

NORMAN MANLEY LAW SCHOOL
Council of Legal Education

LEGAL EDUCATION CERTIFICATE
SUPPLEMENTARY EXAMINATIONS, 1980

REVENUE LAW

Wednesday, August 20, 1980

Instructions to Students

- a) Time: 3½ hours.
- b) Answer FIVE questions.
- c) In answering any question a candidate may reply by reference to the Law of Jamaica, the Bahamas, Belize or the British Virgin Islands, but must state at the beginning of the answer the name of the relevant territory.
- d) It is unnecessary to transcribe the questions you attempt.

QUESTION 1

(a) A and B are both 50% shareholders in a company, AB Holdings Ltd., which has two subsidiaries, A Ltd. and B Ltd. It is projected that in 1980 AB Holdings Ltd. will receive its total income of \$100,000 gross (\$62,500 net after payment of tax) from A Ltd. and B Ltd. equally. A and B now wish to know what would be the position if they decided that AB Holdings Ltd. should pay all its income to them as dividends.

(b) A Ltd. expects its 1980 chargeable income to be \$100,000 on which it will pay CPT of \$35,000 and ACPT of \$10,000. It also has total ACPT credit brought forward from previous years totalling \$20,000. How may A Ltd. treat this ACPT in relation to its liability to pay income tax on dividends paid by resident bodies corporate?

QUESTION 2

Scholar is a student in the Norman Manley Law School and is also a part-time lecturer in the Faculty of Law at Mona at a salary of \$1,000 per year.

In order to help his financial position Scholar "volunteered" to help persons preparing for banking examinations at the National Commercial Bank where he once worked. In return the Bank agreed to purchase all the legal text books he needed up to a value of \$1,500 per year. In 1979 upon all students passing the June examinations, the Bank gave Scholar a cheque for \$1,000 "in appreciation of his help".

In addition, Scholar had a brother who was a racehorse trainer and a joint owner with him of a horse, Flying Finn. The horse was very successful in the 1979 racing season earning them profits of \$5,000 each, and Scholar wrote a racing column for the Daily Sun for which he received \$2,500 per year.

The Commissioner of Income Tax now seeks to assess Scholar on all these sums.

Advise Scholar.

QUESTION 3

Percy is a business man engaged in the manufacture of paper clips. During 1979 his business shows the following results:

(a)	Commercial profit from sales of clips	\$ 30,000
(b)	Proceeds of sale of Machine with Tax WDV of \$4,000	15,000
(c)	Construction of new factory building (not used in year of construction)	100,000
(d)	Losses brought forward from 1978	5,000
(e)	Donated to Tuberculosis League	1,000
(f)	Spent on refurbishing and converting into a warehouse an old cinema not used for five years.	50,000

Advise Percy on how his statutory income would be computed.

Would your answer differ if -

- (a) when the factory building is put into operation, less than 10% was used for the factory and over 90% was rented out to an advertising agency;
 - (b) the WDV of the machine sold was \$25,000?
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QUESTION 4

(a) Build Well Ltd. is a building firm which incurred tax losses of \$150,000 in 1974, the year in which it commenced operations. Up to the end of 1978 it had used up \$120,000 of those losses and in 1979 it realized commercial profits of \$30,000 and it also had capital allowances of \$20,000 available.

Advise Build Well Ltd. (assume its accounting period ends on 31st December in each year).

(b) Build Well Ltd. also seeks your advice on its plan to take over Builders (Props) Ltd., a company with large losses which is now in financial difficulty, its business having declined significantly over the last two to three years.

What advice would you give to the directors of Build Well Ltd.?

QUESTION 5

XYZ Ltd. is a company engaged in the manufacture of leather goods and wooden window frames. The directors seek your advice in the following circumstances:

- (a) In 1980 they propose to purchase new machinery and construct a building, both together representing a total expenditure of two million dollars (\$2,000,000), and wish to know how best to arrange their claim for capital allowances since they anticipate steeply rising profits in the next five years.
- (b) They also wish to know whether they could improve their tax position by arranging a 'lease-with-option-to-purchase' the same assets.
- (c) On the assumption that they decided to purchase, they say they could make a significant capital gain by retaining the assets for three years and then selling them in 1983.
- (d) They are also deciding to commence a consulting and advisory service for other businessmen. This will require an investment in a library of \$50,000.

- (e) They will have to spend \$100,000 on constructing a new driveway into their plant, as the community in which they are situated complains that vehicles used by the company threaten the lives of their children when using the present roadway.

Advise the directors.

QUESTION 6

John Doe is the owner of a ten-acre lot of land in Coopers Hill. He bought the land in 1974 for \$40,000. He divided the land into two equal portions called A and B, and developed A by putting in roads, water supplies, two tennis courts, and a well to supply water. The cost of these developments was \$10,000, \$6,000, \$2,000 and \$4,000 respectively. In 1979 he entered into an agreement to sell A to the K.S.A.C. for \$88,000 and gave B to trustees, on trust for his son Cyril, then aged 22, absolutely. B had by then increased in value to \$35,000, and Cyril wants to sell the land, either to the Coopers Hill Government School or to a private developer, both of whom are willing to pay \$50,000.

Advise on the Revenue Law consequences of the above.

QUESTION 7

The Transfer Tax Act gives certain reliefs which are of limited application:

- (a) Relief in the case of transfers of agricultural land.
- (b) Relief in the case of transfers of land or an interest in land.
- (c) Relief on the first sales of houses in an approved development, done by an approved developer.
- (d) Relief where a trader in assets subject to Transfer Tax is also subject to income tax in respect of the profits of his trade.
- (e) Relief on transfer of a principal private residence.

Write notes on the above, paying particular attention to the limits of their application.

QUESTION 8

Baxter is a real estate developer. During the year of assessment 1979, he:

- (a) bought 15 houses for a total of \$50,000 and sold them for \$60,000;
- (b) bought two houses at \$70,000 each and sold them at \$65,000 each;
- (c) entered into an agreement whereby he guaranteed his father's overdraft at the Scotia Bank up to a limit of \$12,000, giving the bank a charge on his house;
- (d) borrowed \$100,000 for the purchase of shares in the Magic Money Co. Ltd.; he paid interest of \$14,000, but the shares yielded no dividend;
- (e) bought a farm for \$30,000, of which the value of the crops was \$15,000.

Advise Baxter on the Revenue Law consequences of the above.
