



Accounting
Technicians
Ireland



2nd Year Examination Summer 2009

TAXATION II (ROI)

NEW SYLLABUS

PAPER, SOLUTIONS

and

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.

The solutions are relevant to the tax rates in the year the Examination was sat. A copy of the tax rates is enclosed with the solutions.

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NEW SYLLABUS

2nd Year Examination : Summer 2009

PAPER : TAXATION II (ROI)

Thursday 19th May 20089 – 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 2008. The provisions of the Finance Act 2009 should be ignored.

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

Answer 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 next page.

The following inserts are enclosed with this paper:

- Multiple Choice Answer Sheet (QUESTION 4),
- Tax Reference Material.



Accounting
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SECTION A

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

QUESTION 1 (Compulsory)

Carmel (aged 38) and Declan (aged 42) are married with 2 children. They are both resident and domiciled in the state. Declan is employed by a manufacturing company since 2003.

Details of his employment package are as follows:

Annual Salary	€60,000
PAYE deducted	€12,500

Declan's annual salary of €60,000 excludes the benefits discussed below.

On the 1st of July 2008, the company gave Declan a company car. The car was bought second hand for €18,500, its original market value was €26,000. Declan drove 4,000 business miles to 31st December 2008. Declan contributes €100 a month for the use of the car.

Declan uses the company's staff canteen. All employees are entitled to do this and the annual benefit is deemed to be €2,000.

Carmel set up her own business from home five years ago. Her year end is September each year. Her tax adjusted profits for the last two years are as follows:

30 th September 2007	€10,000
30 th September 2008	€12,000

Carmel and Declan have the following income and outgoings:-

	Year ended 31/12/07 €	Year ended 31/12/08 €
Carmel - Income		
UK Rental Income	2,000	3,000
Declan - Income		
Deposit interest (Net of DIRT)	1,800	2,400
Carmel - outgoing		
Retirement annuity	1,000	1,200
Declan - outgoing		
Part-time university fees for an approved course		750

Requirement

- (a) Calculate Carmel's and Declan's Income Tax/PRSI/Levies to be paid by direct assessment for the Income Tax year 2008. You may assume joint assessment applies. 14 Marks
- (b) State the due date for payment of preliminary tax for 2008 and the latest filing date by which a return of income must be filed for this year. 3 Marks
- (c) State the tax consequences if the return of income is not filed by the due date. 3 Marks

3 Marks
Total 20 Marks

QUESTION 2 (Compulsory)

ABC Ltd is an Irish resident company. They prepare accounts to the 31st December each year. Results for the year ended 31st December 2008 were as follows:

	Notes	€
Turnover		1,600,000
Direct costs		<u>950,000</u>
Gross Profit		650,000
Overheads	(1)	<u>485,000</u>
		165,000
Other Income	(2)	<u>60,000</u>
Net Profit		<u><u>225,000</u></u>

NOTES

1. Overheads include the following:

Depreciation		10,580
Legal expenses	(a)	16,500
Bad debts	(b)	5,400
Directors salaries and pensions		90,000
Motor lease charges	(c)	8,500
Motor expenses	(d)	6,650
Repairs	(e)	15,000

(a) Legal Expenses

Disposal of shares	5,000
Pursuing bad debts	1,000
Defending product liability claim by a customer	6,000
Drafting of new employment contracts	<u>4,500</u>
	<u>16,500</u>

(b) Bad debts

	€	€
Opening provision		
General	22,000	
Specific	5,000	(27,000)
Bad debts written off		4,000
Closing provision		
General	24,000	
Specific	<u>4,400</u>	28,400
Charge to Profit & Loss		<u><u>5,400</u></u>

(c) Lease charges

Details	Date first lease	Value of car	Emissions	Lease rental
Sales Director's car	1/12/2007	€30,000	140g/km	€4,000
	1/08/2008	€45,000	160g/km	<u>€4,500</u>
				<u>€8,500</u>

(d) Motor expenses

This relates to the running expenses for the following:

	€
Sales Director's car	3,000
Managing Director's car	<u>3,650</u>
	<u>6,650</u>

(e) Repairs

	€
General maintenance to building	5,000
Repairs to let property	<u>10,000</u>
	<u>15,000</u>

QUESTION 2 (Cont'd.)

2. Other Income	€
Rental Income	52,000
Gain on sale of shares	8,000
	<u>60,000</u>

The rental income is in respect of a commercial premises which was acquired by ABC Limited on 1st June 2008. It was let on a 20 year lease on 1st December 2008 for a monthly rent of €12,000 and a premium of €40,000. The only expense incurred by ABC Ltd was repairs to the roof due to storm damage. The repairs cost €10,000 and were incurred in August 2008.

The company sold 4,000 €1 ordinary shares in XY Ltd on 1st July 2008 for €35,000.

