
Answers

			<i>Marks</i>
1 (a) Income tax computations for David and Mary for 2005.			
<u>David</u>	€	€	
Salary – Schedule E	50,000		1
Less: pension contribution	3,000	47,000	2
Deposit interest – Case IV	350		1
Government Bond interest – Case III	250	600	2
<u>Mary</u>			
Dividends – Schedule F		500	1
		48,100	
<i>Less:</i>			
Medical expenses		625	0.5
		47,475	
<i>Tax:</i>			
€38,400 x 20%	7,680		
€500 x 20%	100		1
€350 x 20%	70		1
€8,225 x 42%	3,455	11,305	1
<i>Less:</i>			
Married couple credit	3,160		1
PAYE credit (David)	1,270		1
Home carer credit	770		1
Dividend withholding tax (€500 x 20%)	100		1
DIRT credit (€350 x 20%)	79	5,370	1
		5,935	
Deduct PAYE		7,000	1
Income tax overpaid		1,065	1
Note			
The medical expenses relief is calculated as follows:		€	
David's medical expenses		750	0.5
Less restriction		125	1
Allowable expenses		625	
It is more beneficial to claim David's medical expenses only as the restriction is €125 when one individual claims. The restriction is €250 when two or more individuals claim medical expenses relief. If the claim for Mary's medical expenses had been included, the total relief would have amounted to only €560.			0.5 0.5
			20

(b)	<p style="text-align: center;">ABC Certified Accountants Any Street Any Town Any Town</p> <p>Mr & Mrs David and Mary Smith, Any Street, Any Town, Any City.</p> <p>16 June 2006</p> <p>Dear David and Mary,</p> <p>I am writing to you in response to your request for income tax advice in connection with renting out a room in your home.</p> <p>Normally, rental income received is taxable under Case V of Schedule D. If you incur expenses in connection with the rented property, for example, mortgage interest or repairs, those expenses may be deducted from the gross rent to arrive at the amount of rent liable to tax.</p> <p>There is however a special tax relief, known as the Rent a Room Relief which may be of interest to you. This relief provides an exemption from income tax for income received from the renting of a room or rooms in an individual's principal private residence. The main condition is that the gross amount received (ignoring any expenses incurred) does not exceed €7,620 per annum. There is no marginal relief so that if you receive rent in excess of €7,620 per annum the entire rent, less expenses, is taxable. If your property is owned jointly, the €7,620 allowance is apportioned between you so that the maximum amount which you can jointly receive is €7,620 per annum.</p> <p>You must include details of the rent received on your tax return and claim the relief at the same time.</p> <p>I hope this answers your query and if you need any further information, please do not hesitate to contact me.</p> <p>Yours sincerely, ABC</p>	<p style="text-align: right;">Marks</p> <p style="text-align: right;">1</p> <p style="text-align: right;">1</p> <p style="text-align: right;">1</p> <p style="text-align: right;">1</p> <p style="text-align: right;">1</p> <p style="text-align: right;">1</p> <p style="text-align: right;">1</p> <p style="text-align: right;">1</p> <p style="text-align: right;">1</p> <p style="text-align: right;">1</p> <hr style="width: 10%; margin-left: auto; margin-right: 0;"/> <p style="text-align: right;">11</p> <p style="text-align: right;">31</p>
	Total marks	31

2 (a) Elite Fashions Ltd

Corporation tax computation for the year ended 31 December 2005.

	€	€	
Profit per accounts		618,375	1
<i>Deduct</i>			
Dividends received		2,000	1
		<hr style="width: 50%; margin-left: auto; margin-right: 0;"/>	
		616,375	
<i>Add back</i>	<i>Notes</i>		
Depreciation		45,000	0.5
Loss on the sale of fixed assets		4,600	1
Motor expenses	1	9,700	0.5
Donations to political parties	3	8,750	0.5
Interest to the Revenue	4	800	0.5
		<hr style="width: 50%; margin-left: auto; margin-right: 0;"/>	
		68,850	
		<hr style="width: 50%; margin-left: auto; margin-right: 0;"/>	
		685,225	
<i>Less</i>			
Capital allowances	7	279,250	1
		<hr style="width: 50%; margin-left: auto; margin-right: 0;"/>	
Case I income		405,975	
Total profits		405,975	
		<hr style="width: 50%; margin-left: auto; margin-right: 0;"/>	
Corporation tax at 12.5%		50,747	1
		<hr style="width: 50%; margin-left: auto; margin-right: 0;"/>	

