
Answers

				Marks
1 (a)	Income tax computation for James and Deidre for 2004.			
		€	€	
James	Schedule D Case II	200,000		1
	Less capital allowances	(4,000)	196,000	1
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	Schedule D Case III		2,100	1
Deidre	Salary for the year ended 31 December 2004	14,000		1
	Benefit in kind (self) W1	4,500		0.5
	Schedule D Case IV	750	19,250	1
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Total income			217,350	
Less reliefs:	Permanent health insurance		(1,500)	1
	Retirement annuity contract W2		(58,800)	0.5
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Taxable income			157,050	
			<hr/>	
Tax thereon	56,250 at 20%	11,250		0.5
	100,800 at 42%	42,336	53,586	0.5
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Less: non refundable credits				
	Married persons credit	3,040		1
	PAYE credit (x1)	1,040		1
	DIRT	150	(4,230)	1
		<hr/>		
Less: refundable credits				
	PAYE paid – spouse		(6,000)	1
			<hr/>	
Income tax liability			43,356	1
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PRSI and levies				
James	PRSI at 3% on €198,100	5,943		1
	Levies at 2% on €198,100	3,962	9,905	1
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Deidre	Levies on €750 at 2%		15	1
			<hr/>	
Total income tax, PRSI and levies			53,276	
			<hr/>	
Workings/notes				
W1	Deidre's benefit in kind is calculated as follows:		€	
	Cash equivalent €15,000 x 30%		4,500	1
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W2	James's maximum allowable retirement annuity contract premium is 30% of his Case II income, net of capital allowances = 30% x €196,000 = €58,800			1
				1
W3	The income taxed at the standard rate is computed as follows:		€	
	James's maximum amount at standard rate		37,000	1
	Deidre's income at standard rate (maximum €19,000)		18,500	1
	Deposit interest subject to tax at standard rate		750	1
			<hr/>	
			56,250	
			<hr/>	
Note 1	Tax relief for mortgage interest is given at source.			1
Note 2	PRSI and levies on Deidre's employment income (including the benefit in kind) will have been deducted at source.			1
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				24
(b)				
(i)	The latest date by which an individual must file his or her tax return to avoid surcharge is 31 October in the year following the year of assessment.			1
(ii)	The surcharge payable for late filing is as follows:			
	one week after the filing date – the lesser of 5% of the total tax and €12,695.			1
	six months after the filing date – the lesser of 10% of the total tax and €63,458.			1
(iii)	The tax return must be submitted to the Collector General.			1

	Marks
(iv) (a) A taxpayer paying his tax by direct debit instalment arrangement must have paid 105% of his final liability for the second tax year prior to the current tax year to avoid interest.	1
(b) A taxpayer who pays in one instalment on 31 October in the tax year must pay either 90% of the current year's tax liability or 100% of the previous year's tax liability to avoid interest.	<u>1</u>
	6
Total marks	30

2 (a) Treasure Island Books Ltd

Corporation tax computation for year ended 30 September 2005

	€	€	
Profit per accounts		52,960	0.5
<i>Deduct</i>			
Interest received		<u>2,500</u>	0.5
		50,460	
<i>Add back</i>	Notes		
Depreciation		75,000	0.5
Loss on sale of fixed assets		3,000	0.5
Motor expenses	1	3,840	0.5
Repairs and renewals	2	4,500	0.5
Donations to political parties	3	500	0.5
Interest to Revenue	4	<u>250</u>	0.5
		<u>87,090</u>	
		137,550	
<i>Less</i>			
Capital allowances	7	<u>131,813</u>	0.5
Case I income		5,737	0.5
Case III income		<u>2,500</u>	1
Total profits		<u>8,237</u>	
Corporation tax – €5,738 at 12.5%		717	1
Corporation tax – €2,500 at 25%		<u>625</u>	1
Total corporation tax liability		<u><u>1,342</u></u>	

Notes

1	Motor expenses restriction: BMW 04 XX 1000		
		€	
	€7,200 x $\frac{(45,000 - 22,000)}{45,000}$	3,680	2
	Parking tickets and clamping	<u>160</u>	0.5
	Total motor expenses add-back	<u><u>3,840</u></u>	
	Parking fines relate to illegal acts and are not deductible.		0.5
	There is no restriction on car running costs only on the leasing charges.		0.5
2	Repairs and renewals		
	The new cash register is a capital item and must be added back.		0.5
	Capital allowances may be claimed instead.		
	The remaining items are allowable.		0.5
3	Donations		
	Donations to political parties are not allowable.		0.5
	Donations to registered charities are allowable.		0.5
4	Revenue interest		
	Interest paid to the Revenue for late payment of tax is not allowable.		0.5
	Interest paid for trade purposes is allowable.		0.5
5	Professional fees		
	Professional fees, including that incurred in connection with the renewal of the lease are allowable as they were incurred for the purposes of trade.		0.5

		Marks
6	Subscriptions	
	These are all allowable. The health club subscription will be treated as a benefit in kind for the director.	1

