Advanced Taxation

Republic of Ireland

2nd Year Examination

May 2013

Exam Paper, Solutions & Examiner's Report

NOTES TO USERS ABOUT THESE SOLUTIONS

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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. 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.

Accounting Technicians Ireland

Accounting Technicians Ireland

2nd Year Examination : Summer 2013

Paper : ADVANCED TAXATION (Republic of Ireland)

Thursday 16th May 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)*

Laura and Alan are formally separated by a legal agreement dated 1st August 2012. They were jointly assessed for all years prior to separating. Alan was the person assessed to tax.

Alan is a self employed electrician. He commenced trading on the 1st July 2010. His profits were as follows:-

	€
Period ended 30th September 2011	40,000
Year ended 30th September 2012	28,000

Alan purchased the following assets:-

1st July 2010 Van (emissions 150 g/km)	40,000
1st July 2010 Tools	5,000
1st November 2011 Tools	6,000

Alan also received dividends from an Irish company:-

15/3/2011	6,200
29/4/2012	8,000

Outgoings:	**31/12/2011**	**31/12/2012**
	€	**€**
Medical insurance	1,000	1,280
Retirement annuity	3,800	3,200

Alan is aged 42 years.

Alan also pays monthly maintenance of €850 of which €250 is specifically for his daughter Mandy.

Laura works as a manager for a fast food chain. She has the sole custody of their daughter Mandy.

Her only income was a salary in 2012 of €32,760. In September 2012 she started an accounting technicians course at her local VEC, her college fees in 2012 were €850.

Requirement:

(1) Calculate Alan's Case I income after capital allowances for 2010, 2011 and 2012.

9 Marks

(2) Calculate Alan and Laura's income tax for 2012 assuming they did not make an election to continue to be jointly assessed after separating.

11 Marks

Total 20 Marks

QUESTION 2 (*Compulsory)*

Walsh Limited is an Irish company resident in Ireland for Corporation Tax purposes. It is owned equally by two brothers James and Kevin Walsh. The company had the following results for the year ended 30th June 2012.

	Notes	€	€
Sales			1,450,000
Purchases			(810,000)
Gross profit			640,000
Other income	1		210,000
			850,000
Less Expenses:			
Directors remuneration		125,000	
Wages and salaries		465,410	
Depreciation		16,400	
Legal expenses	2	14,800	
Insurance		18,150	
Interest	3	15,000	
Motor expenses	4	26,800	
Rent and rates		200,000	
Bad debts	5	60,000	(941,560)
Net Loss			(91,560)

Notes:

1. Other income is as follows:

	€
Dividend from Flynn Limited – a UK trading company	10,000
Rental income	64,000
Gain on the sale of a retail shop	136,000
	210,000

The rental income was from an Irish commercial property. This property was purchased by Walsh Limited on 1st November 2011 for €600,000. It was let on the 1st March 2012 on a twenty five year lease at a premium of €50,000 and annual rent of €60,000. A loan was taken out to help finance the acquisition of the property. Interest of €6,000 was paid on this loan to 30th June 2012.

Walsh Limited sold one of its retail units in May 2012. The sales proceeds were €325,000. Legal fees on disposal were €12,800. The shop was purchased in March 2000 for €176,200.

Question 2 is continued on the next page

QUESTION 2 *(Cont'd)*

2. Legal fees

	€
Disposal of retail shop	12,800
Employee contracts	2,000
	14,800

3. Interest

	€
Bank overdraft interest	3,500
Interest on loan to acquire a fixed asset	5,150
Interest on the late payment of PAYE/PRSI	6,350
	15,000

4. Motor expenses

Details	Date purchased/ Leased	Value/Cost €	Emissions €	Motor expense €	Lease /rental €
Van	1st March 2012	30,000	160g/km	6,000	□
Sales Director	1st March 2010	22,000	140g/km	4,000	5,000
MD	1st November 2010	28,000	150g/km	6,000	5,800
				16,000	10,800

5. Bad Debts

	€
Increase in specific provisions	3,000
Increase in general provisions	7,150
Bad debts written off	56,000
Bad debts recovered	(6,150)
	60,000

6. Plant and Machinery

On the 1st July 2011, the tax written down value of plant and machinery was as follows:-

	€
Plant and Machinery	135,000
(cost €180,000 February 2010)	

The company had the following dealings in assets during the current accounting period:-

Acquisitions

1. A van was purchased on the 1st March 2012 for €30,000. The emissions of the vehicle were 160g/km.
2. A machine was purchased on the 31st May 2012 for €25,830. The purchase cost included VAT at 23%.

Question 2 is continued on the next page

QUESTION 2 *(Cont'd)*

Disposal

The company sold a machine in July 2011 for €12,000. This machine was originally purchased in February 2010 for €25,000.

All figures were exclusive of VAT except where indicated otherwise. The year-end of Walsh Limited has always been the 30th June.

Requirement:

(1) Calculate the corporation tax of Walsh Limited for the accounting period the year ended 30th June 2012.

17 Marks

(2) Explain how a company is considered resident in Ireland for corporation tax purposes.

