

Tolley[®] Exam Training

ATT PAPER 5

IHT, TRUSTS AND ESTATES

PRE REVISION QUESTION BANK

FA 2025

May and November 2026 Sittings

PQ165

Tolley[®]

Tax intelligence
from LexisNexis[®]

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INTRODUCTION

This Pre Revision Question Bank contains exam standard questions all with answers updated to Finance Act 2025. This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

You will need a copy of the **ATT Tax Tables 2026** (included in this bank) either as a hard copy on your desk or as a pdf on your screen or on a second screen/device.

Format of the exam

All the ATT exams are **3.5 hours and** will have a mixture of computational and written **questions** carrying from 10 to 25 marks each, usually split into shorter subsections with marks allocated to each subsection, with no question choice. There are **98 marks for technical content and 2 marks for presentation skills** available.

Presentation Skills Marks

The presentation skills marks on this paper will be awarded as follows:

2 marks - Presentation is very good. Full sentences are used where appropriate throughout. Answers flow well and are in a logical order. Explanations clearly relate to the question scenario.

1 mark - Broadly the presentation is acceptable. Full sentences are used where appropriate, although some minor lapses are acceptable. Answers generally flow well and in a logical order. Explanations contain a reasonable reference to the question scenario.

0 marks - There is little effort to use full sentences where they would be expected. The answers do not flow well, with ideas not presented in a logical order. Explanations are mainly regurgitation of legislation/ learning materials with limited reference to the question scenario.

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

Using this question bank

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

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

Reviewing your answers

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

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

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

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 your answer. This approach could increase your marks much more effectively than carrying on with the point you were making before you stopped to do this final review.

Reviewing the model answer

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

ETHICS

ATT Papers 1 to 6 are each expected to each contain questions that have parts testing Ethics topics for between 3 and 7 marks in total across the paper.

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

Chapter 4	New clients and engagements
Chapter 5	Client service
Chapter 6	Objectivity (including conflicts of interest)
Chapter 7	Other client handling issues
Chapter 8	Charging for services
Chapter 9	Complaints
Chapter 10	Ceasing to act
Chapter 19	The Fundamental Principles
Chapter 20	The Standards for Tax Planning
Chapter 21	Help sheet A: Submission of tax information and 'tax filings'
Chapter 22	Help sheet B: Tax advice
Chapter 23	Help sheet C: Dealing with errors
Chapter 24	Help sheet C2: Dealing with errors – Members in business
Chapter 25	Help sheet D: Requests for data by HMRC
Chapter 26	Help sheet E: Members' personal tax affairs

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

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

CONTENTS

ATT TAX TABLES 2026

QUESTIONS FOR PAPER 5

No	Name	Topic	Marks
1	Julie	IHT on lifetime gifts	17
2	Elliot	IHT on death estate; admin	16
3	Bailey Discretionary Trust	DT calculations; IHT, IT & CGT for IIP v DT	18
4	Priya Darko	IHT liability, overseas aspects	15
5	Rose Discretionary Trust	IHT, IT & CGT for DT	15
6	Philippa	BPR; GWROB; IHT on death estate; admin; excepted estates	21
7	Jakob	IHT on lifetime gifts and death estate; estate IT & CGT; ethics	19
8	Barlow IIP settlement	IT, CGT (inc BADR) & IHT for QIIP and beneficiary	17
9	Mary Lamb	Estate IT & CGT; admin	19
10	Adventure Discretionary Trust	IT & CGT for DT; admin	15
11	David	IHT on lifetime gifts and death estate, incl fall in value; ethics	16
12	Jack	Overseas aspects; IHT on lifetime gifts and death estate; admin	18
13	Mr Butler	IHT on lifetime gift; IT & IHT for DT and settlor interested trust; ethics	18
14	Roberto Rossi	IHT on death estate; CGT & IHT on lifetime gifts	18
15	Beverley	IHT on lifetime gifts and death estate, incl fall in value	15

ETHICS FOR ATT PAPER 1-6

No	Name	Topic
1-20	n/a	Various short Ethics questions

ATT EXAMINATIONS
2026
TAX TABLES

INCOME TAX

	2025/26
Rates (Note 1)	%
Starting rate for savings income only	0
Basic rate for non-savings and savings income only	20
Higher rate for non-savings and savings income only	40
Additional and trust rate for non-savings and savings income only	45
Dividend ordinary rate	8.75
Dividend upper rate	33.75
Dividend additional rate and trust rate for dividends	39.35
 Thresholds	 £
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,700
Higher rate band	37,701 – 125,140
Dividend allowance	500
Savings allowance	
– Taxpayer with basic rate income	1,000
– Taxpayer with higher rate income	500
– Taxpayer with additional rate income	Nil
 Scottish Tax Rates and Thresholds (Note 2)	
£	%
1 – 2,827	19
2,828 – 14,921	20
14,922 – 31,092	21
31,093 – 62,430	42
62,431 – 125,140	45
125,140+	48
 Reliefs	 £
Personal allowance (Note 3)	12,570
Transferable tax allowance for married couples and civil partners (Note 4)	1,260
Blind person's allowance	3,130
Enterprise investment scheme relief limit (Relief at 30%) (Note 5)	1,000,000
Venture capital trust relief limit (Relief at 30%)	200,000
Seed enterprise investment scheme relief limit (Relief at 50%)	200,000
De minimis trusts amount	500

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

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

**ATT EXAMINATIONS
 2026
 TAX TABLES**

Pension contributions

Basic amount qualifying for tax relief	£3,600
	Annual allowance
	(Note 1)
	£
2025/26	60,000
	Minimum pension age
Lump sum allowance	£268,275

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

ITEPA mileage rates

Vehicles

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

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

Company cars and fuel – 2025/26

	Electric range (miles)	Car benefit %	
Emissions			
0g/km	N/A	3%	
1-50g/km	≥130	3%	
1-50g/km	70-129	6%	
1-50g/km	40-69	9%	
1-50g/km	30-39	13%	
1-50g/km	<30	15%	
51-54g/km		16%	
55-59g/km		17%	
60-64g/km		18%	
65-69g/km		19%	
70-74g/km		20%	
75g/km or more		21%	
155g/km or more		37%	
			+ 1% for every additional whole 5g/km above 75g/km

Fuel benefit base figure align="right">£28,200

Taxable benefits for vans – 2025/26

Van benefit – No CO ₂ emissions	£ Nil
Van benefit – CO ₂ emissions > 0g/km	4,020
Fuel benefit	769

Official rate of interest – from 6 April 2025 (assumed) align="right">3.75%

ATT EXAMINATIONS 2026 TAX TABLES

STUDENT AND POSTGRADUATE LOAN RECOVERY

Student Loans

	Plan 1	Plan 2	Plan 4
Employee earnings threshold	£2,172 per month	£2,372 per month	£2,728 per month

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

Postgraduate Loans

Employee earnings threshold £1,750 per month

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

STATUTORY PAYMENTS

Statutory sick pay

Average weekly gross earnings	£125.00 or more	Weekly rate £118.75
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Statutory maternity/adoption pay

First 6 weeks @ 90% of AWE
Next 33 weeks @ the lower of £187.18 and 90% of AWE

Statutory shared parental pay/ paternity pay/parental bereavement pay/neonatal care pay

For each qualifying week, the lower of 90% of AWE
and £187.18

QUALIFYING CARE RELIEF

	Flat rate	Placement < 11	Placement ≥ 11
Year to 5 April 2026	£19,690 per year	£415 per week	£495 per week

CHILD BENEFIT

Year to 5 April 2026

Rates	Weekly rate
	£
First child	26.05
Each subsequent child	17.25

Child benefit charge

Adjusted net income >£60,000
Adjusted net income >£80,000

Withdrawal rate

1% of benefit per £200 of income between £60,000 and £80,000
Full child benefit amount assessable in that tax year

HMRC INTEREST RATES (assumed)

Late payment interest	7.00%
Interest on underpaid corporation tax instalments	5.50%
Repayment interest	3.50%
Interest on overpaid corporation tax instalments	4.25%

ATT EXAMINATIONS
2026
TAX TABLES

NATIONAL INSURANCE CONTRIBUTIONS

2025/26

Class 1 limits

	Annual £	Monthly £	Weekly £
Lower earnings limit (LEL)	6,500	542	125
Primary threshold (PT)	12,570	1,048	242
Secondary threshold (ST)	5,000	417	96
Upper earnings limit (UEL)	50,270	4,189	967
Upper secondary threshold for U21 (UST)	50,270	4,189	967
Apprentice upper secondary threshold for U25 (AUST)	50,270	4,189	967

2025/26

Employment allowance

Per year, per employer £10,500

Class 1 primary contribution rates

Earnings between PT and UEL 8%
Earnings above UEL 2%

Class 1 secondary contribution rates

Earnings above ST (Notes 1 & 2) 15%

Notes:

- (1) The rate of secondary NICs for employees under the age of 21 on earnings between the ST and UST is 0%.
- (2) The rate of secondary NICs for apprentices under the age of 25 on earnings between the ST and AUST is 0%.

Other contribution limits and rates

Class 1A contributions 15%
Class 1B contributions 15%

Class 2 contributions

Rate £3.50 pw
Small profits threshold (Note 3) £6,845 pa

Note: (3) Self-employed individuals with profits below the small profits threshold can pay Class 2 NICs voluntarily to get access to contributory benefits including the State Pension.

Class 3 contributions

£17.75 pw

Class 4 contributions

Annual lower profits limit (LPL) £12,570
Annual upper profits limit (UPL) £50,270
Percentage rate between LPL and UPL 6%
Percentage rate above UPL 2%

SIMPLIFICATION MEASURES

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

ATT EXAMINATIONS
2026
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FLAT RATE EXPENSES FOR UNINCORPORATED BUSINESSES

Motoring expenses			
Car or van	First 10,000 business miles		45p per mile
	Additional business mile		25p per mile
Motorcycles			24p 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

CAPITAL ALLOWANCES

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

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

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

Capital expenditure incurred by a person on research and development.
 New cars if the car either emits 0g/km of CO₂ or it is electrically propelled (until 31 March 2026/5 April 2026).
 Electric vehicle charging points expenditure (until 31 March 2026/5 April 2026).

