

Certified Accounting Technician Examination  
Advanced Level

# Preparing Taxation Computations (Irish)

Tuesday 11 December 2007

**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

ALL FOUR questions are compulsory and MUST be attempted.

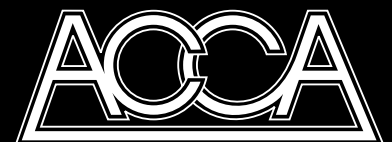
Tax rates and allowances are on pages 3–6.

**Do NOT open this paper until instructed by the supervisor.**

**During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet 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)

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The question paper begins on page 3.**

## SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest Euro.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

## TAX RATES AND ALLOWANCES

The following rates, credits, formulae and allowances are based on the Finance Act 2006 and are to be used for all questions in this paper.

### Rates of income tax 2006

	Tax €
<b>Single/Widow(er)</b>	
€32,000 at 20%	6,400
Balance at 42%	
<b>Married couple (one income)</b>	
€41,000 at 20%	8,200
Balance at 42%	
<b>Married couple (dual income)</b>	
€64,000 at 20%	12,800
Balance at 42%	
<b>One parent family</b>	
€36,000 at 20%	7,200
Balance at 42%	

### Abbreviated list of personal tax credits for the income tax year 2006

	€
Single person's credit	1,630
Married couple credit	3,260
Widowed person's credit (without dependent children)	2,130
Home carer credit (maximum)	770
Single parent credit	1,630
Dependent relative credit	80
Age credit – single/widowed	250
– married	500
Employee/PAYE credit	1,490

### Rates of PRSI/levies 2006

#### Self-employed

<b>PRSI</b>	
Rate	3%
Note: No PRSI where income is below €3,174 per annum	
<b>Health contribution</b>	
Lower exemption limit	€22,880
Rate	2%
Note: No upper limit for PRSI or health contribution	

### Rates of PRSI/levies 2006

#### Employee – Class A1

##### PRSI

Upper limit €46,600

Rate 4%

The first €127 per week (non-cumulative) is exempt from PRSI

Note: No PRSI on income up to €15,600 per annum (€300 per week) or less

##### Health contribution

Lower exemption limit (€440 per week) €22,880

Rate 2%

Note: No upper limit for health contribution

### Rates of PRSI/levies 2006

#### 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.

#### 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 but less than 55 years	30
55 years but less than 60 years	35
60 years and over	40

Cap on earnings of €254,000

#### Corporation tax

Standard rate 12.5%

Higher rate 25%

#### Capital gains tax

Rate 20%

Annual exemption €1,270

### Motor cars – limits on capital costs

	To 31 December 2005	1 January 2006 onwards
	€	€
Capital allowances	22,000	23,000
Leasing charges	22,000	23,000
Running costs	No limit	No limit

### Capital allowances

#### Plant and machinery including motor vehicles

##### Expenditure incurred

1 January 2001 to 3 December 2002	20% straight line
4 December 2002 onwards	12.5% straight line

#### Industrial buildings

Annual rate	4%
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### Motor cars – benefit-in-kind rates

Standard rate	30% of original market value	
<b>Lower limit miles</b>	<b>Upper limit miles</b>	<b>Percentage of original market value of car %</b>
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
	2004 et seq
<i>1974-75</i>	7.528
<i>1975-76</i>	6.080
<i>1976-77</i>	5.238
<i>1977-78</i>	4.490
<i>1978-79</i>	4.148
<i>1979-80</i>	3.742
<i>1980-81</i>	3.240
<i>1981-82</i>	2.678
<i>1982-83</i>	2.253
<i>1983-84</i>	2.003
<i>1984-85</i>	1.819
<i>1985-86</i>	1.713
<i>1986-87</i>	1.637
<i>1987-88</i>	1.583
<i>1988-89</i>	1.553
<i>1989-90</i>	1.503
<i>1990-91</i>	1.442
<i>1991-92</i>	1.406
<i>1992-93</i>	1.356
<i>1993-94</i>	1.331
<i>1994-95</i>	1.309
<i>1995-96</i>	1.277
<i>1996-97</i>	1.251
<i>1997-98</i>	1.232
<i>1998-99</i>	1.212
<i>1999-2000</i>	1.193
<i>2000-2001</i>	1.144
<i>2001</i>	1.087
<i>2002</i>	1.049
<i>2003 et seq</i>	1.000

