

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 5 INHERITANCE TAX, TRUSTS & ESTATES

July 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.

1. Assume the date is July 2027.

Amanda died on 29 May 2026 having never been married. She had been a UK resident since 1 April 2001.

On her death, her estate consisted of the following:

	£
UK Main Residence	525,000
Rental Property located in Spain	260,000
Cash	55,000

Amanda also held a number of investments:

X plc – Amanda held 20,000 shares quoted at 177–181p. There were marked bargains at 175, 176, 177 and 182p.

Y plc - Amanda held 40,000 shares quoted at 56 – 61p. There were marked bargains at 52, 53, and 60p.

Z plc - Amanda held 10,000 shares quoted at 78 – 83p. There were marked bargains at 75, 78, 82 and 83p.

ABC Unit Trust – Amanda held 350,000 units quoted at 122–126p.

The following disposals have taken place in the estate:

		<u>Gross Proceeds</u>
		£
31 July 2026	10,000 shares in X plc	15,000
30 September 2026	30,000 shares in Y plc	20,600
31 March 2027	150,000 units in ABC Unit Trust	95,000
30 June 2027	5,000 shares in Z plc	3,500

There were £500 costs of sale in relation to the disposal of the X plc shares.

On 1 August 2026, the Executors purchased 12,000 shares in W plc for £50,000 and 1 June 2027, they purchased 1,000 shares in V plc for £12,000.

After payment of a £10,000 legacy to a Spanish cat rescue, Amanda’s estate passes entirely to her nephew. She made no lifetime gifts.

Amanda’s executors paid £80,000 of Spanish Inheritance Tax in relation to the property in Spain.

Requirements:

- 1) Calculate, with supporting explanations, the Inheritance Tax due on Amanda’s death if no claims are made by the executors in relation to the quoted shares and unit trust holdings. State the date by which the Inheritance Tax is due and by whom it is payable. (13)
- 2) Explain and calculate any potential Inheritance Tax relief available to the executors in relation to the quoted shares and unit trust holdings. (10)

Total (23)

2. On 1 March 2018 Malcolm Baton created The Relay Life Interest Trust for the benefit of his four grandchildren. Malcolm made no previous lifetime transfers other than annual gifts using his annual exemption each year on 6 April. The trustees paid any Inheritance Tax arising on creation of the trust and Malcolm made no Capital Gains Tax claims.

Continued

The initial assets settled by Malcolm were as follows:

- a) Cash of £350,000.
- b) Farmland with a market value of £450,000 and agricultural value of £350,000. The land was purchased by Malcolm in December 2015 and since then has been used by a farming partnership of which Malcolm is a partner alongside his brother. When the farmland was settled onto the trust the trustees entered into a formal 20-year lease agreement with the partnership.
- c) 600 shares in Bolt Ltd, an unquoted trading company which manufactures nuts and bolts. Malcolm owned the entire 1,000 shareholding in the company prior to the transfer. The value of the shares at the time of transfer were as follows:

	£
Under 25%	150 per share
25% - 49%	250 per share
50% - 74%	500 per share
75% - 100%	800 per share

Since creation, the trustees have made the following capital distributions to various grandchildren and paid any Inheritance Tax arising thereon:

<u>Date</u>	<u>Asset</u>	<u>Loss to trust</u>
		£
23 May 2023	Cash	50,000
3 October 2024	100 Shares in Bolt Ltd	180,000
4 April 2025	Half of the farmland	300,000

The agricultural value of the farmland on 4 April 2025 was £500,000. The value of the farmland retained by the trustees was £300,000.

Malcolm asked his previous tax adviser, Quick Tax LLP, whether any reliefs were available to reduce the tax payable on the capital distributions. Quick Tax LLP told Malcolm no reliefs would be available due to the trust being a life interest settlement. Malcolm was unsure this advice was correct and has now engaged your services and asked you to complete the exit charge calculations, claiming any available reliefs.

Requirements:

- 1) **Calculate, with explanations, the Inheritance Tax payable by the trustees on each of the capital distributions. You should assume that any available reliefs are claimed.** (12)
- 2) **Explain the Capital Gains Tax implications of the distribution of the farmland. You are not required to calculate the chargeable gain. You should include any consequences for the beneficiaries of any claims that could be made.** (3)
- 3) **Explain the options available to Malcolm in respect of the incorrect advice given to him by Quick Tax LLP who is a member of the Association of Taxation Technicians, and their obligations to him.** (5)

Total (20)

- 3. Rio moved to the UK for the first time on 1 January 2021. He immediately became UK resident. On 4 June 2022 Rio created the Festiva Discretionary Trust for the benefit of his nephews. Rio had made no other lifetime transfers.

