

Preparing Taxation Computations (Irish)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 15 JUNE 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)



All of 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
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: 1.01.03–31.12.03	10.75%
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For salaries and wages of €356 or less per week the rate is 8.5%.

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

PRSI

- Rate 4%*
- Upper income limit €40,420
- No PRSI on income of €287 per week or less.

*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
- 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	Lower Rate
Year ended 31.12.2002	16%	25%	12.5%
Year ended 31.12.2003	12.5%	25%	–

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

From 1 January 2002 to 31 December 2002 the lower rate applies to trading profits of €254,000 or less. Marginal relief applies where the trading profits are between €254,001 and €317,500.

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

Capital gains tax

- 1.12.99 onwards – Rate 20%
- Annual exemption €1,270

Capital allowances

1.01.01–3.12.02

- 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

4.12.02 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	€	€	€	€
3.12.98 – 30.11.99	20,320	12,700	20,320	20,320
1.12.99 – 31.12.2000	20,955	12,700	20,955	20,955
Chargeable periods ending:				
between 1.01.01 – 31.12.01 – Note 1	21,586	21,586	21,586	21,586
after 1.01.02 – 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 on or after 1 January 2001 and in the case of individuals for basis periods ending on or after this date.

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 ending 5 April								
	1996	1997	1998	1999	2000	05.04 2001	31.12 2001	31.12 2002	31.12 2003
1974-75	5.899	6.017	6.112	6.215	6.313	6.582	6.930	7.180	7.528
1975-76	4.764	4.860	4.936	5.020	5.099	5.316	5.597	5.799	6.080
1976-77	4.104	4.187	4.253	4.325	4.393	4.580	4.822	4.996	5.238
1977-78	3.518	3.589	3.646	3.707	3.766	3.926	4.133	4.283	4.490
1978-79	3.250	3.316	3.368	3.425	3.479	3.627	3.819	3.956	4.148
1979-80	2.933	2.992	3.039	3.090	3.139	3.272	3.445	3.570	3.742
1980-81	2.539	2.590	2.631	2.675	2.718	2.833	2.983	3.091	3.240
1981-82	2.099	2.141	2.174	2.211	2.246	2.342	2.465	2.554	2.678
1982-83	1.765	1.801	1.829	1.860	1.890	1.970	2.070	2.149	2.253
1983-84	1.570	1.601	1.627	1.654	1.680	1.752	1.844	1.911	2.003
1984-85	1.425	1.454	1.477	1.502	1.525	1.590	1.674	1.735	1.819
1985-86	1.342	1.369	1.390	1.414	1.436	1.497	1.577	1.633	1.713
1986-87	1.283	1.309	1.330	1.352	1.373	1.432	1.507	1.562	1.637
1987-88	1.241	1.266	1.285	1.307	1.328	1.384	1.457	1.510	1.583
1988-89	1.217	1.242	1.261	1.282	1.303	1.358	1.430	1.481	1.553
1989-90	1.178	1.202	1.221	1.241	1.261	1.314	1.384	1.434	1.503
1990-91	1.130	1.153	1.171	1.191	1.210	1.261	1.328	1.376	1.442
1991-92	1.102	1.124	1.142	1.161	1.179	1.229	1.294	1.341	1.406
1992-93	1.063	1.084	1.101	1.120	1.138	1.186	1.249	1.294	1.356
1993-94	1.043	1.064	1.081	1.099	1.117	1.164	1.226	1.270	1.331
1994-95	1.026	1.046	1.063	1.081	1.098	1.144	1.205	1.248	1.309
1995-96		1.021	1.037	1.054	1.071	1.116	1.175	1.218	1.277
1996-97			1.016	1.033	1.050	1.094	1.152	1.194	1.251
1997-98				1.017	1.033	1.077	1.134	1.175	1.232
1998-99					1.016	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)** Robert Jolly is 28 years old and the manager of a chain of ice-cream shops in Dublin. He is single. Robert's income for the year ended 31 December 2003 was as follows:

	€
Salary (paid monthly)	50,000
PAYE deducted	12,000
Deposit interest (gross)	100

Robert's employer supplies him with a company car and pays for all of the running expenses. His total annual mileage in 2003 was 23,500 of which 5,000 was personal mileage. The original cost of the car when first registered in January 2000 was €25,000 but Robert's employer purchased it second hand in 2002 for €20,000.

Robert is also studying part-time for an undergraduate degree in a Dublin University. The course duration is four years and both the course and the college are approved by the Minister for Education and Science. Robert's fees in 2003 amounted to €2,100.

Robert is a member of a Revenue approved permanent health insurance plan and paid a premium of €1,000 during 2003. He also contributed €5,000 to his company's superannuation scheme as an additional voluntary contribution (AVC).

Required:

- (i) Calculate Robert's income tax for 2003.** (21 marks)
- (ii) Calculate the PRSI paid by Robert on a monthly basis via the PAYE system for 2003.** (3 marks)
- (b)** Amanda is single and incurred the following medical expenses during the year ended 31 December 2003.

	€
Hospital bills	2,700
Doctor's bills	800
Medical prescriptions	400
Dentist bills – routine fillings	250
	<hr/>
	4,150
	<hr/> <hr/>

During the tax year 2003, she recovered €3,000 from the Voluntary Health Insurance Board (VHI) in respect of the above medical expenses. The amount of €400 paid to the chemist for prescriptions is the net amount after deduction of the Drug Scheme Allowance.