Details of the acquisition are as follows:-

- 1st October 1995 purchased 5,000 €1 ordinary shares for €27,500.
- 1st February 2001 purchased 4,000 €1 ordinary shares for €28,400.

3. Fixed Assets	<i>Machinery</i>	<i>Van</i>
TWDV - 1 st January 2008	€75,000	€21,875

All machinery was purchased in May 2006. The original cost price was €100,000. A machine that originally cost €10,000 was sold in November 2008 for €8,000. The van was purchased in June 2007 for €25,000.

Requirement

- (a) Prepare the company's Case I Income after capital allowances for the accounting period to the 31st December 2008. **10 Marks**
- (b) Prepare the Corporation Tax liability computation. Show clearly the appropriate schedule each category of income is assessed under and show the amounts for '*Total Income*' and '*Total Profit*' as calculated for Corporation Tax purposes. **9 Marks**
- (c) When must the Corporation Tax return for the accounting period the 31st December 2008 be filed? **1 Mark**

Total 20 Marks

QUESTION 3 (Compulsory)

- (a) State the categories of persons who may account for VAT on the cash basis. 3 Marks
- (b) State the main advantage of accounting for VAT on the cash basis. 2 Marks
- (c) If a taxpayer accounts for VAT on the cash receipt basis, would the taxpayer only be entitled to an input credit when suppliers are paid? 2 Marks
- (d) State what details, under VAT regulations, must be included on an invoice issued for goods liable for VAT. 4 Marks
- (e) If a VAT registered trader supplied goods to a registered person on 10th May 2008, what is the time limit for the issue of that VAT invoice? 1 Mark
- (f) Joan has been carrying on practice as an Architect for a number of years. She accounts for VAT on a cash receipt basis. Details of the fees and costs of the practice for the two month period May/June 2008 were as follows:-

	Notes	€
Fees Invoiced		50,000
Cash received		42,350
Motor expense	(1)	1,440
Entertainment of customers		1,000
Lease of computer equipment	(2)	500
Telephone		600
Other VAT deductible business expenses		1,500

NOTES

- (1) The motoring expenses consist of the following:-

	€
Car 1 - petrol - used by Joan 75% business use	800
Car 2 - diesel - used by Joan's assistant 100% business use	640
	1,440
- (2) The computer equipment was delivered to Joan in June 2008 and she received the relevant invoice on this date. However, she discharged this debt in July 2008.

All figures including fees invoiced and received are inclusive of VAT at 21%.

Requirement

You are required to calculate the VAT due for Joan by May/June 2008.

8 Marks
Total 20 Marks

SECTION B

Answer any TWO of the FOUR questions in this section

QUESTION 4

Terry Jones is resident and domiciled in Ireland. He is a single person. In 2008, he had the following capital transactions:-

- (i) On 1st April 2008, Terry sold a house for €650,000 which he had bought on 31st March 1985 for €80,000. He incurred legal expenses of €3,000 on the acquisition. Terry incurred estate agent's fees of €6,000 and legal fees of €4,800 on the sale of the property.

During Terry's period of ownership, the house was occupied as follows:-

1st April 1985 to 31st December 1990: occupied by Terry as his principal private residence.

1st January 1991 to 31st December 1996: Terry went to work in Spain. The house was let out.

1st January 1997 to 30th June 2002: occupied by Terry as his principal private residence.

1st July 2002 to 1st April 2008: Terry moved in with his widowed mother to help look after her.

- (ii) In July 2008, Terry sold an antique table for €5,000. He had purchased the antique table from his brother in January 1999 for €1,000. Its market value in January 1999 was €1,350.
- (iii) In September 2008, Terry gave his niece Anne 4,000 shares in XY plc. The shares had a market value of €2.50 each in September 2008. Terry had purchased 20,000 shares in XY plc for €35,000 in July 2002.

Requirement

- (a) Calculate Terry Jones' Capital Gains Tax for 2008.
- (b) State Terry Jones' payment date for the above tax liability.
- (c) Does the 15% withholding tax apply to Terry Jones and if so, state to which disposal and why?

15 Marks

2 Mark

3 Marks

Total 20 Marks

QUESTION 5

- (a) Mark Jones ceased trading as a retailer on 30th September 2008. He had been in business since 1985. His tax adjusted profits for the last three years were as follows:-

Year ended 30th September 2006 €15,000
 Year ended 30th September 2007 €20,000
 Year ended 30th September 2008 €24,000

Requirement

You are required to calculate Mark's Case I income for his last three tax years. You are required to exercise any options available.

