
Advanced Taxation

Republic of Ireland

2nd Year Examination

August 2013

Exam Paper, Solutions & Examiner's Report



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Accounting Technicians Ireland
2nd Year Examination : Autumn 2013
ADVANCED TAXATION (Republic of Ireland)

Thursday 22nd August 2013 - 2.30 p.m. to 5.30 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 2012. The provisions of the Finance Act 2013 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 QUESTION 1, QUESTION 2 and QUESTION 3 (Compulsory) in Section A and ANY TWO of the four questions in 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.

Question 1 begins on Page 2 overleaf.

The following insert is enclosed with this paper:

- **Tax Reference Material**

SECTION A

Answer QUESTION 1, 2, 3 (Compulsory) in this Section

QUESTION 1 (Compulsory)

Tom Keogh (45 years) is a self-employed plumber. His accounts for the year ended 30th April 2012 show a tax adjusted profit of €80,000. On the 1st January 2012 he sold his van for €9,000 and purchased a new van for €30,000. The emissions of the new van were 160g/km. The van is used 100% for business use. The van sold was originally purchased by Tom in July 2008 for €25,000, emissions 160g/km.

Tom's only other asset was tools and equipment that he purchased in June 2009 for €8,000. Tom has always had April as his year end.

Tom's wife Sheila does not work and stays at home to look after their two young children.

Tom had the following payments in 2012:-

1. A pension contribution of €8,000.
2. Premium of €2,000 to the VHI for his family's private health care.
3. During 2012 his family had the following medical expenses:-

	€
GP visits	500
Prescription charges	650
Visit to dentist, including two fillings	250
X-ray	<u>150</u>
	<u>1,550</u>

Tom received a refund of €220 from the VHI for the above GP visits.

4. Permanent health insurance premium of €1,850.

Tom had the following other income in 2012:-

1. Tom and Sheila rent out a room in their home and received rent of €9,500 in 2012.
2. Tom won €5,000 on the Lotto in May 2012.
3. Tom received a dividend of €960 from his shares in O'Reilly Limited an Irish company.

Tom paid preliminary tax of €15,800 by cheque for the 2012 tax year on the 30th October 2012. Tom's total tax liability for the 2011 tax year was €20,000.

Requirement:

- (1) Calculate Tom and Sheila's Income tax, PRSI and USC for 2012. **16 Marks**
- (2) Did Tom pay enough preliminary tax for 2012? If not please calculate any penalties now facing Tom. You may assume Tom's Form 11 for 2012 and any outstanding tax for 2012 will be paid and submitted on the 31st October 2013. **4 Marks**

Total 20 Marks

QUESTION 2 (Compulsory)

Kelly Limited is an Irish resident company. The share capital of the company comprises 10,000 ordinary shares of €1 each owned as follows:-

Sean Kelly	4,000
Michael Kelly	4,000
Maureen Kelly	<u>2,000</u>
	<u>10,000</u>

Sean and Michael Kelly are directors of the company and work in the company full time. Maureen is a full time mother and is not a director and does not work for the company.

The year ended 31st May 2012 shows the following results:-

	Notes	€	€
Sales			450,000
Cost of sales			<u>(260,000)</u>
Gross profit			190,000
Other income	1		<u>60,000</u>
			250,000
<i>Less Expenses:</i>			
Depreciation		5,400	
Motor expenses	2	15,850	
Directors remuneration		110,000	
Rent and Rates		37,600	
Legal fees	3	3,100	
Insurance		1,450	
Sundries	4	6,000	
Telephone		<u>1,960</u>	<u>(181,360)</u>
Net Profit			<u>68,640</u>

Notes:**1. Other Income:**

Rental income	€ 40,000
Dividend from Irish company	5,000
Dividend from a UK investment company	5,000
Deposit income received gross	<u>10,000</u>
	<u>60,000</u>

QUESTION 2 (Cont'd)

2. Motor expenses:	Running costs	Lease rental	Cost	Emissions
	€	€	€	
Van	4,150	5,100	35,000	159g/km
Motor vehicle used by Sean Kelly (25% Private use)	2,800	3,800	22,000	170g/km

3. Legal Fees	€
Pursuing breach of contract by a supplier	1,600
Fine for illegal dumping	800
Drafting conditions of sale of supplier contract	<u>700</u>
	<u>3,100</u>

4. Sundries:

To celebrate 10 years in business the company paid for the 3 shareholders Sean, Michael and Maureen to go on a cruise for a week. The cost to the company was €2,000 per person and was paid by the company on 2nd April 2012.

5. On 1st March 2012 the company made an interest free loan to Sean Kelly of €20,000 to enable him to discharge a personal debt.
6. The company had a trade loss of €15,000 carried forward from the previous accounting period.
7. The capital allowances for plant and machinery for Kelly Limited for the accounting period the year ended 31st May 2012 are €8,100.

Requirement:

- (1) Compute Kelly Limited's tax liabilities in respect of the year ended 31st May 2012.

Note: you are not required to calculate the close company surcharge.

15 Marks

- (2) When should Kelly Limited file its corporation tax return for this accounting period?

1 Mark

- (3) When should Kelly Limited pay its corporation tax for this accounting period?

