Fundamentals Level – Skills Module

Taxation (Irish)

Monday 2 June 2008

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)

ACCA

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 2007 and are to be used for all questions in this paper.

Rates of income tax 2007

	Tax
	€
Single/Widow(er)	
€34,000 at 20%	6,800
Balance at 41%	
Married couple (one income)	
€43,000 at 20%	8,600
Balance at 41%	
Married couple (dual income)	
€68,000 at 20%	13,600
Balance at 41%	
One parent family	
€38,000 at 20%	7,600
Balance at 41%	

Abbreviated list of personal tax credits for the income tax year 2007

	€
Single person's credit	1,760
Married couple's credit	3,520
Widowed person's credit (without dependent children)	2,310
Home carer credit (maximum)	770
Single parent credit	1,760
Dependent relative credit	80
Age credit – single/widowed	275
– married	550
Employee/PAYE credit	1,760

Self-employed

Rates of PRSI/levies 2007

PRSI	
Rate	3%
Note: No PRSI where income is below €3,174 per annum	
Health contribution	
Lower exemption limit	€24,960
Rate: First €1,925 per week (€100,100 per annum)	2%
Balance	2·5%
Note: No upper limit for PRSI or health contribution	

Employee – Class A1
Rates of PRSI/levies 2007

PRSI

Upper limit	€48,800
Rate	4%

The first €127 per week (non-cumulative) is exempt from PRSI
No PRSI on income up to €17,628 per annum (€339 per week)

Health contribution

Lower exemption limit (€480 per week)	€24,960
Rate: First €1,925 per week (€100,100 per annum)	2%
Balance	2·5%

Note: No upper limit for health contribution

Employer (for employees – Class A1)
Rates of PRSI/levies 2007

PRSI

Rate	10·75%

For salaries 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 €262,382

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

	€
Capital allowances:	
1 January 2002 to 31 December 2005	22,000
1 January 2006 to 31 December 2006	23,000
1 January 2007 onwards	24,000
Leasing charges	24,000

Motor cars – benefit-in-kind rates

Lower limit miles	Upper limit miles	Percentage of original market value of car %
Less than	15,000	30
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 (a) Peter and Paul have carried on, in partnership, a consulting engineering practice, since 1 June 1995.

The profit sharing ratio was two-thirds Peter and one-third Paul until 1 April 2005 when they began to share the profits equally.

On 1 October 2005 Mary was admitted as a partner. As a result of her admittance as a partner, the profit sharing ratio was revised as and from 1 October 2005 to:

– Peter	40%
– Paul	40%
– Mary	20%.

Due to a disagreement with the other partners, Paul ceased to be a partner on 31 May 2006. Consequently, the profit sharing ratio was revised as and from 31 May 2006 to:

– Peter	70%
– Mary	30%.

Details of the partnership's profits as adjusted for tax purposes, but before capital allowances, were as follows:

Year ended 30 April	€
2004	180,000
2005	240,000
2006	300,000
2007	360,000

The tax written down value of the plant and equipment as at 31 December 2006 was €30,500. This had been purchased in February 2004 and in May 2005 for €20,000 and €24,000 respectively.

Peter, aged 68, is divorced. Following the divorce settlement in May 2000, he makes the following monthly payments:

– €4,000 to his ex-wife, who has been living in the UK since 2006.
– €4,000 to his ex-wife towards the maintenance of their children (who are minors).

The children live with Peter for the months of July and August each year.

Peter's other income and outgoings for the income tax year 2007 were as follows:

	€
Rental income from the partnership	40,000
Rental income – Section 23 property	6,000
Rental income – UK rental property	15,687
Medical expenses	10,000

In all cases the rental income is stated net after all allowable expenses. In addition, Peter suffered €2,500 UK income tax on the UK income rental.

The partnership operates from premises owned by Peter personally.

The Section 23 property had been purchased from a builder in February 2007 for €250,000. The builder's site and construction costs were €50,000 and €150,000 respectively.

The medical expenses relate to major, non-routine dental treatment, which was not covered by medical insurance.

Required:

(i) Compute Peter, Paul and Mary's Schedule D Case II income, before capital allowances, if any, for each of the income tax years 2005, 2006 and 2007; (11 marks)

(ii) Compute Peter's income tax, PRSI and levies liabilities for the income tax year 2007; (13 marks)

(iii) State the due date for the payment of preliminary tax and the filing date for the return for the income tax year 2007, assuming that Peter does not pay and file online. (2 marks)

(b) Peter and Mary are considering changing the partnership year end to 30 June for administrative reasons. This would involve the production of financial accounts for the 14 months ending 30 June 2008 and annual accounts for the year ending 30 June 2009 and subsequent years.

The profits for the period ending 30 June 2008 will be exceptionally large due to a new lucrative consultancy project.

They have enquired about the tax implications if they were to change the partnership year end as proposed.

Required:

State, giving reasons, the income tax implications arising from a change in the partnership accounting year to 30 June.

