
Taxation Republic of Ireland

1st Year Examination

August 2012

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.

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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. Alternative answers will be marked on their own merits.

This publication is intended to serve as an educational aid. For this reason, the published solutions will often be significantly longer than would be expected of a candidate in an examination. This will be particularly the case where discursive answers are involved.

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Accounting Technicians Ireland

1st Year : August 2012

TAXATION(Republic of Ireland)

Thursday 23rd August 2012 – 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 (No. 3) 2011. The provisions of the Finance Act 2012 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. €s, 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:

- **Tax Reference Material**
- **P9/P11 Tax Deduction Card (QUESTION 2)**
- **P45 (QUESTION 2)**

SECTION A**Answer ALL THREE questions in this section****QUESTION 1**

Coco and Simon have been married for a number of years. Details of their income and outgoings for the 2011 tax year are as follows.

Simon**Income**

Salary from XXX Ltd. €45,800

Bonus for the year ended 31 December 2011 (paid in March 2012) €3,200

The bonus for the year ended 31 December 2010 amounting to €2,800 was paid in March 2011.

PAYE deducted in 2011 €9,350

From the 1st March 2011 XXX Ltd. provided Simon with a company car. The cost of the car when purchased new amounted to €30,000. All expenses relating to the car are paid by XXX Ltd. and Simon pays the company €100 per month to cover the cost of private travel. In the period 1st March 2011 to 31st December 2011 Simon travelled 32,500 kilometers in total and he estimates that 25% of the kilometers travelled were private.

Deposit interest received €146

The amount received was paid net of Deposit Interest Retention Tax at 27%.

Dividends received €120

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

Outgoings

Deed of covenant (annual gross amount) €1,000

In May 2010 Simon drew up a deed of covenant in favour of his father who is incapacitated and 89 years of age. When paying the amount due to his father in 2011 Simon deducted 20% income tax from the payment.

Question Continues on the Next Page

QUESTION 1 (Cont'd)

**Coco
Income**

Employment:

Coco is a director and 75% shareholder in Coco Productions Ltd. Company accounts for the year ended 31 December 2011 show that Coco received an interim dividend of €1,200 gross in July 2011 and a final dividend of €3,600 gross in March 2012. Both dividends were paid under deduction of dividend withholding tax at 20%.

Directors' fees were paid in 2011 of €47,800 with PAYE deducted of €10,750.

Coco Productions Ltd. also contributed €2,000 to a Revenue approved pension fund on behalf of Coco.

Rental income:

Coco inherited a shop on the death of her father in December 2010. Coco refurbished the shop at a cost of €80,000 and this was financed by means of a mortgage. The shop was let from the 1st June 2011 at a rent of €850 per month receivable on the first day of every month. Outgoings for the rental property in the year ended 31 December 2011 are as follows:

	€
Mortgage interest paid from 1 March to 31 Dec 2011	5,350
Rates	980
Advertising property for rent	450

Requirement

- (a) Prepare an income tax computation for 2011 in respect of Coco and Simon on the basis that joint assessment applies.

17 Marks

- (b) Advise Coco and Simon on the difference (if any) to the total tax payable if they were assessed to tax on the basis of single assessment. You will need to explain your answer.

3 Marks

Total 20 Marks

For the purposes of answering this question ignore PRSI and USC

QUESTION 2

You have been engaged by AAA Ltd. to manage their payroll system. Details regarding pay and deductions for two employees of AAA Ltd. for week 1 and week 2 of the 2011 tax year are as follows:

Sadie Mulgrew

Week 1	€
Gross Pay	580.00
Add	
Savings Club refund	500.00
Less	
Trade union subscription	4.00
Week 2	
Gross Pay	580.00
Add	
Overtime	160.00
Add	
Bonus	200.00
Less	
Trade union subscription	4.00

Savings Club

AAA Ltd. agreed to deduct €50 per week from employees who are members of the savings club. These deductions were made for 10 weeks and in week 1 AAA Ltd. refunded the amount deducted.

