

# Preparing Taxation Computations (Irish)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 13 DECEMBER 2005

## QUESTION PAPER

Time allowed **3 hours**

ALL FOUR questions are compulsory and **MUST** be answered

Tax rates and allowances are on pages 2–5

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 2004 and are to be used for all questions in this paper

#### Rates of income tax 2004

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

#### Abbreviated list of personal tax credits for the income tax year 2004

	€
Single person's credit	1,520
Married couple credit	3,040
Home carer credit	770
Single parent credit	1,520
Dependent relative credit	60
Age credit – single/widowed	205
– married	410
Employee/PAYE credit	1,040

#### Rates of PRSI/levies 2004

##### Self-employed

<b>PRSI</b>	
– Rate	3%
No PRSI for income below €3,174 per annum	
<b>Health contribution</b>	
– Lower exemption limit	€18,512
– Rate	2%

Note: No upper limit for PRSI or health contribution.

#### Rates of PRSI/levies 2004

##### Employee – Class A1

<b>PRSI</b>	
– Upper limit	€42,160
– Rate	4%
The first €127 per week (non-cumulative is exempt from PRSI)	
No PRSI on income up to €14,924 per annum (€287 per week)	
<b>Health contribution</b>	
– Lower exemption limit	€18,512
– Rate	2%

Note: No upper limit for health contribution.

**Rates of PRSI/levies 2004  
Employer (for employees – Class A1)**

**PRSI**  
Rate: 10.75%

For salaries less than €18,512 the rate is 8.5% per annum

Note: No upper limit for employer's contribution

<b>Age</b>	<b>Retirement annuities</b>	<b>Percentage of net relevant earnings</b>
		%
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		

<b>Corporation tax</b>	
Standard Rate	12.5%
Higher rate	25%

<b>Capital gains tax</b>	
Rate	20%
Annual exemption	€1,270

<b>Rural/Urban Renewal Allowances</b>	
<b>Industrial and Commercial buildings</b>	
<b>Owner occupier</b>	
	%
Free depreciation	50
or	
Initial allowance	50
Annual allowance	4
Maximum	100
<b>Lessor</b>	
Initial allowance	50
Annual allowance	4
Maximum	100
<b>Residential property</b>	
<b>Owner occupier</b>	
Construction	5% per annum (10 years)
Refurbishment	10% per annum (10 years)
<b>Lessor (Section 23 relief)</b>	
Construction	100%
Conversion	100%
Refurbishment	100%

### Motor cars – limits on capital costs

	€
Capital allowances	22,000
Leasing charges	22,000
Running cost	No limit

### Capital allowances

Expenditure incurred	Plant and machinery including motor vehicles	
1.01.2001 – 31.12.2002	20%	Straight line
4.12.2002 onwards	12.5%	Straight line

### Motor cars – benefit-in-kind rates

Standard rate – 30% of original market value

Lower limit miles	Upper limit miles	Percentage of original market value of car
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		
	31.12.2002	31.12.2003	2004 <i>et seq</i>
1974-75	7.180	7.528	7.528
1975-76	5.799	6.080	6.080
1976-77	4.996	5.238	5.238
1977-78	4.283	4.490	4.490
1978-79	3.956	4.148	4.148
1979-80	3.570	3.742	3.742
1980-81	3.091	3.240	3.240
1981-82	2.554	2.678	2.678
1982-83	2.149	2.253	2.253
1983-84	1.911	2.003	2.003
1984-85	1.735	1.819	1.819
1985-86	1.633	1.713	1.713
1986-87	1.562	1.637	1.637
1987-88	1.510	1.583	1.583
1988-89	1.481	1.553	1.553
1989-90	1.434	1.503	1.503
1990-91	1.376	1.442	1.442
1991-92	1.341	1.406	1.406
1992-93	1.294	1.356	1.356
1993-94	1.270	1.331	1.331
1994-95	1.248	1.309	1.309
1995-96	1.218	1.277	1.277
1996-97	1.194	1.251	1.251
1997-98	1.175	1.232	1.232
1998-99	1.156	1.212	1.212
1999-2000	1.138	1.193	1.193
2000-2001	1.091	1.144	1.144
2001	1.037	1.087	1.087
2002		1.049	1.049
2003 <i>et seq</i>			1.00