3 Marks

Total 20 Marks

QUESTION 3 (*Compulsory)*

(a) Cormac Kelly is single and is resident and domiciled in Ireland. In 2012, he had the following capital transactions from his various share portfolios:-

(i) Cormac sold 800 shares in Delta plc for €10,000. This was out of a holding of 2,000 shares that had been acquired as follows:-

Date (acquisition)	**Number**	**Cost (€)**
1/5/1989	500	1,560
10/8/1996	900	3,400
21/1/2001	600	5,100
	2,000	

(ii) Cormac sold 2,500 shares in Cherry Limited for €3.80 a share. Cormac's previous acquisition and disposals in Cherry Limited were as follows:-

Date (acquisition)	**Number**	**Cost (€)**
1/6/2000	3,000	10,500
18/8/2002	4,000	11,000

Date (disposal)	**Number**	**Sales Proceeds (€)**
16/11/2010	2,000	8,000

Requirement:

(1) Calculate Cormac Kelly's capital gains tax for 2012.

9 Marks

(2) State Cormac's filing date for his 2012 capital gains tax return.

1 Mark

Question 3 is continued on the next page

QUESTION 3 *(Cont'd)*

(b) Terry Hughes is resident and domiciled in Ireland. He is a widowed person. Terry made the following disposals in 2012:-

(i) In July 2012 he sold an antique table for €3,100. He had purchased the table from his sister in February 1999 for €1,250. Its market value in 1999 was €1,500.

(ii) On 1st December 2012 he sold his private residence in Navan and one acre of land he used for a garden for €550,000. Legal fees on disposal were €15,000. Terry had originally purchased the house on 1st June 1999 for €210,000. Legal fees on acquisition were €5,500. Terry lived in the house until 1st June 2009 when his employer sent him to work in Cork. Terry liked Cork so much he got a permanent move there and decided to sell his house in Navan.

Requirement:

(1) Calculate Terry's capital gains tax for 2012.

8 Marks

(2) Does the 15% withholding tax apply to Terry Hughes and if so, state to which disposal, and why?

2 Marks

Total 20 Marks

SECTION B

Answer any TWO of the FOUR questions in this section

QUESTION 4

(a) Max runs a retail outlet and he is getting ready for Valentine's Day. He plans to package three items that are normally sold separately in his store in a pink hamper for February 14th.

The items are:-

Item	**Selling Price (Excluding VAT)** €
Wine	10
Cheese and crackers	4
Teddy bear	8

Max is unsure how to calculate VAT on this hamper and has asked you to:

(1) Explain in detail the VAT rate for this type of hamper. **2 Marks**
(2) Calculate the VAT Max should charge when he sells the hampers in his store. **2 Marks**

(b) Explain the VAT treatment of exports to non-EU member states. **3 Marks**

(c) Michelle has been carrying on a practice as an accountant for a number of years. She accounts for VAT on a cash receipts basis. Details of the fees and costs for the practice for the two month period March/April 2012 were as follows:-

	Notes	**€**
Fees invoiced		80,000
Cash received		88,000
Motor expenses	1	1,850
Entertainment of staff	2	2,100
Lease of computer equipment		900
Cleaning	3	1,800
Telephone		1,250

Notes

1. The motoring expenses consist of the following:-

	€
Car 1 Petrol – used by Michelle 80% for business use	600
Car 2 Diesel – used by Mark, Michelle's assistant 100% for business use	400
Car 1 Repairs/service	850
	1,850

2. Michelle took all the staff out for a meal to celebrate the completion of a major contract.

Question 4 is continued on the next page

QUESTION 4 *(Cont'd)*

3. Michelle had received an invoice from the cleaning company in April 2012. The invoice was not paid until May 2012.

All figures including fees invoiced and received are inclusive of VAT at the standard rate with the exception of the meal for all the staff which includes VAT at 9%, and the repairs/service which includes VAT at 13.5%.

Requirement:

(1) You are required to calculate the VAT due by Michelle for March/April 2012.

10 Marks

(2) State when the above VAT return must be submitted to the Revenue. Outline the tax consequences if Michelle does not file her VAT return on the correct date.

3 Marks

Total 20 Marks

QUESTION 5

(a) Mars Limited is a large company with a twelve month accounting period to 31st October 2012.

You are required to state:-

(1) Mars Limited's preliminary and final payment dates for the above accounting period.

3 Marks

(2) Mars Limited's filing date for the above accounting period.

1 Mark

(3) Tax consequences for late payment of its corporation tax.

1 Mark

(4) Tax consequences for late submission of its tax return.

4 Marks

(b) Kerry Limited had the following results for their last three accounting periods:-

	Year end 31/12/2010	**Year end 31/12/2011**	**Year end 31/12/2012**
	€	**€**	**€**
Case I	80,000	30,000	(120,000)
Case V	10,000	12,000	20,000
Gain	3,000	10,000	5,000

Question 5 is continued on the next page

QUESTION 5 *(Cont'd)*

Notes

(1) The company has two losses carried forward from earlier accounting periods:

- Trading loss €25,000
- Capital loss € 2,000

(2) The gains given have been adjusted for corporation tax purposes.