Note: You may assume that Kelly Limited is a small company.

2 Marks

- (4) What are the tax consequences for late payment of the corporation tax?

2 Marks

Total 20 Marks

QUESTION 3 (Compulsory)

- (a) Joseph Murphy has set up a new retail electrical shop in North County Dublin. In preparation for the shop, he has registered for VAT and done a lot of research into the VAT rules. However he still has concerns regarding the matters listed below:-

- (1) Does he have to issue a VAT invoice to all his customers and what is the deadline for issuing a VAT invoice?
3 Marks
- (2) He plans to take the staff out for a meal and drinks as a reward for all their hard work. Will Joseph be able to claim an input credit for this expense?
2 Marks
- (3) He plans to import most of his electrical goods from VAT registered German suppliers. Explain the VAT procedure he must follow.
5 Marks
- (4) He plans to take a dishwasher from stock to give to his wife as a gift. The dishwasher cost €200 net of 23% VAT. Joseph would normally sell this dishwasher for €410 including VAT.
2 Marks

Requirement:

Advise Joseph of the VAT treatment of each of the above situations.

- (b) Julian who is registered for VAT and has successfully applied for the cash receipts basis of accounting for VAT had the following transactions for September/October 2012:-

	September 2012	October 2012
	€	€
Sales to Debtors	18,500	21,000
Cash Sales	3,000	4,200
Received from Debtors	15,450	22,100
Purchases from Creditors	9,500	12,500
Payments to Creditors	10,100	9,800

All the above amounts are inclusive of VAT at 23%.

Requirement:

- (1) Calculate the VAT payable for September/October 2012.
5 Marks
- (2) State the tax consequences if Julian paid the VAT due on the 10th December 2012. Julian uses ROS to submit his VAT return.

3 Marks
Total 20 Marks

SECTION B

Answer any TWO of the FOUR questions in this section

QUESTION 4

Jane and Ken Lyons have been married since 2005. They are both resident and domiciled in the State. During 2012 they have the following disposals:-

- (i) Jane sold a painting for €2,400, she originally purchased the painting in June 1987 for €3,000.
- (ii) Ken gave his wife Jane 4,000 shares he owned in Green Limited. Ken had purchased these shares in July 1990 for €6,000. The market value of the shares now in 2012 is €12,500.
- (iii) Ken sold 5 acres of land in 2012 for €10,000, legal fees on disposal were €500. Ken had originally received 20 acres of farm land when his uncle Bert died in July 2003. Its market value in July 2003 was €25,000. Ken had previously sold 15 acres in November 2006 for €30,000. The market value of the 5 acres remaining was €11,000 in November 2006.
- (iv) Ken sold a van in September 2012 he used for business use for €10,000. The van was purchased in July 2010 for €8,500. Ken's year end is the 30th November each year and he claimed wear and tear of 12½% per annum on the van.

Requirement:

- (1) Calculate Jane and Ken's capital gains tax for 2012. **13 Marks**
- (2) List three specified assets. **3 Marks**
- (3) Christiano, who is Italian, has been in Ireland since May 2008. On the 10th January 2012 he returned to Italy. What is his liability to Irish capital gains tax for 2012? **4 Marks**

Total 20 Marks

QUESTION 5

Alan Black, a single man, commenced practice as a solicitor on the 1st June 2009. Details of his income are as follows:-

	€
Year ended 31 st May 2010	17,000
Year ended 31 st May 2011	10,000
Year ended 31 st May 2012	30,000

QUESTION 5 (Cont'd)

Details of his assets are as follows:-

Purchase date	Cost Price (€)	Details
1/6/2009	30,000	Car – emissions 175g/km
15/12/2009	14,000	Computer and phone system
1/8/2010	8,000	Fixtures and fittings
16/7/2012	35,000	Car – emissions 140g/km

Disposal	Sales proceeds (€)	Details
16/7/2012	16,250	Car purchased 1/6/2009

Alan's other income for 2012 is:-

- (1) Dividend received from an Irish company in August 2012 of €2,400
- (2) Gross deposit interest of €1,500 from his deposit account with AIB.
D.I.R.T. applies to the interest.

Alan who is 35 years old started a pension fund in 2012. Details of his payments are:-

Date	€
April 2012	6,000
May 2013	11,000
November 2013	5,000

Requirement:

- (1) Calculate Alan's Schedule D Case II income before Capital allowances for 2009, 2010, 2011 and 2012 exercising all available options. **5 Marks**
- (2) Calculate Alan's capital allowances for 2009, 2010, 2011 and 2012. **6 Marks**
- (3) Calculate Alan's retirement annuity relief for 2012. **4 Marks**
- (4) Calculate Alan's PRSI and USC for 2012. **4 Marks**
- (5) State the payment date for Alan's preliminary tax for 2012. **1 Mark**

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.

Total 20 Marks

N. B. Each part carries 2 marks.

Candidates should answer this question by ticking the appropriate boxes on the special answer sheet which is contained within the answer booklet.

1. Joe Byrne was born in Cork of Irish parents. On the 10th January 2012 he left Ireland and moved to Spain to work with his Uncle who had a building company in Madrid. When will Joe be considered not ordinarily resident in Ireland?

