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# **Taxation I**

**Republic of Ireland**

**Autumn 2009**

**Paper, Solutions & Examiner's Report**



### NOTES TO USERS ABOUT THESE SOLUTIONS

The solutions in this document are published by Accounting Technicians Ireland. They are intended to provide guidance to students and their teachers regarding possible answers to questions in our examinations.

Although they are published by us, we do not necessarily endorse these solutions or agree with the views expressed by their authors.

There are often many possible approaches to the solution of questions in professional examinations. It should not be assumed that the approach adopted in these solutions is the ideal or the one preferred by us.

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**Accounting Technicians Ireland**  
(Formerly The Institute of Accounting Technicians in Ireland)

**1<sup>st</sup> Year Examination: Autumn 2009**

**TAXATION I (Republic of Ireland)**

Thursday 20<sup>th</sup> August 2009 – 9.30 a.m. to 12.30 p.m.

**INSTRUCTIONS TO CANDIDATES**

**PLEASE READ CAREFULLY**

For candidates answering in accordance with the law and practice of the Republic of Ireland.

Candidates should answer the paper in accordance with the appropriate provisions up to and including the Finance Act 2008. The provisions of the Finance Act 2009 should be ignored.

Allowances and rates of taxation, to be used by candidates, are set out in a separate booklet supplied with the examination paper.

Answer **ALL THREE** questions from **SECTION A**. Answer **ANY TWO** of the three questions from **Section B**. If more than **TWO** questions are answered in **Section B**, then only the first two questions, in the order filed, will be corrected.

Candidates should allocate their time carefully.

All workings should be shown.

All figures should be labelled as appropriate e.g. €, units etc.

Answers should be illustrated with examples, where appropriate.

Question 1 begins on Page 2 overleaf.

The following inserts are enclosed with the paper:

- Form P9/P11 [Tax Deduction Card] (QUESTION 4)
- Multiple choice Answer Sheet (QUESTION 5)
- Tax Reference Material

**SECTION A****Answer ALL THREE questions in this section****Question 1 (Compulsory)**

- (a) Patricia has been in business for a number of years and is registered for VAT. Her business consists of supplying and repairing office furniture to a wide variety of clients which include hospitals, government departments, banks and large businesses. In addition, she also supplies office furniture to customers in Northern Ireland and Scotland. During the course of business Patricia has come across the terms 'Zero Rated' and 'Exempt'. She has had discussions with some clients who suggest that she has made a mistake in charging VAT. Some customers contend that VAT should not be charged to them as they are involved in an Exempt Activity.

Patricia thought the VAT system was straight forward. She has always charged her Irish customers VAT. Her customers in Northern Ireland and Scotland have not been charged VAT as she understood the Zero rate of VAT applied to exports of goods.

Patricia has asked you to review the operation of VAT for her business.

**Requirement**

Write a letter to Patricia in which you clearly define the terms 'Zero Rated' and 'Exempt Activities'. You should also refer to the VAT implications of these terms to businesses in general and specifically the impact of the terms to Patricia's business.

**8 Marks**

- (b) Patricia has also asked you to review the records in respect of sales and confirm the amount of VAT on sales for the May/June VAT period.  
The following details have been extracted by you from the records of the business.

**Sales Book**

<b>Total</b>	<b>21%</b>	<b>13.5%</b>	<b>Zero %</b>	<b>VAT</b>
264,824	159,800	14,600	47,100	36,216

You are concerned to find that the VAT column and total column does not agree with your cross checks. Following a review of the sales book you have discovered the following errors in the recording of the invoices issued:

**Invoice number 1561:**

This invoice was for €10,200 (VAT excl) plus VAT at 21%. €12,200 VAT exclusive has been recorded in the 21% column rather than €10,200. The correct amount was recorded in the total and VAT columns.

**Invoice number 1613:**

This invoice has been recorded as Total: €11,350, VAT Exclusive 13.5%: €1,000 and VAT: €1,350. On inspection of the invoice you discover that the sale was for €11,350 VAT inclusive at 13.5%.

**Invoice number 1678:**

This invoice is for a sale at 21% for a VAT inclusive amount of €1,331. An amount of €123 has been included in the VAT column rather than the correct amount of VAT. The correct amount was recorded in the total and 21% columns.

Patricia accounts for VAT on an invoice basis and she informs you that invoices are written for all sales on credit. She feels there is no need to write invoices for the cash sales as the customers for these sales are not registered for VAT and are all Irish customers.

When you enquire further you are told that Patricia goes to auctions and buys old office furniture for resale. Patricia informs you that no VAT is charged to her on the purchase of this furniture. When she resells it she includes the sale in the Zero% column in her sales book. Patricia explains that as no VAT is charged on the purchase of this furniture she does not have to charge VAT on the sale. All her customers for this office furniture are based in Dublin and are all credit customers. The amount included in the sales book in respect of these transactions is €9,680.

