Accounting Technicians Ireland

Taxation II
Republic of Ireland

2nd Year Examination

May 2010

Paper, Solutions & Examiner's Report

NOTES TO USERS ABOUT THESE SOLUTIONS

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

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

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

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

2nd Year Examination : Summer 2010

Paper : TAXATION II (Republic of Ireland)

Wednesday 19th May 2010 - 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 2009. The provisions of the Finance Act 2010 should be ignored.

Credits 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)*

Alan Jones and his wife Nuala had been married for twenty years. They have two children, Mark aged 15 and Sarah aged 10. They always had joint assessment and Alan was the assessable person. On 31st March 2009 the car Alan was driving was involved in a tragic accident. Alan died instantly.
Alan had his own legal practice that he set up in 1990. Details of his profits are as follows:-

	€
Year ended 30th June 2008	90,000
Period ended 31st March 2009	88,200

All assets were leased.
Alan owned shares in various Irish companies.
He received the following dividends:-

Date	**Amount received €**
1/2/2009	4,800
21/3/2009	9,600

He also owned two investment properties, which he let out. Details of his rental income after allowable expenses is:-

	€
Year ended 31st December 2008	21,000
Year ended 31st December 2009	24,000

The shares and his investment properties were left to his wife Nuala in his will.

His wife Nuala had remained at home to care for their two children Mark and Sarah. However, she decided in October 2009 to re-enter the job market. On the 1st November 2009 she commenced employment with Retail Ltd. Her employment package consisted of:-

1. A monthly salary of €5,800.
2. A monthly train pass with effect from 1st November 2009. The monthly value of this is €180.
3. On the 1st December 2009 the company lent her €10,000 at 5% interest so she could clear her debts that had accumulated since her husband's death.
4. Her employer Retail Ltd. will contribute 2% of her basic salary of €5,800 a month into the company's pension scheme.

Her only other income for 2009 was a dividend of €4,000 received in August 2009 from the shares she inherited from her husband Alan.

Requirement

(a) Calculate Alan and Nuala's income tax for 2009.

18 Marks

(b) What are Nuala's non-refundable tax credits for 2010? You may assume the credits are the same as in 2009.

2 Marks
Total 20 Marks

QUESTION 2 (*Compulsory)*

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

	€
Anne Green	4,000
Joe Green (Anne's brother)	4,000
Karen Green (Joe's wife)	2,000
	10,000

Anne and Joe Green are directors of the company and work full-time for the company. Karen Green is not a director but she works four mornings a week for the company. All shareholders are resident in Ireland.
Green Ltd was incorporated in 2002 and is involved in the manufacture of industrial components. The profit and loss account for the year ended 31st August 2009 shows the following:-

	Notes	**€**	**€**
Sales			600,000
Cost of Sales			260,000
Gross profit			340,000
Other income	1		60,000
			400,000
Less: Expenses			
Depreciation		26,530	
Motor expenses	2	15,850	
Director's remuneration		110,000	
Rent and rates		56,500	
Bad debts	3	12,000	
Client entertainment		3,000	
Legal expenses	4	16,400	
Interest	5	6,000	
Insurance		6,600	
Light and heat		4,400	257,280
Net profit			142,720

Question continues on the next page.

QUESTION 2 *(Cont'd)*

Notes

1 Other income

	€
Rental income	17,500
Dividend from Irish company	20,000
Interest received gross	10,000
Gain on sale of shares	12,500
	60,000

In June 2009 the company sold 5,000 shares in Zero Ltd for €8 a share. Green Ltd's share dealings in these shares are as follows:-

	Number	**Cost €**
May 2002	2,000	15,500
August 2003	8,000	32,000

2 Motor expenses

	Running Costs €	**Lease rental €**	**Cost €**	**Emissions**
Motor vehicle used by Sales Manager (25% private use)	3,000	5,000	30,000	160 g/km
Van	3,850	4,000	28,000	140 g/km

3 Bad Debts

	€
Bad debts written off	3,000
Decrease in general provision	(2,000)
Increase in specific provision	6,000
Loan to employee written off	5,000
Total	12,000

4 Legal expenses

	€
Pursuing breach of contract by a supplier	4,400
Fine for illegal dumping	10,000
Collection of bad debts	2,000
Total	16,400

Question continues on the next page.

QUESTION 2 (*Cont'd*)

5 Interest
On the 1st January 2008 Anne and Joe made loans of €60,000 each to finance working capital for the company's trading operations. These loans have no specific repayment date and the company paid €3,000 interest to each director in the year ended 31st August 2009.

6 On 10th May 2009 the company made an interest free loan of €25,000 to Karen Green to enable her to refurbish the family home.

7 Plant and Machinery
On 1st September 2008, the tax written down value of plant and machinery was as follows:

	€
Plant and Machinery	93,750
(Cost €150,000 in May 2006)	

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

Acquisitions:

1	Machine	1st July 2009	cost €30,375 (including VAT at 21.5%)
2	Machine	1st August 2009	cost €19,440 (including VAT at 21.5%)

Disposal:

Machine 1st March 2009 proceeds €5,000
This asset was purchased in May 2006 for €10,500.