Further FYAs available to companies

Additional FYA for companies incurring expenditure on new plant and machinery (other than cars) from 1 April 2023 onwards.
 FYA for assets in main pool 100% (130% for expenditure 1 April 2021 to 31 March 2023)
 FYA for assets in special rate pool 50% (from 1 April 2021)

VALUE ADDED TAX

Standard rate 20% VAT fraction 1/6

Limits

Annual registration limit	£90,000
De-registration limit	£88,000

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 (from 1 March 2025)

Engine size	Petrol	LPG	Engine size	Diesel
1400cc or less	12p	11p	1600cc or less	12p
1401cc to 2000cc	15p	13p	1601cc to 2000cc	13p
Over 2000cc	23p	21p	Over 2000cc	17p

Electricity rate 7p

ATT EXAMINATIONS

2026

TAX TABLES

CORPORATION TAX

Financial year	2025	2024
Main rate	25%	25%
Standard small profits rate	19%	19%
Augmented profit limit for standard small profits rate	£50,000	£50,000
Augmented profit limit for marginal relief	£250,000	£250,000
Standard marginal relief fraction	3/200	3/200
Marginal rate	26.5%	26.5%

Research and development expenditure

Financial year	2025
RDEC	20%
Alternative relief for loss making R&D intensive SMEs (Note 1):	
Enhanced R&D Intensive Support (ERIS) - total relief	186%
R&D tax credit for R&D intensive SME losses	14.5%

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

INHERITANCE TAX

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

Nil rate bands

6 April 1996 – 5 April 1997	£200,000	6 April 2003 – 5 April 2004	£255,000
6 April 1997 – 5 April 1998	£215,000	6 April 2004 – 5 April 2005	£263,000
6 April 1998 – 5 April 1999	£223,000	6 April 2005 – 5 April 2006	£275,000
6 April 1999 – 5 April 2000	£231,000	6 April 2006 – 5 April 2007	£285,000
6 April 2000 – 5 April 2001	£234,000	6 April 2007 – 5 April 2008	£300,000
6 April 2001 – 5 April 2002	£242,000	6 April 2008 – 5 April 2009	£312,000
6 April 2002 – 5 April 2003	£250,000	6 April 2009 – 5 April 2030	£325,000

Residence nil rate bands (Note 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 2030	£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 > £2 million.

Taper relief

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

Quick succession relief

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

Lifetime exemptions

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

ATT EXAMINATIONS
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TAX TABLES

CAPITAL GAINS TAX

	2025/26
Annual exempt amount	£3,000
CGT rates for individuals (Notes 1 & 2)	
Gains qualifying for business asset disposal relief/investors' relief (Note 3)	14%
Gains falling within remaining basic rate band (Note 4)	18%
Gains exceeding basic rate band	24%
CGT rates for trusts	
Gains qualifying for business asset disposal relief/investors' relief	14%
Other gains	24%
CGT Rate for personal representatives (PRs)	
All gains	24%
Business Asset Disposal relief (BADR)	
Relevant gains (lifetime maximum) (Note 5)	£1 million
Investors' relief (IR)	
Relevant gains (lifetime maximum) (Note 6)	£1 million

- Notes:**
- (1) For individuals, gains are taxed as if they are the top slice of income.
 - (2) Capital losses and the annual exempt amount may be offset in the most beneficial manner, ie against gains not qualifying for BADR/IR first.
 - (3) From 6 April 2026 the rate will be 18%
 - (4) The remaining basic rate band is calculated as £37,700 (2025/26) less taxable income less any gains on which BADR/IR has been claimed. The remaining basic rate band can be allocated in the most beneficial manner.
 - (5) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million
 - (6) For qualifying disposals made before 30 October 2024 the lifetime limit was £10 million

Lease percentage table

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

ATT EXAMINATIONS 2026 TAX TABLES

Retail Prices Index

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

QUESTIONS

1. Julie made the following gifts during her lifetime.

		£
15 July 2017	Gift to daughter on her wedding day	50,000
7 March 2019	Gift to discretionary trust	340,000
11 June 2020	Gift to UK registered charity	10,000
21 December 2021	Gift of holiday bungalow to son	125,000
19 July 2024	Gift to interest in possession trust for son	150,000

The trustees paid the lifetime tax due, where relevant.

Julie died on 10 August 2025.

Requirement:

- 1) Calculate the inheritance tax payable in respect of each of the gifts, and state by whom and by when the tax should be paid in each instance. (14)**

In addition to the above gifts, Julie had been paying for her grandchildren's school fees for the past six years out of her income.

- 2) Explain the two other conditions, besides being from her income, which need to be met for the school fee payments to be classified as normal expenditure out of income and state how such payments are treated for inheritance tax purposes. (3)**

Total (17)

2. Elliot died on 8 December 2025.

His only lifetime gift was £90,000 in cash to his daughter on 10 July 2022.

Elliot's death estate was valued as follows:

	£
House	700,000
Quoted shares:	
10,000 A plc, quoted at 310 – 318, bargains at 308, 312, 314	
15,000 B plc, quoted at 280 – 284, bargains at 282, 284	
Unquoted shares:	
10,000 C Ltd, acquired 2007	250,000
Personal chattels	40,000
Cash at bank	25,000

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

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

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

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

Requirement:

- 1) Calculate the IHT payable as a result of Elliot's death; and (13)
 - 2) Explain what Walter must do to account for the IHT payable. Ignore the availability of the instalment option if relevant. (3)
- Total (16)

3. The Bailey Discretionary Trust was created on 1 June 2014 by the settlor, Edna Bailey. The class of beneficiaries includes Edna's three adult children, Freddie, George and Harry. Edna created one other discretionary trust in 2008, making a chargeable lifetime transfer of £213,000 at that time.

On 1 June 2024, the Bailey Trust reached its ten-year anniversary. The value of the trust fund at that time was £500,000.

On 27 October 2025, the trustees made a capital distribution of £50,000 to Freddie Bailey, with the trustees agreeing to pay any tax due.

The trustees of the Bailey Discretionary Trust have agreed to make an income payment of £4,500 to Harry Bailey in 2025/26. They received dividend income of £9,000 during the year and incurred trust expenses of £230. The tax pool brought forward is £50.

Also during 2025/26, the trustees sold some shares for proceeds of £25,000. The shares were acquired in 2022 at a cost of £2,000.

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

Requirement:

- | | |
|--|------|
| 1) Calculate the Inheritance Tax payable by the trustees as a result of the ten-year charge on 1 June 2024. | (4) |
| 2) Calculate the Inheritance Tax payable by Freddie Bailey as a result of the capital distribution on 27 October 2025. | (2) |
| 3) Calculate the Income Tax payable by the trustees for 2025/26. | (4) |
| 4) Calculate the Capital Gains Tax payable by the trustees for 2025/26. | (2) |
| 5) Compare the tax treatment of a discretionary trust and an interest in possession trust created during the settlor's life, both on creation and during its lifetime. | (6) |
| Total | (18) |

4. Priya Darko is single and has lived in the UK since May 2018.

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

A holiday home near her family in Utopia	£200,000
An offshore bank account in Utopia	£104,050
A reversionary interest in a UK trust. This trust was set up by Priya's grandfather. The life interest was given to Priya's father. The capital will pass to Priya on her father's death	The capital assets are currently worth £200,000. The reversionary interest is currently valued at £50,000.
305 quoted shares in Zebra-3 Plc, a UK trading company	The shares are quoted between £10.08 and £10.56.
1,500 unquoted shares in Huggy Ltd, a UK trading company held since May 2018	£725,000
A property currently let in the UK	£235,000
Her home in the UK	£460,000
A UK cash ISA	£1,480

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

Priya has previously made the following lifetime gifts:

	Date of gift	£
300 shares in Huggy Ltd (held since May 2018) to her brother, Nick, who has since sold the shares	27 August 2020	93,000
£4,000 in cash to each of her three godchildren	16 May 2021	12,000
A transfer of 500 shares in Huggy Ltd (held since May 2018) into a discretionary trust. (No Inheritance Tax was previously paid in relation to this transfer)	9 November 2023	230,000
£1,500 to her friend Dinesh, when he got married	9 May 2025	1,500

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

Requirement:

- 1) Calculate Priya's Inheritance Tax liability assuming she dies today (you may assume that today's date is 27 June 2026). (11)
 - 2) Explain the effects that:
 - a) Staying in the UK; and
 - b) Leaving the UK will have on Priya's Inheritance Tax position. (4)
- Total (15)

5. The Rose Discretionary Trust was created on 19 May 2015 by the settlor, Laura Rose, for the benefit of her adult grandchildren. This trust was her only lifetime gift and Laura paid the Inheritance Tax arising on the transfer.

The assets settled on the trust were:

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

On 19 May 2025, the capital value of the trust fund was £1,400,000. This included the farmland which had an agricultural value of £250,000 and a market value of £350,000. There were no capital distributions in the first 10 years of the trust.

On 1 February 2026 the trustees paid £200,000 to Iris, a beneficiary. £25,000 of this payment was made from trust income. Iris agreed to pay any tax arising on the appointment.

In the 2025/26 tax year the trustees received the following income:

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

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

Fees for preparing the 2025/26 trust tax return were £305.

On 30 April 2025 the trustees sold the painting for £63,000. Costs of disposal were £1,250.

Requirement:

- 1) Calculate the Inheritance Tax payable on the creation of the trust. (3)
 - 2) Calculate the Inheritance Tax payable on the Rose Discretionary Trust's ten-year anniversary on 19 May 2025. (4)
 - 3) Calculate the Inheritance Tax payable on the capital distribution made to Iris. (2)
 - 4) Calculate the Income Tax payable by the trustees for 2025/26 and state the payment due date. (3)
 - 5) Calculate the Capital Gains Tax payable by the trustees for 2025/26. (3)
- Total (15)

6. Philippa died on 17 June 2025. She was divorced and had no children. On the date of her death she owned the following assets:

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

Philippa bought the shares in Greenfly plc when she retired in January 2025. Prior to that date, she had owned a design company for many years. She sold the business for £180,000 in January 2025 and reinvested the proceeds into the shares in Greenfly plc.

In the dining room at Fir Trees is an antique painting worth £100,000. This was bought by Philippa at auction in 2012 for £50,000 and gifted to her sister, Judith, in 2013 as a 50th birthday present. As Judith lives in a small flat, she agreed that the painting should be hung at Fir Trees where she could enjoy it whenever she visited her sister.

Philippa was the life tenant of an interest in possession trust set up by her father in 2001. The market value of the assets in the trust on 17 June 2025 was £550,000.

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

Requirement:

- 1) Explain whether the shares in Greenfly plc will qualify for Business Property Relief. (4)
 - 2) Explain the IHT consequences of gifting the antique painting to Judith. (2)
 - 3) Calculate the IHT payable as a result of Philippa's death. (4)
 - 4) Explain who is responsible for the payment of the IHT liability due on Philippa's death. (Calculations are not required for this part.) (3)
 - 5) State the administrative advantage of an estate qualifying as an excepted estate for IHT purposes. (1)
 - 6) Briefly explain the three categories of excepted estates. Your answer should include the conditions that must be met for each category to qualify as excepted. (7)
- Total (21)

7. Jakob Lapp died on 11 May 2025.

Jakob made the following lifetime gifts:

- a) Cash gift to his goddaughter, Ava, on 31 July 2019 of £187,000.
- b) Settled cash of £625,000 upon trust for Ava on 1 March 2020. The trustees paid the Inheritance Tax due. The trustees invested the cash in a property and, by the time of Jakob's death, the property was worth £700,000.

