

Preparing Taxation Computations (Irish)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 12 DECEMBER 2006

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 2005 and are to be used for all questions in this paper

Rates of income tax 2005

	Tax €
Single/Widow(er)	
€29,400 at 20%	5,880
Balance at 42%	
Married couple (one income)	
€38,400 at 20%	7,680
Balance at 42%	
Married couple (dual income)	
€58,800 at 20%	11,760
Balance at 42%	
One parent family:	
€33,400 at 20%	6,680
Balance at 42%	

Abbreviated list of personal tax credits for the income tax year 2005

	€
Single person's credit	1,580
Married couple credit	3,160
Widowed person's credit (without dependent children)	1,980
Home carer credit	770
Single parent credit	1,580
Dependent relative credit	60
Age credit – single/widowed	205
– married	410
Employee/PAYE credit	1,270

Rates of PRSI/levies 2005

Self-employed

PRSI	
– Rate	3%
No PRSI for income below €3,174 per annum	
Health contribution	
– Lower exemption limit	€20,800
– Rate	2%

Note: No upper limit for PRSI or health contribution.

Rates of PRSI/levies 2005

Employee – Class A1

PRSI	
– Upper limit	€44,180
– 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) or less

Health contribution	
– Lower exemption limit	€20,800
– Rate	2%

Note: No upper limit for health contribution.

**Rates of PRSI/levies 2005
Employer (for employees – Class A1)**

PRSI
Rate: 10.75%

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

Note: No upper limit for employer's contribution

Age	Retirement annuities	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	
Standard rate	12.5%
Higher rate	25%

Capital gains tax	
Rate	20%
Annual exemption	€1,270

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

	€
Capital allowances	22,000
Leasing charges	22,000
Running costs	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
Industrial buildings		
Annual rate	4%	

Motor cars – benefits-in-kind rates

Standard rate – 30% of original market value

Lower limit miles	Upper limit miles	Percentage of original market value of car
15,000	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>			1.000

ALL FOUR questions are compulsory and MUST be attempted

- 1 (a)** Albert and Mary have been in partnership for many years. The partnership provides management services and has been very profitable. On 1 January 2005 Pat was admitted into the partnership and on 1 April 2005 Mary retired from the partnership.

The taxable profits of the partnership were as follows:

	€
Year ended 30 June 2003	300,000
Year ended 30 June 2004	350,000
Year ended 30 June 2005	400,000
Year ended 30 June 2006	420,000

Albert and Mary shared profits equally until 31 December 2004. With effect from 1 January 2005 the profits were split as follows:

Period from 1 January 2005 to 31 March 2005

Albert	40%
Mary	40%
Pat	20%

Period from 1 April 2005 onwards

Albert	80%
Pat	20%

Required:

Calculate the Case II profits for Albert, Mary and Pat respectively for the years 2003, 2004 and 2005. Show all of your workings clearly and include details of the basis periods used in your answer. (28 marks)

- (b)** Individuals are required to file tax returns and pay preliminary income tax by certain dates.

Required:

- (i) State the latest date by which an individual must file his/her 2005 tax return (1 mark)**
- (ii) State the due date for payment of preliminary income tax for 2006. (1 mark)**

(30 marks)

2 Clarke Construction Ltd is a building company which is tax resident in the Republic of Ireland. The company has traded profitably for many years and had the following results for the year ended 31 October 2006:

		€	€
Sales			2,500,000
Cost of sales			<u>1,340,000</u>
			1,160,000
<i>Less</i>	Notes		
Wages		640,000	
Depreciation		80,000	
Profit on disposal of fixed assets		(1,000)	
Rent and rates		55,000	
Motor expenses	(a)	46,050	
Bad debts	(b)	5,750	
Advertising	(c)	6,750	
Professional fees	(d)	21,500	
Subscriptions	(e)	5,750	
Interest	(f)	35,900	
Employer liability insurance	(g)	<u>6,350</u>	<u>902,050</u>
Net profit from trading			257,950
Rental income received	(h)		<u>2,000</u>
Total profits			<u><u>259,950</u></u>

You are given the following additional information regarding the above:

(a) Motor expenses

	€
Managing director's car 06 XX 6666	27,800
Finance director's car 05 XX 18111	6,750
Staff rail and bus tickets	5,000
Staff mileage	<u>6,500</u>
	<u>46,050</u>

The managing director's car is a Jeep which is leased by the company. The market value of the car was €45,000 when the car was first leased in 2006. Expenses incurred in relation to this car in 2006 were as follows:

	€
Leasing costs	18,000
Petrol	6,000
Insurance	1,200
Tax	2,000
Repairs/servicing	<u>600</u>
	<u>27,800</u>

The finance director's car is owned by the company

(b) Bad debts	€
Bad debts written off	8,000
Bad debts recovered	<u>(2,250)</u>
	<u>5,750</u>

(c) Advertising	€
Client entertainment	2,750
Advertisements in local papers	<u>4,000</u>
	<u>6,750</u>

- | | |
|--|--------|
| (d) Professional fees | € |
| Audit and accounting | 16,500 |
| Legal fees in relation to bad debt collection | 5,000 |
| | <hr/> |
| | 21,500 |
| (e) Subscriptions | € |
| Construction Industry Federation | 3,000 |
| Construction magazines | 2,750 |
| | <hr/> |
| | 5,750 |
| (f) Interest | € |
| Paid to banks for trade purposes | 35,000 |
| Paid to the Revenue for late payment of taxes | 900 |
| | <hr/> |
| | 35,900 |
| (g) Employer liability insurance | |
| This relates to the premiums paid for employer liability insurance. | |
| (h) The rental income of €2,000 included in the accounts is net of all expenses. | |
| (i) The original cost and tax written down value (TWDV) of the plant, equipment and motor vehicles as at 1 November 2005 was as follows: | |

	Plant and equipment	Trucks	Car
	€	€	€
Original cost	800,000	100,000	25,000
TWDV 1 November 2005	600,000	75,000	19,250

All of the plant and equipment was purchased after 1 January 2003.

The motor vehicles were purchased as follows: Year purchased

Finance director's car 05 XX 18111	2005
Trucks	2004

During the year ended 31 October 2006 the company acquired and disposed of the following assets:

<i>Acquisitions</i>	€
Plant at cost	63,000
<i>Disposals</i>	
Proceeds from the sale of truck 04 XX 9999	20,000
This truck had cost €30,000 when purchased in 2004.	

Required:

- (a) Calculate Clarke Construction Ltd's corporation tax liability for the year ended 31 October 2006. Your answer should include the company's capital allowances schedule. Give brief explanations to support your treatment of the items referred to in notes (a) to (g). (27 marks)
- (b) State the latest date for filing Clarke Construction Ltd's 2006 corporation tax return. (1 mark)
- (c) State the surcharge penalties which will be imposed on Clarke Construction Ltd if the company files its accounts
- (i) 2 weeks after the due date;
- (ii) 3 months after the due date. (2 marks)

(30 marks)

- 3** Andrew purchased 3,000 shares in Biofuels Ltd on 1 September 2003 at a cost of €2 per share.
 On 1 July 2004 he purchased a further 2,000 shares at a cost of €3.50 per share.
 On 1 October 2004, the company made a 1 for 5 rights issue at €4.00 per share. Andrew exercised his right to acquire his full allocation of shares.
 On 1 February 2005 he sold 2,400 shares at €5 per share and on 1 November 2005 he sold the remainder of his shares for €3.25 per share.
 Andrew had no unused capital losses brought forward at 1 January 2005.

Required:

**Calculate Andrew's capital gains tax liability for the year ended 31 December 2005.
 Show all of your workings clearly in your answer.**

(19 marks)

- 4 (a)** Peter Dunne is considering opening a newsagents shop in Dublin. He estimates his turnover will be €600,000 per annum. He is concerned about VAT. He has asked for your advice in connection with the following:
- (1) The turnover limit for registering for VAT, assuming that he only supplies goods and whether he will be required to register for VAT.
 - (2) The VAT periods and when the VAT returns must be filed by.

Required:

Write a letter to Peter setting out your response to his queries. Marks are specifically awarded for the format and presentation of your letter.

(12 marks)

- (b)** Tom is 64 years of age and has been widowed for many years. He has no dependent children.
 He had the following income in the year ended 31 December 2005

	€
Salary to 31 June 2005	10,000 (PAYE deducted €600)
Company pension from 1 July 2005	7,500 (PAYE deducted €400)
Irish dividends (gross)	3,000
Deposit interest (gross)	500

He had the following medical expenses during the year:

	€
Medical consultants	450
Opticians – new glasses	100
Prescriptions	300

Required:

Calculate Tom's income tax liability for 2005 and show any under/overpayment for the year. (9 marks)

(21 marks)

End of Question Paper