

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 5 INHERITANCE TAX, TRUSTS & ESTATES

May 2025

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- A maximum of two marks will be awarded for the quality of presentation of the answers.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. In 2015 Alice created the Wilder Trust for the benefit of her two grandchildren, Florence, and Nate. This was the only trust created by Alice. Florence and Nate have each been entitled to 50% of the trust’s annual income since its creation.

In May 2018, the trustees subscribed for 10,000 shares in Magpie Ltd, an unquoted company which manufactures and distributes bird products. They paid £250,000 for the shares which represent 5% of the total share capital of the company.

In the year ended 5 April 2025 the trustees made the following disposals:

	<u>Date of disposal</u>	<u>Proceeds</u>	<u>Purchase Cost</u>
		£	£
Shares in Invest plc	20 August 2024	40,000	22,000
Shares in Growth plc	22 September 2024	30,000	45,000
2,500 shares in Magpie Ltd	9 October 2024	812,500	as above

Florence has been part time employee of Magpie Ltd since its incorporation in 2018. She personally owns 7% of the shares in Magpie Ltd, having previously sold a further 3% of the shares in July 2022 realising a capital gain of £730,000. This was her only capital disposal, and she claimed any reliefs available at that time.

Nate is a full-time lawyer and has held no other employments. He subscribed for 8% of the shares in Magpie Ltd in 2018 and sold half of these shares in January 2024 realising a capital gain of £2 million. Nate used the proceeds to buy a new private residence. His only other capital disposal was of a painting in 2021 and he claimed any reliefs available on both disposals.

Neither the trustees nor the beneficiaries had any connection to Invest plc or Growth plc.

Requirements:

- 1) **Explain which Capital Gains Tax reliefs are available to the trustees for the disposal of their Magpie Ltd shares. You should include any consequences for Florence and Nate of any claims made.** (9)
- 2) **Calculate, with explanations, the trustees’ Capital Gains Tax payable for 2024/25. You should assume any available reliefs are claimed.** (6)

Total (15)

2. The Hamilton Family Trust 2009 was created on 20 May 2009 by Mrs Hamilton. The trustees paid £111,000 of Inheritance Tax, on chargeable assets of £670,000, on the creation of the Trust. Mrs Hamilton uses her annual exemptions each year, making payments of £1,000 to each of her three grandchildren on 6 April. No holdover relief was claimed on the settlement of any of the assets into the Trust.

The trust provided that a revocable interest-in-possession be appointed to her triplet grandchildren, Ethan, Fiona, and Gary, on them attaining age 25. Their 25th birthday was on 4 June 2018. The Trustees had made capital distributions of £15,000 each to Ethan, Fiona, and Gary on their 18th birthday. Ethan, Fiona, and Gary paid the IHT on these distributions.

On 31 May 2018, Mrs Hamilton settled a further £60,000. The Trustees used the funds to invest in the quoted share portfolio. No Inheritance Tax was due in relation to this transfer.

In February 2023, the Trustees used £45,000 from the original cash held in the Trust to make capital improvements to the apartment.

The trustees have made the decision to wind up the Trust and a deed of appointment was signed 8 October 2024. All Inheritance Tax on the winding up of the Trust will be paid by the Trustees.

Continued

The assets of The Hamilton Family Trust 2009 were valued as follows:

	<u>Value on</u> <u>20 May 2009(after</u> <u>IHT paid)</u>	<u>Value on</u> <u>20 May 2019</u>	<u>Value on</u> <u>8 October 2024</u>
	£	£	£
Residential Apartment	320,000	375,000	450,000
Quoted Share Portfolio	150,000	170,000	220,000
10% Holding in Hamilton Foods Ltd (an unquoted trading company)	65,000	70,000	50,000
Additional investment in Quoted Share Portfolio	N/A	64,000	72,000
Cash	89,000	55,000	26,000

The residential apartment was distributed to Ethan, who moved into it as his main residence shortly afterwards. The remaining assets were distributed equally between Fiona and Gary after the Trustees had paid the Capital Gains Tax due.

Mrs Hamilton had previously set up The Hamilton Discretionary Trust 2007, on 1 April 2007 for the benefit of her children and later issue by settling quoted shares valued at £210,000.

Requirements:

Assuming that no Capital Gains Tax reliefs are claimed:

- 1) Calculate the Capital Gains Tax due on the winding up of The Hamilton Family Trust 2009. Explain any reliefs that could have been claimed by the trustees, and how this might affect the future Capital Gains Tax position of the beneficiaries.** (10)
- 2) Explain the trustees' obligations with regards to reporting any Capital Gains Tax due and reporting the winding up of the trust on HMRC's Trust Register.** (2)
- 3) Calculate the Inheritance Tax principal charge and the charge on the winding up of the trust, including any due dates for reporting and paying the Inheritance Tax on winding up.** (13)

Total (25)

3. Mr Lee, a client of your firm, died on 20 December 2024. He had never been married.

In March 2017, Mr Lee sold his holiday home in Devon. The remaining proceeds of this property sale of £150,000 were gifted to his nephew, Jake. Jake used the funds to help purchase a static caravan on 1 April 2019 costing £200,000. The caravan was available for Mr Lee to use, and he used it regularly until he died.

