



The Institute of Chartered Accountants in England and Wales

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# Tax Supplement

For exams from December 2025 to December 2026



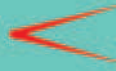
The Institute of Chartered Accountants in England and Wales

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# Tax Fundamentals

## Workbook

For exams from December 2025 to December 2026



# CHAPTER 10

## Inheritance tax – basic principles



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# INTRODUCTION

## Learning outcomes

- Identify the key principles of inheritance tax
- Calculate the inheritance tax payable during the lifetime of an individual
- Calculate the death tax due on lifetime transfers
- Calculate the value of an individual's estate at death and the inheritance tax due

Specific syllabus references for this chapter are 4e, 4f, 4g and 4h.

## Syllabus links

In the Tax Fundamentals exam, inheritance tax will be tested by way of objective-test questions. When you progress to the Tax Compliance and Planning module, you will build on your knowledge and be tested via long-form questions.

## Examination context

In the examination students may be required to:

- compute the value of a transfer after deducting available exemptions;
- calculate tax payable on lifetime gifts both when made, and on the death of the donor, taking account of taper relief;
- calculate inheritance tax payable on a death estate; and
- calculate the value of transfers of assets with special valuation rules.

Students sometimes have difficulty in applying the nil rate band to transfers.

## Chapter study guidance

Use this schedule and your study timetable to plan the dates on which you will complete your study of this chapter.

Topic	Practical significance	Study approach	Exam approach	Interactive questions
1	<b>Scope of Inheritance Tax (IHT)</b> IHT has existed in one form or another for many years. Its predecessors were first Estate Duty, a tax on death only, then Capital Transfer Tax which applied to gifts in life as well as on death, and finally IHT which you will learn more about in this chapter.	<b>Approach</b> Read through section 1 quickly - it introduces the scope of IHT.	This section gives you background information about IHT.	

Topic	Practical significance	Study approach	Exam approach	Interactive questions
2	<p><b>Exempt transfers</b></p> <p>IHT is disliked by many taxpayers who feel that they have already paid tax on their lifetime earnings, and who resent the fact that their legacy given to their heirs is being taxed a second time. It is perhaps because of this that many accountants working in personal tax will be asked to give IHT planning advice. Being able to make best use of exemptions will help minimise IHT.</p>	<p>Section 2 will form a part of most IHT computations. Read through section 2 making a list showing the exempt transfers and the exemptions. The worked example and Interactive question (IQ) are particularly important.</p>	<p>The annual exemptions should be considered in every IHT scenario involving a lifetime gift and the other exemptions may also be relevant dependent on the scenario.</p>	<p><b>IQ1: Exemptions</b></p> <p>This question will allow you to practise the application of exemptions to a scenario.</p> <p>Remember that you will be tested by way of OTQs in the exam, but we have shown longer illustrations in this chapter so that you can understand the whole computation.</p>

Topic	Practical significance	Study approach	Exam approach	Interactive questions
3	<p><b>Lifetime transfers</b></p> <p>The roots of the tax are clearly very political and there have been many calls over the years for the tax to be abolished. Annually IHT raises approximately £6bn for the Treasury (less than 1% of the total tax take), but the amounts raised in recent years have been increasing steadily as house prices and other sources of wealth have increased faster than the IHT threshold.</p> <p>Although in practice the tax is levied mainly on death, lifetime gifts must also be considered otherwise a person would simply make large gifts prior to death to avoid the tax.</p> <p>It is worth noting that fewer than 5% of death estates are liable to IHT. And according to HMRC statistics: a typical death estate which is liable to IHT will hold less than 50% of its total asset value as land and property.</p>	<p>Section 3 is vital to your understanding of IHT. You must work through all of the worked examples and interactive question. Once you have spent some time on this section you should understand the fundamentals of IHT which will be needed in any IHT question.</p> <p><b>Stop and think</b></p> <p>Did you know that it is often quoted that IHT is a tax that rich people do not pay because they have taken advice to avoid it? It is true that with good tax planning an individual can reduce their potential IHT liability. It is not true that trusts are a means of escaping IHT. As you will discover as you progress through the qualification, trusts are liable to inheritance tax. Have you thought about your own exposure to IHT or that of your family?</p>	<p>It is highly likely that you will see a question in your exam which involves some lifetime transfers. You will need to consider whether any lifetime or death IHT will be due. The pro forma which we start to build up in this chapter will be vital in helping you to construct your calculations correctly.</p>	<p><b>IQ2: Taper relief</b></p> <p>This question allows you to practise calculating lifetime IHT on CLTs including taper relief. It's vital to your understanding of an IHT computation.</p>
4	<p><b>IHT on the death estate</b></p> <p>The amount of IHT due on the death estate can be significant and it's important that we understand what forms part of an individual's death estate.</p>	<p><b>Approach</b></p> <p>All of section 4 is important including the computation of IHT on the death estate.</p>	<p>You are likely to see a question in the exam which includes the calculation of IHT on the individual's death estate.</p>	

Topic	Practical significance	Study approach	Exam approach	Interactive questions
5	<b>Valuation</b> There are special valuation rules, for example where similar assets are owned by a husband and wife or civil partners. Shares too are valued in a special way for IHT.	The most important parts of section 5 are the diminution in value principle, and the valuation of quoted shares.	You are likely to have one question which tests the valuation of assets in the exam.	<b>IQ3: Quoted share valuation</b> This quick question will check you can value shares for IHT purposes.

Once you have worked through this guidance you are ready to attempt the further question practice included at the end of this chapter.

# 1 Scope of Inheritance Tax (IHT)



## SECTION OVERVIEW

- IHT is chargeable on a transfer of value of chargeable property made by a chargeable person.
- A transfer of value is a disposition which results in a diminution of the transferor's estate (eg, a gift).
- The creation of a trust may be a transfer of value.
- Certain dispositions are specifically excluded from being transfers of value (eg, for maintenance of family).
- Chargeable property is all property with the exception of excluded property (outside the scope of your syllabus).

## 1.1 Transfers of value

A charge to IHT arises if a **transfer of value** of **chargeable property** is made by a **chargeable person** (the **transferor**). This charge may arise during the lifetime of the transferor or on their death, for example when property passes under the terms of their will.



## DEFINITIONS

**Transfer of value:** A transfer of value is a **disposition** (eg, a gift) of assets by a transferor which results in a fall in the value of the transferor's estate.

**Diminution in value:** The fall in value of the transferor's estate is known as the diminution in value and it is the starting point in calculating the value of a gift for inheritance tax purposes.

In general, the diminution in the value of an estate as a result of a gift is equivalent to the open market value of the asset transferred at the time of the transfer. However, this is not always the case. We will look at the situation where the diminution in value is something other than the value of the asset transferred later in this workbook.

A charge to IHT often arises when an individual (a **settlor**) creates a **settlement** (also known as a **trust**) by giving assets to **trustees** who hold the assets under the terms of the settlement for the benefit of the **beneficiaries** of the settlement.



## DEFINITIONS

**Trust:** A trust is an arrangement under which a person, the settlor, transfers property to another person, the trustee, who must deal with the trust property on behalf of certain specified persons, the beneficiaries.

**Discretionary trust:** A trust where no beneficiary is entitled by right to any income or capital: it is left up to the discretion of the trustees which of the beneficiaries is to benefit from the trust and how they are to benefit.

**Interest in possession trust:** A trust where one or more of the beneficiaries has the right to receive the income of the trust (an interest in possession), the capital passing to other beneficiaries when the interest in possession comes to an end.

**Bare trust:** Property in a bare trust (or 'simple' trust) is held by the trustee (or nominee) as its legal owner on behalf of the beneficiary. The beneficiary is absolutely entitled to the trust property and any income arising from it. There is no interest in possession and the trustees cannot exercise any discretion over the trust property or income.

## 1.2 Dispositions which are not transfers of value

Inheritance tax covers dispositions of property, or interests in property. However, some dispositions are not treated as transfers of value for inheritance tax purposes.

The most important dispositions outside of the scope of IHT are:



- dispositions without gratuitous intent (eg, reducing the value of the transferor's estate by unknowingly selling an item for less than it is worth (a bad bargain));
- dispositions made for the maintenance of the transferor's family, including spouses/civil partners, children, dependant relatives (eg payment of children's school fees, supporting a child whilst studying at University, or provision of care for an elderly relative); and
- gratuitous dispositions which are allowable expenditure for the purposes of income tax or corporation tax (eg, payments made by an employer into a pension fund for the benefit of employees).



## DEFINITION

**Disposition:** The word disposition has its natural meaning and HMRC regard it as:

- Including all forms of disposals and transfers of cash and other property, and
- Including both the creation and the release or other extinguishment of any debt or other right enforceable against a person or his estate

### 1.3 Chargeable property

All property is chargeable property for IHT purposes unless it is defined as excluded property (outside the scope of your syllabus).

### 1.4 Chargeable persons

All individuals are chargeable persons for IHT, but the extent of their liability depends on the number of years that they have been resident in the UK (outside the scope of your syllabus).

Trustees are also chargeable persons for IHT, but you will not be expected to deal with charges to IHT on trustees in your examination.

## 2 Exempt transfers



### SECTION OVERVIEW

- An exempt transfer has no effect for IHT.
- A transfer to a spouse/civil partner is exempt (lifetime and death).
- A transfer to a charity is exempt (lifetime and death).
- A transfer to a qualifying political party is exempt (lifetime and death).
- Lifetime transfers up to £3,000 per tax year are exempt (annual exemption).
- Lifetime transfers in consideration of a marriage/civil partnership are exempt up to certain amounts.
- Lifetime transfers up to £250 per transferee per tax year are exempt.
- Lifetime transfers made as part of normal expenditure out of income are exempt.

### 2.1 Introduction

There are a number of transfers of value which are specifically defined as exempt transfers.

An exempt transfer has no effect for IHT so no IHT can be payable on it, and it does not form part of the cumulation of transfers (see later in this chapter).

An exempt transfer can be a transfer of value which is wholly exempt, or it can be part of a larger transfer of value.

Some exemptions only apply when the transfer is made by the transferor in his lifetime.

Some exemptions apply where the transfer is made during the lifetime of the transferor or where the transfer is made on his death.

## 2.2 Transfer to spouse/civil partner

A transfer of value is an exempt transfer if it is made to the transferor's spouse/civil partner.

The transfer may be:

- a lifetime transfer or a transfer on death to the spouse/civil partner; or
- a transfer on death to an interest in possession trust for the spouse/civil partner.

## 2.3 Gifts to charities

A transfer of value is an exempt transfer if the transferee is a charity. This applies to a lifetime transfer or a transfer made on death.

The property transferred must be used by the charity for charitable purposes following the transfer.

## 2.4 Gifts to political parties

A transfer of value is an exempt transfer if the transferee is a qualifying political party. This applies to a lifetime transfer or a transfer made on death.



### DEFINITION

**Qualifying political party:** A political party which, at the last general election before the transfer of value was made, had:

- two Members of Parliament elected to the House of Commons; or
- one Member of Parliament elected to the House of Commons and not less than 150,000 votes were given to candidates who were members of that party.

## 2.5 Annual exemption

Lifetime transfers of value made by a transferor in any one tax year are exempt to the extent that they do not exceed £3,000 (the **annual exemption**).

If one or more transfers of value exceed £3,000 in any one tax year, £3,000 of the total amount of the transfers is exempt. If there is more than one transfer of value in the tax year, the annual exemption is used against transfers in chronological order even if a transfer is a PET, which is initially exempt.

If the transferor does not use all of his annual exemption in a tax year, the unused excess can be carried forward to be used in the next tax year, but not any further. However, the current year's annual exemption is used first.



### WORKED EXAMPLE: Annual exemption

Daniel made the following cash gifts to his children:

1 July 2023	£1,300 to son
22 October 2023	£3,700 to daughter
15 May 2024	£800 to son
26 June 2025	£7,500 to son

### Requirement

Show the amount of each of the transfers after deduction of the annual exemption.

## SOLUTION

	July 2023	October 2023	May 2024	June 2025
	£	£	£	£
Transfer	1,300	3,700	800	7,500
Less exemptions				
- annual	(1,300)	(1,700)	(800)	(3,000)
- annual b/f		<u>(2,000)</u>		<u>(2,200)</u>
	<u>0</u>	<u>0</u>	<u>0</u>	<u><u>2,300</u></u>



### PROFESSIONAL SKILLS FOCUS: Structuring problems and solutions

As we work through this chapter, we will start to build up a standard IHT proforma. In your exam, you will be tested on inheritance tax by way of objective-test questions, but we have used longer examples in this chapter to explain more clearly how the calculation works.

## 2.6 Gifts in consideration of marriage or civil partnership

Lifetime transfers of value made by a transferor are exempt if the transfer is made to one of the parties to a marriage/civil partnership in consideration of that marriage/civil partnership taking place.

The transfer is exempt to the extent that it does not exceed:

- £5,000 where the transferor is a parent of one of the parties to the marriage/civil partnership;
- £2,500 where the transferor is a remoter ancestor (eg, grandparent) of one of the parties to the marriage/civil partnership or where the transferor is one of the parties to the marriage/civil partnership; and
- £1,000 in any other case.

If the transfer of value exceeds the relevant amount, the part of the transfer up to the relevant amount is exempt.

Where the marriage/civil partnership exemption and the annual exemption are both available in relation to the same transfer, use the marriage/civil partnership exemption in priority to the annual exemption.

## 2.7 Small gifts exemption

Lifetime transfers of value made by a transferor in any one tax year are exempt if they do not exceed £250 to any one transferee.

Note that, unlike the annual exemption and the exemption for gifts in consideration of marriage or civil partnership, it is not possible to use the small gifts exemption to exempt part of a larger gift.



## INTERACTIVE QUESTION 1: Exemptions

Paula made the following gifts:

10 April 2024	£2,000 to grandson
16 August 2024	£12,000 to the Save the Children Fund (a registered charity)
22 November 2024	£3,800 to daughter
8 April 2025	£5,500 to niece on her marriage
12 June 2025	£225 to friend

### Requirement

Using the standard format below, calculate the value of each of the transfers after deduction of all exemptions.

	April 2024	August 2024	November 2024	April 2025	June 2025
	£	£	£	£	£
Transfer	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Less exemptions	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
- in consideration of marriage	<input type="text"/>		<input type="text"/>	<input type="text"/>	<input type="text"/>
- charity	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
- small gift	<input type="text"/>			<input type="text"/>	<input type="text"/>
- annual	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
- annual b/f	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

See **Answer** at the end of this chapter.

## 2.8 Normal expenditure out of income exemption

A lifetime transfer of value is exempt if, or to the extent that:

- it is made as part of the normal expenditure out of income of the transferor;
- it is made (taking one year with another) out of the transferor's income; and
- after taking account of all transfers which are part of their normal expenditure out of income, they are left with sufficient income to maintain their usual standard of living.

The amount of the exemption is not limited to a specific amount, but, of course, it will be limited in relation to the transferor's income.

In order to qualify as normal expenditure out of income, it must be shown that the transfer is part of a regular pattern of giving or, at least, that the transferor intended it to be part of such a regular pattern.



### PROFESSIONAL SKILLS FOCUS: Applying judgement

You may have to apply your judgement in deciding whether a gift could be exempt as normal expenditure out of income.



### WORKED EXAMPLE: Oscar

- 1 Oscar pays £25,000 each year in total for his son's full-time university fees, accommodation fees and a weekly allowance whilst studying full-time.

#### Requirement

Is this a transfer of value?

- 2 Sameer has income in excess of his needs of £700,000 per annum and gives £40,000 to his son every year on his birthday.

