ATT Paper 5 Inheritance Tax, Trusts and Estates

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0/98

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)

ATTP5M26_Q1-ATT P5 Q1

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

This is your Excel spreadsheet for Question 1. It is only for your workings: the spreadsheet itself **will not be marked**.

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- ATTP5M26_Q1-ATT P5 Q1
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- ATTP5M26_Q1-ATT Paper 5 IHT Manual
- ATTP5M26_Q1-ATT Paper 5 ITandCGT Manual
- ATTP5M26_Q1-ATT Paper 5 TandE Manual

Response

1-part1-ATTP5M26_Q1.xlsx

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

Part 1)

Business Asset Disposal Relief (BADR) is available when trust business assets which form part of the settled property are disposed of by the trustees.

The trust must have a qualifying beneficiary, that is an individual who has interest in possession in the trust otherwise than for a fixed term. All three are qualifying beneficaries as they have an IIP in the trust since it's creation in October 2018.

Trust assets include shares in a company. There is no minimum shareholding requirement for the trust.

The company concerned must be the personal trading company of the beneficiary (ie. one in which they have held more than 5% of the shares) for at least two out of the three years prior to disposal. Both Anya and Mateo have held 6% of shares in Flair Ltd, a trading company, for many years.

The beneficiary must also have been a full-time working officer or employee of the company for two out of the three years prior to disposal. Both Anya and Hazel meet these conditions if the sale were to take place in April 2025, however if the sale takes place September 2025 it does not meet the criteria for Hazel. Mateo does not meet this criteria.

As Anya only has IIP in 50% of the fund, only 50% of the Trustees' gain on the disposal of Wizz Ltd shares will be eligible for BADR. The other IIP beneficiaries do not meet both criteria.

Anya will need to consent to the trustees' BADR claim as it is her lifetime ceiling which is being used up.

Investors' relief (IR) is available where a trust has subscribed for shares in an unlisted trading company such as Flair Ltd and has held the shares for at least three years prior to disposal. As the trust subscribed for the shares in December 2018 the trustees satisfy this condition.

The trust must have qualifying beneficiary, that is an individual who has IIP in the trust otherwise for a fixed term for at least three years prior to the sale. All three have held there IIPs since trust creation.

The qualifying beneficiary has not have been an employee of the company for at least three years prior to the disposal by the trustees. Mateo meets this condition wholly where as Hazel only meets this if the sale takes place in September 2025.

IR is only available for Mateo and Hazel, dependent on the date of sale.

The trustees and the beneficiary must make the claim for the two reliefs jointly as the BADR/IR allowance of £1 million each will be reduced by BADR/IR claims made.

All beneficiaries eligible may wish to claim BADR/IR in respect to the sale; but they may also have other holdings which are eligible and therefore they may wish to preserve the lifetime allowance and use it for personal holdings.

Part 2)

The annual exempt amount is divided by 2 being the number of UK trusts set up by the settlor since 6 June 1978. It is set against the gains taxed at the highest rate first. Both IR and BADR is taxed at the rate of 14%.

The allowable losses of £2,000 can be used against gains made, again set against the gains taxed at the highest rate first.

April 2025 CGT -	£	£	£		Holdings -	
	Not eligable	BADR	IR		BADR	0.5
Proceeds apportioned	200,000	400,000	200,000		IR	0.25
Less cost apportioned	50,000	100,000	50,000		NON	0.25
Gain	250,000	500,000	250,000			
Less AE	-750	-	-		Total	800,000
Less capital losses	-2,000	-	-			
Chargeable	247,250	500,000	250,000			
CGT @ 24%	59,340			Cost -	Shares	cost
CGT @ 14%	105,000				600	300,000
				Sale	-400	-200,000
Total CGT payable	164,340			Cfwd	200	100,000
September 2025 CGT -	£	£		Holdings -		
	BADR	IR		BADR	0.5	
Proceeds apportioned	400,000	400,000		IR	0.5	
Less cost apportioned	100,000	100,000		NON	-	
Gain	500,000	500,000				
Less AE	-750	-				
Less capital losses	-2,000	-				
Chargeable	497,250	500,000				
CGT @ 24%	-					

CGT @ 14%	139,615					
Total CGT payable	139,615					

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)

ATTP5M26_Q1-ATT P5 Q1

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

This is your Excel spreadsheet for Question 2. It is only for your workings: the spreadsheet itself **will not be marked**.

