as her income under s.624 ITTOIA 2005.

The variation will not have retrospective effect (as is the case for IHT), therefore any income received by Chardonnay from the settled assets before the date of the variation is assessable on Chardonnay in the normal way.

MARKING GUIDE

TOPIC	MARKS
Part 1	
Lifetime gifts:	
PET 2017 now exempt	½
Loan write-off = PET at date of w/o	½
AEs	½
Calculate transferred NRB	1
NRB remaining	½
Tax @ 40%	½
Taper relief	½
Payable by Holly	½
Death estate:	
Shares (no BPR)	½
House in Sicilia	½
5% expenses deduction	1
Charity exemption	½
Calculate RNRB	1
NRB remaining	1
Explain & use lower 36% rate	1
Calculate & deduct DTR	1
Show how tax is borne	2
	13
Part 2	
IHT effects of DoV / impact of S.142 election	2
CGT effects of DoV / impact of S.62 election	2
Denial of CGT gift relief as trust settlor-interested	1
Trust income will be taxed on Chardonnay as settlor	1
No retrospective effect for Income Tax	1
	7
TOTAL	**20**

4. GARRY THOMPSON

1) Calculation of Inheritance Tax liability

Lifetime gifts:

The dividends paid by Garry to Anna and Robert should be exempt under s.21 IHTA 1984 (normal expenditure out of income).

Death Estate:

	£	£
Home	280,000	
Less: Exempt transfer	(280,000)	
		Nil
Shares in G&G Clothing Ltd (N1)		200,000
Loan stock in G&G Clothing Ltd (N2)		80,000
Shares in GT Consulting Ltd (N3)		Nil
Loan stock in GT Consulting Ltd (N4)		Nil
Quoted shares:		
Alpha plc		18,000
Beta plc		11,000
Charlie plc (N5)		Nil
Cash deposits		50,000
Chattels	12,000	
Less: Exempt transfer	(12,000)	
		Nil
Rental properties:		
11 Mortimer Way		140,000
22 Mortimer Way		122,000
76 Platt Road	160,000	
Less: Exempt transfer	(160,000)	
		Nil
		621,000
Liabilities:		
Funeral expenses	5,000	
Other liabilities	10,000	
		(15,000)
Free estate		606,000
Qualifying IIP (N6)		375,000
Total chargeable estate		981,000
Less: Nil rate band		(325,000)
Taxable estate		656,000
IHT @ 40%		262,400
Payable by Executors: £262,400 x 606,000 / 981,000		162,094
Payable by Trustees: £262,400 x 375,000 / 981,000		100,306

Notes:

N1: No BPR on shares in G&G Clothing Ltd as the shareholders' agreement constitutes a binding contract for sale (s.113).

N2: No BPR on loan stock in G&G Clothing Ltd as Garry did not control the company (s.105(1)(b)).

N3: Shares in GT Consulting Ltd eligible for 100% BPR.

N4: Loan stock in GT Consulting Ltd eligible for 100% BPR as Garry controls the company ('related property' principles apply to determine control).

N5: Shares in Charlie plc are eligible for 100% BPR because:

- The shares are AIM listed; and
- The shares are deemed to have been held for two years under the 'replacements' rules in s.107.

N6: The assets in the trust created by Alan are held on qualifying IIP for Garry. No QSR is available because Alan's estate was below the nil rate band.

Tax on the land (Mortimer Way properties), the unlisted shares and the unlisted loan stock can be paid in instalments under s.227 IHTA 1984 if the Executors claim:

	£
Tax on instalment property:	
(200,000 + 80,000 + 140,000 + 122,000)	542,000
162,094 x 542,000 / 606,000	144,975

The tax payable by the normal due date is therefore:

	£
Tax payable by Executors on instalment property	
£144,975 x 10%	14,497
Executors' non-instalment tax (162,094 – 144,975)	17,119
Tax payable by Trustees	100,306
Total payable 31.12.23	131,922

2) <u>IHT planning points</u>

- Garry could have made regular gifts (up to £3,000 per annum) to use lifetime exemptions and/or have established the discretionary trust earlier to use exemptions / taper relief.

- The shareholders' agreement between Garry & Geoff could have been amended. Rather than stipulating that the surviving shareholder "shall" purchase the deceased shares, this should have been replaced with an option for the surviving shareholder to acquire the shares from the deceased's Executors. This would have secured BPR.

- The shares and loan stock in GT Consulting could have been left to a chargeable beneficiary instead of Helen. Leaving the shares to Helen wastes the spouse exemption, as the legacy will be covered by BPR in any event. Helen could have been left other (non-BPR) assets (eg, shares in G&G Clothing Ltd or the investment properties) with equivalent value.

- More assets could have been left to Helen to use the spouse exemption. Helen can thereafter make lifetime gifts as (presumably) she is quite young and likely to survive seven years.

- The house could have been left to the children to access the residence nil rate band (although as things stand the unused RNRB can be transferred to his wife to be used on her death assuming she leaves it to a lineal descendant).

The final three planning points can be implemented by a Deed of Variation within two years of death accompanied by a statement that s.142 IHTA will apply to the variation.

3) Reduction in IHT liability

A claim can be made by the Executors where quoted shares are sold within 12 months of death at a value less than their probate value (s.179 IHTA).

However, this does not extend to unquoted shares (covered by BPR anyway).

Asset	PV	Proceeds	Loss / (profit)
	£	£	£
Alpha plc shares	18,000	10,000	8,000
Beta plc shares	11,000	12,000	(1,000)
Loss on sales			7,000

Repayment to Executors:

	£
Free estate (606,000 – 7,000)	599,000
Qualifying IIP	375,000
Total chargeable estate	974,000
Less: Nil rate band	(325,000)
Taxable estate	649,000
IHT @ 40%	259,600
Payable by Executors: 259,600 x 599,000 / 974,000	159,651
Original tax	(162,094)
Repayable to Executors	2,443

MARKING GUIDE

TOPIC	MARKS
Part 1	
Gift of dividends exempt under S.21 (NEOI)	½
Death estate:	
House & chattels exempt	½
No BPR on G&G Clothing shares as binding contract for sale	1
No BPR on G&G Clothing loan stock as no control	1
100% BPR on shares in GT Consulting Ltd	½
100% BPR on GT Consulting loan stock (related property gives control)	1
Charlie plc shares eligible for BPR under S.107	1
Correct treatment of all rental properties	½
Deduct liabilities	½
Explain & include assets in QIIP	1
Deduct NRB	½
Tax @ 40%	½
Apportion between Executors & Trustees	1
Calculate instalment tax	1
Calculate non-instalment tax	½
State due date	½
Max	11
Part 2	
Use AEs in lifetime	½
Amend shareholder agreement to avoid binding contract issue	1
Leave BPR assets to a chargeable beneficiary	1
Leave non-BPR assets to exempt beneficiary (spouse)	1
Leave house to children to access RNRB	½
Can secure post death relief via Deed of Variation	1
	5
Part 3	
Calculate overall loss under S.179	2
Recalculate estate	1
Calculate repayment to Executors	1
	4
TOTAL	**20**

5. STEPHEN McMAHON

PART 1

EXECUTORS' INCOME TAX LIABILITIES:

2022/23:	Non-savings	Interest	Dividends
	£	£	£
Property income (after expenses)	30,520		
Bank interest		3,550	
Dividends			6,000
Less: Deductible payment (loan interest)	(1,000)		
Taxable income	29,520	3,550	6,000
Tax payable @ 20% / 20% / 8.75%	5,904	710	525

2023/24:	Non-savings	Interest	Dividends
	£	£	£
Property income (after expenses)	13,400		
Bank interest		1,500	
Dividends			3,000
Taxable income	13,400	1,500	3,000
Tax payable @ 20% / 20% / 8.75%	2,680	300	262

EXECUTORS' CGT LIABILITY:

	£
Proceeds (5.4.23)	219,000
Less: Probate value	(190,000)
Less: Costs of obtaining probate (W)	(1,520)
Chargeable gain	27,480
Less: Estate AEA	(12,300)
Taxable	15,180
CGT @ 28% (residential property)	4,250

Working: Costs of obtaining probate

Higher of:

i)	Actual costs (£3,000 x 190/950)	600
ii)	0.8% x £190,000 (per SP 2/04)	1,520

PART 2 – MICHAEL'S INCOME FROM THE ESTATE

2022/23

Payments on account – deemed to be made from non-savings income:

	Net	Tax
	£	£
Non-savings income	18,000	4,500

2023/24

This is the year in which the administration of the estate ends. Therefore, all the remaining income is treated as distributed in this year.