Barry Tierney

Barry commenced employment with AAA Ltd. on the 2nd January 2011. Details of earnings for week 1 and week 2 of the 2011 tax year are as follows:

	€
Week 1	320.00
Week 2	700.00

Copy of form P45 supplied by Barry on commencement of employment is enclosed. No tax deduction card was received from the Revenue before Barry's take home pay was calculated for both weeks.

Requirement:

- (i) Complete the tax deduction card in respect of Sadie Mulgrew for week 1 and week 2 of the 2011 tax year.
- (ii) Calculate the take home pay for Barry Tierney for week 1 and week 2 of the 2011 tax year.

10 Marks

10 Marks

Total 20 Marks

Forms P9/P11 Tax Deduction Card and Form P45 are enclosed with this paper for the purposes of answering this question

QUESTION 3

Sally is in business as a supplier of hair products and is registered for VAT. You have been asked to assist in the preparation of the VAT return on an invoice basis for the year ending 31 December 2011.

Details extracted from Sally's business records are as follows:

Sales Book

Total	21%	VAT
€	€	€
862,125	712,500	149,625

Invoices are issued to credit customers and recorded in the sales book.

During 2011 Sally had difficulty collecting money from a number of credit customers. Following repeated telephone calls the matter was passed to a solicitor and despite letters being issued by the solicitor the money owed was not collected. Following consultation with the solicitor Sally decided to write off the amounts due of €3,630 as bad debts. All the monies due were in respect of sales made in 2010.

Sally has asked you for advice on how to deal with this issue when submitting the 2011 VAT return. No entries have been made in Sally's records for the bad debts written off.

Cash Book

Total Receipts	Cash Wages	Cash Expenses	Bank Lodgements
€	€	€	€
1,048,910	56,960	5,800	986,150

Total receipts is made up of cash sales €260,755 and receipts from credit customers of €788,155

Purchases Book

Total	For Resale			Not For Resale			
	21%	VAT		21%	13.5%	Zero%	VAT
€	€	€		€	€	€	€
934,669	725,000	152,250		36,500	9,140	2,880	8,899

Sally has sought your advice regarding the treatment of a number of invoices not included in the records. Details regarding these invoices are as follows:

Invoice 1

This in respect of hair products imported from Italy. The total cost of the goods was €3,300 and on inspection of the document you notice Italian VAT of €550 was charged.

Invoice 2

This invoice is in respect of the purchase of a van for deliveries to customers. The cost of the van was €4,500 but there is no mention of VAT on the invoice received. The van was purchased from a bank that used it for promotional work. When the van was purchased new by the bank in 2008 VAT of €3,000 was charged and paid by the bank.

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

Sally leased a car for use by the sales director from the 1st June 2011 at a monthly charge of €726 VAT inclusive at 21% and invoices are available for each month. The sales director is allowed use the car for private purposes but Sally is happy that only 10% of the distance travelled is for private use.

The car has a diesel engine and the invoices for diesel purchased amounts to €1,573 VAT inclusive at 21% for the period 1 June 2011 to the 31 December 2011.

Invoice 4

During the year Sally decided to introduce a stock system and purchased an upgrade for her accounting package. The upgrade cost €3,000 excluding VAT at 21%. For convenience Sally loaded the accounting package and upgrade on her laptop. Sally hopes to go live with the new stock system on the 1st March 2012.

Requirement:

- (a) Write a brief note to Sally explaining the correct treatment for each of the invoices numbered 1 to 4 above.

12 Marks

- (b) Calculate the amount of VAT payable by Sally for the year ended 31 December 2011 using the invoice basis of accounting for VAT.

8 Marks

Total 20 Marks

SECTION B

Answer TWO of the three questions in section B

QUESTION 4

Rebecca Green has been in the fashion business for a number of years and prepares accounts to the 31 December each year. The following is an extract from the income statement prepared for the year ended 31 December 2011.

