



**THE LAW SOCIETY OF SCOTLAND  
EXAMINATIONS**

**TAXATION**

**Thursday 8 MAY 2008**

**0900 – 1200  
(Three Hours)**

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

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## TAXATION

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**All questions are of equal value**

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

1. Explain, compare and contrast the tax consequences of the following:-
  - (a) An employer supplying an employee with a car for use in the employment and paying all expenses (including fuel) in relation to it, regardless of whether it is used for employment or private purposes.
  - (b) An employee using a car provided personally for the duties of his employment, but being reimbursed by the employer (i) by exact payments relating to the expenses of use in the employment or (ii) by payment of a round-sum mileage allowance.
  - (c) An employee using a car provided personally for the duties of his employment, but receiving no reimbursement from the employer for the employment.
  
2. Janet and John are unrelated. They have however been working together as computer consultants and decide they want to formalise arrangements. They form a partnership and want to know the following:-
  - (a) In general terms, how partnership profits or losses will be dealt with. This will be Janet's only work and she will take 60% of any profits. John will continue in employment and take 40% of any profits.
  - (b) They need to buy some equipment, including a specialist type of computer, an expensive licence for software and subscriptions to specialist computer magazines. Explain the tax treatment of these purchases, including in relation to capital allowances where relevant.
  - (c) They cannot yet afford to rent an office, but will work extensively in a room in Janet's home. This will require to be fitted out with two

workstations, but Janet will continue to use it as a spare bedroom from time to time. Explain the tax treatment of these arrangements.

3. EXPLAIN the tax consequences of any return (capital or income) received from all of the following:-
  - (a) an Individual Savings Account;
  - (b) a Unit Trust investing entirely in UK companies;
  - (c) Premium Bonds;
  - (d) Government Stocks (Treasury and Exchequer Stock)
  - (e) National Savings Certificates.
  
4. Explain the concepts of residence, ordinary residence and domicile as they affect the **income tax and capital gains tax position** of individuals in the United Kingdom.

**END OF SECTION A**

## SECTION B - ANSWER THREE QUESTIONS

1. EXPLAIN in broad terms the meaning for value added tax purposes of standard rated supplies, zero rated supplies and exempt supplies and how all three of them might affect a person who buys a piece of land and builds on it (for onward sale) a development which includes both shops and houses.
2. Hector and Marie are a married couple who own a large house, which they are about to sell. It stands in about 5 hectares of land. About half of this area is set out with regularly cut grass and garden plants. That area also includes a tennis court; and a small separate house in which Marie's parents have stayed when they visit – often for half the year when Hector and Marie were living there.

Hector and Marie have owned the house for almost exactly 20 years. They did not move in for a year when they first owned it, because of renovations being done. They then lived there for 3 years. For 8 years after that, they did not live there – for half that time they had to live in Hector's workplace elsewhere in the UK; and the other half they travelled around the world. During six years of that time the house was let. Hector and Marie then moved back into the house and have lived there until one year ago when they moved into their new house.

DISCUSS the relevance of all of the above circumstances in relation to capital gains tax which might be charged on the sale of the house.

3. Sally and Sam own (equally) a small property investment company. The company buys and lets both commercial and residential property. It makes profits of about £500,000 per year. In one particular year, the company purchases an office block for £600,000; a public house for £350,000, a large house for £140,000 and a block of flats for £300,000. All of these are then let on one year leases.

EXPLAIN:-

- (a) what tax will be paid on the company profits and how Sally and Sam will be taxed if any remaining profits are paid out as dividends and
  - (b) the stamp duty land tax consequences of the purchases and leases by the company.
4. Gregor is in civil partnership with George. Gregor owns extensive assets (more than £2 million) while George owns virtually nothing. Gregor is considering making a large gift to his nephew Colin, but is worried about making this gift outright, because Colin is still young.

EXPLAIN the inheritance tax consequences if (as alternatives)

- (a) Gregor was to make a gift of £500,000 in cash, outright to Colin;
- (b) Gregor was to make a gift of £500,000 in cash, into a trust in which Colin was a beneficiary;
- (c) Gregor was to make a gift of £250,000 in cash to George; and both Gregor and George were then to make a gift of £250,000, into a trust in which Colin was a beneficiary;
- (d) Gregor was to make a gift of unquoted trading company shares to Colin.

CONSIDER what would happen if Gregor were to die within seven years of making these possible gifts.

**END OF SECTION B AND OF PAPER**