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# Answers

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1 (a) Brian and Tina's income tax liability for 2003 is as follows: Marks  
 Income Tax Computations – year ended 31 December 2003.

Brian	Notes	€	€	
Schedule E: Salary			40,000	1
Benefit in kind	1		<u>3,443</u>	1
			43,443	
Less: Approved retirement plan contributions			<u>4,000</u>	2
			39,443	
Schedule F: Irish dividends			300	1
<b>Tina</b>				
Case V	2		0	1
Case IV			<u>500</u>	1
Total income			40,243	
Less: personal reliefs				
Medical expenses	3		<u>250</u>	1
			<u>39,993</u>	
Tax at 20%	4	7,500		1
Tax at 42%		<u>1,047</u>		1
			8,547	
Less: non refundable credits				
Married persons allowance		3,040		1
Employee PAYE credit		800		1
Home carer		770		1
DIRT		<u>100</u>	<u>4,710</u>	1
			3,837	
Less: Tax credits				
PAYE		6,000		1
Dividend withholding tax		<u>60</u>	<u>6,060</u>	1
Tax overpaid			<u>2,223</u>	
<b>Notes</b>				
1 Car benefit in kind				
		€		
Original cost of car		30,000		
Annual value = 25.5% × €30,000		7,650		2
Less high business mileage relief:				
Annual business mileage is 26,500.				
Benefit is reduced to 45%		<u>3,443</u>		2
2 Tina's Case V income is as follows:		€	€	
Gross rents			12,000	1
Less: Interest paid to USB Bank		10,800		1
Repairs to cooker		200		1
Agent's fees		<u>1,200</u>	<u>12,200</u>	1
Case V loss carried forward			<u>(200)</u>	1
3 Medical expenses			€	
Total expenses			500	
Less: Family group restriction			<u>(250)</u>	1
			250	
4 The tax payable at the lower rate is as follows:			€	
Married persons rate band			37,000	1
Deposit interest			<u>500</u>	1
			<u>37,500</u>	<u>28</u>

	<i>Marks</i>
<b>(b) (i)</b> The Collector General	1
<b>(ii)</b> 31 October in the year of assessment following that for which the return is required.	2
<b>(iii)</b> The surcharge is 5% where the return is delivered within 2 months of the specified date and 10% if submitted later than that.	2
<b>(iv)</b> 100% of the taxpayer's total final tax liability for the previous year, or 90% of the final tax payable for the current tax year.	2
	<u>7</u>
<b>Total marks</b>	<b>35</b>

**2 (a) Capital allowances for the year ended 30 June 2004:**

	Furniture and equipment	Van	Motor cars	Totals	
	€	€	€	€	
Original cost	50,000	18,500	44,000	112,500	
Additions	4,000			4,000	1/2
Disposals	(1,000)			(1,000)	1
	<u>53,000</u>	<u>18,500</u>	<u>44,000</u>	<u>115,500</u>	1
TWDV at 1 July 2003	43,750	16,188	38,500	98,438	
Additions	4,000			4,000	1/2
Disposals	(875)			(875)	1
Total	<u>46,875</u>	<u>16,188</u>	<u>38,500</u>	<u>101,563</u>	
Wear and tear – 12.5% S.L.	6,625	2,313	5,500	14,438	3
TWDV 30 June 2004	<u><u>40,250</u></u>	<u><u>13,875</u></u>	<u><u>33,000</u></u>	<u><u>87,125</u></u>	1

Calculation of the tax written down value of the computer equipment sold during the year ended 30 June 2004:

	€	
Original cost	1,000	
Less wear and tear 2003	125	1
TWDV 30 June 2003	<u>875</u>	
Balancing allowance/charge computation	€	
Proceeds	250	
Less tax written down value	875	
Balancing allowance	<u>(625)</u>	1
Total capital allowances (€14,438 + €625)	<u><u>15,063</u></u>	1

