

Fundamentals Level – Skills Module

Taxation (Irish)

Monday 3 December 2007

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

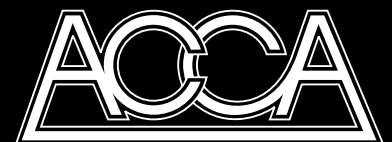
ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are printed on pages 2–5.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants



Paper F6 (IRL)

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest Euro.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following rates, credits, formulae and allowances are based on the Finance Act 2006 and are to be used for all questions in this paper.

Rates of income tax 2006

	Tax €
Single/Widow(er)	
€32,000 at 20%	6,400
Balance at 42%	
Married couple (one income)	
€41,000 at 20%	8,200
Balance at 42%	
Married couple (dual income)	
€64,000 at 20%	12,800
Balance at 42%	
One parent family	
€36,000 at 20%	7,200
Balance at 42%	

Abbreviated list of personal tax credits for the income tax year 2006

	€
Single person's credit	1,630
Married couple credit	3,260
Widowed person's credit (without dependent children)	2,130
Home carer credit (maximum)	770
Single parent credit	1,630
Dependent relative credit	80
Age credit – single/widowed	250
– married	500
Employee/PAYE credit	1,490

Rates of PRSI/levies 2006

Self-employed

PRSI	
Rate	3%
Note: No PRSI where income is below €3,174 per annum	
Health contribution	
Lower exemption limit	€22,880
Rate	2%
Note: No upper limit for PRSI or health contribution	

Rates of PRSI/levies 2006

Employee – Class A1

PRSI

Upper limit €46,600

Rate 4%

The first €127 per week (non-cumulative) is exempt from PRSI

Note: No PRSI on income of €15,600 per annum (€300 per week) or less

Health contribution

Lower exemption limit (€440 per week) €22,880

Rate 2%

Note: No upper limit for health contribution

Rates of PRSI/levies 2006

Employer (for employees – Class A1)

PRSI

Rate: 10.75%

For earnings less than €18,512 (€356 per week) the rate is 8.5% per annum

Note: No upper limit for employer's contribution.

Retirement annuities

Age

Percentage of net relevant earnings

	%
Up to 30 years	15
30 years but less than 40 years	20
40 years but less than 50 years	25
50 years but less than 55 years	30
55 years but less than 60 years	35
60 years and over	40

Cap on earnings of €254,000

Corporation tax

Standard rate 12.5%

Higher rate 25%

Capital gains tax

Rate 20%

Annual exemption €1,270

Rural/Urban renewal allowances

Industrial and commercial buildings		%
Owner occupier		
Free depreciation		50
or		
Initial allowance		50
Annual allowance		4
Maximum		100
Lessor		
Initial allowance		50
Annual allowance		4
Maximum		100
Residential property		
Owner occupier		
Construction	5% per annum (10 years)	
Refurbishment	10% per annum (10 years)	
Lessor (Section 23 relief)		
Construction		100
Conversion		100
Refurbishment		100

Motor cars – limits on capital costs

	To 31 December 2005	1 January 2006 onwards
	€	€
Capital allowances	22,000	23,000
Leasing charges	22,000	23,000
Running costs	No limit	No limit

Capital allowances

Plant and machinery including motor vehicles	
Expenditure incurred	
1 January 2001 to 3 December 2002	20% straight line
4 December 2002 onwards	12.5% straight line
Industrial buildings	
Annual rate	4%

Motor cars – benefit-in-kind rates

Standard rate		30% of original market value
Lower limit miles	Upper limit miles	Percentage of original market value of car
		%
15,001	20,000	24
20,001	25,000	18
25,001	30,000	12
30,001	upwards	6