	Notes	€	€
Gross profit			92,075
Other income			
Profit on sale of shares		1,880	
Discount received		<u>425</u>	
			<u>2,305</u>
			94,380
<u>Less expenses:</u>			
Repairs	1	12,920	
Rates		1,800	
Premises costs	2	3,840	
Motor expenses	3	17,260	
Employee costs	4	29,980	
Light and heat	5	8,350	
Legal and professional fees	6	3,190	
Interest and charges	7	12,240	
Postage and stationery	8	3,050	
Depreciation		5,550	
Entertainment expenses	9	<u>800</u>	
			<u>98,980</u>
Net (Loss)			(4,600)

NOTES:

(1) Repairs:	€
New fixtures and fittings	1,250
Extension to shop	10,500
Painting and decorating new extension	950
Replacement of damaged doors	<u>220</u>
	12,920

(2) Premises costs:
Rebecca lives over the shop premises. 25% of premises costs relate to living accommodation.

(3) Motor expenses:	€
Second-hand car purchased	6,500
This car is used 100% for business purposes by the book keeper	
Rebecca's motor expenses	4,660
Round sum expense payments	3,600
Employee's motor expenses	<u>2,500</u>
	17,260

Rebecca travelled 50,000 kilometers during the year. She estimates that 15,000 of kilometers refer to private use.

Rebecca feels she and some employees incur expenses for business purposes for which no receipts are available. To simplify this issue she pays herself €100 per month and the employees €200 per month.

20% of the employee's motor expenses refer to private use.

QUESTION 4 (Cont'd.)

(4) Employee costs

This figure includes €12,800 taken by Rebecca as drawings.

In November 2011 Rebecca was the subject of a Revenue audit for PAYE/PRSI. As a result of this audit €3,000 was paid to the Revenue in respect of the incorrect calculation of PAYE/PRSI for 2011. Included in this figure was interest charged of €250. The full settlement has been included in the accounts above

(5) Light and heat:	€
Heating costs for living accommodation	1,250
Heating costs for shop	1,800
ESB for shop premises and living accommodation	2,800
Purchase and installation of new storage heaters for shop	<u>2,500</u>
	8,350

(6) Legal and professional fees:	€
Legal fees for dispute regarding rates charged	350
Legal fees regarding unfair dismissal claim by an employee	600
Accountancy fees for preparation of accounts	1,250
Architect's fees for submission of planning permission re shop extension	<u>990</u>
	3,190

(7) Interest and charges:	€
Current account fees on business bank account	120
Overdraft interest on business bank account	2,350
Current account fees on personal bank account	110
Term loan interest in respect of shop extension	1,360
Loan repayments	<u>8,300</u>
	12,240

Loan repayments include interest of €2,200 in respect of mortgage taken out when business premises and living accommodation were purchased.

(8) Postage and stationery:	€
Postage	550
Stationery	<u>2,500</u>
	3,050

The stationery costs include €1,200 in respect of the cost of stationery used by Rebecca's tennis club. This amount was refunded to Rebecca by the tennis club in March 2012.

(9) Entertainment expenses:	€
Staff Christmas party	450
Entertaining customers	<u>350</u>
	800

Requirement

Compute Rebecca's Schedule D, Case I tax adjusted profits for the year ended 31 December 2011.

Total 20 marks

QUESTION 5

You are employed by a firm of Chartered Accountants and have been asked to write a letter to a new client who raised the following queries regarding Value Added Tax (VAT):

- (i) The difference between accounting for VAT on an invoice basis compared to accounting for VAT on a cash receipts basis. The new client is anxious to know about the normal basis of accounting for VAT and the conditions that have to be satisfied for an alternative basis to apply.
5 Marks
- (ii) The meaning of the term self-supply as it applies to VAT. You are expected to provide an example of a self-supply and to clearly show the impact on the amount of VAT payable.
5 Marks
- (iii) The difference between a zero rated supply and an exempt supply as it applies to VAT. You will have to provide an example of each supply and clearly demonstrate the impact on the amount of VAT payable.
5 Marks
- (iv) The VAT treatment of imports from a VAT registered business in France to a VAT registered business in Ireland. You are requested to demonstrate how the importation will be accounted for when submitting the VAT return.
5 Marks

Requirement

Write a letter to your client providing him with the information he has requested.