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

- 1 Michael is employed by a large software company in Dublin. He is married to Anna and they have two children, aged 7 and 9. Anna has traded as a beautician for a number of years. In June 2006 she decided to spend more time with her family and ceased trading on 30 June 2006. Her profits for the periods up to the date of cessation were as follows:

	€
Year ended 31 March 2004	42,000
Year ended 31 March 2005	44,000
Period ended 30 June 2006	60,000

All of Anna's equipment was leased, therefore, no capital allowances have been claimed. Anna paid €5,000 in preliminary tax on 31 October 2006.

Michael's income and outgoings for 2006 were as follows:

	€
Gross salary	65,000 (PAYE deducted €15,000)
Irish dividends (gross)	4,000 (withholding tax €800)
Deposit interest (net)	500

Michael's employer provides him with the following benefits:

- (1) A company car, which cost €36,000 in 2005. Michael travels 6,000 miles per year on business and contributes €500 per month towards the costs of running the car.
- (2) Medical insurance, which costs €2,500 per annum.
- (3) Membership of the local gym, which costs €1,000 per annum.

**Required:**

- (a) Calculate Anna's final assessable profits as a beautician for the 2004, 2005 and 2006 tax years, clearly stating the basis periods for each year of assessment. (13 marks)
- (b) Calculate Michael and Anna's income tax liability for the 2006 tax year, clearly stating the schedules and cases applicable to each source of income. (17 marks)

**(30 marks)**

2 Fast Lane Ltd operates a restaurant in Cork. The company has traded profitably for many years and had the following results for the year ended 31 December 2006:

		€	€
Sales			4,500,000
Less: Cost of sales			<u>(3,000,000)</u>
			1,500,000
<i>Less</i>	<b>Notes</b>		
Wages		600,000	
Depreciation		72,000	
Rent and rates		120,000	
Motor expenses	(1)	46,950	
Repairs and renewals	(2)	31,850	
Advertising	(3)	36,000	
Subscriptions	(4)	1,300	
Interest paid	(5)	19,660	
Professional fees	(6)	10,750	
Loss on the sale of fixed assets	(7)	<u>3,200</u>	(941,710)
Net profit from trading			558,290
Interest received (gross)	(8)		<u>4,000</u>
Total profits before tax			<u><u>562,290</u></u>

You are given the following additional information regarding the above:

(1) Motor expenses	€
Managing director's car 04 XX 2006	18,000
Sales director's car 06 XX 2007	28,600
Parking tickets and clamping charges	<u>350</u>
	<u>46,950</u>

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

The sales director's car is a BMW which the company leases. The market value of the car was €55,000 when the car was first leased in 2006. The expenses incurred in relation to this car were as follows:

	€
Leasing repayments	21,000
Petrol	5,000
Tax and insurance	2,500
Repairs/servicing	<u>100</u>
	<u>28,600</u>
(2) Repairs and renewals	€
Repairs to machinery	1,850
New fridges	<u>30,000</u>
	<u>31,850</u>
(3) Advertising	€
Entertainment	1,000
Newspaper advertising	<u>35,000</u>
	<u>36,000</u>



(4) Subscriptions	€
Local golf club for sales director	750
Food and wine magazines	350
Irish tourism board	200
	<hr/>
	1,300
	<hr/>
(5) Interest paid	€
Paid to banks for trade purposes	19,500
Paid to the Revenue for the late payment of taxes	160
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	19,660
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(6) Professional fees	€
Audit and accounting	8,500
Solicitor's fees in connection with the renewal of a lease for the business	2,250
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	10,750
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(7) Loss on sale of fixed assets	
The original cost and tax written down value (TWDV) of the plant and equipment, furniture and motor vehicles as at 1 January 2006 were as follows:	

	Plant and equipment	Furniture	Motor vehicles
	€	€	€
Original cost	390,000	42,000	16,000
TWDV 1 January 2006	273,000	26,250	12,000

The plant and equipment and furniture were all purchased between 1 January 2003 and 31 December 2005. The car was purchased in 2004.