**Question 1** (*Cont'd.*)**Cash Book**

The cash book shows the following in respect of the May/June period:

<b>Cash Sales</b>	<b>Receipts from Debtors</b>	<b>Total Receipts</b>	<b>Bank Lodgements</b>	<b>Wages</b>	<b>Drawings</b>
38,550	234,500	273,050	261,760	7,690	3,600

When you check the bank statements you discover a number of discrepancies between the lodgements per the bank statement and those per the cash books as follows:

- (i) A lodgement of €900 per the bank statement is not recorded in the cash book. This is a receipt from a debtor which was transferred direct to the bank account by electronic banking.
- (ii) A lodgement of €1,860 has been omitted from the cash book. Patricia explains that she sold office furniture to a trader in Dublin. The trader informed Patricia that he intended selling the stock in the UK and did not want an invoice. He said he preferred to deal in cash and paid €1,985 in cash when he collected the stock. Patricia took the balance of €125 for drawings.

All cash sales are in respect of the sale of furniture to Irish customers.

**Requirement**

Write a letter to Patricia explaining your treatment of any relevant issues you have identified following your examination of the sales records. In addition you are to calculate the VAT due on sales for the May/June VAT period.

Patricia accounts for VAT on an invoice basis.

**12 Marks**  
**Total 20 Marks**

**QUESTION 2 (Compulsory)**

You have been appointed to a new position as the person responsible for the operation of PAYE/PRSI for ART Ltd. On your introduction to the Financial Director of the company you have been asked to prepare a report summarising the operation of the Pay As You Earn system.

**Requirement**

Write a report to the Finance Director of ART Ltd. providing the information requested and in particular referring to the following issues / concerns outlined to you:

- (a) There are a number of part time employees in ART Ltd. who currently are paid in cash without PAYE / PRSI being operated. You have been asked to include recommendations in your report as to how the procedures regarding part time employees could be regularised.
- 5 Marks**
- (b) The Finance Director has brought your attention to the fact that on a number of occasions the company had to pay interest to the Revenue on the late payment of PAYE / PRSI. You have been informed that there is a need to introduce procedures to ensure that returns are submitted on time. Included in your report should be clear instructions regarding the forms to be completed and the date for submission of these forms and payment of the PAYE / PRSI due.
- 5 Marks**
- (c) You have been informed that the staff turnover in the company is high. This has led to the situation where the company regularly receives tax deduction cards from the Revenue in respect of employees who are no longer employed by the firm. The Finance Director is of the opinion that proper procedures have not been followed when employees leave the company. You have been asked to include details of the obligations for the company when employees cease.
- 5 Marks**
- (d) A number of employees have commenced in the same week you took up duties with the company. You should include details of the procedures to be followed with regard to the operation of PAYE/PRSI for these new employees.

**5 Marks**

**Total 20 Marks**

**QUESTION 3 (Compulsory)**

Sheila has been in business for a number of years. She makes up accounts to the 31<sup>st</sup> December each year and the accounts for the year ended 31<sup>st</sup> December 2008 are reproduced below.

	Notes	€	€
Sales.....			457,748
Opening stock.....		34,650	
Purchases .....		<u>286,754</u>	
		321,404	
Closing stock .....		<u>41,125</u>	
Cost of sales.....			<u>280,279</u>
Gross Profit.....			177,469
<i>Other revenues:</i>			
Building society interest received.....		192	
Rent received .....		<u>1,125</u>	
			<u>1,317</u>
			178,786
<i>Less:</i>			
Repairs.....	(1)	18,420	
Light and heat .....	(2)	8,100	
Depreciation.....		2,010	
Insurance.....	(3)	7,556	
Employee costs .....	(4)	58,800	
Discount allowed .....		7,480	
Discount received .....		(879)	
Postage and packaging.....	(5)	6,858	
Subscriptions .....	(6)	3,400	
General expenses .....	(7)	20,070	
Bad debts .....	(8)	1,150	
Sundry.....	(9)	<u>3,240</u>	
			<u>136,205</u>
Net profit/(loss)			<u>42,581</u>

## NOTES

(1) *Repairs*

	€
Replacement kitchen in Sheila's private residence.....	6,920
Provision for repairs to shop premises.....	8,000
Sheila has noticed a deterioration in the shop and she hopes to undertake renovation work commencing in January 2009. She has received an estimate from the builder for €8,000.	
Repairs to damaged shop windows and doors. ....	3,500
The insurance company has processed a claim for these repairs and agreed to pay €1,800. The cheque was received by Sheila in March 2009 and is not included in these accounts. €3,500 represents the gross cost of the repairs done.	
	<u>18,420</u>

(2) *Light and heat*

	€
ESB for business premises.....	4,200
Oil .....	<u>3,900</u>
	8,100

The oil is used in both the business and the private residence. 20% of the bills are for private use.

