



Practical Tax People

Association of
Taxation Technicians

May 2017 Examination

PAPER 5

Inheritance Tax, Trusts & Estates

Part I Suggested Answers

1.

	£	
CLT – 25 Sept 2014	465,000	
Less: AE 2014/15	<u>(3,000)</u>	(1/2)
	462,000	
Nil rate band - 2014/15	<u>(325,000)</u>	(1/2)
Chargeable	<u>£137,000</u>	
IHT @ 20%/80%	<u>£34,250</u>	(1)
Gross chargeable transfer	<u>£496,250</u>	(1/2)
Morris's death – 9 December 2016		
Gross chargeable transfer	496,250	
Nil rate band - 2016/17	<u>(325,000)</u>	(1/2)
Chargeable	<u>£171,250</u>	
IHT @ 40%	68,500	(1/2)
Credit for lifetime tax	<u>(34,250)</u>	(1/2)
Payable by the trustees	<u>£34,250</u>	

Total (4)

2.

A domicile of choice is a domicile which a person intended to acquire (1/2), through settling permanently or indefinitely (1/2) in a country different to that of their domicile of origin.

If a person is non-domiciled in the UK they will only be subject to UK inheritance tax on assets situated within the UK (1/2) providing they were not UK domiciled at any point during the previous three years (1/2).

Assets situated outside the UK are excluded property (1/2) and are not chargeable to UK Inheritance Tax (1/2).

Marks will be awarded for any other valid points.

Total Max (2)

3.

A lifetime gift made between two individuals is a Potentially Exempt Transfer (PET) (1/2) and it does not have any immediate Inheritance Tax consequences for the donee (1/2). Upon the death of the donor within 7 years of the date of the gift (1/2), the PET will become chargeable to Inheritance Tax and the donee is liable to pay this tax (1/2).

Any Nil Rate Band available at the date of death of the donor (1/2) is set against lifetime gifts in priority to the estate of the deceased (1/2). Any tax due is liable at 40% (1/2).

Taper relief (1/2) is available to reduce the Inheritance Tax payable on failed PETs if there is more than 3 years between the date of the gift and death of the donor (1/2).

Total Max (4)

4.

	£	
Market value	450,000	
Cost	<u>(163,500)</u>	(1/2)
Gain	286,500	
Chargeable gain (300,000 – 163,500)	<u>(136,500)</u>	(1/2)
Gain eligible to be heldover	<u>£150,000</u>	(1/2)
William's CGT liability		
Chargeable gain	136,500	
Less CGT AE	<u>(11,100)</u>	(1/2)
	<u>£125,400</u>	
CGT @ 20%	£25,080	(1/2)
Trustees' base cost:		
Market value	450,000	
Gain held over	<u>(150,000)</u>	
Revised base cost	<u>£300,000</u>	(1/2)

On the creation of a trust, only the settlor is required to sign the election for a holdover claim under s.260 TCGA 1992 (1).

Total (4)

5.

	£	
Current value (685,000 + 75,000)	760,000	(1/2)
Nil rate band – 2016/17	<u>(325,000)</u>	(1/2)
	<u>£435,000</u>	
Notional tax		
435,000 x 20%	87,000	(1/2)
Effective rate		
87,000/760,000 x 100%	11.447%	(1/2)
Actual rate		
11.447 x 30%	3.434%	(1/2)
Cash £75,000 x 3.434% x 40/40	2,576	(1/2)
Shares £685,000 x 3.434% x *(40-10)/40	<u>17,642</u>	(1/2)
Total IHT due	<u>£20,218</u>	
* Quarters: 4 Aug 2006 to 2 May 2009	10 quarters	(1/2)

NB Rate of tax to 3dp. Credit will be given for other rounding.

Total (4)

6.