- (a) 2013
- (b) 2012
- (c) 2015
- (d) 2014

2. Kevin is self employed. He has been in business for many years. His year end is the 30th April each year.

On 1st July 2012 he sold a machine for €5,000. He had originally purchased this machine in November 2008 for €10,250. What are Kevin's capital allowances for this asset for 2012:

- (a) Wear and Tear €1,281
- (b) Balancing charge € 125
- (c) Balancing allowance € 125
- (d) Balancing charge €1,407

3. Angela and Simon Burns are married. They have two children. As the children now attend school, Angela has got a part-time job. She commenced employment in 2009. Her salary for 2012 was €5,500.

Calculate Angela's carer's credit for 2012:

- (a) None as her income exceeds €5,080.
- (b) €810 as her income is less than €6,700.
- (c) €390
- (d) €600

QUESTION 6 (*Cont'd*)

4. Sarah Duffy works for Jones and Company. Her employer provides her with a company car. The car was purchased on the 1st April 2012 for €28,000. The market value of the car was €35,000. Sarah travelled 22,000 km from April 2012 to December 2012. Sarah also paid €150 for the service of the car in November 2012. Calculate Sarah's B.I.K for 2012:
- (a) €8,400
 - (b) €6,150
 - (c) €7,875
 - (d) €6,300
5. Janet and Brian Cullen are married. They have joint assessment and Brian is the assessable spouse. Janet obtained first place in the May 2011 Advanced Tax paper with ATI. They have decided that Janet should now be the assessable spouse for 2012. When must they elect to change the assessable spouse for 2012?
- (a) 31st October 2012.
 - (b) 31st December 2012.
 - (c) 1st April 2012.
 - (d) 1st January 2012.
6. Alpha Limited has a year end the 31st July each year. The company had a trade loss in its accounting period the year ended 31st July 2012 of €10,000. The company elected to carry this loss back to its previous accounting period 31st July 2011 to reduce trading income liable at the standard rate. What is the time limit for this election?
- (a) 31st July 2013.
 - (b) 31st December 2012.
 - (c) No time limit required as only trading income is reduced.
 - (d) 31st July 2014.
7. Beta Limited is an Irish company registered for VAT. It paid its VAT for May/June 2012 on the 28th July 2012. The penalty for late payment was:-
- (a) €4,000
 - (b) Interest of .0274% per day.
 - (c) 5% surcharge.
 - (d) Interest of .0219% per day.

QUESTION 6 (*Cont'd*)

8. Gamma Limited's accounting period is the year ended 31st December 2012. It is a large company for corporation tax purposes.

State when Gamma Limited must pay the balance of its corporation tax for its year ended 31st December 2012.

- (a) 23rd September 2013.
- (b) 23rd November 2012.
- (c) 23rd June 2012.
- (d) 31st January 2013.

9. James O'Reilly started his first part-time job on the 1st September 2012. His wages to the 31st December 2012 was €5,000. His PAYE credit for 2012 was:

- (a) €1,650
- (b) None as James works part-time.
- (c) €1,000
- (d) $€1,650 \times 4/12 = €550$

10. The rate of withholding tax in capital gains tax is:

- (a) 35%
- (b) 20%
- (c) 15%
- (d) 27%

QUESTION 7

- (a) Give two examples of a covenant allowed for tax purposes. **3 Marks**
- (b) Mark Hughes, who is single, is sales director for ABC Limited. Details of his remuneration package for 2012 are as follows:-
- (i) Salary €48,000 – PAYE deducted €14,000.
 - (ii) Mark received commission in addition to his salary. He earned commission of €10,000 for 2012, but €2,000 was not paid to Mark until January 2013.
 - (iii) Mark is provided with a company car. The original market value was €35,000. Mark pays for the insurance of the car which was €500 for 2012. Mark travels 10,000 business kilometers per annum.

The nature of Mark's job means that he spends 60% of his time working away from the office.

Details of Mark's other income and outgoings for 2012 are as follows:-

Income	Note	€
Irish bank deposit interest – net of DIRT		1,400
Irish dividend received from Jones Limited		400
Outgoings		
Covenant	1	8,000
Private health insurance		850
Third level tuition fee for a part-time approved course		4,000

Note 1

Mark's sister Caroline, who is 22 years old and single, is permanently incapacitated since birth. Mark set up a ten year covenant of €8,000 per annum to help Caroline with her living expenses. Caroline has a part-time job and earns a salary of €6,900 for 2012. Her only outgoings are qualifying medical expenses of €2,000.

