



**THE LAW SOCIETY OF SCOTLAND
EXAMINATIONS**

TAXATION

Thursday 10 MAY 2007

**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. Explain the tax implications arising from EACH of the following sets of circumstances:-
 - (a) Alison is employed. Her work involves a great deal of communication by telephone and working with a computer at home. Her employers supply her with a mobile phone and a laptop. Technically, she is not entitled to make any private use of these, but she does so from time to time. Her employers have found out, but have turned a blind eye. Her employers also refund Alison's home telephone rental and in addition pay for her business calls from home, although she has to produce evidence in relation to this. She is also told that her employers will pay a small proportion of her home service bills, although in Alison's view this will not nearly meet the costs she incurs at home in connection with her employment.
 - (b) Brian is employed. He has recently been promoted and is given the ability to choose from a range of options in relation to his transport.
 - (i) He can be supplied with a company car, in relation to which his employers will pay all costs, but not private fuel.
 - (ii) He can have a much smaller and less valuable car, but in this case his employers will also pay the costs of fuel for private use.
 - (iii) He can finance his own car, but his employers will pay him a generous mileage allowance and allow him to borrow money for the purchase at very favourable rates.

2. Explain the tax reliefs available to charities and to those individuals and companies who may wish to make donations of cash or assets to them.

3. Mr Jones owns a block of flats. He lets out these flats. Some are furnished and some are unfurnished. He replaces the furniture (and other contents) as they need to; but does not intend to increase the number of furnished flats. He carries out running repairs and incurs a number of small expenses in relation to this. He also incurs legal fees and pays an agent to find new tenants. Mr Jones also lets out a room in his own house to a student. Mr Jones intends to get married and have a children in the very near future and the future Mrs Jones has no income of her own.
 - (a) Explain to Mr Jones how the income from his flats should be taxed.
 - (b) Explain to Mr Jones how this would be different if these were holiday lettings and what would be necessary to achieve this.
 - (c) Explain the tax consequences if Mr Jones were to transfer all or part of the block of flats to his future wife.

4. EXPLAIN the self-assessment system as it affects individuals and companies; and the penalties which might arise for taxpayers in relation to failing to comply with it.

END OF SECTION A

SECTION B - ANSWER THREE QUESTIONS

1. Quentin Manufacturing Limited is a company with profits which have varied between £100,000 and £2 million over the last few years. It is in the process of replacing all of its manufacturing equipment, which consists of a very wide range of machinery. While most of this machinery is relatively small and mobile, there is one piece of plant which will require its own separate building, into which the plant will be permanently built. The easiest way to get this machinery is to complete an entirely new building, although it would be possible to adapt an existing building.

The company wishes to know the following and you are to supply this advice:-

- (a) What is the effect on the rate of tax which it will pay of the varying profits, which variations are expected to continue?
 - (b) What would be the effect on these rates if the company was the member of a group of trading companies?
 - (c) What tax reliefs are available in relation to the new machinery and its location?
2. Explain briefly the consequences for both landlord and tenant in relation to (a) value added tax and (b) stamp duty land tax of a 15 year lease of a new office building which has just been built. You should illustrate your answer with figures in relation to the possible tax chargeable.
3. John is a wealthy man who wishes to know the possible inheritance tax consequences of the following:-
- (a) Making a gift of £300,000 to his civil partner, Callum.
 - (b) Making a gift of his wholly owned antique business company to his nephew Sam, who works with him.
 - (c) Making a gift of the shop premises from which the company operates to Sam. (John owns the shop personally.)
 - (d) Making a gift of £500,000 to a trust for the benefit of his grand-nephews and grand-nieces, the children of Sam and John's niece, Joyce.

In your answer, consider the consequences of John not surviving for seven years after making these gifts.

4. Explain, as separate items, the following in relation to capital gains tax:-
- (a) The effect of not being resident in the United Kingdom.
 - (b) The effect of making a disposal to a connected person.
 - (c) Taper relief for non-business assets.
 - (d) Hold-over relief for gifts.

END OF SECTION B AND OF PAPER