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# Answers

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					<i>Marks</i>
<b>1</b>	<b>(a)</b>	<b>Income tax computation for Andrew and Imelda for the year ended 31 December 2006.</b>			
			€	€	
Andrew	Schedule D Case II		140,000		1
	Less capital allowances		(8,000)	132,000	1
			<hr/>		
	Schedule D Case III			1,500	1
Imelda	Schedule E:				
	Salary for the year ended 31 December 2006		18,000		1
	Benefit in kind	W1	5,400		0.5
	Schedule F		1,200	24,600	1
			<hr/>	<hr/>	
<b>Total income</b>				158,100	
<i>Less</i> reliefs:	Permanent health insurance			(1,200)	1
	Retirement annuity contribution	W2		(30,000)	0.5
				<hr/>	
<b>Taxable income</b>				126,900	
				<hr/> <hr/>	
<b>Tax thereon</b>	64,000 at 20%	W3	12,800		1
	62,900 at 42%		26,418	39,218	1
			<hr/>		
<b>Less: non refundable credits</b>	Married persons credit		3,260		1
	PAYE credit (x1)		1,490	(4,750)	1
			<hr/>	<hr/>	
				34,468	
<b>Less: refundable credits</b>	PAYE paid – spouse		4,000		1
	Dividend withholding tax credit		240	(4,240)	1
			<hr/>	<hr/>	
<b>Income tax liability</b>				30,228	
				<hr/>	
<b>PRSI and levies</b>					
Andrew	PRSI at 3% on €133,500		4,005		1
	Levies at 2% on €133,500		2,670	6,675	1
			<hr/>		
Imelda	Levies on €1,200 at 2%			24	1
				<hr/>	
<b>Total income tax, PRSI and levies</b>				36,927	
				<hr/> <hr/>	
<b>Workings/notes</b>					
W1	Imelda's benefit in kind is calculated as follows:			€	
	Cash equivalent	€18,000 x 30%		5,400	1
				<hr/>	
W2	As Andrew is 45 years of age, his maximum allowable retirement annuity contract premium is 25% of his Case II income, net of capital allowances = 25% x €132,000 = €33,000. Accordingly, his entire contribution in 2006 is allowable				1 1
W3	The income taxed at the standard rate is computed as follows:			€	
	Andrew's maximum amount at standard rate			41,000	1
	Imelda's maximum amount at standard rate			23,000	1
				<hr/>	
				64,000	
				<hr/>	
Note 1	Tax relief for mortgage interest is given at source.				1
					<hr/> <hr/>

	<b>Marks</b>
<b>(b) (i)</b> The latest date by which an individual must file his or her tax return to avoid a late filing surcharge is 31 October in the year following the year of assessment.	1
<b>(ii)</b> The surcharge payable for late filing is as follows:	
(a) one week after the filing date: 5% of the tax liability up to a maximum of €12,695.	1.5
(b) six months after the filing date: 10% of the tax liability up to a maximum of €63,485.	1.5
<b>(iii)</b> The tax return must be submitted to the Collector General, Sarsfield House, Limerick.	1
	<u>5</u>
<b>(c) (a)</b> A taxpayer paying his/her tax under the monthly direct debit instalment arrangement must have paid 105% of his/her final liability for the second tax year prior to the current tax year to avoid interest.	1.5
<b>(b)</b> A taxpayer who pays his/her tax liability in one annual instalment on 31 October must pay either 90% of the current year's tax liability or 100% of the previous year's tax liability to avoid interest.	1.5
	<u>3</u>
	<u><b>30</b></u>

## 2 Top Marks Ltd

### (a) Capital Allowances schedules year ended 31 December 2006

	Shop fittings (12.5% S.L.) €	Car (12.5% S.L.) €	Van (12.5% S.L.) €	Total €	
Original cost (tax adjusted)	390,000	22,000	16,000	428,000	1
Add: additions	208,500	0	0	208,500	1
Less: disposals	(8,000)	0	0	(8,000)	1
	<u>590,500</u>	<u>22,000</u>	<u>16,000</u>	<u>628,500</u>	
Written down value					
1 January 2006	273,000	19,250	12,000	304,250	
Additions in year	208,500	0	0	208,500	1
Disposals in year	(5,000)	0	0	(5,000)	1
	<u>476,500</u>	<u>19,250</u>	<u>12,000</u>	<u>507,750</u>	
Wear and tear	73,813	2,750	2,000	78,563	3
	<u>402,687</u>	<u>16,500</u>	<u>10,000</u>	<u>429,187</u>	

#### Balancing allowance/charge calculation

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

#### Capital allowances summary

	€	
Wear and tear	78,563	
Balancing allowance – shop fittings	5,000	
	<u>83,563</u>	1

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	
Wear & tear 2003 at 12.5%	1,000		
Wear & tear 2004 at 12.5%	1,000		
Wear & tear 2005 at 12.5%	1,000	(3,000)	
TWDV at 31 December 2005		<u>5,000</u>	1
			<u><b>12</b></u>

