

NORMAN MANLEY LAW SCHOOL  
Council of Legal Education

LEGAL EDUCATION CERTIFICATE  
FIRST YEAR SUPPLEMENTARY EXAMINATIONS, 1982

REVENUE LAW

Tuesday, August 17, 1982

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 any Commonwealth Caribbean territory, 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.

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QUESTION 1

Between 1976 and 1980, Barnes, who had saved large sums of money from his various enterprises, got increasingly worried lest there be a major devaluation of the Jamaican dollar. In consequence of this fear, he set out to purchase all the most valuable works of the leading Jamaican artists to hold as a hedge against the devaluation. For each work to be purchased, he would set up a new limited liability company and by September 1980, he had set up twenty-five such companies.

By March 1981, it seemed that the threat of devaluation had passed, but Barnes still retained his newly acquired treasures. In February 1982, he started an advertising campaign under which all the works were put on display for two weeks at his offices, and the works were to be sold to the highest bidders by transferring the shares in the respective companies. Barnes realized one million dollars (\$1,000,000) profit by this means and the Commissioner has now assessed him to tax on this sum.

Advise Barnes.

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QUESTION 2

Phonso was an employee of a firm of stockbrokers, Stocks and Shares Company. He had spent his thirty years of practice specialising in trading in government securities. In 1978, his cousin, Jack, decided to set up a holding company to hold the shares in three companies, in which he (Jack) held beneficially all but a few of the shares. Phonso was asked by his cousin to accept the position of Managing Director of this holding company. He agreed to do this and a formal agreement was entered into, by which, in exchange for giving up his consultancy practice, he would receive shares valued at \$300,000, which represents 30% of the shares in the holding company. These shares were transferred to him on the date of agreement, 30th September, 1978.

He was also to receive a salary of \$100,000 a year. His employers at Stocks and Shares Company also agreed to reward him for his loyalty to that firm by giving him a lump sum payment of \$25,000.

In 1979, all employees of the holding company were offered the chance to purchase up to 50,000 shares in the company at the market value of the shares. The value of the shares at this time was declining because of an economic crisis.

Phonso purchased the 50,000 shares at the then market value of 50¢ each. Soon after, the value of these shares on the Stock Market rose to \$1 and Phonso immediately sold his shares at this price.

The Commissioner of Income Tax now seeks your advice in relation to the receipts above.

Advise the Commissioner.

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QUESTION 3

G. Shep. is a professional guitarist who plays with the D'Vertimenti Strings Orchestra. During 1978 he received the following:

- (a) Wages of \$400 per month from which is deducted \$20 per month for use of a car under an "amended wage scheme";
- (b) a sum of \$2,000 being the proceeds of a benefit concert held for him and presented to him "in consideration of his general helpfulness";

- (c) four sums of \$100 each, being one for each occasion on which audiences exceeded 2,000 people, and to which he was contractually entitled;
- (d) a sum of \$250 from the manager of the orchestra "for the part you played in helping the orchestra win the International Music Competition";
- (e) \$100 being his share of a sum of \$2,000 divided equally among the 20 members of the orchestra, and given by the hotelier at whose hotel the orchestra played at week-ends, the sum representing a bonus of 1% of the gross bar profits;
- (f) two new guitars valued at \$600 given by the manufacturers as a reward for endorsing their musical instruments;
- (g) a \$200 share of the 10% service charge added to admission charges for week-end dances, which took the place of tips, which were prohibited.

Discuss the tax liability, if any, attaching to the above payments, and, if so, indicate what part of the charging section applies.

#### QUESTION 4

In 1980 Old Iron Ltd., a manufacturer of metal furniture:

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i)	purchased an old building, previously used as a cinema and refurbished it at a total cost of	200,000
ii)	installed new machinery for	100,000
iii)	purchased paints, lacquers and decorative materials for	90,000
iv)	paid for repairs to machinery in the sum of	30,000
v)	sold its old factory building for	250,000
	(N.B. The receipts for the building amounted to \$100,000 more than the original cost and exceeded its tax written down value by \$150,000)	
vi)	sold its old stock of steel for	20,000

	\$
vii) sold finished goods for	500,000
viii) spent on purchase of contracts which allowed them a cheap supply of iron for 20 years	50,000

Advise on deductibility or liability to tax arising in the above circumstances.

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#### QUESTION 5

In 1977, Bill and Bobby had set up a limited liability company, (BB Ltd.) the main object of which was the growing of flowers for the local market. They hoped to take advantage of the lower rate of company profits tax available to certain types of companies. BB Ltd. however, consistently made losses and by 1981 had accumulated tax losses of \$200,000. They are now considering an offer from a highly profitable construction company (CC Ltd.) that they sell an interest in BB Ltd., and BB Ltd. would then be used in the construction business under the control of CC Ltd. In particular, CC Ltd. would be able to use up the losses accumulated by BB Ltd.

Advise all the parties on the income tax implications of the above.

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#### QUESTION 6

(a) Giving the relevant authority, state how a company which has received a dividend upon which it has suffered tax at 37 $\frac{1}{2}$ % may use the credit thereby created as well as that created by any additional company profits tax paid.

(b) Oxford Limited has for many years paid tax on its chargeable income. It has so far paid \$30,000 in ACPT and in addition, has recently received a dividend from its subsidiary in the sum of \$80,000, gross subject to tax. Oxford Limited now wishes to make a distribution to its shareholders and must comply with its statutory obligations.

Advise Oxford Limited.

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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 "transfers" between joint tenants on the death of a joint tenant.

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

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QUESTION 8

Advise Daniel, a writer and professional golfer who plays on the international circuit on the Revenue Law consequences of the following events which occurred in 1978:

- (a) He won total prizes of \$100,000 in 26 competitions. He also took side bets on persons likely to win tournaments in which he was involved and through this betting, won a further \$10,000.
  - (b) He advertised Antillean Sports goods and for this he is given one complete set of clubs and a car valued at \$25,000.
  - (c) He agreed to settle land on X and Y as trustees for his twin children C and D aged 22.
  - (d) He assigned his life insurance policy to secure a loan to purchase shares in a business. He has to pay interest on the loan but gets no income from the shares.
  - (e) He transferred the copyright in his book "Famous Golfers" to his father, although he had deducted the cost of its preparation in his own accounts.
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