Total net income available for distribution:

	Non-savings	Interest	Dividend
	£	£	£
2022/23 gross income	29,520	3,550	6,000
2023/24 gross income	13,400	1,500	3,000
Total gross income	42,920	5,050	9,000
Less: Tax paid			
2022/23	(5,904)	(710)	(525)
2023/24	(2,680)	(300)	(262)
Net income	34,336	4,040	8,213
Less: Expenses			
2022/23			(840)
2023/24			(510)
Total income available	34,336	4,040	6,863
Less: Already distributed	(18,000)		
Total net income for distribution	16,336	4,040	6,863

R185 therefore:	Net	Tax
	£	£
Non-savings income	16,336	4,084
Savings income	4,040	1,010
Dividend income	6,863	658

Note

Payments to Michael must be allocated between (i) income bearing basic rate tax of 20%, then (ii) income at the dividend rate of 8.75%.

Michael will receive form R185 (tax certificate) showing the net amount for the year and stating the tax paid by the Executors.

Depending on Michael's other taxable income for the year, he may be due to pay higher rate tax at 40% / 33.75% (or 45% / 39.35%).

MARKING GUIDE

TOPIC	**MARKS**
Part 1	
Income Tax:	
2022/23 income	½
Deduct loan interest	1
Correct tax rates	½
2023/24 income	½
Correct tax rates	½
CGT:	
Deduct probate value	1
Calculate relief for probate costs (SP 2/04)	1
Deduct AEA	1
Correct rate	1
	7
Part 2	
POA 2022/23 treated as non-savings	1
R185	1
2023/24:	
Calculate total gross income both years	1
Deduct tax	1
Deduct expenses	1
Deduct amounts previously distributed	1
R185	1
Explain higher rate charge for Michael	1
	8
TOTAL	**15**

6. ANDREW BLAIR

1) Inheritance tax on Andrew's death

Lifetime tax:

	£
Gift to trust (Jan 2017)	320,500
Less: AEs	(6,000)
CLT	314,500
Less: Nil rate band 2016/17	(325,000)
Taxable	Nil
Gross transfer	314,500

Death tax on CLT:

	£
Gross CLT	314,500

Covered by nil rate band on death, therefore no tax.

Death estate:

The family home is held as joint tenants with the spouse. It will not therefore vest in the Executors and is exempt from IHT. The value of the house can therefore be ignored.

As the house does not pass to a lineal descendant, no RNRB is available.

Double grossing is required because we have:

- A tax-free legacy; and
- A partly chargeable/partly exempt residue.

Step 1: Gross-up the tax-free legacy as if it was the only part of the estate chargeable to IHT (ie 'single grossing'):

	£	£
Tax-free legacy		299,500
Nil rate band at death	325,000	
Less: CTs b/fwd	(314,500)	
		(10,500)
Taxable		289,000
IHT @ 40/60		192,667
Gross legacy (299,500 + 192,667)		492,167

Step 2: Calculate the chargeable value of the free estate and compute notional tax based on this estimated value:

	£
Net estate	1,400,000
Less: Gross legacy	(492,167)
Residue	907,833
50% chargeable to tax	453,916
Chargeable estate: (453,916 + 492,167)	946,083
Less: Nil rate band	(10,500)
Taxable	935,583
IHT @ 40% (notional)	374,233

Step 3: Use the notional tax to work out an 'estate rate':

Estate rate: 374,233 / 946,083 x 100	39.556%

Step 4: Using this estate rate, gross up the tax-free legacy as in Step 1 ('double gross'):

£299,500 x 100/(100 – 39.556)	£495,500

Step 5: Calculate the chargeable value of the gross estate and compute IHT based on this value. This gives the actual IHT payable.

	£
Total estate	1,400,000
Less: Gross legacy	(495,500)
Residue	904,500
50% chargeable to tax	452,250
Taxable estate (452,250 + 495,500)	947,750
Less: Nil rate band	(10,500)
Taxable	937,250
IHT @ 40% (actual)	374,900

2) Distribution of estate

Estate rate: 374,900 / 947,750 x 100	39.5568%

	£
Tax on tax-free gift:	
£495,500 x 39.5568%	196,004
Tax on chargeable residue:	
£452,250 x 39.5568%	178,896
Total	374,900

The tax on the tax-free legacy to the trust (£196,004) will be suffered equally by the residuary legatees (Thelma & Lionel).

The tax on the chargeable residue (£178,896) will be suffered by Lionel.

	£
Legacy to Trust	299,500
Residue: (1,400,000 – 299,500) = £1,100,500	
½ Residue to Thelma: £(550,250 – 98,002)	452,248
½ Residue to Lionel: £(550,250 – 98,002 – 178,896)	273,352
IHT to HMRC	374,900
	1,400,000
Share of house to Thelma	475,000
Total estate	1,875,000

3) Exit charge on appointment to Anthony (29 December 2024)

	£	£
Initial value of trust (Jan 2017)		320,500
Initial value of cash addition on death (May 2023)		299,500
		620,000
Nil rate band 2024/25	325,000	
Less: Transfers in last seven years before creation	(Nil)	
		(325,000)
		295,000
Notional tax @ 20%		59,000
Effective rate: 59,000 / 620,000 x 100		9.516%
Actual rate: 9.516% x 30%		2.855%

The cash to be appointed to Anthony will come proportionally from the cash additions in 2017 and 2023.

Actual rate on original cash (Jan 2017): 2.855% x 31/40	2.213%
Actual rate on cash added (May 2023): 2.855% x (31 – 25) / 40	0.428%

Exit charge (29 December 2024):		£
Original cash: 320,500 / 620,000	£51,694 x 2.213%	1,144
Added cash: 299,500 / 620,000	£48,306 x 0.428%	207
	£100,000	1,351

Quarters:		
	January 2017 – December 2024	31
	January 2017 – May 2023	25

MARKING GUIDE

TOPIC	MARKS
Part 1	
Calculate CLT	1
No death tax as < NRB	½
Death estate:	
Family home exempt	½
Identify that double grossing applies	1
Gross-up tax-free legacy	1
Calculate notional IHT	2
Calculate estate rate	1
Re-gross tax-free legacy	1
Calculate actual IHT payable	2
	10
Part 2	
Calculate tax on tax-free gift	1
Calculate tax on chargeable residue	1
Show division of estate	3
	5
Part 3	
Notional tax	1
Effective rate	1
Actual rate	1
Split between original and added property	1
Calculate exit charge	1
	5
TOTAL	**20**

7. SIR RANDOLPH LERNER

INHERITANCE TAX PAYABLE ON DEATH OF SIR RANDOLPH

Lifetime Tax

i) February 2013 – Chargeable lifetime transfer:

		£
Before transfer:	70,000 x £12	840,000
After transfer:	40,000 x £6	(240,000)
Loss to donor		600,000
Less: BPR @ 100%		(600,000)
CLT		Nil

ii) May 2016 – Chargeable lifetime transfer:

		£
Before transfer:	40,000 x £6	240,000
After transfer:	20,000 x £3	(60,000)
Loss to donor		180,000
Less: BPR @ 100%		(180,000)
CLT		Nil

iii) July 2018 – Potentially exempt transfer:

		£
Transfer of value		900,000
Less:	BPR @ 50%	(450,000)
		450,000
Less:	AE 2018/19	(3,000)
	AE 2017/18 b/fwd	(3,000)
PET		444,000

50% BPR as transfer out of a controlling shareholding in a quoted company.