All figures were exclusive of VAT except where indicated otherwise. The year end of Green Ltd. has always been the 31st August.

Requirement:

(a) Advise the shareholders why Green Ltd. is a close company.
2 Marks

(b) Compute Green Ltd's corporation tax in respect of the year ended 31st August 2009.
15 Marks

(c) What are the tax consequences for Green Ltd. on the loan to Karen Green?
2 Marks

(d) When should Green Ltd. file its corporation tax return for this accounting period
1 Mark
Total 20 Marks

Note:
You are not required to calculate Green Ltd's close company surcharge or dividend withholding tax for this accounting period.

QUESTION 3 *(Compulsory)*

Gerry and Alice Kenny have been married since 2001. They are both resident and domiciled in Ireland. They made the following disposals in 2009:-

Gerry

1. In March 2009 he sold a 2 acre plot of land for €20,000. Gerry had originally inherited a 5 acre plot from his father in June 1995. The market value of the 5 acres in June 1995 was €9,200. Gerry's father had originally bought the land in November 1985 for €3,500. The market value of the 3 acres remaining in March 2009 was €22,000.

2. In May 2009 he gave his wife Alice his 2,000 shares he owned in Alpha Ltd. Gerry had purchased these shares in July 1997 for €5,000. The market value of the shares in May 2009 was €8,000.

3. In July 2009 he sold a painting for €2,000. He had purchased the painting in June 2003 for €250.

Alice

1. In January 2009 she sold an antique ring for €2,850. Her Aunt had given her the ring in July 2004, when the market value of the ring was €1,000. Her Aunt had purchased the ring for €150 in November 1994.

2. In November 2009 she sold the shares her husband Gerry had given her in May 2009 for €20,000.

3. In December 2009 she gave her daughter a gift of 2,000 shares in Bond Ltd. The market value of each share in December 2009 was €4. Alice's dealings in the shares are as follows:-

Date of purchase	**Number of shares**	**Acquisition cost**
1/7/1999	2,500	€3,000
16/7/2003	3,000	€8,000

Requirement

(a) Calculate Gerry and Alice's capital gains tax for 2009.

15 Marks

(b) List three types of assets that are exempt from capital gains tax.

3 Marks

(c) If a person is resident and/or ordinarily resident but not domiciled in Ireland what is their liability to Irish capital gains tax?

2 Marks

Total 20 Marks

SECTION B

Answer any TWO of the FOUR questions in this section

QUESTION 4

(a) Describe what constitutes a supply of goods.

3 Marks

(b) List four Fourth Schedule services.

2 Marks

(c) Explain the package rule, giving an example of a multiple supply and a composite supply.

6 Marks

(d) Describe the VAT treatment of the appropriation of goods from a taxable supply to an exempt supply. **2 Marks**

(e) Kelly Ltd. a supplier of services accounts for VAT on the cash receipts basis. All amounts are stated, including VAT at the standard rate (21½%). The following information relates to Kelly Ltd. for the two month period to the 30th April 2009:-

	€
Taxable sales	75,000
Exempt sales	25,000
Taxable cash receipts	70,470
Exempt cash receipts	24,300

Expenses excluding VAT at the standard rate for the same period are:-

	€
Directly attributable to taxable supplies	4,500
Directly attributable to exempt supplies	1,850
General expenses for the company	2,500

The company made gifts to customers of 200 calculators costing €8.50 each (net of VAT). No customer received more than one gift each.

Question continues on the next page.

QUESTION 4 *(Cont'd)*

Required:

(i) Compute the VAT liability of Kelly Ltd. for the VAT period March/April 2009.
Note: Where necessary you should apportion expenses between qualifying and non-qualifying, based on the ratio of annual taxable turnover.

The annual turnover of Kelly Ltd. is:-

	€
Taxable turnover	650,000
Exempt turnover	162,500
	812,500

6 Marks

(ii) State the date by which the return should be submitted to the Collector General.

1 Mark
Total 20 Marks

QUESTION 5

(a) Alpha Ltd. is an Irish resident company that operates a retail electrical goods store. The company was incorporated on 1st July 2007 and commenced business on that date. Results for the first two years are as follows:-

	Year ended 30th June 2008 €	Year ended 30th June 2009 €
Case I	(120,000)	24,000
Case V	40,000	45,000
Gain as adjusted	30,000	Nil

Requirement:

(i) Compute the corporation tax of Alpha Ltd. for both accounting periods on the assumption that full relief was claimed for the trade loss at the earliest opportunity.

8 Marks

(ii) Identify those claims arising above to which time limits apply, and state the time limit in each case.