The monthly market value rental of the caravan is £1,000.

Mr Lee's only income in 2024/25 was an annual pension of £18,000. He had made no elections with regards to Inheritance Tax or Income Tax in his lifetime.

On 20 November 2019, Mr Lee gifted half of his interest in his main residence to his adult niece, Mabel. Mr Lee remained living there and on 20 August 2021 Mabel moved into the property, and they jointly resided in the property until his death.

The value of the main residence was £840,000 in November 2019, and £800,000 in August 2021. On Mr Lee's death, the property was valued at £880,000.

Continued

The assets disclosed within Mr Lee’s death Estate were as follows:

	<u>Probate Value</u>
	£
Cash	14,000
Quoted share portfolio	260,000
Personal Chattels	17,500
Car	8,000

On his death, Mr Lee had an outstanding unsecured loan of £4,500 and funeral costs of £3,000.

Mr Lee’s Will leaves his assets jointly to Mabel and Jake, after a legacy of £14,000 to a local cat sanctuary, a UK registered charity.

The executors have already submitted the Inheritance Tax forms without inclusion of any of the lifetime gifts.

Requirements:

- 1) Explain with the aid of calculations, the tax due in 2024/25 resulting from the 2017 gift to Jake and explain how Mr Lee could have avoided this tax.** (7)
- 2) Calculate the correct amount of Inheritance Tax due on Mr Lee’s death. State the due date(s) for payment and identify who is liable for the tax.** (12)
- 3) Explain the implications for the executors on correction of the Inheritance Tax liability and the implications if the forms are not corrected.** (3)
- 4) Discuss your duties as a firm on the discovery of the mistake, and the implications if the Trustees refuse to make the necessary amendments.** (3)

Total (25)

4. You are a member of the ATT and work for Tax Solutions LLP. You have received the following email from an existing client:

Email

From: Richard Smythe (Executor of Adnan Firman’s estate)
To: Tax Adviser
Date: 1 May 2025
Subject: The Estate of Adnan Firman

Dear Tax Adviser

Adnan, who was UK domiciled, died on 2 November 2024 having made no lifetime transfers. His death estate consisted of the following assets:

<u>Asset</u>	<u>Value</u>
	£
Painting	150,000
Main home	850,000
Investment portfolio	1,200,000
Shares in ARC Ltd, an unquoted trading company	330,000

Adnan’s Will directs that, the painting should be left to his daughter, Nancy. Nancy’s mother was Adnan’s first wife who died in May 2002, leaving her entire estate to Adnan.

The remainder of Adnan’s estate is left to Polly, Adnan’s second wife to whom he was married when he died.

Continued

Continuation

Nancy does not want to accept the painting as she was estranged from Adnan. She doesn't want Polly to receive the painting, instead she wants her half-brother, Simon to receive it.

Polly would like to redirect certain assets left to her as follows:

- a) She would like the shares in ARC Ltd to go directly to her and Adnan's son, Mo.
- b) Of the investment portfolio, she would like assets worth £250,000 to be redirected to each of Mo's four adult children.
- c) In Adnan's Will he expressed a wish for Polly to donate to a charity on his death. The Will stated that the donation value should be calculated to reduce the Inheritance Tax rate on his estate to 36%. Polly would like to comply with this request.

I would be very grateful if you could provide advice on how to make these changes to the distribution of the estate. Please could you also calculate the Inheritance Tax due on the estate once these changes have been made.

Kind regards

Richard

Requirements:

Write a reply to the client's email in which you:

- 1) Explain how the legacies left in Adnan's Will could be redirected by Nancy and Polly including the conditions that must be met and any Inheritance Tax consequences. (14)
- 2) Calculate the amount Polly should donate to charity in order to obtain the 36% Inheritance Tax rate on Adnan's death estate. You should assume that other assets have been redirected in accordance with the above and that any elections have been made. (4)

Total (18)

- 5. The Corn Discretionary Trust was created by Matilda Bacon for the benefit of her two adult children, Hugo, and Gilda. The only other trust she had created was a life interest trust for her niece in 2023.

The trust had the following income and expenses for 2024/25:

	£
<u>Income</u>	
Dividend income	26,000
Bank interest	3,000
Rental income from residential investment property	12,000
UK chargeable event gain subject to Income Tax	14,400
<u>Expenses</u>	
Repair to garden fence for rental property	1,650
New porch built for rental property	5,000
Legal fees for new commercial property purchase (see below)	450
Accountancy fees for Income Tax Return	1,825

Continued

Continuation

In addition, on 5 August 2024, the trustees purchased a new commercial investment property which they immediately let to tenants. The annual rental income on the property is £13,800.

The trustees made an income distribution to Gilda and Hugo of £20,000 each. Gilda's only other income was employment income of £13,500, from which no PAYE tax had been deducted.

The trust's tax pool on 6 April 2024 was £600.

Requirements:

- 1) **Calculate, with explanations, the Income Tax payable by the Trustees of the Corn Discretionary Trust for the year ended 5 April 2025.** (11)
- 2) **Show the payments on account to be made by the Trustees for 2025/26, including the due dates of payment.** (1)
- 3) **Calculate the Income Tax payable/repayable by Gilda for the year ended 5 April 2025.** (3)
- Total (15)