Death Tax

i) CLT February 2013: Donor survived seven years so no further tax to pay.

Original value of nil remains in cumulation until February 2020.

ii) CLT May 2016: Donor died within seven years of making transfer.

BPR on the shares not withdrawn – AIM is still treated as unquoted.
Original value of nil remains in cumulation.
No further tax to pay.

iii) PET July 2018: Now chargeable as donor died within seven years.

BPR is preserved on these shares under s.113A(3A)(a) IHTA 1984.

Fall in value relief applies under s.131 IHTA 1984 as the market value of the transferred property at the date of the gift (£700,000) exceeds its value at the date of the death of the donor (£550,000). However, these market values must be reduced by 50% because BPR has been given at this rate.

The loss relief only applies to the tax payable by the donee, not the value of the transfer in the cumulative total.

	£	£
PET now chargeable		444,000
Less: Fall in value relief (s.131)		
(700,000 – 550,000) x 50%		(75,000)
Chargeable on death		369,000
Nil rate band at death	325,000	
Less: CTs in previous seven years	Nil	
Nil rate band remaining		(325,000)
Taxable		44,000
IHT @ 40%		17,600
Less: Taper relief (4 – 5 years = 40%)		(7,040)
IHT payable by daughter		10,560

Death Estate

Free estate:

	£	£
Lerner Ltd shares: 20,000 x £10	200,000	
Less: BPR @ 100%	(200,000)	
		Nil
House	300,000	
Less: Spouse exemption (N)	(300,000)	
		Nil
Green plc shares		107,000
Blue plc shares		42,000
Red plc shares		8,000
Cleveland plc shares (not controlling shareholding so no BPR)		2,550,000
		2,707,000
Less: Loss on quoted shares (W)		(3,436)
Net free estate		2,703,564
QIIP (life interest)		300,000
Total estate for IHT		3,003,564
Nil rate band at death	325,000	
Less: CTs in previous seven years (nil + 444,000)	(444,000)	
Nil rate band remaining		Nil
Taxable estate		3,003,564
IHT @ 40%		1,201,426
Less: QSR		
[(235,000 – 27,500) / 235,000] x £27,500 x 20% (4 – 5 years)		(4,856)
Total tax due on death estate		1,196,570

Allocation of IHT:

PRs:	2,703,564 / 3,003,564 x £1,196,570	£1,077,055
	Suffered by residuary legatee (being the grandchildren's trust)	
Trustees:	300,000 / 3,003,564 x £1,196,570	£119,515
	Suffered by the remainderman (being Laura)	

<u>Note</u>

The provisions of the Will are similar to those in the case of *IRC v. Lloyds Private Banking (1998)*.

In this case, the deceased and her husband jointly owned a house as tenants in common. On her death, the deceased left her share of the house to her daughter, subject to a provision that whilst her husband was alive and desired to live in the house, the Executor could not object to such residence or seek to enforce the trust for sale.

The husband subsequently died and HMRC claimed that he had an interest in possession in his widow's share of the house. The Court agreed that there was an interest in possession created by the Will as the effect was to create a right for the husband to live in the house.

On this basis, the gift of the house by Sir Randolph is treated as a gift to his spouse, half to her outright and half to an interest in possession trust for her. In both cases, the spouse exemption applies. The RNRB is not therefore available as no part of the house was left to a lineal descendant.

<u>Working</u>

Post-mortem sales of quoted shares (s.179 IHTA 1984):

	Probate value	Gross Proceeds	Loss / (profit)
	£	£	£
6,000 Green plc	91,714	99,428	(7,714)
2,000 Blue plc	24,000	13,000	11,000
600 Red plc	800	650	150
Allowable loss (s.179)			3,436

The loss is deducted from the free estate.

MARKING GUIDE

TOPIC	MARKS
CLT 2013:	
Loss to donor	½
Deduct BPR	½
CLT 2016:	
Loss to donor	½
Deduct BPR	½
PET 2018:	
50% BPR	1
Deduct AEs	½
Death tax:	
No further tax on 2013 CLT	½
BPR retained on 2016 CLT / no tax	½
2018 PET fails	½
BPR preserved	½
Fall in value relief	1
Calculate tax / taper relief	1
Tax payable by daughter	½
Death estate:	
Lerner Ltd shares	½
100% BPR	½
Explain spouse exemption on house	1
Quoted shares (no BPR)	1
Calculate & deduct post-mortem relief from free estate	2
QIIP	1
NRB	½
Correct cumulative transfers b/fwd	1
IHT @ 40%	½
Calculate & deduct QSR	2
Allocate tax between Executors & Trustees	1
State who will bear the IHT	1
TOTAL	**20**

8. KEVIN RICHARDSON

1) BUSINESS PROPERTY RELIEF RE: SHARES IN CUMFY CAMP LTD

Cumfy Camp Ltd is an unlisted company. However, BPR is only available if the business carried on by the company is a 'qualifying business', ie, it does not consist 'wholly or mainly' of dealing in land or holding and making investments (s.105(3)).

'Wholly or mainly' means that the business should satisfy a non-statutory '50% test'.

In the case of *Hall & Hall v CIR (1997),* the courts held that a business which ran a caravan park was not a qualifying business as 84% of the income was in the form of rents and standing charges and hence the business consisted "mainly of holding and making investments". The courts held that "the business was preponderantly one of the receipt of rents" and BPR was denied.

Similarly in *Weston v CIR (2000),* a widow owned shares in a company which ran a caravan park. BPR was again denied on the grounds that most of the company's income came from pitch fees (and hence the business consisted mainly of holding and making investments).

In *Furness v CIR (1999),* a father and son operated a caravan park in partnership. Less than 50% of the partnership's income derived from rents for the sites, the rest coming from the provision of services on the site and profits from the sales of caravans. In this case, as the business consisted of more than simply holding land as an investment, when the father died, BPR was available on his partnership share.

Similarly in *George & Loochin v CIR (2003),* BPR was allowed in respect of a caravan park business, as a significant part of the business was the provision of services (such as a country club and a licensed bar). The holding of land as an investment was held to be only one component of the business (and not the business itself).

Whether the shares of Cumfy Camp Ltd will be eligible for BPR therefore depends on the nature of their business. It would appear, based on the bare facts, that most of the company's income derives from the renting of tents and pitches for campers rather than the provision of services. The site only has a small shop and café, and few other facilities (licensed bar, recreation areas etc) seem to be provided. We would need to review the company accounts to get a fuller picture.

If it does transpire that the business passes the 50% test and is therefore 'trading', s.112 would need to be considered as this will restrict BPR based on the 'excepted assets' of the business. Under s.112, HMRC would seek to restrict BPR based on the percentage of excepted assets to total assets. A review of the company Balance Sheet would then be required.

2) IHT PAYABLE ON KEVIN'S DEATH

Lifetime transfers:

Regular annual gifts out of income:

	£
To grandchildren: £350 x 3 x 12	12,600

Annual surplus income:	Up to 2020/21	From 2021/22
	£	£
Annual net income	80,000	45,000
Less: Annual expenditure	(30,000)	(40,000)
Surplus	50,000	5,000

Therefore since 2021/22, Kevin has not had sufficient net income remaining to justify his monthly gifts as being 'normal expenditure out of income' under s.21 IHTA 1984.