Requirement:

(1) Calculate Kerry Limited's corporation tax for all accounting periods making maximum use of all available losses.

9 Marks

(2) State the time limit for any loss claims made at (1) above.

2 Marks

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. Kevin Jones is self-employed. He has been in business since 1998. His year end is the 30th April each year. He purchased a car for €30,000 on the 1st February 2009, emissions 145g/km. In June 2012 he sold the car for €18,000. What are Kevin's capital allowances for 2012?

   (a) Balancing charge of €6,000
   (b) Wear and Tear of €3,000
   (c) Balancing charge of €3,000
   (d) Balancing charge of €2,400

2. XY Limited has a year end the 30th June each year. Its corporation tax for its accounting period the 30th June 2011 was €240,000. Its current accounting period is the year ended 30th June 2012. When must XY Limited pay its preliminary tax for the current period:-

   (a) 23rd March 2013
   (b) 23rd May 2012
   (c) 23rd May 2012 and 23rd March 2013
   (d) 23rd December 2011 and 23rd May 2012

Question 6 is continued on the next page

QUESTION 6 *(Cont'd)*

3. Wendy Gray is self-employed. Her assessable income and outgoings for 2012 are as follows:-

	€
Schedule D – Case I before capital allowance	90,000
Capital allowances	15,000
Dividend from Irish company – gross	5,000
Deposit interest from Bank of Ireland – gross	3,000
Retirement annuity allowed as a charge	6,000

Calculate Wendy's USC to the nearest Euro for 2012:-

(a) €5,759
(b) €4,779
(c) €4,709
(d) €4,919

4. In capital gains tax there is a withholding tax in certain circumstances.
What is the rate?

(a) 20%
(b) 30%
(c) 35%
(d) 15%

5. Z Limited, an Irish resident company, has traded for many years having 31st December as its year end. Due to financial reasons it has decided to change its year end to the 30th April. Its latest accounting period is the 1st January 2011 to 30th April 2012. For Irish corporation tax, what is Z Limited's correct accounting period:-

(a) 16 months to 30th April 2012.
(b) 4 months to 30th April 2011, 12 months to 30th April 2012.
(c) 12 months to 31st December 2011, 4 months to 30th April 2012.
(d) 8 months to 31st August 2011, 8 months to 30th April 2012.

6. Beta Limited's year end is the 30th September each year. In its accounting period 30th September 2012 it has a trading loss of €100,000. The company wishes to carry this loss back to a previous accounting period of corresponding length to reduce its trading income liable at the standard rate.
What is Beta Limited's time limit to exercise this option:-

(a) 21st June 2013.
(b) 30th September 2014.
(c) 30th September 2013.
(d) 21st June 2012.

7. Sarah Quinn is provided with a company car in July 2011. Its original market value is €28,000. Her employer paid €26,000 for the car. The car has emissions of 160g/km. Sarah pays for the annual insurance of the car. In 2012 this was €480. Sarah travelled 34,000 business kilometers in 2012. What is Sarah Quinn's B.I.K assessable under Schedule E for 2012?:-

(a) €5,040
(b) €4,560
(c) €4,680
(d) €2,160

Question 6 is continued on the next page

QUESTION 6 *(Cont'd)*

8. Noreen and Jim Burke are married, previously they had joint assessment. For 2012 they wish to elect f single assessment. This election must be made to the Inspector of Taxes before:-

   (a) 1st April 2012.
   (b) 31st October 2012.
   (c) 31st October 2013.
   (d) 31st December 2012.

9. Tom Murray is self employed. His year end is the 30th June each year. For the tax year 2012 when must he pay the balance of his 2012 income tax?

   (a) 31st October 2012.
   (b) 31st October 2013.
   (c) 23rd March 2013.
   (d) 23rd May 2012.

10. Alpha Limited purchased an office building on the 1st January 2012. The company let out the building on the 1st April 2012 on a 10½ year lease. The annual rent was €40,000 and the company charged a premium of €120,000. The only expense was interest on money borrowed to finance the purchase. The interest for the year ended 31st December 2012 was €12,000. You are required to calculate Alpha Limited's Case V income to be included in its corporation tax computation for its accounting period year ended 31st December 2012.

   (a) €118,200
   (b) €121,650
   (c) €119,400
   (d) €116,400

Total <u>20</u> Marks

QUESTION 7

You are an employee of White and Co. tax advisors. The senior tax partner has asked you to deal with three client enquiries that he has received:-

(1) Michelle Kelly has been in business for many years. Michelle has a year end the 31st July each year. This year for the first time Michelle has made a loss in her trade.

You are required to outline how a loss in a year of assessment can be utilised. Your answer should include any time limits that apply and how capital allowances can be utilised in a loss situation.

