

Preparing Taxation Computations (Irish)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 14 DECEMBER 2004

QUESTION PAPER

Time allowed **3 hours**

ALL FOUR questions are compulsory and MUST be answered

Tax rates and allowances are on pages 2–6

Do not open this paper until instructed by the supervisor

This question paper must not be removed from the examination hall

The Association of Chartered Certified Accountants

Paper T9(IRL)



The following rates, credits, formulae and allowances are based on the Finance Act 2003 and are to be used for all questions in this paper

Rates of income tax 2003

	Tax €
Single/Widow(er)	
€28,000 at 20%	5,600
Balance at 42%	
Married couple (one income):	
€37,000 at 20%	7,400
Balance at 42%	
Married couple (dual incomes):	
€56,000 at 20%	11,200
Balance at 42%	
One parent family:	
€32,000 at 20%	6,400
Balance at 42%	

Abbreviated list of personal tax credits for the income tax year 2003

	€
Single person's credit	1,520
Married couple credit	3,040
Home carer credit	770
Single parent credit	1,520
Dependent relative credit	60
Employee PAYE credit	800

Rates of PRSI/levies 2003

Self-employed

PRSI	
– Rate	3%
No PRSI for income below €3,174	
Health contribution	
– Lower exemption limit	€18,512
– Rate	2%

Note: No upper limit for PRSI or health contribution.

**Rates of PRSI/levies 2003
Employer (for employees – Class AI)**

– Rate: 1 January 2003–31 December 2003	10.75%
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For salaries and wages of €356 or less per week (€18,512 per annum) the rate is 8.5%.

**Rates of PRSI/levies 2003
Employee – Class A1**

PRSI

- Rate 4%*
- Upper income limit €40,420
- No PRSI on income of €287 per week or less (€14,924 per annum)

*First €127 per week or €550 per month (non-cumulative) is ignored when calculating PRSI

Health contribution

- Rate 2%
- Lower exemption limit – €356 per week or less (€18,512 per annum)
- No upper exemption limit

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 and over	30

Cap on earnings of €254,000

Corporation tax

Accounting period	Standard Rate	Higher Rate
Year ended 31 December 2003 onwards	12.5%	25%

The higher rate applies to Schedule D Case III, IV and V income.

Manufacturing rate: 10% (only applicable where a company carried on a manufacturing trade at 23 July 1998)

Capital gains tax

- Rate 20%
- Annual exemption €1,270

Capital allowances

1 January 2001–3 December 2002

- Equipment: 20% of cost on a straight line basis
- Motor car/vehicle: 20% of cost on a straight line basis
- Industrial premises: 4% of cost on a straight line basis

4 December 2002 onwards

- Equipment: 12.5% of cost on a straight line basis
- Motor car/vehicle: 12.5% of cost on a straight line basis
- Industrial premises: 4% of cost on a straight line basis

Rural/Urban Renewal Allowances (1998)

Industrial and Commercial buildings

Owner occupier

Free depreciation	%
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 type relief)

Construction	100%
Conversion	100%
Refurbishment	100%

Motor cars – limits on capital costs

	Capital allowances		Running expenses	
	New	Second hand	New	Second hand
Expenditure incurred	€	€	€	€
1 December 1999 – 31 December 2000	20,955	12,700	20,955	20,955
Chargeable periods ending:				
between 1 January 2001 – 31 December 2001 – Note 1	21,585	21,585	21,585	21,585
after 1 January 2002 – Note 2	22,000	22,000	Note 2	Note 2

Note 1: A limit of €21,585 applies to both new and second-hand cars for expenditure incurred by companies in accounting periods ending between 1 January 2001 and 31 December 2001 and in the case of individuals for basis periods ending on or after 1 January 2001.

Note 2: The restriction in respect of motoring expenses other than finance lease payments does not apply for chargeable periods ending on or after 1 January 2002.

