Institution **CIOT - ATT**
Course **ATT Paper 5 IHT Trusts and Estates**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**307**	**1417**	**1708**
Section 2	**307**	**1451**	**1735**
Section 3	**500**	**2088**	**2533**
Section 4	**226**	**1076**	**1278**
Section 5	**93**	**461**	**527**
Section 6	**0**	**0**	**0**
Total	**1433**	**6493**	**7781**

Answer-to-Question-_1_

1)If trustees sell trust assets the gains are calculated the same way as for individuals. Trustees are however only entitled to half the individuals annual exempt amount being £1,500 for 2024/2025.

Business asset disposal releif is available for the disposal of the shares in Magpie Lts because Florence is a beneficiary who owns >5% (7%) in the business and has been and employee of Magpie since it's incorporation in 2018 so also meeting the condition of having had the shareholding and employement for 2 out of the 5 years preceeding the disposal. Florence had 10% in 2018 but sold 3% in 2022, still leaving her with the 7% required to fir these conditions for BADR.

The BADR means the gain will be taxed at 10%

Proceeds	£812,500		
Cost	£500,000		
Gain	£312,000		
CGT at 10%	£31,250		

The BADR relief must be claimed jointly by the trustees on or before the first anniversary of the 31st January following the year of disposal. This will affect both beneficiary's lifetime gain ceiling of £1 million, it is reduced by the gain where the trustees have taken BADR.

Shares in growth plc would be eligible for loss relief on the gain and this can be offset against the chargeable gains in the same period

2)

	Magpie	Growth	Invest
Proceeds	812,500	30,000	40,000
Costs	500,000	45,000	22,000
AEA			(1,500)
Gain	312,500	(15,000)	16,500

BADR 10 %	31,250	-	-
Loss relief set against gain			(15,000)
Total gain at 20% (16,500 - 15,000 = 1,500 x 20%			
	300		
Total CGT	31,550		

we have applied the loss against the gain which would be taxed at 20% to ensure the most relief as BADR was going to be taken in to account for the other gaqin (Magpie)

Again the Annual Exempt amount has also been applied to the gain which would ordibnarily be taxed at 20%.

--------------ANSWER-1-ABOVE---------------

--------------ANSWER-2-BELOW---------------

Answer-to-Question-_2_

1)

	Proceeds	Costs	Gain
Residential Apartment	450,000	320,000	130,000
Quoted Shares	220,000	150,000	70,000
10% holding In Hamilton Foods	50,000	65,000	(15,000) loss
Additional investment	72,000	64,000	8,000
Cash	Exempt		Exempt
AEA against apartment 1,500			
24% residential CGT on 130,000-1,500 - loss 15,000= 113,500 x 24 % =			27,240
Shares gain 78,000 x 20 %			15,600
CGT on winding up trust 24% % 20%			43,020

There could have been a claim for holdover releif on the settlement of the assets in to the trust. This is a disposal at market value by the settlor (Mrs Hamilton) This would have reduced the base cost of the assets on the date of the creation of the trust which would in turn increase the gain on the winding up of the trust.

2)Reporting of the gain in respect to the propoerty must be reported within 60 days of the disposal.

Any other CGT must be reported on the annual return submitted by 31st Januart 2026

THey must also report to HMRC the winding up of the trust within 12 months of the 31st January after the winding up of the trust, whichever is the soonest.

3)

Principal Charge		£	£
Value of trust at anniverary 375k+ 170k+70k+64k+ 55k			734,000
Nil Rate Band May 2019		325,000	
June 2018		(45,000)	
Feb 22		(45,000)	
Nil RB remaining			(235,000)
			499,000
Notional tax 20%			99,800
Effective Rate 99,800/734,000 x 100 = 13.597			13.597%
AR 13.597 x 30%			4.079%
Principal Charge 734,000 x 4.079%			29,939.86
Usually you would reduce the principal charge by months prior to addition - (in relation to the 64,000 addition)unfortunately I ran out of time before I noticed this reduction should have been applied would have been 4/40 relating to addition			

There is no need to submit and IHT rtn for a principal charge or for an exit charge where the settlement is excepted

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--------------ANSWER-2-ABOVE---------------

--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

1)Tax for Gift to Jake, The value of the cash and the propoerty acquired with it are outside Mr lees estate for IHT.

