

Institution **CIOT - ATT**
Course **ATT Paper 5 IHT Trusts and Estates**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	76	313	386
Section 2	143	650	793
Section 3	40	192	207
Section 4	92	442	533
Section 5	45	225	255
Section 6	153	658	809
Section 7	74	316	391
Section 8	39	184	210
Section 9	74	313	387
Section 10	41	142	179
Section 11	39	184	211
Section 12	105	553	626
Section 13	31	141	156

Answer-to-Question- 1

The trustees are eligible to claim BADR on the disposal of their shares because:

- 1 - Sacha has been working for Aromas Ltd for at least 2 of the previous 5 years.
- 2 - Sacha owns more than a 5% shareholding in the company.
- 3 - Sacha has an interest in possession of the shares.

In order to claim BADR, both the trustees and Sacha will need to claim jointly on or before before January 2025.

-----ANSWER-1-ABOVE-----

-----ANSWER-2-BELOW-----

Answer-to-Question- 2

1 - A deed of variation could not be executed in this case, as monetary consideration cannot be paid in return for the variation.

2 - As these assets are both from Mary's estate, a deed of variation can be executed. A statement for IHT purposes would be beneficial as it would re-write the will so that both assets go directly to Samuel and Felicity respectfully. This would not require a CGT statement.

3 - A deed of variation could be executed when giving the painting directly to Samuel for nothing in return. A statement will be needed for both IHT and CGT, as this would allow the disposal to be disregarded for CGT purposes, and that the painting will pass to Samuel at its probate value. On the IHT election would also prevent this being a lifetime transfer from Felicity to Samuel.

-----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

Answer-to-Question- 3_

	NSI	SI	DIV	
Rental Income	10,500			(1,500 * 7 = 10,500)
Bank Interest		3,000		
Dividend			4,000	
ISA Interest				Exempt
Less: Loan Interest	(1,400)			(30,000 * 8% * 7/12)
Total	9,100	3,000	4,000	
Tax @20%/20%/8.75%	1,820	600	350	
Tax Payable	2,770			

-----ANSWER-3-ABOVE-----

-----ANSWER-4-BELOW-----

Answer-to-Question- 4

The firm should bring this error to the attention of the trustees. Following this, we should ask the trustees for specific authorisation to allow us to disclose the error to HMRC. If they give written authorisation, we can then disclose this error to HMRC.

If the trustees still do not agree to authorise us, then we should write to them, explaining the consequences of non-disclosure.

If the client then still will not disclose, we as a firm must cease to act for them, notify HMRC and our firms money laundering reporting officer.

-----ANSWER-4-ABOVE-----

-----ANSWER-5-BELOW-----

Answer-to-Question- 5

Transfer:

Land market value: 50 acres * £15,000 = 750,000

Agricultural Value: 50 acres * 7,000 = 350,000

Transfer	750,000		
Less: APR @ 50%	(238,636)	$750,000 \times 350,000 / 1,100,000$	
	511,364		
Less AEA	Nil		
Less NRB	(275,000)	$(325,000 - 50,000) = 275,000$	
	236,364		
IHT @ 20%	47,273		

-----ANSWER-5-ABOVE-----

-----ANSWER-6-BELOW-----

Answer-to-Question- 6

Scenario 1 - As Camille gifted cash directly to her husband, and she will continue to benefit from the cash that she gave away by living rent free in the cottage which has been purchased with the cash, the pre owned assets tax rules will apply in this case. This could have been avoided by Camille making the gift, and then her husband later buying the proper after 7 years.

Scenario 2 - This gift will fall under the gift with reservation of benefit rules, as although Rita is making the gift to Maggie, she will continue to benefit from the sculpture as it will remain in Rita's house.

Scenario 3 - Pre owned asset tax rules will not apply in this case as long as Antony does not purchase the boat within the next year. This is because then, his father will have gifted the cash to Anthony over 7 years ago.

-----ANSWER-6-ABOVE-----

-----ANSWER-7-BELOW-----

Answer-to-Question- 7

Geoff's estate - Geoff's estate will fall under the nil rate band (325,000), and therefore an IHT 400 will not be required to be submitted for his estate.

Diego's estate - this estate will need to submit an IHT 400, as Diego is a non-domiciled individual, so does not get access to the nil rate band, and therefore the value of his flat at the date of death will be included in his estate.

-----ANSWER-7-ABOVE-----

-----ANSWER-8-BELOW-----

Answer-to-Question- _8_

1.)

