Association of Taxation Technicians

Examination

May 2007

PAPER 4 – PART II

INHERITANCE TAX,
TRUSTS & ESTATES

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

- You are required to answer **all** questions in Part I (printed separately) and Part II.
- The maximum number of marks for each question in Part II is shown in brackets.
- For Part II, start each answer on a new sheet of paper.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.
- Marks are specifically allocated for good presentation.

1. Patsy died on 16 March 2007. During her lifetime, she had made the following gifts:

   1) A blue Mazda MX5 car, valued at £10,000, to her daughter Gillian on 22 January 2000.

   2) A transfer of cash of £225,000 into a discretionary trust on 21 April 2002. The trustees are to pay any tax due.

   3) £95,000 to her son Nick to pay for a house extension and landscaped gardening. This was on 9 March 2003.

   4) A transfer of cash of £230,000 into a discretionary trust on 19 March 2004. The trustees are to pay any tax due.

   5) A silver cutlery set as a wedding present to Briony, her other daughter, on 1 March 2007. The cutlery set was worth £5,000 but Patsy paid only £500 for it some years ago.

   At Patsy's death, she owned the following assets:

   1) 1,000 shares in JP Wood Ltd, her wholly owned unquoted trading company valued at £242,000.

   2) A shop in Sussex. The shop is worth £395,000 and has been let to JP Wood Ltd since she bought it.

   3) A leasehold apartment overlooking the river, worth £232,000.

   4) £24,150 in investments, bank accounts and cash.

   5) £1,905 in personal possessions and antiques.

   Patsy was widowed many years ago and had never remarried. She had been living with her lifelong friend, Bill, when she died.

   Her remaining family were her three grown-up children, Gillian, Nick and Briony. She also left two grandchildren.

   Patsy died intestate.

   You are required to:

   1) Calculate the lifetime Inheritance Tax payable in respect of all the gifts. State who is liable to pay any tax due and the dates that the tax must be paid. (7)

   2) Calculate any additional Inheritance Tax that will be payable on the lifetime gifts as a result of Patsy's death. State who is liable to pay any tax due and the dates that the tax must be paid. (6)

   3) Calculate the Inheritance Tax due on the death estate. (4)

   4) Explain how Patsy's estate will be distributed under the Administration of Estates Act 1925, and how this may be changed if the family so wishes. (3)

   Total (20)

2. You have been asked to complete the trust tax return for the 'Smithy Family 1998 Discretionary Trust'.

The trustees have provided you with the following information:

	£
Rental income	10,000
Bank and building society interest received	460
Bank interest received gross from the investment bankers	352
Dividends from the trust portfolio held at the Blacksmith Investment Bankers	21,053

The trust also made the following disposal during 2006/07:

Proceeds from the sale of 1,000 shares from the trust portfolio in May 2006	£15,000
Cost at 21 April 1998	£3.01 per share

These shares had been held since the trust had been set up on 21 April 1998

Additional information:

The trust paid accountancy fees of £600 for the completion of the trust tax return.

You are required to:

1) Prepare a calculation of the Income Tax liability and the tax payable for 2006/07. (6)

2) Prepare a calculation of the Capital Gains Tax liability for 2006/07. (3)

The trust has two beneficiaries. Both received payments of income from the trust during 2006/07 as follows:

Lauren, aged 2	£2,000
Emily, aged 8	£3,000

3) Show the amounts that would be shown on the forms R185 that need to be given to the beneficiaries. (2)

4) State the filing date for the 2006/07 trust tax return to be submitted to HM Revenue & Customs, and the possible penalties that would arise if the return is late. (3)

Now that the trustees have sold some shares and have some cash funds, they are considering making some further payments to the beneficiaries out of the trust fund capital.

5) Prepare an email to be sent to the trustees, briefly advising the tax implications of making a payment out of capital and compare this with payments out of income. Include in your email some factors that might be considered when deciding on the best method of payment. (6)

Total (20)

3. You have received the following email from the firm’s senior partner:

“I am seeing two of the firm's long-standing clients tomorrow and I need some briefing notes to help me through the meeting with them. Rodney is 56, a farmer, in good health and in a long-term relationship with his partner Charles, who is 35. Both Rodney and Charles were born in the UK. Rodney also has a sister. I am setting out what I understand to be Rodney's assets:

<u>Highfield Farm in Sussex</u>

	£
50 acres comprising:	
Large farmhouse	500,000
Farmland, used for crops - agricultural value	600,000
<u>Farm outbuildings</u>	
Disused, next to the farm shop	100,000
Rented to a local IT company	100,000
Used by the farm shop	75,000
<u>Farm shop</u>	
Value of Rodney’s share of the business	50,000

The farm shop is run by Rodney and his sister in a 50:50 partnership. The partnership agreement stipulates that if Rodney dies, his sister will take over his share, and vice versa.

<u>Other investments</u>

10% shareholding in an unquoted property company	125,000

Rodney's current will makes provision for a gift to his sister of £300,000, the rest of his estate passing to Charles.

Rodney telephoned last Friday – he is worried about Inheritance Tax and wants my views on his present arrangements and what planning we might be able to suggest for him.”

You are required to:

1) **Prepare notes for the firm’s senior partner setting out the Inheritance Tax treatment of Rodney's assets, should he die, detailing any reliefs that might be available for his assets and the reasons why.** (12)

2) **Outline the measures that Rodney could take to reduce any future Inheritance Tax charge in respect of his estate.** (6)

3) **Set out the Inheritance Tax and Capital Gains Tax consequences if Rodney and Charles were to become a registered civil partnership in the United Kingdom.** (2)

Total (20)