2 Marks

(b) Michael Lyons has been in business for many years. His year end is 30th September each year. Due to the recession his business has made a loss for the first time in 2009.
The loss in his accounts to the 30th September 2009 was €10,000.
Michael Lyons is married with two children aged nine and fourteen. His wife Jane works for Fingal County Council. Her salary for 2009 was €38,800 (PAYE deducted €3,000).
Details of Michael's other income and outgoings are as follows:-

	Note	2008 €	2009 €
Irish rental income after expenses		5,000	8,000
Service charge		380	420
Medical expenses	1	-	600

Note 1

The medical expenses were in relation to Michael's daughter Tina who suffers from Asthma.

Requirement:

(i) Calculate Michael's and Jane's income tax for 2009, assuming Michael claims maximum relief for his loss. You may assume joint assessment applies.

8 Marks

(ii) State any time limit that applies to any loss claims used by Michael.

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 correct answer.

Requirement

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

N. B. *Each part carries 2 marks.* **Total 20 Marks**

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

[1] Niall Fox has been in business for many years. His year end is the 30th June each year. In his accounts year ended 30th June 2009 he made a trade loss of €10,000. He wishes to use this loss under Section 381 to reduce his total income in 2009. What is Niall's time limit for election under Section 381 to enable him to claim this loss in his tax computation for 2009.

- **(a)** 31st October 2010
- **(b)** 31st December 2009
- **(c)** 30th June 2011
- **(d)** 31st December 2011

[2] Peter Brady is self employed. He has been in business for many years. His year end is 31st March every year. He purchased a car for business use on 31st January 2007 for €26,000. In July 2009 he sold the car for €15,000. What are Peter Brady's capital allowances for 2009. (all calculations to the nearest euro.)

- **(a)** Wear and tear of €3,000
- **(b)** Balancing allowance of €3,000
- **(c)** Balancing allowance of €4,154
- **(d)** Balancing allowance of €4,500

[3] Kevin and Mary Smith are married. They have joint assessment with Kevin as the assessable person. Mary has just qualified as an accounting technician and wishes to become the assessable person for 2009. The election must be made to the Inspector of Taxes in writing before:-

- **(a)** 31st December 2009
- **(b)** 1st April 2009
- **(c)** 31st October 2010
- **(d)** 31st October 2009

Question continues on the next page.

QUESTION 6 *(Cont'd)*

[4] ABC Training Limited has a year end 31st May each year. Its corporation tax for its accounting period 31st May 2008 was €280,000. Its current accounting period is the year ended 31st May 2009. When must ABC Training Limited pay its preliminary corporation tax for the current period:-

(a) 21st April 2009
(b) 21st April 2009 and 21st February 2010
(c) 21st February 2010
(d) 21st November 2008 and 21st April 2009

[5] Mark Jones purchased a motor vehicle in August 2007 for €30,000. He used this car in his business. The Revenue have agreed that it is used 25% for private use. Mark's business prepares accounts to the 31st December each year. The car was sold in October 2009 for €35,000. Assume that Mark has already utilized his annual exemption against other gains. The capital gains tax payable on this disposal is:-

(a) Nil as exempt
(b) €1,250
(c) € 750
(d) € 937.50

[6] Change Limited is registered for VAT. The company supplied goods to a registered trader on the 10th June 2009. What is the latest date that Change Limited must issue a VAT invoice by?

(a) 15th June 2009
(b) 19th July 2009
(c) 14th July 2009
(d) 15th July 2009

Question continues on the next page.

QUESTION 6 *(Cont'd)*

[7] Joe Cole is separated from his wife Dianne. He is aged 31 years. He runs his own printing business. His assessable income and outgoings for 2009 are:-

	€	
Trading income		50,000
Rental income	10,000	
Permanent health insurance	1,000	
Maintenance to wife	12,000	
Maintenance for the benefit of his two children		6,000

Joe and Dianne have not elected to be treated as if they were married.
Joe pays a retirement annuity premium of €10,000 for the first time in February 2010. What tax relief, if any, is Joe Cole entitled to in his tax computation for 2009?

(a) None
(b) €10,000
(c) € 9,600
(d) € 9,400

[8] Lisa Jones commenced to trade on the 1st July 2007. She wanted her year end to be the 31st October each year. Her results for her first two sets of accounts were:-

Period ended 31st October 2008	€24,000
Year ended 31st October 2009	€11,400

You are required to indicate the correct final assessable profits for Lisa Jones's second and third tax year:-

(a) 2008 €24,000
2009 €11,400
(b) 2008 €18,000
2009 €10,300
(c) 2008 €18,000
2009 €11,400
(d) 2008 €16,900
2009 €11,400

Question continues on the next page.