#### Requirement

Is this subject to inheritance tax or exempt?

- 3 Olivia gives her daughter £60,000 at her graduation to pay off her student loans.

#### Requirement

Is this subject to inheritance tax or exempt?

### SOLUTION

- 1 This is not a transfer of value. Maintenance of family (which is limited scope but does apply here) is not a disposition treated as a transfer of value for IHT purposes. Oscar is maintaining his son for the purposes of his full-time education and therefore this is not treated as a transfer of value and is therefore not subject to or exempt from IHT. It does not matter how old the dependent child is as long as full-time education after the age of 18 continues unbroken.
- 2 Sameer's gift to his son will be treated as normal expenditure out of income and is therefore exempt from IHT. It is treated as normal expenditure out of income because it does not affect Sameer's standard of living (it is clearly from his surplus income) and there is a pattern of giving (ie it is intended to be normal for Sameer to give a gift each year of this size).
- 3 Olivia's gift is not exempt. It is subject to IHT as a lifetime transfer. It will be treated as a potentially exempt transfer. If she survives for at least seven years, it will be completely exempt (see below). Had she instead done the same as Oscar is would not have been treated as a transfer of value at all.

## 3 Lifetime transfers



### SECTION OVERVIEW

- A lifetime transfer of value can be a chargeable lifetime transfer (CLT) or a potentially exempt transfer (PET).
- A gift into a trust (other than a bare trust) is a CLT.
- Lifetime tax is chargeable on a CLT and additional tax may be payable if the transferor dies within seven years of making the CLT.
- The additional tax on death is chargeable at a reduced rate if the transferor survives between three and seven years (taper relief).
- A transfer of value to another individual (other than spouse/civil partner) or a bare trust is a PET.
- A PET is treated as an exempt transfer during the lifetime of the transferor and is an exempt transfer on death if they survive seven years.
- If the transferor does not survive seven years from making a PET, it is a chargeable transfer and IHT may be payable on it on death, subject to taper relief.

### 3.1 Types of lifetime transfer

There are two types of lifetime transfer:

- Chargeable lifetime transfer (CLT)
- Potentially exempt transfer (PET)



#### DEFINITIONS

**Chargeable lifetime transfer (CLT):** A CLT is a gift made to a relevant property trust. A CLT is immediately chargeable to IHT when it is made. In addition, further tax may be payable on a CLT if the transferor dies within seven years of making the transfer.

**Potentially exempt transfer (PET):** A PET is a gift made from one individual to another, or from an individual to a bare trust. A PET is treated as an exempt transfer during the lifetime of the transferor. If the transferor survives seven years from making the transfer, the PET is an exempt transfer and no IHT is payable. However, if the transferor dies within seven years of making the PET, it is a chargeable transfer and IHT may be payable.

**Relevant property trust:** Most types of discretionary trusts and interest in possession trusts are relevant property trusts. For the purposes of your exam you should assume that transfers to either a discretionary trust or an interest in possession trust are transfers to a relevant property trust.

### 3.2 Chargeable lifetime transfers – calculation of lifetime tax

We will first consider the calculation of lifetime tax on a chargeable lifetime transfer.

A chargeable lifetime transfer is made on gifts into a relevant property trust, ie either:

- A discretionary trust, or
- An interest in possession trust

Lifetime IHT on a CLT made in 2025/26 is chargeable at the following rates of tax:

Chargeable transfer of value	Rate of tax
£0–£325,000	0%
£325,001 onwards	20%

The band on which the 0% rate of tax is chargeable is called the **nil rate band**. This band is not exempt from tax but is chargeable at 0%. In other words, the nil rate band is not a relief from tax, it is an amount on which inheritance tax is charged at zero percent. You will see why this is important when we look at the situation where the transferor makes more than one chargeable transfer.



#### DEFINITION

**Nil rate band (NRB):** The amount of chargeable transfers which can be made in a seven year period on which IHT is payable at 0%. Currently £325,000.

The nil rate band is £325,000 for 2025/26.

First, let us consider the situation where there is only one chargeable transfer.



#### WORKED EXAMPLE: Chargeable lifetime transfer

On 1 July 2025, Seth created a discretionary trust and gave £342,000 in cash to the trustees. This was the first transfer of value that Seth had made. The trustees agreed to pay any IHT due on the transfer.

##### Requirement

Compute the IHT payable on the transfer.

##### SOLUTION

As this is the first transfer of value made by Seth, he can set his annual exemption for 2025/26 against the cash gift and also his 2024/25 annual exemption:

	£
Cash	342,000
Less: annual exemption 2025/26	(3,000)
- annual exemption 2024/25 b/f	<u>(3,000)</u>
Gross transfer of value	336,000
Less nil rate band 2025/26	<u>(325,000)</u>
Excess over nil band	<u>11,000</u>
IHT on £11,000 @ 20%	<u>2,200</u>

Note the calculation of the **gross transfer of value**. This will be important later.

IHT is a cumulative tax. This means that you need to look back seven years from the date of a chargeable transfer to see whether some or all of the nil rate band has been used up by gross chargeable transfers in that **seven-year cumulation period**. Note that it is the nil rate band available at the date of the chargeable transfer that we use in this calculation. This is referred to as the 'Lifetime NRB' in the calculations in this Chapter.



### WORKED EXAMPLE: Previous chargeable lifetime transfers

On 1 July 2025, Delia created a discretionary trust and gave £65,000 in cash to the trustees. This was the first transfer of value that Delia had made.

On 10 December 2025, Delia gave the trustees a further £400,000 in cash.

The trustees agreed to pay any IHT due on the transfers.

#### Requirement

Compute the IHT payable on the transfers.

#### SOLUTION

	July 2025 CLT £	December 2025 CLT £
<b>Stage 1 - Transfers</b>		
Transfer	65,000	400,000
Less exemptions		
annual	(3,000)	
annual b/f	<u>(3,000)</u>	
Gross transfer of value	59,000	400,000
<b>Stage 2 - Lifetime tax</b>		
Less remaining NRB (W)	<u>(325,000)</u>	<u>(266,000)</u>
	nil	<u>134,000</u>
IHT@ 20%		26,800

## WORKING

### Remaining nil rate band

	July 2025	December 2025
	CLT	CLT
	£	£
<b>Stage 2 – Lifetime</b>		
Lifetime NRB	325,000	325,000
Less chargeable in 7 years before the CLT		(59,000)
Remaining NRB	<u>325,000</u>	<u>266,000</u>

You may have noticed that, in the two examples we have looked at so far, the trustees paid the IHT due. However, the trustees only pay the lifetime tax if they specifically agree to do so for each transfer. The transferor is otherwise liable for the lifetime tax.

If the transferor pays the IHT, this is a further diminution in their estate. They have made a **net chargeable transfer of value** of the amount of the transfer to the trustees, but we must compute tax on the gross chargeable transfer of value.

Where the transferor makes a net chargeable transfer of value, the amount of the transfer in excess of the available nil rate band will be grossed up by:

$$100/(100 - 20)$$

The grossed-up amount is then taxed at 20%.

We can simplify this calculation by saying that the tax on the amount of the transfer in excess of the available nil rate band is:

$$(100/(100 - 20)) \times (20/100) = 20/80 \text{ (or 25\%)}$$

The gross transfer of value is the net transfer of value **plus** the IHT paid **if** paid by the transferor.

In the examination you should assume that the transferor pays the lifetime tax on each transfer, unless the question specifically states otherwise.



### WORKED EXAMPLE: Gross transfer of value

On 12 August 2025, Wilma created an interest in possession trust and gave £378,000 in cash to the trustees. This was the first transfer of value that Wilma had made.

#### Requirement

Compute the IHT payable on the transfer and the amount of the gross chargeable transfer carried forward in the cumulation.

#### SOLUTION

	August 2025
	CLT
	£
<b>Stage 1 – Transfers</b>	
Transfer	378,000
Less exemptions	
- Annual	(3,000)
- Annual b/f	<u>(3,000)</u>
	372,000



	August 2025
	CLT
	£
<b>Stage 2 - Lifetime tax</b>	
Less remaining NRB (W)	(325,000)
	<u>47,000</u>
IHT @ 20/80 (Wilma pays tax)	11,750
Gross chargeable transfer (£372,000 + £11,750)	<u>383,750</u>

WORKING

#### Remaining nil rate band

	August 2025
	CLT
	£
<b>Stage 2 - Lifetime</b>	
Lifetime NRB	325,000
Less chargeable in previous 7 years	(0)
Remaining NRB	<u>325,000</u>

**Note:** You can check whether you have grossed up correctly by working out the IHT on the gross chargeable transfer of value (see table below).

	£
Gross transfer of value	383,750
Less nil rate band 2025/26	<u>(325,000)</u>
Excess over nil band	<u>58,750</u>
IHT on £58,750 @ 20%	<u>11,750</u>

The nil rate band can change every tax year and it is important that you use the lifetime NRB available at the date of the chargeable transfer. You will find details of the nil rate band in the tax tables available on screen in your exam. You may have to deal with transfers from previous years. The most important thing to remember is that the amount of the gross chargeable transfer of value of a transfer does not change, even if the nil rate band changes.

The nil rate band has been £325,000 since 6 April 2009 and it has been announced (although is subject to possible further legislative change) that it will remain £325,000 until at least 5 April 2028. You should therefore assume the relevant nil rate band for current and past transfers of value is £325,000.

### 3.3 Chargeable lifetime transfers - calculation of additional tax on death

If the transferor of a chargeable lifetime transfer dies within seven years of making the transfer, additional IHT may be payable on the transfer. The IHT is calculated using the nil rate band at the date of death (**not** the date of the CLT). However, you still need to look back seven years from the date of the CLT (**not** seven years from the date of death) to see whether any of the nil rate band has been used up.

Additional IHT on a CLT where the transferor dies in 2025/26 is chargeable at the following rates of tax:

Chargeable transfer of value (£)	Rate of tax
0-325,000	0%
325,001 onwards	40%

The primary liability for additional tax on a CLT as the result of the transferor's death falls on the transferee. This means there is no grossing up calculation required.

Remember that this is a charge to **additional** tax: if the death tax is equal to or less than the lifetime tax paid, there is no additional tax due. However, there is no repayment of lifetime tax in this situation.



### WORKED EXAMPLE: Additional IHT on death

On 1 November 2023, Mary created a trust in which her son had an interest in possession and gave £553,000 in cash to the trustees. This was the first transfer of value that Mary had made.

Mary died on 10 March 2026.

#### Requirement

Compute the additional IHT payable on the transfer as a result of Mary's death.

#### SOLUTION

In Stage 1 of our calculations, we set out our transfers and value them, in Stage 2 we will calculate the lifetime tax paid by Mary in 2023/24 and then in Stage 3 we will consider whether there is additional tax due on the transfer due to Mary's death. As we shall need to determine gifts made in the seven years before death it is useful to add the date of death into our calculation and this column can be used to calculate the IHT due on assets left on death which is covered later in this workbook.

	November 2023	March 2026
	CLT	Death
	£	£
<b>Stage 1 - Transfers</b>		
Transfer	553,000	
Less exemptions		
- annual	(3,000)	
- annual b/f	<u>(3,000)</u>	-
	547,000	
<b>Stage 2 - Lifetime tax</b>		
Less remaining NRB (W1)	(325,000)	
	222,000	
IHT @ 20/80	55,500	
Gross chargeable transfer (£547,000 + 55,500)	<u>602,500</u>	
<b>Stage 3 - Tax on death</b>		
Gross chargeable transfer	602,500	
Less remaining NRB (W)	<u>(325,000)</u>	
	277,500	
IHT @ 40%	111,000	
Less lifetime tax paid	<u>(55,500)</u>	
Tax payable on death	<u>55,500</u>	

## Remaining nil rate band

November 2023

CLT

£

**Stage 2 - Lifetime**

Lifetime NRB	325,000
Less chargeable in 7 years before this CLT	(0)
Remaining NRB	<u>325,000</u>

**Stage 3 - On death**

NRB at death	325,000
Less chargeable in 7 years before the CLT	(0)
Remaining NRB	<u>325,000</u>

**PROFESSIONAL SKILLS FOCUS: Assimilation and using information**

As you read through an IHT scenario, and you identify a chargeable lifetime transfer, it will be important that you look to see if the question mentions who has agreed to pay any lifetime IHT. If the question is silent, assume the donor will pay the lifetime tax. If the donor is paying the lifetime tax, you'll need to calculate the lifetime tax at 25% and add this to the net transfer of value to get the gross transfer of value.

If the transferor survives more than three years after the CLT, but less than seven years, the additional tax on death is charged at the following percentages of the full amount:

Period between CLT and death	% chargeable
More than three years but not four years	80%
More than four years but not five years	60%
More than five years but not six years	40%
More than six years but not seven years	20%

This reduction in tax is called **taper relief**.



## INTERACTIVE QUESTION 2: Taper relief

On 15 July 2016, Eric made a gross chargeable transfer of value of £62,000.

On 21 November 2022, Eric created a discretionary trust and gave the trustees £424,000 in cash. The trustees agreed to pay any lifetime IHT due on the transfer.

Eric died on 9 March 2026.

### Requirement

Using the standard format below, compute any additional IHT payable by the trustees on Eric's death.

	July 2016	November 2022	March 2026
	CLT	CLT	Death
	£	£	£
<b>Stage 1 – Transfers</b>			
Transfer		<input type="text"/>	
Less exemptions			
- annual		<input type="text"/>	
- annual b/f		<input type="text"/>	
<b>Stage 2 – Lifetime tax</b>			
Less remaining NRB (W)		<input type="text"/>	
IHT@ 20%		<input type="text"/>	
Gross chargeable transfer	<input type="text"/>	<input type="text"/>	
<b>Stage 3 – Tax on death</b>			
Gross chargeable transfer	<input type="text"/>	<input type="text"/>	
Less remaining NRB (W)		<input type="text"/>	
IHT @ 40%		<input type="text"/>	
Taper relief (3-4 yrs) 80% chargeable		<input type="text"/>	
Less lifetime tax paid		<input type="text"/>	
Tax payable on death		<input type="text"/>	

**Stage 2 – Lifetime**

Lifetime NRB

Less chargeable in 7 years before CLT ie since 21 November 2015

---

Remaining NRB

**Stage 3 – On death**

NRB at death

Less chargeable in 7 years before CLT ie since 21 November 2015

---

Remaining NRB

See **Answer** at the end of this chapter.

### 3.4 Potentially exempt transfers

#### 3.4.1 Transfers treated as PETs

A PET is made on a transfer by the transferor to:

- an individual (other than their spouse/civil partner)
- a bare trust
- a limited number of other trusts (these will not be tested in your exam)

#### 3.4.2 Allocation of exemptions

There is no lifetime charge to IHT on a PET. Remember that the annual exemption and exemption for gifts in consideration of marriage or civil partnership (if applicable) are deducted from the gift to find the amount of the PET which may become chargeable in the future.

Remember that if there is more than one transfer of value in the tax year, the annual exemption is used against transfers in chronological order even if a transfer is a PET, which is initially exempt. So, if a PET is made before a CLT in the same tax year, the annual exemption will be allocated to the PET first and any unused balance can then be allocated to the CLT. If the donor survives for seven years after the PET, the exemption allocated to the PET will have been wasted as the PET will be completely exempt.

#### 3.4.3 Treatment in lifetime

Whilst the transferor is alive, it is assumed that a PET is an exempt transfer. Therefore, during the lifetime of the transferor, no IHT is chargeable on the PET and it should not be included in the cumulation when working out lifetime tax on CLTs.

