

WIQS Estate Administration

In this module you will cover:

- The different payment procedures for simple and complex estates
- PRs' liability to income tax
- PRs' liability to CGT
- Occasions when appropriating assets may save CGT

After completing this module you will be able to:

- Distinguish simple and complex estates
- Calculate the income tax and CGT liability of the estate
- Represent the patient effectively in Court of Protection proceedings and maximise their participation.
- Identify occasions when appropriating assets may save CGT

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An Estates Liability for Income Tax and CGT

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Chapter 1

Simple and Complex Estates

Overview [1]

The procedure for paying income tax and capital gains tax (CGT) on behalf of an estate differs depending on whether the estate is classified as 'simple' or "complex".

Select each option to find out more.

PRs of complex estates

HMRC requires personal representatives (PRs) of **complex estates** to:

- complete a self assessment tax return for each tax year of the administration, and
- register details of the estate (but not the beneficiaries) on the Trust Register.

PRs of simple estates

PRs of **simple estates** do **not** complete a self assessment tax return.

Instead they make a calculation at the end of the administration period of the total income tax and CGT due and, provided HMRC agree the calculation, make a one-off payment. Estate details do **not** have to be registered on the Trust Register.

Overview [2]

The procedure for paying income tax and capital gains tax (CGT) on behalf of an estate differs depending on whether the estate is classified as “simple” or “complex”.

Select each option to find out more.

What is a complex estate?

An estate is complex if any one of the following conditions are fulfilled:

- the probate value of the estate is **£2.5 million or more**, or
- the proceeds of assets sold by the PR in any one tax year are **£500,000 or more** for deaths on or after 6 April 2016 (£250,000 for deaths before), or
- the total tax liability (income tax plus CGT) for the entire administration period is **£10,000 or more**.

(As set out by HMRC in the Trusts, Settlements and Estates Manual (TSEM) 7410.)

In all other cases the estate is simple.

Overview [3]

The procedure for paying income tax and capital gains tax (CGT) on behalf of an estate differs depending on whether the estate is classified as “simple” or “complex”.

Select each option to find out more.

Can you be certain whether an estate is simple or complex?

Usually (but not always) it will be obvious. Inland Revenue made the following points in the *Trusts and Estates Newsletter* (August 2018):

- The value of the estate should be evident when gathering details of assets for inheritance tax (IHT) purposes.
- Equally, the value of an asset at date of death should give some indication if the value is likely to exceed £500,000 on sale.
- For income tax to exceed £10,000 the estate would be in receipt of gross income from all sources exceeding £50,000 during the whole of the administration period. Again, the assets held in the estate should give an indication but the total tax liability may not be clear early in the administration period.

What if you get it wrong?

An estate may initially appear to be simple but you may then find additional assets which make it complex.

If so, you must register the estate on the Trust Register to request a Unique Taxpayer Reference (UTR) and a Self Assessment: Trust and Estate Tax Return form (form SA900). A return will be required for each year of the administration period. There will be late payment penalties (generated automatically) for the earlier years. HMRC may cancel them depending on the circumstances.

If the sale of an asset will take the proceeds of sales by the PRs in a tax year above £500,000, consider whether the asset can be appropriated to one or more beneficiaries before sale and sold on their behalf.

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Simple estates: Procedure for paying tax

HMRC Pay As You Earn and Self Assessment deals with income tax and CGT for simple estates.

You provide HMRC with a calculation of the amount of tax due.

HMRC then provides a payment slip with a reference number, for this payment only, for the PRs to make a **one-off informal payment** of the total tax liability for the whole period of administering the deceased's estate.

An informal payment made for the administration period should include the reference number provided by HMRC for payment of the administration period tax due.

[subhead] **Payments by check** [/subhead]

Any payments made by check should include on the reverse the following information:

- the name of the deceased,
- the last private address of the deceased,
- the reference which has been provided by HMRC for this payment, and
- the reason for this payment, indicating administration period.

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Complex estates: Procedure for paying tax [1]

HMRC Administration of Estates Cardiff is responsible for dealing with income tax and CGT for complex estates.

PRs of complex estates must register the estate on the Trust Register to obtain a UTR for the estate they are administering. The register will require basic information, including the identification of the deceased and the PRs but not beneficiaries.

You must register by 35 October after the tax year when the estate starts to receive income or has chargeable gains on which tax is payable in order to get the self assessment form. Late payment will trigger a penalty.

Graphic file name

To register an estate

To register an estate, your firm must have an **agent services account**. This allows you to interact online with HMRC on behalf of clients.

If your firm already has one, you need the Government Gateway user ID and password created when the account was set up.

If your firm does not have a Government Gateway user ID, the appropriate person within your firm can create one. They will need:

- your agency's UTR or corporation tax reference, and
- the postcode associated with that reference.

Once an agent services account is created, individuals within the firm can be named as administrators and assistants and will be able to register an estate.

Graphic file name

Information required for the Trust Register

About the estate:

- name of the estate (e.g. 'estate of John Smith deceased')
- estate address and telephone number (this is the PR's address and number).

About the PR:

- name
- address
- date of birth
- National Insurance number or passport number and expiry date
- telephone number

- email address.

About the deceased:

- name
- last known address
- date of birth
- date of death
- National Insurance number (if available).

Years of tax liability:

- Indicate the tax years in which the estate has a liability to income tax and CGT.

Complex estates: Procedure for paying tax [2]

Graphic file name

After registration

HMRC will send the estate's UTR, usually within 15 working days.

You will need the UTR to start filing self assessment tax returns.

Self assessment returns can be filed either by:

- using self assessment commercial software to send it electronically by 31 January, or
- filling in paper form SA900 and posting it to HMRC by 31 October (three months earlier).

[subhead] **Authority to act on PRs' behalf** [/subhead]

Note that registering a complex estate on behalf of the PRs does **not** give you authority to act on their behalf.

HMRC need authority using form 64-8 to communicate with an accountant, tax agent or adviser acting on behalf of a PR.

Graphic file name

Finalising tax due

HMRC normally sends the final tax return to the PRs after the end of the tax year in which the administration ends.

To help PRs settle the tax affairs of the administration period quickly, HMRC will accept a tax return before the end of the final tax year.

To allow the PRs to distribute, HMRC will, on request, give early written confirmation that they do not intend to inquire into that return.

This confirmation does **not** preclude HMRC enquiring into the tax return at a later date if the return was incomplete or incorrect. But, otherwise, it indicates the end of HMRC's interest in the estate's income tax and CGT. (This practice is not statutory but see TSEM 7418.)

Complex estates: Procedure for paying tax [3]

Graphic file name

Is it necessary to 'close' the estate on the Trust Register?

In the August 2020 *Trust and Estates Newsletter*, HMRC asked PRs to notify the closure of the estate via the Trust Register. This would have meant reporting closure twice over.

Following objections from professionals dealing with estate administration, HMRC confirmed by email that it accepts that where a closure notification has already been made by letter or in a self assessment return, PRs or agents do not need to update the Register, HMRC staff will do it.

See the Association of Tax Technician's news sheet: [Estates and the Trusts Registration Service](#).

Multiple choice- 1 correct answer

Knowledge check

Consider the following statements describing simple and complex estates. Which one is correct?

Estate A has assets of £3 million and is, therefore, a complex estate.

Estate B has assets of £1 million; it cannot be a complex estate.

Estate C has assets of £1 million. In the first tax year of the administration the PRs have sold assets for £300,000 and incurred a liability for income tax and CGT of £6,000; it cannot be a complex estate.

Select your answer then confirm.

Confirm