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### **Association of Taxation Technicians**

# **Examination**

November 2007

## PAPER 4 - PART I

### INHERITANCE TAX, TRUSTS & ESTATES

TIME ALLOWED – 3 HOURS (for Part I and Part II)

You are required to answer all questions in Part I and Part II (printed separately).

#### Part I

- You must write your answers in this booklet using the space provided under each question and complete your candidate number at the top of this page.
- Each question carries between two and four marks as indicated in brackets.
- It is expected that your answers will be in brief bullet point format or summary computations.
- It is not expected that you will require all of the space provided.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.
- There is an alternative Question 11 for Scots law candidates.

- 1. Mr Martin made the following gifts prior to his death in March 2007:
  - 1) September 2002 A house in Wales valued at £250,000 was transferred to his ex-wife (they divorced in 2000).
  - 2) February 2004 Shares in an AIM quoted trading pub and hotel chain were transferred to his son. The shares were valued at £250,000.
  - 3) December 2006 £75,000 was given to an American charity.

Explain the Inheritance Tax consequences of the above transfers, taking account of any available reliefs. (Ignore the annual exemption and assume that previous gifts had already used his nil rate band.) (3)
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E: sł	xplain the circumstances in which the Inheritance Tax liability in respect hares or securities can be paid in instalments.

Set out the criteria for a political party to qualify for this exemption.	

Give two examples of excluded property.	
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#### Use the following information for questions 5 and 6

- 5. Consider the following chargeable events:
  - 1) A chargeable lifetime transfer took place on 6 August 2006.
  - 2) A potentially exempt transfer was made on 4 February 2004. It has now become chargeable as the donor died on 11 September 2006.
  - 3) An individual died on 14 March 2007.

State the dates by which the Inheritance Tax account should be submitted to Revenue & Customs in relation to each of the above events.	<b>HM</b> (3)

State the dates by which the Inheritance Tax should be paid in relation to each the above events.

7.	Soft Cakes Ltd, an ur 5,000 ordinary share:	nquoted trading con s which are held by	mpany, has an authorised share capital of the Baker family as follows:	f
	Billy Bunty (Billy's wife) Others	1,750 shares 1,500 shares 1,750 shares	35% 30% 35%	
	On 7 September 200 Inheritance Tax purpo		values of shareholdings have been agree	d for
	Up to 25% 26% to 50% 51% to 74% 75% or more	£20 per share £40 per share £75 per share £100 per share		
	Calculate the value	of Bunty's shareh	olding for Inheritance Tax purposes.	(2)

David died on 9 October 2004 leaving his whole estate to his brother Alan. His estate was worth £375,000 and the Inheritance Tax liability thereon was £44,800.
Alan died on 30 October 2006. His estate, including the inheritance, was worth £550,000.
Calculate the Inheritance Tax payable on Alan's death. (3)

You work as a taxation assistant for a firm of accountants who act for Jean Johnson whose mother, Doris, died recently.
Doris was the life tenant of a will trust created on the death of her husband, Peter. The trust provides that Jean is entitled to the capital of the trust on her mother's death.
Doris made no lifetime gifts. At the time of her death, she owned assets valued at £250,000 all of which she left to a UK registered charity. The trust has substantial assets.
Outline the Inheritance Tax and Capital Gains Tax implications of the death of Doris. (3)
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10.	Jeremy is resident and domiciled in the UK. A couple of years ago he sold a business giving the proceeds to his son. The son purchased a collection of paintings using this money, which are currently worth £1.5 million.
	The paintings currently hang in Jeremy's house because the insurance company believes that the son's flat has inadequate security precautions.
	Explain the tax implications of the paintings remaining in Jeremy's house and how any tax charge can be mitigated. (3)
	(Note that the art valuers state that an appropriate rental on art or antiques is 1% of the value.)
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( ·	Scots Law - State three of the primary duties of the executors of a deceased's estate.)
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The trustees of a charity are considering the following investments: 12. A £1 lottery ticket for a rollover draw of £25 million. 1) £5,000 of premium bonds. 2) 3) Shares in a quoted property group. Government Gilt Edged Securities. Which of the above would be appropriate investments for the charity trustees to purchase? (2)

13.	1)	What is meant by a breach of trust?	(1)
	2)	What are the two remedies available to beneficiaries to recover any los suffered when trustees are in breach of trust?	(2)

Define a resulting trust and give two examples of a resulting trust.	
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15.	You are an employee at a three partner firm. One of the partners has decided to retire from the practice.				
	Explain whether the firm's professional indemnity cover will need to include the leaving partner after the date of his retirement. (2)				
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