



THE LAW SOCIETY OF SCOTLAND EXAMINATIONS

TAXATION

Thursday 20 MAY 2004

**0900 – 1200
(Three Hours)**

**Candidates should attempt THREE questions in
each of Sections A and B**

TAXATION

Thursday 20 May 2004

Candidates should attempt **THREE** questions from **SECTION A** and **THREE** questions from **SECTION B**. All questions are of equal value.

SECTION A

1. EXPLAIN AND COMPARE (without the need to give figures) the tax consequences of the following:-
 - (a) An employee is supplied with a car by his employer which is to be used by the employee for her duties of employment, but which is also available for the employee's private use without charge. The employer pays all expenses in relation to the car, with the exception of fuel for the employee's private use.
 - (b) The same situation as in (a), with the exception that the employer ALSO pays for the employee's fuel for private use.
 - (c) An employee owns his own car but uses it in connection with his employment. He is later reimbursed by the employer for the car's use in the employment, at a set rate for each mile of business travel.
 - (d) The same situation as in (c), but with the addition that the employer makes an interest-free loan to the employee to buy a new car to be used for both business and private purposes.

2. DISCUSS the tax implications arising from THREE of the following four circumstances:-
 - (a) Charles intends to open a shop as a sole trader. He decides that he will rent a fully-fitted shop, agrees to a 15 year lease on this basis and buys a large amount of stock for the shop.
 - (b) Desiree intends to open a shop as a sole trader. She decides to buy a run-down shop unit and prior to opening spends a large amount, firstly to make it structurally sound and then to fit it out with expensive carpeting, wall-coverings, lighting and shop-fittings.
 - (c) Edward runs a shop as a sole trader and is the tenant of his shop premises. These are too large for his purposes and he decides to let out part of his premises as an office to an unconnected business.

- (d) Fenella runs a shop as a sole trader and owns the premises. She decides to go into partnership with Graham and in return for a large payment, Graham becomes an equal partner and half-owner of the premises.
3. EXPLAIN the tax advantages available to an individual in making donations of income to a charity, including different ways in which such income could be donated.
4. EXPLAIN in outline in relation to income tax:-
- (a) The role of the year of assessment;
 - (b) The concept of residence in the United Kingdom; and
 - (c) The personal allowances available to those aged over 65

END OF SECTION A

SECTION B

1. EXPLAIN the capital gains tax effects of disposing of each of the following AND SET OUT the information required in order to work out the capital gains tax due (if any):-
 - (a) a factory which had been used in the taxpayer's sole trader business for ten years, which the taxpayer intends to replace as soon as possible with a newly-built workshop;
 - (b) a painting, acquired in an inheritance 3 years ago when it was worth £2,000 and likely to be sold for approximately £9,000;
 - (c) a plot of ground in the large garden of the taxpayer's main residence, which had been owned by the taxpayer for 12 years. The taxpayer worked abroad for a period of 5 years within that 12 year period.

2. EXPLAIN briefly the corporation tax consequences:
 - (a) if a UK company is a close investment holding company;
 - (b) if a UK trading company receives dividends from a minority investment in another UK trading company;
 - (c) if a UK company makes a trading loss but is wholly owned by another UK trading company which makes a profit in the same accounting period;
 - (d) if a UK company fails to make a corporation tax return for two years after the end of its accounting period.

3. EXPLAIN in broad terms the meaning for value added tax purposes of standard rated supplies, zero rated supplies and exempt supplies and how all three of them might affect a person who buys a piece of land and builds on it (for onward sale) a development which includes both shops and houses.

4. EXPLAIN, with examples if you wish, the following expressions in relation to inheritance tax:-
 - (a) transfer of value
 - (b) reservation of benefit;
 - (c) potentially exempt transfer; and
 - (d) excluded property

END OF SECTION B AND OF PAPER