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

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

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

The executors incurred funeral costs of £8,000 and £1,000 for Jakob's tombstone. The executors honoured an informal oral agreement with Jakob's friend and repaid a cash loan of £250. Income Tax of £7,810 was due on 31 January 2025 but remains unpaid.

During the period to 5 April 2026 the executors received the following income:

	£	
Bank interest	2,700	
Employment income (paid 31 May 2025)	800	(no tax deducted)
Dividends	3,000	

The executors took out a loan to fund the IHT payable. Interest was paid on 31 March 2026 of £1,200. The executors incurred costs of £500 in administering the estate.

The executors sold a car on 8 January 2026 for £12,000 (probate value £10,000). They also sold an antique dresser on 1 February 2026 for £5,000 (probate value £4,500).

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

Requirement:

- 1) Calculate the Inheritance Tax payable on the lifetime gifts made during Jakob's lifetime and as a result of Jakob's death. (6)
 - 2) Calculate the Inheritance Tax payable on Jakob's death estate. (5)
 - 3) Calculate the Income Tax payable by Jakob's executors for 2025/26. (3)
 - 4) Explain the Capital Gains Tax position for Jakob's executors for 2025/26. (2)
 - 5) State four of the recommended clauses to include in the letter of disengagement when ceasing to act for the executors. (3)
- Total (19)

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

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

The initial trust property was as follows:

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

On 1 August 2025 the trustees sold their shareholding in Echo Ltd for £500,000.

The land was also sold on 6 December 2025 for £280,000. Professional costs of £3,500 were incurred in connection with the sale. The land was let for £1,025 per month and the trustees incurred maintenance fees in respect of the land totalling £200, up to the date it was sold. The land has never been used for business purposes.

Bank interest of £650 was received during the year ended 5 April 2026. The trustees received a dividend in respect of their shareholding on 5 May 2025 of £1,000.

Requirement:

- 1) Calculate, showing all your workings, the Income Tax payable by the trustees for 2025/26 and state the due date for a tax return to report this income. (4)
 - 2) Explain the Income Tax consequences for Sophie of receiving income as the life tenant. (3)
 - 3) Calculate the Capital Gains Tax payable by the trustees for 2025/26, clearly explaining your treatment of the annual exempt amount. (6)
 - 4) Explain the Inheritance Tax implications if the proceeds from the sale of the shares and land are distributed to Sophie. Explain how the position would be different if the settlement had been created after 22 March 2006. (4)
- Total (17)

9. Mary Lamb died in June 2025. Her executors are currently administering her estate which received the following income in 2025/26:

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

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

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

The Schoolhouse was sold on 31 March 2026 for £405,000 after an upturn in the local property market. Its probate value was £350,000.

Mary's adult son, Larry, is the sole beneficiary of the estate and the executors paid all of the estate income for 2025/26 to him on 5 April 2026. Larry is a higher rate taxpayer with no investment income.

Your tax manager, Frederick, an ATT member, will be signing off on the executors' tax return before it is filed.

Requirement:

- 1) Explain the treatment of the interest arising on Mary's ISA. (2)
 - 2) Calculate the Income Tax payable by Mary's executors for 2025/26. (3)
 - 3) Calculate the Income Tax payable by Larry on the estate income received by him in 2025/26. (3)
 - 4) Calculate the Capital Gains Tax payable by Mary's executors as a result of the sale of The Schoolhouse. (2)
 - 5) State the due dates for the submission of the estate tax return for 2025/26 and for the payment of any Income Tax and Capital Gains Tax due. (2)
 - 6) Outline the consequences of submitting the estate tax return and paying the tax four months late. (4)
 - 7) State three of Frederick's responsibilities as a member of the Association of Taxation Technicians in connection with the preparation of tax returns/tax filings for Mary's executors. (3)
- Total (19)

10. The Adventure Discretionary Trust was created on 1 October 2023 by Mr Desai, who had previously created seven other trusts.

The trustees immediately purchased the following assets:

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

In the 2025/26 tax year, the trustees received dividend income of £50,000 and net rental income from the properties of £55,000. Legal fees of £5,450 were incurred in relation to a border dispute for 33 Professional Avenue. Trust management expenses for the year were £1,290.

On 12 January 2026 the trustees sold 33 Professional Avenue for £900,000 as they had been unable to find a suitable tenant.

The trustees are considering transferring the shares in Return 4 Investments plc to a beneficiary at some point in the next tax year.

Requirement:

- 1) Calculate the Adventure Discretionary Trust's Income Tax liability for the year ended 5 April 2026. (3)
 - 2) Calculate the Capital Gains Tax payable by the Adventure Discretionary Trust for the year ended 5 April 2026 and state the due date for payment. (4)
 - 3) Explain the penalties applicable if the Capital Gains Tax is paid on 31 August 2027. (2)
 - 4) Explain the Capital Gains Tax implications if the trustees transfer the shares to a beneficiary, and how any claims for relief should be made. (6)
- Total (15)

11. David died on 31 January 2026, leaving his estate equally to his children, Peter and Tracey. He made the following lifetime gifts:
- 1) £10,000 to Peter on the occasion of his marriage on 10 February 2022.
 - 2) £300,000 to a discretionary trust on 2 September 2022. The trustees agreed to pay any tax due.
 - 3) 92,000 Helpful Bank plc shares worth £140,000 to the same discretionary trust on 2 February 2024. Again, the trustees agreed to pay any tax due. The shares were valued at £110,000 at the date of David's death.

At David's death he owned a main residence valued at £275,000, cash and investments valued at £120,000 and chattels valued at £20,000.

David was also the life tenant of an interest in possession trust created on his brother's death in 2005. The value of the trust fund at David's death was £240,000. The remaindermen of the trust are David's children.

David was married to Margaret, but they divorced in 2009. David never remarried.

Requirement:

- 1) **Calculate the lifetime Inheritance Tax payable, if any, in respect of all the gifts.** (4)
- 2) **Calculate any additional Inheritance Tax that will be payable on the lifetime gifts as a result of David's death.** (5)
- 3) **Calculate the Inheritance Tax due on David's death estate. Your answer should clearly explain the amount of the nil rate band used by the transfer of the shares in Helpful Bank plc.** (5)

You have been asked to act for the personal representatives of David's estate, the trustees of David's brother's qualifying interest in possession trust and also David's children, Peter and Tracey.

- 4) **Outline the guidance in the Association of Taxation Technicians' Professional Rules and Practice Guidelines on maintaining objectivity and independence.** (2)

Total (16)

12. Jack, a non-long-term UK resident individual, died on 20 November 2025. He came to the UK five years ago. He had lived with Rose ever since arriving in the UK, but they never married.

Jack had made the following gifts during his lifetime:

	<u>Date of gift</u>	<u>Value at gift</u> £	<u>Value at Jack's death</u> £
A necklace to a friend, Cal	15 April 2022	100,000	150,000
A half-share of his sole trader business to a friend, Fabrizio. (Fabrizio sold his share to Rose in May 2025 following an argument with Jack).	31 May 2024	539,000	780,000
£500,000 cash to a discretionary trust (Trustees paid the tax).	1 August 2024	500,000	510,000

At the time of Jack's death, he had the following assets and liabilities, which he left to Rose:

	£
A house, his UK residence	475,000
An overseas property	159,000
– Expenses of £20,000 were incurred overseas	
– No overseas tax was paid in relation to Jack's death	
A UK bank account	30,800
An overseas bank account	50,600
Cash and other chattels, held at the UK home	7,540

Requirement:

- 1) Explain why Jack is not a long-term UK resident, how his assets will be treated on his death for inheritance purposes, and how this treatment would have differed if he had instead been a long-term UK resident at the date of his death. (4)
 - 2) Calculate the lifetime IHT payable in respect of Jack's gifts. (4)
 - 3) Calculate any additional IHT that will be payable on the lifetime gifts as a result of Jack's death. (4)
 - 4) Calculate the IHT due on the death estate. (3)
 - 5) State the due date for the IHT account in relation to Jack's death to be submitted to HMRC. (1)
 - 6) State the due date for the IHT liability payable on Jack's death estate and the consequences of not paying this tax by the due date. (2)
- Total (18)

13. You have received the following letter from Mr Butler, a long-standing client.

'Dear Adviser

As you are aware, my tax affairs are complex and I would appreciate your advice on the various aspects listed below.

Firstly, I am considering making a substantial gift directly to my grandchild who is getting married shortly. Can you please confirm the Inheritance Tax aspects that could affect me personally?

Regarding my trusts, I still find the taxation position confusing as I am excluded from benefiting from some of my trusts but I can benefit from others. I would appreciate further clarification of the position, especially in respect to Income Tax and Inheritance Tax.

In addition, a friend has mentioned that he has a 'retainer arrangement' with his tax adviser. Given the number of letters I send to you with queries like these, I wonder if this is something we should explore. Perhaps you could let me have some more detail.

Thanks in advance.

Yours sincerely

Mr Butler'

Requirement:

Write a letter to Mr Butler in which you should:

- 1) **Explain the Inheritance Tax consequences for Mr Butler if he makes a gift to his grandchild.** (4)
- 2) **Explain how discretionary trusts are taxed for Income Tax purposes. You should assume the trust is not settlor-interested.** (4)
- 3) **Explain when and how a discretionary trust is taxed as a settlor-interested trust for Income Tax purposes.** (4)
- 4) **Explain when and how a discretionary trust is taxed as a settlor-interested trust for Inheritance Tax purposes.** (2)
- 5) **Explain what is meant by a fee retainer arrangement and the terms normally included in an engagement letter in respect of a retainer arrangement.** (4)

Total (18)

14. You have received the following letter, on 1 May 2026, from Roberto Rossi, a long-standing, long-term UK resident client.

"I have recently been diagnosed with a serious illness. I am responding well to treatment, but the prognosis is not good. I could be dead within six months or I could live for another ten years. I currently own the following assets:

- 1) Home – worth £1,000,000. I have lived here since I bought the house in 1995.
- 2) Contents – worth £70,000 (insured value £120,000).
- 3) A 3% shareholding in an unquoted trading company worth £300,000. I bought a 2% holding in March 2023 for £120,000 and a further 1% holding in September 2024 for £80,000.
- 4) Premium Bonds – £30,000.
- 5) Bank accounts – £105,491.
- 6) ISA accounts – £15,000.
- 7) Painting – £1.25 million.

I have pension income of around £60,000 gross per annum and I do not spend all of that.

The painting is by a noted artist and shows the Duke of Wellington's victory at Waterloo. This is a family heirloom and is, I'm told, an item of great national interest. I could never give this away.

My wife died several years ago leaving her estate to me. With the exception of a legacy of £200,000 to a UK registered charity, my estate will go to my nephew who is entering into a civil partnership in a few weeks.

So far I have not undertaken any IHT planning, nor made any gifts, so I would be grateful if you could advise me of the tax issues."