Note: you should assume that the current law will continue to apply. (4 marks)

(30 marks)

2 **(a)** M Ltd has been carrying on manufacturing operations since 2000. Details of its results for the year ended 30 September 2007 are as follows:

	Notes	€
Turnover		12,500,000
Direct production costs	(1)	(9,000,000)
Indirect costs and overheads	(2)	(3,600,000)
Trading loss		(100,000)
Other income and gains	(3)	182,000
Net profit		82,000

Notes:

1. Included in direct production costs is a charge for depreciation of €40,000.

2. Indirect costs and overheads include:

		€
Contributions to a Revenue approved pension fund for the directors	(i)	300,000
Motor expenses	(ii)	49,150
Legal and professional fees	(iii)	58,000
Repairs and renewals	(iv)	260,000

Additional information:

(i) Included in this sum is a provision for a contribution of €50,000 which was accrued on 30 September 2007 but not paid out until 31 October 2007.

(ii) Motor expenses consist of the following:

Motor vehicles		**Cost price**	**Leasing charges**	**General running costs**
		€	€	€
Motor car	05 XX 2850	22,500	4,000	3,500
Motor car	05 XX 2840	25,000	4,800	4,200
Motor car	05 XX 16324	25,000	– *	3,750
Motor car	07 XX 9874	26,000	– *	1,200
Van	05 XX 3284	26,000	4,500	6,000
Van	05 XX 2187	24,000	4,200	5,500
Van	05 XX 8197	20,000	3,500	4,000
			21,000	28,150

* purchased outright.

Note: the notation 05 or 07 in the registrations indicates the year in which the vehicles were purchased (including those purchased by way of a finance lease).

(iii) Legal and professional fees consist of the following:

	€
Legal fees incurred in defending M Ltd's title to a distribution premises rented by the company	20,000
Architects' and surveyors' fees incurred in relation to a site which M Ltd intends to purchase	8,000
A provision for future annual lease payments (outstanding amount) which M Ltd is obliged to pay under a lease agreement in respect of a vacated premises	30,000
	58,000

(iv) Repairs and renewals consist of:

	€
General repairs	100,000
Re-painting	10,000
Refurbishing costs of a distribution outlet (included in this figure is a sum of €50,000 spent in making improvements to this outlet)	150,000
	260,000

3. Other income and gains consist of:

	€
Dividends received from an Irish company – P Ltd	20,000
Dividends received from a UK company – B Ltd	15,000
Gains arising from the sale of shares in P Ltd	47,000
Gains arising from the sale of shares in an Irish company – A Ltd	100,000
	182,000

The original holding of shares in P Ltd had been acquired in June 2001 for €10,000. M Ltd subscribed a further €10,000 for additional shares in September 2003, as part of a 4 for 1 rights issue. P Ltd's underlying assets consist mainly of Irish rental property.

On 1 August 2007, M Ltd sold all of its shareholding in P Ltd, which amounted to 50% of P Ltd's issued share capital, for €80,000. The incidental costs of sale were €3,000.

The shareholding in A Ltd, an Irish distribution company, had been acquired in October 2003 for €100,000. On 1 May 2007 this shareholding, which accounted for 20% of A Ltd's issued share capital, was sold for €205,000. The incidental costs of disposal were €5,000. As A Ltd operates from leased premises, its underlying assets consist of trading stock, debtors and goodwill.

4. Details of M Ltd's plant and equipment, motor vehicles and factory buildings are as follows:

Date of acquisition	**Plant and equipment 1 June 2004**	**Motor vehicles 1 September 2005**		**Factory buildings 1 October 2003**	
	€	€		€	
Cost	200,000	95,000	(i)	500,000	(iv)
Tax written down value 1 October 2006	125,000	69,000		280,000	
Acquisitions in the year ended 30 September 2007	–	26,000	(ii)	–	
Sales at tax written down value in year ended 30 September 2007	12,500	16,500	(iii)	–	

Additional information:

(i) These vehicles consist of vans which are used to distribute products except for motor car 05 XX 16324 which cost €25,000 on 1 September 2005.

(ii) This relates to the acquisition cost, on 1 June 2007, of motor car 07 XX 9874, which replaced motor car 05 XX 16324.

(iii) This refers to the sale of motor car 05 XX 16324 on 1 June 2007 for €18,142.

(iv) The factory building was purchased from another industrialist. It was built by the vendor and first brought into use on 1 October 2000. The original qualifying expenditure for industrial buildings allowance purposes was €440,000.

Required:

(i) Compute the corporation tax liability of M Ltd for the year ended 30 September 2007; (19 marks)

(ii) State the due dates for the payment of corporation tax for the year ended 30 September 2007 and the latest filing date for the filing of a corporation tax return for this accounting period.

Note: you can assume that the corporation tax liability for the year ended 30 September 2006 was in excess of €150,000. (2 marks)

(b) The directors of M Ltd are considering, for administrative reasons, changing the company's accounting year end to 31 December. This would necessitate the production of financial accounts for the 15-month period ending 31 December 2008 initially and annual accounts for the year ending 31 December thereafter.

The directors have enquired as to the corporation tax consequences arising from the production of financial accounts for the 15 months ending 31 December 2008.

