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# **Association of Taxation Technicians**

# **Examination**

May 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.

transfer. (2)\_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ -----\_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ ------ 2. An accumulation and maintenance trust established prior to 22 March 2006 had to satisfy three conditions.

Outline	the	three	conditions	needed	to	establish	such	an	accumulation	and
mainten	ance	e trust.	i							(3)

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1)	Shares.	
		(0
2)	An amount deposited with a bank.	(2

3.

valid.	(3)

State the three conditions that must be satisfied for an express private trust to be 4.

5. Give four advantages of leaving a will rather than dying intestate.

(Scots Law – explain the prior rights accorded to the surviving spouse in respect of the dwelling house and contents under the rules of intestacy.) (2)

#### The following detail is relevant to Questions 6, 7 and 8.

The Willow Grandchildren's Trust is an accumulation and maintenance trust and was set up on 2 February 2004 with 350 shares in Cyberspace plc valued at  $\pounds 2.68$  per share.

On 4 February 2007, the shares were worth £69.50 per share and were distributed out to the only beneficiary when he became 18, in accordance with the trust deed.

#### 6. Assuming that no reliefs are claimed, calculate the Capital Gains Tax payable. (3)


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8. Explain whether any Inheritance Tax is payable on the transfer out of the trust. (2)

9. Mr Wheeler died in 2004/05.

Calculate the Income Tax payable by his <u>estate</u> for 2006/07 using the following information:

Rents received from a furnished property in London Bank interest received	£ 5,000 524	
Dividends received	678	
		(4)
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What report must he make and when should it be submitted?	(2

10. Albert transferred £50,000 into a discretionary trust on 1 August 2006.

11. Joan died on 3 May 2006. Her estate on death included 12,000 £1 ordinary shares in ABC plc, a company which is listed on the London Stock Exchange. The closing prices at the date of death showed 989p bid price and 993p offer price, with recorded sale bargains being 970p, 980p, 993p and 996p.


12. Mary inherited a Silver Rolls Royce valued at £300,000 from her father some years ago. Unfortunately in December 2006 she had a stroke and although she was able to continue working, she was unable to drive the car herself. She therefore gave the car to her son who drove her to work every day.

Advise Mary on the Income Tax position and calculate the amount of any tax payable. Note that the official interest rate is 5%. (2)

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Calculate the Inheritance Tax liability arising on the distribution assuming that the beneficiary pays any Inheritance Tax due. (4)

### 14. You are required to:

- 1) Explain whether a trustee is allowed to charge for his services.
- 2) Explain whether all trustees must agree on a decision before they can act.

(2)

15. You have been asked to act for some executors of an estate.

Detail two procedures that you would carry out, in order to comply with money laundering regulations, before you take on the work. (2)

\_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_  16. When dealing with individuals, trusts and estates, it may be necessary to deal with third parties on the client's behalf, such as solicitors. In these circumstances the member must be careful not to breach client confidentiality or assume a duty of care towards the third party.

Give TWO ways in which the member may manage these risks.	(2)