

IHT Workbook 2021/2022. Answers

Question 1

Jim made a £600,000 gift into a discretionary trust having made no previous gifts.

Calculate the amount of tax if:

- i. The trustees pay
- ii. The settlor pays

The gift to a discretionary trust is a chargeable lifetime transfer.

Gift	£600,000	
Less 2 Annual exemption	<u>6,000</u>	
	594,000	£594,000
Less NRB		<u>£325,000</u>
		£269,000

If trustees pay

£269,000 @ 20% £53,800

If donor pays

£269,000 @ 25% £67,250

Alternative method if donor pays:

Gift after annual exemption and NRB £269,000

Grossed up $£269,000 / 0.8 = £336,250$

$£336,250 @ 20\% = £67,250$

Note if the donor pays and then dies within 7 years, the grossed up gift of £336,250 must be used in calculating the death tax.

Question2

Sam died in February 2008 when the NRB was £300,000

He had given his son £50,000 in May 2002 having made no previous gifts.

In his will he left £130,000 split equally between his children and left everything else to his wife June.

In October 2021 June died.

Calculate the amount of NRB available to June's estate.

The gift of £50,000 to his son could be reduced by £6,000 to £44,000. This would become chargeable so the NRB would be reduced to £256,000

His will gave a total of £130,000 chargeable gifts which would reduce the NRB to £126,000.

He used £174,000 of the NRB which is 58% ($£174,000/£300,000$) so June's executors can claim 42%

$$£325,000 \times 42\% = £136,500$$

$$\text{Available NRB is } £325,000 + £136,500 = £461,500$$

Question 3

In April 2017 Dan gifted £100,000 to Adam having made no previous gifts

In May 2018 he gifted £100,000 to Shula

In September 2018 he gifted £200,000 to David.

In October 2021 Dan died. His estate was £500,000 and his will left £100,000 to a UK charity with the balance being paid to his unmarried partner.

Calculate the amount of IHT that will be payable and who is responsible for paying it

Amended 12 August 2021 to change the dates to give the correct answer.

NRB		£325,000
Gift to Adam	£100,000	
Less 2 x AE	<u>6,000</u>	
	£94,000	<u>94,000</u>
		£231,000
Gift to Shula	£100,000	
Less 1 x AE	<u>3,000</u>	
	£97,000	<u>97,000</u>
		134,000
Gift to David	£200,000	<u>200,000</u>
		(66,000)

The estate has no NRB and £66,000 is chargeable on David

Next determine whether the 36% rate applies

Estate	£500,000
Less charitable legacy	<u>£100,000</u>
	£400,000
Add back charitable	<u>£100,000</u>
Baseline amount	£500,000

Charitable legacy of £100,000 is more than 10% of the baseline amount so the charitable legacy reduces the rate to 36%

£400,000 @ 36%	£144,000
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The gift to David is chargeable at the rate of 40%

£66,000 @ 40%	£26,400
Less 20% taper	<u>5,280</u>
	21,120

Question 4

Simon made a gift of £600,000 to a Discretionary trust on November 1 2017. No previous gifts had been made. The trustees paid the tax which amounted to £53,800

Simon died on May 1 2021. His executors were able to claim 25% of his wife's unused NRB.

Calculate the amount of tax the trustees would have to pay on the CLT

Gift	£600,000
Less 2 Annual exemptions	<u>6,000</u>
	594,000
Less NRB	<u>325,000</u> (note you cannot use the transferable NRB)
	269,000
£269,000 @ 40%	£107,600
Less Taper @ 20%	<u>21,520</u>
	86,080
Less tax paid by trustees	<u>53,800</u>
	£32,280

Question 5

Sandie died on August 1 2021 with an estate of £600,000. She was a widow and was the sole beneficiary of her late husband's estate when he died 15 years ago.

Sandie always used her annual exemption. On February 1 2009 she set up a discretionary trust with a gift of £200,000.

On October 1 2015 she gave her nephew property to the value of £250,000 as an outright gift.

Calculate the IHT liability on the estate and on her nephew. (Assume there is no RNRB)

NRB	£650,000
Less PET	<u>£250,000</u>
	£400,000

Estate	£600,000
Less available NRB	<u>£400,000</u>
	£200,000

£200,000 @ 40%	£8,000
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The PET has become a failed PET so we must look back a further 7 years to see if there are any outstanding CLTs. As the CLT was in 2009 we must deduct this from the NRB

NRB	£325,000 (note only a single NRB can be used)
Less CLT	<u>£200,000</u>
	£125,000

PET	£250,000
Less remaining NRB	<u>£125,000</u>
Amount chargeable	£125,000

£125,000 @ 40%	£50,000
Less taper relief (60%)	<u>£30,000</u>
	£20,000

Question 6

Helen and Jennifer are sisters. They each received 50% of their father's net estate. The gross estate was £800,000. He was divorced at the time of his death.

Three and a half years after their father's death they were both killed in a car accident.

Helen's estate was £700,000 and she left everything to her husband.

Jennifer's estate was £600,000 and she left everything to her unmarried partner.

Calculate the amount of IHT on each sister's estate.

Tax on father's estate

	£800,000
Less NRB	<u>£325,000</u>
	£475,000
£475,000 @ 40%	£190,000

Each daughter received £305,000 (£800,000 less £190,000 = £610,000
 $£610,000/2 = £305,000$)

Helen's estate

£700,000

As all her estate was passed to her husband it was totally exempt so no tax is due

Jennifer's estate

	£600,000
Less NRB	<u>£325,000</u>
	£275,000
£275,000 @40%	£110,000

Her estate qualifies for quick succession relief.

IHT on first death £190,000

Gross chargeable estate £800,000

QSR is $\frac{£190,000}{£800,000} \times £305,000 = £72,437$

$£72,437 \times 40\% = £28,974$

Tax due on estate	£110,000
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Less QSR	<u>£28,974</u>
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	£81,026
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Question 7

Jack is a widower. His late wife Annie left her entire estate to him. The value of their home at the time of her death in 1998 was £600,000 and other assets were £100,000. Jack died in September 2021 and left his entire estate to his two children

His estate consisted of the following assets

Residential home	£1,200,000
Other assets	£900,000

Calculate, showing all your workings, the IHT liability

Estate qualifies for Residential Nil Rate Band

His estate can claim 100% of Annie's RNRB £175,000

However, his estate is £2,100,000 so his RNRB is reduced by £50,000 ($£100,000/2$) to £125,000

Estate	£2,100,000
Less Transferred RNRB	(£175,000)
Less his RNRB	(£125,000)
Less NRB	<u>(£650,000)</u>
	£1,150,000

£1,150,000 @ 40% = £460,000