Required:

State, giving reasons, the corporation tax implications of preparing accounts for the 15-month period ending 31 December 2008.

Notes: (1) You are not required to identify specific corporation tax payment, and corporation tax returns filing dates.

(2) You should assume that the current law will continue to apply. (4 marks)

(25 marks)

3 Rupert, aged 66 years, entered into the following transactions in the income tax year 2007:

(1) On 1 June 2007 he sold a one acre site for €100,000. This site formed part of a farm which had been let for the last five years to a third party (the letting arrangement was not under an EU farm retirement scheme). The incidental costs of the sale were €5,000.

He had acquired this farm from his father in June 1970 (market value €50,000). Its market value on 6 April 1974 was €60,000.

No part of this farm had any development potential in either June 1970 or April 1974.

The market value of the remainder of this farm, on 1 June 2007, was €1,400,000.

(2) On 1 September 2007 he gifted an out-farm to his son (market value €1,600,000). He had purchased this out-farm on 1 May 1980 for €500,000, inclusive of incidental costs. Rupert had farmed this land until January 1998 when he let it to the son to whom he has now transferred it.

(3) On 10 October 2007, he received €20,000 from the local authority in compensation for part of the garden of his principal private residence which was acquired by the local authority for road widening purposes. This was part of the half acre of gardens surrounding the house. This compensation figure reflected its current use value.

(4) On 31 October 2007 he received €15,000 from the same local authority. This resulted from a personal injury claim received by him which was due to negligence on the part of the local authority.

(5) On 10 November 2007 he sold a quarter acre development site for €80,000. The incidental costs of disposal were €2,000. He had acquired this site in March 2005 for €155,000 with the intention of gifting it to his daughter to enable her to construct a residence on the site. However, due to the construction of a nearby chemical plant, the daughter declined to accept the gift of this site. Consequently, it was sold to the third party.

(6) On 1 December 2007 he sold a tractor (predictable life 30 years) for €12,000. The tractor had been purchased in October 1990 for €6,000. The tractor had been used exclusively by Rupert for the purpose of his farming trade since the date of its acquisition until six months prior to its sale.

Required:

(a) Compute Rupert's capital gains tax liability, if any, for the income tax year 2007, giving brief explanations of any reliefs or exemptions that apply. (18 marks)

(b) State the due date(s) for the payment of any capital gains tax due. (2 marks)

(20 marks)

4 At a recent monthly meeting of the staff in the tax department of ABC, a firm of Chartered Certified Accountants, the following VAT topics were discussed:

(1) The information which must be contained on a valid VAT invoice.
(2) The significance of a valid VAT invoice for the vatable person to whom it is issued.
(3) The obligation imposed on the provider of a vatable service concerning the issue of a valid VAT invoice.
(4) A client who is in the process of purchasing a business which has just ceased trading. The vendor's agent has stated that his client will be charging VAT on the purchase consideration. He takes the view that there will be no loss of VAT for the purchaser on the basis of entitlement to a credit for the VAT element of the purchase price.
(5) A Revenue official has intimated that whilst a recent decision of the European Court of Justice does not support the Revenue's position, he feels that this is irrelevant as the decision was not in accordance with domestic Irish VAT law.

Required:

(a) Set out the particulars which must be contained in a VAT invoice. (4 marks)

(b) State, giving reasons, the significance of a valid VAT invoice for the purchaser of the goods/services, who is registered for VAT. (4 marks)

(c) State when the provider of a vatable service must issue a valid invoice. (2 marks)

(d) State, giving reasons, whether you agree with the vendor's agent that the client, who is purchasing the business, will obtain a credit for the VAT element of the purchase price. (3 marks)

(e) State, giving reasons, whether you agree with the Revenue official's assertion that Irish domestic VAT law over-rides a decision of the European Court of Justice. (2 marks)

(15 marks)

5 In 2006 Richard purchased for €400,000 an undeveloped one acre site with planning permission to construct four residential properties. The purchase price was financed by a mixture of a loan from a financial institution and an inheritance received from an uncle.

He purchased this site with the intention of constructing the four houses, two of which he intends to retain and to sell the other two to third parties.

One of the houses retained will be used as his principal private residence, while the other will be a residential premises let on an annual basis.

He envisages that the profits from the sale of the other two houses will enable him to pay off the loan(s) obtained to purchase and develop the site.

Richard's marginal rate of income tax, inclusive of PRSI and levies, is 46·5%. Prior to the above transactions, his only income was subject to PAYE and he was not a chargeable person for self-assessment purposes.

Required:

(a) State, giving reasons, whether Richard will be subject to income tax or capital gains tax on any gains arising from the sale(s) of the two houses. (3 marks)

(b) State, giving reasons, whether it would be preferable for Richard to be subject to income tax or capital gains tax on any gains arising from the sale(s) of the two houses. (5 marks)

(c) State the relevant contract tax (RCT) obligations on Richard in relation to this development. (2 marks)

Note: in relation to all three parts of this question you should assume that current law will continue to apply.

(10 marks)

End of Question Paper