



**THE LAW SOCIETY OF SCOTLAND  
EXAMINATIONS**

**TAXATION**

**Thursday 10 AUGUST 2006**

**0900 – 1200  
(Three Hours)**

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

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

**SECTION A – ANSWER THREE QUESTIONS**

1. Alistair has just left employment with a large company. He has received his wages up until the date of leaving, along with what is described as a “departure bonus” of £50,000. He has also been allowed to keep what was formerly his company car and ownership of this vehicle has been transferred to him.

Alistair does not particularly want another job. Instead, he intends to carry out the following activities:-

- (a) He will buy and sell goods on e-bay. He thinks he has an expert eye for antiques and expects to carry out two or three transactions a month. He fully expects to make a profit, but acknowledges that particularly in the early months, he may make some losses.
- (b) He also has an expert eye for horses and hopes to make money from betting – but like any gambler, he realises that he may make losses from time to time.
- (c) He intends to write a book, which he hopes will be successful. However, he realises that it will take at least 2 years to complete this project and receive any income, during which he will have to spend some money on travelling for research purposes.

EXPLAIN to Alistair the likely tax consequences of the above facts and his intended course of action, both as regards income and expenditure.

2. DISCUSS and EXPLAIN:-

- (a) the self-assessment system as it affects income tax and capital gains tax; and
- (b) the availability of means to challenge decisions made by Her Majesty’s Revenue & Customs, including but not restricted to the system of appeals available in differing circumstances.

3. EXPLAIN the income tax consequences of the following:-
- (a) Caroline is employed. Her work involves a great deal of communication. Her employers supply her with a mobile phone, but forbid her from making any private calls on it, although she sometimes makes such calls. Caroline pays her own home telephone bill, but her employers refund one half of the telephone rental and the call charges for business calls, although Caroline must produce evidence to claim this refund. Caroline is allowed to take a laptop computer (owned by her employers) home. She uses this not only for business purposes, but also for her domestic accounts and for private internet access. Her employers offer to sell this computer to her for about one quarter of its value. They also offer her a loan at well below commercial lending rates to purchase her own computer for home use.
  - (b) Bruce is employed. His employers pay for medical insurance for himself and all of his family. Bruce decides he needs some extra training for his job and thus pays for a course which he considers will assist in his work. However, his employers refuse to refund the course fees to him.
4. DISCUSS and EXPLAIN:-
- (a) how the state retirement pension is taxed on its recipients;
  - (b) the tax consequences of contributions to an occupational pension scheme, both in relation to contributions by an employer and an employee;
  - (c) how pension payments from an occupational pension scheme are taxed on recipients;
  - (d) how payments from a purchased life annuity are taxed on recipients; and
  - (e) how dividends from a unit trust are taxed on recipients.

**END OF SECTION A**

## SECTION B - ANSWER THREE QUESTIONS

1. Gloria dies with a substantial estate. EXPLAIN the inheritance tax consequences of the following:-
  - (a) Gloria had made a substantial gift of quoted public company shares to her daughter four years before her death. By the time of her death, those shares had fallen in value by approximately one half.
  - (b) Gloria had made a substantial gift of shares in an unquoted trading company to her son six years before her death. By the time of her death, her son had sold these shares and had bought quoted shares instead.
  - (c) Gloria had made a gift of her holiday home to her niece three years before her death. Gloria continued to take holidays in this house; and by the time of her death it had doubled in value.
  
2. A large UK trading company purchases 80% of the shares in a smaller UK rival; and in order to do so the large company issues a number of new shares to its existing shareholders. EXPLAIN:-
  - (a) the stamp duty consequences of the purchase and the issue of the new shares;
  - (b) the effect of the receipt of dividends by the larger company from its new subsidiary;
  - (c) the use of a large amount of accumulated losses in the smaller company by the larger company, if this is possible; and
  - (d) the effect of the acquisition of the smaller company on the possible availability of the small companies rate of corporation tax.
  
3. A property investor and developer buys a bare piece of land from a private individual and proceeds to carry out a substantial industrial development. This includes building a factory and including within it quite substantial equipment. The building will then be let on a 15 year lease to a trading company.  
  
EXPLAIN the consequences and options arising from this course of action for both the developer and the trading company, in relation to:-
  - (a) value added tax, on the purchase, construction and letting of the development; and
  - (b) capital allowances, in relation to both the building and the equipment.

4. EXPLAIN the capital gains tax effects of each of the following disposals AND SET OUT the information required in order to calculate the capital gains tax due (if any):-
- (a) a house in which the taxpayer had lived for a total of 4 years out of a total of 11 years of ownership;
  - (b) a motor car, sold for £5,000 less than the amount for which it was purchased new, five years ago;
  - (c) one half of a field (currently let to a farmer), on which the purchaser is going to build a new house;
  - (d) a gift to a discretionary trust of some quoted shares purchased in two separate transactions some years ago.

**END OF SECTION B**