#### 3.4.4 Treatment on death

If the transferor dies more than seven years after making a PET, the PET is an exempt transfer. This is particularly important to note when looking back at transfers in the seven-year cumulation period. Only if a PET becomes chargeable will it use up the nil rate band for calculating the death tax on later gifts or the death estate. So, if a PET never becomes chargeable it is not taken into consideration when calculating the remaining nil rate band.

If the transferor dies within seven years of making the PET, the PET is a chargeable transfer. IHT is calculated on the PET in a similar way to the additional tax on a CLT. The only difference is that there will be no lifetime tax to deduct. Again, it will be the transferee who has primary liability to pay the IHT due and so there is no grossing up calculation required.

Remember to use the nil rate band at the date of death but look back seven years from the date of the PET to see if there are any chargeable transfers to cumulate.



### WORKED EXAMPLE: PETs

Graham made the following gifts during his life:

11 July 2018	Cash of £105,000 to son on his son's marriage
12 September 2019	Land valued at £265,000 to daughter
23 December 2021	Cash of £75,000 to son

Graham died on 22 October 2025.

#### Requirement

Compute the IHT payable as a result of Graham's death.

#### SOLUTION

	July 2018	September 2019	December 2021	October 2025
	PET	PET	PET	Death
	£	£	£	£
<b>Stage 1 - Transfers</b>				
Transfer	105,000	265,000	75,000	
Less exemptions				
- in consideration of marriage	(5,000)			
- annual	(3,000)	(3,000)	(3,000)	
- annual b/f	<u>(3,000)</u>		<u>(3,000)</u>	
	94,000	262,000	69,000	
<b>Stage 2 - Lifetime tax</b>				
	<u>No LT tax</u>	<u>No LT tax</u>	<u>No LT tax</u>	
Gross chargeable transfer	<u>94,000</u>	<u>262,000</u>	<u>69,000</u>	
<b>Stage 3 - Tax on death</b>				
Gross chargeable transfer	More than 7 years	262,000	69,000	
Less remaining NRB (W)		<u>(325,000)</u>	<u>(63,000)</u>	
		<u>0</u>	<u>6,000</u>	
IHT @ 40%		<u>0</u>	<u>2,400</u>	
Taper relief (3-4 yrs) 80% chargeable			<u>1,920</u>	
Tax payable on death		<u>0</u>	<u>1,920</u>	

**Remaining nil rate band**

	July 2018	September 2019	December 2021
	PET	PET	PET
	£	£	£
<b>Stage 3 - On death</b>			
NRB at death	N/A	325,000	325,000
Less chargeable in previous 7 years		(0)	(262,000)
Remaining NRB		<u>325,000</u>	<u>63,000</u>

## 4 IHT on the death estate



### SECTION OVERVIEW

- IHT is chargeable on the death estate when an individual dies.
- The value of the death estate is calculated as total assets less allowable debts and funeral expenses.
- Allowable debts are those incurred for full consideration and those imposed by law eg, tax.

### 4.1 What to include in the death estate

When an individual dies, they are treated as making a transfer of value of the amount of their **death estate**.

The **death estate** consists of all the assets to which the deceased was beneficially entitled at their death less debts and funeral expenses (see later in this section). It includes anything acquired by reason of their death, such as the proceeds (rather than the surrender value) of a life assurance policy. Tax on the death estate is payable by the personal representatives.

### 4.2 Charge to IHT on the death estate

The death estate is chargeable to IHT, subject to the exemptions available on death where assets pass to:

- spouse/civil partner (outright or to a trust in which the spouse/civil partner has an interest in possession)
- charity
- qualifying political party

Where assets pass on death to anyone else (eg, children, grandchildren, any type of trust for anybody other than the spouse/civil partner), a charge to IHT arises on those assets.

The chargeable transfers made by the deceased in the seven years before their death are cumulated to calculate the nil rate band remaining for use when calculating the tax on the death estate. Remember that this will include potentially exempt transfers within the seven years before death.



### WORKED EXAMPLE: Death estate

Ryan died on 12 July 2025. His death estate was as follows:

	£
House	500,000
Cash	163,000
Quoted investments	355,000
Personal chattels	<u>50,000</u>
Gross assets	1,068,000
Less allowable debts and funeral expenses	<u>(40,000)</u>
Net assets	<u><u>1,028,000</u></u>

Ryan had made a gross chargeable transfer of value of £41,000 in July 2019. He also made a potentially exempt transfer of £67,000 in October 2023 (after deduction of annual exemptions).

Ryan left his estate as follows:

- £10,000 to RSPCA (a registered charity)
- House and personal chattels to his wife

The rest of his estate passes to his son.

#### Requirement

Compute the IHT payable on Ryan's death estate and state who is liable to pay the IHT due.

#### SOLUTION

##### Ryan death estate - 12 July 2025

	£	£
Gross assets		1,068,000
Less allowable debts and funeral expenses		<u>(40,000)</u>
		1,028,000
Less: spouse exemption:		
- house	500,000	
- chattels	<u>50,000</u>	(550,000)
- charity exemption		<u>(10,000)</u>
Chargeable estate		468,000
Nil rate band 2025/26	325,000	
Less gross transfer of value in seven years before death (after 12.7.18) (£41,000 + £67,000)	<u>(108,000)</u>	
Nil rate band		<u>(217,000)</u>
Excess over nil band		<u>251,000</u>
IHT on £251,000 @ 40%		<u><u>100,400</u></u>

The personal representatives are responsible for paying the IHT due on the death estate.



### 4.3 Debts and expenses

The following debts and expenses can be deducted in the computation of the death estate:

- Debts incurred for full consideration eg, credit card bills for goods bought prior to death, rent due accrued to date of death, but not gambling debts, as such debts are not incurred for consideration. Whilst some gambling debts are legally enforceable and so allowable, for the purposes of this exam you should assume that no gambling debts are deductible from the death estate.
- Taxes imposed by law eg, income tax, capital gains tax
- Reasonable funeral expenses, including the cost of a tombstone
- Unpaid debts only if they remain unpaid for a commercial reason and not as part of an arrangement to obtain a tax advantage

Where a debt is charged on specific property, eg, a mortgage on a house, the debt is deductible primarily from the property on which it is charged.

No deduction is allowed for loans obtained to acquire or enhance excluded property (outside the scope of your syllabus).



#### WORKED EXAMPLE: Pierre

Pierre died on 1 August 2025. At this date he owned the following assets:

- Flat in London worth £2,500,000
- Investment portfolio valued at £700,000

He also had the following debts and liabilities:

- Mortgage secured on the flat of £1,000,000
- Outstanding income tax liability of £95,000
- Gambling debts of £50,000
- Balance on credit card £60,000

#### Requirement

What is the value of Pierre's death estate?

#### SOLUTION

The correct answer is £2,045,000. The gambling debt is not deductible, but all of the other debts and liabilities are.

## 5 Valuation



### SECTION OVERVIEW

- The value of a transfer of value is the diminution in value of the transferor's estate, usually the value of the asset transferred.
- Assets transferred are usually valued at open market value.
- For lifetime transfers where part of an asset is given away, the position before and after the transfer must be considered.
- For inheritance tax purposes, quoted shares are valued at the lower of  $\frac{1}{4}$  up and average marked bargain.
- Unit trust units are valued at bid price.
- Proceeds of a life assurance policy owned by a person on their own life are part of their death estate.
- There is a discount for valuing land held jointly.
- Less: mortgage

## 5.1 Principles of valuation for IHT

As explained earlier in this workbook, the amount of a transfer of value is the diminution in value of the transferor's estate.

Usually, this calculation involves valuing the asset transferred in accordance with valuation rules which we will cover in this section. In general, the value of any asset for the purposes of IHT is the price which the asset might reasonably be expected to fetch if it were sold on the open market at the time of the transfer.

## 5.2 Lifetime transfers – diminution in value

In the case of lifetime transfers there is a further aspect which needs to be considered if the transferor gives away part of an asset. In this case, it is necessary to look at the situation before the transfer of value and after the transfer of value. This is particularly relevant where the transfer is part of a shareholding of unquoted shares.

The valuation of unquoted shares mainly depends on the voting power that the shares confer on the shareholder.

For example, if a shareholder has 75% or more of the shares of the company, they have a great deal of power over the conduct of the company's business and so their shares will be valued in relation to the net assets of the company.

A shareholder in an unquoted company who holds less than 25% of the shares in the company will have virtually no power over the conduct of the company's business and so their shares will be valued in relation to the income that they can expect to receive from the shares.

Values of unquoted shares are negotiated with the Shares and Assets Valuation office of HMRC.



### WORKED EXAMPLE: Diminution in value

Simon owns 80% of the shares in T Ltd. He gives a 20% shareholding to his son, Edward, on 10 February 2026. The values agreed with HMRC are:

	£
80% holding	400,000
60% holding	260,000
20% holding	40,000

#### Requirement

Show the transfer of value made by Simon.

#### SOLUTION

	£
Before: 80% holding	400,000
After: 60% holding	(260,000)
Transfer of value	<u>140,000</u>

Note that for CGT purposes, in calculating the gain on the gift, the market value of the shares transferred is £40,000 ie, the value of the actual holding transferred – the diminution in value rule only applies for IHT.

## 5.3 Quoted shares

For inheritance tax purposes, shares which are listed on the Stock Exchange are valued at the lower of:

- the quarter up rule; and

- the average of the highest and lowest marked bargains on the day of the transfer.

The quarter up rule is:

Lower quoted price +  $\frac{1}{4}$  (higher quoted price less lower quoted price)

These rules differ from those which apply when valuing quoted shares for most CGT purposes (see earlier in this workbook). These IHT rules only apply to CGT when such shares have been included in a death estate and so valued for IHT purposes. Then the base cost for future CGT disposals, is the value used in the death estate (ie, the value as calculated for IHT purposes).



### ASSESSMENT FOCUS POINT

In questions, do not round the price. For example, if you calculate the value to be 342.5p, then you should use a price of £3.425.



### ASSESSMENT FOCUS POINT

Remember that the value given is in pence, so you need to convert it to pounds in order to value the shares.



### INTERACTIVE QUESTION 3: Quoted share valuation

Penny gifts all of her portfolio of shares to her son which consists of:

Company	No. of shares	Quoted at	Marked bargains
J plc	8,750	330p-346p	332p, 336p, 343p
K plc	1,700	102p-108p	100p, 104p, 106p

#### Requirement

Using the standard format below, compute the value of the shares transferred for IHT.

#### J plc shares

Lower of:

$\frac{1}{4}$  up

Average bargain

ie,

#### K plc shares

Lower of:

$\frac{1}{4}$  up

Average bargain

ie,

See **Answer** at the end of this chapter.

## 5.4 Unit trusts

Units in an authorised unit trust are shown at two prices:

- Bid price (the amount at which the units will be bought by the unit trust manager)
- Offer price (the amount at which the units will be sold by the unit trust manager)

For IHT purposes, the units are valued at the bid price (the lower of the two prices).

## 5.5 Life assurance policies

An individual may own a life assurance policy on their own life or on the life of someone else (eg, spouse/civil partner).

If the individual dies owning a life assurance policy on their own life not written in trust, the proceeds (rather than the market value) of the policy are included in their estate for IHT purposes.

It is common for such a policy to be written in trust so that the proceeds do not form part of the individual's estate but are held on the terms of the trust for specified beneficiaries. Thus, no IHT will then be paid on the proceeds.

If the individual dies owning a life assurance policy on the life of someone else, the market value (rather than the potential proceeds) of the policy is included in their estate for IHT purposes.

## 5.6 Assets held jointly

Where an asset is owned by more than one individual and one of the joint owners makes a transfer of value in relation to the joint asset, that individual's interest must be valued.

Sometimes, the joint owners will have set out their interests in the asset (eg, A owns 40% and B owns 60%) or the interests may be ascertained from the circumstances of the acquisition of the asset.

Particularly where land is held jointly, it may not be possible for the individual's interest to be disposed of freely.

Where the asset is jointly owned by taxpayers who are not married or in a civil partnership, a discount of between 5% and 15% may be allowed from the full value of the interest.



### WORKED EXAMPLE: Adam

On his death, Adam owned an investment property jointly with his sister Eve. The property was valued at £800,000.

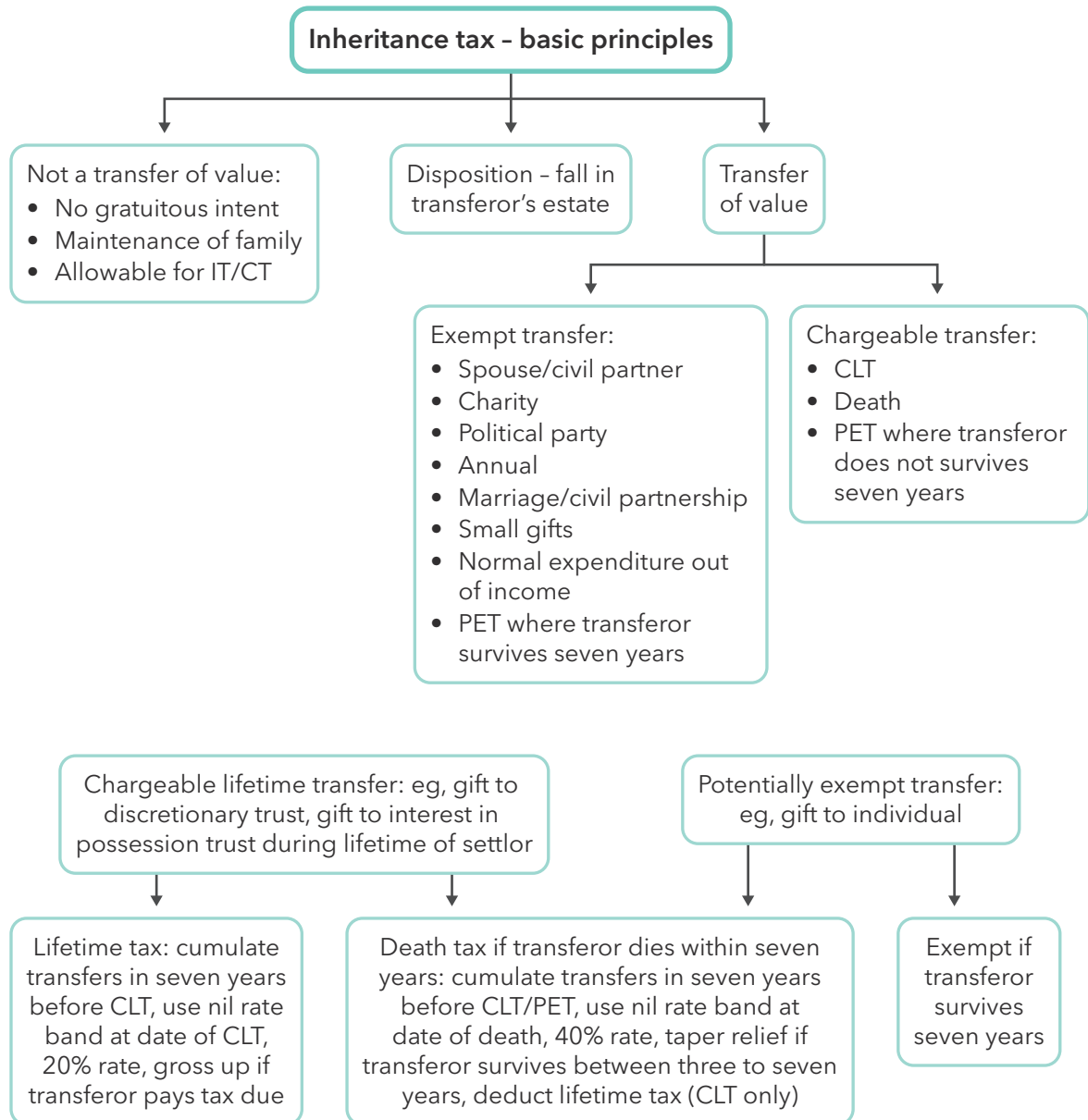
#### Requirement

What is the value of Adam's half share for IHT purposes?