Requirement:

- (1) Calculate Mark's income tax for 2012. **12 Marks**
- (2) Calculate Caroline's income tax for 2012. **5 Marks**

Total 20 Marks

2nd Year Examination: August 2013

Advanced 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:

		Tom Keogh		Marks Allocated
		Tom and Sheila Income tax computation – 2012		
(i)		Notes	€	
	Schedule D – Case I	1	68,625	1 Mark
	Schedule D – Case V	2	–	2 Marks
	Schedule F		<u>€960</u>	1 Mark
			$\frac{80}{80} \times 100$	
			<u>1,200</u>	
			69,825	
	<i>Less:</i> Charges: Retirement annuity	4	<u>(8,000)</u>	
	Statutory income		61,825	
	Permanent health insurance	6	<u>(1,850)</u>	½ Mark
			<u>59,975</u>	
			€41,800 at 20% = 8,360	½ Mark
			€18,175 at 41% = 7,452	
			<u>€59,975</u>	
	<i>Less:</i> Married credit		(3,300)	½ Mark
	Carers credit		(810)	1 Mark
	Medical expenses	7	<u>(216)</u>	1½ Marks
	Income tax liability		11,486	
	PRSI	8	2,793	1 Mark
	USC	9	<u>4,207</u>	1 Mark
			18,486	
	<i>Less:</i> DWT €1,200 at 20%		(240)	½ Mark
	Preliminary tax		<u>(15,800)</u>	½ Mark
	Tax Due		<u>2,446</u>	
(ii)	Preliminary tax for 2012:			
	Lower of:-			
	(a) 100% of 2011	=	20,000	1 Mark
	Or			
	18,486 – 240 = 18,246 x 90% =		16,421	1 Mark

The amount paid of €15,800 was not sufficient.

Interest payable on preliminary tax underpaid

Underpayment €18,246– €15,800	=	2,446
Interest of 0.0219% per day		
31/10/2012 to filing date 31/10/2013 total 365 days		
€2,446 x 0.0219% x 365	=	196

2 Marks

Notes:

1. Capital allowances		€
Van		30,000
Tools/equipment		<u>8,000</u>
		<u>38,000</u>
€38,000 at 12½%	=	<u>4,750</u>

Balancing position: Disposal of van

Sales proceeds	9,000
TWDV (W1)	<u>15,625</u>
Balancing allowance	<u>6,625</u>

Summary:

	€
Wear and Tear	4,750
Balancing allowance	<u>6,625</u>
	<u>11,375</u>
Case I – 30/4/2012	80,000
Less: Capital allowances	<u>11,375</u>
	<u>68,625</u>

1 Mark
2 Marks

Working 1

July 2008: 30th April 2009: 2009

	Van €
2009	
Addition	25,000
Wear and Tear	<u>(3,125)</u>
TWDV – 31/12/2009	21,875
2010	
Wear and Tear	<u>(3,125)</u>
TWDV – 31/12/2010	18,750
2011	
Wear and Tear	<u>(3,125)</u>
TWDV - 31/12/2011	<u>15,625</u>

2. The rental income is exempt as it is qualifies for rent a room relief.

3. The winnings on the Lotto are also exempt.

½ Mark

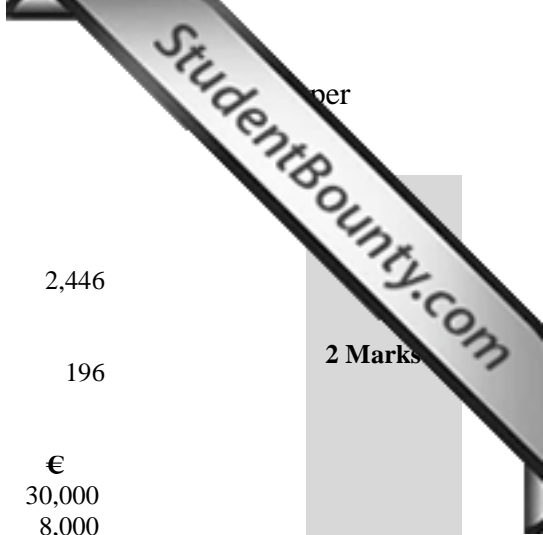
4. Retirement annuity:		€
Relevant earnings: Schedule D – Case I		<u>68,625</u>
Maximum relief: €68,625 at 25% =		17,156
Limited to premium paid of		8,000

1 Mark

5. Tax relief is available at source for the VHI premium.

½ Mark

6. The maximum allowed is 10% of Tom’s statutory income.



7.	Medical expenses:		€
	GP visits		500
	Prescription costs		650
	Dentist		–
	X-ray		<u>150</u>
			1,300
	<i>Less:</i> Refund from VHI		<u>220</u>
			<u>1,080</u>
	Credit €1,080 at 20%	=	216
8.	PRSI		
	Total income		<u>69,825</u>
	4%	=	2,793
9.	USC		€
	Total income		69,825
	€10,036 at 2%	=	201
	€ 5,980 at 4%	=	239
	<u>€53,809</u> at 7%	=	<u>3,767</u>
	<u>€69,825</u>		<u>4,207</u>

Solution 2:**(a) (i) Corporation tax computation Year ended 31st May 2012**

	Notes	€
Case I	1	–
Case III	2	5,000
Case III		10,000
Case V		<u>40,000</u>
		<u>55,000</u>

1/2 Mark

1/2 Mark

Corporation Tax: €55,000 at 25% = 13,750

1 Mark

(ii) DWT

The holiday paid by the company for Maureen is treated as a distribution as Maureen is not a director/employee of the company.

The company must account for DWT as it is deemed to have made a distribution. The expense paid of €2,000 is treated as the distribution amount.

DWT of €400 (€2,000 at 20%) is payable. The amount is payable to the collector general on or before the fourteenth day after the month the benefit was paid, in this case 14th May 2012.

