# Preparing Taxation Computations
(Irish)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 13 JUNE 2006

Paper T9(IRL)

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**

**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 |
| 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)

**Health contribution**

| | |
|---|---|
| – Lower exemption limit (€400 per week) | €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 per annum the rate is 8·5%

Note: No upper limit for employer's contribution

### Retirement annuities

| Age | 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 |

### Capital allowances – Plant and machinery including motor vehicles

| | | |
|---|---|---|
| **Expenditure incurred** | | |
| 1 January 2001 – 3 December 2002 | 20% | Straight line |
| 4 December 2002 onwards | 12·5% | Straight line |
| **Industrial buildings** | 4% | Straight line |

### Motor cars – limits on capital costs

| | € |
|---|---|
| Capital allowances | 22,000 |
| Leasing charges | 22,000 |
| Running costs | No limit |

## 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 – 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 *et seq* |
| *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 *et seq* | | | 1·00 |

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

**1 (a)** David and Mary Smith have been married for 14 years. They are jointly assessed for income tax purposes. They have one son, Seamus, who is 11 years old. David is a computer programmer with Logistics Ltd. He does not own any shares in Logistics Ltd. Mary does not work outside the home.

Details of David's income for 2005 are as follows:

| | € |
|---|---|
| Salary (PAYE €7,000) | 50,000 |
| Irish deposit interest (gross) | 350 |
| Government Bond interest (gross) | 250 |

Mary received dividends from Irish companies as follows:

| | € |
|---|---|
| Irish dividends (gross) | 500 |
| Irish dividend withholding tax | 100 |

David and Mary's outgoings were as follows:

| | € |
|---|---|
| Unreimbursed medical expenses (David) | 750 |
| Unreimbursed medical expenses (Mary) | 60 |
| Mortgage interest | 2,000 |
| Superannuation contribution to a Revenue approved pension scheme (David) | 3,000 |

**Required:**

**Calculate David and Mary's income tax liability and the amount of tax payable/repayable for 2005, assuming they are jointly assessed. You are not required to calculate PRSI or levies.** (20 marks)

**(b)** David and Mary are considering renting out a room in their home. They have consulted you for tax advice in relation to this.

**Required:**

**Draft a letter to David and Mary advising them of the income tax implications should they rent out a room in their home. You should refer to all available tax reliefs in your answer.** (11 marks)

Marks will be awarded for the format, presentation and style of your letter.

**(31 marks)**

**2** Elite Fashions Ltd runs a department store in Galway. The company has traded profitably for many years and had the following results for the year ended 31 December 2005:

| | | | |
|---|---|---|---|
| | | € | € |
| Sales | | | 3,500,000 |
| Cost of sales | | | 1,800,000 |
| | | | 1,700,000 |
| *Less* | *Notes* | | |
| Wages | | 650,000 | |
| Depreciation | | 45,000 | |
| Loss on disposal of fixed assets | | 4,600 | |
| Rent and rates | | 250,000 | |
| Motor expenses | (a) | 34,800 | |
| Bad debts | (b) | 3,425 | |
| Donations | (c) | 13,750 | |
| Professional fees | (d) | 22,000 | |
| Subscriptions | (e) | 9,250 | |
| Interest | (f) | 50,800 | 1,083,625 |
| Net profit from trading | | | 616,375 |
| Dividend received | (g) | | 2,000 |
| Total profits | | | 618,375 |

You are given the following information regarding the above:

**(a)** Motor expenses

| | |
|---|---|
| | € |
| Managing director's car 04 XX 4321 | 23,250 |
| Marketing director's car 04 XX 5555 | 6,750 |
| Staff rail and bus tickets | 4,500 |
| Parking tickets and clamping charges | 200 |
| | 34,800 |

The managing director's car is an Audi which is leased by the company. The market value of the car was €60,000 when the car was first leased in 2004. Expenses incurred in relation to his car in 2005 were as follows:

| | |
|---|---|
| | € |
| Leasing costs | 15,000 |
| Petrol | 5,000 |
| Insurance | 1,350 |
| Tax | 1,200 |
| Repairs/servicing | 800 |
| | 23,350 |

