

1. The Bedford Discretionary Trust was created on 13 June 2007 by David Bedford. He had not made any previous chargeable lifetime transfers. The trust has held the following assets since creation and they were valued at 13 June 2017 as follows:

	£
Investment portfolio of Blue Chip companies	543,278
Cash	278,583
Shares in Bubble Trading plc (giving a 53% holding)	745,000

Calculate, showing all your workings, the Inheritance Tax payable by the trustees for the 10 year anniversary on 13 June 2017 and state the date the payment is due. (4)

2. The trustees of the Pear Tree Trust sold the following assets during the tax year to 5 April 2018 in order to raise cash to distribute to a beneficiary.

	<u>Cost</u>	<u>Proceeds</u>
	£	£
White Gold Bracelet	3,250	6,375
Vintage Watch	650	8,550

Calculate, with brief explanations, any capital gain arising on each disposal. (4)

3. In September 2014, Rodney gifted his holiday home, including the furniture and cash of £390,000 to his friend Dave. At that time the property was valued at £405,000 and the contents were worth £28,000. Dave then used the cash to buy the neighbouring property.

Rodney died in May 2017, but due to a landslide in May 2016, the probate value of each property was only £295,000 and the contents of the holiday home were worth £5,000.

Explain what relief is available to Dave following Rodney's death and how this affects the Inheritance Tax calculation of the three gifts. (4)

4. Harvey holds an investment portfolio on behalf of Lottie under a Bare Trust.

Explain the taxation of Lottie's Bare Trust for Inheritance Tax, Income Tax and Capital Gains Tax purposes. (3)

5. Lucie is the sole life tenant of the Pearce Grandchildren's Settlement. The trust had the following income for 2017/18:

	£
Rental income	13,505
Bank interest	650
UK Dividends	3,200

Lucie is 7 years old and has no other income sources.

Calculate the R185 entries for 2017/18 and briefly explain how the trust income will be taxed in Lucie's hands. (3)

6. Hannah bought £20,000 Treasury Stock 5% 2025 cum-interest on 30 May 2017 from the executors of the Warton Estate. Interest is paid half yearly on 30 June and 31 December.

Explain how the interest payment on 30 June 2017 affects the selling price of the stock and the Income Tax payable by both Hannah and the executors. (2)

7. It is possible to dispose of an asset that qualifies for Business Property Relief and replace it with a further business asset that immediately qualifies for the same relief.

Explain the conditions for Business Property Relief to be immediately available where business assets are replaced. (3)

8. The trustees of the Swift Discretionary Trust received the following income and paid the following expenses during 2017/18:

	£
Rental Income	12,500
Trust Expenses	640

The settlor, Robin Peregrine, created six other settlements, all of which are still in existence.

Calculate the maximum net distribution the trustees can make to the beneficiaries in 2017/18, without incurring additional Income Tax charges. (4)

9. An individual's domicile status is important for Inheritance Tax purposes.

1) Explain how a domicile of dependency is acquired.

2) Explain the effect for Inheritance Tax purposes of a non-UK domicile of dependency. (3)

10. The Hollywood Discretionary Trust was created by Oscar for his adult children on 16 September 2010 with £500,000 cash. On the same day he created an identical trust with £500,000 cash for his adult step-children. Oscar paid the Inheritance Tax on the creation of both trusts and has not made any other chargeable lifetime transfers.

On 12 August 2017 the trustees made a capital distribution of £50,000 from the Hollywood Discretionary Trust to a beneficiary and the trustees agreed to pay the Inheritance Tax.

Calculate the Inheritance Tax payable as a result of the exit on 12 August 2017. (4)

11. Daisy died on 5 September 2016 leaving Poppy a rental property with a probate value of £235,000. Poppy had no need for the property and signed a deed of variation to pass the property to Iris. It was valued at £265,000 when the deed was executed on 16 January 2018.