Requirement:

Write a letter to Roberto Rossi dealing with the following points:

- 1) Calculate the Inheritance Tax payable if Roberto dies tomorrow. (5)
- 2) Explain the Inheritance Tax consequences of Roberto giving away his assets (excluding the painting). Your answer should include any Inheritance Tax exemptions that Roberto could utilise. (6)
- 3) Explain the Capital Gains Tax consequences of Roberto giving away his assets (excluding the painting). (4)
- 4) Explain whether the painting qualifies for any specific Inheritance Tax exemption and, if so, outline the conditions that need to be satisfied. (3)

Your answers should use the rates and allowances for 2025/26.

Total (18)

15. Beverley died on 20 October 2025, leaving her estate to her two children. During her lifetime, she had made the following gifts:

31 January 2006	£500,000 cash to an interest in possession trust.
8 June 2020	£12,000 cash to her granddaughter upon her marriage.
9 July 2021	Hamper worth £200 to a friend upon her engagement.
15 September 2021	£200,000 cash and a commercial property valued at £150,000 to a discretionary trust.

The trustees agreed to pay any Inheritance Tax arising as a result of the gifts to the trusts.

At Beverley's death, the commercial property owned by the trust was worth £100,000 whilst her free estate comprised her own residence valued at £300,000, cash of £200,000 and shares in an unquoted trading company worth £50,000. She had acquired the unquoted shares on 1 December 2023 with the proceeds of a premium bond win. There was £95,000 of mortgage debt outstanding on her house at her death and the outstanding balance on her credit card was £10,000. Beverley's husband died a few years before her. He had used both his nil rate and residential nil rate bands.

Requirement:

- | | | |
|----|---|-------------|
| 1) | Calculate the lifetime Inheritance Tax payable, if any, in respect of all the lifetime gifts. | (5) |
| 2) | Explain the Inheritance Tax consequences for the donee if a donor dies having made lifetime gifts. | (2) |
| 3) | Calculate the Inheritance Tax payable as a result of Beverley's death and state the due date. | (6) |
| 4) | Explain the conditions which must be met to claim fall in value relief for lifetime gifts. | (2) |
| | Total | (15) |

ANSWERS TO QUESTIONS

1. JULIE

1) IHT payableLifetime Taxi) Gift to daughter 15 July 2017

	£	
Gift	50,000	
Less: Marriage exemption	(5,000)	[½]
Less: AE 2017/18	(3,000)	[½]
Less: AE 2016/17 b/fwd	<u>(3,000)</u>	
PET (no lifetime tax)	<u>39,000</u>	[½]

ii) Gift to discretionary trust 7 March 2019

	£	£	
Gift		340,000	
Less: AE 2018/19		<u>(3,000)</u>	[½]
CLT		337,000	
Nil rate band 2018/19	325,000		[½]
Less: CTs in previous 7 years	<u>(Nil)</u>		[½]
Nil rate band remaining		<u>(325,000)</u>	
Taxable		<u>12,000</u>	
IHT @ 20%		<u>2,400</u>	[½]
Payable by trustees (as stated)			[½]
By 30 September 2019			[½]

iii) Gift to UK registered charity 11 June 2020

Charity exemption applies	<u>Exempt</u>	[½]
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iv) Gift to son 21 December 2021

	£	
Gift	125,000	
Less: AE 2021/22	(3,000)	[½]
Less: AE 2020/21 b/fwd	<u>(3,000)</u>	
PET (no lifetime tax)	<u>119,000</u>	

v) Gift to interest in possession trust 19 July 2024

	£	£	
Gift		150,000	
Less: AE 2024/25		(3,000)	[½]
Less: AE 2023/24 b/fwd		<u>(3,000)</u>	
CLT		144,000	
Nil rate band 2024/25	325,000		
Less: CTs in previous 7 years	<u>(337,000)</u>		[½]
Nil rate band remaining		<u>(Nil)</u>	
Taxable		<u>144,000</u>	[½]
IHT @ 20%		<u>28,800</u>	
Payable by trustees (as stated)			[½]
By 30 April 2025			

Tax on Death (which occurred 10 August 2025)

i)	<u>Gift to daughter 15 July 2017</u>			
	PET exempt – transferor survived seven years			[½]
ii)	<u>Gift to discretionary trust 7 March 2019</u>			
	CLT	£	£	
	Nil rate band at death	325,000	337,000	
	Less: CTs in previous 7 years	(Nil)		[½]
	Nil rate band remaining		(325,000)	
	Taxable		<u>12,000</u>	
	IHT @ 40%		4,800	[½]
	Less: Taper relief (6–7 years = 80%)		(3,840)	[½]
	Less: Lifetime tax paid		(2,400)	[½]
	IHT due (no tax repayable)		<u>Nil</u>	
iii)	<u>Gift to UK registered charity 11 June 2020 – Exempt</u>			[½]
iv)	<u>Gift to son 21 December 2021</u>			
	PET (now chargeable)	£	£	
	Nil rate band at death	325,000	119,000	
	Less: CTs in 7 years before gift	(337,000)		[½]
	Nil rate band remaining		(Nil)	
	Taxable		<u>119,000</u>	
	IHT @ 40%		47,600	
	Less: Taper relief (3 - 4 years = 20%)		(9,520)	[½]
	IHT due		<u>38,080</u>	
	Payable by son			[½]
	By 28 February 2026			[½]
v)	<u>Gift to interest in possession trust 19 July 2024</u>			
	CLT	£	£	
	Nil rate band at death	325,000	144,000	
	Less: CTs in previous 7 years (337,000 + 119,000)	(456,000)		[½]
	Nil rate band remaining		(Nil)	
	Taxable		<u>144,000</u>	
	IHT @ 40% (no taper as did not survive three years)		57,600	
	Less: Lifetime tax paid		(28,800)	[½]
			<u>28,800</u>	
	Payable by trustees			[½]
	By 28 February 2026			[½]
				Total 14

2) Normal expenditure out of income

In order for Julie's gifts to be treated as normal expenditure out of income, they must have been habitual or regular (eg annual) in nature **[1]** and must have left her with sufficient income in order to maintain her usual standard of living. **[1]**

Gifts which qualify as normal expenditure out of income are exempt from IHT. **[1]**

Total 3

Total for question 17

2. ELLIOT

1) IHT on death

Lifetime gift:

	£	
Gift (10 July 2022)	90,000	[½]
Less: AEs (2022/23 & 2021/22)	<u>(6,000)</u>	[½]
PET now chargeable on death (but within nil rate band)	<u>84,000</u>	

Death estate – 8 December 2025:

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

WorkingsW1) A plc shares:

$$(i) \quad (318 - 310) / 4 = 2 + 310 \quad = \quad 312p \quad [½]$$

or

$$(ii) \quad (314 + 308) / 2 \quad = \quad 311p \quad [½]$$

Take lower

$$\text{IHT value} = 10,000 \times 311p \quad = \quad \underline{\underline{£31,100}} \quad [½]$$

W2) B plc shares:

$$(i) \quad (284 - 280) / 4 = 1 + 280 \quad = \quad 281p \quad [½]$$

Or

$$(ii) \quad (284 + 282) / 2 \quad = \quad 283p \quad [½]$$

Take lower

$$\text{IHT value} = 15,000 \times 281p \quad = \quad \underline{\underline{£42,150}} \quad [½]$$

W3) RNRB

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

W4) Nil rate band

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

% unused = £165,000/£275,000 60% [½]

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

Total 13

2)

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

The latest date for submission of the IHT account is 31 December 2026. [1]

He should pay the IHT due by 30 June 2026 to avoid a charge to interest. [1]

Total 3**Total for question 16**

3. BAILEY DISCRETIONARY TRUST

1)			
	£	£	
Value of trust at ten-year anniversary (1 June 2024)		500,000	[½]
Nil rate band at June 2024	325,000		[½]
Less: Settlor's transfers b/f	<u>(213,000)</u>		[½]
		<u>(112,000)</u>	
		<u>388,000</u>	
Notional tax @ 20%		<u>77,600</u>	[½]
Effective rate: £77,600 / £500,000 x 100		<u>15.52%</u>	[½]
Actual rate: 15.52% x 30%		<u>4.656%</u>	[1]
Principal charge: £500,000 x 4.656%		<u>23,280</u>	[½]
			Total 4

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

3)		£	
Dividend income		9,000	
Less: trust expenses (£230 x 100/91.25)		<u>(252)</u>	[½]
		<u>8,748</u>	
£8,748 at 39.35%		3,442	[½]
£252 at 8.75%		<u>22</u>	[½]
Tax payable by trustees		<u>3,464</u>	
Tax pool b/f		50	[½]
Add: Tax paid at RAT		3,442	[½]
Less: Tax on distribution (£4,500 x 45/55)		<u>(3,682)</u>	[1]
Tax pool charge		<u>(190)</u>	
Total income tax payable (£3,464 + £190)		<u>3,654</u>	[½]
			Total 4

4)		£	
Sale proceeds		25,000	[½]
Less: Cost		<u>(2,000)</u>	[½]
Gain		23,000	
Less: AEA (½ x £1,500 as settlor created 2 trusts)		<u>(750)</u>	[½]
Taxable gain		<u>22,250</u>	
CGT @ 24%		<u>5,340</u>	[½]
			Total 2

5)

Inheritance tax:

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

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

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

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

Capital gains tax:

Transfers into trusts that fall within the relevant property regime are immediately chargeable to IHT [½] and, as such, any capital gains arising on the creation of the trust are usually eligible for gift relief under s.260 TCGA 1992. [½]

Capital gains on assets held within either type of trust are treated the same, with CGT payable at 24%, subject to any available losses and the annual exempt amount. [½]

Income tax:

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

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

Max 6

Total for question 18

4. PRIYA DARKO

1) Priya's 2026/27 inheritance tax positionAdditional tax on lifetime gifts

	£	
Shares given to Nick (August 2020) - No BPR as shares sold	93,000	[½]
Less: AEs 2020/21 & 2019/20	<u>(6,000)</u>	[½]
PET chargeable on death	<u>87,000</u>	
Covered by nil rate band of 2026/27 so no tax due.	<u>Nil</u>	[½]
Gifts to godchildren (May 2021)	12,000	[½]
Less: AE 2021/22 (2020/21 AE already used)	<u>(3,000)</u>	[½]
PET chargeable on death	<u>9,000</u>	
Covered by nil rate band of 2026/27 so no tax due.	<u>Nil</u>	[½]
Shares settled (9 November 2023):		
CLT of shares into a discretionary trust	230,000	[½]
Less: BPR @ 100%	<u>(230,000)</u>	[½]
	<u>Nil</u>	
Cash gift to Dinesh (9 May 2025)	1,500	[½]
Less: Marriage exemption	<u>(1,000)</u>	[½]
Less: AE 2025/26	<u>(500)</u>	[½]
	<u>Nil</u>	
Nil rate band remaining on death: (325,000 – 87,000 – 9,000)	<u>229,000</u>	[½]

Death estate

		£	
Holiday home in Utopia	Excluded property	Nil	[½]
Bank account in Utopia	Excluded property	Nil	[½]
Reversionary interest in a trust	Excluded property	Nil	[½]
Quoted shares in Zebra-3 Plc	305 x £10.20 (1/4 up)	3,111	[½]
1,500 shares in Huggy Ltd	Covered by 100% BPR	Nil	[½]
UK property		235,000	[½]
UK home		460,000	[½]
UK bank account		<u>1,480</u>	[½]
Total		699,591	
Less: Remaining nil rate band		<u>(229,000)</u>	[½]
Taxable		<u>470,591</u>	
IHT @ 40%		<u>188,236</u>	[½]

Tutorial Note:

Note. As Priya has not been UK resident for at least ten out of the previous 20 tax years, she is not a long-term UK resident, so her overseas assets are excluded property and are not subject to UK IHT.