**ALL FOUR questions are compulsory and MUST be attempted**

- 1 (a)** James is a barrister who has been in practice for many years. He is 54 years of age. He is married to Deirdre. She works part-time with the local veterinary practice. They have two children aged 17 and 15. James and Deirdre's income for 2004 was as follows:

		€
James	Professional income – Case II	200,000
	Interest from Irish government securities	2,100
Deirdre	Salary (PAYE paid €6,000)	14,000
	Deposit interest – gross	750

James had capital allowances of €4,000 for 2004.

Deirdre has the use of a company car. The car was purchased by her employer in January 2003 for €15,000. Her total mileage is 10,000 miles per annum, of which 4,000 is business mileage. The company pays for all motor expenses.

James had the following outgoings in 2004.

	€
Permanent Health Insurance – Celtic Insurances Ltd	1,500
Mortgage interest	6,000
Contribution to Revenue approved retirement annuity contract	75,000

**Required:**

**Calculate James and Deirdre's income tax liability, PRSI and levies for 2004, assuming that they are jointly assessed. Show all of your workings.** (24 marks)

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

**Required:**

- (i) State the latest date by which an individual must file his or her tax return each year to avoid a surcharge.** (1 mark)
- (ii) State the surcharge payable if the return is filed**
- (a) one week after the due date**
- (b) six months after the due date.** (2 marks)
- (iii) State to whom the tax return must be submitted.** (1 mark)
- (iv) Self employed taxpayers must pay preliminary tax each year. State the minimum percentage of tax that must be paid by a taxpayer in order to avoid interest if:**
- (a) the taxpayer pays his tax by direct debit instalment**
- (b) the taxpayer pays his tax by annual instalment.** (2 marks)

**(30 marks)**

- 2 Treasure Island Books Ltd operates a bookstore in Galway. The company has traded profitably for many years and had the following results for the year ended 30 September 2005:

	€	€
Sales		2,750,000
Cost of sales		<u>1,780,000</u>
		970,000
<i>Less</i>	<b>Notes</b>	
Wages		650,000
Depreciation		75,000
Loss on sale of fixed assets		3,000
Rent and rates		150,000
Motor expenses	(a)	21,410
Repairs and renewals	(b)	5,830
Donations	(c)	1,750
Professional fees	(d)	6,500
Subscriptions	(e)	2,300
Interest	(f)	<u>3,750</u>
		919,540
Net profit from trading		50,460
Interest received (gross)	(g)	<u>2,500</u>
Total profits		<u><u>52,960</u></u>

You are given the following information regarding the above:

(a) Motor expenses	€
Managing director's car 04 XX 1000	13,100
Finance director's car 03 XX 5678	8,150
Parking tickets and clamping charges	<u>160</u>
	<u>21,410</u>

The managing director's car is a BMW which the company leases. The market value of the car was €45,000 when the car was first leased in 2004. The expenses incurred on this car were as follows:

	€
Leasing costs	7,200
Petrol	3,500
Tax and insurance	1,950
Repairs/servicing	<u>450</u>
	<u>13,100</u>

The finance director's car is owned by the company.

(b) Repairs and renewals	€
Repairs to lighting	730
New cash register	4,500
Repairs to bookshelves	<u>600</u>
	<u>5,830</u>
(c) Donations	€
Donations to political parties	500
Donations to registered charities	<u>1,250</u>
	<u>1,750</u>

- |     |  |       |
|-----|--|-------|
| (d) | Professional fees  | €     |
|     | Audit and accounting   | 5,000 |
|     | Legal fees for renewal of lease  | 1,500 |
|     |  | 6,500 |
|     |  |       |
| (e) | Subscriptions  | €     |
|     | Galway Chamber of Commerce   | 750   |
|     | Booksellers monthly magazine   | 350   |
|     | Health club subscription for managing director   | 1,200 |
|     |  | 2,300 |
|     |  |       |
| (f) | Interest   | €     |
|     | Paid to banks for trade purposes   | 3,500 |
|     | Paid to the Revenue for late payment of taxes  | 250   |
|     |  | 3,750 |
|     |  |       |
| (g) | Treasure Island Books Ltd received deposit interest of €2,500 from Bank of Ireland during the year. No DIRT was deducted from this amount. |       |
| (h) | The original cost and tax written down value (TWDV) of the equipment and motor vehicles as at 1 October 2004 was as follows:               |       |

	Equipment	Van	Car
	€	€	€
Original cost	750,000	18,000	35,000
TWDV 1 October 2004	600,000	13,500	16,500

All of the equipment and motor vehicles were purchased between 1 January 2003 and 30 September 2004.

