

# Preparing Taxation Computations (Irish)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 14 JUNE 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)





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

**PRSI**

Rate: 10.75%

For salaries less than €18,512 per annum (€356 p.w.) the rate is 8.5%

Note: No upper limit for employer's contribution

**Retirement annuities**

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

**Corporation tax**

Standard Rate	12.5%
Higher rate	25%
Manufacturing rate	10%

**Capital gains tax**

1 December 1999 onwards	
– 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

### Industrial and Commercial buildings

#### Owner occupier

	%
Free depreciation	50
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 relief)

Construction	100%
Conversion	100%
Refurbishment	100%

## Motor cars – limits on capital costs

### 1 January 2001 – 31 December 2001

	€
Capital allowances	21,585
Leasing charges	21,585
Running cost	21,585

### 1 January 2002 onwards

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

## Motor cars – benefit-in-kind rates

Lower limit	Upper limit	Percentage of original market value of car
miles	miles	%
0	15,000	30
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
1999-00	1.138	1.193	1.193
2000-01	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) Gavin is the marketing manager with a Dublin hotel. He had the following income and outgoings for the year ended 31 December 2004:

	€
Salary (PAYE €20,000)	75,000
Irish dividends (gross)	2,500
Irish rental income (net of allowable expenses)	4,500
Unreimbursed medical expenses	650

Gavin also had the use of a company car for the entire year, details of which were as follows:

Make and year	2003 Volvo
Original market value	€50,000

Gavin travels 24,000 miles per annum on business. His employer pays for all of the running costs of the car.

Gavin is married to Deirdre. They have no children. Deirdre is a teacher in the local school. Her income and outgoings for the year ended 31 December 2004 were as follows:

	€
Salary (PAYE €14,000)	35,000
Deposit interest – DIRT Account (gross)	500
Trade union subscriptions	130

**Required:**

**Calculate Gavin and Deirdre's income tax liability for 2004, assuming that they are jointly assessed. You are not required to calculate PRSI or levies.** (21 marks)

- (b) Michael purchased an apartment for €300,000 on 2 January 2004. He rented it out from 1 March 2004 at €1,000 per month. Details of his income and outgoings for 2004 were as follows:

	€
Rent for the period March–December 2004	10,000
Mortgage interest for the year January–December 2004	7,200
Advertising for tenants	250
Service charge for the year January–December 2004	2,000
Furniture and fittings	8,000

**Required:**

**Calculate Michael's Case V income and allowances for 2004 giving a brief explanation of the treatment of each item of outgoings. Show all of your workings.** (9 marks)

**(30 marks)**

2 Trade News Ltd runs a publishing business in Dublin. The company has traded profitably for many years and had the following results for the year ended 31 December 2004:

	€	€
Sales		5,300,000
Cost of sales		<u>2,350,000</u>
		2,950,000
<i>Less</i>	<i>Notes</i>	
Wages		1,350,000
Depreciation		115,000
Loss on sale of fixed assets		5,000
Rent and rates		650,000
Motor expenses	(a)	37,750
Bad debts	(b)	14,750
Donations	(c)	5,100
Professional fees	(d)	17,100
Subscriptions	(e)	3,250
Interest	(f)	<u>19,000</u>
		2,216,950
Net profit from trading		733,050
Irish dividends received	(g)	<u>4,000</u>
Total profits		<u><u>737,050</u></u>

You are given the following information regarding the above:

(a) Motor expenses

	€
Managing director's car O3 XX 1355	18,450
Sales director's car O2 XX 8888	6,750
Staff mileage	12,350
Parking tickets and clamping charges	<u>200</u>
	<u>37,750</u>

The managing director's car is a Lexus which the company leases. The market value of the car was €60,000 when the car was first leased in 2003. The expenses were as follows:

	€
Leasing costs	10,000
Petrol	5,000
Insurance	1,700
Tax	950
Repairs/servicing	<u>800</u>
	<u>18,450</u>

