

NORMAN MANLEY LAW SCHOOL
Council of Legal Education

LEGAL EDUCATION CERTIFICATE
FIRST YEAR SUPPLEMENTARY EXAMINATIONS, 1981

REVENUE LAW
Monday, August 17, 1981

Instructions to Students

- a) Time: 3½ hours.
 - b) Answer FIVE questions only.
 - 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

In 1962 John Ball became a member of the Dreads Football Club as a professional. The Club paid a flat salary of \$500 per month to each member on the professional playing staff. In addition, a cash bonus of \$50 per goal in a match which was won, and \$20 in a match which was lost, was paid to each player. The club, however, did not give benefit matches, under the terms of its contracts with the players. In 1976, John retired after a distinguished career with Dreads Football Club. The Club arranged a special match in his honour at the National Stadium against a Brazilian team and the gate receipts less expenses, a sum of \$15,000 net, was given to John. From 1971, Sports Goods Stores Limited had given John four (4) pairs of boots each year so that their products would be advertised, the value of each pair being \$60.

In 1976 Dreads also won the football League. Bob, a local businessman whose restaurant profited by the popularity of Dreads Football Club, each month gave \$500 to be shared by the team members. The President of the Club also awarded John the "President's Prize" for the most outstanding player - a cheque for \$1,000.

- (a) Briefly outline the Income Tax principles applicable to each item above.

(b) The Commissioner had issued a decision confirming John's income for 1976 at \$23,440, being -

i)	salary	\$ 6,000
ii)	bonus for goals scored	900
iii)	proceeds of benefit match	15,000
iv)	value of boots	240
v)	share of Bob's gifts	300
vi)	prize for being outstanding player	1,000
		<u>\$23,440 0</u>

John has appealed against this decision on the grounds that the assessment is excessive and unreasonable.

Advise him.

QUESTION 2

C, a 65-year old pensioner and widower, having retired from the Civil Service, has a daughter 17 years old attending Immaculate Conception High School, and a son aged 22, studying at the University of the West Indies in Barbados. During 1980 he receives the following items of income:

1)	net dividends from Jamaican companies (after tax at 37½%)	\$ 5,000
2)	salary as part-time accountant of Dinero Enterprises Limited	4,000
3)	income from Prosper Unit Trust	600
4)	housing allowance (in cash)	5,400
5)	value of private use of car	1,000

His sister lives with him to look after his children and is wholly maintained by him.

C is supplied with a car by Dinero Enterprises Limited for use on the company's business and for his own private use. C pays N.I.S contributions of \$8 per month. He pays \$400 in contributions to an approved superannuation scheme, and contributes \$250 to the building of a new wing at the Polio Rehabilitation Centre.

C during 1980 also pays:

- 1) \$600 on insurance premiums.
- 2) \$600 for purchase of shares in Victoria Mutual Building Society.
- 3) \$3,600 for alimony to his first wife, A.
- 4) \$3,000 mortgage interest on his home.
- 5) \$50 per week to his household helper for whom he pays no N.I.S. contributions.

His son also receives \$500 from a trust set up for him by his grandfather.

1. Explain to C the computation of his tax liability for 1980.
2. What difference, if any, would it make to C's tax burden if the company provided him with rent-free accommodation?

QUESTION 3

A is a consulting engineer with a modest practice. In 1969 by his uncle's will he inherited two houses in Mona with a market value of \$20,000 each. At the time he lived in a house which had been left him by his mother's will. A regarded the houses as an investment, and as a hedge against declining fortunes in private practice. For that reason he had considerably enhanced the value of the properties by making substantial improvements.

In 1978 A found that the value of the two properties had doubled. Although his practice was flourishing A immediately sold the two properties for \$50,000 each. He has now been assessed to tax on \$60,000 on the basis that he was carrying on a trade in 1978. A argues that he was not trading in 1978 or at all.

Advise on the material facts and the law upon which he may rely.

Would your answer be different if A had originally bought the houses?

