

Your manager has had a meeting with Jonny who is establishing a new business. An extract from an email from your manager, a schedule and a computation are set out below.

Extract from the email from your manager

Jonny was born in 1968. His new business will begin trading on 1 November 2015. Jonny will use an inheritance he received following the death of his mother to finance this new venture. We have been asked to advise Jonny on his business and his inheritance. Some of the work has already been done; I want you to complete it.

Please prepare a memorandum for Jonny's client file addressing the following issues:

(b) Jonny's inheritance from his mother

Jonny's mother died on 31 July 2015. She left the whole of her estate, with the exception of a gift to charity, to Jonny. I attach a computation of the inheritance tax due; this was prepared by a junior member of staff and has not yet been reviewed. I can confirm, however, that all of the arithmetic, dates and valuations are correct. In addition, there were no other lifetime gifts, and none of the assets qualified for business property relief.

I want you to review the computation and identify any errors. You should explain each of the errors you find and calculate the value of the inheritance which Jonny will receive after inheritance tax has been paid.

Tax manager

Computation — Inheritance tax payable on the death of Jonny's mother

Mother's lifetime gift

		£
1 June 2011 — Gift of cash to Jonny		<u>30,000</u>
Mother's chargeable estate at death on 31 July 2015		
	£	£
Freehold property — Mother's home		530,000
UK quoted shares		400,000
Chattels — furniture, paintings and jewellery	40,000	
Less: Items individually worth less than £6,000	<u>(25,000)</u>	
		15,000
Cash		<u>20,000</u>
		965,000
Less: Gift to charity		(70,000)
Annual exemption		<u>(3,000)</u>
Chargeable estate		892,000
Less: Nil rate band	325,000	
Gift in the seven years prior to death (£30,000 — £6,000)	<u>(24,000)</u>	
		<u>(301,000)</u>
		<u>591,000</u>
Inheritance tax (£591,000 x 40%)		<u>236,400</u>

Required:

Prepare the memorandum as requested in the email from your manager. The following marks are available:

(b) Jonny's inheritance from his mother. (7 marks)

Professional marks will be awarded for following the manager's instructions, the clarity of the explanations and calculations, problem solving, and the overall presentation of the memorandum. (4 marks)

Notes

1. Assume that the tax rates and allowances for the tax year 2014/15 apply to all tax years.
2. Ignore national insurance contributions throughout this question.