ATT Paper 5 Inheritance Tax, Trusts and Estates

0/98

ATT Paper 5 Inheritance Tax, Trusts and Estates May 2026

Cover Page

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.

Marks available per question:

Question 1: 20 marks

Question 2: 20 marks

Question 3: 20 marks

Question 4: 15 marks

Question 5: 23 marks

A maximum of two marks will be awarded for the quality of presentation of the answers.

Total: 100 marks

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.

When you have pasted calculations from Excel into the answer box, you might only see gridlines where there is an entry in the cell. You do not need to spend time adding extra gridlines manually. Please **do not** expand the width of tables in the answer box once pasted in from Excel. Column widths have been deliberately limited in the Excel spreadsheet to facilitate marking.

Question 1 /20

Question 1 0/20

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)

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ATTP5M26_Q1-ATT Tax Tables

ATTP5M26_Q1-ATT P5 Memory Jogger

ATTP5M26_Q1-ATT Paper 5 IHT Manual

ATTP5M26_Q1-ATT Paper 5 ITandCGT Manual

ATTP5M26_Q1-ATT Paper 5 TandE Manual

Part 1

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Response

Part 2

This is your answer box for Question 1. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

1)

Business Asset Disposal Relief

The trustees can claim BADR on the disposal of some of the Flair Lld shares.

This can be claimed in respect of Anya (after the 14 May 2025) because the following conditions will be satisfied:

1. She is an employee of the company
2. She owns a 5% shareholding
3. She will have held the shares for the minimum period of two years
4. She has a permanent IIP in the trust
5. The trustees also hold shares (no minimum requirement)
6. The company is an unquoted trading company

Investors' Relief

The trustees also have the option to claim investors relief on the disposal of some shares. This can be done in respect to Mateo's shares due to the following:

1. The company is an unquoted trading company
2. Mateo is not connected to the company as he does not work for the company and he is not a director
3. He has a permanent IIP in the trust
4. The trustees hold shares (again, no minimum)
5. He subscribed for his shares after the 17th March 2016
6. The shares have been held for at least three years by the trust

If the above claims were made, both the beneficiaries and the trustees would need to be in agreement, and they would have to make the claim by the 31 January following the end of the tax year of disposal.

The beneficiaries also need to agree to the claim because it will affect their lifetime limits (currently £1m for both reliefs). Mateo has already utilised £450,000 of this allowance.

No relief is available for Hazel because she does not personally own any shares at the time of disposal.

2) As mentioned above, the disposal of Anya's portion of the shares will only qualify for BADR if they are sold after the 14th May 2025. This is because by then, the minimum holding period for Anya to have held the shares personally will be satisfied. The sale on the 10 April 2024 will subject the sale of most of the disposals to CGT at the trust rate of 24%.

a.

Sale on 10 April 2025:

	Gains qualifying for BADR	Gains qualifying for IR	Non-qualifying gains
Anya (W1)			300,000
Mateo (W2)		150,000	
Hazel (W3)			150,000
Annual exemption			(750)
Capital loss b/f			(2,000)

CGT at 14%		21,000	
CGT at 24%			107,340

Total CGT if sold on 10 April 2025 - 128,340

Total proceeds = 400 shares at 2,000 = 800,000

Base cost = 600 shares at 300,000

400 shares therefore: 200,000

W1 - 800,000/2 = 400,000-100,000 = 300,000

W2 - 800,000/4 = 200,0000-50,000 = 150,000

W3 - 800,000/4 = 200,000-50,000 = 150,000

b.

Sale on 10 September 2025:

	Gains qualifying for BADR	Gains qualifying for IR	Non-qualifying gains
Anya (W1)	300,000		
Mateo (W2)		150,000	
Hazel (W3)			150,000
Annual exemption			(750)
Capital loss b/f			(2,000)
CGT at 14%	42,000	21,000	
CGT at 24%			35,340

Total CGT due if sold on 10 September 2025 - 98,340

It is clear that the disposal on the 10 September 2025 is more favourable and would minimise the trustees Capital Gains Tax liability compared to the sale on the 10 April 2025.

Question 2 /20

Question 1 0/20

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.

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)

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Part 1

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Response

Part 2

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Response

1)

The trust is now a mixed trust because two out of three of the beneficiaries have an IIP, and one beneficiary has a discretionary interest.