Gift of shares to Joey (31.3.21) – related property rules apply.

		£
Value of shares before gift	55/80 x (8,000 x £50)	275,000
Value of shares after gift	20/45 x (4,500 x £30)	(60,000)
Loss to donor		215,000
Less: AE 2020/21		(3,000)
PET		212,000

Kevin's lifetime transfers have therefore been as follows:

	£	£
2019/20:		
Gift to Julie	20,000	
Less: marriage exemption	(1,000)	
Less: AE 2019/20	(3,000)	
Less: AE 2018/19 b/fwd	(3,000)	
PET		13,000
2020/21:		
PET to Joey (above)		212,000
2021/22:		
Excess annual gifts (£12,600 – £5,000)	7,600	
Less: AE 2021/22	(3,000)	
PET		4,600
2022/23:		
Excess annual gifts (£12,600 – £5,000)	7,600	
Less: AE 2022/23	(3,000)	
PET		4,600
2023/24:		
Excess annual gifts (£12,600 – £5,000)	7,600	
Less: AE 2023/24	(3,000)	
PET		4,600
Total PETs in seven years before death		238,800

PETs are covered by the available nil rate band but they reduce the nil rate band remaining to be available on the balance of the estate.

Death Estate

	£
Family home & contents	400,000
2,000 shares in Cumfy Camp Ltd: 20/45 x (4,500 x £40)	80,000
Shares in Tyburn plc	200,000
Shares in Cincinnati plc	150,000
Bank deposits	250,000
	1,080,000
Less: Exempt legacy to Miranda (N1)	(325,000)
	755,000
Less: Post-mortem loss (N2)	(13,000)
Chargeable estate	742,000
Less: Residence nil rate band	(175,000)
Less: General nil rate band remaining (325,000 – 238,800)	(86,200)
Taxable estate	480,800
IHT @ 40%	192,320

Notes:

N1: Miranda is non-UK domiciled and has not been resident in the UK for long enough to acquire a deemed domicile. Therefore the inter-spouse exemption is restricted to £325,000.

N2: Post-mortem claim re quoted shares:

Shares sold	Probate value	Gross proceeds	Loss/(profit)
	£	£	
100,000 Tyburn plc	200,000	184,000	16,000
90,000 Cincinnati plc	90,000	93,000	(3,000)
	290,000	277,000	13,000

3) TAX PAYABLE IN INSTALMENTS

A claim can be made under s.227 IHTA 1984 to pay the tax on the family home & the shares in Cumfy Camp Ltd by ten annual instalments.

The family home is qualifying property being land and buildings (s.227(2)).

The shares are qualifying property under s.228(1)(d) as the value transferred exceeds £20,000 and Kevin had at least 10% of the shares.

	£
Tax on instalment property:	
(400,000 + 80,000) x 192,320 / 742,000	124,412

The tax payable by the normal due date (31 October 2024) is therefore:

		£
Tax on instalment property:	£124,412 x 10%	12,441
Non-instalment tax:	(192,320 – 124,412)	67,908
Total payable 31.10.24		80,349

4) DOMICILE

Miranda is currently domiciled outside the UK. Consequently £325,000 of the legacy to her is exempt. This means £75,000 will be chargeable, giving rise to an IHT liability of £30,000.

Miranda can elect to be domiciled in the UK for IHT purposes. The election must be made within two years of Kevin's death. If an election is made, the whole of the legacy to Miranda will be exempt giving rise to an IHT saving of £30,000.

However, because Miranda would then be considered UK domiciled for IHT, in the future she will be subject to IHT on her worldwide assets. The election ceases once Miranda has been non-UK resident for four tax years, in which case she would revert to a non-UK domicile for IHT.

Miranda is relatively young (47) and is intending to return to South Africa. It would be beneficial for Miranda to make the election, which would then cease to have effect after four years of non-residence.

Miranda may wish to consider some form of insurance in case she dies before losing her UK domicile.

MARKING GUIDE

TOPIC	MARKS
Part 1	
S.105 “wholly or mainly” test	1
Means > 50% of activities must be trade / business related	1
Relevant case law – 1 mark for each to a max of 3	3
Excepted assets restriction if 50% test is passed	1
Max	5
Part 2	
Explain how ‘normal expenditure’ exemption applies and from when	2
PET May 2019:	
AE	½
ME	½
PET March 2021:	
Loss to donor / related property	1
AE	½
Remaining PETs:	
Calculate	½
Deduct AEs	½
Death estate:	
Home & contents	½
Cumfy Camp shares	½
Quoted shares / bank	½
Non-dom spouse exemption	1
Post-mortem relief	1
RNRB	½
NRB remaining	½
Tax	½
Max	9
Part 3	
Identify instalment assets	1
Calculate instalment tax	1
Calculate tax due on normal due date / state date	1
	3
Part 4	
Explain election	1
Explain effects for IHT	1
Recommend	1
	3
TOTAL	**20**

9. PAUL BIRCH

1) IHT ON PAUL'S DEATH

Taxable estate:

	£
Family home & possessions	350,000
Residential investment property	100,000
UK quoted shares	230,000
Shares in Trinity Estates Ltd (no BPR as dealing in land)	35,000
Bank deposits	70,000
	785,000
Less: Post-mortem relief (W1)	(3,044)
Chargeable estate	781,956
Less: Residence nil rate band	(175,000)
Less: General nil rate band	(325,000)
Taxable estate	281,956
IHT @ 40%	112,782

Workings

W1)

The AV Bank plc shares have been sold within 12 months of death, so the loss on sale can be deducted from the estate under s.179 IHTA.

16,000 shares were held at death. 4,000 shares were bought prior to sale. 10,000 shares were sold in January 2024.

Under s.185 the shares sold in January 2024 have to be apportioned. The number of shares treated as being sold out of the death estate is:

$$10{,}000 \times \frac{16{,}000}{20{,}000} = \underline{8{,}000 \text{ shares}}$$

We therefore calculate the loss on the sale of these 8,000 shares only:

	£
Proceeds (8,000 x £2.05)	16,400
Probate value (8,000 x £3.25)	(26,000)
Loss	(9,600)
Less: Restricted for purchase	
£9,600 x £11,200 (4,000 x £2.80) / 16,400	6,556
Allowable loss under s.179	(3,044)

2) TAX PAYABLE BY EXECUTORS

Income tax

	Interest £	Dividend £
Bank interest	5,000	
Dividends		20,000
Taxable income	5,000	20,000
Tax payable @ 20% / 8.75%	1,000	1,750

Capital Gains Tax

Gains arise on the sales of the residential investment property and AV Bank plc shares.

	£
Gain on Investment property (W2)	26,600
Less: Loss on AV Bank plc shares (W3)	(9,889)
	16,711
Less: Annual exempt amount	(6,000)
Taxable gains	10,711
CGT @ 28% (residential property)	2,999

W2) Investment property:

	£	£
Proceeds		130,000
Less: Agent's fees @ 2%		(2,600)
		127,400
Less: Probate value	100,000	
Less: Relief for probate fees per SP 2/04		
£100,000 x 0.8%	800	
		(100,800)
Chargeable gain		26,600

W3) AV Bank plc shares:

	£
Proceeds (10,000 shares) = 10,000 x £2.05	20,500
Less: Broker's fees @ ½%	(103)
	20,397
Less: CGT base cost per s.104 pool (W4)	(30,078)
	(9,681)
Less relief for probate fees (SP 2/04): 8,000 x £3.25 = £26,000 x 0.8%	(208)
Allowable loss	(9,889)

W4) S.104 pool:

	Shares	Cost £
Shares held at death (1 May 2023)	16,000	
Base cost of 16,000 shares:		
16,000 @ £3.25	16,000	52,000
Less: S.179 relief		(3,044)
		48,956
4,000 shares acquired July 2023 @ £2.80	4,000	11,200
	20,000	60,156
Less: Sale January 2024	(10,000)	(30,078)
C/fwd	10,000	30,078

Note:

Where a s.179 claim is made to reduce the IHT value, the revised IHT value after relief for the loss becomes the CGT base cost.

