

CIOT - ATT-CTA - 2020 November Exams

Paper: **ATT Paper 5**

Part/Module: **Part 1**

Answer-to-Question-\_1\_

Unit trust shares should be valued according to the official list published by the stock exchange on the date of death

They are valued by taking the lower of the bid and offer prices quoted.

Any interest will accumulate and be subject to tax on the executors whilst the estate is in administration

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question- 2\_

$$350 / (800/80\%) = 35\%$$

Before transfer:

	SA Value
80%	180,000

After

45%	(50,000)
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Transfer of value 130,000

No related value to consider

Failed PET on death = 130,000

NRB 325,000

Remaining NRB = 195,000

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question-\_3\_

The gift must be made out of his (the donor)'s normal expenditure, i.e. he establishes a regular pattern of giving - he clearly does

Taking one year with another it is made out of the donor's surplus income

The gift leaves the donor with sufficient income to main his usual standard of living without the need to spend any of his capital.

These gifts would be exempt from IHT (where there is usually a PET), and there is no monetary limit. They all exceed the 250 small gifts allowance per donee

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question-\_4\_

APR is available for Maria's land - she has owned it for over 7 years as tenanted land and it is used for rearing livestock

Following the renewal of the lease, in the event of a sale her land will qualify at 100% as it is not on a pre 1995 lease and the lease does not have less than 2 years to run

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question-\_5\_

Following the death of Floss, he can claim the unused percentage amount of her 2007/08 nil rate band (300,000) so 50% of his NRB (325,000).

As he has survived a second spouse, he can also claim the unused percentage of her NRB.

This limited to a maximum increase of 100%, however given that hers is also half he should be able to claim a NRB of 650,000

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question-\_6\_

Current value	(258+520)	778,000
NRB		(325,000)
		453,000
NT @ 20%		90,600
ER		11.645%
AR x 30%		3.494%
Shares 258,000 x 3.494%		9,015
IP		
520,000 x 3.494 x (40-8 / 40)		14,535
Total IHT due		23,550

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-----ANSWER-6-ABOVE-----  
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-----ANSWER-7-BELOW-----  
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Answer-to-Question-\_7\_

1) income tax

2)

2018 - trustees

2019 - executors

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-----ANSWER-7-ABOVE-----  
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-----ANSWER-8-BELOW-----  
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Answer-to-Question-\_8\_

Gift of cash - not a chargeable asset for CGT

Clock is a wasting asset for CGT purposes - not chargeable to CGT

Painting - the proceeds and assets are less than 6,000, so exempt from CGT

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-----ANSWER-8-ABOVE-----  
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-----ANSWER-9-BELOW-----  
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Answer-to-Question- 9\_

1)

Yes - it does apply as the beneficiaries have interest in possession

2)

Proceeds	48,750
Cost MV	(20,000)
Gain	28,750
Tax @ 10%	2,875

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-----ANSWER-9-ABOVE-----  
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-----ANSWER-10-BELOW-----  
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Answer-to-Question-\_10\_

1)

	S	D
	18,500	7,000
PA	(12,500)	
	6,000	
6,000 @ 20%	1,200	
2,000 @ 0%	0	
5,000 @ 7.5%	375	
Total tax	1,575	

2)

If the trustees can satisfy HMRC that they took reasonable steps to comply with the regulations

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-----ANSWER-10-ABOVE-----  
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-----ANSWER-11-BELOW-----  
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Answer-to-Question-\_11\_

Gordon would be connected as he is a direct decendant

His aunt and Lucy's cousin are not connected

His business parter Bob and Bob's children and their spouses  
are all connected

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-----ANSWER-11-ABOVE-----  
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-----ANSWER-12-BELOW-----  
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Answer-to-Question-\_12\_

Income from a discretionary trust may be treated as relevant property when there is no qualifying interest in possession in that property. No one can say they are legally entitled to any part of the income or capital. Exit and principal charges are then levied accordingly

Examples

Shares

Land/property

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-----ANSWER-12-ABOVE-----  
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Paper: **ATT Paper 5**

Part/Module: **Part 2**

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-----ANSWER-13-BELOW-----  
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Answer-to-Question-\_13\_

1)

2019/20 ONLY

Gift to John - falls under the 250 small gifts allowance per year per recipient

Gift to David is a PET

350 will be reduced by 2019/20 AE so no lifetime tax

Gift to charity

Charity exemption applies so no lifetime tax

Gift to James

Reduced by remaining 2,650 of 2019/20 AE and by the 3,000 2018/19 AE brought forward

Gift to disc trust	550,000
AEA for 19/20 and 18/19 used up	-
NRB	325,000
CTs in prev 7 years	(400,000)
	-
Taxable	550,000
IHT at 20%	110,000

2)

DIED 30 Jan 2020

PET May 2016

Now chargeable 497,000

NB at death 325,000

CTs in 7 years bf gift (400,000)

-

Taxable 497,000

IHT at 40% 198,800

less taper relief 3-4 years 20% (37,760)

Tax due 159,040

Gift to disc trust 30 Dec 2019

CLT 550,000

CTs in prev 7 years

NB at death 325,000

CTs in 7 years bf gift (400,000)

-

IHT @ 40% 220,000

Taper relief less than 1 year 100% (220,000)

Tax due 0

No need to take credit for lifetime IHT



3)

A trust can be created orally without written agreement, provided the court will be satisfied that there is sufficient evidence of James' intent to create it. This is therefore a discretionary trust. His friend is the trustee.