Transfer	485,000	No BPR	
Less 2 x AEAs	(6,000)		
	479,000		
Less NRB	(325,000)		
	154,000		

Tax @ 20/80	38,500		

2.)

Value of Gross Lifetime Transfer : $479,000 + 38,500 = \text{£}517,500$

Initial Value of Trusts relevant property : 485,000

-----ANSWER-8-ABOVE-----

-----ANSWER-9-BELOW-----

Answer-to-Question- 9

The implications of Alys' emigration is that he is no longer a UK resident. He is now no longer able to benefit from the gift relief rules. Therefore, the base cost of the investment portfolio will be the value at the time of transfer to him.

As the trustees can no longer rollover the gain to Alys via gift relief, they will need to pay additional CGT on the rolled over gain to Alys.

-----ANSWER-9-ABOVE-----

-----ANSWER-10-BELOW-----

Answer-to-Question- 10

- 1 - if there is not enough money to pay the legacies
- 2 - If Alan witnessed the will
- 3 - If the executors are unable to locate Alan, or the ring itself.
- 4 - If Alan gives up the ring.

-----ANSWER-10-ABOVE-----

-----ANSWER-11-BELOW-----

Answer-to-Question- 11

Estate	740,000		
Less: NRB	<u>(325,000)</u>		
	415,000		
IHT @ 40%	166,000		
Less double tax relief	(66,500)	UK IHT on foreign asset = 190,000 @40% 76,00. As 66,500 is lower, this is the maximum amount of DTR available.	
IHT payable	99,500		

-----ANSWER-11-ABOVE-----

-----ANSWER-12-BELOW-----

Answer-to-Question- _12_

York House			
	Sale Proceeds	350,000	
	Less Base cost:	(250,000)	(40k +210k)
	Gain	100,000	
	Less PRR	(100,000)	
	Chargeable gain	nil	
Manchester House			
	Sale proceeds	495,000	
	Less base cost	375,000	
	Gain	120,000	
	Less PRR	(60,000)	120k * 4.5/9 = 60,000 (w1)
	Chargeable gain	60,000	
	CGT @ 28%	16,800	

w1:

PRR on manchester property:

Selma occupied: 1.5 years

Absence: 2 years

Selma occupied: 1.5 years

Unoccupied: 2.5 years as Selma did not return (therefore abroad period disqualified)

Ada Occupied: 1.5 years

total occupancy: 4.5 years

Absence total: 4.5 years

Retrospective note - failed to apply half of the annual exemption for the trust on the

manchester property gain.

-----ANSWER-12-ABOVE-----

-----ANSWER-13-BELOW-----

Answer-to-Question- _13_

	Income		
Trading Profits	8,900		
Annuity	nil		
Less: PA	(8,900)		
Taxable income	nil		
tax paid	4,909	W1	
tax repayable to Maurice	4,909		

W1

Tax paid on annuity: $6,000 \times 45/55 = 4,909$

-----ANSWER-13-ABOVE-----

Institution **CIOT - ATT**
Course **ATT Paper 5 IHT Trusts and Estates**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 14	351	1651	1961
Section 15	196	860	1054
Section 16	191	960	1115
Section 17	172	771	918

-----ANSWER-14-BELOW-----

Answer-to-Question- _14_

1.)

As Rod remarried, the interest is revoked from him and the trust converted into a discretionary trust in favour of settlors children from 1 January 2023. This will split the 2022/23 taax year in 75% as an interest in possession trust, and 25% of the year as a discreitonyary trust

Therefore, as trustees, you will owe the following taxes:

2022/23

22/23 (while still an IIP trust)

	SI	DIV		
Income	9,000	11,250	(*75% of total value)	
Less tax	(1,800)	(984)	(20% and 8.75%)	
Total tax while IIP	2,784			

--	--	--	--	--

Please note that trust management expenses are not deductible on interest in possession trusts. Hence we have not deducted them from the income of the trust. However, they are deductible expenses after the trust became a discretionary trust.