Total 11

2)

Once Priya has been UK resident for ten out of the previous 20 tax years, she will be a long-term UK resident (LTUKR) and her worldwide assets will become chargeable to IHT. [1]

As she has been resident since 2018/19, she will become LTUKR from 6 April 2028. [1]

If she dies after this date her IHT liability will increase by $(200,000 + 104,050) \times 40\% = \text{£}121,620$ (as her previously excluded property (except for the reversionary interest in her grandfather's trust) will form part of her estate). [1]

However, if she returns to Utopia and becomes resident there before 6 April 2028, she will not become LTUKR and IHT will continue to be charged on her UK assets only. [1]

Total 4

Total for question 15

5. ROSE DISCRETIONARY TRUST1) IHT on creation of trust

	£	£	
Chargeable lifetime transfer:			
Cash		550,000	
Painting		50,000	
Farmland – market value	300,000		[½]
Less: APR @ 100% x agricultural value	<u>(200,000)</u>		[½]
Chargeable transfer		<u>100,000</u>	
		700,000	
Less: AE 2015/16		(3,000)	[½] for
Less: AE 2014/15		<u>(3,000)</u>	Both
		694,000	
Nil rate band 2015/16		<u>(325,000)</u>	[½]
Taxable transfer		<u>369,000</u>	
Inheritance Tax payable (by Laura) @ 20/80		<u>92,250</u>	[1]
			Total 3

2) 10-year charge

	£	
Value of trust fund at 10-year anniversary	1,400,000	[½]
APR on farmland:		[½]
Less: APR @ 100% x agricultural value	<u>(250,000)</u>	[½]
Net value of fund	1,150,000	
Less: Nil rate band 2025/26	<u>(325,000)</u>	[½]
	<u>825,000</u>	
Notional tax @ 20%	<u>165,000</u>	[½]
Effective tax rate: £165,000 / £1,150,000 x 100	<u>14.3478%</u>	[½]
Actual rate: 14.3478% x 30%	<u>4.3043%</u>	[½]
IHT payable: £1,150,000 x 4.3043%	<u>49,499</u>	[½]
		Total 4

3) Exit charge

Only capital liable to exit charge: (£200,000 – £25,000)	<u>175,000</u>	[½]
Rate of tax applicable at 10-year anniversary	4.3043%	[½]
Quarters between 10-year anniversary and distribution: 19 May 2025 to 1 February 2026	2	[½]
Exit charge: 4.3043% x 2/40 x £175,000	<u>£377</u>	[½]
		Total 2

4) Income tax payable (2025/26)

	Non-savings £	Interest £	Dividends £	
Rental income	12,000			
Less: Allowable repair	(500)			[½]
Bank interest		35,000		} [½]
Dividend income			<u>12,500</u>	
	<u>11,500</u>	<u>35,000</u>	<u>12,500</u>	
Less: Expenses (£305 x 100/91.25)			(334)	[½]
Taxable at trust rates	<u>11,500</u>	<u>35,000</u>	<u>12,166</u>	
Tax:				
£(11,500 + 35,000) @ 45%			20,925	[½]
£12,166 @ 39.35%			4,787	[½]
£334 @ 8.75%			<u>29</u>	[½]
Total income tax payable			<u>25,741</u>	
Payment due date: 31 January 2027				[½]

Max 35) CGT payable (2025/26)

	£	
Proceeds	63,000	
Less: Costs of disposal	<u>(1,250)</u>	[½]
Net proceeds	61,750	
Less: Base cost (adjusted for hold over relief claim)	<u>(30,000)</u>	[1]
Capital gain	31,750*	
Less: AEA (½ x £3,000)	<u>(1,500)</u>	[1]
Taxable gain	<u>30,250</u>	
CGT @ 24%		<u>7,260</u> [½]
*less than chattel limit of 5/3 x (£63,000 - £6,000) = £95,000		[½]

Max 3**Total for question 15**

6. PHILIPPA1) Greenfly plc shares and BPR

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

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

However, the shares in Greenfly plc replaced an asset (namely, the shares in Philippa's personal company), which were eligible for BPR and had already been held for more than two years. [1]

Since the Greenfly plc shares were acquired within three years of the sale of her personal company, and together the two assets were held for at least two out of the five years before Philippa's death, the Greenfly plc shares will qualify for BPR on Philippa's death. [1]

Total 42) IHT consequences of gifting the antique painting

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

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

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

Total 2**Tutorial Note:**

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

3) IHT payable

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

Total 4

4) Responsibility for IHT

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

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

Total 3

5) Excepted estate administrative advantage

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

Total 1

6) Excepted estatesLow value estates

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

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

Exempt estates

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

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

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

Non-long-term UK resident estates

The estate will qualify as excepted where the deceased was not, and never had been, a long-term UK resident [½]. The deceased's UK assets must not be valued at more than £150,000 [½] and these assets must not include direct or indirect interests in UK residential property [½]. In addition, the deceased must not have made lifetime gifts of UK assets exceeding £3,000 in each of the seven years before their death. [½]

Max 7

Total for question 21

7. JAKOB

1) Tax payable during lifetime:

	£	
Gift to goddaughter (31 July 2019)	187,000	
Less: AE (2019/20 & 2018/19)	<u>(6,000)</u>	[½]
PET so no lifetime tax due	<u>181,000</u>	[½]
Gift to trust (1 March 2020)		
CLT	625,000	
Less: AEs (used)	Nil	[½]
Less: Nil rate band 2019/20	<u>(325,000)</u>	[½]
	<u>300,000</u>	
Tax payable (by trustees) @ 20%	<u>60,000</u>	[½]

Tax payable as a result of Jacob's death on 11 May 2025:

	£	
PET 31 July 2019	181,000	
Less: Nil rate band (2025/26)	<u>(325,000)</u>	[½]
Chargeable	<u>Nil</u>	
CLT 1 March 2020	625,000	[½]
Less: 2025/26 nil rate band remaining (325,000 – 181,000)	<u>(144,000)</u>	[½]
	<u>481,000</u>	
IHT @ 40%	192,400	[½]
Less: Taper relief (5-6 years = 60%)	<u>(115,440)</u>	[1]
	76,960	
Less: Lifetime tax paid	<u>(60,000)</u>	[½]
Tax payable	<u>16,960</u>	

Total 6

2) Tax payable on death estate

	£	£	
House	800,000		
Less: Mortgage	<u>(500,000)</u>		[½]
		300,000	
Proceeds from life insurance policy		600,000	[½]
Works of art (CET)		Nil	[½]
Chattels		30,000	[½ for both]
Investments		<u>300,000</u>	[½ for both]
		1,230,000	
Less:			
Income tax payable	7,810		[½]
Funeral costs	8,000		[½ for both]
Tombstone	1,000		[½ for both]
Debt (N1)	Nil		[½]
Executors' costs (N2)	<u>Nil</u>		[½]
		<u>(16,810)</u>	
		1,213,190	
Less: 2025/26 Nil rate band (used in respect of recharge of lifetime gifts)		<u>Nil</u>	[½]
		<u>1,213,190</u>	
Tax payable @ 40%		<u>485,276</u>	[½]

Notes:

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

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

Total 53) Income tax payable (2025/26)

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

Total 34) Capital Gains Tax position (2025/26)

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

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

Total 2

5)

Any four of the following:

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

[½ each]

Max 3

Tutorial Note:

See Chapter 4 section 4.13 paragraph 65 of the Professional Responsibilities & Ethics for Tax Practitioners' book, 6th edition.

Total for question 19

8. BARLOW INTEREST IN POSSESSION SETTLEMENT

1)

	Non savings £	Interest £	Dividends £	
Bank interest		650		[½]
Dividends			1,000	[½]
Rental £(1,025 x 8) – 200	<u>8,000</u>			[½]
	<u>8,000</u>	<u>650</u>	<u>1,000</u>	
Tax @ 20% / 20% / 8.75%	<u>1,600</u>	<u>130</u>	<u>88</u>	[1½]
Total tax payable		<u>£1,818</u>		

The due date for a return is 31 October 2026 (paper) or 31 January 2027 (online). [1]

Total 4

2)

As the trust is an Interest in Possession settlement, Sophie is entitled to the net income of the trust (ie after trust expenses) as it arises to the trustees in a tax year (and the actual payment of the income to her has no tax implications as such). [½] The net income of the trust is the income for the tax year after deducting tax and expenses settled by the trustees out of the income. [½]

She will receive a form R185 from the trustees which summarises the net income she is entitled to for the year [½] and the associated tax credits. [½] These amounts are included gross in her tax return [½] and are taxed at her marginal rate of income tax. [½]

The trust's income taxed on Sophie retains its nature as interest, dividends or non-savings income. [½] Sophie will be able to utilise her Personal Savings Allowance [½] and Dividend Allowance [½] (if still available) against the interest and dividend income respectively that she derives from the trust.

Max 33) Capital Gains Tax payable (2025/26)

	Shares £	Land £	
Proceeds	500,000	280,000	
Less: Costs of sale		(3,500)	[½]
Less: Cost	<u>(320,000)</u>	<u>(230,000)</u>	
Gain	180,000	46,500	[1]
Less: AEA (½ x £3,000)		<u>(1,500)</u>	[½]
Taxable	<u>180,000</u>	<u>45,000</u>	
CGT @ 14% / 24%	<u>25,200</u>	<u>10,800</u>	[1]
Total CGT payable		<u>36,000</u>	

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

Business Asset Disposal relief will apply to the sale of the shares in Echo Ltd so that the gain on the shares will be taxed at 14%. [½] The Trustees will be entitled to claim (with her agreement) part of Sophie's BADR allowance [½] since Sophie, being the life tenant for more than two years [½], has for more than two years personally owned at least 5% of the ordinary share capital [½] and has been an employee of the company. [½]

Total 6

4)

As the trust is an IIP created before 22 March 2006, it is a Qualifying Interest in Possession (QIIP) trust [½] and, as such, the trust property is treated as beneficially owned by Sophie for IHT purposes. [½] It is said to be part of her 'settled estate'.