8 Marks

(2) Stuart Fox who is 45 years old and single has to date not provided for his retirement. He is aware that there is tax relief available for a pension contribution. He has asked you to calculate the maximum pension contribution for tax purposes that he can make into his pension fund for 2012 with the following income and outgoings:-

Question 7 is continued on the next page

QUESTION 7 *(Cont'd)*

Income	**€**
Schedule D – Case II	100,000
Schedule D – Case IV	5,000
Schedule D – Case III	3,000

Outgoings	**€**
Interest on money borrowed to invest in a partnership Stuart is an active partner	10,000
Permanent health contribution	1,250

5 Marks

(3) Donal Kehoe who is Irish has just received a job offer in Canada. He plans to leave Ireland on the 15th January 2012. Is Donal resident and ordinarily resident in Ireland for 2012? Explain your reasoning. You may assume he is domiciled in Ireland. Also what effect will this have on his income tax and capital gains tax liability for 2012?

7 Marks
Total 20 Marks

2nd Year Examination: May 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.

Marks Allocated

Solution 1

(1)

Tax Year	Basis of assessment		Amount €	Marks
2010	Actual 1/7/2010 to 31/12/2010 €40,000 x 6/15	=	16,000	1 Mark
2011	12 months to 30th September 2011 €40,000 x 12/15	=	32,000	1 Mark
2012	C/Y 30/9/2012	=	28,000	½ Mark

Taxpayers option

- Original assessment for 2011 — 32,000

- Actual for 2011

	€	
1/1/2011 to 31/12/2011		
€40,000 x 9/15 =	24,000	
€28,000 x 3/12 =	7,000	(31,000)
Excess		1,000

As the actual profits are lower the taxpayer will exercise his option. The final assessment for 2012 will be:-

Original assessment	28,000	2 Marks
Less: excess	(1,000)	
	27,000	

Basis periods for capital allowances:

2010	1/7/2010 to 31/12/2010	
2011	1/10/2010 to 30/9/2011	
2012	1/10/2011 to 30/9/2012	

As the basis period for 2010 is less than 12 months the wear and tear will be restricted.

Straight line - 12½%

	€	Marks allocated
2010 Additions	45,000	
Wear and tear (6/12)	(2,813)	
TWDV – 31/12/2010	42,187	
2011		
Wear and tear	(5,625)	½ Mark
TWDV – 31/12/2011	36,562	
2012		
Addition	6,000	½ Mark
	42,562	
Wear and tear	(6,375)	1 Mark
TWDV – 31/12/2012	36,187	

Final assessments:

Year	Profits €	Capital allowances €	Case I €
2010	16,000	2,813	13,187
2011	32,000	5,625	26,375
2012	27,000	6,375	20,625

(2) 2012 is the year of separation. As Alan is the assessable spouse he will have joint assessment for 2012. He will be assessed to tax on all his income and his wife's income up to date of separation. He will be entitled to a tax deduction for the maintenance payment he pays for his wife's benefit from date of separation until the end of the tax year. Laura will have a single assessment from date of separation until the end of the tax year.

Alan: 1 Mark

Laura: 1 Mark

Alan – Joint assessment 2012

	€	
Schedule D Case I	20,625	
Schedule E €32,760 x 7/12	19,110	½ Mark
Schedule F $\frac{€8{,}000}{80} \times 100$	10,000	½ Mark
	49,735	
Charges		
Maintenance €600 x 5	(3,000)	1 Mark
Retirement annuity (W1)	(3,200)	2 Marks
Statutory income	43,535	
€43,535 at 20% (W2)	8,707	
Less:		
Married credit	(3,300)	½ Mark
PAYE credit	(1,650)	½ Mark
Tax liability	3,757	
Less: DWT 10,000 at 20%	(2,000)	½ Mark
Tax due	1,757	

Laura – Single assessment for 2012

Schedule E €32,760 x 5/12	13,650	½ Mark
Schedule D – Case IV €600 x 5	3,000	1 Mark
	16,650	
€16,650 at 20%	3,330	
Less:		
Single credit	(1,650)	¼ Mark
PAYE credit	(1,650)	¼ Mark
Lone parent	(1,650)	½ Mark
College fees €850 - €1,125 = nil	(-)	1 Mark
Tax liability	Nil	

Workings

1. Retirement annuity

	€	€
D – Case I		20,625
Other income		
Schedule F	10,000	
Less: Other charge	(3,000)	
Net relevant earnings		20,625
€20,625 at 25%		5,156

This is restricted to the amount paid of €3,200

2. The married band is €41,800 plus the income of the lower earner. €41,800 + €19,110 = €60,910. The taxable income of the taxpayer is only €43,535 so therefore it is fully taxed at 20%.

3. Tax relief for the medical insurance is given at source.

Solution 2

(1) **Corporation Tax Computation Walsh Limited**
Year ended 30th June 2012

	Notes	€	
Case I	1	–	
Case III	2	10,000	½ Mark
Case V	3	43,000	
Income		53,000	
Gain	4	244,783	
Profits		297,783	½ Mark
Corporation tax:			
€ 10,000 at 12½%	=	1,250	1 Mark
€ 43,000 at 25%	=	10,750	½ Mark
€244,783 at 12½%	=	30,598	½ Mark
		42,598	
Less: Trade loss			
€290,986 at 12½%	=	(36,373)	2 Marks
		6,225	

(2) **Company Residence**
There are two tests that are used to determine if a company is resident in Ireland. These are referred to as:

1 The statutory test
2 The central management and control test

The statutory test
A company is considered to be resident in Ireland if it is incorporated here. **1 Mark**
There are two exceptions to this rule:

(i) The trading exemption
This exemption applies to a company incorporated and carrying on a trade in Ireland that is ultimately controlled by persons resident in an EU member state or in a country with which Ireland has a double tax treaty. **½ Mark**

(ii) The treaty exemption
This exemption applies to a company that is not regarded as resident in Ireland under the provisions of a double tax treaty.

