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Association of Taxation Technicians

Examination

May 2008

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 13 for Scots law candidates.

- 1. Angel was UK domiciled and resident. She died on 3 March 2008 and her estate included the following assets:
 - 1) A family home valued at £425,000. This was jointly owned with her husband as joint tenants. There is an endowment mortgage on the property in joint names for £102,133.
 - 2) 1,200 quoted shares in the company Halo Ltd. The shares were valued at £2.05 £2.21 with bargain prices of £2.04 and £2.05. These valuations are 'ex-div'. The next dividend payment was due in April 2008 and was £0.05 net of tax.
 - 3) 4,368 units in Devil's Wealth Management Trust company. The published prices for the units on 3 March 2008 are £0.47 and £0.50.

State the value of these assets for Inheritance Tax purposes.	(3)

2.		n created a discretionary trust in October 2001. In 2007/08 the trust realised a tantial gain.
	1)	What is the amount of the Capital Gains Tax annual exemption that is available to the trustees?
	2)	How would your answer differ if Brian had also created four other trusts, including one registered charitable trust? (2)

- 3. Giles, a farmer, dies owning the following assets:
 - 1) Home Farm, with extensive outbuildings and paddocks, owned since 1975.
 - 2) 50 acres of land given over to crops, which he has worked himself with the help of a professional farm manager. The land was acquired at the same time as the farmhouse and buildings.
 - 3) A salmon farm, run by Giles and his brother in a 50:50 partnership. On Giles's death, the property transferred automatically to his brother under the provisions of the partnership agreement.

4)	An investment in a French vineyard made several years ago.	
Briefly	y explain whether these assets qualify for Agricultural Property Relief.	(4)
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Calculate John's Capital Gains Tax liability.

Use the following information for questions 5 and 6

Matilda made a transfer into a trust with an interest in possession on 21 April 2007. The asset transferred into the trust was her holiday home in the UK, worth £360,000. She has made no other transfers of property prior to the creation of this trust.

The holiday home cost £215,000 on 19 May 2001 and she has made no other chargeable gains in the year ended 5 April 2008.

Matilda has advised the trustees that she will pay any tax that is due in relation to the transfer into the trust. Her only income in 2007/08 was a salary of £13,688.

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Anne was domiciled and resident in the UK. She died on 14 September 2007 leaving an estate worth £863,000. Included in this estate was a foreign property in Utopia worth £75,000. Additional costs of £4,000 were incurred when the executors sold the property and overseas tax of £16,500 was paid in Utopia.
Anne had made no previous lifetime transfers.
Calculate the Inheritance Tax payable on Anne's estate prior to double taxation relief, and explain how relief for the overseas tax will be given. (3)

Amy died on 15 July 2007. Included in her estate was a holding of qualued at £40,000. These were inherited by Amy when her friend D 7 December 2003. At that time the shares were valued at £29,700. Dane's was worth £420,000 and the Inheritance Tax paid by his executor was £8,700.	ane died on s total estate
Calculate the quick succession relief available to Amy.	(2)
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9.	There are broadly two categories of employee trust; those that are set up under statutory schemes and those that are not.
	Explain the difference between these two types of trust and state whether they are approved or non-approved for the purposes of tax reliefs. (4)

10.	The expression 'sui juris' is sometimes used in connection with trusts.	
	Define this expression and give an example of when it applies.	(2)
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Define this established	s expression d.	and give	an altern	native sit	uation w	hen a	trust ı	ma

Explain when a body of trustees will be treated as UK resident and ordinar resident for the purpose of Income Tax for periods after 6 April 2007.		

Scots law candidates should answer the following: In land law what is meant by a lease? What happens on expiry of the term o lease?	in land law,	what is meant by a lease? How is it different from a licence?	(
lease?	Scots law ca	Scots law candidates should answer the following:				
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Briefly state what action you should take.	