(3) *Insurance*

	€
House insurance for private residence .....	786
Permanent health insurance for Sheila.....	1,350
Medical insurance paid for employees .....	1,150
Public liability for business premises .....	<u>4,270</u>
	7,556

**QUESTION 3 (Cont'd.)**

(4) <i>Employee costs</i>	€
Sales course undertaken by an employee.....	1,500
Cost of holiday taken by Sheila .....	1,210
Wages incl. PAYE/PRSI .....	52,790
Cost of trailer purchased for use by the sales rep. ....	2,150
Cost of holiday for 'employee of the year' .....	<u>1,150</u>
	58,800

Sheila was anxious for one of her employees to gain a recognised qualification in sales. The employee was encouraged to undertake a course at the local Institute of Technology. The full cost of the course was €1,500 and Sheila agreed to fund 75% of the cost with the employee paying the balance. The employee gave Sheila a cheque for €375 and she lodged this to her personal bank account.

In addition to the above, Sheila informs you that a bonus based on achieving sales targets for 2008 amounting to €4,800 was paid to employees in January 2009. This expense has not been accrued in the accounts.

(5) <i>Postage and packaging</i>	€
Postage and printing of marketing material to important customers .....	3,458
Purchase and posting of Christmas cards.....	850
Printing of leaflets.....	400
Packaging material used in the business. ....	<u>2,150</u>
	6,858

The leaflets printed advertised the January sales and were included in the Christmas cards sent to customers. 20% of the leaflets were surplus to requirements and scrapped. Sheila discovered that she ordered too many Christmas cards and rather than scrapping them she posted them to her friends and family. Sheila estimated that 10% of the cards were surplus.

(6) <i>Subscriptions</i>	€
Trade magazines .....	1,300
Registered charity .....	100
Monthly health club subscription .....	800
Local football club membership fees.....	<u>1,200</u>
	3,400

Sheila feels that since she started exercising in the gym her energy levels have increased and she has been able to devote more time to the business as a result.

Sheila enrolled her children as members of the local football club. Many of the club members are business customers and Sheila feels the membership is essential to create goodwill for the business.

(7) <i>General expenses</i>	€
Sponsorship of local football team .....	850
Cost of trip to Donegal to watch football team play in Cup Final .....	350
Contribution to Pension Fund for Sheila .....	3,800
Car running expenses.....	4,120
Repayment of term loan .....	<u>10,950</u>
	20,070

The sponsorship cost refers to the purchase of a set of jerseys with Sheila's business logo printed on the back of the jerseys.

The car is used 60% of the time for business purposes.

Sheila won €15,000 in the Lotto and decided to repay the business term loan with her winnings. Included in the amount repaid is interest of €860 for the period 1<sup>st</sup> Jan 2008 to date loan was repaid.

**QUESTION 3** (*Cont'd.*)

(8)	<i>Bad debts</i>	€
	Bad debts written off .....	1,800
	Bad debts recovered.....	(900)
	Increase in specific provision for bad debts.....	1,500
	Decrease in general bad debts provision.....	<u>(1,250)</u>
		1,150
(9)	<i>Sundry</i>	
	All are allowable	

**Requirement**

Compute Sheila's Schedule D, Case I tax adjusted profits for the year ended 31<sup>st</sup> December 2008.

**Total 20 Marks**

**SECTION B****Answer TWO of the three questions in section B****QUESTION 4**

You have been asked to manage the payroll system of XTV Ltd. Details regarding two employees are as follows:

**Pierce Brosnan**

Pierce commenced employment with XTV Ltd on the 1<sup>st</sup> March 2008. Prior to commencing employment Pierce had been working in London for the previous seven years. The following details are relevant for each of the two months March and April 2008.

Salary per month.....	€ 4,000.00
Pension contribution per month.....	€ 200.00

Pierce is a member of XTV Ltd's pension scheme. In addition to the contribution made by Pierce as above, XTV Ltd. contributes €500 per month to the pension on Pierce's behalf.

In addition to his salary and pension contribution Pierce has the use of a company car. Following discussions with the Finance Director, Pierce has been made aware of the fact that a benefit in kind of €4,200 per annum will apply.

Pierce was late contacting the Revenue regarding his new employment and as a consequence he did not have any Revenue documentation or PPS number when his wages were being calculated for the month of March 2008. He got a shock when he discovered the amount of deductions for PAYE/PRSI and quickly sorted out his affairs in time for the wages calculation for the month of April 2008. The enclosed tax deduction card was received by XTV Ltd. on the 15<sup>th</sup> April 2008.

**Rachel Pointer**

Rachel has been employed by XTV Ltd. for a number of years and is paid weekly.

Rachel's weekly wage amounts to €480 gross. Prior to going on holiday for the summer Rachel worked overtime and earned an additional €225 for one week.

Details extracted from the 2008 tax deduction card for Rachel are as follows:

Weekly cut off point.....	€ 680.00
Weekly tax credits.....	70.38
Week 1 basis applies	

**Requirement**

- (a) Complete the enclosed tax deduction card (form P9/P11) in respect of Pierce for the month of April 2008. You are also required to clearly show a computation of Pierce's take home pay for the months of March and April 2008.
- 10 Marks**
- (b) Compute Rachel's take home pay for a standard week and for the week where overtime was worked using the week 1 basis in the calculation of the tax due. Clearly show all your workings.