#### SOLUTION

If sold on the open market, Adam's half share would not be worth £400,000 because Eve still owns half the property. HMRC would therefore allow a deduction of between 5% and 15%.

# SUMMARY



# FURTHER QUESTION PRACTICE

## 1 Knowledge diagnostic

Before you move on to question practice, confirm you are able to answer the following questions having studied this chapter. If not, you are advised to revisit the relevant learning from the topic indicated.

Confirm your learning	
1.	Do you understand what a 'transfer of value' means? (Topic 1)
2.	Can you explain the various exemptions available on lifetime gifts? (Topic 2)
3.	Can you classify a transfer of value as either exempt, a chargeable lifetime transfer (CLT) or a potentially exempt transfer? (Topic 3)
4.	Can you calculate lifetime IHT on a CLT? (Topic 3)
5.	Can you calculate additional tax due on death for a CLT? (Topic 3)
6.	Can you calculate IHT due on death for a PET? (Topic 3)
7.	Do you know how to present a death estate calculation? (Topic 4)
8.	Can you apply the IHT valuation rules to calculate the value of a transfer? (Topic 5)

## 2 Question practice

Aim to complete all self-test questions at the end of this chapter. The following self-test question is particularly helpful to further topic understanding and guide skills application before you proceed to the next chapter.

Question	Learning benefit from attempting this question
Q5	This question gives good practice of the IHT proforma to use where an individual has made several lifetime gifts.

Once you have completed this self-test question, attempt all the questions in the Inheritance tax chapter of the Tax Fundamentals [Question Bank](#). Refer back to the learning in this chapter for any questions which you did not answer correctly or where the suggested solution has not provided sufficient explanation to answer all your queries. Once you have attempted these questions, you can move on to the next chapter.

# TECHNICAL REFERENCE

## 1 Legislation

All references are to Inheritance Tax Act 1984 (*IHTA 1984*)

- Charge to IHT – **s.1**
- Chargeable transfers and exempt transfers – **s.2**
- Dispositions as transfers of values – **s.3**
- Dispositions which are not transfers of value:
  - No gratuitous intent – **s.10**
  - Maintenance of family – **s.11**
  - Allowable for income tax or corporation tax – **s.12**
- Exempt transfers:
  - Spouse/civil partner – **s.18**
  - Charity – **s.23**
  - Political party – **s.24**
  - Annual – **s.19**
  - In consideration of marriage or civil partnership – **s.22**
  - Small gifts – **s.20**
  - Normal expenditure out of income – **s.21**
- Potentially exempt transfers – **s.3A**
- Rates of IHT and taper relief – **s.7**
- Death estate:
  - Meaning of estate – **s.5**
  - Liabilities – **s.162**
  - Funeral expenses – **s.172**
- Valuation:
  - Market value – **s.160**
  - Life policies – **s.167**

## 2 HMRC manual references

Inheritance Tax Manual (found at <https://www.gov.uk/hmrc-internal-manuals/inheritance-tax-manual>)

- How Inheritance Tax is charged – **IHTM04000**
- Structure of the charge: what is property? – **IHTM04030**
- Structure of the charge: what is the value transferred? – **IHTM04028**
- Exemptions: contents – **IHTM11000**

# SELF-TEST QUESTIONS

Answer the following questions.

- 1 Prior to June 2025, Mark had made no dispositions.

In June 2025, he gave £10,000 to Oxfam, a registered charity. He paid his son's school fees of £3,000 in September 2025. He gave £9,000 to his sister on the occasion of the formation of her civil partnership in January 2026.

Mark died in March 2026.

## Requirement

What amount (if any) is chargeable to IHT in respect of these events on his death?

- A £2,000
- B £3,000
- C £5,000
- D £15,000

- 2 Ron had made no gifts until January 2025.

On 15 January 2025, he gave cash of £1,600 to his daughter. On 18 August 2025, he gave cash of £200 to his grandson. On 22 December 2025 he gave cash of £10,000 to his son.

On 10 January 2026, Ron died.

## Requirement

What amount (if any) is chargeable to IHT in respect of these events on his death?

- A £4,000
- B £5,600
- C £5,800
- D £7,000

- 3 Teresa had made no gifts until July 2025.

On 10 July 2025, she gave £380,000 to a discretionary trust for the benefit of her children.

The trustees agreed to pay the IHT due.

## Requirement

How much IHT is payable on the transfer in Teresa's lifetime?

- A NIL
- B £9,800
- C £11,000
- D £12,250

- 4 On 1 June 2020, William made a gross chargeable transfer of £332,250 (his only lifetime transfer) when he made a gift to a discretionary trust. Lifetime IHT of £1,450 was paid.

On 15 August 2025, William died.

## Requirement

What is the IHT payable or repayable, if any, as a result of William's death?

- A £290 repayable
- B £1,450 payable
- C NIL
- D £1,160 payable



- 5 Keira made the following transfers of value in her lifetime:
- 10 August 2015 Gross chargeable lifetime transfer of £71,000
  - 17 September 2017 Potentially exempt transfer of £27,000
  - 20 July 2022 Potentially exempt transfer of £319,000
- Keira died on 15 November 2025.

**Requirement**

What is the IHT payable as a result of Keira's death? Ignore the annual exemption.

- A £20,800
  - B £29,440
  - C £26,000
  - D £36,800
- 6 Susan died on 12 March 2026. Her chargeable death estate was £540,000 and she left the whole of her estate to her son, Mark. Susan had made no lifetime transfers.

**Requirement**

What is the IHT chargeable on Susan's estate?

- A £86,000
- B £43,000
- C £0
- D £83,600

Now go back to the Introduction and ensure that you have achieved the Learning outcomes listed for this chapter.

# ANSWERS TO INTERACTIVE QUESTIONS

## Answer to Interactive question 1

	April 2024	August 2024	November 2024	April 2025	June 2025
	£	£	£	£	£
Transfer	2,000	12,000	3,800	5,500	225
Less exemptions	-	-	-	-	-
- in consideration of marriage	-		-	(1,000)	-
- charity	-	(12,000)	-	-	-
- small gift	-			-	(225)
- annual	(2,000)	-	(1,000)	(3,000)	-
- annual b/f	-	-	<u>(2,800)</u>	-	-
	0	0	0	1,500	-

## Answer to Interactive question 2

	July 2016	November 2022	March 2026
	CLT	CLT	Death
	£	£	£
<b>Stage 1 - Transfers</b>			
Transfer		424,000	
Less exemptions			
- annual		(3,000)	
- annual b/f		<u>(3,000)</u>	
		418,000	
<b>Stage 2 - Lifetime tax</b>			
Less remaining NRB (W)		<u>(263,000)</u>	
		155,000	
IHT@ 20%		31,000	
Gross chargeable transfer	62,000	418,000	
<b>Stage 3 - Tax on death</b>			
Gross chargeable transfer	More than 7 years	418,000	
Less remaining NRB (W)		<u>(263,000)</u>	
		155,000	
IHT @ 40%		62,000	
Taper relief (3-4 yrs) 80% chargeable		49,600	
Less lifetime tax paid		<u>(31,000)</u>	
Tax payable on death		18,600	

## WORKING

### Remaining nil rate band

	November 2022
	CLT
	£
<b>Stage 2 - Lifetime</b>	
Lifetime NRB	325,000
Less chargeable in 7 years before CLT ie since 21 November 2015	<u>(62,000)</u>
Remaining NRB	263,000
<b>Stage 3 - On death</b>	
NRB at death	325,000
Less chargeable in 7 years before CLT ie since 21 November 2015	<u>(62,000)</u>
Remaining NRB	263,000

Once again, we follow our Stages in the calculation. Note that we have been told the gross chargeable transfer of value for the gift in July 2016 meaning that it would have been a CLT and that the value after reliefs and exemptions and any grossing up for any lifetime tax would have been £62,000. We are not asked to calculate the lifetime tax due on this July 2016 CLT and there will be no further tax due on Eric's death as it is more than 7 years prior to death. Thus, the GCT for the July 2016 CLT is only relevant in terms of using NRB in our calculations of the November 2022 CLT tax.

### Answer to Interactive question 3

#### J plc shares

Lower of:

$\frac{1}{4}$  up

$$330\text{p} + \frac{1}{4}(346\text{p} - 330\text{p}) = 334\text{p}$$

Average bargain

$$(343 + 332)/2 = 337.5\text{p}$$

$$\text{ie, } 8,750 \text{ shares @ } 334\text{p} = \text{£}29,225$$

#### K plc shares

Lower of:

$\frac{1}{4}$  up

$$102\text{p} + \frac{1}{4}(108\text{p} - 102\text{p}) = 103.5\text{p}$$

Average bargain

$$(100 + 106)/2 = 103\text{p}$$

$$\text{ie, } 1,700 \text{ shares @ } 103\text{p} = \text{£}1,751$$

# ANSWERS TO SELF-TEST QUESTIONS

1 Correct answer(s):

A £2,000

**June 2025** - Exempt transfer to charity

**September 2025** - Disposition not a transfer of value – for maintenance of family

**January 2026**

	£
Cash	9,000
Less: exemption for gift in consideration of civil partnership	(1,000)
- annual exemption 2025/26	(3,000)
- annual exemption 2025/26	<u>(3,000)</u>
- annual exemption 2024/25 b/f	<u>2,000</u>

2 Correct answer(s):

B £5,600

**15 January 2025**

	£
Cash	1,600
Less annual exemption 2024/25 (part)	<u>(1,600)</u>
Transfer	<u>NIL</u>

**18 August 2025**

	£
Cash	200
Less small gifts exemption	<u>(200)</u>
Transfer	<u>NIL</u>

**22 December 2025**

	£
Cash	10,000
Less: annual exemption 2025/26	(3,000)
- annual exemption 2024/25 (balance) b/f	<u>(1,400)</u>
PET chargeable as dies within seven years	<u>5,600</u>

3 Correct answer(s):

B £9,800

A gift to a discretionary trust is a CLT.

	£
Cash	380,000
Less: annual exemption 2025/26	(3,000)
- annual exemption 2024/25 b/f	<u>(3,000)</u>
Gross transfer of value	374,000
Less nil rate band at gift 2025/26	<u>(325,000)</u>
Excess over nil band	<u>49,000</u>
IHT on £49,000 @ 20%	<u>9,800</u>

4 Correct answer(s):

C NIL

	£
Gross transfer of value	332,250
Less nil rate band at death - 2025/26	<u>(325,000)</u>
Excess over nil band	<u>7,250</u>
IHT on £7,250 @ 40%	<u>2,900</u>
Transferor survived 5 years but not 6 years	
Chargeable 40% × £2,900	1,160
Less lifetime tax paid	<u>(1,450)</u>
Additional tax payable by trustees	<u>NIL</u>

5 Correct answer(s):

A £20,800

#### Inheritance tax

	August 2015	September 2017	July 2022	November 2025
	CLT	PET	PET	Death
	£	£	£	£
<b>Stage 1 - Transfers</b>	71,000	27,000	319,000	-
<b>Stage 2 - Lifetime tax</b>	Not required			
Gross chargeable transfer	<u>71,000</u>	<u>27,000</u>	<u>319,000</u>	-
<b>Stage 3 - Tax on death</b>				
Gross chargeable transfer	More than 7 years	More than 7 years	319,000	-
Less remaining NRB (W)			(254,000)	
			<u>65,000</u>	
IHT @ 40%			<u>26,000</u>	
Taper relief (3-4 yrs) 80% chargeable			20,800	
Tax payable on death		-	<u>20,800</u>	-

#### WORKING

#### Remaining nil rate band

	August 2015	September 2017	July 2022
	CLT	PET	PET
	£	£	£
Stage 3 - On death			
NRB at death	N/A	N/A	325,000
Less chargeable in previous 7 years (the September 2017 PET is not chargeable and so does not cumulate to use NRB)			<u>(71,000)</u>
Remaining NRB			<u>254,000</u>

6 Correct answer(s):

A £86,000

#### Susan - Death estate 12 March 2026

	£
Chargeable estate	540,000
Less nil rate band 2025/26	<u>(325,000)</u>
Excess over nil band	215,000
IHT on £215,000 @ 40%	<u>86,000</u>







# CHAPTER 14

## Stamp taxes



### INTRODUCTION

Learning outcomes

Syllabus links

Examination context

Chapter study guidance

### LEARNING TOPICS

1 Stamp duty

2 Stamp duty reserve tax (SDRT)

3 Stamp duty land tax (SDLT)

Summary

Further question practice

Technical reference

Self-test questions

Answers to Interactive questions

Answers to Self-test questions

# INTRODUCTION

## Learning outcomes

- Identify common situations in which a liability to Stamp Duty Land Tax, Stamp Duty Reserve Tax and Stamp Duty arises.
- Calculate the amount of stamp taxes due in straightforward transactions.

Specific syllabus references for this chapter are 6g and 6h.

## Syllabus links

In this module we will cover the basics of stamp duty, stamp duty reserve tax and stamp duty land tax. You will extend this knowledge in the Tax Compliance and Planning module by considering the consequences of being in a group for stamp tax purposes.

## Examination context

In the examination students may be required to:

- compute the stamp taxes payable on a transaction; and
- Identify exemptions from stamp taxes.

## Chapter study guidance

Use this schedule and your study timetable to plan the dates on which you will complete your study of this chapter.

Topic	Practical significance	Study approach	Exam approach	Interactive questions
1-2	<p><b>Stamp duty and Stamp duty reserve tax</b></p> <p>Stamp duty and Stamp duty reserve tax are indirect, transaction-based taxes, payable by the purchaser. The name 'stamp' is historical since most transactions these days are conducted electronically.</p> <p>Stamp duty and Stamp duty reserve tax (SDRT) relate to the purchase of shares whereas Stamp Duty Land Tax relates to a purchase of property. These taxes between them raise a large sum for the Treasury each year and can be very expensive for a business. There are exemptions available for transactions such as those involving gifts or a divorce.</p> <p>You are unlikely to have to do much more than recognise where stamp duty and stamp duty reserve tax are relevant in a working context. In practice much of the work involving this area will be undertaken with the assistance of a specialist.</p>	<p><b>Approach</b></p> <p>Read through the chapter and attempt the worked examples and interactive questions without looking at the answers.</p> <p><b>Stop and think</b></p> <p>Could you recognise when to refer a transaction by a client to a stamp duty specialist?</p>	<p>Typically, in your exam, you will see an individual purchasing shares and need to calculate the stamp duty (or SDRT) thereon.</p>	<p><b>IQ1: Stamp duty payment, interest and penalties</b></p> <p>This question gets you to calculate stamp duty.</p>

Topic	Practical significance	Study approach	Exam approach	Interactive questions
3	<b>Stamp duty land tax</b> Stamp duty land tax (SDLT) is also an indirect, transaction based tax payable by the purchaser. Anyone buying a house will need to pay stamp duty land tax. It is a considerable lump sum to have to pay, together with the deposit for a property and so it's important that individuals are aware of this tax.	Continue working through the chapter.  <b>Stop and think</b> Are you aware of the situations when a charge to Stamp Duty Land Tax could arise? If you've bought a property are you aware that you paid stamp duty?	The SDLT limits and rates are given in your tax tables in the exam.	<b>IQ2: SDLT on lease</b> This question gets you to calculate SDLT on a lease.

