THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 5 INHERITANCE TAX, TRUSTS & ESTATES

May 2026

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.

Important Information – Please read carefully

- An Excel spreadsheet is provided with each question. You do not have to use this, but where the requirements include calculations and workings, you may find it a useful tool. However, please note that all Excel calculations and workings that you wish to include as part of your answer **must** be copied into the word processor answer box, otherwise they will not be marked.

1. In October 2018 Orson created the Style Trust for the benefit of his three adult children, Mateo, Hazel and Anya. Orson had previously created a UK charitable settlement and a Jersey resident settlement, both of which are still in existence. Anya has been entitled to 50% of the Style Trust's annual income and gains since its creation while Hazel and Mateo have each been entitled to 25%.

In December 2018, the trustees subscribed for 600 shares in Flair Ltd, an unquoted company which manufactures and distributes fashion accessories. They paid £300,000 for the shares which represent 6% of the total share capital of the company.

Anya has been an employee of Flair Ltd since January 2020. She personally owns 500 shares in Flair Ltd which she purchased on 14 May 2023 and has made no capital disposals.

Hazel is a doctor working for the NHS; however, she previously worked for Flair Ltd until 12 August 2022. Hazel does not hold any shares in Flair Ltd and has made no capital disposals.

Mateo has been employed full-time by the charitable settlement settled by Orson since its creation in 2015. He subscribed for 900 shares in Flair Ltd in December 2018, and sold 625 of these in June 2023, realising a capital gain of £450,000. This was his only capital disposal, and he claimed any reliefs available at that time.

The trustees wanted to sell 400 shares in Flair Ltd to an unconnected third party to raise cash. They considered sale dates of either 10 April 2025 or 10 September 2025. The shares had a market value of £2,000 per share on both of those dates.

The trustees had brought forward capital losses of £2,000 on 6 April 2025. No other capital disposals were made in 2025/26.

Requirements:

1) **Explain which Capital Gains Tax reliefs are available to the trustees for the disposal of their Flair Ltd shares on each of the sale dates considered by the trustees. You should include any consequences for the beneficiaries of any claims made.** (13)

2) **Calculate, with explanations, the trustees' Capital Gains Tax payable if they had completed the share sale on:**

   a) **10 April 2025.**
   b) **10 September 2025.**

You should assume any available reliefs are claimed and state which date of disposal minimises the trustees' Capital Gains Tax liability. (7)

Total (20)

2. On 1 May 2003, Robert Green created the Green Family Trust by settling £350,000 into an A&M trust. The Trust used most of these funds to purchase a commercial property, which, since purchase, was let on commercial terms to a third-party tenant. Robert made gifts to use up his Inheritance Tax annual exemption each year on 6 April and had made a previous gift to his daughter's company of £50,000 on 1 December 2002.

Prior to 5 April 2008, the trustees altered the Trust terms to give Robert's three grandchildren entitlement to income from the Trust at the age of 18, and full entitlement to their share of the capital at the age of 25. Jessica and William were born on 1 May 2001, and Zack was born on 1 December 2002. The trust made no discretionary distributions.

Continued

Continuation

The income and expenses of the Trust are as follows:

	2024/25	2025/26
	£	£
Rental income	28,000	38,000
Rental expenses	5,000	3,000
Interest	2,000	2,000
Management expenses	2,000	2,000

The value of the commercial property is as follows:

	£
1 May 2003	310,000
6 April 2008	360,000
1 May 2023	420,000
1 May 2026	450,000

On 1 May 2023 and 1 May 2026, the trust held cash of £45,000.

Requirements:

1) Calculate the Income Tax liability of the Trust for 2024/25 and 2025/26. Produce R185s for each of the beneficiaries. (7)

2) Calculate the Inheritance Tax due on the distribution to the twins on reaching age 25. Explain the Capital Gains Tax implications of this event and discuss any planning that could be done to mitigate the Capital Gains Tax liability of the trustees. (13)

Total (20)

3. Martha died on 30 April 2026. Martha was born in Spain but had been UK resident from 6 April 2011 until 5 April 2026 when she had returned to Spain. She was married to Julian who moved to the UK from Spain on 6 April 2020 and has been UK resident since. He moved back to Spain with Martha on 6 April 2026 and has decided to remain there with family following her death.

Martha's estate on death comprised of the following:

	£
UK Government Gilts	25,000
50% share of UK residential property (former main residence) tenancy in common	350,000
50% share of Spanish property (current main residence) co-owned with Julian	475,000
UK bank accounts	160,000
UK quoted share investments	230,000
Loan owed by her brother (resident in Spain)	100,000

Martha's Will directs that her share of the Spanish property is to go to Julian and that her remaining assets will be shared equally between her niece and nephew after a donation to a UK charity of £10,000.