	£	
Proceeds of sale	120,000	
Less: costs of sale	(125)	(1/2)
Cost	<u>(40,000)</u>	(1/2)
	79,875	
Less: Annual exemption ½ x £5,550	(2,775)	(1/2)
Chargeable gain	<u>£77,100</u>	
CGT @ 10%	<u>£7,710</u>	(1/2)

The trustees will make a claim for entrepreneurs' relief (1/2) since the life tenant (1/2) owned at least 5% (1/2) of the shares and also worked for the company (1/2) for more than 12 months (1/2) prior to the date of the disposal, so it is her personal company.

Total (4)

7.

	£	
Failed PET	300,000	
Less AE 2012/13	(3,000)	} (1/2)
Less AE 2011/12	<u>(3,000)</u>	}
	<u>£294,000</u>	
Nil rate band 2016/17	325,000	(1/2)
Less Failed PET	<u>(294,000)</u>	(1/2)
Nil rate band available to estate	<u>£31,000</u>	
Estate	1,200,000	
Nil rate band available	<u>(31,000)</u>	(1/2)
	1,169,000	
Less: Exempt transfers	<u>(100,000)</u>	(1/2)
	<u>£1,069,000</u>	
Inheritance Tax at 40%	<u>£427,600</u>	(1/2)

Baseline amount £1,169,000 (1/2)

The legacy to charity is less than 10% of the baseline amount (1/2) so the estate does not qualify for the lower Inheritance Tax rate of 36%.

Total (4)

8.

Interest received gross	<u>£9,380</u>	(1/2)
2016/17 Income tax at 20%	1,876	(1/2)
2017/18 1 st payment on account (50% of £1,876)	<u>938</u>	(1/2)
Total due 31 January 2018	<u>£2,814</u>	(1/2)

Total (2)

9.

<u>Steve's death</u>		£	
Gross estate		465,000	
Less: exempt legacy	(465,000 – 105,000)	<u>(360,000)</u>	
Covered by nil rate band		<u>£105,000</u>	(1/2)
Steve's nil rate band	2001/02	242,000	(1)
Used on death		<u>(105,000)</u>	
Unused		<u>£137,000</u>	(1/2)
% of nil rate band unused	137,000/242,000	56.61%	(1/2)
 <u>Sarah's death</u>			
Gross estate		530,000	
Nil rate band	325,000 x 156.61%	<u>(508,983)</u>	(1)
Taxable estate		<u>£21,017</u>	
Inheritance tax payable	@ 40%	<u>£8,407</u>	(1/2)

NB Calculated to 2 dp. Credit will be given for other rounding.

Total (4)

10.

	2015/16 Spanish Apartment £	2016/17 Investment Portfolio £	
Sale Proceeds	249,500	162,275	
Less Probate value	<u>(245,000)</u>	<u>(134,000)</u>	
Gains	4,500	28,275	(1/2 for both)
Less: Annual exemption	(4,500)		(1/2)
Less: Annual exemption		Nil	(1/2)
Taxable gain	<u>£ Nil</u>	<u>28,275</u>	
Capital gains tax payable			
@ 20%		<u>£5,655</u>	(1/2)

Total (2)

11.

A trust for a bereaved minor can only be created by the beneficiary's deceased parent (1/2) or step parent (1/2) either by will (1/2) or intestacy (1/2). Max 1

The beneficiary must be a minor, therefore under the age of 18 (1/2). The beneficiary must be entitled to both the trust property (1/2) and accumulated income absolutely at the age of 18 (1/2). Max 1

Total MAX (2)

12.

	£	
Estate:		
French house	550,000	(1/2)
Other assets	<u>304,000</u>	(1/2)
	854,000	
Less: nil rate band	<u>(325,000)</u>	(1/2)
Taxable	<u>£529,000</u>	
Inheritance tax @ 40%	211,600	(1/2)
Less: Quick succession relief		
70,000 x		(1/2)
40% (3 to 4 years) x		(1/2)
<u>(500,000 - 70,000)</u>		(1/2)
500,000	=	(24,080) (1/2)
Inheritance tax payable	<u>£187,520</u>	

Total

(4)