				<b>Marks</b>
<b>(b) Corporation tax computation for the year ended 31 December 2006</b>				
	€		€	
Profit per accounts			533,590	0·5
<i>Deduct</i>				
Interest received			<u>3,500</u>	0·5
			530,090	
<i>Add back</i>	<i>Notes</i>			
Depreciation		89,000		1
Loss on sale of fixed assets		3,200		1
Motor expenses	1	13,153		0·5
Repairs and renewals	2	8,500		0·5
Donations to political parties	3	250		0·5
Interest to Revenue	4	<u>80</u>	<u>114,183</u>	0·5
			644,273	
<i>Less</i>				
Capital allowances		(a)	<u>83,563</u>	0·5
Case I income			560,710	0·5
Case III income			<u>3,500</u>	1
Total profits			564,210	
Corporation tax – €560,710 at 12·5%			70,089	1
Corporation tax – €3,500 at 25%			<u>875</u>	1
Total corporation tax liability			<u><u>70,964</u></u>	
<b>Notes</b>				
1	Motor expenses restriction			
	Mercedes 350 05 XX 1000		€	
		(65,000 – 23,000)		
	€20,000 × $\frac{\quad}{65,000}$		12,923	2
	Parking tickets and clamping		<u>230</u>	1
	Total motor expenses add-back		<u><u>13,153</u></u>	
2	Repairs and renewals			
	The new cash registeres are capital items and must be added back. Capital allowances may be claimed instead. The repairs to the lighting are allowable.			0·5 0·5
3	Donations			
	Donations to political parties are not allowable.			0·5
	The advertisement in the local ladies hockey club magazine is allowable on the basis of generating business.			0·5
4	Revenue interest			
	Interest paid to the Revenue for late payment of tax is not allowable			0·5
	Interest paid for trade purposes is allowable.			0·5
5	Subscriptions			
	These are all allowable. The health club subscription is treated as a benefit in kind for the director.			0·5
6	Professional fees			
	Professional fees, including those incurred in connection with the accident on the premises are allowable as they arose in connection with the business.			0·5
				<u><u>16</u></u>
<b>(c) The latest date for Top Marks Ltd to file its corporation tax return in order to avoid a surcharge is 21 September 2007.</b>				<u>1</u>
				<u><b>29</b></u>

				<b>Marks</b>
<b>3 (a)</b>	Principal private residence relief provides for exemption from capital gains tax for the following periods of occupation:			
	(1)	any period during which a house is occupied as a principal private residence,		1
	(2)	any period not exceeding four years during which an employer requires an employee to live away from home for work reasons, provided he/she does not own another residence during that time.		1
	(3)	any time which he/she spends working abroad provided he/she does not have another private residence during that time.		1
	(4)	The last twelve months of ownership		<u>1</u>
				<u><b>5</b></u>
<b>(b)</b>	<b>Elizabeth's capital gains tax liability for 2006.</b>			
		€	€	€
Sale proceeds	<i>Notes</i>			400,000
<i>Less:</i>				
Cost – June 2002		270,000		0.5
Index factor		<u>1.049</u>		0.5
Indexed cost			283,230	
Enhancement expenditure – March 2005	1	25,000		0.5
Index factor		<u>1.000</u>		0.5
Indexed cost			<u>25,000</u>	
Gain			<u>(308,230)</u>	
Less: Exempt portion:	2		91,770	
			<u>81,573</u>	0.5
Chargeable gain			10,197	
Less: personal exemption			<u>1,270</u>	1
			8,927	
Tax at 20%			<u><u>1,785</u></u>	1
<b>Notes</b>				
1	The extension is treated as enhancement expenditure. No indexation is available as indexation was abolished with effect from 1 January 2003.			0.5
2	Workings for the exempt portion of the gain on the sale of Elizabeth's principal private residence:			0.5
	Total period of ownership		4 years 6 months	
	<b>Periods of actual and deemed occupation</b>			
	Actual occupation: 1 June 2002–30 November 2002		6 months	1
	Deemed occupation: period in Wexford 30 November 2002–1 September 2004		1 year 9 months	1
	Actual occupation: 1 September 2004–1 June 2005		9 months	1
	Deemed occupation – last 12 months		<u>1 year</u>	1
			4 years	1
	<b>Period not occupied (either actual or deemed)</b>			
	1 June 2005–30 November 2005		6 months	1
	<b>Calculation of exempt portion of gain</b>			
	Exempt portion (in months) = $\frac{48}{54} \times \text{€}91,770$			
				<u>1</u>
				<u><b>13</b></u>
<b>(b)</b>	The due date for payment of Elizabeth's capital gains tax liability for 2006 is 31 January 2007.			1
	The amount which Elizabeth must pay on that date is 100% of her liability, i.e. €1,785			1
				<u>2</u>
				<u><b>20</b></u>

4 (a) Candy Kitchens Ltd.

Corporation tax computation for the year ended 31 October 2005

	€	
Case I trade – wholesale business	Nil	1
Case I trade – retail business	60,000	1
	<u>60,000</u>	
<i>Less:</i>		
Case I loss – 2005	(60,000)	2
Total profits	Nil	
Tax liability	Nil	1

Corporation tax computation for the year ended 31 October 2006

	€	
Case I trade – wholesale business	140,000	1
less loss forward	(15,000)	2
	<u>125,000</u>	
Case I trade – retail business	35,000	1
	<u>160,000</u>	
Case III	5,000	1
Total profits	165,000	
Corporation tax at 12.5% on €160,000	20,000	1
Corporation tax at 25% on €5,000	1,250	1
	<u>21,250</u>	<u>12</u>

(b) The following information must appear on an invoice to be valid for VAT purposes:

1	The name and address of the person issuing the invoice	1
2	The name and address of the customer	1
3	The supplier's VAT registration number	1
4	The date of issue of the invoice	1
5	The date of supply of the goods or services	1
6	A full description of the goods or services supplied	1
7	The amount charged, excluding VAT	1
8	The rate(s) of VAT and amount charged at each rate	1
9	The sequential invoice order number	1
		<u>9</u>
		<u>21</u>