If the sale proceeds are distributed to her by the trustees, they are transferred from her settled estate [½] to her 'free estate'. [½] As Sophie owns absolutely the assets in her free estate and is also deemed to own the assets (here the proceeds of sale) in her settled estate, an appointment of the cash by the trustees to Sophie has no IHT implications as there is no change in ownership of it for IHT purposes. [½]

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

The trust property would not be treated owned by Sophie's for IHT. Instead IHT is charged when the trustees make a distribution (an 'exit charge') and the trust property is charged to IHT every ten years (the ten-year charges). [½]

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

Max 4

Total for question 17

9. MARY LAMB

1) ISA interest

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

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

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

Total 22) Income tax payable for 2025/26 – Executors

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

Total 33) Income tax payable for 2025/26 – Larry

	Non-savings £	Dividend £	
Gross income (as above)	14,500	6,000	[½]
Less: Dividend allowance		(500)	[½]
	<u>14,500</u>	<u>5,500</u>	
Income tax at 40% / 33.75%	5,800	1,856	[1]
Less: Tax credit	(2,900)	(525)	[1]
Tax payable	<u>2,900</u>	<u>1,331</u>	
Total tax payable	<u>4,231</u>		

Total 34) CGT payable for 2025/26 – Executors

	£	
Sale proceeds	405,000	
Less: Legal costs	(5,000)	[½]
Net sale proceeds	400,000	
Less: Probate value	(350,000)	[½]
Gain	50,000	
Less: Annual exempt amount	(3,000)	[½]
Chargeable gain	<u>47,000</u>	
CGT @ 24%	<u>11,280</u>	[½]

Total 2

5) Return and payment deadlines

The estate tax return should be submitted online by 31 January 2027. [½]

A paper return should be submitted by 31 October 2026. [½]

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

The income tax due should be paid by 31 January 2027. [½]

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

Max 2

6) Late return and payment

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

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

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

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

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

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

Total 4

7) Preparing tax returns / tax filing [1 each any three from the following]

As an ATT member, Frederick:

- Is responsible to the executors for the accuracy of the return/filing based on the information provided.
- Has a duty of confidentiality to the executors.
- Has a duty to act in the executors' best interests.
- Must act in good faith in dealings with HMRC.
- Must take reasonable care and exercise appropriate professional scepticism when making statements or asserting facts on behalf of the executors.
- Is not required to audit figures given by the executors but should take care not to be associated with facts they know or believe to be incorrect/misleading.
- Should consider whether they need to make it clear to HMRC that they are relying on information that has been supplied by the executors or a third party.

Max 3

Tutorial Note:

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

Total for question 19

10. ADVENTURE DISCRETIONARY TRUST1) Income Tax liability for 2025/26

	Non-Savings £	Dividend £	
Rental income (net)	<u>55,000</u>		[½]
Dividend income		50,000	[½]
Less: Trust expenses (£1,290 x 100/91.25)		<u>(1,414)</u>	[½]
Taxable at RAT	<u>55,000</u>	<u>48,586</u>	
Income Tax at 45%: £55,000 @ 45%		24,750	[½]
Income Tax at 39.35%: £48,586 @ 39.35%		19,119	[½]
Income Tax at 8.75%: £1,414 @ 8.75%		<u>124</u>	[½]
Income tax liability		<u>43,993</u>	

Total 32) Capital Gains Tax for 2025/26

	£	
Disposal proceeds	900,000	
Less: Cost	(575,000)	[½]
Less: Legal fees	<u>(5,450)</u>	[½]
Capital Gain	319,550	
Less: AE (Note)	<u>(300)</u>	[½]
Taxable gain	<u>319,250</u>	

CGT at 24% 76,620 [½]Note: AEA split between trusts: £1,500/8 = £188 (subject to a minimum of £300) [1]As the disposal is of residential property, the due date for payment of the CGT is 60 days from the completion of the disposal. [1]**Total 4**

3)

A penalty is only charged if the tax is unpaid after 31 January following the tax year of disposal [½]. A penalty of 5% of the unpaid tax will be incurred if the tax is unpaid 30 days after 31 January 2027 [1]. A further penalty of 5% will be applied five months after the first penalty date. [½]

Total 2

4)

If the trustees transfer the shares to a beneficiary this would be a CGT disposal at market value. [½]

The gain would be calculated by deducting the cost from the market value [½], subject to any capital losses [½] and annual exempt amount. [½]

CGT would be payable by the trustees at 24%. [½]

If the transfer is subject to an IHT exit charge, [½] the trustees would be able to claim gift relief to defer the gain [½] under s.260 TCGA 1992.

Any gift relief claim must be made jointly by the trustees and the beneficiary. [½]

The time limit for making a claim is four years from the end of the tax year of disposal. [½]

The claim eliminates the trustees' charge to CGT for the year of disposal. [½]

The assets would be transferred to the beneficiary at a base cost of market value reduced by the gain deferred by reason of the gift relief claim. [½]

The beneficiary will make a correspondingly larger gain when they subsequently dispose of the asset. [½]

Total 6

Total for question 15

11. DAVID

1) Lifetime Tax

		£	
Gift to Peter (Feb 2022)		10,000	
Less: Marriage exemption		(5,000)	[½]
Less: AE 2021/22		(3,000)	[½]
Less: AE 2020/21 (restricted)		<u>(2,000)</u>	
PET (no IHT due)		<u>Nil</u>	

	£	£	
Gift to trust (Sept 2022)		300,000	
Less: AE 2022/23		(3,000)	[½]
Less: AE 2021/22 (already used)		<u>(Nil)</u>	
CLT		297,000	
Nil band 2022/23	325,000		
Less: CTs in last 7 years	<u>(Nil)</u>		[½]
		<u>(325,000)</u>	
Taxable (no IHT due)		<u>Nil</u>	

	£	£	
Gift to trust (Feb 2024)		140,000	
Less: AE 2023/24 only		<u>(3,000)</u>	[½]
CLT		137,000	
Nil band 2023/24	325,000		
Less: CTs in last 7 years	<u>(297,000)</u>		
		<u>(28,000)</u>	[1]
Taxable		<u>109,000</u>	
IHT @ 20%		<u>21,800</u>	[½]

Total 42) Tax on David's death on 31 January 2026

PET to Peter in Feb 2022 (no IHT due)		<u>Nil</u>	[½]
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		£	
CLT September 2022		297,000	[½]
Nil band 2025/26	325,000		
Less: CTs in last 7 years	<u>(Nil)</u>		[½]
		<u>(325,000)</u>	
Taxable (no IHT due)		<u>Nil</u>	[½]

		£	
CLT February 2024		137,000	[1]
Less: Fall in value relief (140,000 – 110,000)		<u>(30,000)</u>	
		107,000	
Nil band 2025/26	325,000		[1]
Less: CTs in last 7 years	<u>(297,000)</u>		
		<u>(28,000)</u>	
Taxable		<u>79,000</u>	
IHT @ 40% (no taper relief)		31,600	[½]
Less: Lifetime tax paid		<u>(21,800)</u>	[½]
Extra tax due		<u>9,800</u>	

Total 5

3) Death Estate

	£	£	
Main residence		275,000	[½]
Cash and investments		120,000	[½]
Chattels		<u>20,000</u>	[½]
Free estate		415,000	
IIP trust		<u>240,000</u>	[½]
		655,000	
Less: Residence nil rate band		(175,000)	[½]
Nil band at death (2025/26)	325,000		
Less: CTs b/fwd (297,000 + 137,000) (N)	<u>(434,000)</u>		[1]
		(Nil)	
Taxable		<u>480,000</u>	
IHT @ 40%		<u>192,000</u>	[1]

A fall in value claim has been made in relation to the lifetime transfer of the Helpful Bank plc shares when calculating the additional tax due on David's death. However, it is the value of the transfer before the claim which is cumulated and taken into account in computing the amount of nil rate band available on a later IHT event (here the estate charge). [1]

Max 5

4) Objectivity and Independence

A member should maintain objectivity and independence so that they can exercise professional judgement. [1]

A member should be alert to any factor which might affect their independence or objectivity in respect of a matter (or which might be perceived to) particularly with regard to close or long association with a client or family relationships. A member should immediately take action to address any relevant threat to their ability to exercise their professional judgement. [1]

Total 2

Tutorial Note:

See Chapter 6 sections 6.1 and 6.2 of the Professional Responsibilities & Ethics for Tax Practitioners' book, 6th edition.

Total for question 16

12. JACK1) Non-long-term UK resident

Jack was a UK resident for five years before the date of his death. He was therefore a non-long-term UK resident because he had not been UK resident for at least ten out of the 20 tax years immediately before the tax year of death. **[1]**

Being a non-long-term UK resident does not affect the IHT treatment of his UK assets **[½]**, as these are always within the scope of UK IHT **[½]**, regardless of the residence status of the individual.

However, his non-UK assets are treated as 'excluded property' **[½]**, so they will not be subject to UK IHT. **[½]**

If Jack had been a long-term UK resident at the time of his death, all of his assets, including his non-UK assets, would have been subject to UK IHT. **[1]**

Total 42) Lifetime IHT on lifetime gifts

	£	£	
Necklace to Cal (April 2022)		100,000	
Less: AE 2022/23		(3,000)	[½]
Less: AE 2021/22		<u>(3,000)</u>	[½]
PET (no lifetime tax)		<u>94,000</u>	
Sole trade business to Fabrizio (May 2024)		539,000	
Less: BPR @ 100%		<u>(539,000)</u>	[1]
		<u>Nil</u>	
Cash to discretionary trust (August 2024)		500,000	
Less: AE 2024/25		(3,000)	
Less: AE 2023/24		<u>(3,000)</u>	[½]
CLT		494,000	
Nil band 2024/25	325,000		[½]
Less: Used in the previous 7 years	<u>(Nil)</u>	<u>(325,000)</u>	[½]
		<u>169,000</u>	
IHT @ 20%		<u>33,800</u>	[½]

Total 4

3) Additional IHT on the lifetime gifts due to death within 7 years of the gifts

	£	£	
PET April 2022		94,000	
Nil band at death (2025/26)	325,000		[½]
Less: CTs in 7 years before gift	(Nil)		
		<u>(325,000)</u>	
Chargeable on death		<u>Nil</u>	
PET May 2024		Nil	
Add: BPR withdrawn (donee no longer holds asset)		<u>539,000</u>	[½]
		539,000	
Nil band at death (2025/26)	325,000		
Less: CTs in 7 years before gift	<u>(94,000)</u>		[½]
		<u>(231,000)</u>	
Chargeable on death		<u>308,000</u>	
Death tax due at 40%		<u>123,200</u>	[½]
CLT August 2024		500,000	
Less: AE 2024/25 (note)		(3,000)	[½]
Less: AE 2023/24		<u>(3,000)</u>	
CLT		494,000	
Nil band at death (2025/26)	325,000		
Less: CTs in 7 years before gift	<u>(633,000)</u>		[½]
		<u>(Nil)</u>	
Chargeable on death		<u>494,000</u>	
Death tax due at 40%		197,600	[½]
Less: Tax paid		<u>(33,800)</u>	[½]
Extra tax due on death		<u>163,800</u>	

Tutor Note:

The annual exemptions will remain allocated to the gift to the discretionary trust because they have already been taken into account in calculating the lifetime tax.