Total 20 Marks

QUESTION 6

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 answer sheet, which is obtained in the answer booklet.

- [1] Interest earned on government securities is taxable under:
- (a) Schedule D Case II
 - (b) Schedule D Case III
 - (c) Schedule D Case IV
 - (d) Schedule D Case V
- [2] An employee who owns 60% of RRR Ltd. rented an apartment from the company for the 2011 tax year and paid rent of €100 per month. The apartment has a market value of €200,000. The assessable BIK for the 2011 tax year amounts to:
- (a) €14,800
 - (b) €15,900
 - (c) €16,000
 - (d) None of the above
- [3] AAA Ltd. is a retailer of electrical goods and is registered for VAT. Recently a customer in the Dublin shop ordered a television for delivery to Belfast. The customer is not registered for VAT in Northern Ireland. The price charged amounted to €650. The amount of VAT included in the sales price amounts to:
- (a) Nil as the goods were exported.
 - (b) Nil as the sale of goods abroad is exempt from VAT.
 - (c) €112.81 as this is a supply of taxable goods.
 - (d) €136.50 as this is a supply of taxable goods.
- [4] Patricia was widowed in 2010 and has two school going children. For the 2011 tax year her weekly cut off point is most likely to be:
- (a) €630.77
 - (b) €707.69
 - (c) €803.85
 - (d) €1,261.54
- [5] AAA Ltd., a retailer, is registered for VAT. In June 2011 the company imported €10,000 of stock into Ireland from the UK. For VAT purposes this transaction is:
- (a) a zero rated export.
 - (b) a self supply.
 - (c) an intra-community acquisition.
 - (d) an exempt transaction.

QUESTION 6 (Cont'd.)

- [6] Neville is an employee earning €500 per week. His employer provided him with a company car which had an original market value of €35,000 when purchased new. The employer pays for all the running costs of the car and Neville travels 50,000 kilometers per annum while on business trips. Neville's taxable pay per week for 2011 amounts to:
- (a) €500
 - (b) €540
 - (c) €581
 - (d) €621
- [7] Charles aged 40 years, is single and earning €75,000 per annum. He rents an apartment at a cost of €1,500 per month. On submission of a claim for tax relief Charles's tax liability for 2011 will be reduced by:
- (a) nil
 - (b) €320
 - (c) €640
 - (d) €1,280
- [8] An employee of ZSE Ltd. earns €8,000 per month. In the 2011 tax year he received a gross dividend of €1,000 from an Irish resident company. On submission of the 2011 tax return the additional income tax payable on the dividend received will amount to:
- (a) Nil
 - (b) €100
 - (c) €210
 - (d) €410
- [9] Sally is living with her mother Mary who is aged 86 years and permanently incapacitated. Mary's income from all sources amounts to €15,000 per annum. For the 2011 tax year Sally is entitled to a tax credit of:
- (a) Nil
 - (b) €70
 - (c) €140
 - (d) €50,000
- [10] Jill commenced business as a hairdresser on 1st September 2011. Her turnover for the 4 months to the end of December 2011 amounted to €20,000. For VAT purposes Jill:
- (a) is obliged to register for VAT from the 1st January 2012.
 - (b) is obliged to register for VAT from the 1st September 2011.
 - (c) is not obliged to register for VAT as she is supplying an exempt service.
 - (d) is not obliged to register for VAT as she is supplying a zero rated service.