When you have completed your calculations and workings, you **must** copy and paste them into the answer box to be marked.

- ATTP5M26_Q1-ATT P5 Q1
- 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

Response

1-part1-ATTP5M26_Q2.xlsx

Part 2

This is your answer box for Question 2. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

Part 1)

As the trustees altered the terms of trust so that the beneficiaries are entitled to capital at the age of 25, the trust is treat as an 'Age 18-25' trust. During 2024/25 and 2025/26 all beneficiaries are 18+.

Income tax 2024/25					
	NSI	S	D		
Income	23,000	2,000		Rental	28,000
Taxed at	0.20	0.20		Less exp	-5,000
	4,600	2,000			23,000
Net income	18,400	0			
Less expenses	-2,000	-			
Net income for distribution	16,400	-			
R185 for all					
	NET	TAX			
NSI	16,400	4,100			
Income tax 2025/26					
	NSI	S			
Income	35,000	2,000		Rental	38,000
Taxed at	0.20	0.20		Less exp	-3,000
	7,000	2,000			35,000
Net income	28,000	0			
Less expenses	-2,000	-			
Net income for distribution	26,000	-			
R185 for all					
	NET	TAX			
NSI	26,000	6,500			

Part 2)

When the twins turn 25 they become entitled absolutely to a share of the capital trust fund.

When the trustees make a capital distribution on the 1 May 2026, it is treated as a disposal of the shares to the beneficiaries at market value.

Their chargeable gain for 2026/27 is calculated by deducting the cost of the asset from their market value, subject to any capital losses and annual exempt amount.

CGT is payable by the trustees at 24%.

As the event also is subject to IHT exit charge, the trustees may claim gift relief to defer the gain under s.260 TCGA 1992.

A gift relief claim must be made jointly by the trustees and the beneficiaries.

The time limit for making the claim is four years from the end of the tax year of disposal.

There should be no CGT to pay by the trustees if the claim is made.

The beneficiaries base cost is the market value on the date of the distribution less the deferred gain.

The twins will therefore make a larger gain when the eventually dispose of the asset.

Exit charge -

The twins became entitled to the capital on 1 May 2026.

They became 18 on 1 May 2019.

There are 20 quarters between 1 May 2019 and 1 May 2026.

We use the initial value of when the trust when it was originally created.

Exit charge -					
	£	£			

Initial value of trust		310,000			
Initial value of RT		-			
		310,000			
NRB @ exit	325,000				
Less GCTs < 7yrs	-50,000				
NRB available		275,000			
		35,000			
Notial tax @ 20%		7,000			
Effective rate				Trust capital	
7,000 / 310,000 * 100		2.258		Property	450,000
Actual rate				Cash	45,000
2.258% * 30% * 20/40		0.339			495,000
Exit charge				1/3 share	165,000
Jessica 1/3		559			
William 1/3		559			

Total IHT payable £1,118

Both Jessica and William are both entitled to £165,000 of the trust capital each.

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)

ATTP5M26_Q1-ATT P5 Q1

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

This is your Excel spreadsheet for Question 3. It is only for your workings: the spreadsheet itself **will not be marked**.

When you have completed your calculations and workings, you **must** copy and paste them into the answer box to be marked.

ATTP5M26_Q1-ATT P5 Q1

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

Response

1-part1-ATTP5M26_Q3.xlsx

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 is a long term UK resident for IHT purposes as she has been resident in the UK for at least 10 out of the 20 tax years from death. This means for IHT Martha is taxed on her worldwide assets.

Julian is a non-uk resident for IHT.

The gift of £600,000 of her UK residential property is exempt as it was a gift on their marriage and covered by the spouse exemption.