22/23 (after conversion to discretionary trust)

	SI	DIV		
Income	2,500	3,750	(25% of total values)	
Less trust expenses	2,500	(411)	W1	
Distributable net income	2,500	3,339		
Tax				
1,000 @ 20%	200			
1,500 @ 45%	675			
3,339 @ 39.35	1,314			
411 @ 20%	82			
Total tax an Disc Trust	2,271			

W1 -

25% of management expenses as 75% of the expenses are attributable to when the trust was IIP = £375

Grossed up at $100/91.25 = 411$

TOTAL 2022/23 Income Tax

$2,784 + 2,271 - \text{payment on account of } 3,560 = \mathbf{1,405}$

No CGT due for 22/23

2023/24

	SI	DIV		
Income	10,000	40,000		
Less trust expenses		(1,644)	1500 @100/91.25	
Distributable net income	10,000	38,356		
Tax				
1,000 @ 20%	200			
9,000 @ 40%	3,600			
38,356 @39.35	15,093			
1,644 @20%	329			
Total income tax	19,222			

Capital Gains

Proceeds: 32,000
 Less cost: (24,000)
 Gain: 8,000
 Less half AE (3,000)
 Chargeable gain 5,000

CGT @ 20% 1,000

2.)

The trustees will be liable for any payments regarding the late submission of the trust returns. In this case, the 22/23 trust return will be late as it has surpassed January 31st 2024.

HMRC may issued a penalty of £900 as the return was over three months after the filing deadline.

There will also be penalties due for registering late.

The amount of penalties can be mitigated by making an unprompted disclosure to HMRC.

-----ANSWER-14-ABOVE-----

-----ANSWER-15-BELOW-----

Answer-to-Question- _15_

1.)

BPR does apply to Rex's shareholding because:

- Rex owned 50% of shares for at least 2 years prior to the gift.
- The shares are in an unquoted trading company and are therefore relevant business property.
- Even though Rex inherited shares from his wife within 2 years of his death, these shares inherited will still qualify for BPR as there is an exception for when a spouse inherits business property on the death of another.

2.)

BPR does apply to Rex's gifted shares to Jack because Rex owned 50% of the shares for at least 2 years prior to the gift.

On Rex's death, these shares gifted to Jack will qualify for BPR, as Jack is still in possession of the shares.

3.)

BPR previously claimed on the shares gifted to Jack will be withdrawn upon the transfer of the shares to the discretionary trust, as Jack has made a transfer of the property within 7 years of the original gift.

Additionally, any BPR claimed upon Rex's death will also be withdrawn, as this also falls within 7 years of Rex's death.

Jack will have to pay tax on the withdrawn BPR

-----ANSWER-15-ABOVE-----

-----ANSWER-16-BELOW-----

Answer-to-Question- _16_

1.)

We must write an engagement letter to the executors of the estate. All personal representatives of the estate must sign.

We must also verify the identity of all personal representatives having met the money laundering regulations.

2.)

Estate	2,152,000	
Less spouse exemption	(475,000)	As to husband
Less: exempt donation	<u>(160,000)</u>	W2
Gross estate	1,517,000 - 2,250	Less funeral costs of 2,250
Nil rate band	(175,000)	(325k - 150k CLT)
Less residence nil rate band	(175,000)	
Taxable	1,164,750	
IHT @ 36%	419,310	W1
W1		
baseline	1,324,750	1,164,750 + 160,000

Legacy to charity	> 10% x baseline amount	Therefore 36% rate applies

W2 - As the Thailand charity is not UK registered, it is not deductible upon death.

3.)

Bob's primary roles as an executor are as follows:

To locate and interpret the will.

Obtaining probate for the estate.

securing the assets of the estate.

Ensuring that any outstanding liabilities and debts of Lacy are paid.

Distributing the assets according to the will.

Secondly, Bob could forgo his position as executor by completing a deed of renunciation where he discloses his position to no longer act as an executor for the estate.

 -----ANSWER-16-ABOVE-----

-----ANSWER-17-BELOW-----

Answer-to-Question- 17

1.)

There are never any principal or exit charges on the trust as long as the beneficiaries have not reached age 18.

Isabella - as Isabella had not reached age 18, there will be no exit charge due on this distribution on 1 May 2023.

Harry - An exit charge will be due on the distribution to Harry, as he has attained the age of 18.

Value of Trust	1,280,000		
Less NRB	(325,000)		
	955,000		
Notional IHT @ 20%	191,000		
Effective rate	14.091%	191,000/1,280,000	
Actual Rate	0.373%	14.921% x 1/40	
Exit charge	13.06	3,500 x 0.373%	

Darcey - as Darcey has reached age 18, there will be an exit charge due on the distribution to her.

Value of Trust	1,300,000		
Less NRB	(325,000)		
	975,000		
Notional tax @ 20%	195,000		

2.)

The children will acquire the property for CGT purposes as the market value at the date of transfer. if the

3.)

They could distribute the property at the point when the beneficiaries meet the age of 18. This would eradicate any exit charges.