1st Year Examination: August 2012

Taxation (ROI)

Suggested Solutions

Students please note: These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

Solution 1

Marks Allocated	(a) Simon and Coco Income Tax Computation 2011 based on Joint Assessment			€	
	Simon				
1/2	Sch E	Salary		45,800	
1		Bonus		3,200	
3		BIK W1		5,000	
	Sch D	Deposit interest			
1/2		146/.73		200	
1/2	Sch F	Dividend received			
		120/.8		150	
					54,350
	Coco				
1/2	Sch F	Dividend received		1200	
1/2	Sch E	Directors fees		47,800	
1	Sch D	BIK Pension		Nil	
2	Sch D	Case V		775	
					49,775
					104,125
	Charges				
1		Deed of covenant			1000
					103,125
		Tax			
1/2		65,600	20%	13,120	
1		200	27%	54	
		37325	41%	15,303	
		103125		28,477	
		Tax credit			
1/2		Married		3,300	
1		PAYE		<u>1,650</u>	
					4,950

Taxation ROI

August 2012

1

				23,527
1/2	PAYE		9,350	
1/2	PAYE		10750	
1/2	DWT		30	
1/2	DWT		240	
1/2	DIRT		54	
				20,424
	Tax due			3,103
	Add			
	Deed of covenant			
1		1000	20%	200
				3,303

(b)
 The difference in tax payable using single assessment compared to joint assessment is Nil.
 Under single assessment Simon and Coco would be entitled a 20% rate band of €32,800 each.
 Under joint assessment they have received €65,600 which is the same as that due under single assessment.
 In addition there are no excess tax credits available for transfer between Simon and Coco.

20

W1

Simon

BIK

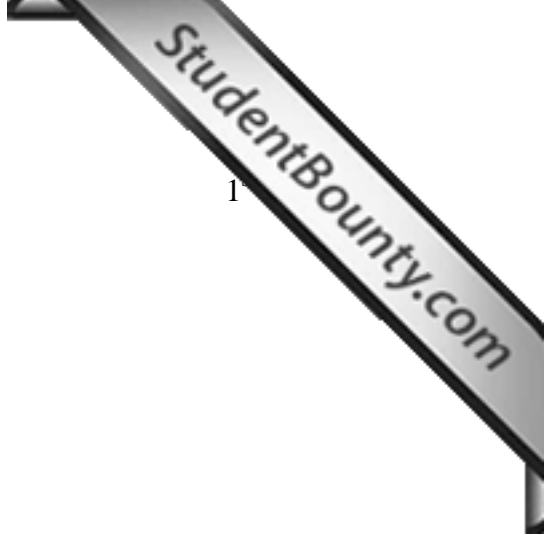
Car MV			30000
Kios travelled 10 months		32500	
Annual equivalent		39000	
Business 75%		29250	
% BIK		24%	
Annual BIK		7200	
BIK 10 months contribution			6000
	€100 pm		1000
			5000

Coco

Rental Income

Rents received	7 months		5950
Expenses			
Rates		980	
Mortgage interest		5350	
Pre letting		1605	
			3745
Advertising			450

5175
775



Solution 2

(a) Sadie Mulgrew

Marks Allocated				Week
1	Gross pay			580
	Tax			580
		580	20%	116.00
		0	41%	0.00
				116.00
1	Tax credit			63.46
				52.54
PRSI Class A1				
1	Pay			0
		127	0%	0
		<u>453</u>	4%	<u>18.12</u>
		<u>580</u>		<u>18.12</u>
1/2	Employer PRSI	10.75%		62.35
	Total PRSI			80.47
USC				
	Take Home Pay			580.00
		Pay		580.00
		Tax	52.54	
		PRSI	18.12	
		USC	<u>27.50</u>	
				<u>98.16</u>
				481.84
	Trade Union sub			4.00
	Saving refund			<u>500.00</u>
				977.84
	USC			
		193.00	2%	3.86
		115.00	4%	4.60
		272.00	7%	19.04
		580.00		
1	Total due		27.50	
1	Completion of TDC			

