1. Doris made the following lifetime transfers during the 2017/18 tax year:

May 2017	£3,000 to a registered charity
June 2017	£150 to her grandson on his birthday
September 2017	£12,000 to her daughter on her wedding day

In the 2016/17 tax year her only transfer was a gift of £2,000 to a discretionary trust.

Calculate, showing all your workings, the Potentially Exempt Transfer(s) made by Doris in the 2017/18 tax year. (3)

2. Lily received an R185 from the Heather Life Interest Trust for 2017/18 as follows:

	Net	Tax
	£	£
Interest	30,000	7,500

Lily's only other source of income in 2017/18 was her trading profit of £60,000.

The trustees had incurred trust management expenses of £2,000.

1) Calculate, showing all your workings, the Income Tax payable by Lily in respect of her 2017/18 trust income and state the due date for payment.

2) Explain how the trust management expenses are treated for tax purposes.

(4)

3. In certain instances, trust property can be subject to a "qualifying interest in possession".

Explain briefly how a "qualifying interest in possession" trust is treated for Inheritance Tax purposes and give two examples of qualifying interest in possession trusts. (4)

4. The Raindrop Discretionary Trust had the following income and expenses in the 2017/18 tax year:

	£
Rental profits	10,000
Dividends	22,000
Professional fees for advice on share investments	1,500

The trustees made an income distribution of £20,000 to a beneficiary. The tax pool at 6 April 2017 was £2,000.

Calculate, showing all your workings, the Income Tax payable by the trustees for the 2017/18 tax year. (4)

5. Mr Reed, a higher rate taxpayer, sold the following assets to the Bramble Discretionary Trust during the 2017/18 tax year:

Date	Asset	Sale proceeds	Base cost
		£	£
29 May 2017	Residential investment property	150,000	140,000
11 September 2017	Commercial investment property	300,000	305,000

At the time of their disposal, the market value of the residential investment property was £225,000 and the market value of the commercial investment property was £400,000. Mr Reed made no other chargeable disposals during the year.

1) **Calculate the Capital Gains Tax payable by Mr Reed in respect of the 2017/18 tax year, assuming he does <u>not</u> claim gift relief.**

2) **Explain how a capital gain can arise at the time of a lifetime gift to a discretionary trust even if gift relief is claimed.** (4)

6. Florence died on 1 December 2017 having made the following chargeable lifetime transfers to discretionary trusts:

	Transfer value	Tax (paid by trustees)
	£	£
12 October 2008	320,000	1,600
24 January 2013	525,000	104,000

Calculate, showing all your workings, any additional Inheritance Tax payable on these transfers as a result of Florence's death. You should ignore annual exemptions. (4)

7. Tom died on 31 January 2017 leaving a painting valued at £56,000 to his son, Michael. Tom had originally purchased the painting on 1 September 2010 for £40,000.

Michael received the painting from the Executors on 3 June 2017 when its market value had increased to £60,000. Michael, who was a student and had no other sources of income or gains, sold the painting on 5 December 2017 for £85,000, incurring costs of sale of £1,200.

Calculate the Capital Gains Tax payable by Michael on the sale of the painting. (2)

8. In certain circumstances, executors can settle any Income Tax and Capital Gains Tax liability using HM Revenue & Customs informal payment procedures, rather than completing a Self-Assessment tax return.

Explain when executors must complete a Self-Assessment tax return. (4)

9. The Haybale Trust holds land which currently qualifies for Agricultural Property Relief, but the trustees are now considering replacing it with agricultural land in another area. The trustees have recently incurred costs on the land as follows:

	£
Installing a new field drainage system	40,000
Fertilizing the land	5,000
Repairing the boundary wall	2,500
Erecting new fences	2,000

1) **Explain the conditions for the replacement agricultural land to immediately qualify for Agricultural Property Relief.**

2) **Explain whether the costs listed above would be deductible when calculating the trustees' chargeable gain on the disposal of the land.**

(4)

10. In certain circumstances, it is possible for the Inheritance Tax liability on qualifying assets within a death estate to be paid in instalments

Explain the dates on which Inheritance Tax payable by instalments is due. (2)

11. Nico died on 13 October 2017. His estate included 5,000 shares in Pear plc quoted at 132p to 140p on the date of death. On that day there were marked bargains at 130p, 131p, 134p and 140p.

Calculate the Inheritance Tax value of the Pear plc shares in Nico's estate at the date of his death. (3)

12. Mr Toad gifted his main home to his son in 2009, but continued to live in the property. It came to Mr Toad's attention that he had created a gift with reservation of benefit, meaning the property remained in his estate for Inheritance Tax purposes. In July 2017 he ceased to use his main home and instead permanently moved into his holiday home.

    Explain the Inheritance Tax implications of Mr Toad releasing the gift with reservation of benefit on his main home. (2)

November 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.

1. Andy, a client of your firm, died unexpectedly on 14 September 2017 without having made a will. He was UK-domiciled and had never married or had any children. His remaining family were:

His brother, David, who no longer speaks with his daughter, Rebecca
His niece, Rebecca, who your firm has been acting for since 2014
His grandmother
His half-sister

On Andy's death his estate comprised the following assets:

	£
A residential property in London	870,000
A residential property in France	175,000
Cash in a UK bank account	55,000
UK share portfolio (all minor shareholdings in companies listed on UK stock exchange)	275,000

Since 2010, Andy had been making payments of £500 per month gross out of his surplus income into a pension scheme for his best friend, Michael. The payments had no effect on Andy's standard of living. Andy also made a gift to Michael of £175,000 in February 2015, having made a gift of £3,000 to Rebecca in January 2015.

