



**THE LAW SOCIETY OF SCOTLAND  
EXAMINATIONS**

**TAXATION**

**Thursday 10 August 2017**

**0900 – 1200  
(Three Hours)**

**Candidates should answer FIVE questions in total. TWO questions from Part A and TWO questions from Part B. The fifth question can be from either Part A or Part B.**

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**PART A**

**Question 1**

Explain the income tax treatment of payments made by an employer to a former employee on the termination of that employee's employment.

**Question 2**

Write short notes on any two of the following:

- i) The income tax treatment of the benefit to an employee of living accommodation provided by that employee's employer;
- ii) The reliefs available for surrender of losses between members of a corporate group (group and consortium relief under CTA 2010 part 5);
- iii) The income tax relief available for trading losses.

**Question 3**

Jamie is employed as a painter and decorator by Do-it-up Ltd. He has the use of a van owned by the company, not only during the day but also in the evenings and at weekends when it is available to him for his private use. He pays for all the fuel for the van whether he is travelling whilst working or using it for personal purposes. His company provides him with a mobile phone and pays all his phone bills. He also takes on jobs in his own capacity outside his employment for which he charges customers privately. He spends small amounts advertising this service locally. In the course of doing these private contracts, he receives four parking tickets in the year.

He bought a special machine for cleaning and restoring brushes, which cost him £1,000 and which should last him about 8 years.

Jamie also has a small amount of savings. In the tax year 2016-17 he receives interest from his ISA account of £250 and further interest from a bank deposit account of £100. He has a small number of shares, from which he received dividends of £85.

You are asked to comment on the income tax implications arising out of the above information.

(No calculations are required.)

**Question 4**

What factors are used by the courts to determine whether or not a particular activity constitutes trading for the purposes of income tax?

**END OF PART A**

## **PART B**

### **Question 5**

Octavia died several years ago when the nil rate band was fixed at £200,000. In her will, she left her daughter £50,000 with the balance of her estate going to her husband, Nero.

Nero died in July 2017. His lifetime transfers consisted of a gift of his holiday home to his brother in 2008 (he continued to use the holiday home from time to time until his death), a gift of £50,000 to his sister in July 2014 and he gave his niece £1,000 as a wedding present in June 2015.

His estate on death consisted of the following assets:

- A working farm. A significant element of the value of the farm was its developmental value as there were plans to build an eco-village on the property;
- His house worth £1,500,000;
- Bank account to the credit of £150,000;

In terms of his will, his sister and his nephew are to receive £75,000 each and the balance of his estate is to go to his daughter.

You are asked to comment on the inheritance consequences arising out of the above information. Explain, in the event that inheritance tax is due, which beneficiaries will bear the tax (ie whose share will be reduced in order to meet the tax)? (No calculations are required.)

### **Question 6**

Write short notes on the capital gains tax issues relating to any two of the following:

- i) Principal private residence relief;
- ii) Entrepreneurs' Relief;
- iii) The disposal of assets in the UK by a person who is not resident in the UK.

### **Question 7**

Harold has decided to sail around the world so is disposing of some of his possessions.

Identify the capital gains tax issues which arise in relation to the following disposals:

- He sells his miniature portrait collection to a dealer. It is agreed that he will receive a lump sum up front and a percentage of the sale price as and when the dealer sells the portraits.
- He sold a computer business which he had set up from scratch (which had been very successful) to a major company in the sector.
- Harold sold his furniture and artwork. Most of it is was sold for relatively low value, but a couple of items were more valuable. One is a painting which he sold for £15,000. He had bought this a few years ago for £1,000 in an antique shop and believed it to be by a well-regarded local artist. In fact, unbeknownst to him, it was actually worth £500,000 as it was by David Roberts, a renowned Scottish artist. The second is an antique chair which he bought five years ago for £2,000 and sold for £5,300.
- He sold his home in Edinburgh. He had lived in it from 1992 (when he purchased it for £100,000) until a year before its sale in 2017 for £500,000. For that last year he had been living with his elderly mother in order to help care for her. (Sadly she has since died.)

### **Question 8**

Explain the difference between an exempt supply and a zero-rated supply for the purposes of VAT.

**END OF PART B**

**END OF PAPER**