



**THE LAW SOCIETY OF SCOTLAND  
EXAMINATIONS**

**TAXATION**

**Thursday 7 AUGUST 2008**

**0900 – 1200  
(Three Hours)**

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

# LAW SOCIETY OF SCOTLAND EXAMINATIONS

## TAXATION

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**All questions are of equal value**

### **SECTION A – ANSWER THREE QUESTIONS**

1. Jennifer is a business consultant and has until now worked as a sole trader. She has worked for a number of clients over the years, but has just obtained a large contract, likely to last for a number of years, with one of them. She will work for them full-time (and for no other clients – she gets a separate payment for this), under the direct control of the managing director of the client Jennifer must do all the work personally and cannot sub-contract it.

Most of this work will be at the client's headquarters, but she will do a considerable amount of work from home and some at the client's foreign branches (and she might extend such trips for family holidays). The client will supply her, on free loan, with a laptop computer and a mobile phone (both of which she can use for her own purposes as well as the work with the client). Jennifer decides to buy a new car, which she will use partly for this new work.

**EXPLAIN** the potential tax consequences of **ALL** of the above circumstances.

2. **EXPLAIN**, with examples, how the legislature and the courts have developed their treatment of schemes with no purpose other than tax avoidance.

3. Sammy and Sean are civil partners. Sean has worked on his own as an art dealer for a number of years. Sammy, who is much younger, has never had paid work. Sean decides to put his business into a company; and gives Sammy one quarter of the shares in the company. Sammy will do no work for the company, but it will pay him a salary of some £6,000 each year in any event. Sean will not be paid much salary and the intention is that both Sean and Sammy will take any profits from the company (which are expected to be considerable) out as dividends over a number of years. Neither Sean nor Sammy has any other source of income.

EXPLAIN the potential tax consequences of this course of action; and any challenges which might be made by HMRC.

4. EXPLAIN:-

- (a) the self-assessment rules for individual taxpayers, including any penalties which may arise from failures to comply AND  
(b) the powers available to HMRC to obtain information about taxpayers from third parties.

**END OF SECTION A**

## SECTION B - ANSWER THREE QUESTIONS

1. In relation to capital gains tax or corporation tax on capital gains, EXPLAIN the significance of the following:-

- (a) Indexation allowance;
- (b) Market value of assets as at 31 March 1982;
- (c) Disposals of assets other than at arm's length;
- (d) Replacement of business assets;
- (e) The death of an individual taxpayer.

2. George is a property developer. He has seen a site which he wishes to develop with a combination of residential and commercial premises. This site was formerly a public house with a number of flats above it but it is now derelict. There is a piece of bare land next to it, which is owned separately.

George wishes to buy all of this property. He will then engage contractors to knock down the existing buildings and replace them with a new block, which will be made up of shops on the ground floor and flats above it. George intends to let the shops on long leases and to sell the flats, although he will let them out as holiday accommodation if he cannot sell them immediately.

EXPLAIN to George the possible VAT and stamp duty land tax consequences of his plans.

3. Donald is a farmer, who has been forced in recent years to diversify his activities. These now include a golf course (run as a business); and the letting of a large number of surplus houses on the farms which he owns, both for holiday lets and on a long-term basis.

Donald has a large number of stock exchange investments; and a reasonable amount in cash and other assets. The value of his farming interests is over £600,000; the golf course is worth £200,000; the letting properties are worth £400,000; his stock exchange investments are worth £350,000 and his cash and other assets some £250,000.

Donald is contemplating giving his farm and the letting businesses to his son; and (probably only on his death) the remainder of his assets to his daughter.

EXPLAIN the inheritance tax consequences which would arise if he made these gifts to his son and his daughter, dealing particularly with the availability of any reliefs; and the importance of Donald's survival for particular periods of time after making the lifetime gifts.

4. EXPLAIN the significance of and the rules about:-
- (a) "small" companies in relation to rates of corporation tax;
  - (b) the residence of a company in the United Kingdom or otherwise;
  - (c) group relief for losses made by companies.

**END OF SECTION B AND OF PAPER**