Once you have worked through this guidance you are ready to attempt the further question practice included at the end of this chapter.

# 1 Stamp duty



## SECTION OVERVIEW

- Stamp duty is payable on stock transfer forms used to transfer shares and securities.
- The rate of duty is usually 0.5%.
- There are exemptions for transfers for no consideration such as gifts.

## 1.1 Charge to stamp duty



### DEFINITION

**Stamp duty:** Stamp duty is payable on the transfer of shares and securities where the transfer is made using a stock transfer form. Stamp duty can only be charged where an instrument, in this case a stock transfer form, is used to execute the transfer. A paper stock transfer form (J30) is used for off-market or private share transfers, ie transfers between the buyer and seller which are not made via any stock exchange or broker. For paperless transactions, Stamp Duty Reserve Tax applies instead (see below).

The rate of stamp duty is 0.5% of the consideration. This is called **ad valorem** duty as it is imposed on the value of the consideration.

The duty is payable by the person acquiring the shares and is rounded up to the nearest £5.

However, stamp duty is not chargeable if the value of the consideration is £1,000 or less, as the duty payable would only be £5. In this case, the stock transfer form does not need to be presented to HMRC and can be sent directly to the company registrar.



### WORKED EXAMPLE: Stamp duty

Julie sells her shares in R Ltd to Colin for £72,480 on 10 July 2025.

#### Requirement

Compute the stamp duty payable by Colin.

#### SOLUTION

$£72,480 \times 0.5\% = £362$  rounded up to £365



### PROFESSIONAL SKILLS FOCUS: Assimilation and using information

Make sure that you can actually calculate 0.5% of a figure – the Examiner says that students are often unable to do this in the real exam. In your calculator it's  $0.5 \div 100 \times \text{consideration}$  (or  $0.005 \times \text{consideration}$ ).

## 1.2 Exemptions from stamp duty

There are exemptions from stamp duty for certain transactions where there is no consideration for the transfer such as:

- gifts
- divorce arrangements
- bequests in a Will

The transfer must state which exemption is being claimed. The categories are usually printed on the back of the stock transfer form.

Securities dealt on 'recognised growth markets', such as the UK Alternative Investment Market (AIM), are also exempt from stamp duty, in order to promote investment in such markets and help growing companies raise finance.

## 2 Stamp duty reserve tax (SDRT)



### SECTION OVERVIEW

- Stamp duty reserve tax is payable on the paperless electronic transfer of shares and securities.
- The principal charge to SDRT is at 0.5% (a higher rate of 1.5% applies in some circumstances but is not examinable). Unlike stamp duty, there is no rounding.
- There are few exemptions.

### 2.1 Charge to stamp duty reserve tax

Stamp duty depends on there being a document which can be stamped. It is not able to cope with paperless transactions. For that reason, Stamp Duty Reserve Tax (SDRT) was introduced in 1986. SDRT is now the largest source of stamp duty revenue on share transfers.



### DEFINITION

**Stamp duty reserve tax (SDRT):** SDRT is payable on the paperless ie electronic transfer of shares and securities. Most such transfers are executed via CREST. CREST is a Treasury-approved electronic settlement system.

The principal charge to SDRT is **on agreements** to transfer 'chargeable securities' (most stocks and shares) for consideration in money or money's worth. SDRT applies instead of stamp duty where the transfer is not completed by an instrument of transfer (ie by a stock transfer form stamped with ad valorem duty).

The rate of stamp duty reserve tax is 0.5% of the consideration. Unlike stamp duty, there is no rounding up to the nearest £5. However, in the examination, remember that you should work to the nearest pound.

For SDRT there is no current de minimis, though in practice any consideration under £1 leads to a less than 1p tax liability and so does not need to be paid.



### PROFESSIONAL SKILLS FOCUS: Assimilation and using information

SDRT is payable on any transfer capable of being completed via CREST, even if a paper form is used. In your examination, if you are told that a paper form has been used, you should assume that CREST was not applicable and that stamp duty rather than SDRT will apply.



### INTERACTIVE QUESTION 1: SDRT calculation

Alicia purchased shares in X plc on 1 July 2025. She paid £45,300 for the shares and the transfer was made via CREST.

#### Requirement

Compute the stamp duty reserve tax payable by Alicia.

£

See **Answer** at the end of this chapter.

## 2.2 Exemptions from stamp duty reserve tax

There are exemptions from SDRT for gifts, bequests in a Will and transfers under divorce arrangements. Securities dealt with on 'recognised growth markets' are also exempt from SDRT.

## 2.3 Cancellation of stamp duty reserve tax

To prevent a double charge to both stamp duty and SDRT, any SDRT paid on an agreement to transfer shares will be repaid if the transaction is subsequently completed by a stamped stock transfer form. Normally, if the subsequent stock transfer form is exempt from stamp duty it will also be exempt from SDRT and any SDRT paid will be repaid. You will not be tested on this in Tax Fundamentals.

# 3 Stamp duty land tax (SDLT)



### SECTION OVERVIEW

- SDLT is chargeable on land transactions, including freehold sales of land and grants of leases.
- Where there is chargeable consideration, SDLT is charged at various rates on the portion of consideration falling in each rate band.
- The rates of SDLT depend on whether the land is residential or non-residential and whether the purchase is of freehold or leasehold land.
- On the grant of a lease, in addition to SDLT being due on the lease premium, there is also a charge on any rent based on the Net Present Value of the rents receivable over the term of the lease.
- There are a number of exemptions from SDLT.

## 3.1 Charge to SDLT



### DEFINITION

**Stamp duty land tax (SDLT):** Stamp duty land tax (SDLT) is chargeable on land transactions. Examples include the transfer of freehold land, the assignment of a lease and the grant of a lease.

Where a land transaction is made for chargeable consideration (payment in money or money's worth), there is a charge to SDLT based on the amount of that consideration. It is based on the VAT inclusive amount. An example where payment is in money's worth would be where a property is gifted, and the transferee takes over the mortgage. The chargeable consideration would be the amount of the mortgage.

SDLT is payable by the purchaser.

The rates of SDLT depend on whether the land is used for residential purposes or non-residential purposes.



### DEFINITIONS

**Freehold:** The owner of a freehold is regarded as owner of the land for a period of time without end. They have the right to occupy the land, the right to sell it and it may be inherited by any person from the owner.

A freeholder may create a leasehold of a certain duration. The freeholder becomes the landlord or lessor and is said to grant a lease to the leaseholder (the tenant or lessee).

**Leasehold:** The owner of a leasehold is regarded as the owner for the period of the lease (known as the term).

**Lease premium:** A lease premium is a one-off capital payment paid by the lessee to the lessor on the grant of a lease.

## 3.2 Freeholds

SDLT payable on the purchase of a freehold, or on payment of a lease premium is calculated as follows:

%	Residential	%	Non-residential
0 <sup>1,2</sup>	£Nil-£125,000	0	£Nil-£150,000
2 <sup>1,2</sup>	£125,001-£250,000	2	£150,001-£250,000
5 <sup>1,2</sup>	£250,001-£925,000	5	£250,001 and over
10 <sup>2</sup>	£925,001-£1,500,000		
12 <sup>2</sup>	£1,500,001 and over		

### Note 1: first home purchase

There is relief from the standard residential rates for individuals purchasing their first property as their main or only residence for consideration of up to £500,000. The new rates which apply are 0% on consideration up to and including £300,000 with 5% on any remainder (so far as the remainder does not exceed £200,000).

If the total consideration exceeds £500,000 no relief is given and the usual rates apply.

### Note 2: additional residential purchase

A further 5% is charged in each band on the purchase of additional residential properties. This applies when a purchaser already owns a residential property and is buying another, for example to rent out.

The legislation is widely drawn to catch many different scenarios, but these higher rates are not charged for transactions under £40,000. They also do not usually apply if the new property replaces the purchaser's home.



### ASSESSMENT FOCUS POINT

SDLT on the purchase of residential property by a company is not within the Tax Fundamentals syllabus.

From 1 April 2015 SDLT was replaced by Land and Buildings Transaction Tax (LBTT) in Scotland, and from 1 April 2018 by Land Transaction Tax (LTT) in Wales. These are not tested in the Tax Fundamentals exam.



### WORKED EXAMPLE: SDLT on sale of freehold land

Harold sells his house to Lily for £475,000 on 10 April 2025.

#### Requirements

- 1 Compute the SDLT payable by Lily if she owns no other property and is a first-time buyer.
- 2 Compute the SDLT payable by Lily if she owns no other property and is not a first-time buyer.
- 3 Compute the SDLT payable by Lily if she bought the house and already owns a house which she intends to keep.
- 4 Compute the SDLT payable if Lily had purchased instead a non-residential property for £475,000.



## SOLUTION

- 1 SDLT is calculated as follows:

	£
$£300,000 \times 0\%$	0
$£175,000 \times 5\%$	8,750
SDLT payable is	<u>8,750</u>

- 2 SDLT is calculated as follows:

	£
$£125,000 \times 0\%$	0
$(£250,000 - £125,000) \times 2\%$	2,500
$(£475,000 - £250,000) \times 5\%$	11,250
SDLT payable is	<u>13,750</u>

- 3 SDLT is calculated as follows:

	£
$£125,000 \times 5\%$	6,250
$(£250,000 - £125,000) \times 7\%$	8,750
$(£475,000 - £250,000) \times 10\%$	22,500
SDLT payable is	<u>37,500</u>

- 4 SDLT is calculated as follows:

	£
$£150,000 \times 0\%$	0
$(£250,000 - £150,000) \times 2\%$	2,000
$(£475,000 - £250,000) \times 5\%$	11,250
SDLT payable is	<u>13,250</u>



## ASSESSMENT FOCUS POINT

If you are told in the exam that a house or other property is sold, with no mention of a lease or leasehold, you should assume that this is a freehold sale.



### PROFESSIONAL SKILLS FOCUS: Assimilation and using information

Make sure you notice the type of property being purchased and whether an individual is a first-time buyer or if it's a second/additional property being purchased – this will impact the rate of stamp duty land tax applicable.



### PROFESSIONAL SKILLS FOCUS: Structuring problems and solutions

Stamp duty calculations should be relatively straightforward marks in your exam. Make sure you can find the correct rates and thresholds in your tax tables depending upon whether you are dealing with a residential, non-residential, additional property or a first-time buyer.

## 3.3 Leases

Stamp duty land tax is chargeable on the grant of leases, both on the lease premium and on the net present value of the rental. The net present value of the rental is basically the rent payable over the term of the lease.

The lease premium is charged to SDLT as if the lease premium were the chargeable consideration (using the SDLT table in section 3.2 above).

In addition, on the grant of a lease, SDLT is also chargeable on chargeable consideration consisting of rent. The charge is based on the Net Present Value (NPV) of the rent payable to the landlord over the term of the lease. This is the total rent payable, discounted by 3.5% each year.

For examination purposes, you may take the NPV to be the total rents payable over the term of the lease.

Again, the rate of SDLT depends on whether the land is residential or non-residential.

%	Residential	Non-residential
0	Up to £125,000	Up to £150,000
1	Excess over £125,000	£150,001 – £5,000,000
2		Excess over £5,000,000

As with the calculations of SDLT on freehold purchases and lease premiums (in section 3.2), the rates apply to the portion of the NPV falling in the various bands.

At Tax Fundamentals, you will only be examined on the grant of a lease, not an assignment.



### WORKED EXAMPLE: SDLT on rental

Donald is granted a 25-year lease of a factory by Simon on 1 August 2025. He pays an annual rental of £9,000 per year for the term of the lease.

#### Requirement

Compute the SDLT payable by Donald.

#### SOLUTION

	£
Rental payable over term of lease: £9,000 × 25	225,000
SDLT (£225,000 – 150,000) × 1%	<u>750</u>



## INTERACTIVE QUESTION 2: SDLT on lease

G plc is granted a lease of a factory by T plc. The lease is for 10 years. The premium payable by G plc is £245,000 and the annual rent is £30,000 per year.

### Requirement

Using the standard format below, compute the SDLT payable by G plc in respect of the lease.

SDLT on the lease premium:

	£
£ <input type="text"/> × <input type="text"/> %	<input type="text"/>
(£ <input type="text"/> - £ <input type="text"/> ) × <input type="text"/> %	<input type="text"/>
SDLT on lease premium	<input type="text"/>
SDLT on lease rentals of £ <input type="text"/> ( <input type="text"/> × £ <input type="text"/> ):	
£ <input type="text"/> × <input type="text"/> %	<input type="text"/>
(£ <input type="text"/> - £ <input type="text"/> ) × <input type="text"/> %	<input type="text"/>
SDLT on lease rentals	<input type="text"/>
Total SDLT = £ <input type="text"/> + £ <input type="text"/> = £ <input type="text"/>	

See **Answer** at the end of this chapter.

## 3.4 Exemptions from SDLT

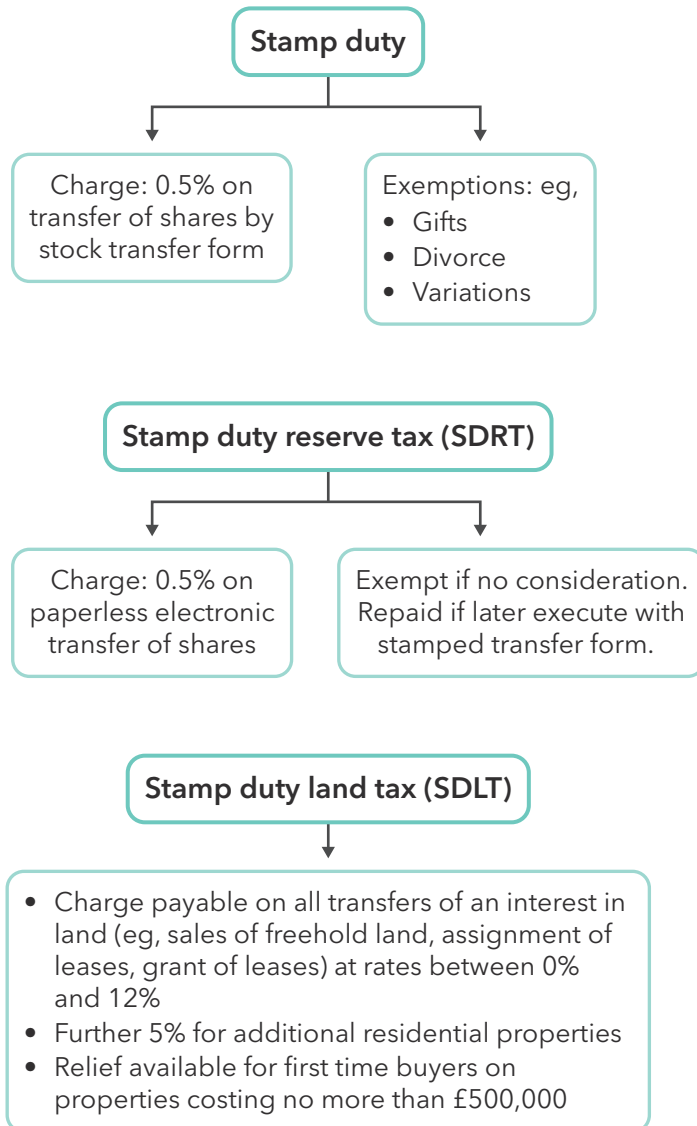
There are a number of exemptions from SDLT including transfers:

- for no chargeable consideration (eg, gifts)
- on divorce
- effecting a variation of a Will

In these cases, no land transaction form needs to be submitted to HMRC (see further in the administration chapter).