**10 Marks**  
**Total 20 Marks**

**N. B.** Form P9/P11 is supplied with the examination paper for the purposes of answering this question.

**QUESTION 5**

The following multiple-choice question consists of TEN parts, each of which is followed by FOUR possible answers. There is ONLY ONE right answer in each part.

**Requirement**

Indicate the right answer to each of the following TEN parts.

**N. B.** Each part carries 2 marks

**Total 20 Marks**

*Candidates should answer this question by ticking the appropriate boxes on the special green answer sheet, which is supplied with the examination paper.*

[1] Sheila's total income for Income Tax purposes is €85,000. In the 2008 tax year she paid €24,000 to employ an individual to care for her incapacitated mother who lives with her. Sheila's taxable income for 2008 amounts to:

- (a) €35,000
- (b) €61,000
- (c) €85,000
- (d) None of the above

[2] Oliver is single and his taxable income for the 2008 tax year amounts to €56,000. He incurred medical expenses in the 2008 tax year as follows:

Visits to the doctor.....	€340
Prescriptions .....	€125
Visit to the dentist for annual check up .....	€80
Stay in hospital for operation.....	€480

In January 2009 Oliver made a claim from his health insurance company and received a cheque for €220 in March 2009 regarding his claim.

The claim for tax relief in respect of medical expenses for 2008 should result in Oliver's tax liability for 2008 being reduced by:

- (a) €145.00
- (b) €246.00
- (c) €189.00
- (d) €297.25

[3] In January 2009 Peter realised that his employer operated on the basis that his weekly cut off point for the 2008 tax year was €600 per week. Following a query to the local tax office Peter has been informed that the correct annual cut off point for the year should have been €35,400. If Peter's taxable income for 2008 amounted to €46,000 Peter can expect a refund of tax for the 2008 tax year amounting to:

- (a) €840
- (b) €882
- (c) €1,722
- (d) None of the above

[4] Joe has been a carpenter for a number of years. His annual turnover for 2008 has increased to approximately €90,000. In relation to VAT Joe:

- (a) is obliged to register as his turnover is in excess of the registration limit.
- (b) is not obliged to register as his turnover is less than the registration limit.
- (c) is not obliged to register as he is involved in an exempt activity.
- (d) is not obliged to register as he is engaged in a Zero Rated activity.

**QUESTION 5 (Cont'd.)**

- [5] Jennifer submitted her Income Tax return for 2007 and paid the Income Tax due using the ROS system on the 4<sup>th</sup> November 2008. The Income Tax and PRSI due for the 2007 tax year amounted to €3,850. A friend informed Jennifer that she is late submitting the return as the deadline for submission was the 31<sup>st</sup> October 2008. The position regarding the 2007 tax year is:
- (a) A surcharge of €192.50 will be levied because of the late submission.
  - (b) A surcharge of €385.00 will be levied because of the late submission.
  - (c) No surcharge is levied because an extension to the deadline applies when the ROS system is used.
  - (d) No surcharge is levied as the deadline for submission of the 2007 income tax return is the 30<sup>th</sup> November 2008.
- [6] Paula ceased self employment on the 30<sup>th</sup> September 2008. Her tax adjusted profits per accounts prepared were as follows:
- |   |         |
|---|---------|
| Year ended 31 <sup>st</sup> March 2008.....       | €15,000 |
| Period ended 30 <sup>th</sup> September 2008..... | €12,100 |
- The Schedule D Case 1 assessment for the 2008 tax year will amount to:
- (a) €15,850
  - (b) €15,000
  - (c) €12,100
  - (d) €27,100
- [7] The VAT inclusive cost of a contract is €35,752.50. If the rate of VAT is 13.5%, then the VAT exclusive cost of the contract is:
- (a) €4,252.50
  - (b) €4,826.59
  - (c) €31,500.00
  - (d) None of the above
- [8] For VAT purposes the supply of a computer to a doctor is:
- (a) A zero rated supply of goods.
  - (b) An exempt activity.
  - (c) A taxable supply of goods where the doctor can claim an input credit.
  - (d) A taxable supply of goods where the doctor cannot claim an input credit.
- [9] Paulita is self employed. For the 2008 tax year her assessable Schedule D, Case I income amounted to €48,700. The PRSI class that is applicable and the amount of PRSI due for the 2008 tax year is:
- (a) Class S0 and €1,461
  - (b) Class S1 and €2,435
  - (c) Class S0 and €2,435
  - (d) Class S1 and €1,461
- [10] The taking of goods from a business by a VAT registered trader for personal use:
- (a) is a self supply
  - (b) has no VAT consequences if the market value of the goods does not exceed €20.
  - (c) has no VAT consequences if the cost price of the goods does not exceed €20.
  - (d) has no VAT consequences as drawings are outside the scope of VAT

**QUESTION 6**

Jenny and Bill have been jointly assessed to Income Tax for a number of years. Details of their income and outgoings for the 2008 tax year are as follows.

