

Your firm has been asked to provide advice in connection with inheritance tax and capital gains tax following the death of Cada. The advice relates to the implications of making lifetime gifts, making gifts to charity, varying the terms of a will and other aspects of capital gains tax planning.

Cada and her family:

- Cada, who was UK domiciled, died on 20 November 2014.
- Cada is survived by two daughters: Raymer and Yang.
- Raymer has an adult son.
- Yang has no children.

Cada – Lifetime gifts and available nil rate band:

- Cada had not made any lifetime gifts since 30 November 2010.
- Cada's nil rate band available at the date of her death was £220,000.

Cada's death estate and the details of her will:

- Cada owned assets valued at £1,000,000 at the time of her death.
- Cada left her house, valued at £500,000, to Raymer.
- Cada left cash of £60,000 to a UK national charity.
- Cada left her remaining assets (including a portfolio of shares) valued at £440,000, to Yang.
- None of the remaining assets qualified for any inheritance tax reliefs.

Raymer:

- Is not an accountant, but has some knowledge of the UK tax system.
- Has made four observations regarding her mother's estate and her inheritance.

Raymer's four observations:

- 'My mother should have made additional gifts in her lifetime.'
- 'The tax rate on the chargeable estate should be less than 40% due to the gift to charity.'
- 'I do not intend to live in the house but will give it to my son on 1 July 2015.'
- 'My mother paid capital gains tax every year. However, when she died, some of her shareholdings had a value of less than cost.'

Cada's shareholdings at the time of her death:

- Quoted shares in JW plc valued at more than cost.
- Quoted shares in FR plc valued at less than cost.
- Unquoted shares in KZ Ltd valued at £nil.

Required:

(b) Calculate the increase in the legacy to the charity which would be necessary in order for the reduced rate of inheritance tax to apply and quantify the reduction in the inheritance tax liability which would result. (5 marks)

(c) Explain the capital gains tax and inheritance tax advantages which could be obtained by varying the terms of Cada's will and set out the procedures required in order to achieve a tax-effective variation. (6 marks)