Answers

Marks

1 (a) Calculation of taxable profits for the partners for 2003, 2004 and 2005:

Year of assessment	Basis period		€	
Albert				
2003	year ended 30 June 2003		150,000	1·5
2004	year ended 30 June 2004		175,000	1·5
2005	year ended 30 June 2005	*W1*	220,000	0·5
Mary				
2003	year ended 30 June 2003		150,000	1·5
2004	year ended 30 June 2004	*W2*	187,500	0·5
2005	period 1 July 2004 – 1 April 2005	*W3*	40,000	0·5
Pat				
2005	year ended 31 December 2005	*W4*	82,000	0·5

W1 Albert's taxable profits for the basis period ended 30 June 2005 are as follows:

	€	
Period 1 July – 31 December 2004		0·5
$50\% \times €400{,}000 \times {}^{6}/_{12}$	100,000	1·5
Period 1 January to 31 March 2005		0·5
$40\% \times €400{,}000 \times {}^{3}/_{12}$	40,000	1·5
Period 1 April 2005 – 30 June 2005		0·5
$80\% \times €400{,}000 \times {}^{3}/_{12}$	80,000	1·5
	220,000	

W2 Mary's taxable profits for the basis period ended 30 June 2004 initially were as follows:

	€	
Original assessment based on the year ended 30 June 2004	175,000	1·5

However, the 2004 assessment will be increased to the actual profit for the year ended 31 December 2004, if it is higher than the assessed figure: 1·5

Profits for the year ended 31 December 2004:

	€	
Period 1 January 2004 – 30 June 2004		0·5
$50\% \times €350{,}000 \times {}^{6}/_{12}$	87,500	1·5
Period 1 July 2004 – 31 December 2004		0·5
$50\% \times €400{,}000 \times {}^{6}/_{12}$	100,000	1·5
	187,500	

As the actual profits for the penultimate year are greater than the assessed profits, the final assessment for 2004 will be based on the profits for the year ended 31 December 2004. 1·0

			Marks
W3	Mary's assessable profits for 2005 are calculated as follows:		
		€	
	Period 1 January 2005 – 31 March 2005		0·5
	40% × 400,000 × $^3/_{12}$	40,000	1·5
W4	As this is Pat's first year in partnership, he is taxed on the actual profits for the year ended 31 December 2005. His assessable profits are therefore as follows:		1·5
	Period 1 January 2005 – 30 June 2005		0·5
		€	
	20% × €400,000 × $^6/_{12}$	40,000	1·5
	Period 1 July 2005 – 31 December 2005		0·5
	20% × €420,000 × $^6/_{12}$	42,000	1·5
		82,000	
			28

			Marks
(b)	**(i)**	The latest date by which an individual must file his or her 2005 tax return is 31 October 2006.	1·0
	(ii)	The due date for payment by an individual of his/her 2006 preliminary tax is 31 October 2006.	1·0
			2
			30

2 (a) Clarke Construction Ltd.
Corporation tax computation for the year ended 31 October 2006.

	Notes	€	€	Marks
Profit per accounts			259,950	0·5
Deduct				
Rental income received		2,000		1·0
Profit on sale of fixed assets		1,000	(3,000)	0·5
			256,950	
Add back	*Notes*			
Depreciation		80,000		0·5
Motor expenses	1	9,200		0·5
Entertainment	2	2,750		0·5
Interest to the Revenue	6	900	92,850	0·5
			349,800	
Less				
Capital allowances	8		121,875	0·5
Case I income			227,925	
Case V income			2,000	1·0
Total profits			229,925	
Corporation tax at 12·5% on €227,925			28,491	1·0
Corporation tax at 25% on €2,000			500	1·0
			28,991	

Marks

Notes

1 Motor expenses restriction on leasing cost:

Jeep 06 XX 6666:

	€	
$€18{,}000 \times \dfrac{(45{,}000 - 22{,}000)}{45{,}000}$	9,200	2·0
Total motor expenses add-back	9,200	

The cost of bus and rail tickets provided for the staff is allowable. 0·5
Staff mileage is also allowable. 0·5
The running expenses for both the leased and owned cars are fully allowable. 0·5

2 Advertising

The client entertainment expense included in advertising is not allowable. 0·5

3 Bad debts

These are allowable when written off and any subsequent recovery is taxable. 0·5

4 Professional fees

Audit and accounting fees are allowable. 0·5
Professional fees incurred in connection with bad debt collection are allowable as this is an expense incurred for the purposes of the trade. 1

5 Subscriptions

These are all allowable. 0·5

6 Interest

Interest paid to banks for trade purposes is allowable. 0·5
Interest paid to the Revenue as a result of the late payment of tax is not allowable. 0·5

7 Employer liability insurance

Employer liability insurance premiums incurred in connection with the trade are allowable. 0·5

8 Capital allowances – wear and tear

	Equipment (12·5%)	Car (12·5%)	Trucks (12·5%)	Total	
	€	€	€	€	
Original cost (tax adjusted)	800,000	22,000	100,000	922,000	1·5
Additions	63,000	0	0	63,000	0·5
Disposals	0	0	(30,000)	(30,000)	0·5
	863,000	22,000	70,000	955,000	
Written down value (TWDV)					
1 November 2005	600,000	19,250	75,000	694,250	1·5
Additions in year	63,000	0	0	63,000	0·5
Disposal in year *W1*	0	0	(22,500)	(22,500)	0·5
	663,000	19,250	52,500	734,750	
Wear & tear	107,875	2,750	8,750	119,375	3·0
TWDV 31 October 2006	555,125	16,500	43,750	615,375	