QUESTION 6 *(Cont'd)*

[9] Michelle Clune is self employed. Her assessable income and outgoings for 2009 are as follows:-

	€
Schedule D – Case I before capital allowances	90,000
Capital allowances	6,000
Rental income	20,000
Deposit interest – gross	5,000
Retirement annuity	4,500

Calculate Michelle's Health contribution and Income levy to the nearest euro for 2009:-

(a) Health contribution €4,125
Income levy €2,501
(b) Health contribution €3,875
Income levy €2,301
(c) Health contribution €3,875
Income levy €2,335
(d) Health contribution €2,806
Income levy €1,522

[10] Wendy Shaw is separated from her husband Bill. They have three children. The three children live with Wendy during the week and with Bill at weekends. Wendy lives with her partner Tony and has the following income for 2009:-

	€
Maintenance for her benefit from Bill	15,000
Maintenance for the benefit of the children	5,000
Part - time job at Superquinn	8,000

What is Wendy's income tax liability (after credits) for 2009, assuming that herself and Bill have not elected to be treated as if they were married?

(a) €1,170
(b) Nil
(c) € 940
(d) € 110

QUESTION 7

(a) Briefly explain what is a deed of covenant. **2 Marks**

(b) What covenants are available for tax relief as a charge? **6 Marks**

(c) Jason Brady is single and employed as a sales manager in a local garden centre, Blooms Ltd. He has worked there for many years and in 2009 he invested €50,000 to buy shares in the company. He owns 7% of the company. Jason borrowed €40,000 from the local bank and raised the balance by selling the following assets:-

(i) A painting for €2,800 that he had inherited from his father in June 1998. The market value of the painting in June 1998 was €1,050. His father had originally purchased the painting in February 1989 for €380.

(ii) A sailing boat for €7,200. Jason had originally purchased this boat in May 2002 for €5,000.

Both assets were sold in February 2009.

Jason paid interest of €2,200 in 2009 on the €40,000 borrowed from the local bank.

Details of Jason's remuneration package from Blooms Ltd. for 2009 is:-

	€
Basic salary	50,000
PAYE deducted	9,850

Jason had the use of a company car since July 2008. The car cost the company €23,000 in May 2008. Its original market value was €28,000. Jason travels 1,500 business kilometres a month and contributes €50 monthly for the use of the car.

Jason purchased his own house in March 2006. To help pay the mortgage, since August 2008 he lets out one of the bedrooms and receives rent of €650 a month.

In 2005 Jason took out a ten year covenant for €5,000 a year to help provide for his incapacitated nephew, Sam aged four.

Jason's only other outgoing was a service charge of €450, paid each year to the local council.

Required

You are required to calculate Jason's income tax and capital gains tax for 2009.

12 Marks

Total 20 Marks

2nd Year Examination: Summer 2010

Taxation II (ROI)

Solutions

Taxation II ROI
Summer 2010 Suggested Solutions

Solution 1

(a)

Alan Jones
Joint Assessment – 2009
1st January 2009 to 31st March 2009

	Note	**€**
Schedule D – Case II	1	29,400
Schedule F	2	18,000
Schedule D – Case V	3	6,000
		53,400
€45,400 at 20%	=	9,080
€ 8,000 at 41%	=	3,280
€53,400		12,360
Less:		
Married credit		3,660
Carer's credit		900
Tax liability		7,800
Less:		
Dividend withholding tax €18,000 at 20%		3,600
Tax Due		4,200

Nuala Jones
Single Assessment – 2009
1st April 2009 to 31st December 2009

	Note		€
Schedule D – Case V €24,000 x 9/12		=	18,000
Schedule F €4,000 x 100 / 80		=	5,000
Schedule E	4		11,663
			34,663

€34,663 at 20%	=	6,932.60
Less:		
Widowed person in year of bereavement		3,660.00
PAYE credit		1,830.00
Tax liability		1,442.60
Less:		
Dividend withholding tax €5,000 at 20%	=	1,000.00
Tax due		442.60

2. Nuala's non-refundable credits – 2010

	€
Widowed person	1,830
Lone parent	1,830
Widowed parent – first year after death	4,000
PAYE credit	1,830
	9,490

Solution 1 *(Cont'd)*

Notes

1. Schedule D – Case II
Death invokes the cessation rules. Date of cessation is 31st March 2009. 2009 is the last tax year for Alan, and the basis of assessment is actual.

2009 Actual
1st January 2009 to 31st March 2009 €88,200 x 3/9 = €29,400

2. Schedule F
Alan will be assessed on the dividends received by him from 1st January to 31st March 2009.

	€			
1/2/2009	4,800			
21/3/2009	9,600			
	14,400 / 80	x 100	=	€18,000

3. Schedule D – Case V
Alan will only be assessed to tax on three months income. His wife Nuala will be assessed to tax on the balance.

€24,000 x 3/12 = €6,000

4. Schedule E

		€
Salary €5,800 x 2	=	11,600
Monthly train pass		not taxed
B-I-K – Loan		
€10,000 x (12.5% - 5%) = €750 x 1/12	=	63
Pension contribution -		not taxed
		11,663

Solution 2

(a) Green Ltd is a close company as it is an Irish resident company, which is controlled by five or fewer participators.