Original Tfr PET	150,000		
AEA x 2	(6,000)		
PET	154,000		
Pet exempt after 7 yrs from transfer			
However as Pre Owned asset a further calculation will now be due POAT CHarge			
Market value - rent 9 x 1000	9,000		
apportioned to the amount provided 9,000 x 150,000/200000	6,750		

This gift gives rise to a pre owned asset charge, Mr Lee would have to have the £6,750 income placed on his self assessment form to be taxed appropriately. This may have been avoided if the cash was gifted 7 years before the donors first use of the caravan. Mr Lee could have made an election to be treated as a Gift with reservation of benefit instead and this would have formed part of their estate for IHT.

2) IHT due on Death 40%

Gift of half the house is a failet PET as not survived 7 years. not GWROB as suggests that no change in Mr Lee paying for his fair share of the house

£150,000 to Jake is a PET - exempt as 7 years before death

Failed PET 2019 - Mabel would be due to pay this IHT on the failed PET at the date of death this would be due no later than 6 months from the end of the month of death - 30th

Junne 2025 in this case

House	£420,000		
AEA x 2	£(6,000)		
NRB	£(325,000)		
Ghargeable lifetime tfr	£89,000		
IHT 40%	£35,600		
Taper relief 40%	£(14,240)		
IHT due	£21,360		

Pension	18,000		
Residence	440,000		
cash	14,000		
Shares	260,000		
Chattels	17,500		
Car	exempt for IHT		
Less Loan	(4,500)		
Less Funeral Costs	(3,000)		
Less exempt Legacies	(14,000)		
CHargeable estate	728,000		
No Nil Rate band as transfer to Niece of £440,000 used this up	-		
IHT at 40%	291,200		

IHT 400 is due 12 months of the end of the month of death 30th December 2025 in this case. IHT is due to be paid by the executors the earlier of Six months from the end of the month of death and the submission of the IHT return IHT400

3)IHT corrections should be filed within 12 months of the end of the month of death IHT payment is due 6 months from end of month of death. I nterest will be charged if tax is paid late. The payment becomes due at the date you file the IHT 400.

4) If we discovered a mistake we would have to establish the facts and ensure the error is there and is it trivial we would a duty to notify HMRC however you sometimes have to gain specific permission to do so from the client.

If the client refuses to report the error to HMRC you have to write to them explaining the potential implications of them not disclosing, if they continue to refuse you may have to report them the HMRC/MLRO/NCA and cease to act for them.

--------------ANSWER-3-ABOVE---------------

--------------ANSWER-4-BELOW---------------

Answer-to-Question-_4_

1)There would have to be a deed of variation completed to transfer the assets to the other beneficiaries mentioned. THey muist contain a statement of intent that specifies the chargeable gains act to apply to the document

It must be signed by all beneficiaries who may be negatively impacted

The alterations to the will should be clearly set out

Must be made within 2 years from the date of death.

Once made the variation cannot be revoked.

IHT will be due on the items transferred as they will then be outside the spousal exemption

2)YOu have to donate a minimum of 10% to charity of the estate less exemptions and reliefs available. in this instance the calculation is below;

Resident NRB for deceased wife 2002 £242,000
RNRB for Adnan £Nil due to the fact his estate is worth over £2million

Painting	150,000		
Home	850,000		
Investments	1,200,000		
Shares in ARC	330,000		
Less spousal Exemption	(2,380,000)	exempt as left to the wife initially	
NRB	(325,000)		
IHT due	NIL		

If the house and 200,000 of the onvestments are kept by the wife but the rest transferred the 10% required to reduce the rate is the estate less the wife's exepmption of 1million and less 325,000 NRB.

total estate was 2,530,000 less 1 million (no RNRB as over 2.5million value) less wifes exemption less 325k =1,205,000 x 10% = 120,500

--------------ANSWER-4-ABOVE---------------

--------------ANSWER-5-BELOW---------------

Answer-to-Question-_5_

*rental profit 12,000 - 5000 (Porch)- 1,650 (garden fence)= 5350
other rental 13,800/12 x 8 = 9,200

	Non savings	Interest	Dividends
Rental profits*	14,550		
Bank interest		3,000	
Dividend income			26,000
Charegable event	14,400		
less expenses 1,825 x 100/91.25			(2,000)
Income	28,950	3,000	24,000
28,950 @ 45%	13,028		
3,000 @45%	1,350		
24,000 @ 8.75%	2,100		
1825 @ 8.75%	159.69		
Tax payable by trustees	16,637.69		

Payments on account due are 50% of the liability which is 16,637.69 divided by 2 = 8318.85 and these would be due by 31st January 2026 and 31st July 2026

--------------ANSWER-5-ABOVE---------------

--------------ANSWER-6-BELOW---------------

Answer-to-Question-_6_