Required:

- Calculate the allowance for medical expenses which Amanda could claim in the tax year 2003.** (7 marks)

(31 marks)

2 Sitric Sports Ltd runs a large sports store in Dublin. The company has traded profitably for many years and had the following results for the year ended 31 December 2003.

		€	€
Sales			3,500,000
Cost of sales			<u>1,750,000</u>
			1,750,000
<i>Less</i>	Notes		
Wages		600,000	
Depreciation		72,000	
Rent and rates		350,000	
Motor expenses	(a)	14,950	
Donations	(b)	5,000	
Professional fees	(c)	14,000	
Subscriptions	(d)	4,000	
Interest	(e)	57,000	
Advertising and promotion	(f)	<u>35,000</u>	<u>1,151,950</u>
Net profit from trading			598,050
Irish dividends received	(h)		<u>1,000</u>
Total profits			<u><u>599,050</u></u>

You are given the following information regarding the above:

(a) Motor expenses

	€
Motor car 03 XX 1234 – managing director’s car	8,000
Motor car 02 XX 5555 – sales director’s car	6,500
Speeding fine	250
Parking tickets and clamping	<u>200</u>
	14,950

The managing director’s car is a Lexus which the company purchased new for €50,000 in January 2003. The running expenses were as follows:

	€
Petrol	4,000
Insurance	1,500
Tax	575
Repairs/servicing	<u>1,925</u>
	8,000

The sales director’s car is a Volvo which was purchased new for €40,000 in January 2002. The running expenses were as follows:

	€
Petrol	3,500
Insurance	1,200
Tax	575
Repairs/servicing	<u>1,225</u>
	6,500

(b) Donations

	€
Donations to political parties	<u>5,000</u>

- (c) Professional fees
- | | |
|--|--------|
| | € |
| Audit and accounting | 10,000 |
| Fees on acquisition of shares in World of Golf Ltd | 4,000 |
| | 14,000 |
- (d) Subscriptions
- | | |
|--|-------|
| | € |
| Chamber of commerce | 750 |
| Golf subscriptions for managing director | 750 |
| Trade magazines | 2,500 |
| | 4,000 |
- (e) Interest
- | | |
|--|--------|
| | € |
| Paid to banks for trade purposes | 52,000 |
| Paid to the Revenue on late payment of taxes | 5,000 |
| | 57,000 |
- (f) Advertising and promotion
- | | |
|-----------------------|--------|
| | € |
| Client entertainment | 26,000 |
| Staff Christmas party | 9,000 |
| | 35,000 |
- (g) The original cost and tax written down value of the fittings, equipment and motor vehicles as at 1 January 2003 was as follows:

	Fittings and Equipment	Truck	Car
	€	€	€
Original cost for tax purposes	3,000,000	21,000	22,000
TWDV 1 January 2003	1,800,000	8,602	17,600
All the equipment was purchased pre 1 January 2001			

The motor vehicles comprise of:	Purchased	Cost
		€
Sales director's car	2002	40,000
Truck 99 XX 1265	1999	21,000
		61,000

During the year 2003, the company bought the following assets:

	€
Equipment	600,000
Managing director's car	50,000
	650,000

- (h) The dividend of €1,000 was received from World of Golf Ltd, an Irish company. Sitric Sports Ltd owns 4% of the shares in this company.

Required:

Calculate Sitric Sports Ltd's corporation tax liability for the year ended 31 December 2003, giving brief explanations of the treatment of the items referred to in notes (a) to (d) inclusive.

(30 marks)

- 3** Declan had the following transactions in the ordinary shares of Skitours
- September 1985, purchased 2000 shares at €1·50 per share.
 - March 1990, Declan purchased a further 500 shares at €3 each.
 - July 1994, the company declared a bonus issue of 1 ordinary share for each share held.
 - April 2002, Declan gifted 1,000 shares to his son, Simon, on the event of his 21st birthday. The shares were valued at €5 per share at that time.
 - In October 2003, Declan sold 2,000 shares for €15,000. Costs associated with the sale were €1,000.

Declan has no losses to carry forward for capital gains tax purposes.

Required:

Calculate Declan's capital gains tax liability for 2002 and 2003 respectively. Your answer should include a summary of all Declan's shareholdings in Skitours Ltd and their base cost immediately prior to each disposal. Show all workings.

(21 marks)

Assume that the annual exemption and the tax rate for 2002 are the same as in 2003.

- 4 (a)** VAT is charged on the supply of goods and services.

Required:

State the registration limits for traders supplying

- (i) goods;**
- (ii) services.**

(2 marks)

- (b)** Taxable persons for VAT are required to submit VAT returns.

Required:

Assuming that the annual return filing arrangement does not apply, state the taxable periods for VAT and the due date for filing the VAT return for each such period.

(6 marks)

- (c)** Richard commenced in practice as a solicitor on 1 May 2001 and he makes up his accounts annually to 30 April.

His tax adjusted profits were as follows:

	€
Year ended 30 April 2002	24,000
Year ended 30 April 2003	30,000

All of his equipment is leased and no capital allowances are due to Richard.

Required:

- (i) Compute Richard's taxable profits for the tax years 2001, 2002 and 2003, clearly stating the basis period which applies in each case.** **(7 marks)**
- (ii) State the latest date by which Richard must file his 2003 tax return and the due date for payment of his preliminary tax for 2003.** **(3 marks)**

(18 marks)

End of Question Paper