THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 5 INHERITANCE TAX, TRUSTS & ESTATES

November 2021

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

PART I

1. The Solo Trust was created in June 2019. The trustees of The Solo Trust calculated that they had the following self-assessment tax liabilities for the 2019/20 tax year:

	£
Income Tax	12,000
Capital Gains Tax	4,000

The trustees submitted the trust tax return ahead of the deadline, but the first payment of tax was not made until 31 May 2021.

1) State the due dates for payment of The Solo Trust's tax liabilities during the calendar year 2021 and the total amount to be paid on each date.

2) Calculate the interest and penalties due on the late payment by the trustees on 31 May 2021.

(4)

2. The following detail relates to two of your clients who died in February 2021. Their estates include both UK and overseas assets:

1) Giovanni had a Peruvian domicile of origin. He was resident in the UK for 23 years until 2018/19. He then returned to Peru at the start of 2019/20.

2) Craig was born in 1955 in the UK, to parents with a UK domicile. When he was 30 years old he moved to Australia, with the intention of remaining there for the rest of his life. He made Australia his domicile of choice. However, in April 2020 he became ill and decided that he wanted to return to the UK. He bought a house in London and returned to the UK in June 2020.

Explain whether each of Giovanni and Craig is treated as deemed domiciled in the UK for Inheritance Tax purposes at the time of their death, and identify which of their assets is subject to UK Inheritance Tax. (4)

3. Meg gifted £10,000 to her great-granddaughter Bonnie on her wedding day on 22 August 2020. She also gifted £2,000 to Bonnie's husband to pay towards wedding costs. Meg made no other lifetime transfers.

Calculate, with explanations, the potentially exempt transfer made by Meg. (3)

4. Manny has been the sole life tenant of the Maryland Life Interest Trust since its creation. In December 2020, the trustees sold their shares in Granville Ltd, a manufacturing company, realising a gain of £11 million. The trustees had subscribed for the shares in June 2017. Manny has been self-employed for many years and has not previously made a claim for investors' relief.

Explain whether investors' relief will be available to the trustees on the gain arising on the disposal of the shares in Granville Ltd. (4)

5. The Heron Life Interest Trust held £50,000 Treasury Stock of 5% in 2023. The interest is paid half yearly on 30 June and 31 December. The ex-interest dates for the stock are 12 June and 12 December. The trustees sold the stock to The Goldfinch Trust on 30 October 2020. The Heron Life Interest Trust had no other sources of income or gains in the 2020/21 tax year.

Calculate the 2020/21 Income Tax liability of the trustees of The Heron Life Interest Trust. (3)

6. Each of the two following unconnected trusts has UK and overseas income, and gains on disposal of both UK and overseas shareholdings.

1) Alpha Trust was created in 2015 and has three trustees one of whom is UK resident. The settlor is neither UK resident nor UK domiciled but was UK resident at the time the settlement was created.

2) Beta Trust was created in 2017 and has four trustees, all of whom are UK resident. The settlor has never been UK resident or UK domiciled.

With reference to the residence of each settlement, explain whether UK and overseas income and gains are subject to UK Income Tax and Capital Gains Tax.
(4)

7. Mr Gravell died on 22 August 2014. Under his will, his entire net estate of £500,000 was left to The Gravell Family Trust for the benefit of his daughter Cath. The terms of the trust stated that on Cath's 22nd birthday, on 1 May 2020, she would become absolutely entitled to the entire trust property. Mr Gravell had made no lifetime transfers.

On 1 May 2020, the trust capital was valued at £740,000. There was no accumulated income.

Calculate the Inheritance Tax exit charge arising on 1 May 2020. (4)

8. Willow died on 6 July 2020. Her will left a specific legacy of her rental property to her sister Ivy. The residue of Willow's estate was left to her wife entirely. The residue consisted of her main home, a painting collection, cash and shares. The Executors' income and expenses for the 2020/21 tax year were as follows:

	£	
Rental income	1,500	per month
Dividends	25,000	
Expenses paid	(850)	

The estate was still in administration on 5 April 2021. In 2020/21, the Executors distributed £1,000 and a painting worth £6,000 to Willow's wife.

1) Explain how relief is given for the Executors' expenses and who suffers the cost of the expenses.

2) Calculate the R185s for Willow's estate for the 2020/21 tax year.
(4)

9. Ravi was left a pecuniary legacy of £85,000 from the estate of his friend Jerome who died on 10 September 2019. Ravi received the legacy plus the 0.1% statutory interest owed to him when the administration of the estate was finally concluded on 10 June 2021.

   Calculate the interest due to Ravi and explain when this will be subject to Income Tax. (2)

10. Sheila died on 6 June 2020 leaving an estate valued at £950,000. Her will directed that a specific legacy of her painting collection, valued at £410,000, should be left to her son, with the residue of her estate being left to her husband. Sheila had made no lifetime gifts.

    Calculate the Inheritance Tax payable on Sheila's estate and the value her husband will receive. (3)

11. When Jim died on 18 July 2020, he had not made a will. Jim was unmarried with no children and his parents and sister had pre-deceased him. His only living family members were his half-brother Paul and his late sister's children, Niamh and Osian.

    Explain how and to whom Jim's estate will be distributed. (2)

12. Lyssa owns a 50% share in Honeysuckle Cottage. Her brother Caleb owns the other half, and they hold the property as tenants in common (or as common property (Scotland)). Caleb is considering selling his share in the cottage to Lyssa's husband, Mark. Honeysuckle Cottage has a market value of £630,000.

    1) Calculate, with explanations, the value of Honeysuckle Cottage in Lyssa's estate for Inheritance Tax purposes.

    2) Calculate the value of Honeysuckle Cottage in Lyssa's estate assuming Mark has bought Caleb's share.