Explain the Capital Gains Tax and Income Tax consequences of the deed of variation for Poppy and Iris, assuming no statements are made. (3)

12. Where a donor receives a benefit from an asset they previously owned, an Income Tax charge can arise.

State the circumstances where a Pre-Owned Asset Tax charge applies in relation to land and explain how the amount chargeable to Income Tax is calculated. (3)



May 2018 Examination

PAPER 5 PART II

Inheritance Tax, Trust & Estates

TIME ALLOWED – 3 ¼ HOURS
(for Part I and Part II)

- The first 15 minutes of the three and a quarter hour exam is designated as reading time. You then have three hours to answer both the Part I and Part II questions.
- During the 15 minutes reading time, you may read and annotate your Part II question paper. You may also read the legislation and use your calculator.
- You are **NOT** permitted to open the Part I question and answer booklet until the Presiding Officer says the 15 minutes reading time is over.
- The Presiding Officer will inform you when you can start writing your answers.
- You are required to answer **all Part II** questions in the Part II answer booklet.
- Please start each answer on a fresh page and do not write in the margins.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.
- There is an alternative part in question 1 and question 2 for Scots Law candidates

1. Sinead died on 5 December 2017 having made the following lifetime gifts:

14 March 2014	£4,000 to her niece
25 December 2015	£200 to each of six grandchildren
26 November 2017	An investment property valued at £375,000 to her daughter

Sinead's husband had died on 20 May 2006, leaving cash of £57,000 to his children and the remainder of his entire estate, valued at £300,000, to Sinead.

On her death, Sinead's estate consisted of the following assets:

	£
Main residence, which had also been their marital home	580,000
Agricultural land	125,000
Life insurance policy (written into trust for Sinead's children)	90,000
Chattels, cash and personal belongings	20,000
5,000 shares in Returns plc	See below

The agricultural land is let to a farmer on a 10 year lease which is due to expire in December 2018, and has an agricultural value of £100,000.

Returns plc is an investment company with shares quoted at 320p-332p and marked bargains at 319p, 322p, 323p and 328p on the date of Sinead's death.

Sinead's will directed that her estate should be divided equally between her two daughters, after a donation of £30,000 to a local charity. Her estranged son, who was omitted from the will, intends to make a claim to the court to set aside the terms of the will on the grounds that reasonable financial provision has not been made for him.

You are required to:

- 1) **Calculate, showing all your workings, the total maximum nil rate band available to Sinead on her death.** (3)
 - 2) **Calculate, showing all your workings, any Inheritance Tax payable on Sinead's lifetime transfers both during her lifetime and as a result of her death.** (2)
 - 3) **Calculate, showing all your workings, the Inheritance Tax payable on Sinead's death estate assuming it is distributed in accordance with her will.** (8)
 - 4) **State the types of order that a court can grant following approval of a family provision claim made under the Inheritance (Provision for Family and Dependents) Act 1975.** (2)
- [Scots law alternative:*
- 4) **Explain how legal rights apply to the estate of a deceased individual who is survived only by their children.** (2)]

Total (15)

2. You have received the following memorandum:

To: Tax Assistant

From: Tax Partner

Date: 1 May 2018

Subject: Estate of John Linley deceased

As you may be aware, John Linley died in February 2017 and we have recently engaged with the Personal Representatives of his estate to complete the outstanding tax compliance work. I am meeting with the Personal Representatives next week to discuss the estate administration as they would like to start making interim distributions in the near future, once they have settled a legal point on the validity of John's will.

When I spoke to them they mentioned that they completed the 2016/17 estate tax return in September 2017, but they are concerned that it may have contained an error in the Capital Gains Tax calculation. Also, they have not yet paid the Capital Gains Tax liability as they were unsure when it was due and whether the payment of tax liabilities is included in their duties.

Our engagement letter included terms for monthly fee payments in advance to be made to us, and I would be grateful if you could remind me of the guidance in respect of such payments.

Please could you assist me with the above issues ahead of my meeting?

