The Chartered Tax Adviser Examination

November 2015

AWARENESS

MODULE B – INHERITANCE TAX, TRUSTS & ESTATES

Suggested Solutions
1.

1) £10,000 to his friend Joe.
   As there is no written agreement, this loan is unlikely to be legally enforceable. If this is the case, no deduction can be made in the death estate for this liability.

2) £4,800 to a credit card company
   This liability will have to be repaid by the executors so will be deducted from the free estate value.

3) £180,000 to Beta Bank plc for the mortgage on his main residence.
   The £150,000 relating to the house will be deducted from the value of Pat’s house in the death estate as it is a repayment mortgage, secured against the house.
   The £30,000 relates to the acquisition of a BPR qualifying asset so under Finance Act 2013 legislation it will not be deducted from the value of the house on which it is secured, but instead against the value of the shares.
   This deduction will be made before the BPR claim, effectively reducing that relief to nil.

2.

<table>
<thead>
<tr>
<th>£</th>
<th>NRB available 2011/12</th>
<th>Chargeable</th>
<th>Lifetime IHT @ 25%</th>
<th>£18,750</th>
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<tbody>
<tr>
<td></td>
<td>400,000</td>
<td>75,000</td>
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<td>On death:</td>
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<tr>
<td>Gross value</td>
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<tr>
<td>NRB available 2014/15</td>
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<tr>
<td></td>
<td>93,750</td>
<td></td>
<td>37,500</td>
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3. When Jane gifts the holiday cottage on 1 April 2012, it is a gift with reservation, as she still has use of the property rent-free.

Two charges to Inheritance Tax arise:

The first occurs on 1 April 2012 with the transfer treated as a PET on which annual exemptions can be claimed.

The second occurs when Jane gave up the right to use the holiday cottage on 1 May 2014, i.e. removes the gift with reservation treatment. Annual exemptions are not available on this later deemed PET.

To avoid a double charge on both PETs which now fail by reason of Jane’s death within seven years, HMRC choose the net PET value giving the higher tax liability. Given the increase in the market value of the cottage and the availability of taper relief, this is likely to mean that the PET on 1 May 2014 is charged.
4. **Total Non-savings Dividends**

<table>
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<tr>
<th></th>
<th>Total</th>
<th>Non-savings</th>
<th>Dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>8,280 x 100/90</td>
<td>9,200</td>
<td>9,200</td>
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<tr>
<td>Rental income</td>
<td>14,650</td>
<td>14,650</td>
<td></td>
</tr>
<tr>
<td>Management expenses</td>
<td>1,350 x 100/90</td>
<td>(1,500)</td>
<td>(1,500)</td>
</tr>
<tr>
<td><strong>Taxable income</strong></td>
<td>22,350</td>
<td>14,650</td>
<td>7,700</td>
</tr>
</tbody>
</table>

1,000 x 20% 200 1
13,650 x 45% 6,143 1
7,700 x 37.5% 2,888 1
1,500 x 10% 150 1
Income Tax £9,381 1

5. **Regular contributions towards grandson’s school fees**
   These are likely to be considered normal expenditure out of income given that they are regular and the amount is unlikely to impact on Sam’s standard of living, so exempt.

   **25 December 2014 pocket watch**
   This would utilise £1,000 of the 2014/15 annual exemption available to Sam.

   **25 December 2014 ring**
   As the value of the ring is no more than £250, this gift qualifies for small gift relief and is exempt.

   **1 November 2015 gift of cash to Discretionary trust**
   This would utilise the 2015/16 annual exemption and the unused annual exemption from 2014/15 of £2,000.

6. **The conditions for BPR to be met when Carl makes the gift to Annette and when Carl dies are:**

   Owned minimum 2 years at time of gift

   Relevant business property (unquoted trading company shares).

   However, the sale by Annette on 1 December 2013 means that BPR is not available for those shares sold as these (or replacement property) were not owned at Carl’s date of death.

   BPR is therefore due as follows:

   \[
   (5,000 \times £80) \times 100\% \times 2,000/5,000 = £160,000
   \]

   *Split as 1 mark for using value at 1 July 2012 (rather than death) and 1 mark for correctly pro rating
7. Vases
   Suzanne’s vases  4   115,000
   Husband’s vases  2   50,000
   Combined       6   190,000

   £190,000 x 115,000 = £132,424
   115,000 + 50,000

   (This is greater than the value of £115,000 when ignoring the related property rules)

   Villa in Spain
   Market value     98,000
   Admin fees – max 5% deduction (4,900)
   £93,100

   *This is for ignoring the death duties in valuing the villa

   Quoted shares
   Market value     17,400
   Next dividend payment due 140
   £17,540

8. 1) The capital loss of £18,000 arises during the period of 2014/15 when Jasmin is still alive.

   As a capital loss in the year of death it would:
   a) first be set against other capital gains of Jasmin (not the executors) arising in the tax
      year (of which there are none).  1
   b) carried back three tax years against capital gains on a LIFO basis.  1
   c) subject to a restriction to preserve use of the annual exemption in those previous years.  1

2) Executors
   2014/15
   Capital gains 22,000
   Capital losses (10,000)
   Net gains 12,000  1
   Annual exempt amount (11,000)  1
   Taxable gains 1,000

9. 2014/15
   Interest  Dividends
   Gross income 80 x 11 mths x 100/80  1,100  16,000  1
   14,400 x 100/90
   Tax suffered (220) (1,600)
   880  14,400
   Expenses (1,900)  1
   880  12,500

   R185 (Estate income)
   Interest  880  220  1
   Dividends  12,500  1,389  1

   Note:
   In the question the dividend of £14,400 was shown as received on 19 October 2015 ie after the
   administration period had ended. Credit was given to candidates who produced an answer as
   shown above ie that assumed that the dividend had actually been received on 19 October
   2014.
   Full marks were also given if there was a full explanation of why neither dividend should be
   included, based on a date of receipt for the second dividend of 19 October 2015.
10. Juan appears to have inherited a Mexican domicile of origin from his father (or mother if parents unmarried). There is no suggestion that he has made any attempt to change his domicile by choice.

Whilst Juan has lived in the UK since January 2004, he has not yet been resident for 17 of the previous 20 tax years and so is not deemed UK domiciled for Inheritance Tax purposes.

The major effect of this is that the normal spousal exemption is limited to the first £325,000 of Angela estate, as she is UK domiciled.

Juan could elect to be domiciled in the UK for Inheritance Tax purposes under IHTA 1984 s267ZA and backdate to Angela's date of death.

This would allow the transfer to be fully covered by the spousal exemption but would mean that Juan will be liable to Inheritance Tax on his worldwide assets.

11.

1) The Australian farm is not a qualifying asset as it is not situated in the EEA, so APR is not available.

2) The first UK farm, which is owned and occupied is not held for a qualifying 2 year period so will not qualify for APR.

3) The tenanted UK farm is owned for more than 7 years so will qualify for 100% relief (post August 1995 tenancy agreement).

Relief is restricted to the agricultural value of £300,000.

12. Sale of vintage car

<table>
<thead>
<tr>
<th>Description</th>
<th>Proceeds</th>
<th>Original cost</th>
<th>Levelling costs</th>
<th>Total Exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of land – part disposal</td>
<td>30,000</td>
<td>23,000 × 30,000 / (30,000 + 68,000) (7,041)</td>
<td>(1,500)</td>
<td>£21,459</td>
</tr>
<tr>
<td>Antique dining table</td>
<td>18,000</td>
<td>(1,800)</td>
<td>(12,000)</td>
<td>£4,200</td>
</tr>
</tbody>
</table>