Under SP 2/04, the CGT deduction for probate costs is equal to 0.8% of the 'probate value of the assets sold'. Only 8,000 of the 10,000 shares sold were held at death. These shares had a probate value of £3.25. There is no provision whereby the 'probate value' in this instance is adjusted for any post-mortem reliefs.

3) ADDITIONAL INCOME TAX PAYABLE BY ZOE

R185s for beneficiaries

2023/24:	Interest	Dividends
	£	£
Gross income	5,000	20,000
Less: Tax	(1,000)	(1,750)
Net income	4,000	18,250
Less: Expenses	____	(450)
Net distributable income	4,000	17,800

50% each to the two beneficiaries:

R185 (Estate income)	Net	Tax
	£	£
Interest	2,000	500
Dividends	8,900	853

The beneficiaries will be taxed on this net distributable income. However, as Zoe is an additional rate taxpayer, we need to make an adjustment for the pre-death income charged to IHT. No similar adjustment is required for Kate as she does not have any higher or additional rate income.

This is done as follows:

1. 'Net pre-death income':

	£
Dividends	1,500
Less: Tax at basic rate	(300)
'Net pre-death income'	1,200

2. IHT attributable to the net pre-death income:

112,782 / 781,956 x 100 = 14.4% x £1,200	£173

3. Gross-up IHT at basic rate and deduct from distributable income:

	Interest	Dividends
	£	£
Gross income per R185	2,500	9,753
Less: IHT adjustment (£173 x ½ x 100/80)	_____	(108)
Income liable to tax at higher rates	2,500	9,645
Additional tax @ 25% / 30.6%	625	2,951

MARKING GUIDE

TOPIC	MARKS
Part 1	
Trinity Estates shares - no BPR	1
Include other assets	½
Post-mortem relief	3
RNRB	½
NRB	½
Tax	½
	6
Part 2	
Income Tax comp	1
Investment property gain	2
Loss on AV Bank shares	4
AEA	½
CGT rate	½
	8
Part 3	
Net distributable income	2
R185	1
IHT adjustment	2
Additional tax rates	1
	6
TOTAL	**20**

10. THE BETA DISCRETIONARY TRUST

Income Tax computation 2023/24

	Non savings	Interest	Dividends
	£	£	£
Property income	4,500		
Bank interest		1,000	
Treasury stock		1,000	
Dividends			9,444
	4,500	2,000	9,444
Less: Expenses (£1,480 x 100/91.25)			(1,622)
	4,500	2,000	7,822
Tax:			
£1,000 / 3 = £333 @ 20%			67
£4,500 – 333 = £4,167 @ 45%			1,875
£2,000 @ 45%			900
£7,822 @ 39.35%			3,078
£1,622 @ 8.75%			142
			6,062
Less: POAs			(2,000)
Income tax due 2023/24			4,062
CGT due 2023/24 (see W2)		50,269	
Less: POA of 2023/24 CGT (see W2)		(16,436)	
Balance of CGT			33,833
Balancing payment 31.1.25			37,895
Add: First POA 2024/25 (50% x £6,062)			3,031
Total payment due 31.1.25			40,926

W1) Tax pool

	£
B/fwd at 6 April 2023	2,413
Add: Tax paid at 20%	67
Tax paid at 45% (1,875 + 900)	2,775
Tax on dividends at 39.35%	3,078
	8,333
Less: Tax on distribution (£5,000 x 45/55)	(4,091)
C/fwd at 5 April 2024	4,242

W2) Capital Gains Summary

	Property Gains	Other Gains
	£	£
W3: Antique Clock		Exempt
W4: Sculpture		165,000
W5: Leasehold flat	59,699	
W6: Painting		4,167
Total	59,699	169,167
Less: Annual exempt amount (£3,000/3)	(1,000)	
Taxable	58,699	169,167
CGT @ 28% / 20%	16,436	33,833
CGT payable	50,269	

A payment on account in respect of the CGT on the residential property (£16,436) is due within 60 days of completion. The balance of the CGT payable (£33,833) is due on 31 January 2025.

Workings:

W3) Antique Clock (= machinery therefore a wasting chattel) Exempt

W4) Sculpture

	£
Proceeds	210,000
Less: Cost	(45,000)
Gain	165,000

W5) Leasehold flat

		£
Proceeds		350,000
Less Cost:	£300,000 x [% for 35.5 years] / [% for 40 years]	
	£300,000 x 92.371/95.457	(290,301)
Gain		59,699

W6) Painting

	£
Proceeds	8,500
Less: Cost	(2,500)
Gain	6,000
Restricted to: 5/3 x (8,500 – 6,000)	4,167

MARKING GUIDE

TOPIC	MARKS
Income tax:	
Gross up trust expenses	½
Calculate and apply £1,000 band	1
Identify deductible trust expenses	½
Allocation of trust expenses	½
Total income tax payable	½
Tax due date & total payable	1
Payments on account for 2024/25	1
Tax pool calculations	2
Capital Gains:	
Antique clock- exempt	1
Sculpture	1
Leasehold flat	2
Painting	1
Calculate annual exempt amount	1
Calculate CGT	1
Deduct CGT payment on account	1
TOTAL	**15**

11. DES BREMNER

1) APR / BPR ON ASSETS IN ESTATE

Shares in Ice House Ltd

Ice House Ltd is an unlisted trading company so the shares qualify for BPR under s.105(1)(bb) IHTA 1984.

The shares have not been held by Des for two years prior to his death as required by s.106. However, s.106 is deemed to be satisfied by s.109 as:

a) There were successive transfers within two years;
b) The earlier transfer was eligible for BPR; and
c) At least one of the transfers was on death.

BPR is therefore available on the shares at 100%.

Loan stock in Ice House Ltd

This has been held for two years.

However, s.105(1)(b) allows BPR on securities (eg loan stock), only where the transferor had control of the company at the date of the transfer.

Des had 50% of the shares – this is not a controlling holding therefore no BPR is available.

We do not know whether the loan stock carries voting rights (presumably not). However, Des's fellow shareholder holds an equal amount of loan stock, so even if the stock carries voting rights, Des would still only have 50%.

Shares in Kindon Allotments Ltd

Des has a 30% holding, as does his wife Faye. This means that:

- Des's shares will be valued using 'related property' principles; and
- Des is deemed to have 'control' of the company.

The shares will not be eligible for BPR as Kindon Allotments Ltd does not trade (it derives its profits from letting).

APR will possibly be available by virtue of s.122 which gives APR on shares if:

- The value of the shares is attributable to agricultural property; and
- The shares gave control of the company to the transferor.

The question is whether land let to allotment holders is 'agricultural land or pasture' within its normal meaning.

'Agricultural land or pasture' has its natural meaning and is taken to mean bare land used for agriculture (ie, fields of land used for the cultivation of crops or the grazing of animals).

The allotments are bare land used for cultivating crops. The question is, are the allotment holders carrying out an agricultural activity (albeit on a small scale)?

HMRC may try to deny APR on the grounds that 'agriculture' implies a degree of scale or a degree of business activity and cultivating an allotment may not be 'agriculture' within its normal meaning.

Assuming that the land is ‘agricultural’, as the land is not used by Des for farming, it must have been owned and used for agriculture for at least seven years (which it has).

APR would be available on the agricultural value of the agricultural land only. Therefore only the allotment land would qualify (not the land let for dog training).

Relief would be available at 100%, as leases have been signed after September 1995.

