

Certified Accounting Technician Examination
Advanced Level

Preparing Taxation Computations (Irish)

Tuesday 10 June 2008

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)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

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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 time 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 2007 and are to be used for all questions in this paper.

Rates of income tax 2007

	Tax €
Single/Widow(er)	
€34,000 at 20%	6,800
Balance at 41%	
Married couple (one income)	
€43,000 at 20%	8,600
Balance at 41%	
Married couple (dual income)	
€68,000 at 20%	13,600
Balance at 41%	
One parent family	
€38,000 at 20%	7,600
Balance at 41%	

Abbreviated list of personal tax credits for the income tax year 2007

	€
Single person's credit	1,760
Married couple's credit	3,520
Widowed person's credit (without dependent children)	2,310
Home carer credit (maximum)	770
Single parent credit	1,760
Dependent relative credit	80
Age credit – single/widowed	275
– married	550
Employee/PAYE credit	1,760

Self-employed

Rates of PRSI/levies 2007

PRSI	
Rate	3%
No PRSI where income is below €3,174 per annum	
Health contribution	
Rate: First €1,925 per week (€100,100 per annum)	2%
Balance	2.5%
Notes: Lower exemption limit	€24,960
No upper limit for PRSI or health contribution	

Employee – Class A1
Rates of PRSI/levies 2007

PRSI

Upper limit	€48,800
Rate	4%

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

Note: No PRSI on income up to €17,628 per annum (€339 per week)

Health contribution

Lower exemption limit (€480 per week)	€24,960
Rate: First €1,925 per week (€100,100 per annum)	2%
Balance	2.5%

Note: No upper limit for health contribution

Rates of PRSI/levies 2007
Employer (for employees – Class A1)

PRSI

Rate	10.75%
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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 €262,382

Corporation tax

Standard rate	12.5%
Higher rate	25%

Capital gains tax

Rate	20%
Annual exemption	€1,270

Motor cars – Limits on capital and leasing costs

Capital allowances	€
1 January 2002 to 31 December 2005	22,000
1 January 2006 to 31 December 2006	23,000
1 January 2007 onwards	24,000
 Leasing charges	 24,000

Motor cars – benefit-in-kind rates

Lower limit miles	Upper limit miles	Percentage of original market value of car %
Less than	15,000	30
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 year ending 31 December 2004 <i>et seq</i>
1974-75	7.528
1975-76	6.080
1976-77	5.238
1977-78	4.490
1978-79	4.148
1979-80	3.742
1980-81	3.240
1981-82	2.678
1982-83	2.253
1983-84	2.003
1984-85	1.819
1985-86	1.713
1986-87	1.637
1987-88	1.583
1988-89	1.553
1989-90	1.503
1990-91	1.442
1991-92	1.406
1992-93	1.356
1993-94	1.331
1994-95	1.309
1995-96	1.277
1996-97	1.251
1997-98	1.232
1998-99	1.212
1999-2000	1.193
2000-2001	1.144
2001	1.087
2002	1.049
2003 <i>et seq</i>	1.000

ALL FOUR questions are compulsory and MUST be attempted

- 1 Seamus is 47 years old and married with four children, all under 16 years of age. His wife, Deirdre does not work outside the home. Seamus commenced in business on 1 July 2006 when he opened a pharmacy as a sole trader. His adjusted profits for tax purposes are:

	€
Year ended 30 June 2007	108,000
Year ended 30th June 2008	84,000

Seamus purchased the following assets for use in his business:

A motor car which cost him €36,000 on 2 July 2006. It has been agreed that 80% of the car's capital allowances are allowable for tax purposes.

The fixtures and fittings purchased on 30 July 2006 for €64,000.

On 26 October 2007, Seamus paid €35,000 into an approved retirement annuity contract scheme. He wishes to claim this premium against his 31 December 2007 tax liability.

Required:

- (a) Calculate Seamus's Case I assessable profits and capital allowances for each of the tax years ended 31 December 2006, 2007 and 2008, clearly setting out the basis periods for each tax year.

Note: you may assume that the 2007 Finance Act provisions apply to each of these years. (24 marks)

- (b) Calculate Seamus's income tax liability for the year ended 31 December 2007. (7 marks)

(31 marks)

2 Platinum Ltd operates a jewellery store in Dublin. The company has traded profitably for many years and had the following results for the year ended 31 December 2007:

		€	€
Sales			8,500,000
Less: Cost of sales			<u>(4,000,000)</u>
			4,500,000
<i>Less</i>	Notes		
Wages		750,000	
Depreciation		45,000	
Staff training		15,000	
Motor expenses	(1)	40,350	
Repairs and renewals	(2)	100,750	
Advertising	(3)	37,200	
Subscriptions	(4)	1,450	
Interest paid	(5)	1,200	
Professional fees	(6)	28,000	
Loss on the sale of fixed assets	(7)	<u>700</u>	<u>(1,019,650)</u>
Net profit from trading			3,480,350
Interest received (gross)	(8)		<u>8,000</u>
Total profits before tax			<u><u>3,488,350</u></u>

You are given the following additional information regarding the above:

(1) Motor expenses comprise	€
Director's car 07 XX 8888	33,550
Manager's car 06 XX 1234	4,500
Staff bus passes	<u>2,300</u>
	<u>40,350</u>

Notes:

The director's car is a Lexus, which the company leases. The market value of this car was €70,000 when it was first leased in 2007. The expenses incurred in relation to this car were as follows:

	€
Leasing repayments	25,000
Petrol	6,000
Tax and insurance	1,800
Repairs/servicing	<u>750</u>
	<u>33,550</u>

The manager's car, a Toyota, is owned by the company.