(b) **Green Ltd**
Corporation tax computation

	Notes	€
Case I	A	103,826
Case III		10,000
Case V		17,500
Dividend		exempt
Income		131,326
Gain	B	24,000
Profits		155,326

Corporation tax:		**€**
€103,826 at 12.5%	=	12,978
€27,500 at 25%	=	6,875
€24,000 at 12.5%	=	3,000
		22,853

(c) Where a close company makes a loan to an individual who is a participator, the company will be required to pay income tax in respect of the amount of the loan grossed up at the standard rate.

€25,000 x 20/80 = €6,250

This income tax is payable by Green Ltd with its corporation tax under section 239 TCA 1997.

(d) Green Ltd's corporation tax return must be filed by 21st May 2010.

Solution 2 *(Cont'd)*

Notes:

A

Case I computation	**€**	**€**
Net profits per accounts		142,720
Addbacks		
Depreciation	26,530	
Motor expenses (W1)	3,000	
Fine for illegal dumping	10,000	
Directors loan interest (W2)	4,700	
Client entertainment	3,000	47,230
Deductions		189,950
Other income	60,000	
Decrease in general provision	2,000	
Capital allowances (W3)	24,124	86,124
		103,826

Workings

1. There is no addback for private use of the motor vehicle. The company is entitled to a full tax deduction. The employee will be assessed to a benefit-in-kind under Schedule E for the private use.

   Lease rental - Motor vehicle
   The limit for the car is the lower of:

   $$€30,000 \times 50\% = €15,000$$
   Or
   $$€24,000 \times 50\% = €12,000$$

   The addback is:-

   $$€5,000 \times \frac{€30,000 - €12,000}{€30,000} = €3,000$$

   There is no addback for the van expenses.

Solution 2 *(Cont'd)*

2. As Anne and Joe are both directors who have a material interest (over 5%), the interest on the money they have lent the company will not be allowed in full as a tax deduction for the company.

   The maximum allowed is 13% per annum on the lower of:-

   (i) The total of all loans on which interest to directors with a "material interest" was paid by the company in the accounting period or,

   (ii) The nominal amount of the issued share capital of Green Ltd.

   Maximum allowed as interest, lower of:-
   (a) €120,000 x 13% = €15,600
   Or
   (b) €10,000 x 13% = €1,300

Interest paid	€	€
Anne	3,000	
Joe	3,000	6,000
Allowed		1,300
Excess (treated as a distribution)		4,700

3. **Capital allowances**:

		€
Plant and machinery		
Wear and tear		
Opening cost		150,000
Acquisitions:		
€30,375 x 100 / 121.5	=	25,000
€19,440 x 100 / 121.5	=	16,000
		191,000
Less: Cost of disposal		10,500
Closing cost		180,500
Wear and tear 12.5%	=	22,563

Solution 2 *(Cont'd)*

Tax written down value of disposal May 2006: Ap 31st August 2006

	€
Cost	10,500
Wear and Tear	
31st August 2006	(1,313)
31st August 2007	(1,313)
31st August 2008	(1,313)
TWDV 1st September 2008	6,561

Balancing position

Sales proceeds	5,000
TWDV	6,561
Balancing allowance	1,561

Capital allowances computation:

	€
TWDV - 1st September 2008	93,750
Additions:	
€25,000 + €16,000	41,000
Disposal	(6,561)
	128,189
Wear and tear	(22,563)
TWDV - 31st August 2009	105,626

Summary:

Wear and tear	22,563
Balancing allowance	1,561
	24,124

Solution 2 *(Cont'd)*

B Gain on sale of shares:

			€
Sales proceeds	2,000 x €8	=	16,000
Cost 2002	€15,500 x 1.049	=	16,260
Loss			260

Actual position:

	€
Sales proceeds	16,000
Cost	15,500
Gain	500

Therefore no gain / no loss

			€
Sales proceeds	3,000 x €8	=	24,000
Cost 2003	$€32,000 \times \frac{3,000}{8,000}$	=	12,000
Gain			12,000
Adjusted gain	$€12,000 \times \frac{25}{12.5}$	=	24,000

Solution 3
(a) Gerry

			€
1.	Sales proceeds		20,000
	Cost 1995/96	€9,200 x €20,000 / (€20,000 + €22,000) = €4,381 x 1.277 =	5,595
			14,405

2. The transfer to his wife Alice is exempt. Alice acquired the asset at the same date as her husband, and the same acquisition cost.

3. The sale of the painting is exempt as it is a durable chattel and the sales proceeds are below €2,540.

Alice

			€
1.	Sales proceeds		2,850
	Cost 2004		1,000
	Gain		1,850
	Tax at 22%	=	407
	Marginal relief ½ (€2,850 - €2,540)	=	155

Alice's tax is limited to €155.