In the case of these two exemptions the company will not be resident in Ireland simply because they are incorporated in Ireland. We must look at the central management and control test.

The Central Management and Control test
The central management and control test is not set out in the tax legislation but has developed through tax case law. The place of central management and control relates to strategic control of the company. It is necessary to examine who has control and where the control lies based on the particular circumstances of each company. **1 Mark**

Questions which may help to determine where/who has central management and control include:

- Where are directors meetings held?
- Where is the majority of the director's resident?
- Where are the important decisions made?
- Where are the shareholders meeting held?
- Where are the major contracts negotiated?
- Where is the head office located?
- Where are books and records of accounts kept?
- Where is the share register maintained?

For example, if all the directors and shareholders meeting are held in Ireland, it is likely that the company is tax resident in Ireland.

Notes:

1.

Case I Computation	**€**	**€**	
Net loss per accounts		(91,560)	
Addbacks			
Depreciation	16,400		**¼ Mark**
Legal Fees	12,800		**½ Mark**
Interest	6,350		**½ Mark**
Motor expenses (W1)	374		
Bad Debts	7,150	43,074	**½ Mark**
		(48,486)	
Deductions:			
Other income	210,000		**¼ Mark**
Capital allowances (W2)	32,500	242,500	
Case I loss		(290,986)	

2. The dividend from Flynn Ltd can be taxed at 12½%, where an election is made, as it is a dividend from an EU country and it is paid out of trading income.

3.

Schedule D – Case V		**€**	
Premium: $50{,}000 - (50{,}000 \times \frac{25-1}{50})$	=	26,000	**1 ½ Marks**
Rent: €60,000 x 4/12	=	20,000	**½ Mark**
		46,000	
Less: Interest €6,000 x 4/8	=	(3,000)	**1 Mark**
		43,000	

4. Capital gain

			€	
Sales proceeds			325,000	
Less: Legal fees			(12,800)	
99/00 €176,200 x 1.193		=	(210,207)	1 Mark
			101,993	
Gain as adjusted €101,993 x 30 / 12.5		=	244,783	1 Mark

Workings

1. Motor expenses

Lease rental:

Sales Director

Limit: €24,000	€5,000 x (€22,000 - €24,000) / €22,000	=	(€455)	1 Mark

MD

Limit: €24,000	€5,800 x (€28,000 - €24,000) / €28,000	=	€829	1 Mark
Total addback	(€455) + €829	=	€374	

2. Capital allowances

Opening cost	=	€180,000
Add		
Cost of acquisition	=	€ 30,000
€25,830 x 100 / 123	=	€ 21,000
Less		
Cost of disposal		(€25,000)
Closing cost		€206,000
Wear and Tear 12½%		€25,750

Balancing position

			€	
Sales proceeds			12,000	
TWDV	Cost	€25,000		
	30/6/2010	€ 3,125		
	30/6/2011	€ 3,125	18,750	
Balancing allowance			6,750	1 Mark

Summary

Wear and Tear	25,750	2 Marks
Balancing allowance	6,750	
	32,500	

Solution 3

(a) (1) Delta plc

Date	**Number**	**Cost (€)**
1/5/1989	500	1,560
10/8/1996	900	3,400
21/1/2001	600	5,100

The disposal of 800 shares will come from the first holding and 300 shares out of the second holding.

Two tax computations will be required.

		€	
Sales proceeds: €10,000 x $\frac{500}{800}$	=	6,250	½ Mark
89/90 €1,560 x 1.503	=	(2,345)	½ Mark
Gain	=	3,905	
Sales proceeds: €10,000 x $\frac{300}{800}$	=	3,750	½ Mark
96/97 €3,400 x $\frac{300}{900}$ = €1,133 x 1.251 =		(1,417)	1 Mark
Gain	=	2,333	

Cherry Limited

Date	**Number**	**Cost (€)**
1/6/2000	3,000	10,500
18/8/2002	4,000	11,000

Shares remaining after the disposal of 2,000 shares in 2010.

Date	**Number**	**Cost (€)**	
1/6/2000	1,000	3,500	1½ Mark
18/8/2002	4,000	11,000	

Cormac is now selling 2,500 shares in the company. This will come from holding one and 1,500 shares from holding two.