Note that where responsibility for a debt is assumed by the purchaser, the value of the debt is treated as consideration and not an outright gift eg an intra spouse transfer where the property transferred is subject to a mortgage. Therefore, while a gift of land between spouses will be exempt from SDLT, a transfer between spouses for consideration is not exempt (unless this is on divorce).

# SUMMARY



# FURTHER QUESTION PRACTICE

## 1 Knowledge diagnostic

Before you move on to question practice, confirm you are able to answer the following questions having studied this chapter. If not, you are advised to revisit the relevant learning from the topic indicated.

Confirm your learning	
1.	Do you know how to calculate stamp duty/stamp duty reserve tax on a purchase of shares? Who pays it? (Topic 1 and 2)
2.	Do you know how to calculate stamp duty land tax on a purchase of land? Who pays it? (Topic 3)

## 2 Question practice

Aim to complete all self-test questions at the end of this chapter. The following self-test questions are particularly helpful to further topic understanding and guide skills application before you proceed to the next chapter.

Question	Learning benefit from attempting this question
Q7	This question will test your basic stamp duty understanding.

Once you have completed this self-test question, attempt all the questions in the Stamp taxes chapter of the Tax Fundamentals [Question Bank](#). Refer back to the learning in this chapter for any questions which you did not answer correctly or where the suggested solution has not provided sufficient explanation to answer all your queries. Once you have attempted these questions, you can move on to the next chapter.

# TECHNICAL REFERENCE

## 1 Legislation

### 1.1 Stamp Duty

- Ad valorem duty on shares – **FA 1999 Sch 13 para 3**
- Exempt Instruments Regulations – **SI 1987/516**

### 1.2 Stamp Duty Reserve Tax

References are to Finance Act 1986 (FA 1986)

- The principal charge – **s.87**
- Exceptions – **s.90**
- Repayment or cancellation of tax – **s.92**
- Definition of chargeable securities – **s.99**

### 1.3 Stamp Duty Land Tax

References are to Finance Act 2003 (FA 2003) unless otherwise stated

- Land transactions – **s.43**
- Temporary relief in relation to residential property – **Stamp Duty Land Tax (Temporary Relief) Act 2023**
- Leases – amount of tax chargeable on rent – **Sch 5 para 2**
- Exemptions:
  - No chargeable consideration – **Sch 3 para 1**
  - Divorce – **Sch 3 para 3A**
  - Variation of wills – **Sch 3 para 4**

## 2 HMRC manual references

Stamp Duty Land Tax (found at <https://www.gov.uk/hmrc-internal-manuals/stamp-duty-land-tax-manual>)

- Introduction to stamp duty land tax – **SDLTM00010**
- Introduction to stamp duty land tax – rates of tax – **SDLTM00050**
- Leases – **SDLTM10000**

See also Stamp Taxes guidance (found at <https://www.gov.uk/guidance/stamp-duty-on-shares> and <https://www.gov.uk/guidance/pay-stamp-duty-reserve-tax>)

## SELF-TEST QUESTIONS

Answer the following questions.

- 1 Harriet gives her shares in P Ltd to her husband on 1 December 2025 when they are worth £30,000.

**Requirement**

What stamp duty is payable?

- A NIL – the transfer is between spouses
- B NIL – if the transfer is certified on the stock transfer form as a gift
- C NIL – the transfer is for less than £125,000
- D £30,000 × 0.5% = £150

- 2 Oliver sells his house to Emily in December 2025 for £200,000. This is Emily's first property purchase.

**Requirement**

What is the SDLT payable?

£

- 3 Rodney grants a 10-year lease over a shop to Clarissa on 10 January 2025. The premium payable is £90,000 and the annual rental is £7,000.

**Requirement**

What is the SDLT payable?

- A NIL
- B £100
- C £200
- D £350

#### 4 Leopard Ltd

Leopard Ltd prepares accounts to 31 January each year. Leopard Ltd is considering the following transactions, both of which would occur on 1 February 2026.

- (1) The purchase of shares in Hawks Ltd, a small UK trading company, for £53,000. Leopard Ltd would purchase 5% of the shares in this company, the remainder being held by individuals.
- (2) Entering into a five-year lease on Huxley House. Leopard Ltd would use Huxley House as office premises. The terms of the lease involve Leopard Ltd paying a premium of £72,500 on 1 February 2026 and rent of £29,600 pa quarterly in advance.

**Requirements**

- 4.1 Describe the stamp taxes consequences of the proposed transactions, using calculations to illustrate your answer.
- 4.2 Describe the stamp taxes consequences of the second proposed transactions, using calculations to illustrate your answer.

Now go back to the Introduction and ensure that you have achieved the Learning outcomes listed for this chapter.

# ANSWERS TO INTERACTIVE QUESTIONS

## Answer to Interactive question 1

£

$$£45,300 \times 0.5\% = £227$$

### TUTORIAL NOTE

Take care when making calculations using 0.5%.

## Answer to Interactive question 2

SDLT on the lease premium:

	£
$£150,000 \times 0\%$	0
$(£245,000 - £150,000) \times 2\%$	1,900
SDLT on lease premium	1,900

SDLT on lease rentals of £300,000 ( $10 \times £30,000$ ):

	£
$£150,000 \times 0\%$	0
$(£300,000 - £150,000) \times 1\%$	1,500
SDLT on lease rentals	1,500

$$\text{Total SDLT} = £1,900 + £1,500 = £3,400$$



# ANSWERS TO SELF-TEST QUESTIONS

1 Correct answer(s):

B NIL – if the transfer is certified on the stock transfer form as a gift

2 £ 0

As a first-time buyer purchasing a property for less than £500,000 there will be first time buyer relief giving a 0% rate on the first £300,000 of consideration.

3 Correct answer(s):

A NIL

No SDLT on the premium as it is less than £150,000 (0% band).

No SDLT on rental as NPV ( $10 \times £7,000$ ) is less than £150,000.

## 4 Leopard Ltd

### 4.1 Purchase of shares in Hawks Ltd

Stamp duty

Stamp duty of 0.5% on the consideration for the purchase of shares in Hawks Ltd is payable by Leopard Ltd ie,  $£53,000 \times 0.5\% = \underline{\underline{£265}}$

### 4.2 Five-year lease on Huxley House

Stamp duty land tax

Stamp duty land tax (SDLT) is payable on lease rentals, but there is no charge where the NPV is less than £150,000.

In this case, no SDLT is payable on the rental as the NPV of rent (for examination purposes) is  $£29,600 \times 5 = £148,000$ .

SDLT is not payable on the premium of £72,500 as this is in the 0% band (up to £150,000).



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# Tax Fundamentals

## Question Bank

For exams from December 2025 to December 2026

# Chapter 10: Inheritance tax

- 1 Shyam gifted £475,000 into a relevant property trust in September 2025. This is the first transfer of value Shyam has made in his lifetime.

**Requirement**

What is the lifetime inheritance tax payable on this gift?

- A £36,000
- B £28,800
- C £37,500
- D £36,750

LO 4f

- 2 In September 2024, Andy gifted £100,000 (stated after deducting all potential exemptions and reliefs) to his sister Emma. In May 2025, Andy gifted £400,000 into a relevant property trust.

**Requirement**

What is the lifetime inheritance tax payable on the gift to the relevant property trust in May 2025?

- A £17,250
- B £14,400
- C £43,000
- D £18,000

LO 2e

- 3 In August 2022, Rajesh gifted £100,000 (stated after deducting all potential exemptions and reliefs) to a relevant property trust.

Rajesh gifted the trustees a further £385,000 in June 2025.

The trustees agreed to pay any IHT due on the transfers.

**Requirement**

What is the lifetime inheritance tax payable on the gift to the relevant property trust in June 2025?

- A £10,800
- B £30,800
- C £38,500
- D £31,400

LO 4f

- 4 On 1 October 2025, Kristine created a discretionary trust and gave £420,000 in cash to the trustees. This was the first transfer of value that Kristine had made in her lifetime. The trustees agreed to pay the IHT due on the transfer.

**Requirement**

What is the lifetime inheritance tax payable on the gift to the trust?

- A £22,250
- B £19,000
- C £17,800
- D £82,800

LO 4f

- 5 Shreena gifted £200,000 into a discretionary trust in January 2026. The trustees agreed to pay the tax on this transfer. In March 2023, Shreena made a gross chargeable transfer of £150,000 to another discretionary trust.

**Requirement**

What is the lifetime inheritance tax payable on the gift made in January 2026?

- A NIL
- B £5,000
- C £3,800
- D £2,600

LO 4f

- 6 Mark gifted £386,000 into a discretionary trust in December 2025. Mark will pay the tax on this transfer. In July 2022, Mark made a gift of £100,000 to his daughter on her graduation.

**Requirement**

What is the lifetime tax payable on the December 2025 gift?

- A £13,750
- B £11,000
- C £37,250
- D £15,250

LO 4f

- 7 Kyle made a gift of £600 to a discretionary trust on 15 July 2024. On 15 August 2025 Kyle made another gift to the same discretionary trust of £7,000.

**Requirement**

What is the value of the 15 August 2025 gift after deduction of all exemptions?

- A £1,000
- B £1,600
- C £4,000
- D £7,000

LO 4e

- 8 On 8 August 2025 Paige gifted £396,000 to a discretionary trust. Paige paid the lifetime inheritance tax due on this transfer.

Paige has not made any previous gifts.

**Requirement**

What is the gross chargeable transfer of value of the gift on 8 August 2025?

The gross transfer of value is £

LO 4e

- 9 Kelly died on 1 February 2025. Kelly made two lifetime transfers:
- (1) On 1 June 2022 Kelly made a potentially exempt transfer of £80,000 to her friend Ben (stated after deducting all potential exemptions and reliefs).
  - (2) On 1 July 2024 Kelly made a gift to a relevant property trust. The gross chargeable transfer value was £475,000. Lifetime inheritance tax of £30,000 was paid by the trustees.

**Requirement**

What is the death tax due on Kelly's gift to the relevant property trust in July 2024?

- A £30,000
- B £62,000
- C £92,000
- D £59,600

LO 4g

- 10 Kian died on 30 September 2025. On 1 August 2022 Kian made a potentially exempt transfer of £534,000 to his friend Anne (stated after deducting all potential exemptions and reliefs).

**Requirement**

What is the death tax due on Kian's gift to Anne on 1 August 2022?

- A £66,880
- B £83,600
- C £170,880
- D £50,160

LO 4g

- 11 Sarah died on 1 December 2025. Sarah made one lifetime transfer:

On 1 March 2021 Sarah made a gift to a relevant property trust. The gross chargeable transfer value was £360,000. Lifetime inheritance tax of £7,000 was paid.

**Requirement**

What is the death tax due on Sarah's gift to the relevant property trust in March 2021?

- A £7,000
- B £8,400
- C £0
- D £1,400

LO 4g

- 12 On 1 July 2023, Ethan created a discretionary trust and gave £620,000 in cash to the trustees (stated after deducting all potential exemptions and reliefs). The trustees agreed to pay the tax on this transfer. This was the first transfer of value Ethan had made.

Ethan died on 1 September 2025.

**Requirement**

What is the additional IHT payable on the transfer as a result of Ethan's death?

£

LO 4g

- 13 On 1 December 2021, Sandeep made a gift to his brother. The value of the gift after reliefs was £390,000. This was the first transfer of value Sandeep had made.

Sandeep died on 1 November 2025.

**Requirement**

What is the additional IHT payable on the transfer as a result of Sandeep's death?

- A £18,880
- B £26,000
- C £20,800
- D £10,400

LO 4g

- 14 Nathan died on 1 March 2026. At the time of his death Nathan owned a house worth £5,235,000 with a mortgage secured on it for £1,235,000. Nathan had cash and other assets of £400,000. Nathan's outstanding capital gains tax liability for 2025/26 is £20,000. His funeral expenses were £5,300. Nathan had gambling debts of £12,000.

**Requirement**

What is Nathan's chargeable death estate?

- A £4,362,700
- B £4,374,700
- C £4,394,700
- D £5,609,700

LO 4h

- 15 Jerome died on 1 March 2025. At the time of his death Jerome owned a house worth £500,000. Jerome had cash in an ISA of £100,000, and other assets of £700,000. His funeral expenses were £5,000. Jerome had an outstanding credit card bill of £2,000.

**Requirement**

What is Jerome's chargeable death estate?

- A £1,193,000
- B £1,293,000
- C £1,295,000
- D £1,300,000

LO 4h

- 16 Nate died on 1 March 2026. At the time of his death Nate owned a house worth £1,500,000 with an interest-only mortgage secured on it for £500,000. Nate had a cash ISA worth £100,000. Nate's outstanding income tax liability for 2025/26 is £15,000. His funeral expenses were £1,300. Nate had an overdraft of £2,000.

**Requirement**

What is Nate's chargeable death estate?

- A £1,581,700
- B £1,081,700
- C £981,700
- D £983,700

LO 4h

- 17 Sana died on 14 July 2025. At the time of her death Sana's estate included her home valued at £550,000 and cash of £330,000. Sana left her house to her boyfriend and the cash to her son. Sana had not made any lifetime gifts.

**Requirement**

What is the IHT payable on Sana's death estate?

- A £219,600
- B £352,000
- C £222,000
- D £2,000

LO 4h

- 18 On 1 September 2024, Tod made a gift to a relevant property trust. The gross chargeable transfer (GCT) value of the gift was £100,000.

Tod died on 20 March 2026. At the time of his death Tod's estate included his home valued at £650,000 which he left to his civil partner. The estate also included cash and other assets worth £400,000 at death.

**Requirement**

What is the IHT payable on Tod's death estate?

- A £30,000
- B £70,000
- C £330,000
- D £90,000

LO 4h

- 19 Piyal gifts all of her shares in Cranlco plc to her friend. Piyal held 10,000 shares at the time. The shares were quoted at 320p–332p with marked bargains of 322p, 328p, 331p.

**Requirement**

What is the value of the shares transferred for inheritance tax purposes?

£

LO 4e

- 20 On her death, Preeti owned an investment property in Utopia, an overseas country, valued at a sterling equivalent of £272,000. Preeti's personal representatives had additional administration costs of £14,000 due to the overseas location of the asset.

**Requirement**

What is the value of the investment property to be included in Preeti's death estate?

- A £258,000
- B £272,000
- C £258,400
- D £286,000

LO 4h

- 21 Amy died on 1 June 2025. At the time of her death Amy owned a property worth £350,000. Amy had cash and other assets of £525,000. Amy left the property to her husband, £20,000 cash to her son and £3,000 cash to a UK registered charity.

**Requirement**

What is Amy's chargeable death estate?

- A £875,000
- B £502,000
- C £522,000
- D £525,000

LO 4h

- 22 Amandeep died on 6 May 2025. At the time of his death Amandeep's estate included his home valued at £275,000. The estate also included cash and other assets worth £125,000 at death. Amandeep left his entire estate to his niece.

On 1 December 2024, Amandeep made a cash gift to his son of £50,000 (stated after deducting all potential exemptions and reliefs).

**Requirement**

What is the IHT payable on Amandeep's death estate?

- A £30,000
- B £160,000
- C £25,000
- D £50,000

LO 4h

- 23 Walter died on 7 April 2025 leaving an estate of assets worth £1,900,000. Walter had outstanding income tax payable of £23,600 and capital gains tax of £7,600 at the date of his death. Walter also had other outstanding debts of £2,000 relating to credit card bills and £1,000 of gambling debts. Walter left £550,000 to his wife and £170,000 to a UK registered charity.

