Candidate Number			

You must tick the box below if you have answered this Module.

THE CHARTERED INSTITUTE OF TAXATION

The Chartered Tax Adviser Examination

May 2009

AWARENESS

MODULE B – INHERITANCE TAX, TRUSTS & ESTATES

- You should only answer this module if you have not/do not intend to sit the Inheritance Tax, Trusts & Estates Advisory paper.
- Each question carries 5 marks.
- You should answer all the questions from the modules you choose.
- You should answer questions in brief bullet points and/or summary computations where appropriate.
- You must answer questions in the spaces provided.
- You may not need all the space provided.
- You should make all calculations to the nearest month and pound unless stated otherwise.

1. Margaret died on 18 May 2007. She left cash of £60,000 to her brother and the residue of her estate which comprised residential property and was valued at £450,000, to her husband George. George died on 20 October 2008, when his total death estate, which comprised residential property and cash, was worth £825,000. He left this to his children.

   Neither Margaret nor George had made any lifetime transfers and both were domiciled within the UK for Inheritance Tax purposes.

   State, and calculate where necessary, the Inheritance Tax consequences of each death, assuming any beneficial claims are made.

2. Jean-Paul had lived in the UK for two years before he died on 10 April 2009. He had always retained his French domicile. At the date of death, he owned the following assets:

   1) Birmingham penthouse.
   2) Paris home.
   3) Shares in Gates Bank plc, quoted on the London Stock Exchange.
   4) Loan to his daughter, who lives in France. This was made to help her clear her student debts and is repayable on demand.

   On 10 April 2009, the title deeds of both houses, and the share certificates in Gates Bank plc were held by Jean-Paul's solicitor in Paris.

   Briefly explain, whether each of the assets listed above should be included in, or excluded from, Jean-Paul's death estate for the purpose of UK Inheritance Tax.

3. The Robinson Trust was created for the benefit of John and his brother in equal portions. At 6 April 2008, the trust assets consisted of a portfolio of quoted investments and neither of the beneficiaries had an interest in possession.

On 1 July 2008, John became absolutely entitled to his portion of the trust assets. If the whole of the trust assets had been sold on this date, a gain of £32,000 would have arisen.

On 1 September 2008, John's portion of the trust assets was sold, by which time a further gain of £10,000 had accrued on this portion.

Calculate the Capital Gains Tax consequences of the transactions in the year 2008/09, assuming that no other capital disposals were made in the year.

4. On 15 July 2008, Sam turned 30 years old. He then gave up his job, sold his house in Manchester and moved to Australia where he bought a vineyard to start his own wine business. He had been born in the UK and has lived here all his life, as have his parents and grandparents, but he has told his family that he does not plan to live in the UK again.

   Explain Sam's domicile status for the purposes of UK Inheritance Tax, before and after the move to Australia.

5. Jayne gifted £500,000 into a discretionary trust on 10 September 1998. She had made one previous gross chargeable transfer of £57,000 on 19 October 1997.

On 10 July 2003, the trustees made a gross capital distribution of £100,000 to one beneficiary.

The value of the trust property at 10 September 2008 was £625,000.

Calculate the principal charge arising on 10 September 2008.

6. On 2 January 2008, Mills Forest Ltd, a marketing company began to trade. Elizabeth Mills became the managing director, and the shares were held as follows:

   20% by a trust in which Elizabeth had the sole interest in possession
   40% by Elizabeth
   40% by Alfie, the finance director

   There were no changes to the officers or shareholdings until 14 March 2009, when the shares held by the trust were sold to a third party investor.

   Explain why this disposal qualifies for Entrepreneurs' Relief.

7. Shares in TJ Ltd, a TV production company, were owned from 1 January 2004 to 31 December 2008 as follows:

Tariq Jay	500
Sheena, Tariq's wife	300
Jamie, Tariq's son	200
Total	1,000

On 1 January 2009, Tariq gifted 200 of his shares into a discretionary trust at which time the values of shareholdings of various sizes were as follows:

Less than 50%	£50 per share
50% to 74%	£120 per share
More than 74%	£150 per share

The balance sheet of TJ Ltd at the time was as follows:

	£
Leasehold improvements	40,000
Plant and equipment	25,000
Investments in quoted shares	10,000
Other net assets	20,000
Total	£95,000

The market value of the investments was £30,000; otherwise the balance sheet values shown represent market value.

You are required to calculate:

1) **The transfer of value for Inheritance Tax purposes when the shares are gifted into the trust; and**

2) **The business property relief available on this transfer.**

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8. In the year 2008/9, the Rachel Jones Discretionary Trust received rental income of £8,800, and net dividends of £2,818.

There were no trustee expenses and no distributions were made to beneficiaries.

Calculate the Income Tax payable by the trustees for 2008/9.

9. Mary gifted her house to her son on 18 August 2006 when it was worth £450,000. She continued to live in the house but made no financial contribution. On 20 July 2008, Mary died when the house was worth £550,000. She had made no other lifetime gifts.

You are required to explain the Inheritance Tax relating to the house, which arises on Mary's death. Calculations are not required.

10. On 1 July 2004, Sarah gave her friend Vicky cash of £350,000. She had made no previous lifetime transfers. On 1 July 2005, Sarah died. Vicky died on 1 October 2008 leaving a chargeable estate of £1 million.

Calculate the quick succession relief available on Vicky's death. Ignore annual exemptions.

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11. On 15 October 2008, Richard transferred cash of £400,000 and a property valued at £350,000 into a discretionary trust. The property has been used by Richard and his business partners as premises for their accountancy business for many years.

The trustees paid the Inheritance Tax due on the gift into trust.

Richard had made no previous lifetime gifts.

Calculate the initial value of the assets in the trust.

12. Sally runs a successful clothing design business, employing two staff members. She carried out the following transactions in the year 2008/9.

1) She sold her holiday home for £210,000. The asking price had been £235,000 but Sally accepted a lower offer as she wanted the money quickly for use in the business.

2) She paid £500 a month for nursing assistance for her elderly father who lives with her.

3) She gave each of her employees a watch worth £650 for Christmas.

State, with brief explanations, whether each of the transactions constitutes a transfer of value for Inheritance Tax purposes.