2 Marks

(iii) Income tax

As the company made a loan to a participator the company is required to pay income tax in respect of the amount of the loan re-grossed at the standard rate.

Ap 31/5/2012

Income tax
€20,000 x 20/80 = €5,000

2 Marks

The €5,000 is payable by Kelly Limited with its corporation tax under Section 239 TCA 1997. No deduction is allowed in the company's accounts for the loan or the tax paid.

Summary of Kelly Limited Tax liabilities:

	€
Corporation tax	13,750
DWT	400
Income tax	5,000

(b) 23rd February 2013.

1 Mark

(c) Kelly Limited is a small company as its corporation tax in its previous period is less than €200,000 as it had losses being carried forward.

The payment dates are:-

Preliminary payment date: 23rd April 2012.

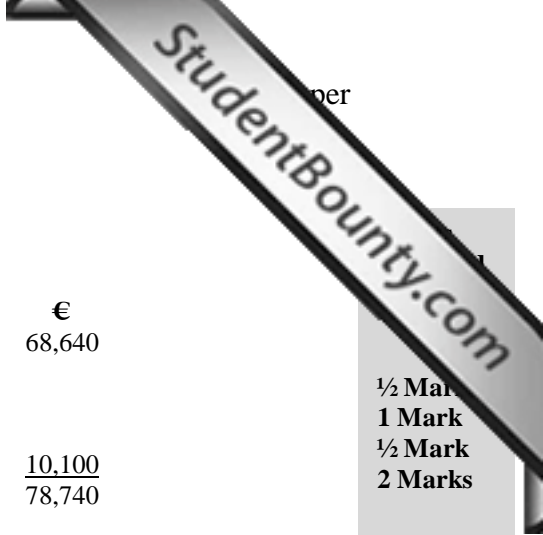
1 Mark

Final payment date: 23rd February 2013.

1 Mark

(d) Interest charges will apply at the rate of 0.0219% per day (8% per annum) on late payment of corporation tax.

2 Marks



Notes:

1. Case I computation	€	€	
Net profit per accounts		68,640	
Addbacks: Depreciation	5,400		
Motor expenses (W1)	1,900		½ Mark
Legal fees – fine	800		1 Mark
Sundries (W2)	<u>2,000</u>	<u>10,100</u>	½ Mark
		78,740	2 Marks
Deductions: Other income	60,000		½ Mark
Capital allowances	<u>8,100</u>	<u>68,100</u>	½ Mark
		10,640	
<i>Less:</i> Section 396(I)		<u>(15,000)</u>	2 Marks
		=====	

Loss carried forward to the next accounting period is €4,360.
This loss can only reduce profits of the same trade.

- 2. (i)** The dividend from the Irish company is franked investment income and exempt from tax. **1 Mark**
- (ii)** The dividend from the UK company is liable to tax at 25% as it does not qualify for the 12½% rate as it is not a trading company. **1 Mark**

Workings:

1. Motor expenses;

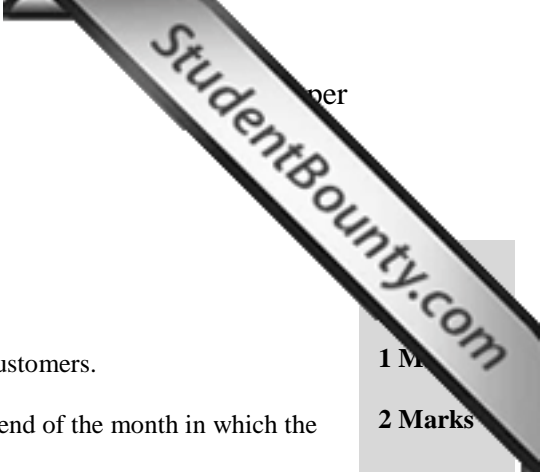
Van: no addback, expenses allowed in full
Motor vehicle no adjustment required for private use
Sean will be assessed on a B-I-K

Limit: Lower of:

(i)	€22,000 x 50% =	€11,000
	or	
(ii)	€24,000 x 50% =	€12,000

€3,800 x $\frac{€22,000 - €11,000}{€22,000}$ = € 1,900

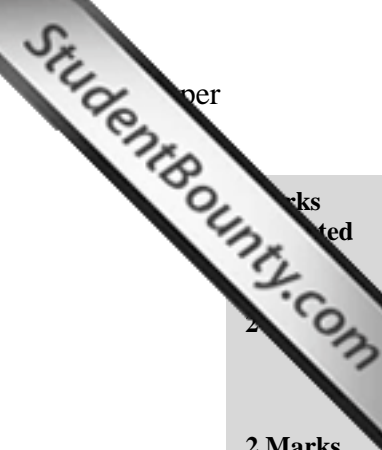
- 2. Sundries:**
As Sean and Michael are directors the company will be entitled to tax relief for this expense. Sean and Michael will be assessed to tax on this benefit under the B-I-K rules.
As Maureen is not a director/employee of the company this payment is treated as a distribution.
The company must operate DWT on the amount and the expense is not allowed in the company accounts and must be added back.