The transfer of value for IHT would therefore be:

	£
Value of shares (30/60 x £200,000)	100,000
Less APR: 100% x 275,000 / 400,000 x £100,000	(68,750)
IHT value	31,250

Quoted shares

We assume these do not constitute a controlling holding in a listed company, therefore no BPR is available.

2) IHT PAYABLE ON DES'S DEATH

S.39A IHTA 1984 applies because:

- There is a specific gift of non-business or non-agricultural property; and
- Agricultural property forms part of the residue.

Summary of estate:

	Gross	BPR/APR	Net
	£	£	£
Family home & contents	350,000	Nil	350,000
Shares in Ice House Ltd	200,000	200,000	Nil
Loan stock in Ice House Ltd	175,000	Nil	175,000
Shares in Kindon Allotments Ltd	100,000	68,750	31,250
UK quoted shares	300,000	Nil	300,000
UK bank deposits	70,000	Nil	70,000
	1,195,000	268,750	926,250
Less: Liabilities	(20,000)	Nil	(20,000)
Estate	1,175,000	268,750	906,250

S.39A has the effect of reducing the IHT value of an exempt specific gift (ie the gift of the house to Faye) by spreading some of the APR in the residue across to the exempt gift.

The IHT value of the gift to Faye is therefore:

$$£350,000 \times \frac{906,250 - 0}{1,175,000 – 200,000} = £325,321$$

Taxable estate:

	£
Estate as above	906,250
Less: Exempt legacy	(325,321)
Chargeable estate	580,929
Less: Nil band	(325,000)
Taxable estate	255,929
IHT @ 40%	102,372

3) <u>WAYS IN WHICH THE TAX CAN BE REDUCED</u>

Unlisted shares carrying 100% BPR have been left to an exempt beneficiary. This wastes the spouse exemption.

Brian runs Ice House Ltd, so he should be left the shares (qualifying for 100% BPR) and Faye should be left the loan stock (not eligible for BPR).

Deeds of Variation (one by each party) should therefore be entered into within two years, including a statement under s.142 IHTA 1984. In the Deeds of Variation, the Will is altered such that the shares in Ice House Ltd now pass by specific gift to Brian, and the loan stock in Ice House Ltd now passes by specific gift to Faye.

As s.142 makes the variation effective for IHT, BPR now attaches to the specific gift of the shares to Brian (making the revised IHT value nil). The IHT value of the stock left to Faye is also nil, as the spouse exemption applies.

As the value of the shares exceeds the loan stock, Brian might need to make a compensating payment to Faye for the difference. However care would be needed to avoid s.142(3) which prohibits a s.142 election where compensation is paid by one party in return for property passing under the variation.

A Deed of Variation can also be used to avoid the effects of s.39A.

The Will should be varied such that the shares in Kindon Allotments Ltd pass to the children's trust by specific gift rather than as part of the residue.

S.39A will not now apply, as there is no longer any agricultural property in the residue. APR will not therefore be partially spread against the exempt gift to the wife but will instead attach to the chargeable legacy.

HMRC insist that a Deed of Variation can only be valid if a person varies the will in favour of someone other than themselves. Therefore the Trustees must either:

1. Redirect the shares to the children absolutely (probably not sensible given the ages of the children); or

2. Redirect the shares on to a different trust with different rights and entitlements (for example, on life interest trust or on discretionary trust until age 18).

MARKING GUIDE

TOPIC	**MARKS**
Part 1	
Ice House shares – discuss & conclude	2
Ice House loan stock – discuss & conclude	2
Kindon Allotments shares - discuss & conclude	4
Quoted shares – discuss & conclude	1
	9
Part 2	
Identify S.39A applies	1
Calculate IHT value of legacy to Faye	3
Chargeable estate	1
Deduct exempt legacy	1
NRB	½
Tax	½
	7
Part 3	
Leave BPR shares to chargeable beneficiary	1
Leave non-BPR assets to exempt beneficiary	1
Use DoV to exchange assets & avoid S.39A - explain	2
	4
TOTAL	**20**

12. MARK DRAPER

The gift of the house to Mary is exempt.

The gift of the apartment in Paris to Marian is tax-bearing as it is non-UK property.

The gift of the classic cars to Alex is tax-free as it is UK property.

Double grossing will be required because we have:

- A mix of tax-free and tax-bearing legacies; and
- A partly exempt / partly taxable residue.

Step 1:

Gross-up the tax-free legacy as if it was the only part of the estate chargeable to IHT (ie 'single grossing'):

	£
Chargeable estate	500,000
Less: Nil band	(325,000)
Taxable	175,000
IHT @ 40/60	116,667
Gross legacy (500,000 + 116,667)	616,667

Step 2:

Calculate the chargeable value of the estate and compute notional tax based on this estimated value:

	£
Total estate	3,000,000
Less: Exempt transfer to Mary	(500,000)
Chargeable estate	2,500,000
Less: Gross legacy to Alex	(616,667)
Less: Legacy to Marian	(500,000)
Residue	1,383,333
2/3 chargeable to tax	922,222
Taxable estate: (616,667 + 500,000 + 922,222)	2,038,889
Less: Nil band	(325,000)
Taxable	1,713,889
IHT @ 40% (notional)	685,556

Step 3:

Use the notional tax to work out an 'estate rate':

Estate rate: 685,556 / 2,038,889 x 100	33.624%

Step 4:

Using this estate rate, gross up the tax-free legacy as in Step 1 ('double gross'):

£500,000 x 100 / (100 – 33.624)	753,284

Step 5:

Calculate the chargeable value of the gross estate and compute IHT based on this value. This gives the actual IHT payable.

	£
Total estate	3,000,000
Less: Exempt transfer to Mary	(500,000)
Chargeable estate	2,500,000
Less: Gross legacy to Alex	(753,284)
Less: Legacy to Marian	(500,000)
Residue	1,246,716
2/3 chargeable to tax	831,144
Taxable estate: (753,284 + 500,000 + 831,144)	2,084,428
Less: Nil band	(325,000)
Taxable	1,759,428
IHT @ 40% (actual)	703,771
Estate rate: 703,771 / 2,084,428 x 100	33.7633%

Step 6:

Divide the estate between the beneficiaries.

	£
Tax on tax-free legacy (borne by residue – 1/3 each):	
£753,284 x 33.7633%	254,333
Tax on tax-bearing legacy (borne by Marian):	
£500,000 x 33.7633%	168,816
Tax on chargeable residue (borne equally by Marian & Alex):	
£831,144 x 33.7633%	280,622
	703,771

Allocation of estate:

	£
House and possessions to Mary	500,000
Tax-bearing legacy to Marian £(500,000 – 168,816)	331,184
Tax-free legacy to Alex	500,000
Residuary legacies (Note 1):	
To Mary: £(500,000 – 84,777)	415,223
To Marian: £(500,000 – 84,778 – 140,311)	274,911
To Alex: £(500,000 – 84,778 – 140,311)	274,911
Tax to HMRC	703,771
Total estate	3,000,000

Note 1

	£
Total estate	3,000,000
Less: Specific legacies	(1,500,000)
Residue before tax	1,500,000
1/3 to each of Mary, Marian & Alex	500,000

MARKING GUIDE

TOPIC	MARKS
Identify double grossing & state why it applies	2
Gross up tax-free legacy	1
Add tax to net legacy	½
Calculate chargeable estate	3
Show notional tax	2
Calculate estate rate	1
Re-gross the tax-free legacy	1
Calculate chargeable estate	2
Compute actual IHT	1
Calculate new estate rate	1
Show tax burden on the legacies (½ mark each)	1½
Show how estate divided	4
TOTAL	**20**

13. MICHAEL SCHOFIELD

LIFETIME TRANSFERS

1) Gift to sister 10 December 2017

	£
Gift	295,000
Less: AE 2017/18	(3,000)
Less: AE 2016/17 b/fwd	(3,000)
PET	289,000

The gift was a gift with reservation of benefit as Michael had regular use of the property.