(2) Repairs and renewals comprise	€
Window repairs	750
New display cabinets	<u>100,000</u>
	<u>100,750</u>
(3) Advertising comprises	€
Magazine advertising	35,000
Gifts to customers	<u>2,200</u>
	<u>37,200</u>

- | | |
|--|--------|
| (4) Subscriptions comprise | € |
| Gym membership for manager | 750 |
| Political donations | 500 |
| Trade magazines | 200 |
| | <hr/> |
| | 1,450 |
| (5) Interest paid comprises | € |
| Paid to suppliers due to the late payment of invoices | 250 |
| Paid to the Revenue for the late payment of taxes | 950 |
| | <hr/> |
| | 1,200 |
| (6) Professional fees | € |
| Audit and accounting | 16,000 |
| Legal fees in connection with the purchase of a new shop for the business | 12,000 |
| | <hr/> |
| | 28,000 |
| (7) The original cost and tax written down value (TWDV) of the company's furniture and fittings, equipment and motor vehicle as at 1 January 2007 were as follows: | |

	Furniture and fittings	Equipment	Motor vehicle
	€	€	€
Original cost	350,000	18,000	15,000
TWDV 1 January 2007	218,750	9,000	13,125

All of the furniture, fittings and equipment were purchased between 1 January 2003 and 31 December 2005. The motor vehicle, a car, was purchased in 2006.

During the year ended 31 December 2007 Platinum Ltd acquired and disposed of the following assets:

Acquisitions

New computer equipment was purchased at a cost of €5,000

Disposals

Computer equipment which had been purchased for €3,000 in April 2004 was sold for €500.

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

Required:

- (a) **Prepare Platinum Ltd's capital allowances schedules for the year ended 31 December 2007, clearly identifying the tax written down values to be carried forward at 31 December 2007.** (12 marks)
- (b) **Calculate Platinum Ltd's corporation tax liability for the year ended 31 December 2007, giving brief explanations of your treatment of the items detailed in notes (1) to (6) above.** (18 marks)
- (c) **State the latest date by which Platinum Ltd must file its corporation tax return to avoid a surcharge.** (1 mark)

(31 marks)

3 Hannah is single and made the following disposals during the year ended 31 December 2007:

Date of disposal	Shares	Proceeds €
1 May	1,000 AIB	15,000
1 October	500 AIB	9,750
3 March	2,000 BOI	28,000
4 July	1,000 BOI	13,500
3 August	500 CRH	13,000
20 November	1,000 CRH	20,000
4 June	600 NTR	2,800
1 September	600 NTR	3,600

The dates of acquisition and cost prices of the above shares are:

Date of acquisition	Shares	Cost price €
1 September 2000	1,000 AIB	7,000
1 March 2005	1,500 AIB	15,000
5 September 2003	750 BOI	7,500
15 May 2005	3,000 BOI	33,000
30 July 2005	300 CRH	6,000
30 September 2005	500 CRH	10,500
1 October 2007	2,000 CRH	50,000
30 September 2004	200 NTR	2,400

You are given the following additional information in relation to the NTR shares:

In October 2006 the €1 shares were divided into five shares of 20 cents each.

On 2 January 2007, there was a bonus issue of one new share for every one share held.

Required:

- (a) Calculate Hannah's capital gains and losses for the year ended 31 December 2007 in respect of each of the above disposals. (15 marks)
- (b) Calculate Hannah's capital gains tax liability for the year ended 31 December 2007, stating the due date(s) for payment of the capital gains tax and the amount payable on each date. (7 marks)

(22 marks)

- 4 (a) Gavin is employed by Annak Ltd and his employer has offered to provide him with a new company car costing €30,000 and to pay all of the running costs in connection with the car. He has been told that he will have to pay income tax and PRSI on the car under the benefit in kind rules and has sought your advice. He estimates that he will travel approximately 2,000 miles per year on business and about 8,000 miles per year on personal travel.

Required:

Write a letter to Gavin advising him on the income tax and PRSI implications for him if his employer provides him with a company car.

Note: marks will be awarded for the layout and the clarity of advice given. (9 marks)

- (b) (i) Explain and contrast the value added tax (VAT) treatment of a person who supplies goods and services which are:
- (1) VAT exempt; and
 - (2) zero rated. (6 marks)
- (ii) Give an example of each type of supply (exempt and zero rated). (1 mark)

(16 marks)

End of Question Paper