**Jenny****Income**

Salary from AB Ltd (Excl. BIK) .....	€44,150
Bonus for the year ended 31 December 2007 (paid in March 2008) .....	€2,100
The bonus for the year ended 31 December 2008 amounting to €2,450 was paid in February 2009.	
PAYE deducted in 2008 .....	€5,950

From the 1<sup>st</sup> June 2008 AB Ltd. provided Jenny with a company car. The cost of the car when purchased new amounted to €34,000. All expenses relating to the car are paid by AB Ltd. and Jenny makes a contribution to the company of €100 per month in connection with private miles travelled.

In the period 1<sup>st</sup> June 2008 to 31<sup>st</sup> December 2008 Jenny travelled 25,100 miles in total and she estimates that 25% of the miles travelled were private.

Deposit interest .....	€360
The amount received was paid net of Deposit Interest Retention Tax at 20%.	

Dividends received .....	€152
The amount received was paid net of Dividend Withholding Tax at 20%.	

**Bill****Income****Self employment**

Bill has been self employed for a number of years as a carpenter. Accounts for the year ended 31<sup>st</sup> January 2008 show assessable Case 1 income of €23,100.

**Rental income**

Income and outgoings for commercial rental property in the year ended 31 December 2008 are as follows:

Gross rents .....	8,650
Mortgage interest paid .....	5,350
Repairs to heating system .....	860
Advertising property for rent .....	220

**Outgoings****Pension Scheme**

In September 2008 Bill commenced to contribute €500 per month to a Revenue approved pension scheme.

Loan repayments .....	€5,300
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In February 2008 Bill decided a storage shed was needed for his carpentry business. He took out a loan with the Credit Union to finance the cost of the shed. Included in the loan repayments is interest of €1,750.

**Requirement**

Prepare an income tax computation for 2008 in respect of Jenny and Bill.

**Total 20 Marks**

*For the purposes of answering this question ignore PRSI*

# 1st Year Examination: Autumn 2009

## Taxation I (ROI)

### Solutions

#### Solution 1

Ms Patricia Client,  
New Street  
New Town

AXY Accountants,  
A Street,  
A Town

Date

Telephone

Dear Patricia,

I am writing this letter in response to your request for clarification regarding Zero Rated and Exempt activities. You asked for a definition of these terms, how these terms impact on business in general and specifically how they impact on your business.

#### Exempt Activities

Goods and services which are exempt from VAT are listed in the First schedule of the VAT Act 1972. The main items with exempt status include educational services, medical services, banking, insurance, passenger transport services and funeral undertaking.

The effect of exemption from VAT is that the supplies of goods/services made by exempt persons are not liable to VAT and the person is not entitled to any input credit for VAT suffered on purchases. The exempt trader is not obliged to make VAT returns or maintain VAT records.

This term does not impact on your business as you are supplying taxable goods and services. You are obliged to charge VAT at the appropriate rate and in your case that is 21%, 13.5% and Zero%.

#### Zero Rated Activities

The effect of zero rating is that the supplier is technically liable to VAT, but at a zero rate. He therefore has no VAT liability on his business receipts but is entitled to a full VAT input credit for any VAT suffered on his business purchases.

Goods and services liable at the zero rate are listed in the Second Schedule of the VAT Act 1972. They include the export of goods abroad, animal feeding stuffs and fertiliser, normal food and drink, medicines, seeds and plants and personal clothing for children not exceeding ten years of age.

As your business consists in part of the export of goods abroad the zero rate will apply to some of your business receipts.

**Solution 1 (cont'd)**

Below is a calculation of the VAT due on sales for the period May/June.

**Sales Book**

	<b>Total</b>	<b>21%</b>	<b>13.5%</b>	<b>Zero %</b>	<b>VAT</b>
Per Records	264824	159800	14600	47100	36216
Invoice 1561		-2000			
Invoice 1613			9000		
Invoice 1678					108
	<u>264824</u>	<u>157800</u>	<u>23600</u>	<u>47100</u>	<u>36324</u>
Cross Check					
	157800	21%		33138	
	23600	13.50%		<u>3186</u>	
					36324
Cash Sales per cash book					
38550					6690
Cash sales not recorded					
1985					345
Zero rated sales €9,680					1680
Include at 21%					
VAT on Sales					<u>45039</u>

You will note I had to make adjustments to your records due to the errors in recording invoices numbered 1561, 1613 and 1678. Errors of these type can be identified by cross checking the totals included in your Sales book.

You have made a fundamental mistake in recording some of your sales. The sale of furniture is taxable at 21%. In your case you recorded the sale of furniture purchased at auction at the zero rate. The fact that you did not pay VAT when you purchased the furniture does not have an impact on the VAT rate applicable to the sale of these goods. From above you can see that the VAT due on the sales of €9,680 amounts to €1,680.