**Requirement**

What is Walter's chargeable death estate?

£

LO 4h

- 24 What is the inheritance tax treatment of each of the following transactions?

Mindy sold an antique vase worth £100,000 to a dealer for £100. At the time of the sale Mindy had no idea of the vase's true value.

**Requirement**

This is:

- A A transfer of value
- B Not a transfer of value

Mindy has income in excess of her needs of £200,000 pa and gives £20,000 to her grandson every year to pay towards his school fees.

**Requirement**

This is:

- C Subject to inheritance tax
- D Exempt from inheritance tax

LO 4e



- 25 Noah owns 6,000 shares in Alfoze Ltd. He decides to give 2,000 shares to his sister Sara. Alfoze Ltd has 10,000 shares in issue valued as follows:

100%	£90,000
90%	£88,000
80%	£70,000
70%	£66,000
60%	£60,000
50%	£57,000
40%	£40,000
30%	£28,000
20%	£13,000
10%	£10,000

**Requirement**

What is the transfer of value of this gift for IHT?

- A £13,000
- B £60,000
- C £20,000
- D £NIL

LO 4e

- 26 Amanda made a cash gift of £20,000 to her daughter, Mary, on Mary's marriage in May 2025. This is the first lifetime gift Amanda has ever made.

**Requirement**

What is the value of the transfer after deduction of all exemptions?

- A £9,000
- B £14,000
- C £12,000
- D £20,000

LO 4e

- 27 Which one of the following is a gift outside the scope of inheritance tax?

- A A gift of shares to a friend
- B The sale of a necklace unknowingly for less than it is worth
- C The gift of shares to a discretionary trust
- D A sale of a property to a sibling knowingly at under market value

LO 4e

- 28 A trust where no beneficiary is entitled by right to any income or capital: it is left up to the discretion of the trustees which of the beneficiaries is to benefit from the trust and how they are to benefit.

**Requirement**

Which of the following type of trust fits this definition?

- A Discretionary trust
- B Interest in possession trust
- C Bare trust
- D Not a trust

LO 4e

- 29 Melody makes a number of gifts during her lifetime.

**Requirement**

Which one of the following gifts would qualify for the normal expenditure out of income exemption?

- A £12,000 of her salary to her grandson on his 18<sup>th</sup> birthday. This £12,000 is surplus to Melody's needs.
- B £4,000 out of her dividend income to her daughter on her marriage. These dividends are surplus to Melody's needs.
- C £10,000 out of her interest income every year to her son to pay towards his children's school fees. This £10,000 is surplus to Melody's needs.
- D 10 years ago, Melody inherited high value shares. Every year since then, she has gifted £2,000 worth of shares to her nephew as she does not need these shares.

LO 4e

- 30 At the start of every tax year, Austin makes gifts that utilise his annual exemption. In September 2025 Austin makes an extra gift of £5,000 to his niece.

**Requirement**

What is the value of this gift after all possible reliefs and exemptions?

- A £4,750
- B £250
- C £1,750
- D £5,000

LO 4e

- 31 Naomi made a gift of £8,000 to a discretionary trust on 15 August 2025. This is the first ever gift that Naomi has made.

**Requirement**

What is the value of this gift after all possible reliefs and exemptions?

- A NIL
- B £2,000
- C £8,000
- D £5,000

LO 4e

- 32 Kiran made a gift of £15,000 to her daughter on her engagement on 1 May 2025. Kiran has not made any other gifts in her lifetime.

**Requirement**

What is the value of this gift after all possible reliefs and exemptions?

- A £4,000
- B £7,000
- C £10,000
- D £9,000

LO 4e



# Chapter 14: Stamp taxes

- 1 Ariz gives his shares in Olivot Inc to his wife on 1 December 2025 when they are worth £25,000.

**Requirement**

How much stamp duty is payable?

- A £NIL - the transfer is between spouses
- B £NIL - if the transfer is certified on the stock transfer form as a gift
- C £NIL - the transfer is for less than £125,000
- D £125

LO 6g

- 2 What is the liability to stamp taxes, if any, on the following two share transfers?

Kav makes an off-market sale of shares to her friend for £30,000. The share transfer is made using a stock transfer form.

- A Stamp duty will be payable
- B Stamp duty reserve tax will be payable
- C Neither stamp duty nor stamp duty reserve tax will be payable

Kav gives shares worth £10,000 to her brother. The share transfer is made electronically.

- D Stamp duty will be payable
- E Stamp duty reserve tax will be payable
- F Neither stamp duty nor stamp duty reserve tax will be payable

LO 6g

- 3 Which of the following taxes does HMRC collect?

- (1) Stamp duty
- (2) Stamp duty reserve tax
- (3) Stamp duty land tax

- A 1 and 3
- B 1 only
- C 2 and 3
- D None

LO 6g

- 4 Which of the following transactions would be exempt from stamp taxes?

- (1) Peggy made an outright gift of shares worth £10,000 to her son.
- (2) Kush inherited shares worth £2,000 from his grandmother after a variation of her will. Kush did not pay anything for these shares.
- (3) Sam sold a warehouse to Preet for £1,300,000.

**Requirement**

- A 1 and 2
- B 1 only
- C 2 only
- D 1 and 3

LO 6g

- 5 What is the liability to stamp taxes, if any, on the following two share transfers?

Kelly buys shares for £20,000 through the CREST electronic system.

- A Stamp duty will be payable
- B Stamp duty reserve tax will be payable
- C Neither stamp duty nor stamp duty reserve tax will be payable

Kelly makes an off-market sale of shares to her friend for £28,000. The share transfer is made using a stock transfer form.

- D Stamp duty will be payable
- E Stamp duty reserve tax will be payable
- F Neither stamp duty nor stamp duty reserve tax will be payable

LO 6g

- 6 Sandy is purchasing a new factory to use in her trade for £750,000.

**Requirement**

What type of stamp tax is due on this purchase?

- A Stamp duty
- B Stamp duty land tax
- C Stamp duty reserve tax
- D No stamp taxes due

LO 6g

- 7 This stamp tax is payable on the paperless, ie electronic, transfer of shares and securities. Most such transfers are executed via the CREST system.

Which type of stamp tax is described?

- A Stamp duty
- B Stamp duty land tax
- C Stamp duty reserve tax
- D All of the above

LO 6g

- 8 Chloe sells her shares in Kleenox Ltd to Kim for £80,875 in September 2025. A stock transfer form is submitted.

**Requirement**

What is the stamp duty payable by Kim?

- A £405
- B £404
- C £40,438
- D £4,045

LO 6h

- 9 Harj sells his house to Ken for £500,000 on 15 July 2025. Ken does not own any other properties and he is a first time buyer.

**Requirement**

What is the SDLT payable by Ken?

- A £15,000
- B £10,000
- C £NIL
- D £1,000

LO 6h

- 10 Sarah sells her house to Sunita for £658,000 on 10 April 2025. Sunita does not own any other properties and she is not a first time buyer.

**Requirement**

What is the SDLT payable by Sunita?

- A £NIL
- B £22,900
- C £26,650
- D £22,400

LO 6h

- 11 Xavi sells a warehouse to Rio for £850,000 on 1 January 2026.

**Requirement**

What is the SDLT payable by Rio?

- A £32,500
- B £NIL
- C £14,000
- D £32,000

LO 6h

- 12 Anshu sells her house to Lorna for £450,000 on 1 September 2025. Lorna already owns a house which she intends to keep.

**Requirement**

What is the SDLT payable by Lorna?

£

LO 6h

- 13 Andreas was granted a 30-year lease of a factory by Matthew on 1 May 2025. Andreas pays rent of £15,000 pa for the term of the lease.

**Requirement**

What is the stamp duty land tax payable on the grant of the lease?

- A £6,000
- B £3,000
- C £3,250
- D £4,500

LO 6h

- 14 Rory is granted a 20-year lease of a factory by Kate on 1 September 2025. He pays an annual rental of £9,000 per year for the term of the lease.

**Requirement**

What is the SDLT payable by Rory?

- A £600
- B £550
- C £1,800
- D £300

LO 6h

- 15 Pristas Inc is granted a 10-year lease of a warehouse. The premium payable by Pristas Inc is £300,000 and the annual rent is £20,000.

**Requirement**

What is the SDLT payable by Pristas Inc in respect of the premium and the rent?

£

LO 6h

- 16 Alex sold 3,000 shares in Alfarm Ltd for £52,652 to Orange plc using a stock transfer form.

**Requirement**

What is the stamp duty payable?

- A £263
- B £2,653
- C £265
- D £NIL

LO 6h



- 17 Kathy pays £1,150 for shares bought electronically through CREST.

**Requirement**

What is the stamp duty reserve tax due?

- A £5.75
- B £5
- C £10
- D £nil

LO 6h

- 18 Amar pays £5,250 for shares bought electronically through CREST.

**Requirement**

What is the stamp duty reserve tax due?

- A £27
- B £26.25
- C £30
- D £25

LO 6h

- 19 Dorit buys shares for £825 using a stock transfer form.

**Requirement**

What is the stamp duty due?

- A £4.13
- B £5
- C £425
- D £NIL

LO 6h

- 20 Paul buys shares for £760 electronically through CREST.

**Requirement**

What is the stamp duty reserve tax due?

- A £NIL
- B £3.80
- C £5
- D £4

LO 6h

- 21 Nivox plc is granted a 22-year lease of a factory on 1 August 2025. The premium payable by Nivox plc is £250,000 and the annual rent is £12,000.

**Requirement**

What is the SDLT payable by Nivox plc in respect of the premium and the rent?

- A £1,140
- B £2,000
- C £3,140
- D £860

LO 6h

- 22 Ari is granted a 6-year lease on a new office building on 1 December 2025. The premium payable by Ari is £88,888 and the annual rent is £27,000.

**Requirement**

What is the SDLT payable by Ari in respect of the office building?

£

LO 6h

- 23 On 1 July 2025 Lightin Ltd took out a 15-year lease on new manufacturing premises, paying a lease premium of £29,000 and annual rental of £20,000.

**Requirement**

What is the SDLT payable by Lightin Ltd on the new manufacturing premises?

- A £NIL
- B £3,000
- C £1,500
- D £1,790

LO 6h

- 24 Gavin purchased shares in a company for £2,050 using the CREST system.

**Requirement**

What is the total cost to Gavin for these shares?

- A £2,065
- B £2,060.25
- C £2,050
- D £2,039.75

LO 6h



# ANSWER BANK

# Chapter 10: Inheritance tax

1 Correct answer(s):

A £36,000

	£
Gift	475,000
Less: annual exemption 2025/26	(3,000)
Less: annual exemption 2024/25 b/f	<u>(3,000)</u>
	469,000
Less: remaining NRB	<u>(325,000)</u>
	144,000
IHT @ 20/80	<u>36,000</u>

The annual exemption of £3,000 is deductible for 2025/26 and 2024/25. The NRB at the time of gift in 2025/26 of £325,000 is deductible as there are no prior gifts within 7 years before the September 2025 gift that would restrict this. The question is silent regarding who is paying the tax, so the default position is that the donor, Shyam, will pay the lifetime tax and so it is calculated at 20/80.

2 Correct answer(s):

D £18,000

	£
Gift	400,000
Less: annual exemption 2025/26	<u>(3,000)</u>
	397,000
Less: remaining NRB	<u>(325,000)</u>
	72,000
IHT @ 20/80	<u>18,000</u>

Only the current year 2025/26 annual exemption of £3,000 is deductible as the prior year 2024/25 annual exemption would have been allocated to the PET made in September 2024 to Emma. The NRB at the time of the gift in 2025/26 of £325,000 is deductible. The PET made in September 2024 to Emma would not restrict the NRB as Andy is still alive and it therefore has not failed (although it will fail and become taxable if he were to die before September 2031). The question is silent regarding who is paying the tax, so the default position is that the donor (Andy) will pay the IHT due, this is calculated at 20/80.

3 Correct answer(s):

B £30,800

	£
Gift	385,000
Less: annual exemption 2025/26	(3,000)
Less: annual exemption 2024/25 b/f	<u>(3,000)</u>
	379,000
Less: remaining NRB (W1)	<u>(225,000)</u>
	154,000
IHT @ 20%	<u><u>30,800</u></u>

WORKING

	Aug 2022	Jun 2025
	CLT	CLT
	£	£
Lifetime NRB	325,000	325,000
Less: chargeable in previous 7 years		<u>(100,000)</u>
Remaining NRB	<u>325,000</u>	<u>225,000</u>

The annual exemption of £3,000 is deductible for 2025/26 and 2024/2025. The NRB at the time of gift in 2025/26 of £325,000 is available. The CLT made in August 2022 would restrict this NRB reducing it to £225,000. The trustees have agreed to pay the IHT on the gift and so this is calculated at 20%.

4 Correct answer(s):

C £17,800

	£
Gift	420,000
Less: annual exemption 2025/26	(3,000)
Less: annual exemption 2024/25 b/f	<u>(3,000)</u>
	414,000
Less: NRB	<u>(325,000)</u>
	89,000
IHT @ 20%	<u><u>17,800</u></u>

The annual exemption of £3,000 is deductible for the 2025/26 and 2024/25 tax years. The NRB at the time of the gift of £325,000 is deductible and there are no prior gifts within 7 years of the October 2025 gift to restrict this. The trustees have agreed to pay the lifetime tax and so it is calculated at 20%.

5 Correct answer(s):

C £3,800

	£
Gift	200,000
Less: annual exemption 2025/26	(3,000)
Less: annual exemption 2024/25 b/f	<u>(3,000)</u>
	194,000
Less: remaining NRB (W1)	<u>(175,000)</u>
	19,000
IHT @ 20%	<u><u>3,800</u></u>

#### WORKING

	Mar 2023 CLT £	Jan 2026 CLT £
Lifetime NRB	325,000	325,000
Less: chargeable in previous 7 years		<u>(150,000)</u>
Remaining NRB	<u>325,000</u>	<u>175,000</u>

The annual exemption of £3,000 is deductible for both 2025/26 and 2024/25 tax years. The NRB at the time of gift in 2025/26 of £325,000 is reduced by the GCT made in March 2023 of £150,000 as it is within 7 years of the January 2026 gift. The trustees have agreed to pay the lifetime tax and so it is calculated at 20%

6 Correct answer(s):

A £13,750

	£
Gift	386,000
Less: annual exemption 2025/26	(3,000)
Less: annual exemption 2024/25 b/f	<u>(3,000)</u>
	380,000
Less: NRB	<u>(325,000)</u>
	55,000
IHT @ 20/80	<u><u>13,750</u></u>

The current year 2025/26 annual exemption of £3,000 and prior year 2024/25 annual exemption of £3,000 is deductible. The NRB at the time of gift in 2025/26 of £325,000 is deductible. The PET made in July 2022 would not restrict this NRB as Mark is still alive and it therefore has not failed (although it will fail and become taxable if he were to die before July 2029). Mark has agreed to pay the tax on the relevant property gift and so this is calculated at 20/80.

7 Correct answer(s):

B £1,600

	£
Cash gift 2025/26	7,000
2025/26 annual exemption	(3,000)
2024/25 b/f annual exemption (£3,000 - £600)	<u>(2,400)</u>
Value	<u>1,600</u>

The August 2025 gift will be eligible for the 2025/26 current year annual exemption. It will also be eligible for b/f 2024/25 annual exemption. However, £600 of the 2024/25 annual exemption was used in the 2024/25 tax year and therefore the available annual exemption is reduced to £2,400 for the gift made in August 2025.