Indexation factors for capital gains tax

Year Expenditure Incurred	Multipliers for disposals in year ending 2004 et seq
1974-75	7.528
1975-76	6.080
1976-77	5.238
1977-78	4.490
1978-79	4.148
1979-80	3.742
1980-81	3.240
1981-82	2.678
1982-83	2.253
1983-84	2.003
1984-85	1.819
1985-86	1.713
1986-87	1.637
1987-88	1.583
1988-89	1.553
1989-90	1.503
1990-91	1.442
1991-92	1.406
1992-93	1.356
1993-94	1.331
1994-95	1.309
1995-96	1.277
1996-97	1.251
1997-98	1.232
1998-99	1.212
1999-2000	1.193
2000-2001	1.144
2001	1.087
2002	1.049
2003 et seq	1.000

ALL FIVE questions are compulsory and MUST be attempted

1 Peter, aged 39, carried on a convenience store for a number of years until 30 June 2005.

The taxable profits/(losses) for the last few years were as follows:

	€
Year ended 30 April 2003	35,000
Year ended 30 April 2004	30,000
Period ended 30 June 2005	(56,000)

All of the equipment used in this business were the subject of financial leases.

On 1 June 2002 Peter commenced practicing as a business consultant. Details of the taxable profits of this business are as follows:

	€
Period ended 30 April 2003	44,000
Year ended 30 April 2004	60,000
Year ended 30 April 2005	90,000
Year ended 30 April 2006	102,000

Again, all of the equipment used in this business were the subject of financial leases.

Peter has been legally separated from his wife, Emma since April 2000. Details of the financial separation arrangements, which were drawn up in April 2000, are as follows:

	Per month
	€
Maintenance payments to Emma for herself	1,500
Maintenance payments to Emma for the children, aged ten and eight years	900

The children live with Peter for two months each year. They have no income in their own right.

Details of Peter's other income and outgoings for the income tax year 2006 are as follows:

	Notes	€
Irish deposit interest	(1)	400
Rental income	(2)	8,000
Permanent health contributions		1,000
Contributions to a Revenue approved retirement scheme		21,000
Payments to an approved nursing home towards the upkeep of his mother	(3)	9,000

Notes:

(1) The interest was paid net of DIRT.

(2) The rental was in respect of a residential property. It was purchased on 1 June 2006 with the proceeds of a Section 23 property, which had been sold in April 2006. Details of the Section 23 property are as follows:

Date of purchase	Qualifying expenditure for Section 23 relief €	Section 23 relief claimed €
1 June 2001	180,000	75,000

(3) Peter's mother's only income is a non-contributory old age pension. Due to the level of the nursing home's maintenance costs, Peter's payments are necessary to maintain his mother in this institution.

Required:

- (a) **Compute Peter's final income assessable for each of the income tax years 2003, 2004, 2005 and 2006 on the assumption that all available reliefs are claimed as early as possible.** (13 marks)
- (b) **Compute the income tax/PRSI and levies payable by Peter for the income tax year 2006 on the assumption that there is no election for joint assessment.** (10 marks)
- (c) **State the due date for the payments of preliminary income tax for the year 2006 and the latest date by which the income tax return for this year should be filed with the Revenue.** (2 marks)

(25 marks)

- 2 (a) Since 1 January 2000 Alpha Ltd has carried on a manufacturing trade. Its profit and loss account for the year ended 31 December 2006 shows the following:

	Notes	€
Turnover		6,500,000
Direct costs		(4,000,000)
Gross profit		<u>2,500,000</u>
Overheads and other costs	(1)	(1,800,000)
		<u>700,000</u>
Other income	(2)	10,000
Profit before tax		<u>710,000</u>

Notes:

- (1) Overheads and other costs include the following expenses:

	Notes	€
Repairs and maintenance	(a)	150,000
Motor expenses	(b)	29,000
Legal and professional fees	(c)	23,000
Depreciation		22,000

Notes:

- (a) The charge for repairs and maintenance is made up as follows:

	€
Extension to a warehouse in Dublin	105,000
Painting and decorating offices	15,000
Re-instating the roof on a warehouse in Waterford	30,000

- (b) Details of motor expenses are as follows:

Motor car	Cost	Running expenses	Leasing expenses	Total expenses
	€	€	€	€
04 XX 8210	23,000	3,000	–	3,000
05 XX 9250	24,000	10,000	9,000	19,000
06 XX 10650	25,000	4,000	3,000	7,000

04 XX 8210 which was purchased on 1 January 2004, was sold for €18,000 on 31 August 2006.

05 XX 9250 was acquired by way of a financial lease on 1 June 2005.

06 XX 10650 was acquired by way of a financial lease on 1 September 2006.

- (c) Legal and professional fees comprise:

	€
Defending a product liability claim	4,000
Acquisition of a warehouse in Cork	10,000
Pursuing the collection of bad debts	1,000
Failed take-over bid for a trading company	8,000

- (2) This consists entirely of UK deposit interest.

Furniture and equipment and the motor car (04 XX 8210) in use on 1 January 2006 and on which capital allowances have been claimed, were purchased in January 2004 for €200,000 and €23,000 respectively.

Factory premises was constructed in 1999 and brought into use on 1 January 2000. Its construction cost was €500,000 and it was extended in January 2004 at a cost of €250,000.

None of Alpha Ltd's warehouses were located in the factory complex.

Required:

- (i) **Compute the corporation tax payable by Alpha Ltd for the year ended 31 December 2006.** (13 marks)
- (ii) **State the due date(s) for the payment of corporation tax and the latest date by which the corporation tax return for the year ended 31 December 2006 should be filed with the Revenue. The corporation tax liability for the year ended 31 December 2005 was €260,000.** (3 marks)

- (b) H Ltd is an Irish trading company. On 1 September 2006 it purchased the total issued share capital in W Ltd, another Irish trading company.

Details of H Ltd's and W Ltd's results for the year ended 31 December 2006 were as follows:

	H Ltd	W Ltd
	€	€
Schedule D Case I profit/(loss)	80,000	(60,000)
Chargeable gain on the sale of premises to W Ltd.	355,000	–

The gain on the sale of premises to W Ltd was made on 2 November 2006.

During the year 2006, H Ltd purchased the following premises:

- A warehouse in Northern Ireland to be used as a storage centre for products and from which H Ltd will sell to Northern Ireland based customers.
- A premises in London which will be used as a retail outlet.

It has also been decided that H Ltd will become involved in a manufacturing venture in the Republic of Ireland. This will be carried on by S Ltd a 100% manufacturing subsidiary of H Ltd and will operate from a leased premises. If this venture is successful, it is hoped to sell this subsidiary at a profit within five years.

Required:

- (i) **Compute H Ltd's and W Ltd's corporation tax liabilities, if any, for the year ended 31 December 2006 on the assumption that all available reliefs are claimed at the earliest opportunity;** (4 marks)
- (ii) **Set out the tax implications, if any, arising from the purchases of the storage centre in Northern Ireland and the retail outlet in London;** (4 marks)
- (iii) **State the capital gains tax relief that is available if the shares in S Ltd, the Irish manufacturing subsidiary are sold within the five year period and list the conditions which need to be satisfied for this relief to apply.**

Note: you should assume that there is no change in the relevant legislation. (6 marks)

(30 marks)

3 (a) Roderick, aged 60, made the following disposals in the income tax year 2006:

1. On 1 May 2006 he received €300,000 compensation on foot of a compulsory purchase order, made on 10 February 2005, by the relevant local authority in respect of a rented retail outlet which he had let to a third party. Roderick had acquired this retail outlet in June 1998 for €60,000.
2. On 1 June 2006 he sold a 40 acre farm for €525,000. The incidental costs of sale totalled €10,000. Roderick had farmed this land from 1973 until 2002 when he leased it under the EU farm retirement scheme. He had purchased this farm in May 1973 for €25,000. Its market value was €30,000 as at 6 April 1974.
3. On 10 October 2006 he sold a premises for €850,000. The site on which the premises is built has development potential and this factor was reflected in the sale price, otherwise the sale price would have been €700,000. Roderick had purchased this premises for €80,000 (its current use value) on 1 December 1984. Roderick used the premises for the purposes of a trade which he carried on from 1984 to 1999. It was then let to a third party until it was sold. The incidental costs of purchase and sale were €3,500 and €12,000 respectively.
4. On 1 December 2006 he sold a quad bicycle for €3,000. This had been purchased in 2005 for €4,000 and used exclusively for private purposes.
5. On 3 December 2006 he entered into, for a nominal €1, a put and call option arrangement to sell a rental residential property for €400,000. Roderick had purchased this property in October 1997 for €170,000. This put and call option arrangement can only be exercised in 2008.