QUESTION 4

(a) "The distinction between capital expenditure and capital receipts on the one hand and revenue expenditure and revenue receipts on the other is often difficult or even impossible to draw."

Write a brief summary highlighting the difficulties in making this distinction, using the examples of decided cases.

(b) X Limited, was the owner of ^a lease for fifty years of premises on which it carried on business. The company also had an agency agreement lasting ten years under which it sold forklifts and the profits on these sales accounted for 80% of its total income. It also has short term agency agreements for one-year periods which accounted for the balance of its income. A neighbouring company is seeking to expand its operations and makes an offer of a payment of \$5,000,000 in exchange for X Limited closing its operations and giving up the site to it.

Advise X Limited on the possible consequences of accepting this payment.

QUESTION 5

Paul and Luke are brothers who operate a successful business. By 1980 they had saved a total of \$500,000 which they now seek to invest. They are informed that a farm is for sale, and that much of the produce of the farm goes to a restaurant owned by the farm owners, which is also being sold. They ask your advice as to whether the two businesses should be in one limited company. In particular, they are concerned about the rates of tax applicable to different types of companies, and the fact that they are connected persons. They say they have also heard talk of 'a dual test' and they wish your advice on this in order to structure their business operations.

Advise them.

QUESTION 6

Turnbull is engaged primarily in the breeding of cattle, horses and dogs. In order to advertise the quality of the animals which he produced on his farms Turnbull rented a stall at the annual Denbigh Agricultural show and he also took part in international agricultural fairs in Puerto Rico. Since 1972 he has also raced horses in the weekly Caymanas race meetings, and since 1976 he has been the leading owner, determined by the volume of prize money won.

The Commissioner of Income Tax has now assessed him to tax on the following sums under section 5(1)(a)(iii).

<u>YEAR</u>	<u>PRIZES</u> \$	<u>BETTING EARNINGS</u> \$	<u>SALES OF LIVESTOCK</u> \$
1976	62,000	20,000	100,000
1977	70,000	14,000	200,000
1978	50,000	-	150,000
1979	67,000	-	180,000
1980	150,000	100,000	300,000

How would you advise Turnbull, if he had kept accounts in great detail for each year and they showed the results given above?

Horses valued at \$100,000 have been transferred from Turnbull's breeding to his racing operations but his accounts do not reflect any sum as income from such transfers.

Advise the Commissioner?

QUESTION 7

In 1979 Bill, a stockbroker, completed the following transactions:

- (a) Bought 100,000 Carreras shares for \$90,000 and sold them for \$100,000, both transactions on the Stock Exchange.
- (b) Bought 50,000 Jamaica General Insurance Company shares for \$20,000 and sold them for \$23,000, not on the Stock Exchange.
- (c) Purchased an option on 1,000,000 I.C.W.I. shares, the cost of the option being \$20,000 and the cost of the shares inclusive of the option being \$800,000; then sold the option for \$40,000 to Bull Investment Company when it proved impossible to raise the purchase money for the shares.

- (d) Sold the premises in which he operated, to his associate for \$80,000.

Consider the Transfer Tax, and Stamp Duty consequences of the aforementioned.

QUESTION 8

Sparty carries on business of cold storage and warehousing which he started in February of 1981.

- (a) His research shows that his best income period will be between July and September. He is now considering fixing his first accounting period.
- (b) He has incurred capital expenditure of \$200,000, and he expects to move into a good profit position early on in his operations. He says he understands that capital expenses are not deductible, but he has been told that the provisions relating to capital allowances are capable of giving good advantages especially in the business in which he is involved.
- (c) He was approached by Tom who wishes to purchase the business as a going concern for \$1,000,000. This is the figure in an agreement prepared by Tom. The agreement is also to operate as a mortgage as Tom has only \$500,000. The purchase price also includes crops worth \$100,000 on a 10-acre plot which is part of the whole complex.

Briefly identify the Revenue Law consequences of the above.