Motor cars – benefit-in-kind

Rates

Basic rate	30%
Reductions:	
Fuel	4.5%
Insurance	3%
Repairs	3%
Road tax	1%

Business Mileage Chart

Business mileage exceeding miles	Not exceeding miles	Percentage charge %
15,000	16,000	97.5
16,000	17,000	95
17,000	18,000	90
18,000	19,000	85
19,000	20,000	80
20,000	21,000	75
21,000	22,000	70
22,000	23,000	65
23,000	24,000	60
24,000	25,000	55
25,000	26,000	50
26,000	27,000	45
27,000	28,000	40
28,000	29,000	35
29,000	30,000	30
30,000		25

Indexation factors for capital gains tax

Year Expenditure incurred	Multipliers for disposals in year/period ending			
	05.04 2001	31.12 2001	31.12 2002	31.12 2003
1974-75	6.582	6.930	7.180	7.528
1975-76	5.316	5.597	5.799	6.080
1976-77	4.580	4.822	4.996	5.238
1977-78	3.926	4.133	4.283	4.490
1978-79	3.627	3.819	3.956	4.148
1979-80	3.272	3.445	3.570	3.742
1980-81	2.833	2.983	3.091	3.240
1981-82	2.342	2.465	2.554	2.678
1982-83	1.970	2.070	2.149	2.253
1983-84	1.752	1.844	1.911	2.003
1984-85	1.590	1.674	1.735	1.819
1985-86	1.497	1.577	1.633	1.713
1986-87	1.432	1.507	1.562	1.637
1987-88	1.384	1.457	1.510	1.583
1988-89	1.358	1.430	1.481	1.553
1989-90	1.314	1.384	1.434	1.503
1990-91	1.261	1.328	1.376	1.442
1991-92	1.229	1.294	1.341	1.406
1992-93	1.186	1.249	1.294	1.356
1993-94	1.164	1.226	1.270	1.331
1994-95	1.144	1.205	1.248	1.309
1995-96	1.116	1.175	1.218	1.277
1996-97	1.094	1.152	1.194	1.251
1997-98	1.077	1.134	1.175	1.232
1998-99	1.059	1.115	1.156	1.212
1999-00	1.043	1.098	1.138	1.193
2000-01		1.053	1.091	1.144
2001			1.037	1.087
2002				1.049

ALL FOUR questions are compulsory and MUST be attempted

- 1 (a) Brian and Tina have been married for 10 years. They are jointly assessed for income tax purposes. They have one daughter, Holly, who is 9 years old. Brian is the sales director of a company, Antique Arts Ltd. He does not own any shares in Antique Arts Ltd.

Details of Brian's income for 2003 are as follows:

	€
Salary	40,000
PAYE deducted	6,000
Irish dividends, gross	300
Irish dividends, withholding tax	60

Brian also has the use of a company car, the details of which are as follows:

Original cost of car	€30,000
Brian's annual business mileage	26,500 miles
Brian's total annual mileage	40,000 miles

Brian pays for his private petrol and the company pays for all of the other running expenses.

Tina owns a cottage in Tralee which she rents out to local students. Her rental income and expenditure during the year ended 31 December 2003 were as follows:

	€
Gross rents received	12,000
<i>Expenses:</i>	
Interest paid to USB Bank	10,800
Repairs to cooker	200
New conservatory	6,000
Agent's fees	1,200

Tina's only other source of income was deposit interest of €500 gross, which was subject to DIRT. Tina does not work outside the home.

Brian and Tina's outgoings were as follows:

	€
Brian – Contributions to Revenue approved retirement plan	4,000
Unreimbursed medical expenses – incurred by Brian, Tina and Holly	500

Required:

Calculate Brian and Tina's income tax liability and amount payable/repayable for 2003. (28 marks)

- (b) Self employed individuals who are liable to income tax are required to pay preliminary tax and submit their tax returns annually.

Required:

- (i) **State to whom the tax return must be submitted.** (1 mark)
- (ii) **State the latest date by which an individual must file his or her tax return each year to avoid a surcharge.** (2 marks)
- (iii) **State the rates(s) of surcharge that will be imposed if the return is submitted late.** (2 marks)
- (iv) **State the percentage of tax that must be paid as preliminary tax each year to avoid interest, assuming that the taxpayer does not pay his/her tax by direct debit.** (2 marks)

(35 marks)

2 Classic Cars Ltd owns a chain of garages throughout Ireland. The company has traded profitably for many years. It had the following results for the year ended 30 June 2004:

	€	€
Sales		5,000,000
Cost of sales		<u>3,500,000</u>
		1,500,000
<i>Less</i>	Notes	
Rent and rates		206,000
Salaries	(a)	870,000
Interest paid	(b)	70,000
Advertising and promotion	(c)	226,000
Donations	(d)	5,000
Motor expenses	(e)	45,900
Miscellaneous expenses	(f)	6,000
Subscriptions	(g)	6,500
Professional fees	(h)	8,000
Bad debts	(i)	1,750
Depreciation		39,000
		<u>1,484,150</u>
Total profits		<u>15,850</u>