The receipt of €900 from a debtor should have been recorded in your cash book. However, it does not impact on the VAT due as you account for VAT on an invoice basis.

The receipt of €1,985 from the sale of furniture should have been recorded in the cash book. The VAT rate applicable to this sale is 21% and the VAT amounts to €345. The fact that the purchaser intends selling the stock in the UK does not impact on the VAT rate applicable to the transaction.

I trust this letter explains the issues that concerned you. Please do not hesitate to contact me if you have any further queries.

Yours faithfully,

A Technician

**Solution 2****Report to the Finance Director  
PAYE/PRSI Issues****Date**

**(i)** ART Ltd has a responsibility to deduct PAYE/PRSI from wages paid to all employees including part time staff earning in excess of €2 per week. Each employee should be asked to produce a certificate of tax credits and cut off point. In the absence of a certificate ART Ltd. should operate PAYE/PRSI on an emergency basis.

**(ii)** Interest paid to the Revenue results from the late payment of PAYE/PRSI. The normal procedure is that ART Ltd should remit PAYE/PRSI deducted monthly on forms P30. Art Ltd is obliged to remit to the Collector General the PAYE/PRSI deducted within 14 days of the end of the income tax month.

The amount remitted should include PAYE deducted less any tax refund, PRSI deducted from employees and PRSI contributions of the employer.

Art Ltd could enter into an agreement with the Collector General to pay the PAYE/PRSI due by monthly direct debit. Care needs to be taken to ensure that the amount paid monthly covers the total PAYE/PRSI due for the year.

**(iii)** Proper procedures have not been followed when employees leave ART Ltd. This results in tax deduction cards being received for employees who have ceased employment. The proper procedure is that where an employee leaves his employment or dies while in employment the employer is obliged to complete form P45. The form is divided into four parts. Part 1 should be sent to the tax office or filed using ROS. Parts 2, 3 and 4 should be given to the employee who is leaving.

Part 1 of form P45 acts as a notification to the Inspector of Taxes of the cessation of employment. In the case of a deceased employee all four parts of form P45 should be forwarded to the tax office.

**(iv)** If a new employee is taking up employment for the first time, he should be requested to obtain a tax credits and cut off point certificate. He can secure such a certificate by completing a form 12A and submitting it to the tax office.

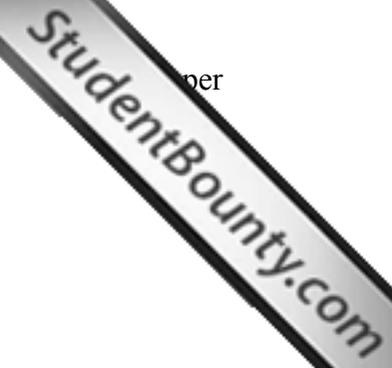
If the employee is resuming employments he should be requested to produce parts 2 and 3 of the form P45. Art Ltd should send part 3 to the tax office (or file on ROS). Part 3 is effectively a request for a tax deduction card in respect of the new employee. Until receipt of the tax deduction card ART Ltd should operate PAYE on a temporary basis.

In certain cases forms P46 should be completed and forwarded to the tax office. In the absence of proper documentation ART Ltd will need to calculate PAYE on the emergency basis.

**Question 3**

**Adjusted Profit Computation Question**  
**Sheila**  
**Accounts year ended 31st December 2008**  
**Schedule D Case I**

Net Profit	€	€
		42,581
<u>Addbacks</u>		
Depreciation	2,010	
Kitchen	6,920	
Provision for repairs	8,000	
Cheque from Insurance Company	1,800	
Oil	780	
House insurance	786	
Permanent health	1,350	
Holiday for Sheila	1,210	
Trailer	2,150	
Course cheque	375	
Christmas Cards	85	
Charity	100	
Health Club	800	
Membership fee	1,200	
Trip to Donegal	350	
Pension contribution	3,800	
Term loan	10,950	
Car expenses	1,648	
		44,314
<u>Deductions</u>		
Building Society Interest earned	-192	
Interest	-860	
Rent received	-1,125	
Bonus	-4,800	
Decrease BD Prov	-1,250	
		-8,227
<b>Schedule D Case I - tax adjusted profits</b>		<b>78,668</b>



**Solution 4**

**Pierce Brosnan**

**Month 3**

Salary		4000.00
Pension		<u>200.00</u>
		3800.00
BIK	4,200/12	<u>350.00</u>
Taxable		4150.00

PRSI Employee

550.00	@ 2%	11.00
3600.00	@ 6%	<u>216.00</u>
4150.00		227.00

PRSI Employer

4150.00	@10.75%	<u>446.13</u>
Total PRSI		<u>673.13</u>

PAYE

4150.00	@ 41%	1701.50
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**Take Home Pay**