For 2024/25, all beneficiaries had a discretionary interest, and the trust will have been taxed as follows:

	Non-savings	Savings
Rental profits	23,000	
Interest received		2,000
Trust management expenses	(500)	(2,000)
RAT's:		
22,500 at 45%	10,125	
2,500 at 20%	500	
Total tax liability	10,625	

Distributable income 22,500/3 = 7,500

Gross up by 100/80 to 9,375

R815 (per beneficiary):

	Net	Tax
Rental income	7,500	1,875

2025/26

	Non-savings	Savings	
Rental profits	35,000		
Interest		2,000	
Less: income subject to IIP (2/3)	(23,333)	(1,333)	
	11,667	667	
Less: trust management expenses (1/3)	(166)	(667)	
RATs:			
11,501 at 45%	5,175		
833 at 20%	167		
Income subject to IIP:			

24,666 at 20%	4,933		

2)

Initial value of trust		350,000
Undistributed income		45,000
		395,000
Nil band	325,000	
Settlors CLT's in 7 yrs prior to creation of trust	(50,000)	(275,000)
		120,000
Notional IHT		24,000
Effective rate		6.075%
(24,000/395,000*100)		
Actual rate		0.040%
(6.075%*30%*88/40)		
Exit charge		13,200

Loss to trust

Cash - 45,000*2/3 = 30,000

Commercial property - 450,000*2/3 = 300,000

Total = 330,000

Under the Crowe v Appleby principle, this disposal cannot be charged to CGT until all beneficiaries become entitled to their share of the capital. No disposal of the trusts assets are therefore deemed to have been disposed of until Zack turns 25.

When the distributions eventually become chargeable to CGT, the trustees can claim relief on this for the IHT already paid. Under s.260, a claim can be made so that the exit charge paid on the transfer out of the trust is deducted from the capital gain on the donee.

Question 3 /20

Question 1 0/20

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 per 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.

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)

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Part 1

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- ATTP5M26_Q1-ATT Paper 5 IHT Manual
- ATTP5M26_Q1-ATT Paper 5 ITandCGT Manual
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Response

Part 2

This is your answer box for Question 3. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

Martha has been a UK resident for at least 10 out of the previous 20 tax years following her death. Due to this, her worldwide assets will be chargeable to UK IHT on her death. A credit will be given for any foreign tax suffered.

Julian is not a LTUKR, and no elections have been made. This means that the spouse exemption is limited to £325,000.

Lifetime gifts:

Gift of half of property		300,000
Spouse exemption		(325,000)
PET		nil

Gift of cash (1.5.2021)		350,000
AE x2		(6,000)
		344,000
NB		(325,000)
PET		19,000

Gift of cash (1.5.2022)		350,000
AE x1		(3,000)
		347,000
NB (fully utilised)		(0)
PET		347,000

Lifetime gifts IHT on death:

Failed PET 1.5.2021		19,000
IHT 40%		7,600
Taper relief 40%		(3,040)
Payable by niece and nephew		4,560

Failed PET 1.5.2022		347,000
IHT 40%		138,800
Taper relief 20%		(27,760)
Payable by niece and nephew		111,040

Death estate:

UK gilts		25,000
UK rental property		250,000

Spanish rental property	475,000	
Exempt legacy (remaining)	(25,000)	
Foreign probate costs (5%)	(1,250)	448,750
UK bank		160,000
UK quoted shares		230,000
Debtor		(0)
NRB (fully utilised in 7 years before death)		(0)
Chargeable estate		913,750
IHT 40%		365,500
Double taxation relief (W1)		(95,000)
UK IHT payable		270,500

Although Martha's brother resides in Spain, as she is LTUKR, the debtor is chargeable here.

W1 - double taxation relief

Lower of:

Tax suffered in Spain - 95,000

UK IHT on Spanish property - 365,500/1,240,000 = 29.47%

448,750 * 29.47% = 132,247

The UK IHT on the death estate will be payable by Martha's executors. The due date for filing the IHT return and making payment is 12 months from the end of the month of Martha's death, i.e. 30 April 2027.

The tax due on the failed PET's to Martha's niece and nephew are payable by them as the donee's. Thus tax will be due six months from the end of the month which Martha died, i.e. by 31 October 2026.

Question 4 /15

Question 1 0/15

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)

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Part 1

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Response

Part 2

This is your answer box for Question 4. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

1)

	Non-savings	Savings	Dividends
Rental income (net)	11,750		
Bank interest (receipts basis)		14,300	
Dividends			5,000
Expenses			(425)
Tax at 20%/20%/8.75%	2,350	2,860	400
Total liability 2025/26	5,610		

ISA's retain tax free status for three years after death.