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

(b) Bad debts	€
Bad debts written off	7,500
Bad debts recovered	(2,750)
Increase in specific provision	4,000
Increase in general provision	6,000
	<u>14,750</u>
(c) Donations	€
Donations to political parties	1,500
Donations to registered charities	3,600
	<u>5,100</u>
(d) Professional fees	€
Audit and accounting	14,500
Legal fees for copyright protection	2,600
	<u>17,100</u>
(e) Subscriptions	€
Irish Business and Employers Confederation (IBEC)	2,500
Golf subscriptions for managing director	750
	<u>3,250</u>
(f) Interest	€
Paid to banks for trade purposes	15,000
Paid to the Revenue for late payment of taxes	4,000
	<u>19,000</u>

(g) The dividend of €4,000 was received from an Irish company, Printers Ink Ltd. Trade News Ltd owns 50% of the shares in Printers Ink Ltd.

(h) The original cost and tax written down value of the equipment and motor vehicles as at 1 January 2004 was as follows:

	<b>Fixtures &amp; Equipment</b>	<b>Van</b>	<b>Car</b>
	€	€	€
Original cost	4,000,000	21,000	43,000
TWDV 1 January 2004	3,000,000	8,400	13,200

All of the equipment was purchased between 1 January 2002 and 30 November 2002.

The motor vehicles were purchased as follows:

	<b>Year purchased</b>
Sales director's car	2002
Van 01 XX 1254	2001



During the year ended 31 December 2004, the company disposed of the following assets:

The motor van which had been purchased for €21,000 in January 2001 was sold for €6,000.

Equipment purchased for €20,000 in April 2002 was scrapped – no proceeds were received.

**Required:**

- (a) Calculate the company's corporation tax liability for the year ended 31 December 2004 giving brief explanations of your treatment of the items detailed in notes (a) to (f). (27 marks)
- (b) State the latest date for filing the company's corporation tax return. (1 mark)
- (c) Companies must now pay preliminary corporation tax in three instalments. State in the case of a large company for corporation tax payment purposes with a 31 December year end:
- (i) the due date for payment of each instalment; and
- (ii) the percentage of the company's tax liability that is payable on each date. (3 marks)
- (31 marks)**

**3** Susan purchased 2,000 ordinary shares in Golden Foods Ltd in September 2000 at a cost of €1 per share.

In May 2001, Susan purchased a further 600 shares at a cost of €2.50 per share.

In July 2002, the company declared a rights issue of 1 ordinary share for each share held at a price of €3.00 per share. Susan took up her full rights entitlement.

In October 2004, Susan sold 4,500 shares for €18,000. The costs of disposal were €500.

**Required:**

- (a) Calculate Susan's capital gains tax liability for 2004, assuming that Susan had no losses brought forward at 1 January 2004. Show full details of the changes in Susan's shareholdings and all workings clearly. (17 marks)
- (b) State the due date for payment of Susan's 2004 capital gains tax liability. (2 marks)
- (19 marks)**

- 4 (a) Outdoor Sports Ltd is a trading company engaged in the retail sale of sports clothes. It also runs a travel business, specialising in outdoor holidays. The company prepares its accounts to 31 October each year.

The results for the two years ended 31 October 2003 and 2004 were as follows:

	2003	2004
	€	€
Schedule D Case I profit/(losses) – retail business	100,000	(400,000)
Schedule D Case I profit/(losses) – travel business	50,000	50,000
Schedule D Case III deposit interest – gross		1,000

**Required:**

**Compute the total profits and corporation tax liability, if any, for Outdoor Sports Ltd for each of the above years, assuming that the company claims all available reliefs at the earliest possible date.** (13 marks)

- (b) PLJ Ltd is engaged in the supply of musical instruments, which are liable to VAT at 21%. The company's income and expenses for November and December 2004 were as follows:

	€
Sales of musical instruments, VAT exclusive	60,000
Expenses, inclusive of VAT at 21%:	
	€
Goods for resale	25,000
Petrol	400
Entertaining customers	1,000
Accountant's fees	4,000

**Required:**

**Compute the VAT liability for PLJ Ltd for the bi-monthly period, November/December 2004. Show all workings.** (7 marks)

**(20 marks)**

**End of Question Paper**