Sales proceeds: 1,000 x €3.80	=	3,800	½ Mark
00/01 €3,500 x 1.144	=	(4,004)	½ Mark
Loss	=	(204)	

Actual position:

Sales proceeds	€3,800	
Cost	€3,500	1 ½ Marks
Gain	€ 300	

This will be a no gain/no loss situation

Sales proceeds: 1,500 x €3.80	=	5,700	½ Mark
2002 €11,000 x $\frac{1,500}{4,000}$ = €4,125 x 1.049	=	(4,327)	1 Mark
		1,373	

Summary

(i)	Delta plc €3,905 + €2,333	=	6,238	
(ii)	Cherry Limited		1,373	
			7,611	
	Less: Annual exemption	=	(1,270)	**½ Mark**
			6,341	
	Capital gains tax at 30%	=	1,902	**½ Mark**

(2) Filing date 31st October 2013. **1 Mark**

(b) **(1)**

		€	
Sales Proceeds		3,100	
98/99 €1,500 x 1.212	=	1,818	
Gain		1,282	**1 Mark**
Capital gains tax at 30%	=	385	
Marginal relief ½(€3,100 –€2,540)	=	280	**1 Mark**

Marginal relief will apply and the capital gains tax for 2012 will be limited to €280.

			€	
Sales proceeds			550,000	
Less: Legal fees on disposal			(15,000)	
			535,000	
99/00	€210,000			
Legal fees	€ 5,500			
	€215,500 x 1.193	=	(257,092)	
Gain			277,908	**1 Mark**

Total ownership:	1st June 1999 to 1st December 2012 = 13 years 6 months	**1 Mark**
Non occupation:	1st June 2009 to 1st December 2011 = 2 years 6 months	**1 Mark**

Notes:

1. The period of time working in Cork is not allowed as deemed occupation as Terry never went back to Navan to live in the house. **1 Mark**

2. The last 12 months of ownership are allowed as deemed occupation. **1 Mark**

$$€277{,}908 \times \frac{2½}{13½} = €\ 51{,}464$$

Terry's capital gains tax for 2012:

House		€51,464	
Less: Annual exemption		€ 1,270	
		€50,194	**¼ Mark**
Capital gains tax at 30%	=	€15,058	**¼ Mark**
Plus: Marginal relief	=	€280	**½ Mark**
		€15,338	

(2) The withholding tax does apply to Terry as he is selling land and buildings in the State and the sales proceeds exceed €500,000. **2 Marks**

Solution 4

(a) **(1)** This is considered a multiple supply as each item in the hamper is capable of being sold separately in its own right. In this case the consideration should be apportioned between the various supplies involved, and each supply will be taxed at the appropriate VAT rate. 2

(2)

Item		**€**	
Wine - €10 at 23%	=	2.30	**½ Mark**
Cheese/crackers - €4 at 0%	=	–	**1 Mark**
Teddy bear - €8 at 23%	=	1.84	**½ Mark**
Total VAT	=	4.14	

(b) The rate of VAT applicable to goods that are exported outside the EU is 0% in all circumstances. Whether the purchaser is in business or is a private individual is irrelevant, and the rate applicable to such goods if supplied within Ireland is irrelevant. The logic behind this rating is to ensure that Irish products remain competitive in an international context. If domestic rates of VAT were applied to exports, traders based in jurisdictions with low VAT rates would have a competitive advantage over Irish traders. **3 Marks**

(c) **(1)**

	Notes	**€**	
Cash received $\frac{€88,000}{123} \times 23$		16,455	**2 Marks**
Less: Motor expenses	1	(156)	
Entertainment	2	–	
Lease of computer equipment $\frac{€900}{123} \times 23$		(168)	**½ Mark**
Cleaning	3	(337)	
Telephone $\frac{€1,250}{123} \times 23$	=	(234)	**½ Mark**
VAT due		15,560	

(2) The return must be submitted by the 19th (or 23rd) of May 2012. If Michelle fails to file her VAT return correctly, a penalty of €4,000 will apply. **1 ½ Marks** **1 ½ Marks**

Notes:

			€	
1. Motor expenses:				
No VAT can be claimed on petrol				**1 Mark**
Diesel $\frac{400}{123} \times 23$		=	75	**1 Mark**
Repairs $\frac{850}{113.5} \times 13.5$	= €101 x 80%	=	81	**2 Marks**
Total VAT €75 + €81		=	156	

2. Food, drink and accommodation for you or your staff is not allowed as an input credit. **1 ½ Marks**

3. The input credit on cleaning will be allowed as Michelle has an invoice. **1 ½ Marks**

$$\frac{1,800}{123} \times 23 = 337$$

Solution 5

(a) (1) Accounting period 31st October 2012.

- First preliminary payment date: 23rd April 2012 — **1 Mark**
- Second preliminary payment date: 23rd September 2012 — **1 Mark**
- Final payment date: 23rd July 2013 — **1 Mark**

(2) Filing date is 23rd July 2013 — **1 Mark**

(3) Late payments of corporation tax are subject to interest of 0.0219% per day. — **1 Mark**

(4) There are two penalties if the return is late:

(1) Surcharge
The surcharge is 10% of the amount of tax subject to a maximum of €63,485. Where the return is delivered within two months of the filing date, the surcharge is 5% subject to a maximum of €12,695. — **2 Marks**

(2) Restrictions of certain claims for loss relief:
Where a return is less than two months late, reliefs are to be restricted by 25% subject to a maximum in each case of €31,740. — **2 Marks**

Where the delay is two months or more, the reliefs are to be restricted by 50% subject to a maximum of €158,715.