Taxation ROI

August 2012

1

				Week		
				2		
Marks Allocated				Gross pay	580	
				Overtime	160	
				Bonus	200	
	1				940	580
						Cumul 1520
				Tax		
		1262	20%	252.40		
		258	41%	105.78		
		1520			358.18	
				Tax credit	126.92	
				231.26		
1			Paid week 1	52.54		
				178.72		
			PRSI Class A1			
			Pay			
				127	0%	0
				<u>813</u>	4%	<u>32.52</u>
1				<u>940</u>		<u>32.52</u>
1/2			Employer PRSI	10.75%		101.05
			Total PRSI			133.57
			USC			52.70
			Take Home Pay			940.00
				Pay		
				Tax	178.72	
				PRSI	32.52	
				USC	<u>52.70</u>	
						<u>263.94</u>
						676.06
						4.00
						672.06
			USC			
				193.00	2%	3.86
				115.00	4%	4.60
				632.00	7%	44.24
				940.00		
1			Total due		52.70	

Taxation ROI

August 2012

1

Marks Allocated	1	(b) Barry Tierney	Week 1	Week 1 Basis	
	1/2	Pay	320.00		
		Tax @ 20%	64.00		
		Tax credit	<u>70.00</u>		
	1	Tax due	<u>0.00</u>		
		 PRSI Class AO			
		<u>320.00</u>	0%	<u>0</u>	
	1				
		USC		<u>9.30</u>	
		USC			
	193.00	2%	3.86		
	115.00	4%	4.60		
	12.00	7%	0.84		
1	<u>320.00</u>		<u>9.30</u>		
	Take Home Pay	Pay		320.00	
		Tax	0.00		
		PRSI	0.00		
		USC	<u>9.30</u>		
1				<u>9.30</u>	
				310.70	
			Week 2	Week 1 Basis	
1/2	Pay		700.00		
	648.1	20%	129.62		
	51.90	41%	<u>21.28</u>		
	700.00		150.90		
	Tax credit		70.00		
1			80.90		
	 PRSI Class AL				
	127.00	Nil	0		
	<u>573.00</u>	4%	<u>22.92</u>		
1	700.00		22.92		
	USC		<u>35.90</u>		

Taxation ROI

August 2012

1

		USC		
Marks Allocated		193.00	2%	3.86
		115.00	4%	4.60
		392.00	7%	27.44
	1	700.00		35.90
	Take Home Pay	Pay		700.00
		Tax	80.90	
		PRSI	22.92	
		USC	<u>35.90</u>	
				<u>139.72</u>
1				560.28
20 marks				

Solution 3

Marks Allocated	Sally				
	Purchases Book				
		Total	For Resale		
			21%	13.50%	VAT
		€	€	€	€
	Per records	934,669	725,000	-	152,250
	(ii) Van	4,500			
	(iii) Car	5,082			
	(iii) Diesel	1,573			
	(iv) Accounting upgrade	3,630			
1		949,454	725,000	0	152,250
1	(i) Imports Italy	3,993	3,300		693
		953,447	728,300	0	152,943

Not For Resale				
21%	13.50%	Zero%	VAT	
€	€	€	€	
36,500	9,140	2,880	8,899	934,669
		4,500	0	
		5,082	0	
1,300			273	
3,000			630	
40,800	9,140	12,462	9,802	949,454
40,800	9,140	12,462	9,802	
			953,447	

Taxation ROI

August 2012

1

Sales		21%	VAT	Total
1	Credit Sales	712,500	149,625	862,125
2	Bad debts	3,000	630	3,630
		709,500	148,995	858,495
1	Cash Sales	215,500	45,255	260,755
		925,000	194,250	1,119,250
1	Imports	3,300	693	3,993
		928,300	194,943	1,123,243
			194,943	
VAT Due				
	Sales			194,250
	Imports			693
				194,943
	Purchases resale		152,250	
	Purchases NFR		9,802	
	Imports		693	
				162,745
1	Due			32,198

3 **Invoice 1**

The importation of products from Italy is an intra-community acquisition. Sally is VAT registered and the Italian supplier should have quoted Sally's Irish VAT registration number on the invoice. The supply should have been charged at the zero rate of VAT and Sally should have self-accounted for Irish VAT on the supply of the hair products. Sally should contact the Italian supplier to obtain a credit note or a refund for the VAT charged.