    (3)

PART II

13. Ronald died on 30 September 2020. Ronald was a life tenant of the Raymond Interest in Possession Trust which was set up on 3 January 2002. The trust assets passed absolutely to his children on his death and were valued for probate purposes at £350,000. His remaining estate comprised his residence valued at £1.5 million, cash of £100,000 and minority holdings in quoted companies, worth £800,000. His estate is to be distributed equally between his two children, after allowing for pecuniary legacies of £20,000 to each of his four grandchildren, all of whom are under 18 years of age.

On 12 July 2015, Ronald made a transfer into a discretionary trust of £500,000 for the benefit of his two children.

Ronald's wife died in 2006, leaving her entire estate, valued at £400,000, to Ronald.

The beneficiaries of the estate are considering ways to reduce the rate of Inheritance Tax on the death estate and have approached your firm to see if anything can be done to achieve this following Ronald's death.

Requirements:

1) **Calculate the lifetime Inheritance Tax payable in respect of the lifetime gift and the total Inheritance Tax payable on death. Assume that the trustees have agreed to pay the tax on the lifetime gift.** (6)

2) **Explain, with supporting calculations, the tax effects if the beneficiaries decide to vary the Will to gift £230,000 out of the residuary estate to a registered charity using a Deed of Variation.** (5)

3) **Explain how the pecuniary legacies to the minor grandchildren should be treated by the executors of Ronald's estate and how Sections 31 and 32 of the Trustee Act 1925 (or Scots Law) could provide for the distribution of funds to the minor grandchildren.** (4)

Total (15)

14. The Holly Discretionary Trust was created on 6 April 2012 by Mr Holly for the benefit of Derek, his son, and Jane, his daughter. Both beneficiaries are UK resident and domiciled.

During the year to 5 April 2021, the trustees received the following income:

1) UK dividend income of £15,000;
2) UK rental income net of expenses of £15,000; and
3) Bank interest of £2,000.

Trust management expenses relating to the trust income were £1,500.

The tax pool bought forward at 6 April 2020 was £2,475.

On 15 March 2021, the trust made a distribution of £15,000 to Derek, and £7,000 to Jane. The trust held two properties, a commercial rental property and a residential house that was purchased for £75,000 on 1 August 2014 for Jane to live in. The terms of the settlement allowed Jane to live in the house. She moved into it on the day it was bought and moved out on 31 July 2018. The house then remained vacant until it was sold for £149,000 on 31 March 2021.

Requirements:

1) **Calculate the trustees' Income Tax liability for the year ended 5 April 2021 and state the amount of the tax pool to be carried forward.** (9)

2) **Set out the 2020/21 R185 entries for Jane and Derek.** (2)

3) **Calculate the trustees' Capital Gains Tax liability for the year ended 5 April 2021, assuming any beneficial claim is made.** (4)

4) **Identify the professional and ethical issues you should have considered before undertaking the additional Capital Gains Tax work for the trust.** (3)

5) **Explain how many trustees are required for a trust over land.** (2)

Total (20)

15. Your tax partner is due to meet with Mr and Mrs Wainwright to discuss Inheritance Tax planning. He is aware that they are currently updating their Wills and are considering setting up a discretionary trust, The Wainwright Trust, for the benefit of their four-year old and two-year old grandchildren in the next couple of months. If they set up The Wainwright Trust they will settle investment assets worth around £1 million. Mr and Mrs Wainwright have indicated that they want the trustees to have the ability to distribute capital to beneficiaries during the life of the trust.

Mr and Mrs Wainwright have some concerns about the administrative burden that will be placed on the trustees in relation to submitting returns and making payments. They have been told by a friend that the trustees will just need to make returns and payments under self-assessment.

Requirements:

Write an email to your tax partner in which you:

1) **Explain the Inheritance Tax treatment of the discretionary trust for Mr and Mrs Wainwright, the grandchildren and the trustees.** (5)

2) **Explain the trustees' duties to make returns and payments, including the due dates, the penalties and interest charges for lateness. You do not need to consider returns and payments under self-assessment.** (5)

3) **Assuming that The Wainwright Trust is to become a client, explain the firm's role in ensuring that the trustees fulfil their administrative duties and state how the firm would ensure the trustees are aware of this.** (3)

4) **State four specific duties of the trustees of The Wainwright Trust.** (2)

Total (15)

16. In October 2016, Tom made a gift to his son, Jack, consisting of 78 acres of land, with a market value of £1,150,000. The agricultural value of the land is also £1,150,000. Tom farmed the land from its purchase on 30 April 2013 until the gift was made, at which point he retired from farming. The purchase of the land was funded by a loan (see below).
On Tom's death, the gifted land was still owned by Jack and farmed by a partnership of which Jack was one of the active partners.

Tom died on 15 May 2020 and his death estate compromised the following assets and liabilities:

1) A farm, with a market value of £1,600,000, comprising a farmhouse valued at £500,000 and 50 acres of farmland with a market value of £1,100,000. The agricultural value of the farmland is £600,000. The farmhouse is Tom's main residence and has recently been renovated to provide a modern family home. Jack's partnership also farms the 50 acres of farmland on a farm business tenancy signed in October 2016.

2) Cash of £50,000.

3) The loan of £300,000 that was used to acquire the 78 acres gifted to Jack in October 2016 remained outstanding. This loan was secured against the farmhouse.

4) Personal chattels valued at £15,000.

5) A portfolio containing quoted shares valued at £10,000.

Tom's wife died in 2005, leaving her estate, valued at £450,000, to her children in equal shares. Tom left his entire estate to his children.

Calculate the Inheritance Tax payable on Tom's death, showing the amount of any reliefs and explaining why they are available. (10)