			Marks
W1 Calculation of tax written down value on truck disposed of:			
		€	
Cost of truck		30,000	0·5
Less:			
Wear and tear 2004	3,750		0·5
Wear and tear 2005	3,750	7,500	0·5
Tax written down value		22,500	

W2 Capital allowances – balancing allowance/charge

		€	
Truck	Sales proceeds	20,000	0·5
	TWDV 1 November 2005	22,500	0·5
	Balancing allowance	2,500	

W3 Capital allowances summary

	€	
Wear and tear	119,375	0·5
Balancing allowance – truck	2,500	0·5
	121,875	**27**

(b) The latest date for filing the company's tax return is 21 July 2007 — **1**

(c) The surcharge penalties which will be imposed for late filing are as follows:

2 weeks late – 5% of the tax, subject to a maximum of €12,695.	1·0
3 months late – 10% of the tax, subject to a maximum of €63,485.	1·0
	2
	30

3 **Calculation of Andrew's capital gains tax liability for 2005:**

Step 1 – identify the disposals from holding 1.

Holding 1	**Original shares**	**Rights shares**	**Total shares**	
Purchase – 1 September 2003	3,000		3,000	0·5
Rights – 1 October 2004		600	600	1
Disposal – February 2005	(2,000)	(400)	(2,400)	1
Remaining shares	1,000	200	1,200	
Disposal – 1 November 2005	(1,000)	(200)	(1,200)	1
Remaining shares	0	0	0	
Cost of each share	€2·00	€4·00		

Step 2 – identify the disposals from holding 2.

Holding 2	**Original shares**	**Rights shares**	**Total shares**	
Purchase – 1 July 2004	2,000		2,000	0·5
Rights – 1 October 2004		400	400	1
Disposal – 1 November 2005	(2,000)	(400)	(2,400)	1
Remaining shares	0	0	0	
Cost of each share	€3·50	€4·00		

			Marks
Step 3 – calculation of the gain/loss on each disposal			
Disposal 1 February 2005:			
Sale proceeds – Holding 1 shares	€	€	
2,400 shares at €5 per share		12,000	1
Cost of shares sold from Holding 1			
Original shares – 2,000 shares ar €2·00 per share	(4,000)		1
Rights issue – 400 shares at €4·00 per share	(1,600)	(5,600)	1
Gain on disposal of shares in February 2005		6,400	
Disposal 1 November 2005:			
Sale proceeds – Holding 1 shares	€	€	
1,200 shares at €3·25 per share		3,900	1
Cost of shares sold from Holding 1			
Original shares: 1,000 shares at €2·00 per share	2,000		1
Rights issue: 200 shares at €4·00 per share	800	2,800	1
Gain on disposal of shares from Holding 1		1,100	
Sale proceeds – Holding 2 shares	€	€	
2,400 shares at €3·25 per share		7,800	1
Cost of shares sold from Holding 2			
Original shares: 2,000 shares at €3·50 per share	7,000		1
Rights issue: 400 shares at €4·00 per share	1,600	8,600	1
Loss on disposal of shares from Holding 2		(800)	
Overall gain on disposal of shares in November 2005		300	1
Step 4 – Calculation of capital gains tax payable:			
		€	
Gain on February disposal		6,400	
Gain on November disposal		300	
Total gains/losses		6,700	1
Less annual exemption		1,270	1
		5,430	
Capital gains tax at 20%		1,086	1
			19

		Marks
4 (a)	ABC Certified Accountants XYZ road, XYZ town.	1

Mr Peter Dunne,
ABC Road,
ABC City.

30 November 2006	1

Dear Peter

I refer to your recent queries in relation to VAT and am pleased to reply to them as follows:

		Marks
(i)	As your business involves the supply of goods only, you will be required to register for VAT if your	1
	turnover of taxable goods exceeds €51,000 per annum. As you anticipate that your turnover	1
	will be approximately €600,000 you will need to register for VAT.	1
(ii)	Your VAT returns must be filed every 2 months as follows:	1

VAT period	**Filiing date**	
January/February	19 March	1
March/April	19 May	1
May/June	19 July	1
July August	19 September	1
September/October	19 November	1
November/December	19 January in the following year	1
		12

Yours sincerely,
U.R. Accountant

(b) Calculation of Tom's income tax liability for 2005.

	€	€	
Schedule E – salary	10,000		0·5
Schedule E – company pension	7,500		0·5
Schedule F – Irish dividends	3,000		0·5
Schedule D Case IV – deposit interest	500	21,000	0·5
Less:			
Medical expenses *W1*		625	0·5
Taxable income		20,375	
Tax at 20%		4,075	0·5
Less:			
Widowed person's credit	1,980		0·5
PAYE credit	1,270	3,250	0·5
Tax liability		825	
Tax paid:			
PAYE paid	1,000		0·5
DWT	600		0·5
DIRT	100	1,700	0·5
Overpayment		(875)	0·5

		Marks
W1		
Medical expenses:	€	
Consultants	450	0·5
Prescriptions	300	0·5
	750	
Less restriction	125	1
	625	
There is no tax relief for the cost of Tom's new glasses		1
		9
		21