

IHT, TRUSTS AND ESTATES

Paper aim

To enable candidates to apply the legislation and gain the detailed technical knowledge and professional skills required to identify and resolve tax issues that arise in the context of individuals, trusts and estates. The paper covers Income Tax, Capital Gains Tax Inheritance Tax.

Candidates will be required to use technical knowledge and professional judgement to identify, explain and evaluate alternative tax treatments and to determine the appropriate solutions to complex taxation issues, giving due consideration to the needs of clients. Candidates will need to consider the commercial context and impact of recommendations in making such judgements.

Prior knowledge

The paper is aimed at students who have had two or three years' practical experience working in relevant areas of taxation, together with the appropriate level of private study and/or tuition.

Method of assessment

The IHT Trusts and Estates paper will be examined by a traditional paper based assessment. The examination paper will be 3 hours 15 minutes in length of which 15 minutes will be reading time. This examination will contain questions requiring the use of communication, judgement and evaluation skills as well as an ability to understand and apply technical skills to scenarios which may affect the taxation of individuals. There will normally be five or six questions which will be for 10, 15 or 20 marks.

The only printed material that candidates may take into the exam hall is one copy of the legislation (see below). Candidates will be provided with tax tables.

The pass mark is 50%.

Syllabus

The syllabus for this paper comprises four key elements:

- 1) Income Tax in relation to trusts and estates
- 2) Capital Gains Tax in relation to trusts and estates
- 3) Inheritance Tax
- 4) Compliance

The detailed syllabus grid for this paper can be found at:

www.tax.org.uk/students-and-qualifications/cta-qualification/cta-prospectus-and-syllabus

At least 70% of the IHT, Trust and Estates paper will comprise material highlighted in the detailed syllabus grid as “core”.

Whilst law is not specifically examined on this paper, questions may be set which require candidates to have a knowledge and understanding of relevant legal matters within the Law Computer Based Examination syllabus.

The following learning outcomes should be read in conjunction with the detailed syllabus grid:

Learning outcomes

Candidates will be able to analyse, evaluate and calculate the tax consequences of actions applicable to individuals, trusts and estates in given scenarios. This will involve advising and assisting clients in adhering to the requirements of tax statute and relevant regulations.

In the assessment candidates may be required to demonstrate:

1) *Communication skills*

- a. Communicate complex tax issues in a format appropriate to the recipient who may be an external client, a fellow professional, or an internal colleague.
- b. Prepare suitable advice to explain tax liabilities with supporting calculations.
- c. Recommend appropriate tax-planning advice.
- d. Identify further information required to complete tax computations and finalise tax advice.
- e. Give advice which is appropriate, technically correct and within the law. Whilst ethics is not specifically examined in this paper, candidates are expected to produce solutions which meet the ethical guidance of the CIOT.
- f. Interpret and communicate UK tax legislation and apply it to a scenario.

2) *Technical skills*

The detailed requirements are set out in the grid referred to in the syllabus section above but a summary of the key technical skills to be assessed on this paper include the following:

a. *Income tax -*

- i. Understand and calculate the Income Tax charge for individuals, different UK trust types and estates in the course of administration.
- ii. Identify the deductions and reliefs that are available against an Income Tax charge.
- iii. Understand and explain the Income Tax position of onward capital and income distribution to trust and estate beneficiaries.
- iv. Understand and calculate the Income tax and Capital Gains Tax treatment in the context of non-resident trusts to include settlor and non-settlor interested trusts.

b. *Capital Gains Tax –*

- i. Understand and calculate the Capital Gains Tax charge and identify disposals that do not fall within the charge.
- ii. Identify and apply the Capital Gains Tax reliefs relevant to Individuals, Estates in the course of administration and Trusts, including Entrepreneurs' Relief, Hold-over Relief and Principal Private Residence Relief. Explain when such reliefs may be withdrawn.
- iii. Understand the impact of residence and domicile for UK Capital Gains Tax and Inheritance Tax purposes.

- iv. Identify and explain the interaction of Capital Gains Tax and Inheritance tax.
 - v. Understand the separate valuation principles for Capital Gains Tax and Inheritance tax.
- c. *Inheritance tax* -
- i. Identify and evaluate the domicile status of individuals and trusts for inheritance tax purposes and understand the application/impact of deemed and elective domicile status.
 - ii. Understand, explain and calculate the Inheritance tax position for individuals in the context of lifetime gifting (to include gifts where benefit is reserved) and on death.
 - iii. Identify and explain Inheritance Tax exemptions and reliefs available on lifetime gifting and on death to include Business Property Relief, Agricultural property relief and post death transactions.
 - iv. Understand the situs rules for Inheritance Tax purposes.
 - v. Identify the Inheritance Tax treatment of different types of resident and non-resident trusts.
 - vi. Identify and calculate Pre-owned Asset Tax. Understand how this interacts with the Inheritance Tax position.
- d. *Compliance* -
- i. Demonstrate an understanding of the administration of capital and personal taxes including filing deadlines and the penalty regime for non-compliance.

3) *Tax planning skills*

Candidates will be able to advise on alternative tax treatments to defer or minimise tax liabilities. Candidates will also be able to understand the interaction of taxes in given scenarios and to identify and discriminate between tax evasion and tax avoidance.

In the assessment candidates may be required to:

- a. identify legitimate tax planning measures to minimise tax liabilities.
- b. evaluate and advise on tax strategies to meet personal objectives.
- c. evaluate and advise on alternative tax strategies relating to individuals, trust and estates.
- d. recognise, explain and communicate opportunities to use alternative tax treatments.

Reference Materials

Candidates may bring into the examination any volumes from the following:

- Tolley's Yellow Tax Handbooks and Tolley's Orange Tax Handbook
- CCH Tax Statutes and Statutory Instruments Red book, including the index volume, and the CCH Green Book (VAT)
- HMSO copies of taxing statutes

Publications brought into the examination must be bound copies. The text can be underlined and highlighted but annotating, use of "post-its", tagging, folding pages and other forms of marking are **NOT** allowed.