Martha DOD 30/04/2026					
	£	£			
UK goverment gilts		25,000			
Share in UK property		350,000			
Spanish porperty	475,000				
5% allowable costs	-23,750				
		451,250			
Bank accounts		160,000			
Loan from brother		100,000			
Quoted shares		230,000			
Chargeable estate		1,316,250			
Less charitable legacy		-10,000			
Less NRB @ death	325,000				
Less GCTs < 7yrs	-341,000				
NRB available		-			
Chargeable		1,306,250			
Death tax @ 40%		522,500	Payable by personal representatives		
			Due by 31 October 2026		
Lifetime gifts -	21	22			
	May	May			
Transfer of value	175,000	175,000			
Less AE CY	-3,000	-3,000			
Less AE PY	-3,000	USED			
	169,000	172,000	No lifetime tax on PETS		
Less NRB @ death	-325,000	325,000			
Less GCTs < 7yrs	-	-169,000			
NRB available		156,000			
Chargeable	-	16,000			
Death tax @ 40%		6,400			
Taper relief					
3 - 4 years 20%		-1,280			
Death tax payable		5,120	Payable by nephew		
			Due 31 October 2026		

Martha is not entitled to the lower rate of 36% IHT as the charitable donation is not 10% of the baseline amount therefore she is taxed at 40%.

The residencey nil rate band is not available for Martha as her main residence has not been left to a lineal descendant.

The cost for additional expenses of administrating property abroad is an allowable expense to be deducted from the death estae

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)

ATTP5M26_Q1-ATT P5 Q1

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

This is your Excel spreadsheet for Question 4. It is only for your workings: the spreadsheet itself **will not be marked**.

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- ATTP5M26_Q1-ATT P5 Q1
- 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

Response

1-part1-ATTP5M26_Q4.xlsx

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

Part 1)

05-Jun-25					
Income Tax payable -	NSI	S	D		
Bank interest		7,800			
Dividends			5,000		
Bank interest		6,500			
Interest on ISA		-		ISA holds tax free status for 3 years	
Rental income	11,750				
	11,750	14,300	5,000	Rents -	
Taxed at BR 20/20/8.75%	2,350	2,860	438	10 months	12,500
Distrubtable income	9,400	11,440	4,563	Repairs	-750
					11,750
Total tax due	5,648				

Admin expenses are not deductible when calculating the estates income tax position.

Part 2)

A deed of variation cannot apply retrospectively for income tax purposes.

If Chase received any income from the estate before he made the variation, the income will be taxed on Chase, with a corresponding tax credit.

For income tax purposes, the variation is effective from the date it is made, it cannot be backdated to the date of death as it can be for IHT.

Any income arisen to the executors, but which has not been paid out to Chase by the date of variation thereafter belongs to his son. Any subsequent distributions of income are taxed on the son at the date of receipt, with the balance of the estate income taxed on the son at the end of the administration period.

The settlor of any trust created by variation will be Chase. This means that as his son are minors, s.629 ITTOIA 2005 will apply and any distributions to the children are taxed on the settlor.

Part 3)

Both Chase and his son are entitled to each distribution from the estate.

As the deed of variation is in place, and as per the above comments although Chase has redirected the income to his son, as he is a minor it is all taxed under Chase.

R185 Estate income 2025/26	Net	Tax
Estate income Chase	3,000	750
Estate Capital & income son	304,000	76,000

In 2025/26 the executors made an income distribution of £7,000 and transferred the property of £300,000. The total deemed income distribution is £307,000. This is treated as made from non-savings income on which tax at 20% was paid.

Part 4)

As chase has made an election for IHT and CGT within the Deed of Variation, the effect of including s.142 is that his transfer of value is disregarded for IHT purposes and therefore not seen as making a PET and for CGT we disregard the gift and it is seen as Chase's son has acquired the assets directly under the terms of will.

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)

ATTP5M26_Q1-ATT P5 Q1

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

This is your Excel spreadsheet for Question 5. It is only for your workings: the spreadsheet itself **will not be marked**.

When you have completed your calculations and workings, you **must** copy and paste them into the answer box to be marked.

- ATTP5M26_Q1-ATT P5 Q1
- 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

Response

1-part1-ATTP5M26_Q5.xlsx

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

Gift to Discretionary Trust -

A gift to a trust is a chargeable lifetime transfer subject to IHT at the date of gift. As Eric has agreed to pay the tax owed, it is taxed at 25%.