During the year ended 30 September 2005, Treasure Island Books Ltd acquired and disposed of the following assets:

**Acquisitions**

Equipment was purchased at a cost of €250,000.

**Disposals**

Equipment which had been purchased for €10,000 in May 2003 was sold for €5,000.

**Required:**

**(a) Calculate the corporation tax liability of Treasure Island Books Ltd for the year ended 30 September 2005, giving brief explanations of your treatment of the items detailed in notes (a) to (f).** (28 marks)

**(b) State the latest date for filing the company's corporation tax return.** (1 mark)

**(29 marks)**



**3** On 1 December 1990, Susan bought her principal private residence in Dublin for €150,000.

She lived there until 30 November 1994 when she was required by her employer, Zap Technologies Ltd, to work in Cork. She rented out her house in Dublin while she lived in Cork. She did not acquire a property in Cork.

On 1 February 1998, Susan returned to Dublin, moved back into her house and commenced work with Seasons Fashions Group. In May 2000, she built a conservatory at a cost of €10,000.

On 1 July 2003 she was transferred by her employer to work with their company in Canada. Again, she rented out her house in Dublin. On 1 July 2004 she moved back to Dublin but she did not reoccupy her house.

She sold the house on 30 November 2004 for €650,000.

**Required:**

**(a) Calculate Susan's capital gains tax liability for 2004. Show your workings clearly and give a brief explanation of the tax treatment for the periods of actual and deemed occupation by Susan of her house. (19 marks)**

**(b) State the due date for payment of Susan's capital gains tax for 2004 and the amount of tax which Susan must pay on that date. (2 marks)**

**(21 marks)**

4 (a) The VAT Acts require traders to register for VAT if their turnover exceeds certain thresholds.

**Required:**

**State the categories of traders who are obliged to register for VAT and the turnover thresholds applicable to each category.** (5 marks)

(b) A registered trader cannot reclaim VAT incurred on certain types of expenses.

**Required:**

**List five types of expenses for which a trader cannot claim a VAT input credit.** (5 marks)

(c) Patrick owns two rental properties as follows:

(i) He purchased an apartment in Athlone in 2001 which he rents out. Details of the income and expenses on this property during the year ended 31 December 2004 were as follows:

	Athlone apartment
	€
Rent received	14,400
Outgoings	
Insurance	180
Mortgage interest	6,000
Repairs	975
Service charge	1,200
Management fees	1,500
<i>Note</i>	
Repairs to apartment	€
Repainting interior	850
Repairs to window	125
	975

(ii) During the year ended 31 December 2004, Patrick purchased a new office building in Tralee. Details in relation to the acquisition of this property are as follows:

		€
1 July 2004	Deposit paid	60,000
1 September 2004	Balance paid	540,000
	Total cost	600,000

The property was rented out from 1 October 2004 when the first rent was received. This amounted to €6,000 for the quarter ended 31 December 2004.

Patrick borrowed the full purchase cost of the Tralee property from an Irish bank. The following amounts of interest were paid in connection with these borrowings:

Date interest paid	Interest period	€
31 July 2004	Month ended 31 July 2004	250
31 August 2004	Month ended 31 August 2004	250
30 September 2004	Month ended 30 September 2004	2,500
31 December 2004	Quarter ended 31 December 2004	10,000
		13,000

The only other expense incurred on the Tralee property was insurance of €1,200 which was paid on 1 July 2004 for the twelve months ended 30 June 2005.

**Required:**

**Calculate Patrick's Schedule D Case V income for the year ended 31 December 2004.**

(10 marks)

**(20 marks)**

**End of Question Paper**