

AF1 trust questions

- 1 Kumar is the life tenant of a Life Interest trust. He has pension income of £16,570 a year.

The trustees receive distributions from a Gilt OEIC of £3,000 and £5,000 from an equity based unit trust and mandate these to Kumar

Explain the impact of these payments on Kumar's tax position.

- He will receive both gross
- The gross amount of £3,000 will be treated as savings income
- £1,000 will be covered by the 0% starting rate
- £1,000 will be within his PSA
- £1,000 will be taxable @ 20% giving a liability of £200
- £2,000 of the dividend is covered by the dividend allowance
- £3,000 will be taxed at 8.75%

- 2 The trustees of a discretionary trust have received a £20,000 gross dividend payment. This is the first payment they have received and they plan to retain this in the trust

Calculate **showing all your workings**, the tax liability of the trustees

£1,000 @ 8.75%	£87.50
£19,000 @ 39.35%	<u>£7,476.50</u>
	£7,564.00

- 3 The trustees of a discretionary trust have received £5,000 dividend. They have used up the £1,000 basic rate and now wish to pay this to a beneficiary who is a higher rate tax payer. They have sufficient in the tax pool to cover the tax credit

Calculate, **showing all your workings**, the tax payable by the beneficiary on this payment.

Trust pays Beneficiary

Gross	£5,000.00
Tax Credit £5,000 @ 45%	<u>£2,250.00</u>
Net	£2,750.00

Beneficiary receives £2,750 net with £2,250 tax credit.

£5,000 @ 40%	£2,000.00
Less tax credit	£2,250.00
Refund	£250.00

- 4 Peter put an on-shore Investment Bond with an initial investment of £100,000 into a discretionary trust 2001. He died in 2014. One of the trustees is UK resident.

The trustees intend to surrender the bond which is now worth £250,000 and give the proceeds to one of the beneficiaries.

Explain who will be liable to pay the tax and calculate the tax that will be charged.

The UK Trustee

Gain	£150,000.00
£1,000 @ 20%	£200.00
£149,000 @ 45%	<u>£67,050.00</u>
	£67,250.00
Less tax credit	
£150,000 @ 20%	<u>£30,000.00</u>
	£37,250.00

- 5 The trust property of a discretionary trust is £500,600 at its 10th anniversary

Calculate, showing all your workings the periodic charge and the effective rate.

	£500,600
Less NRB	£325,000
	£175,600

£175,600 @ 6% **£10,536**

Effective Rate

£10,536/£500,600 **2.1%**

- 6 The trustees of a Relevant Property Trust propose to gift £200,000 to a beneficiary. The effective rate at the 10th anniversary which was December 1 2015 was 5.62%. The gift will be made on May 2 2022
Calculate, **showing all your workings**, the exit charge

£200,000 x 5.62% = £11,240

£11,240 x 25/40 = £7,025

- 7 Rosa is the sole beneficiary of her late father's estate. This was put into an 18-25 trust

The trustees are now proposing to wind up the trust and give her the full value £600,000 on her 22nd birthday

Calculate, **showing all your workings**, the exit charge

Trust property	£600,000
Less NRB	<u>£325,000</u>
	£275,000

£275,000 @ 6% = £16,500

£16,500 x 16/40 = £6,600

- 8 Norma is the sole beneficiary of her late husband's Immediate Post Death Interest Trust.

On her death the value of the trust property was £400,000 and her own estate was £600,000.

Norma's executors can claim 100% of her husband's NRB. Calculate, **showing all your workings**, the IHT liability and who is responsible for paying this.

Value of Norma's estate	£600,000
Value of trust property	<u>£400,000</u>
	£1,000,000
Less NRB	<u>650,000</u>
	£350,000
 £350,000 @ 40%	 £140,000
 Executors pay	
 £140,000 x £600,000/£1m	 £84,000
£140,000 x £400,000/£1m	£56,000

- 9 Helen is the beneficiary of an IIP trust. The trustees have received £20,000 in Gilt income and £8,000 in dividend income. They have incurred TME of £900. Calculate the tax payable by the trustees. Calculate both the gross and net income together with the tax credit they will give to Helen.

Trustees pay

Savings income £20,000 @ 20%	£4,000
Dividend £8,000 @ 8.25%	<u>£660</u>
	£4,660

They pay Helen

Savings income	£16,000
Tax credit	£4,000
Net	£12,000

Dividend income	£8,000
Less grossed up TME	
£900 x 100/91.75	<u>980</u>
	£7,020

£7,020 @8.25%	<u>(£579.15)</u>
Net payment	£6,440.85

Form R185

Interest	£20,000	£4,000	£16,000
Dividend	£7,020	£579.15	£6,440.85