Total 44) IHT on the death estate

	£	£	
UK residence		475,000	
Offshore property (excluded property)		Nil	[½]
UK bank account		30,800	
Cash and other chattels, held at the UK home		7,540	[½]
Overseas bank account (excluded property)		<u>Nil</u>	[½]
Chargeable estate		513,340	
Nil band at death	325,000		[½]
Less: CTs in 7 years before death (94,000 + 539,000 + 494,000)	<u>(1,127,000)</u>		[½]
		<u>(Nil)</u>	
Chargeable estate		<u>513,340</u>	
IHT @ 40%		<u>205,336</u>	[½]

Total 3

5)

The IHT 400 return should be submitted to HMRC by 30 November 2026. **[1]**

Total 1

6) Due date

The due date for Inheritance Tax is six months after the end of the month in which the deceased died or on delivery of the IHT return, if earlier. **[½]**

Interest will run from six months from the end of the month of death, ie in Jack's case, from 31 May 2026. **[½]**

The option to pay by instalments may be available on some assets such as the home. **[½]**

Penalties will be charged if the tax is not paid by the filing date of the return. **[½]**

Total 2

Total for question 18

13. MR BUTLER

Client address

Our address

Date

Dear Mr Butler

Thank you for your recent letter. I will refer to each query raised in turn.

Inheritance Tax consequences of gift

During your lifetime, the gift to you grandchild will be classified as potentially exempt transfer (PET) [½] and would be treated as exempt from inheritance tax purposes at the time it is made [½] so that there is no immediate inheritance tax liability. [½] If available, the marriage exemption of £2,500 [½] and annual exemption(s) of £3,000 per annum are allocated to the potentially exempt transfer [½] when calculating the value of the gift. [½]

If you survive seven years from the date of the gift, there are no further inheritance tax implications. [½]

However, if you die within seven years of the transfer, the gift becomes a chargeable transfer [½] and it will use some/all of the nil rate band applicable in your year of death [½] and therefore your nil rate band will not be fully available to offset against your death estate. [½]

Max 4Income Tax treatment of discretionary trusts

If income received by a discretionary trust is less than £500 it is completely exempt from income tax. [½]

Where discretionary trust income exceeds £500, it is taxed in full on the trustees at the rates applicable to trusts. [½] For the 2025/26 tax year, these are 39.35% on dividends and 45% on other income. [½]

Expenses relating to a specific source of income are deducted from that income to reduce the amount liable to tax. [½]

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

Income used to pay expenses is taxed at the basic rate [½] rather than the rate applicable to trusts. [½]

Max 4Settlor-interested trusts – Income Tax

For income tax purposes, a settlor-interested trust is a trust from which the settlor [½] and/ or their spouse/civil partner [½] can benefit.

The trustees of a settlor-interested discretionary trust are responsible for paying income tax based on normal discretionary trust income tax rules. [½]

The settlor will then be taxed on the trust's income at their marginal rate [½] as if the trust income were income of the settlor, even if the income is not distributed to them. [½] The settlor will be able to use their Personal Savings Allowance or Dividend Allowance (if still available) against this income. [½]

No deduction is allowed for any trust management expenses when calculating the settlor's liability. [½]

The settlor is given credit for the tax that has been paid on the trust income by the trustees. [½] However, if the settlor is due a tax refund on this income, this must be repaid to the trustees. [½]

Similar provisions also apply where the trust is for the benefit of the settlor's minor child [½] or step-child and income is paid to them. [½]

Max 4

Settlor-interested trusts – Inheritance Tax

For inheritance tax purposes, a settlor-interested trust is a trust from which the settlor can benefit. It does not matter if the settlor's spouse/civil partner can benefit or not. [½]

The gifts with reservation of benefit rules will apply [½] so the assets in the trust are treated as if the settlor still owns them, ie they are still in their estate for inheritance tax purposes. [½]

The transfer to create the trust is still a chargeable lifetime transfer [½] and the trustees are still liable to exit and ten yearly inheritance tax charges. [½]

In some cases double taxation can arise and a form of double taxation relief is available. [½]

Max 2

Retainer Arrangements

A retainer arrangement means that a member may charge, or accept, fees from a client simply for the retention by that client of the member's services, whether or not additional fees will be charged for specific services which may subsequently be rendered. [1]

Any retainer arrangement should normally be set out in writing in the letter of engagement, with a view to ensuring that the member and the client clearly understand the extent, and the limitations, of the arrangements. [1]

In particular, such a letter of engagement should make clear the point at which further charges may be levied. [1]

Before agreeing to a retainer arrangement a member should consider their ability to fulfil their obligations to other clients and should include termination arrangements in the letter of engagement. [1]

Total 4

Tutorial Note:

See Chapter 8 section 8.4 of the Professional Responsibilities & Ethics for Tax Practitioners' book, 6th edition.

I trust that this answers your queries. Please let me know if I can be of further assistance.

Yours sincerely

A.T. Adviser

[Credit given for other valid points throughout the question.]

Total for question 18

14. ROBERTO ROSSI

Dear Roberto

Thank you for your recent letter.

IHT – Death computation

I have attached this as an Appendix. The tax payable is £619,377.

IHT – Lifetime giving

If gifts were made to individuals during your lifetime, these would be potentially exempt transfers (PETs) [1] and no tax would be payable at the time the gift is made. [½] However, you would need to survive seven years from the gifts to be completely exempt from IHT. [1] You would need to survive three years from the date of gift in order for any IHT that becomes payable on your death within the seven years of making the gift to be reduced by taper relief. [1]

There are a number of exemptions that could be used to reduce your IHT exposure:

- Annual exemptions of £3,000 for both the current and the previous year (if unused). [½]
- You may be able to make gifts out of your excess pension income, and these gifts would be exempt. The gifts must be regular, made out of income and must not reduce your standard of living from year to year. [1]
- You can give £250 per person, to any number of recipients, in a year, using the small gifts exemption. [½]
- As your nephew is entering a civil partnership, an IHT exempt gift of up to £1,000 may be made to him under the 'marriage' exemption. [½]

Please be aware that if you were to gift your house but continue to live in the house afterwards, the gift would be ineffective because of the reservation of benefit rules. [1]

Max 6

Lifetime giving – CGT

When chargeable assets are gifted, the gain will be calculated by reference to the market value of the asset at the date of gift. [½]

A gift of your home would be exempt for CGT as private residence relief will be available. [½]

Most of the assets within the home are likely to be valued at under £6,000 each and, as such, benefit from the chattels exemption (provided they also cost less than £6,000 each). [½]

A gift of the shares would result in a gain of £100,000. [½] As the shares are business assets, this transfer would be eligible for gift relief. [½] This means that the gain would not be chargeable on you, [½] but your nephew would inherit the base cost of your shares (being £200,000). [½] Both the donor and donee must sign the gift relief claim within four years from the end of the tax year in which the gift was made. [½]

The Premium bonds, ISA and bank accounts can all be gifted without any CGT arising, though any capital in the ISA will lose its CGT exemption if gifted. [½]

Max 4

Possible exemption for Work of Art

The painting should, on a claim, qualify for exemption from IHT as 'Heritage Property' because of its artistic and historical significance. [1] Conditions must be in place for the exemption to apply:

- The painting must be kept permanently in the UK; and [1]
- Reasonable access must be given to the public, either at the home, or in a museum, gallery or other public place. [1]

If you have any further questions on this matter, please do not hesitate to contact me.

Total 3

Yours sincerely
A Tax Adviser

APPENDIXIHT payable on Roberto's death (May 2026)

	£	£	
House		1,000,000	[½]
Contents		70,000	[½]
Shares	300,000		[½]
Less: BPR on 2% holding only (owned >2 yrs)			
£300,000 x 100% x 2/3	(200,000)		[½]
		100,000	
Bank account		105,491	
Premium Bonds		30,000	[½]
ISA		15,000	
Work of art		<u>1,250,000</u>	
		2,570,491	
Less: Legacy to UK registered charity (exempt)		(200,000)	[½]
Chargeable estate		2,370,491	
Less: Nil rate band (325,000 x 2)		(650,000)	[½]
Taxable		<u>1,720,491</u>	
@ 36%		<u>619,377</u>	[½]

Notes:

The nil rate band can be doubled to £650,000 as your wife's nil rate band was unused on her death. [½]

As more than 10% of the so-called 'baseline amount' has been left to a UK registered charity, the IHT rate is reduced to the lower rate of 36%. The baseline amount is £1,920,491 (ie £1,720,491 + £200,000 legacy to charity); the donated amount of £200,000 exceeds £192,047, being 10% of this threshold. [½]

The residence nil rate band is not available as your main residence is being left to your nephew and not to a direct descendant. In any case, the estate (ie before reliefs and exemptions) exceeds £2 million, so any available RNRB would be tapered. [½]

Max 5**Total for question 18**

15. BEVERLEY

1)

	£	
Gift 31 January 2006:	500,000	
Less: AE 2005/06	(3,000)	[½ for
Less: AE 2004/05	(3,000)	both AEs]
PET (pre-22 March 2006 IIP trust so no lifetime tax)	<u>494,000</u>	[½]
Gift 8 June 2020:	12,000	
Less: Marriage exemption	(2,500)	[½]
Less: AE 2020/21	(3,000)	[½ for
Less: AE 2019/20	(3,000)	both AEs]
PET (no lifetime tax)	<u>3,500</u>	[½]
Gift 9 July 2021:		
Small gifts exemption	<u>Exempt</u>	[½]
Gift 15 September 2021:	350,000	
Less: AE 2021/22	(3,000)	[½]
Less: AE 2020/21 (already used)	Nil	[½]
CLT	347,000	
Less: Nil rate band	(325,000)	[½]
Taxable	<u>22,000</u>	
IHT @ 20%	<u>4,400</u>	[½]

Total 5

2)

- If a donor dies more than seven years after making a lifetime gift, there will not be any IHT consequences for the donee as a result of the donor's death. [½]
- If a donor dies within seven years of making a lifetime gift, the donee will be primarily liable for any IHT payable as a result of the donor's death [½] at the rate of 40% [½], unless the gift is fully within the donor's available nil rate band applicable in the year of death [½] in which case no IHT will be payable. [½]
- If the donor survives the gift by between three and seven years, any IHT payable will be subject to taper relief. [½]

[Credit will be given for any other valid points.]**Max 2**

3) Death tax on lifetime gifts:

	£	
PET 31 January 2006:		
More than 7 years prior to death	<u>Exempt</u>	[½]
PET 8 June 2020:	3,500	
Covered by nil rate band of 2025/26	<u>(3,500)</u>	[½]
	<u>Nil</u>	
CLT 15 September 2021:	347,000	
Less: Fall in value relief £(150,000 – 100,000)	<u>(50,000)</u>	[½]
	297,000	
Less: Nil rate band of 2025/26 £(325,000 – 3,500)	<u>(321,500)</u>	[½]
Taxable	<u>Nil</u>	
No repayment of lifetime tax paid.		[½]

Death estate:

	£	£	
Main residence	300,000		
Less: Mortgage	<u>(95,000)</u>		[½]
		205,000	
Cash		200,000	
Unquoted shares	50,000		
Less: BPR (2-year ownership period not met)	<u>(Nil)</u>		[½]
		<u>50,000</u>	
		455,000	
Less: Credit card debt		<u>(10,000)</u>	[½]
Chargeable estate		445,000	
Nil rate band	325,000		
Less: Transfers b/fwd (347,000 + 3,500)	<u>(350,500)</u>		[½]
		(Nil)	
Less: RNRB		<u>(175,000)</u>	[½]
Taxable		<u>270,000</u>	
IHT @ 40%		<u>108,000</u>	[½]
Due 30 April 2026			[½]

Total 6

4)

If the donee (or their spouse/civil partner) still owns the asset, its value must have fallen between the date of gift and the date of the donor's death. [1]

If the donee has sold the asset before the donor's death, the gross sale proceeds received must be less than its value at the date of the gift. [1]

The property gifted must not be a wasting chattel [½] or cash. [½]

Max 2**Total for question 15**

ETHICS QUESTIONS

1. A member must be courteous and considerate to all with whom they come into contact in a professional capacity.

Courtesy falls within which of the five 'Fundamental Principles' relating to members?