The trustee will be subject to tax on the dividend income at rates applicable to trusts (38.1% for the dividends). THE first 1,000 will be taxed at the ordinary dividend rate assuming there is no other form of income.

These shares will form part of his estate - he may be able to claim business property relief on them

4)

A summary of services provided up to the date of ceasing to act

A note of any outstanding matters that either the ex client or the new advisors will need to address

Details of any impending deadlines or action required

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-----ANSWER-13-ABOVE-----  
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-----ANSWER-14-BELOW-----  
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Answer-to-Question-\_14\_

1)

	NS	D
Rental Net (W)	29,595	
Divs		47,500
Tax		
20%/7.5%	5,919	3,563
Total tax	9,482	

Dividends from an ISA remain tax free for 3 years from date of death 30 April 2020

W	
Income	44,000
Repairs	(3,250)
Insurance	
1/12 x 1,140	(95)
11/12 x 1,200	(1,100)
Maintenance	(6,000)
Fees	(3,960)
9% x 44k	
Net rental	29,595

2)

Gain on cottage	
Proceeds	975,000
PB Cost + addition to basis	(400,000)
	(350,000)
Gain	225,000

Gain on quoted shares	
Proceeds	750,000
Less cost of sale	(45,000)
PB cost	(675,000)
Gain	30,000

	20%	28%
Gains	30,000	225,000
AEA		(12,000)
Taxable	30,000	223,000
Tax	6,000	62,440
Total tax	68,440	

3)

Management expenses can be claimed as deductible from taxable income (from dividends in priority to other income) provided they can be justified as legitimate/related

Executors can get relief on the interest paid on the loan -

it is a deductible payment. This is only available for interest paid within 12 months of the loan being taken out. It is deducted from on savings income in priority to interest or dividends

4)

A - 31st January 2021

B - £77,922

C- enquiry notice must be issued to taxpayer by

1st anniversary of the actual submission date, or

if return filed after normal filing date, the quarter day following the first anniversary of the actual filing date

5)

Start once the executors have obtained grant of probate

When all liabilities have been discharged and beneficiaries have been paid in full

Duties:

Obtain probate or grant of representation (letters of administration)

Ascertain the assets and liabilities of the estate

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-----ANSWER-14-ABOVE-----  
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-----ANSWER-15-BELOW-----  
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Answer-to-Question-\_15\_

1)

As the trust has been created on death on or after 22 March 06, it will be a qualifying IIP.

Creation is a chargeable lifetime transfer

On death, where the IPP ceases and passes to another beneficiary, this is a PET

2)

A)

Divs                      5,560

Tax @ 7.5%              417

Net dist income  
                                 5,143

No relief is given for management expenses

B)

Income distribution to Sammy is 5,560

C)

Income                      5,560

Tax

2,000 @ 0%              0

3,560 @ 7.5%            267

Tax Credit (417)  
Tax repayable (150)

3)

As an IIP trust, the life tenant is entitled to the net income of the trust and the trustees have no power to accumulate or withhold income. Income will flow through the trust and out to the tenant

4)

Following 6 April 2008, an A&M trust must give an absolute interest in capital to a beneficiary at the age of 18, otherwise will become a relevant property trust be subject to exit and principal charges

5)

	650,000
(325,000	
	325,000
NT @ 20%	65,000
	10%
x 30%	3%
3% x 75,000 x 36/40 = 2,025	

6)

£100 initial penalty

£10 per day for 90 days as a consequence of filing more than 3 months late

An additional penalty of 5% liability to tax (or £300 if greater)

7)

Acknowledge the complaint promptly in writing

Investigate thoroughly and without delay, by a person with sufficient experience, seniority and competence who was not directly involved

Tell the client

Take appropriate action

Consider whether to inform the firm's professional indemnity insurers

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-----ANSWER-15-ABOVE-----  
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-----ANSWER-16-BELOW-----  
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Answer-to-Question-\_16\_

1)

Value Mar 2017		685,000
NRB	325,000	
Dis in last 10	(200,000)	
		(125,000)
		560,000
Notional tax @ 20%		112,000
112/685		16.35%
x 30%		4.905%
Exit charge =	$4.905\% \times 250,000 \times 9/40 = 2,759$	

2)

Proceeds	250,000
Less BC	(50,000)
Gain	200,000
PPR	(200,000)
Chargeable gain	0

Ben has been using the flat as his main residence and can therefore claim Principal Private Residence relief on the gain

3)



The tax pool will close when the trust is wound up. Any credits within the pool at that point will not be repaid by HMRC and will be lost. The trustees should therefore make sufficient income distributions just before to enable trustees to take advantage of the 45% tax credit

4)

A)

Non charitable trusts are subject to a ban on perpetuity (lasting indefinitely). They cannot carry on indefinitely and must cease to operate within a certain period of time.

B)

Calculating the entitlement of each beneficiary  
Transferring legal ownership of the trust assets to the beneficiaries

Drawing up final trust accounts and obtaining the beneficiaries approval

Obtaining appropriate release or discharge

5)

Time and expenses - where time is charged on the basis of time spent according to skill and the resources deployed. An enhanced rate might be charged for urgent deadlines. A provision should be included in the letter of engagement for varying the amount to be charged where extra work is performed

Fixed fees - a fixed amount is charged for an agreed assignment. The fee should be based upon a clear scope of the work and proper costing of the work to be undertaken within the fixed fee. There should be an appropriate variation clause in the engagement letter when the work goes beyond one year to enable additional work to be charged and cost escalation to be recouped.