**Month 3**

**Month 4**

Pay	3800.00	3800
PRSI	227.00	227.00
PAYE	1701.50	-1261.5
	1871.50	4834.50



**Solution 4 (Cont'd)**

**Rachel Pointer**

	<b>Standard Week</b>	
Wages	480.00	
Tax @ 20%	96.00	
Tax credits	70.38	
	<u>25.62</u>	
PRSI Employee		
127.00 @ 0%	0.00	
353.00 @ 4%	<u>14.12</u>	
480.00	14.12	
PRSI Employer		
480.00 @ 10.75%	<u>51.60</u>	
Total PRSI	<u>65.72</u>	

<b>Take Home</b>	
Gross pay	480.00
Tax	25.62
PRSI (EE)	<u>14.12</u>
	<u>440.26</u>

	<b>Overtime week</b>	
Salary	705.00	
Tax 680 @ 20%	136.00	
25 @ 41%	<u>10.25</u>	
	146.25	
Tax credits	<u>70.38</u>	
	75.87	

PRSI Employee			
127.00 @ 2%	2.54		
578.00 @ 6%	<u>34.68</u>		
705.00	37.22		
PRSI Employer			
705.00 @ 10.75%	<u>75.79</u>		
Total PRSI	<u>113.01</u>		

<b>Take Home</b>	
Gross pay	705.00
Tax	75.87
PRSI (EE)	<u>37.22</u>
	<u>591.91</u>

**Solution 5**

- [1] B
- [2] D
- [3] B
- [4] C
- [5] C
- [6] A
- [7] C
- [8] D
- [9] B
- [10] A



**Solution 6**

**Jenny and Bill  
Income Tax Computation 2008**

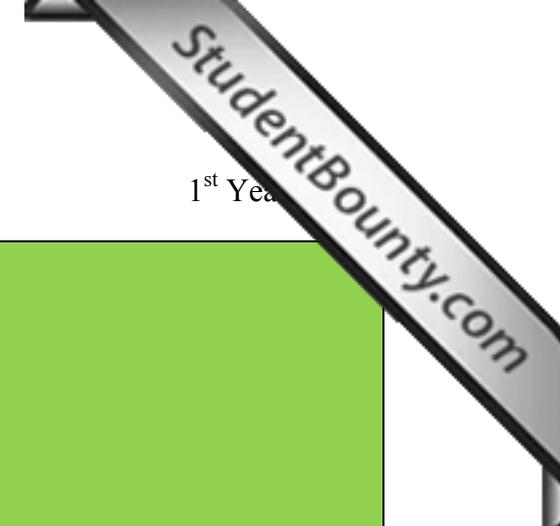
<b>Jenny</b>		€	
Sch E	Salary	44150	
	Bonus	2450	
	BIK (see working)	490	
Sch D	Deposit interest	450	
	Dividends received	<u>190</u>	
			47730
 <b>Bill</b>			
Sch D	Case I	23100	
	Pension	2000	
		21100	
	Rental income	8650	
	<u>Less expenses</u>		
	Interest	5350	
	Repairs	860	
	Advertising	<u>220</u>	
		<u>6430</u>	
		<u>2220</u>	
			<u>23320</u>
			<u>71050</u>
Total income			<u>71050</u>

Working

<b>BIK</b>	
Mileage for 7 months	25100
annual mileage	43029
Business miles (75%)	32271
Rate of BIK	6%
Car	34000
Rate	6%
Annual BIK	2040
7 months	1190
Contribution	<u>700</u>
	490

**Solution 6**  
(Cont'd)

Tax			
44400	@ 20%	8880.00	
450	@ 20%	90.00	
23320	@ 20%	4664.00	
<u>2880</u>	@ 41%	<u>1180.80</u>	
71050			14814.80
Tax credits			
Married		3660	
PAYE		<u>1830</u>	
			<u>5490</u>
			9325
Paid PAYE		5950	
DWT		38	
DIRT		<u>90</u>	
			<u>6078</u>
Tax due			<u>3247</u>



# 1<sup>st</sup> Examination: Autumn 2009

## Taxation I (ROI)

### Examiner's Report

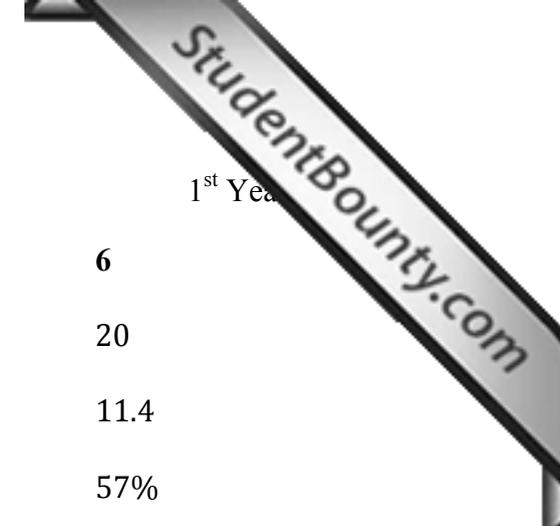
**Subject:** TAXATION I (R.O.I.)