3 **Invoice 2**

VAT on the purchase of a van for business use is recoverable. However, to claim a VAT input credit Sally would need to be in possession of a VAT invoice showing the amount of VAT charged on the supply of the van. It is unlikely that any VAT was charged on the supply of the van as the bank is exempt from VAT and would therefore not charge VAT on the supply. The fact that the bank paid VAT on the purchase of the van in 208 is not relevant.

3 **Invoice 3**

VAT incurred on the purchase, hire or leasing of passenger motor vehicles is not deductible even when incurred by a business for the purposes of its taxable supplies. A partial VAT input credit is available where the company car is used for at least 60% business purposes. This input credit only applies to cars within the VRT categories A, B and C. Sally will need to check the VRT category of the car leased for the sales director. The VAT incurred on the purchase of diesel is allowed as a VAT credit.

Taxation ROI		August 2012		1
	Interest and charges			
1		Personal bank fees	110	
1		Loan repayments capital (€8,300 - €2,200)	6,100	
1		Interest personal (€2,200 x 25%)	550	
				6,760
	Postage and stationery			
1		Stationery		1,200
	Entertainment			
1		Customers		350
				53,228
20	Schedule D Case I - tax adjusted profits			48,628

Question 5

Marks Allocated	Question
	(i) Invoice Basis and Cash Receipts Basis
	When a trader is accounting for VAT on sales they may have an option to choose which basis they wish to use.
1	There are two options available, the invoice basis and the cash receipts basis.
2	Invoice Basis The invoice basis will automatically apply where a trader does not qualify for the cash receipts basis. Where the invoice basis applies the trader is obliged to account for VAT in the period the invoice is raised.
2	Cash Receipts Basis A trader can apply to use the cash receipts basis there they satisfy one of the conditions set out. These are: The trader has turnover below €1,000,000 in a 12 month period or The trader derives 90% or more of their turnover from the sales to unregistered persons for VAT.
5	(ii) Self-Supply In the case of the supply of goods it is necessary for a taxable person to account for VAT on self-supplies. A self-supply will arise when a taxable person purchases goods in their business, claims a deduction for the VAT on the purchase and subsequently takes the goods out of the business for either personal use or to use in a VAT exempt supply. If an individual in business purchases a computer they can claim back the VAT on this. If €1,210 is paid and a VAT input credit of €210 is claimed, the net cost is €1,000. If the computer is subsequently used as a home computer then it is not being used in the course of making taxable supplies. In this case the taxable person must pay back the VAT that they had previously reclaimed.
2	(iii) The Zero Rate This rate applies to internationally exported goods and services but certain domestic supplies are covered by the rate too (oral medicines, books, certain foodstuffs and children's clothing). The supplier is obliged to register for VAT where their turnover exceeds the registration limits.

3	<p>Exempt Supplies</p> <p>These include most financial services, insurance services, postal services etc. A person only supplying exempt goods or services is not entitled to register for VAT and therefore not entitled to any input credit for VAT suffered on business purchases.</p>
5	<p>(iv)</p> <p>The importation of goods from a VAT registered business in France to a VAT registered business in Ireland is known as intra-community acquisitions.</p> <p>Provided the French supplier quotes the Irish VAT registration number of the Irish business on the invoice issued then:</p> <p>The supply is charged at the zero rate by the French supplier i.e. no French VAT is payable. The Irish company will self-account for the Irish VAT on the acquisition.</p> <p>The following steps are required to be followed in order to self-account for the VAT correctly:</p> <ol style="list-style-type: none"> 1. An invoice is received from the EU supplier with no VAT charged on it. It will only show the net amount. 2. The net amount will be included as a sale in the VAT return and increases the amount of VAT payable to the Revenue. 3. On the same VAT return a deduction for the VAT on the purchase will be claimed. The amount of the deduction is the amount of VAT charged at 2 above. <p>The net effect of the transaction in such cases is Nil.</p>
Total	
20	