(b) (1) Step one:

The company can reduce trading income liable at the standard rate in the period the loss arises.

AP 31st December 2012

		€
Case I		Nil
Case V		20,000
Income		20,000
Gain		5,000
Profits		25,000
€20,000 at 25%	=	€5,000
€ 5,000 at 12½%	=	€ 625
		€5,625

1 Mark

Loss remaining = €120,000

Step two:

The company can carry the loss back and reduce trading income liable at the standard rate in the previous period of corresponding length.

AP 31st December 2011

		€	
Case I		30,000	
Case V		12,000	
Income		42,000	
Gain		10,000	
Profit		52,000	
Loss relief		30,000	**2 Marks**
		22,000	
€12,000 at 25%	=	3,000	
€10,000 at 12½%	=	1,250	**½ Mark**
		4,250	

Loss remaining = €120,000 – €30,000 = €90,000

Step three:

The company can use the loss to reduce corporation tax on a value basis in the accounting period the loss arose.

AP 31st December 2012

	€	
Corporation tax	5,625	
Less: loss relief		**1 ½ Marks**
€90,000 at 12½% =	11,250	
	-	

Loss remaining = €11,250 – €5,625 = $\frac{€5,625}{.125}$ = €45,000.

Step four:

The company can carry back the loss remaining and reduce corporation tax on a value basis in the previous period of corresponding length.

AP 31st December 2011

	€	
Corporation tax	4,250	
Less: Trade loss		**1 ½ Mark**
€45,000 at 12½%	(5,625)	
	-	

Loss remaining = €5,625 – €4,250 = $\frac{€1,375}{.125}$ = €11,000

This will be carried forward under Section 396(I) to reduce profits of the same trade.

AP 31st December 2010

	€	€
Case I	80,000	
Less:	(25,000)	55,000
CaseV		10,000
Income		65,000
Gain	3,000	
Less: Loss	(2,000)	1,000
		66,000

1 Mark

1 Mark

Corporation tax:

€55,000 at 12½%	=	6,875
€10,000 at 25%	=	2,500
€ 1,000 at 12½%	=	125
		9,500

½ Mark

(2) There is no time limit for losses carried forward.

The time limit for making the loss relief claims is December 2014.

2 Marks

Solution 6

Multiple Choice

Each Part Carries 2 Marks

1. **(b)** 2012 c/y 30th April 2012
   Cost €30,000
   Limit €24,000
   Wear and Tear 12½% €3,000

2. **(d)**

3. **(d)**

	€	€
Case I	90,000	
Less: Capital allowances	(15,000)	75,000
Schedule F		5,000
Schedule D – IV		exempt
		80,000

€10,036 at 2%	=	201
€ 5,980 at 4%	=	239
€63,984 at 7%	=	4,479
€80,000		4,919

4. **(d)**

5. **(c)**

6. **(b)**

7. **(a)** €28,000 x 18% = 5,040

8. **(d)**

9. (b)

10. (c)

Rent €40,000 x 9/12	=	30,000
Premium		
€120,000 – (€120,000 x $\frac{10-1}{50}$)		98,400
		128,400
Less: €12,000 x 9/12	=	(9,000)
	`	119,400

Note: In the lease formula for the premium only complete years are used.

Solution 7

(1) Michelle Kelly can claim relief for her trading loss under two sections, Section 381 and Section 382. Section 381 is a choice open to Michelle she does not have to make a claim under this Section. This Section will allow her to use the loss to reduce her total income in the year the loss arises. The time limit for claiming this Section is two years from the end of the tax year in which the loss arises.

Section 382 is a compulsory section and if Michelle does not claim 381 or if there is still some loss remaining after a Section 381 claim she must carry it forward under Section 382. There is no time limit for this section as it is not a choice.

Capital allowances can be used to increase a loss. This loss can then be used under the two relief Sections 381 and 382.

Marks Allocated
Section 381: **Reduce Total Income: 2 Marks** **Choice: 1 Mark** **Time Limit: 2 Marks** **Section 382:** **Profits of same trade: 2 Marks** **Section 392:** **Capital Allowances: 1 Mark**

(2)

				Marks Allocated
Relevant earnings	**€**	**€**	**€**	
Schedule D – Case II			100,000	2 Marks
Other Income				
Schedule D – Case IV	5,000			
Schedule D – Case III	3,000	8,000		
Less: Other charge				
Interest		(10,000)	(2,000)	
Net relevant earnings			98,000	2 Marks
Maximum retirement annuity:				
€98,000 x 25% = €24,500				1 Mark

(3) Donal is not resident in Ireland in 2012 even though he is caught by the look ba
he has less than 30 days in Ireland in 2012.

Donal will still be considered ordinarily resident for three tax years after he stops being
resident.