Required:

- (i) **Compute Roderick's capital gains tax liability for the income tax year 2006, giving relevant explanations for any transactions that you have treated as not giving rise to a capital gain in this year.** (12 marks)
 - (ii) **State the due date(s) for the payment of the capital gains tax calculated in (i).** (2 marks)
- (b) Roderick owns other farmland which he inherited in June 1982 from his father (the market value at that date was €250,000). Roderick farmed this land from 1982 until he leased it under the EU farm retirement scheme in 2002. He is considering an attractive offer of €1,400,000 for this farmland which he has received from an unconnected third party. However Roderick's son, who lives in London, is also interested in purchasing this farmland but is only in a position to pay €1,200,000 for it.

Required:

State, giving reasons, the potential capital gains tax implications that Roderick should consider before deciding whether to sell the farmland to either the third party or his son. (6 marks)

(20 marks)

4 Cecily has been carrying on practice as a civil engineer for a number of years. She accounts for VAT on the cash basis. Details of the fees and costs of the practice for the two-month period January/February 2006 were as follows:

	Notes	€
Fees invoiced		40,000
Fees received		35,000
Motoring expenses	(1)	1,140
Finance leasing charges	(2)	850
Purchase of new equipment	(3)	2,500
Hotel accommodation		300
Purchase of premises	(4)	500,000

Notes:

(1) The motoring expenses consist of the following:

Car No. 1 Petrol: used by Cecily – 75% business use	800
Car No. 2 Diesel: used by an assistant – 100% business use	340
	1,140

(2) The finance leasing charges consist of the following:

Car No. 1	300
Car No. 2	350
Equipment	200
	850

(3) This equipment was delivered to Cecily on 10 December 2005 and she received the relevant invoice on this date. However she discharged this debt in February 2006.

(4) Following the purchase Cecily granted, to a third party, a 25-year lease in February 2006 (capitalised value for VAT purposes: €550,000).

All figures, including fees invoiced and received, are inclusive of VAT at 21% except the hotel accommodation and the purchase of the premises, which are inclusive of VAT at 13.5%.

Required:

(a) State who may account for VAT on the cash basis. (3 marks)

(b) State the circumstances in which an authorisation to account for VAT on the cash basis can be cancelled. (2 marks)

(c) Compute Cecily's VAT liability or if applicable, refund, due for the two-month period January/February 2006. (10 marks)

(15 marks)

- 5 M Ltd carried on a retail trade from 1 January 2004 to 31 December 2005. On 1 January 2006, upon cessation of the retail trade, it started to manufacture household utensils from the same premises in Cork.

The company's results for the three years ended 31 December 2006 were as follows:

Year ended 31 December	2004	2005	2006
	€	€	€
Schedule D Case I income (loss)	(40,000)	35,000	(40,000)
Schedule D Case V	10,000	7,500	9,000
Schedule D Case V capital allowances	(4,000)	(4,000)	(4,000)
Chargeable gains	15,000	–	–
Capital gain	–	–	80,000

The capital gain arose on the sale of development land.

Required:

Compute the tax liabilities, if any, for M Ltd arising on the income/gains for the years ended 31 December 2004, 31 December 2005 and 31 December 2006 respectively, on the basis that any claims for losses/reliefs are made at the earliest possible date.

(10 marks)

End of Question Paper