

**UNIVERSITY COLLEGE LONDON**

University of London

**EXAMINATION FOR INTERNAL STUDENTS**

For The Following Qualification:–

*LL.B.*

**LL.B. Part II: Law of Taxation**

**COURSE CODE : LAWSII07**

**DATE : 06-MAY-04**

**TIME : 10.00**

**TIME ALLOWED : 3 Hours 15 Minutes**

## LAW OF 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 2004.

### PART A

1. 'We need a tax appeal system fit for the 21<sup>st</sup> century. Some elements of the current system date back to the early 19<sup>th</sup> century.'

The Lord Chancellor, Lord Irvine, Consultation Paper on **Tax Appeals** 2000

Which elements of the current system need to be changed and what changes should there be to make the direct tax appeal system fit for the 21<sup>st</sup> century?

2. 'It is striking that some 20 years after *Ramsay* and even with the assistance of at least five major decisions of the House of Lords, explaining or reinterpreting *Ramsay*, there should be such a wide divergence of views as to the nature of the principle.'

Carnwarth LJ in *Barclays Mercantile Business Finance Ltd v Mawson* 2003  
EWCA

What is the nature of the *Ramsay* principle today? And what is the divergence of views about it?

3. What is settled property for capital gains tax purposes and why is it important?

Illustrate your answer by reference to decisions of the courts.

4. 'The bizarre position has now been reached whereby what was intended as a general tax on gifts has been limited (in the main) to gifts on or within seven years of death whilst a tax intended to catch capital profits may now operate to impose a tax charge on any gain deemed to be realised when a lifetime gift is made!' Whitehouse.

Explain the above quotation in relation to inheritance tax and capital gains tax.

**TURN OVER**

## PART B

5. North Ltd. is a company investing in property. The directors of the company are Andrew and Nicholas who are paid salaries of £50,000 each. This year North Ltd. had rental income of £300,000 from its properties.

One of the properties was sold during the year for £100,000. It had been purchased five years ago, for £50,000. North Ltd. paid £750 in fees to the lawyers on the sale. Later in the year North Ltd. borrowed £60,000 from the bank to finance the purchase of a new property for the company.

Dividends were declared during the year and paid out to the shareholders, including Andrew and Nicholas and Andrew's baby son.

At the end of the year and after the dividends had been declared Andrew gave half his shareholding in North Ltd. to his wife.

Give advice on the tax position to North Ltd, to Andrew and to Nicholas.

6. Chuck works in London as a top corporate lawyer for an American law firm. He is domiciled in the United States but expects to remain in London for two years. His employers provide many benefits to make life in London agreeable for Chuck.

A large house owned by his firm, and purchased two years ago, is provided for the use of Chuck and his family while he is working in London. The house was completely re-decorated this year at a cost of £10,000 to the firm. Chuck is also provided with a car and a chauffeur.

The firm pays all the expenses of his daughter's education at Harvard Law School; this includes the fees and her living expenses.

Chuck also has two Saville Row suits per year given to him. The firm retains property rights in the suits and Chuck just has the use of the suits. Each one costs £1,000. The firm gives him the latest mobile phone and pays for all his calls both business and personal.

Chuck loves being in England so much that he decides to purchase a cottage in the Cotswolds for use at the weekends. His firm gives him legal advice and does the conveyancing without any payment.

Advise Chuck on the income tax treatment of the above.

**CONTINUED**

7. Wanda is a wealthy widow. During the last year she decided to put her assets in order. She therefore made the following transactions:
- (i) She created a discretionary trust for the benefit of many members of her family including her children and grandchildren.
  - (ii) She paid a lump sum of £50,000 to her grandson's private school for the fees.
  - (iii) She conveyed her main home, a mansion in Oxford, to her favourite son, Stuart. He and his family moved in soon after this. She often visits Stuart and his family.
  - (iv) She settled an action against her former solicitors for negligent tax advice. They paid her £30,000.
  - (v) She sold shares which she had acquired under the will of her husband four years ago when they were valued at £100,000. On the sale she received £150,000.

Advise Wanda on the tax consequences of the above.

8. At the beginning of this year Ali entered into a tenancy of a shop in order to run a bookshop in the premises. The shop was in a dilapidated state when he moved in and Ali has spent money £30,000 on bringing it up to standard and putting in book shelves and computer equipment. The rent of the shop is £10,000 per annum.

The insurance premium for the bookshop, including terrorism cover, costs Ali £600 for the year.

In order to attract customers to the shop he advertises a free book to every customer making purchases of over £100.

Ali uses his car to travel from home to the bookshop and also to visit suppliers. Ali's daughter is at university and he gives her all her necessary course books from his stock.

Ali's only employee is Belinda who is a student who works for him part time and earns £3,000. He often takes her out for a meal after the shop has closed.

One day Ali, by accident, dropped a heavy book on a customer's head. The customer was shocked and bruised. Ali gave the customer several expensive books by way of recompense.

Advise Ali on the tax treatment of the above.

**END OF PAPER**