

---

# Answers

---

			<i>Marks</i>
<b>1 (a)</b>	<b>Anna's assessable profits for the 2004, 2005 and 2006 tax years:</b>		
	<b>Year of assessment</b>	<b>Basis period and calculation</b>	<b>Assessable profits €</b>
	2006	1 January 2006–30 June 2006	1·0
		$€60,000 \times \frac{6}{15}$	24,000 2·0
	2005	1 January 2005–31 December 2005	1·0
		See workings	47,000 1·0
	2004	1 April 2003–31 March 2004	42,000 2·0
	<b>Workings:</b>		
	1	2005 assessment:	
		Anna's original assessment of €44,000 was based on her profits for the year ended 31 March 2005.	1·0
		However, in a cessation, her assessment is revised to the actual profits for the penultimate tax year, if these are higher than the profits originally assessed.	1·0
		Anna's actual profits for the tax year 2005 were as follows:	1·0
		$1/4 \times €44,000 + 9/15 \times €60,000 = €47,000$	2·0
		As the actual profits of €47,000 are higher than the originally assessed profits of €44,000, her final assessable profit for 2005 will be €47,000.	1·0
			<u>13</u>

**(b) Michael and Anna's income tax liability for the 2006 tax year:**

<b>Michael</b>		€	€	
Salary – Schedule E			65,000	1·0
Benefits in kind – Schedule E	W1		8,300	1·0
Schedule F			4,000	1·0
Schedule D Case IV	$€500 \times \frac{100}{80}$		625	2·0
<b>Anna</b>				
Schedule D Case II			<u>24,000</u>	1·0
Total income			<u>101,925</u>	
Tax:				
Tax at 20% on €64,000		12,800		1·0
Tax at 20% on €625		125		1·0
Tax at 42% on €37,300		<u>15,666</u>	28,591	1·0
Less credits				
Married persons credit		3,260		1·0
PAYE credit		<u>1,490</u>	(4,750)	1·0
			<u>23,841</u>	
Less tax paid				
PAYE		15,000		0·5
Dividends withholding tax		800		0·5
DIRT		125		0·5
Directly under self assessment		<u>5,000</u>	(20,925)	0·5
Income tax payable			<u>2,916</u>	

## Workings:

1	Michael's benefits in kind:		
	Company car:		
		€	
	€36,000 x 30%	10,800	1·0
	less: contribution towards running costs	(6,000)	1·0
		<u>4,800</u>	
	Medical insurance	2,500	1·0
	Membership of local gym	1,000	1·0
		<u>8,300</u>	
	Total benefits in kind		<u>17</u>
	<b>Total marks</b>		<b><u>30</u></b>

## 2 Fast Lane Ltd

## (a) Capital allowances schedules for the year ended 31 December 2006

	Plant and equipment (12·5% S.L.)	Furniture (12·5% S.L.)	Motor vehicle (12·5% S.L.)	Total	
	€	€	€	€	
Original cost (tax adjusted)	390,000	42,000	16,000	448,000	1·0
Add: additions (30,000 + 100,000)	130,000	0	0	130,000	1·0
Less: disposals	0	(8,000)	0	(8,000)	1·0
	<u>520,000</u>	<u>34,000</u>	<u>16,000</u>	<u>570,000</u>	
Tax written down value 1 January 2006	273,000	26,250	12,000	311,250	
Additions in year	130,000	0	0	130,000	0·5
Disposals in year	0	(5,000)	0	(5,000)	1·0
	<u>403,000</u>	<u>21,250</u>	<u>12,000</u>	<u>436,250</u>	
Wear and tear	(65,000)	(4,250)	(2,000)	(71,250)	3·0
Tax written down value 31 December 2006	<u>338,000</u>	<u>17,000</u>	<u>10,000</u>	<u>365,000</u>	1·0

## Balancing allowance/charge calculation

		€	
Furniture	Sales proceeds	0	0·5
	TWDV 1 January 2006 W1	<u>5,000</u>	
	Balancing allowance	<u>5,000</u>	1·0

## Capital allowances summary

	€
Wear and tear	71,250
Balancing allowance – furniture	<u>5,000</u>
	<u>76,250</u>

## Workings

W1 The tax written down value of the shop fittings disposed of is as follows:

	€	€	
Original cost in the year ended 31 December 2003		8,000	0·5
Wear and tear 2003 at 12·5%	1,000		0·5
Wear and tear 2004 at 12·5%	1,000		0·5
Wear and tear 2005 at 12·5%	1,000	(3,000)	0·5
	<u>1,000</u>	<u>5,000</u>	
TWDV at 31 December 2005		<u>5,000</u>	<u>12</u>