Solution 3

- (a) (1) Joseph is only required to issue a VAT invoice to registered customers. 1 Mark
 He is obliged to issue a VAT invoice within 15 days after the end of the month in which the goods are supplied. 2 Marks
- (2) The VAT incurred on the purchase of food and drink in a hotel or restaurant is always disallowed so Joseph will not be allowed to claim an input credit for this expense. 2 Marks
- (3) Where a VAT registered business imports goods from an EU supplier they will self-account for VAT on the purchase. The following steps are required to be followed in order to account for VAT correctly:-
- (A) The Irish trader must supply their Irish VAT registration number to the EU supplier. Once this is done the EU supplier will supply an invoice with no VAT charged on it. It will only show the net amount. 2 Marks
 - (B) The Irish trader will include the net amount on the invoice as a sale in their VAT return for that VAT period and increase the amount of VAT they pay over to the Collector General. 1 Mark
 - (C) On the same VAT return they will also include a deduction for the VAT on the purchase. The amount of input credit is the amount of VAT they have charged themselves. This has the effect of rendering the transaction VAT neutral i.e. output VAT will be equal to input VAT in respect of the intra-community acquisitions. 2 Marks
- (4) This transaction will be treated as a self-supply. Joseph must record this as a sale at cost price. The VAT due to the revenue by Joseph is:- 2 Marks

$$€200 \times 23\% = €46$$
- (b) (1) VAT on cash receipts 1½ Marks
- | | | | |
|---|---------------|--------------|----------|
| | € | € | |
| Cash sales €3,000 + €4,200 | 7,200 | | |
| Receipts from debtors €15,450 + €22,100 | <u>37,50</u> | | 1½ Marks |
| | <u>44,750</u> | x 23 = 8,368 | |
| | 123 | | |
| Less: VAT on purchases €9,500 + €12,500 = | <u>22,000</u> | x 23 = 4,114 | 2 Marks |
| | 123 | | |
| VAT due | | <u>4,254</u> | |
- (2) As Julian used ROS the due date for the September/October 2012 VAT return is the 23rd November 2012. 1 Mark
- As Julian was late paying his VAT he will be liable to interest of .0274% per day late. 1 Mark
- $$€4,254 \times .0274\% \times 17 \text{ days} = €20$$
- 1 Mark



Solution 4

(a)

(i)	Jane:	
		€
	Deemed sales proceeds	2,540
	Cost	<u>3,000</u>
	Loss	<u><u>460</u></u>

(ii) This is an exempt disposal, as it is a transfer between spouses.

(iii) November 2006

		€
	€25,000 x $\frac{30,000}{30,000 + 11,000}$ =	18,293

The cost remaining after the disposal of 15 acres in November 2006 is
 €25,000 – €18,293 = 6,707

Sales proceeds – 2012	10,000
Less: legal fees	<u>500</u>
	9,500
2003 cost	<u>6,707</u>
Gain	<u><u>2,793</u></u>

(iv)	Sales proceeds	10,000
	July 2010 cost	<u>8,500</u>
	Gain	<u><u>1,500</u></u>

Summary:

Jane

No capital gains tax for 2012. Her annual exemption is lost. She may transfer her loss on the painting to her husband Ken.

Ken

		€
5 acres of land	2,793	
Van	<u>1,500</u>	
	4,293	
Less: loss from Jane	460	
Annual exemption	<u>1,270</u>	
	<u><u>2,563</u></u>	

Capital gains tax at 30% = 769

(b) **Specified Assets**

- (a) Land and buildings in the State.
- (b) Minerals in the State.
- (c) Rights in the Irish continental shelf.
- (d) Unquoted shares deriving their value from assets (a) to (c).
- (e) Assets of a trade carried on in the State.

Note: The question only requires three specific assets.

(c) Christiano is not resident in Ireland as he only spent 10 days in Ireland in 2012. He is however still ordinarily resident here as he remains ordinarily resident for three years after he leaves. Christiano has an Italian domicile. Christiano is liable to Irish capital gains tax in 2012 on his Irish gains and any foreign gain remitted to the state.

Marks
 allocated

2 Marks

2 Marks

1 Mark

2 Marks

2½ Marks

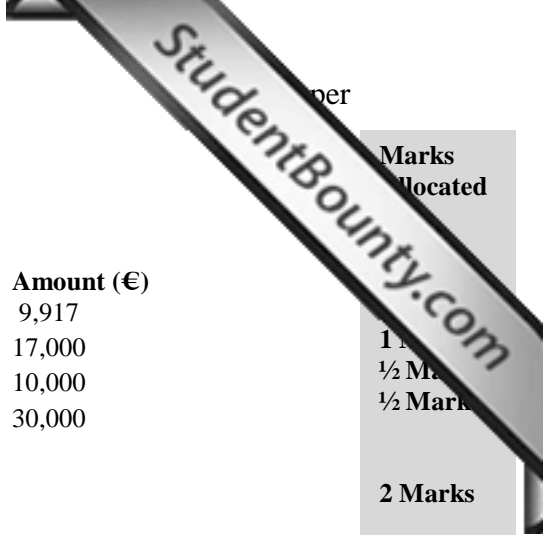
½ Mark
 ½ Mark

½ Mark

1 Mark
 for each
 (Max 3
 Marks)

1 Mark
 1 Mark

2 Marks



Solution 5:

Alan Black

1. Tax Year	Basis of Assessment	Amount (€)
2009	Actual 1/6/09 to 21/12/09 €17,000 x 7/12	9,917
2010	31 st May 2010	17,000
2011	C/Y 31 st May 2011	10,000
2012	C/Y 31 st May 2012	30,000

Marks allocated
1 Mark
1/2 Mark
1/2 Mark

Section 66 – tax payers option:

2 Marks

• Original assessment for year 2	17,000
• Actual for year 2 – 2010 1/1/10 to 31/12/10	
€17,000 x 5/12 = €7,083	
€10,000 x 7/12 = <u>€5,833</u>	<u>12,916</u>
Excess	<u>4,084</u>
Year 3 = 2011	10,000
Less: Excess	<u>4,084</u>
	<u>5,916</u>

Final assessments:

Year	€
2009	9,917
2010	17,000
2011	5,916 (as revised)
2012	30,000

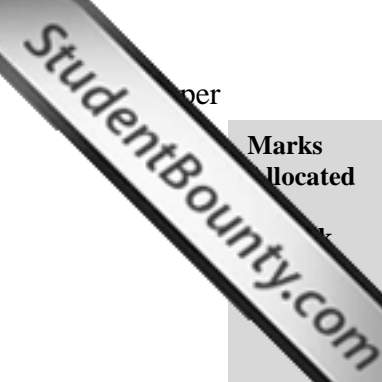
The time limit for exercising the Section 66 option is the 31st October 2012.

2. Basis periods for capital allowances:

2009	1/6/2009 to 31/12/2009	7/12
2010	1/6/2009 to 31/5/2010	
2011	1/6/2010 to 31/5/2011	
2012	1/6/2011 to 31/5/2012	

	Straight line 12½%
2009	
Additions	<u>30,000</u>
	12,000
	<u>14,000</u>
	26,000
W + T (7/12)	<u>(1,896)</u>
TWDV – 31/12/2009	24,104
2010	
W + T	<u>(3,250)</u>
TWDV – 31/12/2010	20,854
2011	
Addition	<u>8,000</u>
	28,854
W + T	<u>(4,250)</u>
TWDV – 31/12/2011	24,604

1 Mark
1/2 Mark
2 Marks
1/2 Mark
1/2 Mark



2012	
W + T	<u>(4,250)</u>
TWDV – 31/12/2012	<u>20,354</u>

Marks allocated

Summary:

Tax year	Profits assessed €	Capital allowances €	DII €
2009	9,917	1,896	8,021
2010	17,000	3,250	13,750
2011	5,916	4,250	1,666
2012	30,000	4,250	25,750

3. As Alan is aged 35 years the maximum tax relief available for the retirement annuity is 20% of his net relevant earnings. **1 Mark**
 Alan’s relevant earnings is his Case II income for 2012, €25,750. As Alan has no other charges this is also his net relevant earnings. **2 Marks**

Max tax relief:

€25,750 x 20% = €5,150

Alan paid €6,000 in 2012. The maximum relief is €5,150. Alan will have a premium carried forward to 2013 of €850. **1 Mark**

4. Alan’s PRSI:

Total income – 2012		€
Schedule D – Case II		25,750
Schedule F $\frac{2,400}{80} \times 100$	=	3,000
Schedule D – Case IV		<u>1,500</u>
		<u>30,250</u>
PRSI: €30,250 at 4%	=	1,210

Alan’s USC:

Schedule D – Case II		25,750
Schedule F		3,000
Schedule D – IV		<u>exempt</u>
		<u>28,750</u>
€10,036 at 2%	=	201
€ 5,980 at 4%	=	239
<u>€12,734</u> at 7%	=	<u>891</u>
<u>€28,750</u>		<u>1,331</u>

5. Alan’s preliminary payment date for 2012 is the 31st October 2012. **1 Mark**

Solution 6:

1. (c)
2. (a) 2012 c/y 30/4/2012 The machine is in use at the end of the basis period.
$$\text{€}10,250 \text{ at } 12\frac{1}{2}\% = \text{€}1,281$$
3. (d) The carers credit is reduced by:-
$$\frac{1}{2}(\text{€}5,500 - \text{€}5,080) = \text{€}210$$
$$\text{€}810 - \text{€}210 = \text{€}600$$
4. (d)
$$\frac{22,000}{9} \times 12 = 29,333\text{km}$$
$$\text{€}35,000 \times 24\% \times 9/12 = \text{€}6,300$$
5. (c)
6. (d)
7. (b)
8. (a)
9. (c)
$$\text{€ } 5,000 \text{ at } 20\% = \text{€}1,000$$
10. (c)



Solution 7:

(a) The covenants allowed for tax purposes are:-

Covenants to Minor Children

Tax relief is available on a covenant to a child in the following circumstances:

- The covenant is in favour of a permanently incapacitated child, and
- The covenant is from someone other than the child's parent.