2.	Sales proceeds		20,000
	Cost 1997/98 €5,000 x 1.232		6,160
	Gain		13,840
3.	Sales proceeds is equal to market value 2,000 x €4		8,000
	Cost 1999/2000 €3,000 x 2,000/2,500 = €2,400 x 1.193	=	2,863
	Gain	=	5,137

Capital Gains Tax Computation - 2009

Gerry

	€
Land	14,405
Less: annual exemption	(1,270)
	13,135
Tax at 22%	2,890

Solution 3 *(Cont'd)*

Alice

	€
Shares - Alpha Ltd.	13,840
Shares - Bond Ltd	5,137
	18,977
Less: annual exemption	(1,270)
	17,707
Tax at 25%	4,427
Plus tax on the Antique ring	155
	4,582

Total capital gains €2,890 + €4,582 = €7,472

(b) (i) Irish government securities.
(ii) The sale of a durable chattel with sales proceeds of less than €2,540.
(iii) The sale of a wasting chattel not used in a business, and not qualifying for capital allowances.
(iv) Woodlands - individuals are exempt from capital gains tax on the sale of growing timber.
(v) The sale of a principal private residence as long as the taxpayer has lived in it for their entire period of ownership.
(vi) Winnings from a lottery or prize bond.

The question only requires three examples.

(c) A person who is resident and/or ordinarily resident but not domiciled in Ireland is liable on:-

- All gains on assets situated in the state.
- Other foreign gains to the extent they are remitted to the state.

Solution 4

(a) The following constitute a supply of moveable goods for VAT purposes:-

- the transfer of ownership of goods by agreement;
- the sale of moveable goods;
- the handing over of goods that are subject to a hire-purchase agreement;
- the compulsory purchase or legal seizure of goods;
- the transfer of goods within a business by a business person from a taxable activity to an activity exempt from VAT;
- the appropriation of moveable goods by a business person for private use;

(b) Among the services provided for by the Fourth Schedule are:-

- advertising services;
- hiring out of moveable goods;
- telecommunication services;
- services of consultants, engineers, accountants and similar services;
- radio and television broadcasting services;
- banking, financial and insurance services;

Only four were required.

(c) Finance Act 2006 set out new rules for determining the rate of VAT applicable to the supply of a "package" comprising two or more elements which attract VAT at different rates.

The new rules provide that, in the case of a composite supply, i.e where there is a principal element to which other elements are ancillary the VAT rate applying for the composite supply will be the VAT rate applying to the principal element.

The following are some examples of a composite supply:
The supply of a mobile phone (21.5% VAT) with an instruction booklet (Zero rate of VAT). The instruction booklet is clearly for the better enjoyment of the mobile phone and is clearly ancillary to it. The rate applicable to the principal supply is 21.5% and this rate applies to the entire supply including the instruction booklet.

Solution 4 *(Cont'd)*

The purchase or lease of computer programmes to perform a specific function coupled with specific training on how to operate and access the system as an integral part of the overall deal. The leasing of the equipment (21.5% VAT) is the principal supply and the provision of training (Exempt from VAT) is ancillary, accordingly the 21.5% rate will apply to the overall transaction.

In the case of multiple supplies i.e where a number of individual supplies are made together for a single overall consideration, the consideration should be apportioned between the various supplies involved, and each supply will be taxed at the appropriate rate of VAT.

The following are examples of a multiple supply:
The sale of food hampers which contain goods which if sold separately would be taxable at the zero, 13.5% and 21.5% rate. Under the new rules each of the differently rated elements is taxed as an individual supply at the rate appropriate to it. The consideration must be apportioned so as to reflect the taxable amount applicable to each VAT rate.

A meal made up of food together with a soft drink or wine is sold for a single price. The food is liable to VAT at the rate of 13.5% where as the soft drink or wine is liable at the 21.5% rate. Under the new rules such a meal is taxed as a multiple supply as each of the parts of the meal are physically and economically dissociable from one another. Accordingly, the total consideration payable should be apportioned so that the food element is taxed at the 13.5% rate and the drink at the 21.5% rate.

A car repair service is provided at the same time as the fitting of a set of tyres for a single consideration. As the supply of car tyres does not normally form part of the repair service, the supply of tyres would be regarded as a multiple supply. Both supplies are physically and economically dissociable from each other. In these circumstances the consideration should be apportioned so that the service is taxed at the 13.5% rate and the tyres at the 21.5% rate.

(d) This will be treated as a self supply and recorded as a sale at cost price.

Solution 4 *(Cont'd)*

(e) **(i)**

Kelly Ltd.
VAT Calculation – March/April 2009

Output VAT		**€**
Taxable cash receipts $\frac{€70,470}{121.5} \times 21.5$	=	12,470
Input VAT		
Taxable supplies €4,500 x 21.5%	=	(968)
General expenses (note) €2,000 x 21.5%	=	(430)
VAT payable		11,072

(ii) 19th May 2009

Note

Taxable turnover	€650,000	80%
Exempt turnover	€162,500	20%
Total turnover	€812,500	100%

% of qualifying taxable turnover is 80%

General expenses €2,500

Amount attaching to taxable turnover is 80%

€2,500 x 80% = €2,000

Gift of calculators costing less than €20 to customers are allowed and do not have to be treated as a self-supply.