7 **Capital Allowances – Wear and Tear**

	Equipment (12·5% S.L.)	Car (12·5% S.L.)	Van (12·5% S.L.)	Total	
	€	€	€	€	
Original cost (tax adjusted)	750,000	22,000	18,000	790,000	1
Add: Additions	254,500	0	0	254,500	1
Less: disposals	(10,000)	0	0	(10,000)	1
	994,500	22,000	18,000	1,034,500	
Written down value 1 October 2004	600,000	16,500	13,500	630,000	
Additions in year	254,500	0	0	254,500	1
Disposals in year	(7,500)	0	0	(7,500)	1
	847,000	16,500	13,500	877,000	
Wear & Tear	124,313	2,750	2,250	129,313	3
TWDV 30 September 2005	722,687	13,750	11,250	747,687	2

Capital Allowances – Balancing allowance/charge calculation

			€	
Equipment	Sales proceeds		5,000	1
	TWDV 1 October 2004	W1	7,500	
	Balancing allowance		2,500	0·5

Capital Allowances summary

		€	
Wear and Tear		129,313	
Balancing allowance – equipment		2,500	
		131,813	0·5

W1 The tax written down value of the equipment sold is as follows:

		(12·5% S.L.)	
		€	
Original cost year ended 30 September 2003		10,000	
Wear & tear – 2003		1,250	
Wear & tear – 2004		1,250	
TWDV at 30 September 2004		7,500	1
			29

(b) The latest date for filing the company's tax return is 21 June 2006. 1

Total marks 30

3 (a) Susan's capital gains tax liability for 2004 is calculated as follows:

	Notes	€	€	€	
Sales proceeds				650,000	0·5
Less:					
Cost – December 1990		150,000			0·5
Index factor		1·442			0·5
Indexed cost			216,300		
Enhancement expenditure – May 2000	1	10,000			0·5
Index factor		1·144			0·5
Indexed cost			11,440	227,740	
Gain				422,260	
Less: Exempt portion	2			409,693	0·5
Chargeable gain				12,567	
Less personal exemption				1,270	1
				11,297	
Tax at 20%				2,259	1

Notes			Marks
1	The conservatory is treated as enhancement expenditure and indexation is available from the date on which the expenditure was incurred.		1
2	Calculation of exempt portion:		
	Total period of ownership	14 years	1
	Period of deemed and actual occupation		
	Occupation: 1 December 1990 – 30 November 1994	4 years	1
	Period in Cork: 1 December 1994 – 31 January 1998	3 years 2 months	1
	Occupation: 1 February 1998 – 30 June 2003	5 years 5 months	1
	Last 12 months	1 year	1
	Total	13 years 7 months	
	Exempt portion (in months)	= $\frac{163}{168} \times \text{€}422,260$	2
		= €409,693	
	Susan can claim exemption from capital gains tax for the following periods:		
	(a) the period during which she occupied the house as her principal private residence		1
	(b) any period not exceeding four years during which her employer required her to live away from home for work reasons, provided she does not own another residence		1
	(c) any time which she spent working abroad provided she does not have another private residence		1
	(d) the last 12 months of ownership		1
			<u>18</u>
	Note: The period spent in Canada does not qualify as a period of occupation as Susan did not occupy the house before selling it.		
(b)	The due date for payment of Susan's capital gains tax liability for 2004 is 31 January 2005.		1
	The amount which Susan must pay on that date is 100% of her liability, i.e. €2,259.		1
			<u>2</u>
		Total marks	20
4	(a) The following traders are required to register for VAT:		
	(i) traders selling goods only, where their turnover exceeds or is likely to exceed €51,000 per year		1
	(ii) traders whose turnover exceeds or is likely to exceed €51,000 per year and their sales consist of at least 90% of sales of goods		1
	(iii) traders whose turnover of goods and/or services exceeds €25,500 in any other case		1
	(iv) exempt business where the total value of imports of goods by them exceeds €41,000 per year		1
	(v) exempt businesses in receipt of fourth schedule services, from abroad		1
			<u>5</u>
	(b) A VAT input credit is not available in respect of the following:		
	(i) entertainment incurred by the taxable person, his staff or agents		1
	(ii) the acquisition or hiring of passenger motor vehicles		1
	(iii) petrol, except when used as stock in trade		1
	(iv) food, drink or accommodation		1
	(v) goods or services used for personal purposes		1
			<u>5</u>

(c) Patrick's Schedule D Case V computation for 2004				Marks
	Notes	Athlone apartment €	Tralee office €	
Gross rents		14,400	6,000	1
Less Expenses				
Insurance	1	180	300	1
Mortgage interest	2	6,000	10,000	2
Repairs		975		1
Service charge		1,200		1
Management fees		1,500		1
Profit/(loss)		<u>4,545</u>	<u>(4,300)</u>	1
Case V Summary				
Apartment		4,545		
Office		<u>(4,300)</u>		
Case V income		<u><u>245</u></u>		
Notes:				
1. Insurance – Tralee property. The insurance allowable is the amount referable to the period 1 October 2004 to 31 December 2004.				1
2. Interest – Tralee property. Pre-letting interest of €3,000 is not allowable.				<u>1</u>
				10
			Total marks	20