8 The gross transfer of value is £ 406,250

	£
Cash gift 2025/26	396,000
Annual exemption 2025/26	(3,000)
Annual exemption b/f 2024/25	<u>(3,000)</u>
	390,000
Less: NRB @ date of gift	<u>(325,000)</u>
	65,000
IHT @ 20/80	16,250
Gross transfer of value (390,000 + 16,250)	<u>406,250</u>

The 2025/26 gift will be eligible for the current year 2025/26 and prior year 2024/25 annual exemption. The NRB in 2025/26 at the time of the gift is £325,000. Paige agrees to pay the tax so this is calculated at 25%. The gross chargeable transfer (GCT) of value of the gift is the value of the gift after exemptions plus the lifetime tax paid by the donor (ie Paige).

9 Correct answer(s):

B £62,000

	£	£
GCT		475,000
NRB @ death	325,000	
Less: GCTs in seven years before gift	<u>(80,000)</u>	
NRB remaining		<u>(245,000)</u>
		230,000
IHT@ 40%		92,000
Less: lifetime tax		<u>(30,000)</u>
Death tax due		<u>62,000</u>

The NRB at death in 2024/25 is £325,000. This is reduced by any gifts within 7 years of the July 2024 GCT, ie the June 2022 PET of £80,000. Lifetime inheritance tax paid on the June 2024 GCT is deductible from the death tax.

10 Correct answer(s):

A £66,880

	£	£
PET		534,000
NRB @ death	325,000	
Less: GCT in seven years before gift	<u>(0)</u>	
NRB remaining		<u>(325,000)</u>
		209,000
IHT @ 40%		83,600
Taper (3-4 years) 80% chargeable		<u>66,880</u>

The NRB at death is £325,000. There are no gifts within 7 years of this August 2022 gift to restrict the NRB. Kian lived for 3-4 years after the gift and so 80% taper relief applies. No life tax would have been paid on the PET.

11 Correct answer(s):

D £1,400

	£	£
GCT		360,000
NRB @ death	325,000	
Less: GCT in 7 years before gift	<u>(0)</u>	
NRB remaining		<u>(325,000)</u>
		35,000
IHT @ 40%		14,000
Taper (4-5 years) 60% chargeable		8,400
Less: lifetime tax		<u>(7,000)</u>
Death tax due		<u>1,400</u>

The NRB at death is £325,000. There were no gifts within 7 years prior to this gift to restrict the NRB available. Lifetime inheritance tax paid on the March 2021 GCT is deductible from the death tax. Sarah lived for 4-5 years after the gift and so 60% taper relief applies. Remember, that whilst it does not matter mathematically whether you calculate the death tax or the taper relief first, you must always deduct any lifetime inheritance tax last.

12 £ 59,000



	£	£
<b>Stage 1 - Transfers</b>		
CLT		620,000
<b>Stage 2 - Lifetime tax</b>		
NRB @ gift	325,000	
Less: GCTs in 7 years before gift	<u>(0)</u>	
NRB remaining		<u>(325,000)</u>
		295,000
IHT @ 20%		59,000
<b>Stage 3 - Tax on death</b>		
Gross chargeable transfer		620,000
NRB @ death	325,000	
Less: GCTs in 7 years before gift	<u>(0)</u>	
NRB remaining		<u>(325,000)</u>
		295,000
IHT@40%		118,000
Less: lifetime tax		<u>(59,000)</u>
Death tax due		<u><u>59,000</u></u>

The first step is to calculate the lifetime tax on the gift. A full NRB is available as there were no prior gifts. Lifetime inheritance tax is at 20% as the trustees agreed to pay the tax. This does not change the GCT figure. The second step is to calculate the death tax as Ethan died within 7 years of the gift. A full NRB is given as there are no GCTs within 7 years of the gift. Ethan did not survive at least 3 years from the gift, so no taper relief is applied. Life tax paid is deductible from the death tax liability.

13 Correct answer(s):

C £20,800

	£	£
<b>Stage 3 - Tax on death</b>		
Gross chargeable transfer		390,000
NRB @ death	325,000	
Less: GCTs in 7 years before gift	<u>(0)</u>	
NRB remaining		<u>(325,000)</u>
		65,000
IHT @ 40%		26,000
Taper (3-4 years) 80%		20,800
Less: lifetime tax		<u>(0)</u>
Death tax due		<u><u>20,800</u></u>

As Sandeep died within 7 years of the gift the PET fails and becomes chargeable to IHT on death. The full NRB is given as there are no GCTs within 7 years of the gift. Sandeep survives 3-4 years from the gift so 80% taper relief is applied. No lifetime inheritance tax was paid on the PET so there is nothing to deduct.

14 Correct answer(s):

B £4,374,700

	£
House less mortgage	4,000,000
Cash and other assets	400,000
Less: CGT	(20,000)
Less: funeral expenses	(5,300)
Less: debts – gambling so not deductible	-
	<u>4,374,700</u>

15 Correct answer(s):

B £1,293,000

	£
House	500,000
ISA	100,000
Other assets	700,000
Less: funeral expenses	(5,000)
Less: credit card bill	<u>(2,000)</u>
	<u>1,293,000</u>

16 Correct answer(s):

B £1,081,700

	£
House less mortgage	1,000,000
Cash ISA	100,000
Less: income tax liability	(15,000)
Less: funeral expenses	(1,300)
Less: overdraft	<u>(2,000)</u>
	<u>1,081,700</u>

17 Correct answer(s):

C £222,000

		£
House		550,000
Cash		<u>330,000</u>
Chargeable estate		880,000
NRB @ death	325,000	
Less: GCT in 7 years before death	<u>(0)</u>	
NRB remaining		<u>(325,000)</u>
		555,000
IHT @ 40%		<u><u>222,000</u></u>

Sana did not make any lifetime gifts, and so full NRB at death is available. The spouse exemption is not available on the house left to Sana's boyfriend as they are not married.

18 Correct answer(s):

B £70,000

		£
House		650,000
Civil partner exemption		<u>(650,000)</u>
Cash and other assets		<u>400,000</u>
Chargeable estate		400,000
NRB @ death	325,000	
Less: GCTs in 7 years before death	<u>(100,000)</u>	
NRB remaining		<u>(225,000)</u>
		175,000
IHT @ 40%		<u><u>70,000</u></u>

The house is left to Tod's civil partner and so the spouse exemption is available. The lifetime gift Tod made is within 7 years prior to death and so will use up some of the NRB available to the death estate.

19 £ 32,300

Lower of:

$\frac{1}{4}$  up

$320p + \frac{1}{4} (332 - 320) = 323p$

Average marked bargain:

$(322 + 331)/2 = 326.5p$

10,000 shares at 323p = £32,300

20 Correct answer(s):

C £258,400

	£
Overseas investment property	272,000
Less: additional administration costs (max 5%)	<u>(13,600)</u>
Value to include in death estate	<u>258,400</u>

21 Correct answer(s):

C £522,000

	£
Property	350,000
Spouse exemption	<u>(350,000)</u>
Cash and other assets	525,000
Charity exemption	<u>(3,000)</u>
Chargeable estate	<u>522,000</u>

22 Correct answer(s):

D £50,000

	£	£
House		275,000
Cash and other assets		<u>125,000</u>
Chargeable estate		400,000
NRB @ death	325,000	
Less: GCTs in 7 years before death	<u>(50,000)</u>	
		<u>(275,000)</u>
		125,000
IHT @ 40%		<u>50,000</u>

The lifetime gift Amandeep made is within 7 years prior to death and so will eat into the NRB available to the death estate.

23 £ 1,146,800

	£
Total assets	1,900,000
Less: income tax	(23,600)
Less: CGT	(7,600)
Less: credit card bills	(2,000)
Less: gambling debt	0
Spouse exemption	(550,000)
Charity exemption	(170,000)
Chargeable estate	<u>1,146,800</u>

24 Correct answer(s):

B Not a transfer of value

When Mindy sold the vase to the dealer, she did not know the true value of the vase. This is a disposition without gratuitous intent and therefore not a transfer of value.

Correct answer(s):

D Exempt from inheritance tax

The gift of £20,000 Mindy makes to her grandson every year would fall under the normal expenditure out of income exemption as it is out of income, regular and does not affect Mindy's standards of living.

25 Correct answer(s):

C £20,000

The transfer of value is calculated by looking at the fall in the value of the transferor's estate. Before the gift, Noah held 60% of the shares valued at £60,000. After the gift of 2,000 shares, Noah still held 40% of the shares valued at £40,000. The fall in value is therefore £60,000 - £40,000 = £20,000.

26 Correct answer(s):

A £9,000

The gift will be eligible for the gifts in consideration of marriage exemption at £5,000 as Amanda is Mary's parent and the gift was made on the occasion of Mary's marriage. The gift will also be eligible for the current year 2025/26 and prior year 2024/25 annual exemption of £3,000 each as no other gift was made prior to this one in 2025/26 or 2024/25. The transfer of value therefore becomes £20,000 - £5,000 - £3,000 - £3,000 = £9,000.

27 Correct answer(s):

B The sale of a necklace unknowingly for less than it is worth

The sale of an item for unknowingly less than its market value is a disposition without gratuitous intent.

28 Correct answer(s):

A Discretionary trust

An interest in possession trust is a trust where one or more of the beneficiaries has the right to receive the income of the trust (an interest in possession), the capital passing to other beneficiaries when the interest in possession comes to an end.

Property in a bare trust (or 'simple' trust) is held by the trustee (or nominee) as its legal owner on behalf of the beneficiary. The beneficiary is absolutely entitled to the trust property and any income arising from it. There is no interest in possession and the trustees cannot exercise any discretion over the trust property or income.

29 Correct answer(s):

C £10,000 out of her interest income every year to her son to pay towards his children's school fees. This £10,000 is surplus to Melody's needs.

As this payment is regular, out of income and surplus to Melody's needs it meets the requirement for the exemption. Although the gift to her grandson is also out of surplus income, there is no intention for it to be a regular payment and therefore it does not qualify. The gift of dividends is also a one-off gift out of income and so does not qualify. The gift of shares is not out of income.

30 Correct answer(s):

D £5,000

If a gift is made in excess of the small gift exemption, it all becomes chargeable. The annual exemption has been utilised prior to this gift.

31 Correct answer(s):

B £2,000

The gift of £8,000 will be reduced by the current year 2025/26 annual exemption of £3,000 and the prior year 2024/25 annual exemption of £3,000.

32 Correct answer(s):

D £9,000

In order to qualify for the £5,000 marriage exemption, the gift must be made on marriage, not engagement. The only other exemptions available are the current year 2025/26 £3,000 annual exemption and prior year 2024/25 £3,000 annual exemption.



# Chapter 14: Stamp taxes

- 1 Correct answer(s):  
B £NIL – if the transfer is certified on the stock transfer form as a gift  
Stamp taxes are calculated based on consideration. As the transfer is a gift, there is no consideration.
- 2 Correct answer(s):  
A Stamp duty will be payable  
Correct answer(s):  
F Neither stamp duty nor stamp duty reserve tax will be payable  
Stamp taxes are based on consideration. As the first transfer is a sale made off-market for consideration (£30,000), stamp duty is payable. As the second transfer is a gift, no liability to stamp taxes arises because there is no consideration.
- 3 Correct answer(s):  
A 1 and 3  
HMRC collects stamp duty and stamp duty land tax. Stamp duty reserve tax is collected automatically via stockbrokers.
- 4 Correct answer(s):  
A 1 and 2  
Some transactions are exempt from stamp taxes where there is no consideration for the transfer. These transactions include gifts and variations of wills.  
The sale of the warehouse from Sam to Preet would be subject to stamp duty land tax.
- 5 Correct answer(s):  
B Stamp duty reserve tax will be payable  
Correct answer(s):  
D Stamp duty will be payable
- 6 Correct answer(s):  
B Stamp duty land tax
- 7 Correct answer(s):  
C Stamp duty reserve tax
- 8 Correct answer(s):  
A £405  
 $£80,875 \times 0.5\% = £405$  rounded up to the nearest £5
- 9 Correct answer(s):  
B £10,000



	£
$£300,000 \times 0\%$	0
$(£500,000 - £300,000) \times 5\%$	<u>10,000</u>
SDLT payable	<u><u>10,000</u></u>

10 Correct answer(s):

B £22,900

	£
$£125,000 \times 0\%$	0
$(£250,000 - £125,000) \times 2\%$	2,500
$(£658,000 - £250,000) \times 5\%$	<u>20,400</u>
SDLT payable	<u><u>22,900</u></u>

11 Correct answer(s):

D £32,000

	£
$£150,000 \times 0\%$	0
$(£250,000 - £150,000) \times 2\%$	2,000
$(£850,000 - £250,000) \times 5\%$	<u>30,000</u>
SDLT payable	<u><u>32,000</u></u>

12 £

	£
$£125,000 \times 5\%$	6,250
$(£250,000 - £125,000) \times 7\%$	8,750
$(£450,000 - £250,000) \times 10\%$	<u>20,000</u>
SDLT payable	<u><u>35,000</u></u>

13 Correct answer(s):

B £3,000

$£15,000 \times 30 = £450,000 - £150,000 = £300,000 @ 1\% = £3,000$

14 Correct answer(s):

D £300

$£9,000 \times 20 = £180,000 - £150,000 = £30,000 @ 1\% = £300$

15 £ 3,500

SDLT on the lease premium is calculated in the same way as for the purchase of a freehold:

	£
£150,000 × 0%	0
(£300,000 - £150,000) × 2%	3,000
The NPV of the rent is £200,000 (£20,000 × 10 years)	
(£200,000 - £150,000) × 1%	<u>500</u>
Total SDLT payable	<u><u>3,500</u></u>

16 Correct answer(s):

C £265

£52,652 × 0.5% = £265 rounded up to the nearest £5

17 Correct answer(s):

A £5.75

£1,150 × 0.5% = £5.75. Unlike for stamp duty, SDRT is not rounded up to the nearest £5.

18 Correct answer(s):

B £26.25

£5,250 × 0.5% = £26.25. Unlike for stamp duty, SDRT is not rounded up to the nearest £5.

19 Correct answer(s):

D £NIL

No stamp duty if consideration is no more than £1,000.

20 Correct answer(s):

B £3.80

£760 × 0.5% = £3.80. Unlike for stamp duty, SDRT is not rounded up to the nearest £5.

21 Correct answer(s):

C £3,140

SDLT on the lease premium is calculated in the same way as for the purchase of a freehold:

	£
£150,000 × 0%	0
(£250,000 - £150,000) × 2%	2,000
The NPV of the rent is £264,000 (£12,000 × 22 years)	
(£264,000 - £150,000) × 1%	<u>1,140</u>
Total SDLT payable	<u><u>3,140</u></u>

22 £ 120

SDLT on the lease premium is calculated in the same way as for the purchase of a freehold:

	£
$£88,888 \times 0\%$	0
The NPV of the rent is £162,000 ( $£27,000 \times 6$ years)	
$(£162,000 - £150,000) \times 1\%$	<u>120</u>
Total SDLT payable	<u><u>120</u></u>

23 Correct answer(s):

C £1,500

SDLT on the lease premium is calculated in the same way as for the purchase of a freehold:

	£
$£29,000 \times 0\%$	0
The NPV of the rent is £300,000 ( $£20,000 \times 15$ years)	
$(£300,000 - £150,000) \times 1\%$	<u>1,500</u>
Total SDLT payable	<u><u>1,500</u></u>

24 Correct answer(s):

B £2,060.25

	£
Cost of shares	2,050
Stamp duty reserve tax	
$£2,050 \times 0.5\%$ (no rounding)	<u>10.25</u>
Total cost	<u><u>2,060.25</u></u>