

**THE LAW SOCIETY OF SCOTLAND
EXAMINATIONS**

TAXATION

Thursday 11 MAY 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

1. EXPLAIN AND COMPARE the tax consequences of the following for the employees concerned:-
 - (a) Brown Limited owns residential accommodation, in which it permits an employee to live on a permanent basis without paying any rent or other costs. The house is used for both the employee's domestic purposes and for business meetings by the employee. The accommodation is not physically on the business premises owned by Brown Limited.
 - (b) Green Limited provides hotel accommodation for incoming employees for up to the first six months after they are employed and during this time also pays for the employee's meals in the hotel and transport to and from the employee's place of work. The transport payments are either made by reimbursing public transport costs, or providing the employee with £1 per mile if the employee uses his own car.

2. Sally is self-employed as a media consultant. She incurs the following expenditure:-
 - (a) She holds a launch party on a boat. This involves spending a large amount of money on food and drink for her guests. In order to ensure that it looks busy, the guests include several members of her own family and two of her own employees.
 - (b) So successful is this party that she decides to buy a boat, which she will use for further such events, for individual trips with clients and for the personal holidays for herself and her family. She decides to hire the boat out on the open market when it is not in use for her own business or pleasure.
 - (c) As her business is now based on the boat, she provides her employees with a nautical style uniform, which she wishes them to wear when at work.

DISCUSS AND EXPLAIN the tax consequences of this expenditure for Sally.

3. EXPLAIN whether and how interest is taxed on the recipient when it is paid in the following circumstances:-
- (a) On gilt-edged stock issued by the UK Government owned by an individual;
 - (b) On bank interest paid to a non-resident UK individual;
 - (c) On interest paid by a building society to an individual within an Individual Savings Account;
 - (d) On interest paid by a UK company on a loan from another UK company;
 - (e) On interest paid by a bank to a UK discretionary trust;
 - (f) On interest paid to an approved UK pension scheme;
 - (g) On interest paid by HMRC to an individual on an overpayment of income tax.
4. DISCUSS and EXPLAIN the development of judicial intervention against the avoidance of tax.

END OF SECTION A

SECTION B

1. In relation to corporation tax, EXPLAIN:-
 - (a) The method by which the rate of corporation tax is set for companies with differing levels of profit;
 - (b) The meaning and significance of franked investment income;
 - (c) The meaning and significance of companies being in the same group, with reference to losses made by one company within the group.

2. Victor, who is domiciled in Scotland, does the following:-
 - (a) In Year 1, he gives a house to his son, but Victor continues to live there, while his son lives elsewhere;
 - (b) In Year 2, he gives a large cash sum to his daughter
 - (b) In Year 3, he gives quoted shares to a discretionary trust for his nephews and nieces;
 - (c) In Year 4, he gives a house to his wife, who is and remains domiciled in Australia;
 - (d) In Year 5, he gives shares in an unquoted trading company to his daughter;
 - (e) In each of years 2, 3, 4 and 5 he gives £2,000 to each of four student nieces on their birthdays;
 - (f) In Year 8 he dies, still living in the house now owned by his son.

EXPLAIN the possible inheritance tax consequences of this sequence of events.

3. George, a higher rate taxpayer, makes the following disposals, on each of which he makes a substantial capital gain:-
 - (a) The disposal of a house in which he lived for ten years, but from which he moved five years ago.
 - (b) The disposal for development of part of the garden of the house in which he currently lives; the garden is a large one, of about one and a half hectares;
 - (c) The disposal of a large number of shares in a Venture Capital Trust;
 - (d) The disposal of a retail shop from which George runs his business – he intends to buy a new shop in due course.

OUTLINE the capital gains tax consequences of these disposals.

4. A VAT registered sole trader owns some excess office accommodation. He decides to let this for a period of ten years. The rent will be substantial. He wants to know the basis on which VAT will be charged on the rental payments (if at all); and the basis on which any stamp duty land tax may be due (by himself or otherwise) on the grant of the lease.

EXPLAIN these matters to him.

END OF SECTION B