After her death, Martha's executors incurred expenses of £25,000 for administering her property in Spain. They have paid Spanish Inheritance Tax of £95,000.

Continued

Continuation

Martha made three lifetime gifts, she gifted half of her UK residential property to Julian as tenants in common, on their marriage on 30 April 2020, when it was worth £600,000 and £175,000 each to her niece and nephew from her UK bank account on 1 May 2021 and 1 May 2022 respectively.

Apart from the two properties owned with Martha, Julian has a bank account in Spain holding €120,000 (Sterling equivalent £100,000).

Requirement:

Calculate, with explanations, the UK Inheritance Tax due on Martha's death assuming that no elections have been made. State the amounts payable and by whom and the due date for payment.

Ignore any double tax treaty between the UK and Spain. (20)

4. Cynthia died on 5 June 2025 leaving her entire estate to her son Chase. The Executors completed the administration of Cynthia's estate on 10 April 2026.

Cynthia's estate received income as follows in 2025/26:

	Date	£
Bank interest	1 September 2025	7,800
Dividends on share portfolio	2 January 2026	5,000
Bank interest	1 March 2026	6,500
Interest on ISA	5 April 2026	3,100
Rental income on investment property (cash basis)	1st of each month	1,250

The Executors paid £750 for repairs to the chimney of the rental property on 15 November 2025, and £425 in general expenses for managing the estate on 5 April 2026.

On 20 January 2026, Chase signed a Deed of Variation redirecting Cynthia's estate to his 14-year-old son Dylan. Capital Gains Tax and Inheritance Tax elections were made.

The following distributions were made during the administration period:

Date	Asset	Amount/Value £
30 September 2025	Income distribution	3,000
12 December 2025	Investment property	300,000
18 February 2026	Income distribution	4,000

Requirements:

1) Calculate, with explanations, the Income Tax payable by the Executors of Cynthia's estate for 2025/26. (5)

2) Explain the Income Tax consequences of the Deed of Variation made by Chase. (4)

3) Explain who is entitled to each of the distributions made from the estate in 2025/26 and prepare the R185s. (4)

4) Explain the Capital Gains Tax and Inheritance Tax consequences of the elections made by Chase in relation to the Deed of Variation. (2)

Total (15)

5. Eric Golder, who was born in the UK and is a long-term UK resident, died on 23 October 2025 having never been married. His death estate was left equally between his son and his daughter and consisted of the following assets:

Asset	Value
	£
UK rental property	215,000
Investment portfolio	300,000
Cash at bank	180,000
	695,000

Eric had also made several lifetime gifts as follows:

1) On 28 September 2015 Eric created the Golder Discretionary Trust with £350,000 cash. The beneficiaries of the trust are Eric's grandchildren. Eric paid any tax arising on the transfer.

2) On 31 May 2022 Eric gifted a boat which cost him £110,000 six months earlier to his son. It was valued at £120,000 at the date of gift. Eric continued to use the boat on a weekly basis until the time of his death and did not pay his son for this use. The boat was valued at £140,000 at the time of his death.

3) On 13 December 2022 Eric sold his main home claiming 100% private residence relief, and gifted the proceeds of £480,000 to his daughter to buy a house. His daughter works abroad and does not use the house. Instead, Eric lives in the house and pays all household bills but no rent. The annual rental value of the house is £28,800, and the house was worth £520,000 at the time of Eric's death.

You are a member of the Association of Taxation Technicians and are engaged by the Executors of Eric's estate to review the Inheritance Tax position on Eric's death only. You have received a copy of Eric's 2025/26 tax return to the date of his death from Hills LLP who were the accountants Eric used until he died and are dealing with all Income Tax matters in relation to his death. You note that the only income reported on this tax return is rental income from the investment property, and interest and dividend income from his investment portfolio and cash held at bank.

Requirements:

1) **Explain how each of Eric's lifetime gifts should be treated for tax purposes and calculate any lifetime Inheritance Tax payable on the gifts.** (9)

2) **Calculate, with explanations, the Inheritance Tax payable on Eric's death.** (7)

3) **Explain the Inheritance implications if Eric had stopped using the boat in September 2023 when its value was £130,000. Calculations are not required.** (2)

4) **Explain the action you should take and the implications for you in respect of any undisclosed tax liabilities during Eric's lifetime.** (5)

Total (23)