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| **Leicester De Montfort Law School**  **Legal Practice Course**  **Taxation**  **Small Group Session: Inheritance Tax**  **Student answers** |

# Question 1

i) No – PET

ii) £350,000 less annual exemption for tax year when made and previous tax year (£6,000) = £344,000

£325,000 at 0% = nil

£19,000 at 40% = £7,600

(No taper relief as dies within 3 years of making PET)

**The whole of death estate will be taxed at 40% because NRB completely used up by this failed PET.**

iii) If gift made in October 2016, death was 4 – 5 years after gift, taper relief available, so only pay 60% of death charge

60% of £7,600 = £4,560

## Question 2

Gifts were PETS when made, but as donor has died within 7 years, they have become chargeable.

First see whether gifts are covered by any exemptions or reliefs.

1. £5,000 covered by marriage exemption. Other £2,000 covered by £2,000 of annual exemption for 2020-21.
2. These are covered by small gifts exemption
3. Can be reduced by annual exemption for 2021-22 and £1,000 left from 2020-21 annual exemption, so £346,000 chargeable.
4. Covered by 100% BPR (unquoted shares in trading company) still owned by Liam at M’s death.

So, only gift to Sarah is chargeable.

From £346,000 which is chargeable, can deduct M’s Nil Rate band available on death of £325,000.

346,000 – 325,000 = 21,000 which is taxed at 40% = £8,400.

(Gift made within 3 years of death, so no taper relief available.)

Payable by Sarah.

IHT on estate

£375,000 – RNRB £175,000 = £200,000

£200,000@ 40% = £80,000. (All charged at 40% as whole NRB used up by gift to Sarah.)

**Question 3**

Gift on marriage

This was a PET when made.

It becomes chargeable when Mr Smart dies (as he dies within 7 years of making it).

**First work out the IHT position on the PET.**

Step 1: - Value transferred = £100,000

Step 2: - Identify and deduct Exemptions: Annual exemption of £3,000 for 2020-21 and unused exemption for 2019-20. (Total of £6,000)

Gift in consideration of marriage: £5,000 exempt as gift made by a parent.

Amount chargeable to IHT = £100,000 - £6,000 Annual exemptions - £5,000 Marriage gift = £89,000

Step 3: - Calculate cumulative total and the amount of the NRB left.

The £89,000 is covered by the nil rate band, so no IHT payable on the PET.

Deduct cumulative total from nil rate band: £325,000 – £89,000 =£236,000 of NRB is left.

**Next calculate the charge to IHT on death**

Step1: - Value transferred = £600,000

Step 2: -Exemptions: gift to a charity = £30,000

Step 3: - Identify and deduct reliefs- none applicable here

So, the amount chargeable to IHT = Estate value of £600,000 – charity gift £30,000 = £570,000

Step 4: - Cumulative total

Remind yourself of the cumulative total at date of death? £89,000 (chargeable amount of PET)

Remember we deducted the cumulative total from nil rate band: £325,000 – £89,000 =£236,000 of NRB is left.

Step 5: - Apply the appropriate rate of tax

Of £570,000 subject to IHT on death

£350,000 is covered by the RNRB (Mr Smart has a RNRB of £175,000 plus £175,000 from spouse who pre-deceased)

Remaining £220,000 (£570,000-350,000) is covered by what is left of the nil rate band (£236,000) and so there is no tax to pay.

No IHT to pay.

Note: The reduced 36% rate does not apply as 10% of the net estate was not left to charity.