Solution 5

(a) **Alpha Ltd**

(i) Year ended 30th June 2008

			€
Case I			nil
Case V			40,000
Income			40,000
Gain			30,000
Profits			70,000

Corporation Tax

€40,000 at 25%	=		10,000
€30,000 at 12½%		=	3,750
			13,750
Less: Trade Loss - Section 396(B)			
€120,000 at 12½%		=	15,000
			Nil

Loss Remaining $\frac{1,250}{.125}$ = 10,000

This loss will be carried forward to reduce profits of the same trade.

Year ended 30th June 2009

	€	€
Case I	24,000	
Less: Trade loss - Section 396 (1)	10,000	14,000
Case V		45,000
Income		59,000

Corporation Tax

		€
€14,000 at 12½%	=	1,750
€45,000 at 25%	=	11,250
		13,000

(ii) Time Limits

Section 396 (B) - Two years from the end of the accounting period in which the loss arose.

30th June 2008 Time Limit - 30th June 2010

Section 396 (1) - None

Solution 5 *(Cont'd)*

(b) **Michael and Jane Lyons**

(i) Michael and Jane Lyons Income Tax Computation 2009

		€
Case I		nil
Case V		8,000
Schedule E		38,800
Income		46,800
Section 381		(10,000)
		36,800
€36,800 at 20%	=	7,360
Less: Married allowance		(3,660)
PAYE		(1,830)
Service charge €380 at 20%		(76)
Medical expenses €600 at 20%		(120)
Tax liability		1,674
Less: Tax paid		(3,000)
Refund		1,326

(ii) Time Limit

The time limit for the Section 381 is two years from the end of the tax year in which the loss arose.

The time limit for Michael's Section 381 claim is 31st December 2011.

Solution 6

1. (d)

2. (a) - The car is in use at the end of the basis period for 2009, which is 31st March 2009. Peter will be entitled to wear and tear of:
€24,000 x 12½% = €3,000

3. (b)

4. (a)

5. (c) - Car liable to Capital gains tax as used in the business and qualified for capital allowances.

€30,000 limited	to	€24,000
€24,000 x 75%	=	€18,000
Sales proceeds:		
€35,000 x 18,000 / 30,000	=	€21,000
Cost		€18,000
Gain		€ 3,000
Tax at 25%	=	€ 750

6. (d)

7. (c) -

Relevant earnings		€
Schedule D – Case I		50,000
Less:		
Other income	10,000	
Other charge	(12,000)	(2,000)
Net relevant earnings		48,000
Maximum tax relief:		
€48,000 at 20%	=	€9,600

8. (b) -

2008	31/10/08		
12 months to accounts date			
€24,000 x 12/16		=	18,000
2009	c/y 31/10/09	=	11,400

Section 66 option

- Original assessment year 2 = 18,000
- Actual for year 2

1/1/08 to 31/12/08

€24,000 x 10/16	=	€15,000		
€11,400 x 2/12	=	€1,900	=	€16,900
Excess				€ 1,100

Solution 6 *(Cont'd)*

Final assessment for 2009:

Original assessment	=	€11,400
Less: Excess	=	€ 1,100
		€10,300

Final assessments:

2008	=	€18,000
2009	=	€10,300 (as revised)

9. (c) - **Health Contribution**

		€
Case I		84,000
Case V		20,000
Case IV		5,000
		109,000
€75,036 at 3.333%	=	2,501
€25,064 at 4%	=	1,003
€ 8,900 at 4.167%	=	371
		3,875

- **Income levy**

Case I		90,000
Case V		20,000
		110,000
€75,036 at 1.67%	=	1,253
€25,064 at 3%	=	752
€ 9,900 at 3.33%	=	330
	=	2,335

10. (a) -

Schedule D – IV	=	15,000
Schedule E	=	8,000
		23,000
€23,000 at 20%	=	4,600
Less: Single credit	=	(1,830)
Single parent	=	(n/a)
PAYE credit:		
€8,000 at 20%	=	(1,600)
		1,170

Solution 7

(a) A deed of covenant is a legal instrument by which a person binds himself to make periodic payments of income to another person.

(b) Covenants qualifying for relief as a charge:

Minor children
Covenants in favour of the covenantor's own minor children are ineffective for tax purposes. A minor child for this purpose is an unmarried individual under 18 years. Unrestricted tax relief may be claimed on covenants in favour of permanently incapacitated minors other than from parents to their own minor incapacitated children.