You are given the following information regarding the above:

(a) Salaries

	€
Managing director's salary	150,000
Sales director's salary	120,000
Sales staff salaries	400,000
Bonuses to sales staff	100,000
Salaries to administration staff	100,000
	<u>870,000</u>

(b) Interest paid

	€
Trade interest	64,750
Interest to Revenue on late payment of tax	5,250
	<u>70,000</u>

(c) Advertising and promotion

	€
Newspaper advertising	75,000
Radio advertising	120,000
Entertaining clients at golf outings	30,000
Staff football team jerseys	1,000
	<u>226,000</u>

(d) Donations

	€
Political donations	<u>5,000</u>

(e) Motor expenses	€
Managing director's car	12,000
Sales director's car	7,500
Vans	6,750
Speeding fines	150
Mileage – staff cars	19,500
	<hr/>
	45,900
(f) Miscellaneous expenses	€
Waste disposal costs	2,000
Canteen	4,000
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	6,000
(g) Subscriptions	€
Car trade magazines	1,000
Golf club subscription for managing director	5,000
Holiday club magazine	500
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	6,500
(h) Professional fees	€
Audit and accounting	6,500
Legal re bad debt collection	1,500
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	8,000
(i) Bad debts	€
Bad debt written off	1,500
Increase in specific bad debts provision	1,000
Reduction in general bad debts provision	(500)
Bad debts recovered	(250)
	<hr/>
	1,750

- (j) The original cost and tax written down value of the fittings, equipment and motor vehicles as at 1 July 2003 were as follows:

	Fittings and Equipment	Van	Motor Cars
	€	€	€
Original cost for tax purposes	50,000	18,500	44,000
TWDV 1 July 2003	43,750	16,188	38,500
(All fittings and equipment were purchased after 1 January 2003)			
The motor cars comprise:	Date purchased	Cost	
		€	
Managing director's car	12 January 2003	75,000	
Sales director's car	31 March 2003	55,000	

During the year ended 30 June 2004, the company bought a new computer for €4,000. It sold the previous computer for €250. The computer sold had cost €1,000 in March 2003.

Required:

- (a) Prepare the capital allowances computation for Classic Cars Ltd for the year ended 30 June 2004, clearly identifying the tax cost and tax written down value of each class of asset as at 1 July 2004. (11 marks)
- (b) Calculate the corporation tax liability of Classic Cars Ltd for the year ended 30 June 2004, giving brief explanations to support your computations. (19 marks)

(30 marks)

- 3** John James bought a flower shop in September 1985 for €200,000. He has worked full-time in the shop since then. On 1 December 2003, his 60th birthday, he decided to retire and dispose of the shop.
- He has received two offers for the shop, one for €500,000 and the other for €750,000. Alternatively, he could gift the shop to his daughter who has worked full-time in the shop for the last eight years.
- He has asked you to advise him on the tax consequences of each option.

Required:

Calculate John James' capital gains tax liability, if any, on the basis that

- (a) he accepts the offer of €500,000 for the shop (7 marks)
- (b) he accepts the offer of €750,000 for the shop (6 marks)
- (c) he gifts the shop to his daughter (6 marks)

Provide details of any conditions which must be met to qualify for any reliefs claimed.

(19 marks)

- 4 (a)** A VAT invoice must be provided where business is transacted with another taxable person. The Revenue impose strict requirements on the information which must be included in a VAT invoice.

Required:

State the information which must be included on an invoice to make it a valid invoice for VAT purposes.

(9 marks)

- (b)** Silk Traders Ltd prepares its accounts to 31 December each year. Its results, after tax adjustments, for the year ended 31 December 2003 were as follows:

	€
Case I – loss from retail trade	(2,500)
Case I – profit from wholesale trade	10,000
Case V profit	4,000
Chargeable gains, as adjusted	2,000

The company had unutilised trade losses in its wholesale trade of €1,000 brought forward from 2002.

Required:

Calculate Silk Traders Ltd's corporation tax profits for year ended 31 December 2003.

(7 marks)

(16 marks)

End of Question Paper