2. The 'Standards for Tax Planning' are critical to any planning undertaken by members.

What are the five Standards and provide a brief explanation of them.

3. You have taken on a new client and wish to agree a contingent fee as the basis of payment for the work required.

State three of the guidelines in relation to using contingent fees.

4. A director of a company to which you provide tax advice has asked if you would like to invest in the company.

Outline the guidance given to members on financial involvement with a client.

5. **When should engagement letters for tax clients be reviewed?**

6. You receive a call from the bank manager of a client. He requests a copy of the client's latest income tax return in order to support an application for a loan.

According to the Professional Rules and Practice Guidelines, which of the five 'Fundamental Principles' is threatened in this situation?

7. The Professional Rules and Practice Guidelines list four examples of ways in which a member can charge for services.

List the four methods.

8. **Where a member of the ATT is to pay a commission to a third party for introducing a client, what disclosure must the member make to the client?**

9. **State four matters that you would expect to be dealt with in the covering letter accompanying a typical contract for the provision of tax services.**

10. **What are the three choices available to a member who is asked to act for both parties to a transaction?**

11. You are a tax technician working on a personal tax return for a client. Looking back to last year's return you think you have discovered an error. You are unsure of how to deal with this.

What steps should you take, according to the flowchart on 'Dealing with Errors'?

12. The profits of a trade, profession or vocation must be computed in accordance with Generally Accepted Accounting Principles (GAAP) subject to any adjustment required or authorised by law in computing profits for those purposes. This permits a trade, profession, vocation or property business to disregard non-material adjustments in computing its accounting profits.

How does the accounting concept of materiality apply when making adjustments required to accounting figures so as to arrive at taxable profits?

13. A member dealing with third parties on a client's behalf must be careful not to inadvertently assume a duty of care towards the third party.

State four ways in which the member may manage these risks.

14. A member may sign a tax return in their capacity as a liquidator.

Name three other ways in which they can sign a return.

15. The Professional Rules and Practice Guidelines state that a member should request the prospective client's permission to communicate with the client's existing adviser before accepting a new appointment.

Explain why a member should communicate with an existing adviser.

16. **Describe briefly four principles set out in the Professional Rules and Practice Guidelines that govern a member accepting a new client.**

17. **According to the Association of Taxation Technician's Professional Rules and Practice Guidelines, what procedures should be put in place to handle complaints from clients?**

18. P Ltd is engaging Dov, a member of ATT, to assist with tax compliance work. The company is offering to pay a monthly fee in return for which its finance department is likely to want between two and five days of work from Dov per month.

Identify the major areas of concern when accepting a client on a retainer arrangement.

19. You discover that due to an error by HMRC you have received an excessive repayment of tax, on behalf of a client.

Briefly state what action you should take.

20. **When a member delegates work to a junior, or subcontracts it, who takes responsibility for this work, according to the Professional Rules and Practice Guidelines?**

ETHICS ANSWERS

The references in brackets at the end of the answers are to the 6th edition of the text book "Professional Responsibilities & Ethics for Tax Practitioners".

1. Professional behaviour.

[Chapter 19 section 19.6 para 2.22]

2. The five standards are:

- Client Specific – it must be specific to the particular client's facts and circumstances;
- Lawful – Members must act lawfully and with integrity at all times and expect the same from their clients;
- Disclosure and transparency – All relevant facts must be disclosed to HMRC;
- Tax planning arrangements – Members must not promote tax planning that is set out to achieve results contrary to the intention of Parliament;
- Professional judgement and appropriate documentation – members must exercise professional judgement on a number of matters and keep timely notes.

[Chapter 20 section 20.2 point 1]

3. Any three from Chapter 8, section 8.2, for example:

- Contingent fees can carry increased risks, such as a third party questioning the independence and objectivity of the member. Accordingly, where a contingent fee basis is adopted, a member should take care not only to ensure that their conduct meets, but is seen to meet, the required principles of integrity and objectivity.
- A member should be aware that there may be legal or regulatory restrictions to having a contingent fee.
- It is advisable that where contingent fees are used the engagement letter should set out the scope of the work they cover and stipulate the action to be taken should subsequent events cancel all or part of the benefits to the client of the contingent fee arrangement. It should set out clearly and precisely whether part or the entire fee is to be repaid and whether interest is payable.

4. Having a financial involvement with a client may impair or be perceived as impairing a member's ability to act objectively. Members should exercise care before entering into any kind of financial arrangement with a client. This includes, for example, lending money or investing in the business of a client.

[Chapter 6 section 6.5 para 6.5.1]

5. Engagement letters should be reviewed:

- annually; and
- when the scope of services changes significantly.

[Chapter 4 section 4.10 points 1 and 3]

6. Confidentiality

[Chapter 19 section 19.5 para 2.16]

7. Time and expenses

- Fixed fees
- Contingent (including success) fees
- Insurance

[Chapter 8 section 8.1 para 8.1.2]

8. If an ATT member is to pay a commission, they must disclose to the client:

- the amount and nature of the fee, commission or other reward; and
- the identity of the third party recipient.

[Other valid points will gain credit]

[Chapter 4 section 4.2 para 4.2.1]

9. Any four from Chapter 4 section 4.11, for example:

- (i) Who we are acting for;
- (ii) Period of engagement;
- (iii) Scope of services;
- (iv) AEOI, including FATCA

10. The three choices are:

- To advise both parties of the conflict and to give both the opportunity to consider if they wish to seek alternative representation, or agree that you continue to act for both, if appropriate;
- To act for one client only – normally the one who first sought advice;
- To act for neither party – if the conflict cannot be managed.

[Chapter 6 section 6.4 para 6.4.2]

11. You should:
- 1) Establish the facts – is there an error?
 - 2) If there is an error – is it trivial?
 - 3) If it is not trivial – is specific authorisation required from the client to disclose the error to HMRC?
 - 4) If specific authorisation is required and the client is unwilling to give authorisation, and this is confirmed in writing, you must write to the client explaining the consequences of non-disclosure
 - 5) If client still refuses to authorise disclosure, you are required to cease to act, notify HMRC, and your MLRO/NCA.

[Other valid points will get credit.]

[Chapter 23 section 23.2 - flowchart]

12. The application of GAAP does not extend beyond the accounting profits. Thus, the accounting concept of materiality cannot be applied when completing tax filings, for example, when computing adjustments required to accounting figures so as to arrive at taxable profits.

[Chapter 21 section 21.6 points 16-17]

13. Any four from Chapter 7 section 7.2 para 7.2.5, for example:

- Including a clear notice or caveat in the information stating that the advice has been prepared for the client and that no liability is accepted to any third parties who choose to make use of the information.
- Requiring that the client seek consent before information with which the name of member is associated is released by the client to third parties.
- Requiring the third party and/or its advisers to undertake in writing that a member be excluded from liability or held harmless as a consequence of making the information available to them.
- Communicating to the third party the terms upon which the information is released including limitations on scope, stating that the advice was prepared only with the client's interests mind, may not apply in all circumstances, and confirmation that no responsibility is accepted.

14. Any three from:

- receiver
- administrator
- under personal appointment as trustee
- under personal appointment as executor
- under personal appointment as attorney
- under personal appointment as director

[Chapter 21 section 21.11 point 33]

15.

- a) The member is aware of any professional reason why they should not accept the appointment.
- b) The client's affairs are properly dealt with, on a timely basis, and that no filing deadlines, time limits for claims, elections, notices of appeal and other similar matters are missed in the transitional period.

[Chapter 4 section 4.4 paras 4.4.1-4.4.2]

16. Any four from Chapter 4 section 4.3 para 4.3.1, for example:

- Comply with the identification requirements set out in the anti-money laundering/terrorist financing guidance.
- Consider whether the potential client will be an acceptable client in terms of the risks which will arise for the practice from acting for that client and whether the member has the capability to manage those risks.
- Consider whether the member and firm will have the skills and competence to service the client's requirements during the course of the engagement.
- Consider whether there is any conflict of interest in accepting the client and if so whether and how it might be managed.

17. The ATT's rules state that the procedures should ensure that:

- Each new client is informed in writing of the name and status of the person to be contacted in the event of the client wishing to complain about the services provided and of the ability to complain to the Taxation Disciplinary Board (TDB). This information should be included in the engagement letter.
- Each complaint is acknowledged promptly in writing.
- Each complaint is investigated thoroughly and without delay by a person of sufficient experience, seniority and competence who preferably was not directly involved in the act or omission giving rise to the complaint and the client is told about investigation.
- If the investigation finds that the complaint is justified, wholly or in part, any appropriate action is taken.
- Consideration is given as to whether to inform the firm's professional indemnity insurer

[Chapter 9 section 9.1 para 9.1.1]

18. One area of concern is what is covered by the arrangement. Therefore, the member should normally set out the retainer arrangement in writing so that the member and the client clearly understand the extent and limitations of the agreement and the point when further charges may be levied.

The other area for concern is that a member should watch out for conflicts of interest, given that under a retainer, the client can call on that member's services at any time, which may mean that the member may not be able to fulfil their obligations to other clients.

[Chapter 8 section 8.4 paras 8.4.2-8.4.3]

19. You should return it to HMRC as soon as practicable.

You do not need your client's authority to return an excessive repayment but should notify your client that you have done so.

[Chapter 23 section 23.5 point 21]

20. If a member delegates work, the member remains primarily responsible for the work so should exercise sufficient supervision to confirm that the work performed is satisfactory and that it is carried out by persons who have been suitably trained to carry out the work involved.

[Chapter 5 section 5.4 para 5.4.1]