Adults

- unrestricted tax relief may be claimed on covenants in favour of permanently incapacitated adults;
- tax relief may be claimed on covenants in favour of adults aged over 65, but the relief is restricted to 5% of the covenantor's total income.
  In computing the 5% restriction, the relevant total income amount is taken as the taxpayers gross assessable income less all allowable charges other than the covenant payments which are subject to the 5% restriction.

All covenants must be capable of lasting more than six years. In practice for a covenant to be tax effective it should be drawn up to cover a minimum period of seven years.

(c)

Jason Brady
Income tax computation – 2009

	Notes	**€**
Schedule D – Case V	1	Nil
Schedule E	2	57,800
		57,800
Charges		
Interest	3	(2,200)
Covenant	4	(5,000)
		50,600
€36,400 at 20%	=	7,280
€14,200 at 41%	=	5,822
		13,102
Less:		
Single credit		(1,830)
PAYE credit		(1,830)
Service charge maximum €400 x 20%		(80)
Tax liability		9,362
Less: PAYE paid		(9,850)

Solution 7 *(Cont'd)*

Add:		
Tax on covenant €5,000 at 20%	=	1,000
Tax Due		512

Notes

1. Under the rent a room relief this rent is exempt as it is below €10,000 per annum.

2. Schedule E

				€
Basic salary				50,000
B-I-K - Car				
Business kilometres per annum 1,500 x 12 = 18,000				
The percentage is 30%		**€**		
€28,000 x 30%	=	8,400		
Less: contribution €50 x 12	=	600		7,800
				57,800

3. Jason is entitled to full interest relief as the company is a private trading company and Jason works for the company.

4. Jason is entitled to unrestricted relief for the covenant to his nephew Sam, as Sam is a permanently incapacitated minor.

Jason Brady
Capital Gains Tax – 2009

		€	
Painting:			
Sales proceeds		2,800	
98/99 €1,050 x 1.212			1,273
Gain		1,527	
Less: Annual exemption		1,270	
		257	
Tax at 22%		57	
Marginal relief:			
Limit tax to ½(2,800 - 2,540)	=		130
Marginal relief does not apply			

Sailing boat:
As this is a wasting chattel not used in the business it is exempt.

Total capital gains tax for 2009 is €57.

2nd Examination: Summer 2010

Taxation II (ROI)

Examiner's Report

Question 1

Income Tax

This income tax question was on the death of the assessable spouse. Most candidates understood that two tax computations were required. The common mistakes were:

- Not exercising cessation for Alan. Death invokes the cessation rules so 2009 was Alan's last year and should have been assessed on an actual basis.
- The case V income was not time apportioned between Alan and Nuala's tax computations.
- Schedule F was grossed up by a lot of candidates using 25%. Also a lot of candidates increased the band by the schedule F income.
- The tax credits for Nuala were time apportioned by a lot of candidates.
- A lot of candidates were unaware of the tax treatment for the train pass and the pension contribution paid by the employer. Also the BIK for the loan was not time apportioned.

Question 2

Corporation Tax

The majority of candidates had a good understanding of what a close company was. The layout and the capital allowances where greatly improved from last years exams. The main points to watch for future questions are:

- Please mention in solution that the dividends from another Irish company are exempt.
- The close company provisions for Directors loan interest needs to be learnt.
- Candidates must work out the gains made by the company; the figure in the question is the accounting gain. The candidate must work out the gain for tax purposes and then adjust before they do the companies Corporation tax computation.

Question 3

Capital Gains Tax

This question was the best answered and most candidates were very well prepared. Durable chattels and marginal relief still need some work by some candidates who have a limit of €2,000 not €2,540 in their answer.
The one disappointing part to this question was part (c) which was very badly answered by most candidates. The question asked for a persons Capital gains tax liability if they where resident and/or ordinarily resident but not domiciled in Ireland. Most candidates talked about Income tax and income or gave the definition of residence.

Question 4

Value Added Tax

This question was very badly answered. Part (a),(b) and (d) where unknown by most candidates. The package rule was well answered with good examples given. The practical part was dealt with satisfactorily.

Question 5

Loss relief

This question was not done by many candidates. A lot of candidates did not know the difference between losses in Income tax and Corporation tax. A lot of candidates seem to think that all trade losses are given on a value basis no matter the tax.

Question 6

Multi choice

Total disaster. Main reason candidates will be back in the autumn. Candidates must remember that with this question they are either right or wrong. There are no marks for workings in this question. Candidates should think long and hard before they do this question as other questions have marks for workings.

Question 7

Covenants

Most candidates who attempted this question had no idea what a covenant was and which covenants qualified for tax relief. Also no candidate seemed to know the tax relief available for interest on money borrowed to buy shares in the company that you work for. Candidates need to spend time on this area of the course.

Conclusion

The compulsory section was well answered. The reason for candidates failing was the non-compulsory section. Most candidates did the VAT and the multi- choice questions which where both badly answered. Candidates should spend more time picking the non compulsory questions best able to gain marks rather then having decided before they have seen the exam paper. The topic’s that require more work are losses and charges.