Covenants to Adults

Tax relief is available on a covenant to an adult in the following circumstances:

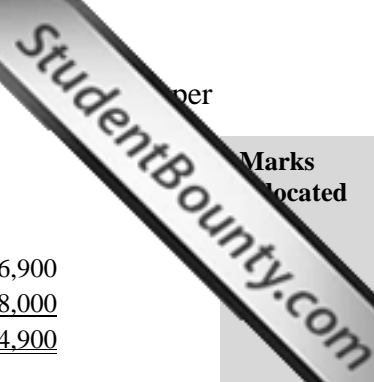
- The covenant is in favour of a permanently incapacitated adult or
- The covenant is in favour of an adult over 65 years. In this case the maximum amount on which tax relief can be claimed is 5% of the covenanter's total income.

In all cases the covenant must be capable of lasting for more than six years to qualify for tax relief.

(b)

Mark – Income tax compilation

		Notes	€	
Schedule E		1	68,500	
Schedule D – IV	$\frac{1,400}{70} \times 100$	=	2,000	1 Mark
Schedule F	$\frac{400}{80} \times 100$	=	<u>500</u>	1 Mark
			71,000	
Charges				
Covenant		2	<u>8,000</u>	1 Mark
Statutory Income			<u>63,000</u>	
€32,800 at 20%	=		€ 6,560	
€ 2,000 at 30%	=		€ 600	½ Mark
<u>€28,200</u> at 41%	=		<u>€11,562</u>	
<u>€63,000</u>			€18,722	
<i>Less: Credits:</i>				
Single			(€1,650)	½ Mark
PAYE			(€1,650)	½ Mark
Third level fees:				
€4,000– €1,125 at 25%			<u>(€ 575)</u>	1 Mark
Tax liability			€14,847	
Add: Tax on covenant:				
€8,000 at 20%	=		€ 1,600	1 Mark
<i>Less: PAYE paid</i>	=		€14,000	½ Mark
DIRT	=		€ 600	½ Mark
DWT 500 at 20% =			<u>€ 100</u>	½ Mark
Tax Due			<u>€ 1,747</u>	



Caroline – Income Tax compilation

Schedule E	6,900
Schedule D – IV Covenant	<u>8,000</u>
	<u>14,900</u>

€14,900 at 20% = € 2,980

Less: Single credit = (€ 1,650)

PAYE credit

€6,900 at 20% = (€ 1,380)

Medical expenses:

2,000 at 20% = (€ 400)

Tax liability Nil

Less: Tax paid on covenant:

€8,000 at 20% = € 1,600

Refund Due € 1,600

½ Mark

1 Mark

1 Mark

1 Mark

Notes

1. €

Schedule E

Salary 48,000

Commission 10,000

BIK 35,000 x 30% 10,500

68,500

½ Mark

1 Mark

2 Marks

As Mark was not away from his employer's place of business 70% of his time he is not entitled to the 20% deduction in his BIK.

2. As Caroline is a permanently incapacitated adult this covenant is allowed in full.

3. Relief for the private health insurance is given at source.

½ Mark

2nd Year Examination: August 2013**Advanced Taxation ROI****Examiner's Report**

Statistical Analysis – By Question							
Question No.	1	2	3	4	5	6	7
Average Mark (%)	50%	39%	54%	39%	57%	51%	65%
Nos. Attempting	200	202	200	153	59	136	55

Statistical Analysis - Overall	
Pass Rate	52%
Average Mark	48%
Range of Marks	Nos. of Students
0-39	59
40-49	38
50-59	57
60-69	38
70 and over	12
Total No. Sitting Exam	204
Total Absent	51
Total Approved Absent	7
Total No. Applied for Exam	262

General Comment:

The standard was disappointing with many candidates not adequately prepared for the exam. It is important to practice on the past paper questions and the pilot papers as well as the material in the manual to ensure exam success.

Question One

This was a straight forward income tax computation with a PRSI and USC calculation. It also included information on the taxpayer's preliminary tax requirements.

More time needs to be spent on PRSI and USC which was incorrectly calculated by most candidates. Also a large number of candidates still do not appreciate that tax relief for private health insurance is given at source. A large number of candidates showed no workings for the pension contribution allowed for tax, remember full workings need to be shown to obtain marks.

It was surprising the number of candidates who did not have any appreciation that your preliminary tax can be based on 100% of last year's tax or 90% of this year's tax liability.

Question Two

Candidates need to spend a lot more time on this tax. Most candidates were completely unaware of the close company implications in the question. Also a large number of candidates did not know the filing or payment dates for the corporation tax of the company. Also the tax consequences for late payment of corporation tax is not a surcharge, it is interest at .0219% per day.

Question Three

This question was answered satisfactorily by the majority of candidates. It was good to see that candidates studied imports as advised in the examiner's report in May 2013.

Question Four

This question was badly answered by most candidates. All topics in this question have been asked in previous papers. The importance of doing past paper questions cannot be underestimated. Candidates are advised to ensure they answer the question they have been asked. Part three of the question asked for Christiano's liability to Irish Capital Gains Tax for 2012. A large number of candidates gave Christiano's Income tax implications for 2012.

Question Five

This was an Income Tax question covering a number of topics. The commencement of a trade and the capital allowances in a commencement situation were well dealt with. However very few candidates could calculate the retirement annuity or the PRSI and USC correctly which was disappointing.

Question Six

The majority of candidates did well in the multi-choice question.

Question Seven

This was the best answered question and was well dealt with by those candidates who attempted it. It was an Income Tax question which dealt with Schedule E and a covenant.