The trustees of the Festiva Discretionary Trust are Rio’s brother who is UK resident, and his sister who is resident in Portugal.

Continued

The trust received income as follows in 2025/26:

	<u>Date</u>	<u>£</u>
UK bank interest	1 August 2025	6,700
Dividends on share portfolio	30 October 2025	23,000
Utopian bank interest	3 January 2026	4,200
Monthly rental income on London investment property	1st of each month	1,450
Monthly rental income on Utopian investment property (see below)	1st of each month	1,300

The trustees use the cash basis to calculate the rental income from the two residential investment properties. The tax pool brought forward on 6 April 2025 was £425, and the trust management expenses for the year were £1,460. On 23 December 2025, the trustees made income distributions of £10,000 to each of Rio’s three nephews. There is no tax in Utopia on the bank interest or rental income.

The trust made the following capital disposals in 2025/26:

<u>Date</u>	<u>Asset</u>	<u>Acquisition Cost</u>	<u>Disposal proceeds</u>
		<u>£</u>	<u>£</u>
12 May 2025	Investment shares	14,000	18,000
30 June 2025	Utopian investment property	219,000	260,000

The trustees had brought forward capital losses of £1,000 on 6 April 2025. There is no tax in Utopia on the disposal of the investment property.

The trustees purchased an apartment in York on 1 July 2022. The apartment was used as the main residence of Andre, one of the beneficiaries of the trust, from 1 January 2023 until 31 December 2024, when he was sent by his employer to work in Brazil. The apartment has been empty since 31 December 2024.

Andre is due to return to the UK in September or October 2026, when he will immediately move back into the apartment. The trustees are considering distributing the apartment to him on 1 October 2026. The capital gain arising on the apartment is expected to be £70,000. The trustees would like to understand the Capital Gains Tax position should they make the distribution either before or after his return to the UK.

Requirements:

- 1) Explain how the residence position of the Festiva Discretionary Trust is determined in 2025/26. (2)
- 2) Calculate the Income Tax payable by the Trustees of the Flavia Discretionary Trust for 2025/26. You should calculate the figures to include on the forms R185s. (10)
- 3) Calculate the Capital Gains Tax payable by the Trustees of the Flavia Discretionary Trust for 2025/26. (2)
- 4) Explain the Capital Gains Tax implications of the trustees distributing the apartment to Andre:

a) Before he returns to the UK.

b) After he has returned to the UK.

You should include a calculation of any chargeable capital gain arising before annual exempt amount in each situation, assuming that any available reliefs are claimed. (6)

Total (20)

4. In July 2021 James received a gift from his father, Richard, of a house, which is a Grade II listed property, when it was valued at £800,000. His father had purchased the property in 2001 for £500,000. During Richard's ownership he had made substantial improvements to the house, totalling £150,000. The Grade II listed property has to be preserved for its architectural interest.

When Richard died on 1 May 2025, James also inherited an antique vase. HMRC agreed that this vase was of significant historical significance and the executors of Richard's estate made a claim for conditional exemption to apply.

Richard had only made one other lifetime gift. In May 2023, he gifted 10,000 shares in Shire plc, a quoted investment company, to James when they were valued at £480,000.

On the date of Richard's death the shares in Shire plc in July 2025 were worth £403,000, although James had sold the shares in November 2024 for gross sale proceeds of £415,000.

Richard made no other gifts during his lifetime.

Requirements:

- 1) **Explain the tax implications of the property and vase received by James, both in Richard's lifetime and on his death, the claims that can be made by the executors of Richard's estate and the requirements of these claims.** (9)
- 2) **Explain the Inheritance Tax implications on Richard's death, of the gift of Shire plc shares to James. Calculate the impact on the Inheritance Tax payable of any claim made, and state the date by which the claim should be made.** (6)

Total (15)

5. Mr and Mrs Brown wish to fund the school fees for their four grandchildren who are aged 4, 7, 10 and 11 respectively. They have approached your firm with a number of options that they have considered:
- a) Providing outright gifts to the grandchildren on a termly basis to cover the fees. These cash gifts would be funded by the sale of investments and excess dividend income from their quoted investment portfolios.
 - b) Providing a lump sum cash payment from savings to the parents of the grandchildren to be held under bare trust. This lump sum would be invested in managed portfolios, and the termly fees would be funded using a combination of income and capital withdrawn from these investments.
 - c) Settling a lump sum in cash and/or investments onto a discretionary trust. The terms of this trust would allow each grandchild access to their share of the capital from the age of 25.

Requirement:

Write a letter to Mr & Mrs Brown in which you detail the tax implications of:

- a) **Providing outright gifts**
- b) **Providing lump sums to be held under bare trust**
- c) **Settling a sum onto a discretionary trust.**

Provide a recommendation of how best to fund the school fees.

Total (20)