Michael stopped using the flat in July 2020 and thereafter released his reservation. This resulted in a deemed PET equal to the MV of the asset at the date of release (£340,000). No annual exemptions are available against this PET (see RI 55).

Double charges relief will apply to determine which PET is taxable (see below).

2) Gift to bare trust 15 March 2018

	£
Gift	350,000
Less: AEs (already used)	(Nil)
PET	350,000

3) Double charges computations

First:
Tax PET in December 2017 (£289,000). PET on release of reservation reduces to nil.

Second:
Tax PET on release of reservation in July 2020 (£340,000). PET in December 2017 reduces to nil.

The higher charge will apply.

First calculations:

	£
PET in December 2017	289,000

Covered by nil rate band at death so no tax.

	£	£
PET on gift to bare trust in March 2018		350,000
Nil band 2023/24	325,000	
Less: PET 2017	(289,000)	
Remaining		(36,000)
Taxable		314,000
IHT @ 40%		125,600
Less: Taper relief (5 – 6 years = 60%)		(75,360)
Payable (by trustees)		50,240

No nil rate band remaining on death estate.

Second calculations:

		£
PET in December 2017		Reduce to nil

	£	£
PET on gift to bare trust in March 2018		350,000
Nil band 2023/24	325,000	
Less: PET 2017 (treated as nil)	(Nil)	
Remaining		(325,000)
Taxable		25,000
IHT @ 40%		10,000
Less: Taper relief (5 – 6 years = 60%)		(6,000)
Payable (by Trustees)		4,000
PET on release of reservation July 2020		340,000
Nil band 2023/24	325,000	
Less: PET 2018	(350,000)	
Remaining		(Nil)
Taxable		340,000
IHT @ 40%		136,000
Less: Taper relief (3 – 4 years = 20%)		(27,200)
Payable (by sister)		108,800
No nil band remaining on death estate.		

The second set of calculations produce the most tax so these will be adopted.

DEATH ESTATE:

	£	£
Schofield Investments Ltd: 45,000 x £7.50 (N1)		337,500
River State Investments Ltd	300,000	
Less: APR (200,000 / 500,000 x 300,000 x 50%) (N2)	(60,000)	
		240,000
Burrows Ltd shares	270,000	
Less: BPR 20/60 x £270,000 x 100% (N3)	(90,000)	
		180,000
Factory used by Burrows Ltd	220,000	
Less: BPR @ 50% (N4)	(110,000)	
		110,000
French cottage	100,000	
Less: Expenses (limited to 5% x £100,000)	(5,000)	
		95,000
UK house	1,000,000	
Less: Mortgage	(132,500)	
		867,500
Personal possessions		70,000
		1,900,000
Less: Funeral expenses		(10,000)
Chargeable estate		1,890,000
Less: Residence nil rate band (N5)		(100,000)
Taxable estate		1,790,000
IHT @ 40%		716,000
Less: Quick Succession Relief (N6)		(3,600)
		712,400
Less: DTR (N7)		(28,500)
Tax payable		683,900

Explanatory Notes

N1: Shares in Schofield Investments Ltd valued as part of a 70% holding as related property rules apply which means Michael's shares (45,000) will need to be added to Sarah his wife's shares (25,000) to establish the value per share of the combined holding.

N2: APR given on River State Investments Ltd shares as Michael Schofield had a controlling holding. 50% APR as pre-1995 lease with more than two years to run at death.

N3: Only 20% of the Burrows Ltd shares qualify for BPR as other shares were purchased in 2023 and are not held for the requisite two years.

N4: Factory used by Burrows Ltd qualifies for 50% BPR as company controlled by Michael at date of death and building owned for more than two years.

N5: The RNRB is available as the house passed to the children, but it is tapered away as the net value of the estate exceeds £2 million. "Net value" means after deducting liabilities but before reliefs (APR & BPR) and exemptions (spouse and charity).

	£
Chargeable estate	1,890,000
Add: APR	60,000
Add: BPR (90,000 + 110,000)	200,000
Net value of estate	2,150,000
RNRB 2023/24	175,000
Less Restriction: ½ x (2,150,000 – 2,000,000)	(75,000)
Adjusted allowance	100,000

N6: QSR

£7,500 x 60% x 30,000 / 37,500 (30,000 + 7,500)	£3,600

N7: DTR

Full DTR given as UK tax on foreign asset will be £95,000 x 37.69% = £35,806. This exceeds the actual foreign tax paid. Estate rate is 712,400/1,890,000 x 100 = 37.69%.

MARKING GUIDE

TOPIC	MARKS
PET 2017	½
Identify GWR	½
Identify release of GWR = PET	1
PET 2018	½
Explain double charges relief	1
First calculations:	
2017 PET covered by NRB	½
Calculate tax on 2018 PET	1½
Second calculations:	
2017 PET reduced to nil	½
Calculate tax on 2018 PET	1½
Calculate tax on PET on release of GWR	1
Choose comps giving higher liability	1
Death estate:	1
Schofield Investments Ltd – related property value	1
River State Investments – APR position	1
Burrows Ltd shares – BPR calculation	1
Factory used by Burrows Ltd - BPR calculation	1
French cottage / expense deduction	1
UK house / mortgage	1
Funeral expenses	½
NRB (all used)	½
RNRB calculation	1
IHT	½
QSR	1
DTR	1
TOTAL (MAX)	**20**

14. CHARLIE AITKEN

Charlie's net entitlement from Alfie's estate will be about £793,000, as detailed in the calculations below. This is an estimate, as there will be various expenses (eg, probate fees, expenses of selling assets etc) which will be suffered by the estate and will reduce the capital value.

Explanations and advice are as follows:

Family home

If the sale goes ahead at £350,000, Charlie, as Executor, can claim for the lower sale proceeds to be charged to IHT instead of the probate value. It is assumed this will happen and therefore £350,000 has been used to calculate the IHT liability.

Partnership share

The partnership share will not be eligible for BPR because there appears to have been a binding contract for the sale of the 15% interest in existence at Alfie's death.

Charlie should check the nature of the sale agreement with the partnership, because if the transfer of Alfie's share was under the terms of a non-contractual option, BPR would be available. The calculations below assume no BPR is available.

Shares in Aitken Antiques Ltd

The shares are eligible for 100% BPR, so £300,000 of value is exempt from tax.

However, as the shares were left to Charlie as a residuary gift, the benefit of the BPR is not given to him entirely but is instead shared between the residue and the two specific gifts under the Will.

This has no effect as regards the Aston Martin car left to Jonathan because that legacy is 'tax-free' which means that any IHT on the gift will be suffered by Charlie anyway out of his residuary entitlement.

However, the legacy of the ski-chalet to Angela will bear its own tax as the asset is not situated in the UK. This means that Angela will receive some of the benefit of the BPR to reduce her tax liability (which correspondingly increases Charlie's liability). This results from the way that Alfie's Will was drafted.

Charlie could use a Deed of Variation to resettle the shares to himself via some form of trust such that the benefit of the BPR attaches entirely to his shares.

However, this will add an additional layer of complication (and extra legal and professional fees for setting up and thereafter running the resulting trust), for what is only a relatively small amount of tax (the tax cost to Charlie of losing the full benefit of the BPR is presently £7,667 being £30,000 @ 25.556%). It would also delay the administration of the estate.

In addition, this planning does not save any tax – it merely moves a small amount of the total tax liability across from Charlie to Angela.

If there are any additional probate fees relating solely to the ski-chalet (for example, any Swiss legal fees), these fees can be deducted from the value of the asset to a maximum of 5% of its value.