			<b>Marks</b>
<b>(b) Corporation tax computation for the year ended 31 December 2006</b>			
		€	€
Profit per accounts			562,290
Deduct			
Interest received			(4,000)
			<u>558,290</u>
<i>Add back</i>	<b>Notes</b>		
Depreciation		72,000	1·0
Loss on the sale of fixed assets		3,200	1·0
Motor expenses	1	12,568	0·5
Repairs and renewals	2	30,000	0·5
Entertainment	3	1,000	0·5
Interest to Revenue	4	<u>160</u>	0·5
			<u>118,928</u>
			677,218
<i>Less</i>			
Capital allowances (as per part (a))			(76,250)
Case I income			600,968
Case III income			4,000
			<u>604,968</u>
Total profits			604,968
Corporation tax – € 600,968 at 12·5%			75,121
Corporation tax – €4,000 at 25%			1,000
			<u>76,121</u>
Total corporation tax liability			<u><u>76,121</u></u>
<b>Notes</b>			
1	Motor expenses restriction:		
	BMW 06 XX 2007	€	
	€21,000 x $\frac{(55,000 - 23,000)}{55,000}$	12,218	2·0
	Parking tickets and clamping	<u>350</u>	1·0
	Total motor expenses add-back	<u>12,568</u>	
	The running costs of both the owned and leased cars are fully allowable.		1·0
2	Repairs and renewals		
	The fridges are capital items and must be added back. Capital allowances may be claimed instead.		1·0
	The repairs to the machinery are allowable.		0·5
3	Advertising		
	Entertainment costs are not allowable.		0·5
	Newspaper advertising is allowable on the basis of generating business.		0·5
4	Subscriptions		
	These are all allowable. The health club subscription is treated as a benefit in kind for the director.		1·0
5	Interest paid		
	Interest paid to the Revenue for late payment of tax is not allowable.		0·5
	Interest paid for trade purposes is allowable.		0·5
6	Professional fees		
	Professional fees, including those incurred in connection with the renewal of the lease are allowable as they arose in connection with the business.		1·0
			<u>19</u>
<b>(c) The latest date for Fast Lane Ltd to file its corporation tax return in order to avoid a surcharge is 21 September 2007.</b>			
			<u>1</u>
<b>Total marks</b>			<b><u>32</u></b>

	€	€	<i>Marks</i>
<b>3 (a) (i) James's capital gains tax liability for the year ended 31 December 2006</b>			
Sale proceeds		400,000	1·0
Less costs of disposal			
Legal fees	4,000		1·0
Auctioneers' fees	4,500		1·0
Advertising costs	2,000	(10,500)	1·0
		<u>389,500</u>	
Less allowable costs			
Cost of property	30,000		1·0
Acquisition costs	5,000		1·0
	<u>35,000</u>		
Indexation factor	7·528		1·0
Indexed cost		(263,480)	
Enhancement expenditure	10,000		1·0
Indexation factor	1·087	(10,870)	1·0
		<u>115,150</u>	
Chargeable gain		115,150	
Less personal exemption		(1,270)	1·0
		<u>113,880</u>	
Tax at 20%		<u>22,776</u>	1·0
			<u>11</u>
<b>(ii)</b> The due date for payment of this tax was 31 October 2006 and it was payable to the Collector General.			1·0
			<u>1·0</u>
			<u>2·0</u>
<b>(b) (i)</b> Withholding tax is applied to disposals of property where the consideration exceeds €500,000.			<u>2·0</u>
<b>(ii)</b> The rate of withholding tax applicable is 15%.			<u>1·0</u>
<b>(c)</b> An individual may obtain a capital gains tax clearance certificate if he or she meets any of the following conditions:			
(a) he/she is resident in Ireland for tax purposes;			1·0
(b) no capital gains tax is payable on the disposal; or			1·0
(c) the capital gains tax arising on the disposal has been paid.			1·0
			<u>3·0</u>
<b>Total marks</b>			<b><u>19</u></b>

<b>4 (a) (i) Acorn Ltd</b>			
<b>VAT liability for September/October 2006</b>			
VAT on sales – €300,000 x 21%		€ 63,000	1·0
Less VAT on purchases:			
Goods for resale €150,000 x $\frac{21}{121}$	26,033		2·0
Accountant's fees €3,000 x $\frac{21}{121}$	521		2·0
Telephone €460 x $\frac{21}{121}$	80		2·0
Electricity €650 x $\frac{13·5}{113·5}$	77		2·0
		<u>(26,711)</u>	
VAT liability		<u>36,289</u>	
VAT on entertaining customers and petrol is not recoverable.			2
			<u>11</u>

(ii) The VAT liability should have been paid on or before 19 November 2006.

**Marks**  
1·0

**(b) Maple Ltd**

**Corporation tax computation for the year ended 31 December 2006.**

	€	
Case I – trading income	Nil	1·0
Case III – deposit interest	500	1·5
Case V – rental income	<u>20,000</u>	1·5
Taxable profits	<u>20,500</u>	
Tax at 25%	5,125	1·0
Less: loss credit (value based relief) Note 1	<u>(500)</u>	<u>2·0</u>
Corporation tax liability	<u>4,625</u>	<u>7·0</u>

**Note 1**

The loss of €4,000 is relieved at the rate of 12·5% giving a credit of €500

**Total marks**

**19**