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| **Leicester De Montfort Law School**  **Legal Practice Course**  **Taxation**  **Pre-session Quiz Answers: Inheritance Tax** |

a. The nil rate band is £325,000.

1. IHT is payable at 0% on anything within the nil rate band and at 40% on everything above that band. (On LCTs half the 40% rate is payable when the LCT is made)
2. The shares will be treated as related property with the shares of his wife. His shares are more valuable when valued with those of his wife as together they have a majority shareholding. Would need to find out the value of 70% of shares. His are worth 4/7 of that value (which will be more than 400 x £5)
3. No – there was no intention to confer a gratuitous benefit.
4. In Jan 2021, Graham can use annual exemption of £3,000 for tax year 2020-21 and £1,000 of exemption from previous year (told he’d made no previous transfers) So, no liability to IHT on the first gift.

In Jan 2022, Graham can use annual exemption of £3,000 for tax year 2021-22. Annual exemption from previous year used up by transfer in Jan 2021, so £2,000 liable to IHT.

(NB In Jan 2021, had to use up that year’s annual exemption before using unused exemption from previous year).

1. Has she owned factory and machinery for 2 years prior to the transfer (or did it/they replace other relevant business property and the combined period of ownership is 2 years or more)?
2. Shares in Greedy Dogs Ltd qualify (for 100% relief) as they are shares in an unquoted company which have been owned for over 2 years.

Shares in Felix Cat Foods PLC don’t qualify as they are shares in a quoted company which don’t give her control.

h. Transfer £340,000

Less annual exemption for current and previous tax year £6,000

£334,000

Tax payable:

£325,000 at 0% = nil

£9,000 at 20% (half death rates)= £1,800

i. On W’s death, 25% of NRB is unused. (W used £150,000 of £200,000 NRB by legacies to children)

So on J’s death, NRB of £325,000 can be increased by 25% to £406,250 (325,000 + 81,250)

Of her £450,000 estate, £406,250 is taxed at 0%. Remaining £43,750 is taxed at 40%, meaning IHT of £17,500 is payable.

j. For the RNRB to apply the deceased must have died after *6th April 2017* owning *a qualifying residential interest* (interest in a house which has at anytime been their residence and is part of the estate) which is *closely inherited* (passed to a child, lineal descendant, spouse/CP of a lineal descendant or widow/widower/surviving CP of a lineal descendant provided they have not remarried)

k. Estate value = £750,000

No exemptions or reliefs

No lifetime transfers

RNRB of £175,000 @ 0%

NRB of £325,000 @ 0%

Tax remaining £250,000 @ 40% = £100,000