This will however only make a marginal difference to Charlie's net entitlement from the estate as most of the benefit will go to Angela as she is inheriting the chalet.

Alfie's mother's trust

Alfie's death will not cause there to be any further tax charges in respect of the trust.

Because his mother set up the trust after March 2006, the trust fell into the 'relevant property' regime. This means that, despite Alfie's right to income, no part of the trust formed part of his estate at his death.

The position is the same for Charlie, so there will be no IHT charge on the trust assets on Charlie's death.

Charlie will now be entitled to the net annual income of the trust which will need to be reported on his annual self-assessment return.

	£	£
Family home		350,000
15% share in 'First Editions'		150,000
Shares in Aitken Antiques Ltd	300,000	
Less: BPR	(250,000)	
		50,000
Aston Martin car	80,000	
Less: BPR	(20,000)	
		60,000
Ski chalet in Switzerland	120,000	
Less: BPR	(30,000)	
		90,000
Cash and quoted shares		200,000
Chargeable estate		900,000
Less: Nil rate band		(325,000)
Taxable estate		575,000
IHT @ 40%		230,000
Estate rate: 230,000 / 900,000 x 100		25.556%

	£
IHT payable	230,000
Less: Attributable to ski chalet (£90,000 x 25.556%)	(23,000)
Payable by Charlie Aitken	207,000

	£
Assets before tax:	
(350,000 + 150,000 + 300,000 + 200,000)	1,000,000
Less: IHT to be suffered by Charlie (above)	(207,000)
Charlie's net entitlement	793,000

Note: S.39A 'spreading fraction' = 900,000 / 1,200,000 = 75%

IHT value of specific gifts:

Car (80,000 x 75%)	60,000
Ski-chalet (120,000 x 75%)	90,000

MARKING GUIDE

TOPIC	**MARKS**
Family home – explain post-mortem relief	1
Partnership share – explain why no BPR	½
Aitken Antiques shares:	
100% BPR	½
Identify that S.39A will spread the benefit	1
Calculate S.39 spreading fraction	1
No effect on overall tax as estate fully chargeable	½
Will reduce Angela's liability	1
Mention possible 5% relief for probate costs re: Swiss chalet	½
Trust	
Relevant property as post 2006	½
No exit charge on Alfie's death	½
Charlie's interest remains relevant property so no change	½
Charlie should report income on SA return	½
IHT computation:	
Family home (sales proceeds taxed)	½
Shares / car / chalet - Correct values post S.39A adjustment (1 mark each)	3
NRB	½
Tax	½
Estate rate	½
IHT payable by Charlie	1
Charlie's net entitlement	1
TOTAL	**15**

15. MR Q

Trust residence and domicile

The crucial question for CGT will be the settlor's tax status now and going forward.

If the settlor is going to settle in the UK and base his and his family's life in the UK for the next five years, he is likely to be considered UK resident under the SRT.

As a Freedonian citizen living outside the UK, it is likely that Mr Q currently has a non-UK domicile of origin (most probably his Freedonian domicile of origin).

That domicile will be superseded by a UK domicile of choice only if Mr Q settles permanently in the UK (which is unlikely from the information provided).

It is therefore assumed that Mr Q is likely to become resident in the UK, but he will not be domiciled in the UK.

For CGT purposes, once Mr Q comes to the UK, and assuming his overseas solicitor remains non-UK resident, the trust will have mixed residence Trustees.

A trust with mixed residence Trustees is treated as being a UK resident trust at the 'relevant time' if the settlor was either:

- Resident in the UK; or
- Domiciled in the UK.

The 'relevant time' for these purposes means when the trust was set up or when property is added.

On the basis that no property is added to the trust, the trust would remain non-UK resident.

There needs to be continuous monitoring of the trust to ensure that assets are not added to the trust thereby causing the trust to become UK resident. If future additions are planned, a separate trust should be established for this purpose.

Capital Gains Tax

Under general principles, capital gains of the trust are not directly taxable on the non-resident Trustees.

There are exceptions for assets used in a trade or UK land and property (gains on which are chargeable to CGT in the hands of the Trustees).

Trust gains can be attributed to the settlor if S.86 TCGA applies.

However, S.86 cannot attribute trust gains to non-UK domiciled settlors (as attribution to the settlor requires both UK residence and domicile).

As S.86 does not apply to the trust, S.87 will apply instead.

S.87 matches trust gains with capital payments to UK resident beneficiaries. A capital payment means a payment or benefit which is not taxable as income. This can include the use of trust assets and low interest loans.

Matched gains are then charged to UK CGT in the hands of the beneficiary. The beneficiary can use his annual exempt amount against attributed gains but cannot deduct personal capital losses and cannot recover the CGT from the trust.

The CGT is increased by a supplementary charge where there is a delay of more than one tax year between the trust gains and the matched capital payment.

Non-domiciled recipients of capital payments can use the remittance basis if a relevant claim is made. This means that the capital payment must be brought to the UK or enjoyed in the UK in order for it to become taxable. Retaining a capital payment offshore can avoid a UK liability under S.87.

Only capital gains made on or after 6 April 2008 can be attributed to non-UK domiciled beneficiaries. Consideration should be given to the Trustees electing to 'rebase' their assets to 6 April 2008 thereby eliminating any chance of gains accruing before April 2008 being attributed to Mr Q.

Trust gains for S.87 purposes include gains of non-UK resident companies which are 'close' (broadly controlled by five or fewer persons) and in which the Trustee has an interest.

Inheritance Tax

When the trust was created, Mr Q was non-UK domiciled meaning that the non-UK assets of the trust are excluded property and outside the scope of IHT.

Mr Q obtaining UK residence will not change this.

The IHT position will change if the Trust invests in UK situs assets as such assets would then be brought within the scope of IHT. As Mr Q has a qualifying IIP, any UK assets within the trust would fall within his estate.

In addition, if any company held within the trust structure invests in UK residential property, the value of the shares represented by the UK residential property would no longer be excluded property and would also be chargeable to IHT in Mr Q's estate.

House in the UK

Mr Q intends to buy a house in London.

If he buys this personally, the house will form part of his chargeable estate for IHT.

Mr Q would also be liable to CGT on a sale of the property although the gain will be covered by private residence relief if Mr Q occupies the property as a home during its period of ownership.

Alternatively, the trust could buy the property and allow Mr Q rent-free occupation.

For IHT, the house would be within Mr Q's estate being UK situs.

For CGT, a disposal of the house by the Trustees would be chargeable to UK tax under the NRCG rules, but the gain would be eligible for PPR relief as the property would be the only or main residence of a beneficiary.

MARKING GUIDE

TOPIC	MARKS
Settlor will be UK resident under SRT	½
Currently non-UK dom	½
Will become UK dom is settles permanently in UK	½
Unlikely so UK res & non-dom	½
Trust will have mixed-resident Trustees	½
Explain residence test for mixed-residence Trustees	1
Explain “relevant time”	½
Conclude – Trust non-dom unless property added while settlor UK resident	1
Any future additions to a separate trust	½
CGT:	
No CGT for trust unless on UK land	1
Explain S.86	1
Will not apply here as non-UK dom settlor	1
S.87 will apply	½
Explain matching principle under S.87	2
Mention remittance basis for non-dom beneficiaries	½
Mention pre-2008 rebasing	½
Explain supplementary charge	1
Mention that gains include apportioned gains from non-UK close companies	½
IHT:	
Non-UK trust assets = excluded property	1
UK assets chargeable	½
Non-UK shares chargeable if value includes UK residential property	½
House in UK:	
Liable to IHT if held personally	½
Liable to CGT but could get PPR on a sale	½
Still liable to IHT if held via an offshore Co	½
Gain liable under NRCG with PPR relief if occupied by beneficiary	1
TOTAL (MAX)	**15**