

UNIVERSITY COLLEGE LONDON

University of London

EXAMINATION FOR INTERNAL STUDENTS

For the following qualifications :-

LL.B.

LL.B. Part II: Law of Taxation

COURSE CODE : LAWSII07
DATE : 09-MAY-02
TIME : 10.00
TIME ALLOWED : 3 hours 15 minutes

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TURN OVER

TAXATION

Answer **FOUR** questions including at least one question from **PART A**.

In answering questions on this paper candidates

- (i) must, in the absence of clear indication to the contrary in the questions concerned, assume that all persons mentioned are domiciled, resident and ordinarily resident in the United Kingdom, that all assets are situated in the United Kingdom and that all events occur in the United Kingdom;
- (ii) should not attempt to compute the amount of tax payable; and
- (iii) should ignore all changes in legislation made or proposed after 1 March 2002.

PART A

1. What are the requirements for an effective tax appeal system? How far does the present system of tax appeals meet these requirements? To the extent that you do not consider it meets these requirements suggest changes that could be made to improve the situation.
2. “The present law on the taxation of benefits in kind is too complex and does not fulfill the criteria of equity and administrative convenience.”

Consider whether the above statement is correct, using specific examples which you have studied on this course.

3. Consider whether it would be better to have a statutory general anti avoidance rule instead of the present judicial anti avoidance approach.
4. “There are two taxes which tax wealth in the United Kingdom, capital gains tax and inheritance tax. They form an incoherent system for capital taxation and are often inconsistent. There are so many exemptions and reliefs that the yield is very low and tax planning opportunities are many. Reform is necessary.”

To what extent do you agree or disagree with this statement?

TURN OVER

PART B

5. Arthur is a wealthy businessman with a large portfolio of assets. Amongst these he has several homes in England and a villa in Spain. His wife has no assets of her own. They have three children and a grandchild.

During the past year Arthur made the following transfers:

- (i) A gift of £10,000 to his university.
- (ii) The payment of the debts of a good friend who had lost a lot of money in the recent Stock Exchange fall.
- (iii) A discretionary settlement of £5 million.
- (iv) The gift of £3,000 to his younger son, on the occasion of this son's marriage.
- (v) A conveyance of his large mansion in the country to his older son. Arthur plans to spend some time at the house during the summer months.
- (vi) A gift of one of a pair of valuable antique vases to his daughter for her birthday.

Advise Arthur on the inheritance tax consequences of the above and give him inheritance tax planning advice for the future.

6. Charles, who is in business as a property developer, seeks your advice on the income and capital gains tax consequences of the following:

- (i) The receipt of a dividend payment from an electrical company in which he holds shares.
- (ii) The sale of 10,000 ovens for £1 million. He had purchased these in bulk in a liquidation for £50,000.
- (iii) The receipt of a gift, worth £1,000, from a grateful client following the successful completion of a sale.
- (iv) The receipt, by Charles, of £10,000 from Charles' former lawyer as compensation for the lawyer negligently missing a rent review date. The result was there was no increase in the rent for the property which Charles holds personally.
- (v) The transfer of a property from his business to himself. The property had been purchased by the business for £500,000 in 1995 and at the time of transfer it was valued at £800,000.

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7. Belinda is a commercial costume designer who designs for the theatre and cinema. She specialises in historical costumes. She works for 18 hours per week for a company called Designs under a contract which requires her to do the work personally and gives her three weeks' holiday each year. Although Designs provides her with most of the materials, which Belinda uses sometimes, she also uses materials from her own collection.

Belinda is permitted to take on outside work in addition and she works for several other companies. When she is unavailable, she is entitled to get a qualified friend to substitute for her. For this work she is told which costumes are required and often purchases extra materials for the work herself. She is paid by the hour and has no entitlement to any particular number of hours of work from the companies or to holidays.

Belinda has an office at home and organises her work schedule from there. Her nanny, who looks after her children, answers the telephone and takes bookings over the telephone. Belinda sometimes travels for the purpose of historical research into period costumes and this costs her about £500 each year. She also subscribes to an association of costume designers and to several theatre and film magazines.

Advise Belinda how the income from these activities will be taxed and consider whether there are any allowable deductions which she can make from the income.

8. For many years Donald has owned a penthouse flat in London. In 1995 he purchased a weekend house in the country as well. The grounds of the house extended to two hectares. He built an extension and a swimming pool and had the whole house decorated to a very high standard. In 1999 he sold part of the grounds of the house, and in January 2002 he sold the house as he found he was no longer using it at weekends.

In March 2002 he sold some shares which had increased in value since he purchased them in 1999. At the same time he sold some other technology shares which had decreased in value since his acquisition in 1999.

Some years ago Donald created a trust for his children E and F contingently on attaining the age of 18. This year E attained the age of 18. The assets in the trust have increased greatly in value.

In December 2000 Donald sold some shares in X Ltd in return for £1,000 per share together with the right to a further sum if the company floated on the London Stock Exchange within three years. The company did float and so Donald received a further sum in February 2002.

Advise Donald on the capital gains tax consequences of the above events.

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