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

| | | € |
|---|---|---|
| **(b)** | Bad debts | |
| | Bad debts written off | 1,600 |
| | Bad debts recovered | 250 |
| | Increase in specific provision | 1,575 |
| | | 3,425 |

| | | € |
|---|---|---|
| **(c)** | Donations | |
| | Donations to political parties | 8,750 |
| | Donations to registered charities | 5,000 |
| | | 13,750 |

| | | € |
|---|---|---|
| **(d)** | Professional fees | |
| | Audit and accounting | 14,500 |
| | Legal fees in relation to an accident on the premises | 7,500 |
| | | 22,000 |

| | | € |
|---|---|---|
| **(e)** | Subscriptions | |
| | Galway Chamber of Commerce | 3,000 |
| | Fashion magazines | 2,750 |
| | Golf club subscription for the managing director | 3,500 |
| | | 9,250 |

| | | € |
|---|---|---|
| **(f)** | Interest | |
| | Paid to banks for trade purposes | 50,000 |
| | Paid to the Revenue for late payment of taxes | 800 |
| | | 50,800 |

**(g)** The dividend of €2,000 was received from an Irish company.

**(h)** The original cost and tax written down value (TWDV) of the fittings, equipment and motor vehicles as at 1 January 2005 were as follows:

| | **Equipment** | **Van** | **Car** |
|---|---|---|---|
| | € | € | € |
| Original cost | 2,000,000 | 21,000 | 35,000 |
| TWDV 1 January 2005 | 1,500,000 | 15,750 | 19,250 |

All of the fittings and equipment were purchased after 1 January 2003:

| The motor vehicles were purchased as follows: | **Year purchased** |
|---|---|
| Marketing Director's car 04 XX 5555 | 2004 |
| Van 03 XX 1254 | 2003 |

During the year ended 31 December 2005 the company acquired and disposed of the following assets:

| | |
|---|---|
| *Acquisitions* | € |
| Equipment – cost | 150,000 |
| *Disposals* | |
| Van 03 XX 1254 proceeds | 8,000 |

**Required:**

**(a) Calculate Elite Fashions Limited's corporation tax liability for the year ended 31 December 2005. 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 (f).** (27 marks)

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

**(c)** A company must now pay it's preliminary corporation tax in three instalments.

**In the case of a company which is classed as a large company for corporation tax payment purposes, state for the year ended 2005:**

**(i) the due date for payment of each instalment**

**(ii) the percentage of a company's tax liability which is payable on each date** (3 marks)

**(31 marks)**

**3** Celine disposed of the following assets during the tax year ended 31 December 2005:

(1) On 21 January 2005 she sold her holiday home for €425,000. The holiday home had cost her €150,000 in March 2002. Costs of acquisition were €4,500 and the disposal costs were €8,500.

(2) On 1 April 2005 she sold an antique diamond ring for €5,000. The ring had been a gift to her in July 2000 and it had a market value of €3,000 on the date she received it.

(3) On 1 July 2005 she sold Government Stock for €10,000. The stock had cost her €11,000 in September 2003.

(4) On 4 September 2005 she sold her car for €12,000. The car had cost her €16,000 when she purchased it in January 2003. She had used the car entirely for personal purposes.

(5) On 31 December 2005, she sold an antique coffee pot for €1,000. It had cost her €500 when she purchased it in June 2004.

Celine had no unused capital losses brought forward at 1 January 2005.

**Required:**

**Calculate Celine's capital gains tax liability for the year ended 31 December 2005. Provide brief explanations to support your computations.**

**(18 marks)**

**4** Michael owns an apartment in Cork which he rents out. During the year ended 31 December 2005 he had the following income and outgoings:

| | *Notes* | € |
|---|---|---|
| Rent receivable | 1 | 1,000 per month |
| Outgoings in relation to the property: | | |
| Interest paid | | 7,500 |
| Local authority charges | | 150 |
| Repairs and renewals | 2 | 5,020 |
| Management fees | 3 | 1,728 |
| Accountancy fees | | 600 |

Notes

1 During 2005, Michael actually received €11,000 in rent. The tenant promised to pay him the arrears in January 2006.

2 Repairs and renewals

| | € |
|---|---|
| Repainting | 2,400 |
| New carpet | 2,500 |
| Window cleaning | 120 |
| | 5,020 |

3 Management fees
These relate to the cost of collecting the rent.

4 The original cost of furnishings and fittings was €6,000 in January 2004 and the tax written down value at 1 January 2005 was €5,250.

**Required:**

**(a) Calculate Michael's Case V income and capital allowances for the year ended 31 December 2005, clearly stating the tax written down value of the furniture and fittings at 31 December 2005.** (12 marks)

**(b) Distinguish between a person supplying goods or services which are:**

**(i) VAT exempt; and**

**(ii) zero rated** (5 marks)

**(c) List three supplies which are exempt from VAT and three supplies which are zero rated.** (3 marks)

**(20 marks)**

**End of Question Paper**