During the year ended 31 December 2006 Fast Lane Ltd acquired and disposed of the following assets:

Acquisitions

New kitchen equipment was purchased at a cost of €100,000.

Disposals

Furniture which had been purchased for €8,000 in May 2003 was scrapped. It had a net book value of €3,200 at the date it was scrapped.

- (8) Interest received (gross)  
Fast Lane Ltd received deposit interest of €4,000 from the National Irish Bank Ltd during the year. No DIRT was deducted from the amount received.

**Required:**

- (a) **Prepare Fast Lane Ltd's capital allowances schedules for the year ended 31 December 2006, clearly identifying the tax written down values to be carried forward at 1 January 2007.** (12 marks)
- (b) **Calculate Fast Lane Ltd's corporation tax liability for the year ended 31 December 2006 giving brief explanations of your treatment of the items detailed in notes (1) to (6) above.** (19 marks)
- (c) **State the latest date by which Fast Lane Ltd must file its corporation tax return to avoid a surcharge.** (1 mark)

**(32 marks)**

- 3 (a) James owns a number of rental properties in Dublin. On 4 June 2006 he disposed of one of his properties for €400,000. He incurred the following expenses of sale:

	€
Legal fees	4,000
Auctioneers' fees	4,500
Advertising costs	2,000

James had purchased the property in December 1974 for €30,000. The costs incurred in acquiring the property amounted to €5,000.

James had carried out enhancement expenditure on the property as follows:

		€
October 2001	New conservatory	10,000

**Required:**

- (i) Calculate James's capital gains tax liability arising on the sale of his property. (11 marks)
- (ii) State the due date for payment of the tax in (i) and to whom the payment should have been made. (2 marks)
- (b) Certain withholding tax requirements apply to the disposal of Irish property.

**Required:**

- (i) State the consideration figure above to which the withholding tax provisions apply. (2 marks)
- (ii) State the rate of withholding tax that is applied. (1 mark)
- (c) In certain circumstances it is possible to obtain a tax clearance certificate to avoid the imposition of withholding tax.

**Required:**

**State the conditions which must be met for an individual to obtain such a capital gains tax clearance certificate.** (3 marks)

**(19 marks)**

- 4 (a) Acorn Ltd is engaged in the supply of garden furniture, which is liable to VAT at 21%. The company's income and expenses for the months of September and October 2006 were as follows:

	€
Sales of furniture, VAT exclusive	300,000
Expenses, inclusive of VAT at 21%:	
Goods for resale	150,000
Entertaining customers	400
Petrol	1,000
Accountant's fees	3,000
Telephone	460
Expenses, inclusive of VAT at 13.5%:	
Electricity	650

**Required:**

- (i) **Compute the VAT liability for Acorn Ltd for the two monthly VAT period September/October 2006, clearly explaining your treatment of each item of expenditure listed.** (11 marks)
- (ii) **State the date by which the VAT liability in (i) should have been paid.** (1 mark)
- (b) Maple Ltd commenced trading on 1 January 2006 and incurred a trade loss of €4,000 in the year ended 31 December 2006. Maple Ltd also had the following income during the year ended 31 December 2006:

	€
Deposit interest from an Irish bank (received gross)	500
Rental income (net of expenses)	20,000

**Required:**

**Compute Maple Ltd's corporation tax liability for the year ended 31 December 2006, clearly stating the tax cases applicable.** (7 marks)

**(19 marks)**

**End of Question Paper**