CLT - Golder Discretionary Trust
Transfer of value
350,000
Less AE CY
-3,000
Less AE PY
-3,000
NRB @ gift
325,000
Less GCTs < 7 yrs
-
-325,000
Taxable
19,000
Lifetime tax @ 25%
4,750

Gift of boat to his son -

The gift of the boat to his son is a gift with reservation of benefit. As Eric has given away the boat but continues to benefit from it, the transfer is a GWROB.

The effect of GWROB is that we treat the asset as still forming part of the donors estate at date of death.

However, the gift itself is a PET, an asset to a person therefore as Eric has not survived 7 years since gift we need to look at the double charges rules.

As Eric dies within 7 years the PET becomes chargeable transfer and as Eric is still using the boat till date of death, the boat will form part of Erics estate.

PET - Boat to son		
	£	£
Transfer of value		120,000
Less AE CY		-3,000
Less AE PY		-3,000
Chargeable amount		114,000

As the gift is a PET there is no lifetime tax payable.

Cash gift to daughter -

The gift from Eric to his daughter is a PET for IHT and as Eric has not survived 7 years from gift it is a failed PET.

The gift of cash is exempt for CGT.

The gift is cash and therefore the GWROB rules do not apply. This means that the asset does not form part of Erics estate and he would have paid income tax on the notional income from the property.

The POAT charge -

Notional interest		
480 * 3.75% * 7/12	10,500	
Less payments made	-	
Notional income	10,500	
PET of cash	£	£
Transfer of value		480,000
Less AE CY		USED
Less AE PY		USED
Chargeable amount		480,000

Part 2)

Death tax -	£	£	£			
Gross chargeable transfers	348,750	114,000	480,000			
Less NRB @ death	-325,000	-	-			
Less GCTs < 7 yrs	-	-	-			
Taxable	23,750	114,000	480,000			
Death tax @ 40%	9,500	45,600	192,000			
Less lifetime tax	-4,750	-	-			
Less taper relief						
3 - 4 years 20%		-9,120				
Death tax payable	4,750	36,480	192,000			
Death estate -	£	£		Death estate -	£	£
UK rental property	215,000			UK rental property	215,000	
Investment	300,000			Investment	300,000	
Cash	180,000			Cash	180,000	
		695,000				695,000
Boat GWROB		140,000		Boat GWROB		-
		835,000				695,000
Less NRB @ death		USED		Less NRB @ death		USED
Taxable		835,000		Taxable		695,000
Death tax @ 40%		334,000		Death tax @ 40%		278,000
Higher of -						
With GWROB included		530,750				
With PET included		511,230				
Total death tax		530,750				

As Eric died within 7 years of each PET they become chargeable on death as a failed PET.

Taper relief is available on transfers where Eric survived more than 3 years between the date of the PET and the death. This reduces the tax payable.

The GWROB - as the PET is failed as the boat was still in use on death it is included on Erics death estate. To avoid double charges HMRC will calculate the death tax payable one with it treated as a PET and one where it is treated as a GWROB. The highest value HMRC will use, in this case we have applied the boat as a GWROB.

Part 3)

If Eric stopped using the boat before death, he could of released the benefit, this means there is no charge in the death estate.

The rules treat the release of reservation as being at PET at the date of release.

The PET is the value of the asset at release, ie £130,000, no AE are available to reduce the value of the deemed PET.

As Eric still had not survied 7 years, the double charges rules will be applied.

Part 4)

Under our professional obligations, we should advise the executors to correct the errors made in the undisclosed income and explain the importance of not completing the correct disclosures to HMRC.

If the executors refuse to amend the errors, we should consider filing a report under the proceeds of crime act to the NCA. It is important not to inform the executors that we are doing this, to avoid falling foul of the tipping off legislation.

Once a report has been filed we should consider disengaging from client and not completing any further work on their behalf. We should issue an disengagement letter withdrawing our responsibilites to act on behalf.

The client should be advised of HMRCs powers to obatin information.

The client should be informed that a member is required to put their advice in writing and is obliged to cease to act if this is not corrected