**Part:** 1<sup>st</sup> YEAR EXAMINATION AUTUMN 2009

#### Page 1 of Standardised Format of Examiners Report

(1) Number of Candidates                      **240**

(2) Average Mark per Question



Taxation I (ROI)

Autumn 2009

1<sup>st</sup> Year

<b>Question</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
Mark Available	20	20	20	20	20	20
Average Mark	6.9	9.2	12.9	11.0	10.4	11.4
Average %	35%	46%	64.5%	55%	52%	57%
No. attempting	231	197	235	169	148	163
% attempting	96%	82%	98%	70%	62%	68%

(3) General comment:  
The pass rate in this examination was 57%. This compares to the pass rate of 47% achieved in the Autumn 2008 examination.

(4) Comments on Individual Questions  
See attached

**Question 1**

This question tested the candidates' knowledge of the VAT system. Overall the solutions were very poor with an average mark of 6.9 achieved by candidates.

**Part (a)**

Poorly answered with candidates displaying confusion regarding the difference between Zero rated and Exempt activities. Too many candidates suggested that Patricia should not charge VAT to her customers who were operating exempt businesses.

**Part (b)**

This was also poorly answered with many candidates failing to answer the question asked. Candidates were expected to explain their treatment of any relevant issues identified from examination of the sales records and also to quantify the tax due on sales for the May/June period.

Too much time was spent on the book keeping issues identified rather than quantifying the amount of tax due. Very many candidates suggested that errors were made in the records but failed to quantify the amount of tax resulting from these errors.

In general, presentation was poor and the workings supplied were difficult to follow.

**Question 2**

This question tested candidates' ability to explain various issues regarding the operation of the PAYE system. It is clear from the solutions presented that candidates are not comfortable with explaining various issues as required by a question of this type. It is suggested that time should be taken to formulate an answer to ensure the particular issue raised by the question is addressed. Too often candidates write on general topics rather than address the specific point raised by the question.

**Part (a)**

Many candidates correctly suggested that PAYE/PRSI should be operated on wages to part time staff. However, few suggested that ART Ltd should request employees to produce a certificate of tax credits and cut off point.

**Part (b)**

Solutions demonstrated confusion regarding forms to be completed and especially the difference between forms P30 and P35. Few candidates were able to demonstrate knowledge of the deadline for the submission of forms and consequently lost marks.

**Part (c)**

This part was well answered by many.

**Part (d)**

Many candidates scored well in this part. However, very many candidates repeated points that were raised in other parts of their answer to this question.

**Question 3**

This question required the candidate to prepare an adjusted profit computation. The average mark achieved was 12.9.

Candidates who failed to pick up marks made the following errors:

Incorrect treatment of the insurance claim for €1,800.

Failure to add back the cheque for €375 received from an employee in connection with the sales course undertaken.

Incorrectly adding back the full cost of the purchase and posting of Christmas cards to customers.

Adding back the cost of sponsorship of the local football team.

Failure to correctly identify the add back in respect of the repayment of the term loan.

In general this question was well answered. Solutions were well presented and easy to follow. There is a concern that some candidates are taking too much time to explain their add backs and adjustments. This could lead to time problems in the examination.

**Question 4**

This question required the calculation of take home pay and tested the candidate's knowledge of the PAYE/PRSI system. The average mark achieved was 11.

**Part (a)**

Solutions presented were disappointing. Many candidates were able to calculate the PAYE/PRSI for the month of March. However, too many candidates did not apply the cumulative basis when calculating the deductions for the month of April. Solutions were presented on the basis that the month 1 basis applied to April. Few candidates used the tax deduction card to calculate the refund due for April. There seems to be a reluctance to use tax deduction cards in calculating the PAYE due. Too often computations are presented and the figures then transferred to the tax deduction card.

Very many candidates who correctly calculated the PAYE and PRSI due were unable to quantify the take home pay. The main error encountered was the inclusion of the BIK as pay.

**Part (b)**

Well answered by most candidates with many candidates scoring full marks.

**Question 5**

This was a multiple choice question with an average mark a disappointing 10.4.

**Question 6**

Candidates were asked to prepare an income tax computation using joint assessment. The average mark achieved was 11.4.

Solutions were well presented and easy to follow. Candidates lost marks in the following areas.

Incorrect calculation of the assessable BIK. This weakness on the part of candidates has been a feature of past examinations. Candidates should be aware that this topic regularly features in income tax questions and will feature in future examinations on a regular basis.

Incorrectly quantifying the amount of the assessable Case V income. Many candidates incorrectly included the mortgage interest in the computation as a tax credit rather than a Case V deduction.

Failure to quantify the deduction due for pension contributions. Many candidates included a deduction for €6,000 rather than €2,000 for the months of September to December.

Incorrect calculation of the 20% rate band due. Very many candidates failed to increase the 20% rate band by the amount of the income subjected to DIRT.

**General Matters**

None