The only other transfer Andy made during his lifetime was a cash gift into a disabled person's interest trust of £335,000 in May 2009.

Andy and David were joint life tenants of a trust created by their grandmother in 2001 and the value of the trust fund at the date of Andy's death was £750,000. Under the terms of the trust, following Andy's death David becomes the sole life tenant. Rebecca is the remainderman however she would like to receive some trust capital now to invest in her business. The trustees include David and he has asked your firm to act for the trust following Andy's death.

The trustees received income and incurred expenses for the year to 5 April 2018 as follows:

	£
UK dividends	4,000
Treasury Stock Interest	2,070
Rental income (net of expenses)	6,020
General trust expenses	1,405

Continued

Continuation

You are required to:

1) **Explain the Inheritance Tax treatment of the payments made by Andy into Michael's pension.** (2)

2) **Calculate the Inheritance Tax payable by the personal representatives as a result of Andy's death, clearly showing your treatment of the lifetime transfers.** (6)

3) **Explain how the Inheritance Tax calculation would have differed if Andy was non-UK domiciled at his death and state the effect this would have had on the Inheritance Tax payable.** (2)

4) **Calculate the Income Tax payable by the trustees for 2017/18.** (2)

5) **Explain how and to whom Andy's estate will be distributed.** (2)

6) **Explain whether the trustees may advance trust capital to Rebecca now.** (3)

7) **Explain what actions should be taken if your firm decides to act for the trustees and continues to act for Rebecca.** (3)

Total (20)

2. Donny Westwood is the majority shareholder of Sunnyside Bakery Ltd, a trading business, which he has owned and run with his second wife and their two children, Hattie and Tom, for many years. Donny also has a daughter, Esme, from his first marriage.

On 10 June 2007 he created the Westwood Discretionary Settlement and settled £350,000 cash, agreeing to pay any Inheritance Tax himself. The beneficiaries are his three children. The trustees immediately used the cash to purchase minority holdings in numerous public limited companies.

On 30 November 2014 Donny gifted 1,200 shares in Sunnyside Bakery Ltd to the trust, together with a further £450,000 cash. This time the trustees agreed to pay the Inheritance Tax arising. The shares were valued at £420,000 and had cost Donny £36,000.

Apart from a gift of £3,000 cash from a savings account to a family friend on 6 April each tax year, Donny has not made any other gifts.

On 10 June 2017 the trust assets were as follows:

	£
1,200 shares in Sunnyside Bakery Ltd	324,000
Minority shareholdings in plcs	415,000
Cash held since 30 November 2014	450,000

On 30 January 2018 the trustees agreed to transfer £100,000 cash and £45,000 of Sunnyside Bakery Ltd shares to Esme. Neither Hattie nor Tom are happy with the distribution and have asked the trustees to change the terms of the trust to ensure that in future the Sunnyside Bakery Ltd shares can only be paid to them or to their children.

Esme has asked if you could also complete her personal tax return but despite refusing to sign the Letter of Engagement that she has received from you, she has subsequently emailed you with all the required information.

Continued

Continuation

You are required to:

1) **Calculate the Inheritance Tax payable on the gifts made to the Westwood Discretionary Settlement in 2007 and 2014.** (3)

2) **Calculate the capital gain(s) assessable on Donny for the gifts he made to the Westwood Discretionary Settlement, and the base cost of the shares for the trustees if:**

   (a) **No reliefs are claimed; and**

   (b) **Gift relief is claimed.** (4)

3) **Calculate the Inheritance Tax payable by the trustees on the 10 year charge at 10 June 2017.** (4)

4) **Calculate the Inheritance Tax payable by the trustees on the distribution to Esme on 30 January 2018 and state the due date for the payment of the tax.** (2)

5) **Explain whether Gift Relief will be available on the distribution of the shares to Esme on 30 January 2018.** (1)

6) **Explain how the trustees could have advanced cash funds to Esme without incurring an Inheritance Tax charge.** (1)

7) **Explain whether the trustees may be able to amend the trust terms.** (3)

8) **Explain on what basis you might still be able to act for Esme even though she refused to sign the Letter of Engagement.** (2)

Total (20)

3. Geoffrey Wilson has recently been widowed and has asked you some questions regarding his late wife's estate which he inherited. Her estate, which was valued at £1,500,000 had the following income and expenses for the year to 5 April 2018:

	£
Bank interest	3,450
Rents received from their joint property (wife's share)	12,500
Let property repairs and maintenance (wife's share)	1,370
Dividends – 17,200 shares	50 pence per share
Pension income (gross)	5,300
Pension PAYE deducted at source	1,060

Geoffrey does not have a Will. He is wondering whether he should have one but is concerned that he may need to amend it to provide for any future grandchildren.

He has heard that depending on the terms of his Will, he may be able to reduce the Inheritance Tax liability on his estate. In particular, he is interested in passing on the family home to his son, the rental property to his daughter and making substantial gifts to his favourite charities.

You also act for Geoffrey's adult children and he would not want them to know about the contents of his Will.

You are required to write a letter to Geoffrey in which you should:

1) **Explain the conditions Geoffrey will need to meet in order for the Residence Nil Rate Band to apply to his estate and the effect of his wife's death on the amount available.** (5)

2) **Explain the calculation to establish whether the 36% Inheritance Tax rate on gifts to charities is applicable and outline any actions Geoffrey could take to ensure his estate will qualify for this reduced rate.** (5)

3) **Calculate the Income Tax liability of his late wife's estate for the year to 5 April 2018, and state the filing date for an electronic Estate Tax Return.** (3)

4) **State four advantages of making a Will and explain what a Codicil is.** (5)

5) **Explain your client confidentiality obligations to Geoffrey.** (2)

Total (20)