You are required to write a memo to the Tax Partner in which you should:

- 1) **Explain how interim income distributions of cash from an estate to a residuary beneficiary are subject to Income Tax in the hands of the beneficiary.** (3)
- 2) **Explain the time limits for amending the error on the 2016/17 estate tax return, and state the due date for payment of the Capital Gains Tax liability.** (2)
- 3) **State the requirements for a will to be valid.** (3)
- 4) **State the legal duties of the personal representatives of an estate.** (4)
- 4) ***[Scots law alternative:***
State the legal duties of the executor-nominate of an estate. (4)]
- 5) **Explain the duties of a member of the Association of Taxation Technicians in relation to fee payments on account and payments in advance.** (3)

Total (15)

3. Mr Swift, a well-known footballer, died on 5 September 2016. The executors of his estate received the following income during the administration period:

	<u>Date of receipt</u>
Employment income of £96,000, from which £16,000 PAYE was deducted	30 September 2016
Interest on ISA of £2,500	5 April 2017
Dividends from shares held in Invest Ltd	See below
Bank interest of £50,000 paid annually	31 December 2016 & 31 December 2017

Mr Swift held 20,000 shares in Invest Ltd on his death, and the dividends are paid annually on 1 January. In 2017 the dividends were at a rate of £3 per share, and in 2018 the dividends were paid at a rate of £2 per share.

The executors also received monthly rental income of £1,500 from Rose Cottage, a property let to Mr Swift's godson and his family for full market rent.

The executors made the following disposals during the administration period:

	<u>Disposal date</u>	<u>Proceeds</u> £	<u>Probate value</u> £
5,000 shares in Invest Ltd	31 January 2017	210,000	240,000
Diamond ring	10 March 2017	30,000	20,000
Painting	12 August 2017	95,000	75,000
Rose Cottage	5 September 2017	400,000	346,000
London flat	11 December 2017	See below	950,000

The London flat was distributed to a beneficiary and was worth £1.1 million at the time of distribution.

As Mr Swift was a celebrity, the executors have asked for reassurance that details of his tax affairs will be kept confidential.

You are required to:

- 1) **Calculate, showing all your workings, the Income Tax payable in respect of the estate for the 2016/17 and 2017/18 tax years.** (6)
- 2) **Calculate, showing all your workings, the Capital Gains Tax payable in respect of the estate for the 2016/17 and 2017/18 tax years.** (6)
- 3) **Explain the duties of a member of the Association of Taxation Technicians in relation to client confidentiality.** (3)

Total (15)

4. Jemima created the Puddleduck Trust on 2 April 2013 by settling £500,000 cash and 10,000 shares in Pond Ltd, an unquoted trading company. The shares were worth £300,000 at the time of the transfer and Jemima had held them for many years. Jemima's only other lifetime transfer was a cash gift of £50,000 to a separate family discretionary trust on 5 April 2012. She paid any Inheritance Tax arising as a result of both transfers.

The trustees sold 7,000 of the shares in Pond Ltd in August 2015. Jemima died on 1 June 2017.

You are required to:

- 1) **Explain briefly whether the following exemptions can reduce the value of a chargeable lifetime transfer to a discretionary trust:**
 - (a) spouse exemption
 - (b) normal expenditure out of income. (2)
- 2) **Calculate, showing all your workings, the Inheritance Tax payable on the creation of the Puddleduck Trust, and state the value of the gross Chargeable Lifetime Transfer. (4)**
- 3) **Calculate, showing all your workings, the additional Inheritance Tax payable in respect of the Puddleduck Trust as a result of Jemima's death. (3)**
- 4) **Explain who is liable to pay any Inheritance Tax due on a Chargeable Lifetime Transfer arising on a gift into trust and on the donor's subsequent death, and state the due dates for payment. (3)**
- 5) **Explain the three certainties which are required to create an enforceable express private trust. (3)**

Total (15)