Estates are subject to income tax at the basic and ordinary rates. They are not entitled to a personal allowance.

Expenses for managing estate deducted from dividend income in priority.

2)

With elections, the deed of variation has rewritten Cynthia's will and redirected her entire estate to Dylan.

3)

30.9.2025

Chase is entitled to this distribution as the deed of variation was not in place yet. Income distributions are treated as being made from non-savings income and therefore the beneficiary is deemed to have received the distribution net of basic rate tax.

The R185 is as follows:

	Net income	Tax
Income distribution	2,400	600

12.12.2025

As above, Chase is entitled to the distribution.

	Net income	Tax
Capital distribution	240,000	60,000

18.2.2026

Dylan is entitled to this distribution as Cynthia's will has been rewritten.

	Net income	Tax
Income distribution	3,200	800

4)

A s.142 election will ensure that Cynthia's will is effectively rewritten. For IHT purposes, Chase will not have made any transfers in relation to his own estate, and none of the assets now passing to Dylan will form part of his estate.

Without the election, Chase will have been deemed to have made a PET for IHT purposes and if he died within 7 years, his estate would be charged to IHT on the assets passing to Dylan.

The variation by Chase is technically a disposal at market value for CGT purposes. Due to this, a s.62 election should be included in the variation, and the disposal will be disregarded for CGT purposes. Without this, Chase could find himself paying CGT on the transfer when he has received no proceeds. With this election Dylan will inherit Cynthia's base cost for CGT purposes.

Question 5 /23

Question 1 0/23

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)

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Part 1

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Response

Part 2

This is your answer box for Question 5. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

1)

Gift on 28.9.2015

Gift of cash to trust		350,000
Annual exemptions (2014/15 and 2015/16)		(6,000)
CLT		344,000
NRB (fully available)		(325,000)
		19,000
IHT 20/80		4,750

Gross transfer: 344,000+4,750 = 348,750

Gift on 31.5.2022

Gift of boat to son		120,000
Annual exemptions (2021/22 and 2022/23)		(6,000)
NRB (fully used in previous 7 years)		(0)
PET (no lifetime tax)		114,000

Also a GWROB as Eric retained regular benefit of the boat.

Gift on 13.12.2022

Gift of cash to daughter		480,000
Annual exemptions (used)		(0)
NRB (available as 7 years have passed)		(325,000)
PET		155,000

Eric has given consideration to his daughter for the purchase of a new house which he receives benefit from. GWROB rules do not apply as the gift was made out of cash, instead a POAT charge will arise.

The annual rental value of £28,800 should be declared on Erics personal tax return, and he will pay income tax on this at his marginal rate. It appears that the house was purchased using all of the consideration, therefore no apportionment to the POAT is available.

Alternatively, Eric could elect for the GWROB rules to apply and the gift would form part of his estate on death. It appears that this has been elected for, as the only rental income declared on his personal tax return is from an investment property. Due to this, the market value of the house at death will be included in Erics estate.

2)

Death tax on lifetime gifts:

Gift on 28.9.2015 - exempt from further IHT as 7 years has passed between the date of the gift and the date of death.

Gift on 31.5.2022 - double charges relief:

Failed PET		114,000
IHT 40%		45,600
Taper relief (20%)		(9,120)
Payable		36,460
GWROB		140,000
IHT 40%		56,000

The GWROB will therefore form part of Erics estate and the failed PET will not be charged.

Death estate:

UK rental property		215,000
Investment portfolio		300,000
Cash		180,000
Main home		520,000
GWROB		140,000
Gross estate		1,355,000
NRB (used on lifetime gifts)		(0)
RNRB (downsizing addition)		(175,000)
IHT 40%		472,000

Although Eric sold his main home before death, the RNRB is fully available as this was after 8 July 2015, and had he not sold the property, this would have been available. This is also because his estate is being passed to lineal descendants.

3)

If Eric had stopped retaining benefit from the boat earlier, the reservation could have been treated as a PET at the date of release. The value of £130,000 would therefore been included in Erics estate as opposed to the £140,000.

4)

As a member of the ATT, it is important to raise to the executors any omissions from Erics tax returns and set out to them the importance of disclosing this to HMRC.

If they are not compliant, we should draw their attention to the consequences of not making a disclosure.

Should they not comply with our recommendations, we should consider ceasing to act on behalf of the executors. We should also consider if the loss of revenue is significant. If it is, we should consider making a report to the NCA/MRLO about the undisclosed income.

If we did this, it would be important to not tip off to anyone that we were doing so.