



**THE LAW SOCIETY OF SCOTLAND
EXAMINATIONS**

TAXATION

Thursday 10 AUGUST 2007

**0900 – 1200
(Three Hours)**

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

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TAXATION

9 AUGUST 2007
(Three hours)

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. EXPLAIN the tax implications arising from ALL of the following circumstances, explain how the taxpayers will be taxed and suggest how they might act to improve their tax position:-

Adam is aged 79 in tax year 2007-08. He is married to Bernice, aged 69. Bernice has income of £400 (gross) from building societies; a restricted state pension of £1600; and an occupational pension of £2,700

Adam has a number of different sources of income and other profits in the tax year. These are as follows, with the GROSS figure of profit stated:-

State Pension (which is paid gross)	£ 4,800
Occupational Pension (paid net of PAYE)	£17,900
Premium Bond winnings	£ 500
Bank and building society interest (paid net)	£ 1,500
Dividends for UK companies (amount actually received)	£ 450

2. EXPLAIN the various ways and different circumstances in which a taxpayer who is dissatisfied with any decision made by Her Majesty's Revenue & Customs can object to that decision and attempt to have it reversed.
3. Crystal and David operate a computer consultancy business in partnership. They spend a large amount of money on acquiring (by purchase) office premises. They then pay rates and insurance on those each year. After three years they find that major roof repairs are required and they take the opportunity to install extra accommodation (shower-room and a bed-sit) in the loft.

They then incur considerable expense in acquiring some machinery to be used in a contract which they hope will last for several years. In addition, the new equipment means that they require to re-decorate; and Crystal requires to travel between the new premises and their old office much more frequently.

EXPLAIN how these items will affect their tax (and in general terms) how they are taxed as partners.

4. DISCUSS :-

- (a) the criteria by which it is decided whether an individual taxpayer is employed or self-employed and why it is of significance in tax terms; AND
- (b) the means by which benefits in kind are taxed on employees.

END OF SECTION A

SECTION B - ANSWER THREE QUESTIONS

1. EXPLAIN each of the following, including how they are established and their significance for United Kingdom taxation:-
 - (a) residence of individuals for income tax;
 - (b) residence of companies for corporation tax; AND
 - (c) domicile of individuals for inheritance tax.

2. Edward is an extremely successful businessman, with several different businesses and investments. These include 100% ownership of a farm-machinery manufacturing company; ownership of a successful dairy farm, which is let to an unconnected neighbouring farmer; part ownership of a block of residential flats, which are let primarily to students; and a large portfolio of quoted stock exchange investments.

Edward is in good health He has two adult children. He is considering gifting some or all of the assets listed to his children, either outright or by means of a trust.

EXPLAIN the inheritance tax consequences of those alternatives in relation to the assets listed.

3. EXPLAIN in relation to value added tax how supplies of land can involve all of the following:- standard rated supplies, exempt supplies, zero-rated supplies and supplies outside the scope of the tax.

4. 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 house in which the taxpayer had lived for a total of only the first and the last years, out of a total of 10 years of ownership;
 - (b) a painting, sold for £3,000, which was £4,000 less than the amount for which it was purchased when painted by the artist;
 - (c) part of a garden on which the purchaser is going to build a new house; AND
 - (d) a portfolio of shares worth £14,000 held in an Individual Savings Account.

END OF SECTION B

END OF PAPER