Question 6		
Marks Allocated		
2	[1]	B
2	[2]	A
2	[3]	C
2	[4]	B
2	[5]	C
2	[6]	B
2	[7]	B
2	[8]	C
2	[9]	A
2	[10]	B
20		

1st Year Examination: August 2012

Taxation ROI

Examiner's Report

Statistical Analysis – By Question						
Question No.	1	2	3	4	5	6
Average Mark (%)	49%	48%	35%	64%	53%	46%
Nos. Attempting	116	111	100	104	26	99

Statistical Analysis - Overall	
Pass Rate	51%
Average Mark	49%
Range of Marks	Nos. of Students
0-39	43
40-49	15
50-59	35
60-69	15
70 and over	10
Total No. Sitting Exam	118
Total Absent	46
Total Approved Absent	3
Total No. Applied for Exam	167

General comment:

The pass rate in this examination was 51%. This compares to the pass rate of 42% achieved in the autumn 2011 examination.

(2) Comments on Individual Questions

Question 1

This question required the candidate to prepare an income tax computation based on joint assessment.

The solutions were well presented and easy to follow, however, many basis errors continue to be made. This was also evident in a similar question from the summer examination. Errors included:

- Failure to identify the assessable bonus
- Incorrect calculation of the assessable BIK. The calculation of BIK seems to cause problems for many candidates. This is surprising when one considers the number of times this is included in examination papers.
- Failure to quantify the assessable dividend and interest
- Incorrect calculation of the assessable profit rent. Candidates continue to include mortgage interest as a 20% tax credit.
- Failure to deal with the deed of covenant
- Failure to include the deposit interest in the rate bands

Part B of the question was very poorly answered. Too many candidates displayed a lack of understanding of the difference between joint and single assessment.

Question 2

This question tested the candidates' knowledge of the PAYE/PRSI system.

Candidates who failed to score high marks made the following errors:

Sadie Mulgrew

Failure to identify the correct amount of taxable pay. Very many included the refund of saving club as assessable and the trade union subscription as a deduction.

Failure to calculate the tax payable on a cumulative basis. This was surprising as a deduction card was included with the paper.

Barry Tierney

Many candidates failed to consider the details of tax credits and cut off point included in the form P45. Many used the emergency basis.

Incorrect calculation of PRSI for week 1. It's surprising that employee PRSI was calculated in week 1 when it was clear from the reference material that an exemption applied.

Question 3

This question tested the candidate's ability to explain the treatment of various VAT invoices and to quantify the amount of VAT due for a VAT period.

Many candidates were unable to explain the treatment of the invoices. Too many candidates merely attempted to quantify the VAT content of the invoices without explaining the treatment.

Question 4

This question required the preparation of an adjusted profit computation.

The question was well answered and presentation was good with solutions well laid out and easy to follow.

The main areas where candidates failed to pick up marks included:

- Making an adjustment for discount received
- Incorrectly adjusting for employee motor expenses.
- Failing to add back the interest paid as part of the settlement following the Revenue audit.

- Incorrectly calculating the add back in respect of the mortgage on the pre

Question 5

This was a narrative question with candidates asked to write a letter responding to VAT queries raised.

The relatively small number of candidates who attempted this question had a good knowledge of VAT.

Candidates displayed an understanding of the difference between the invoice basis and the cash receipts basis of accounting for VAT.

Many candidates displayed a limited knowledge of the term 'self-supply'.

The difference between zero rated and exempt activities was well explained by many however many candidates had a difficulty explaining the correct treatment of imports from France.

Question 6

This was a multiple-choice question.

No pattern emerged from the answers presented to this question.