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## Classic Cars Ltd

(b) Corporation Tax computation for the year ended 30 June 2004

		€	
Profit per accounts		15,850	
<i>Add back</i>	<i>Notes</i>		
Revenue interest	1	5,250	1
Entertainment	2	30,000	1
Donations	3	5,000	1
Motor expenses	4	150	1
Subscriptions	5	500	1
Bad debts	6	(500)	1
Depreciation		39,000	1
		<u>79,400</u>	
		95,250	
 <i>Less: Capital Allowances</i>		 15,063	 1
		<u>80,187</u>	
 Case I tax adjusted profits		 80,187	
 Tax at 12.5%		 10,023	 1
		<u>10,023</u>	
<b>Notes</b>			
1	Revenue interest on late payment of tax is not tax deductible.		1
2	Entertainment of customers or the provision of hospitality to customers is not tax deductible.		1
3	Donations to political parties are not tax deductible.		1
4	Speeding fines are not allowable. The restriction to motor expenses for owned cars does not apply to chargeable periods ending on/after 1 January 2002.		1
5	Holiday club subscriptions are assumed not to be for the purposes of the company's trade and are therefore not allowable for tax purposes. The golf club subscription is treated as part of the managing director's remuneration package and is tax deductible for the company. The managing director will be taxed under the benefit in kind rules in relation to his golf subscriptions.		1
6	Bad debts recovered are taxable. The reduction in the general bad debts provision is not deductible because the expense was not allowable when the provision was set up.		2
7	Professional fees incurred in collecting trade debts are tax deductible.		1
			<u>19</u>
		<b>Total marks</b>	<b>30</b>

3 John James

- (a) If John accepts the offer of €500,000, he will have no capital gains tax liability because he will qualify for Retirement Relief. The reasons he qualifies for the relief are as follows:
- he is over 55 years of age; 2
  - the proceeds do not exceed €500,000; and 2
  - the assets being disposed of are qualifying chargeable business assets 2
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- (b) If John accepts the offer of €750,000, his capital gains tax liability will be as follows:

	€		
Gross proceeds		750,000	1
Less Cost	€200,000		1
Index factor	1.713		1
Indexed cost		<u>342,600</u>	
Gain		407,400	
Less: Annual exemption		<u>1,270</u>	1
Taxable gain		406,130	1
Tax at 20%		81,226	1

Marginal relief does not apply because the tax due does not exceed half the excess proceeds over €500,000.

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- (c) If John gifts the shop to his daughter, he will have no capital gains tax liability because he meets the requirements for Retirement Relief as follows:
- he is over 55 years of age; 1
  - the assets disposed of are qualifying chargeable business assets; and 1
  - the disposal is to a child or a nephew/niece who has helped full time in the business for the previous five years. 2

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**Total marks 19**

		<i>Marks</i>
<b>4 (a)</b>	The information which must be contained in a VAT invoice is as follows:	
	(i) The name and address of the person issuing the invoice	1
	(ii) The name and address of the customer	1
	(iii) The seller's VAT registration number	1
	(iv) The date of issue of the invoice	1
	(v) The date of supply of the goods or services	1
	(vi) A full description of the goods or services	1
	(vii) The amount charged excluding VAT	1
	(viii) The rate(s) of VAT chargeable on the goods or services and the amount of VAT charged at each rate	1
	(ix) The invoice number	1
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**(b)** Silk Traders Ltd – computation of corporation tax profits for the year ended 31 December 2003.

	€	€	
Case I		Nil	1
	Loss from retail trade		
	Profit from wholesale trade	10,000	1
	Less: loss forward	(1,000)	1
		9,000	
	Relevant trading income	9,000	1
	Less s.396A(3) loss claim	(2,500)	1
		6,500	
Case V		4,000	1
Chargeable gains		2,000	1
		12,500	
Total profits		12,500	<b>7</b>
			<b>16</b>

**Total marks** 16