Therefore for 2012 Donal is not resident, but is ordinarily resident and domiciled in Ireland. The effect on his tax liability is as follows:-

Income tax
Donal will be subject to Irish Income tax on worldwide income except income from a foreign employment, trade, profession which is wholly exercised/carried on outside of Ireland and foreign income which does not exceed €3,810.

Capital Gains tax
As Donal is either resident or ordinarily resident and domiciled in the state he is still liable on his worldwide gains.

Marks Allocated
Non Resident, 30 day rule: 1 Mark **Ordinarily Resident: 1 Mark** **Domiciled: 1 Mark** **Income Tax Implications: 2 Marks** **Capital Gains Tax Implications: 2 Marks**

2nd Year Examination: May 2013

Advanced Taxation ROI

Examiner's Report

Statistical Analysis – By Question							
Question No.	1	2	3	4	5	6	7
Average Mark (%)	59%	49%	55%	60%	52%	55%	43%
Nos. Attempting	696	688	698	453	347	480	109

Statistical Analysis - Overall	
Pass Rate	65%
Average Mark	54%
Range of Marks	**Nos. of Students**
0-39	134
40-49	111
50-59	188
60-69	137
70 and over	130
Total No. Sitting Exam	**700**
Total Absent	101
Total Approved Absent	45
Total No. Applied for Exam	846

Question One
The commencement rules were dealt with well with the exception of the taxpayer's option with many candidates revising the second year rather than adjusting the third year. With regard to capital allowances most candidates did not restrict the wear and tear in the first year to the length of the basis period. Also the majority of candidates did not include the tools purchased on the 1st of November 2011 in the correct basis period. Most candidates brought them in as an addition in 2011 which is incorrect as the basis period for this year stops on the 30th of September 2011. Also a van is not restricted; capital allowances are allowed on the full cost. A few candidates did not understand the rules to be followed in the year of separation. Candidates wasted a lot of time calculating PRSI and USC which was not asked for in the question. Also an explanation was required on why college fees were not allowed as a credit. Many candidates continue to give relief for medical insurance even though TRS applies. Candidates must also remember that to obtain marks for the retirement annuity full workings must be shown.

Question Two
Corporation tax continues to cause problems with candidates. The case I computation and the calculation of the gain and the case V income were well dealt with. The only exception being the balancing figure on the disposal of the machine with a lot of candidates incorrectly classifying it as a balancing charge. Also, some candidates even restricted the cost of the replacement asset by a balancing allowance.

Candidates fell down with the corporation tax computation and the taxation of the UK dividend which is fully liable to corporation tax. It is only dividends received from other Irish companies that are exempt. Very few candidates appreciated that this UK dividend was liable at 12.5% not 25% corporation tax as it was a dividend from an EU country and it was paid out of trading income. Also quite a few candidates failed to deal with the company's case I loss.

The theory part of the question on the residence of companies was poorly answered. Candidates are encouraged to review the theory elements of the course as these are marks that can be gained throughout the paper.

Question Three
Candidates answered well on the shares section of the question however the principal private residence was badly done by quite a few candidates. The period in Cork is not allowed as deemed occupation as the taxpayer did not return to live in the house.

It was good to see that most candidates got the filing date for the return correct.

Question Four
The package rule and the VAT calculation were dealt with satisfactorily. Disallowable items were also well dealt with although some candidates failed to state this fact thereby losing marks. Few candidates restricted the VAT on the repairs to business use.

Candidates are encouraged to revise exports and imports for future exam sittings.

Also the penalty for late submission of a VAT return was not known by most candidates.

Question Five
Quite a lot of candidates got the corporation tax filing date confused with the income tax filing date. Also quite a lot of candidates got the penalty for the late payment of corporation tax mixed up with the penalty for late submission of a corporation tax return. Also when the payment date is asked there is no need to outline the rules on the amount to be paid just give the exact payment date for the companies accounting period.

With the exception of the time limit most candidates did well on the loss part of the question. However the trade and the capital losses brought forward were either added to the trade loss for 2012 or offset against the other 2012 figures instead of against the 2010 case I and capital gain.

Question Six
Most candidates made a good attempt at the multi-choice this year which was good to see.

Question Seven
This question was only attempted by a few candidates.

Part (1) was theory on income tax losses. Most candidates got no marks here as they discussed losses for a company not an individual.

Part (2) was on the calculation of a retirement annuity. Most candidates could not calculate net relevant earnings correctly.

Part (3) was the best answered section with most candidates explaining why Donal was not resident but still ordinarily resident. However they could not continue with their answer and explain the effect this had on Donal’s income tax and capital gains tax liability for 2012.

Conclusion
The overall standard was pleasing, however the unsuccessful candidates tended to fail by a considerable margin. More work must be done on corporation tax as it is still the tax that most candidates struggle with.

Also it was notable that quite a few candidates used 25% for the capital gains tax rate and 21% for the standard rate of VAT. The correct rates for both are given in the tax reference material provided in the exam. The capital gains tax rate is on page 12 and the VAT rates are on page 14. If you are a repeat student or studying from out of date material please make sure you check the reference material for the current rates as you are losing marks needlessly.