					Marks	
<i>Notes</i>						
1	Motor expenses restriction on leasing cost: Audi 04 XX 4321					
				€		
	€15,000 x	$\frac{(60,000 - 22,000)}{60,000}$		9,500	2	
	Parking tickets and clamping			200	0.5	
	Total motor expenses add-back			<u>9,700</u>		
	Parking tickets and clamping are not allowable as they relate to illegal acts.				0.5	
	The cost of bus and rail tickets provided for the staff is allowable				1	
2	Increase in specific bad debts provision This is 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 as a result of the late payment of tax is not allowable				0.5	
	Interest paid for trade purposes is allowable.				0.5	
5	Professional fees					
	Audit and accounting fees are allowable.				0.5	
	Professional fees incurred in connection with the accident are allowable as it is an expense incurred for the purposes of the trade.				1	
6	Subscriptions					
	These are all allowable.				0.5	
	The golf club subscription is treated as a benefit in kind for the director.				1	
7	Capital Allowances – wear and tear					
		Equipment	Car	Van	Total	
		(12.5% S.L.)	(12.5% S.L.)	(12.5% S.L.)		
		€	€		€	
	Original cost (tax adjusted)	2,000,000	22,000	21,000	2,043,000	1
	Additions	150,000	0	0	150,000	0.5
	Disposals	0	0	(21,000)	(21,000)	1
		<u>2,150,000</u>	<u>22,000</u>	<u>0</u>	<u>2,172,000</u>	
	Written down value (TWDV)					
	1 January 2005	1,500,000	19,250	15,750	1,535,000	1.5
	Additions in year	150,000	0	0	150,000	
	Disposals in year	0	(15,750)	0	(15,750)	1
		<u>1,650,000</u>	<u>19,250</u>	<u>0</u>	<u>1,669,250</u>	
	Wear & tear	268,750	2,750	0	271,500	2
	TWDV 31 December 2005	<u>1,381,250</u>	<u>16,500</u>	<u>0</u>	<u>1,397,750</u>	
	Capital allowances – Balancing allowance/charge					
				€		
	Motor vehicle	Sales proceeds		8,000	1	
		TWDV 1 January 2005		15,750	1	
		Balancing allowance		<u>7,750</u>	0.5	
	Capital allowances summary					
				€		
	Wear and tear			271,500		
	Balancing allowance – motor vehicle			7,750		
				<u>279,250</u>	1	
				<u>279,250</u>	<u>27</u>	

- (b) The latest date for filing the company's tax return is 21 September 2006. **Marks**
1
- (c) The due dates for payment of a large company's corporation tax liability for the year ended 31 December 2005 and the percentage payable on each date are as follows:

	% payable	
21 November 2005	72%	1
21 June 2006	18%	1
21 September 2006	10%	1
		3
	Total marks	31

3 Celine's capital gains tax liability for 2005:

(1) <u>Gain attributable to the holiday home:</u>		€	
Sales proceeds		425,000	1
Less: cost of disposal		8,500	1
		416,500	
Net proceeds			
Cost of property	150,000		1
Acquisition costs	4,500		1
	154,500		
Index factor	1,049		
Indexed cost		162,070	2
		254,430	
Chargeable gain			
(2) <u>Gains attributable to antique ring</u>			
Sales proceeds		5,000	1
Less: market value at date of acquisition	3,000		1
Index factor	1,144		
Indexed cost		3,432	1
		1,568	
Chargeable gain			
		254,430	
		1,568	
		255,998	
Total gains			
Less: annual allowance		1,270	1
		254,728	1
		50,946	1
Tax at 20%			

Notes:

- 1 The holiday home and the antique ring are chargeable assets for capital gains tax purposes so the gains on their disposal are taxable. 2
 - 2 The gain on the disposal of the government stock is exempt. 2
 - 3 The loss on the disposal of the car is not allowable because it is a wasting chattel. 2
 - 4 The gain on the disposal of the coffee pot is exempt because it is a chattel and the proceeds of sale were less than €2,540 2
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				Marks
4 (a)	Michael's Case V income for 2005 is as follows:			
	Notes	€	€	
	1		12,000	1
	Gross rents			
	Deduct:			
		7,500		1
	Interest			
		150		1
	Local authority charges			
		2,520		1
	Repairs and renewals			
		1,728		1
	Management fees			
		600	12,498	1
	Accountancy fees			
	Case V		(498)	
	Capital allowances:			
			€	
	January 2004	Original cost	6,000	0·5
	2005	Additions	2,500	0·5
			8,500	
			€	
	1 January 2005	TWDV	5,250	0·5
		Additions	2,500	0·5
			7,750	
	2005	Wear & tear – 12·5% x €8,500	1,063	1
	31 December 2005	TWDV	6,687	1
	Notes:			
	1	Schedule D Case V rental income is based on the rent receivable in the tax year, not the actual amount received.		1
	2	The new carpet is treated as an addition and capital allowances are available on it.		1
				12
	(b)	A person supplying VAT exempt goods or services cannot register for VAT.		1
		Accordingly, he/she cannot charge VAT on supplies, and most importantly, cannot claim any input credit for VAT suffered.		1
		A person who is zero rated for VAT can register for VAT and charges VAT at 0%.		1
		As the person is a taxable person for VAT purposes, any input VAT suffered is reclaimable, subject to the normal rules.		1
				5
	(c)	Examples of exempt supplies include:		
		Educational training and retraining		0·5
		Hospital and medical care		0·5
		Passenger transport		0·5
		Examples of zero rated supplies include:		
		Most food and drink for human consumption		0·5
		Exports of goods and services relating to the export of goods		0·5
		Oral medicines		0·5
				3
		Marks will be awarded for alternative correct examples up to a maximum of three items in each case.		
		Total marks		20