10 Marks

- (b) Peter Smith has been in business many years. His year end is the 31st December each year. His tax written down value at 1st January 2008 is as follows:-

Machinery €15,000

The machinery was purchased in May 2006 for €20,000. During his year end 31st December 2008, Peter had the following acquisitions:-

Details	Date of purchase	Cost €	Emissions
Machine	1 st July 2008	10,000	-
Van	1 st October 2008	30,000	140g/km
Car	1 st November 2008	26,000	160g/km

The private use of this car by Peter is 25%.

Peter made one disposal during the year ended 31st December 2008. A machine purchased in May 2006 for €4,000 was sold for €3,200.

Requirement

You are required to calculate Peter's capital allowances for 2008 and to show Peter's tax written down value for each asset as at 31st December 2008.

10 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] In 2008, Matt is, ordinarily resident but not domiciled in Ireland. On what is Matt liable to Irish Income Tax in 2008:-
- (a) Worldwide Income.
 - (b) Irish Income only.
 - (c) Worldwide income excluding foreign employment (duties of which are exercised abroad) income, foreign Case I and II Income, foreign investment income provided it does not exceed €3,810.
 - (d) Income arising in Ireland. Foreign employment income, the duties of which are performed in Ireland. Any foreign income remitted to the state.
- [2] BETA Ltd is an Irish trading company which operates a chain of jewellery stores throughout Ireland. BETA Ltd borrowed €250,000 to buy 25% of ALPHA Ltd, another Irish trading company. On the completion of the deal, BETA Ltd's managing director became a director of ALPHA Ltd. No amounts have been received from ALPHA Ltd that could be considered as a recovery of capital. Interest payable on these borrowings will give rise to:-
- (a) No tax relief.
 - (b) A deduction against trading profits.
 - (c) A tax credit against corporation tax payable.
 - (d) A charge against total profit.
- [3] FAST LANE Ltd is a close company. It is owned equally by two brothers, Ben and Jason Power. Ben and Jason are both directors of the company. The issued share capital is €10,000. On the 1st January 2008, Jason lent the company €40,000 for trade purposes. He charged the company 5% interest per annum. The year end of the company is the 31st December 2008. What is the company's allowable Schedule D Case I expense for the interest on the loan paid to Jason:-
- (a) Nil
 - (b) €2,000
 - (c) €1,300
 - (d) €700
- [4] Peter separated from his wife Mary in 2006. Under the terms of the court separation, he pays €2,000 a month maintenance, comprising €1,500 for his wife Mary and €500 for his son Gary. Peter and Mary have not opted for joint assessment. For 2008, Peter will be allowed a deduction for Income tax as a charge in his tax computation of:-
- (a) €24,000
 - (b) €6,000
 - (c) Nil
 - (d) €18,000
- [5] Kevin provides plumbing services. He started his own business in 2008. He has asked you for advice concerning Value Added Tax. He wishes to know the registration limit for his business:-
- (a) €75,000
 - (b) €37,500
 - (c) €41,000
 - (d) €100,000

QUESTION 6 (Cont'd.)

- [6] In Capital Gains tax there is a withholding tax in certain circumstances. What is the rate?:-
- (a) 20%.
 - (b) 35%.
 - (c) 15%.
 - (d) 41%.
- [7] Niall who has been in business for many years bought a new van for €30,000 in May 2006 for business use. His year end is the 30th June each year. He sold the van in December 2007 for €18,000. The balancing position arising on the disposal is:-
- (a) Balancing allowance of €4,500
 - (b) Balancing allowance of €3,600
 - (c) Balancing charge of €4,500
 - (d) Balancing allowance of €3,450
- [8] Joseph was given a painting by his aunt in June 2002. His aunt had purchased the painting in July 1999 for €1,100. Its market value in June 2002 was €1,650. Joseph who is married to Jill sold the painting for €10,000 in November 2008. This is his only disposal in 2008. What is Joseph's Capital Gains Tax (to nearest euro) for 2008 and his payment date for this tax:-
- (a) €1,146 31st January 2009
 - (b) €1,400 31st January 2009
 - (c) €1,400 31st October 2009
 - (d) €1,654 31st January 2009
- [9] Louise is a widow. Her husband died in 2005. She has two children aged 10 and 15 years. Her only income is a part-time salary of €8,000 and rental income of €50,000. For 2008, what are her non refundable tax credits:-
- (a) €8,260
 - (b) €9,490
 - (c) €10,320
 - (d) €8,490
- [10] NEWPORT Ltd, 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 31st March. Its latest accounting period is 1st January 2007 to the 31st March 2008. For Irish corporation tax, what is NEWPORT Ltd's correct accounting period:-
- (a) 15 months to 31st March 2008.
 - (b) 3 months to 31st March 2007.
12 months to 31st March 2008.
 - (c) 12 months to 31st December 2007.
3 months to 31st March 2008.
 - (d) 6 months to 30th June 2007.
9 months to 31st March 2008.

QUESTION 7

- (a) State *three* factors which are likely to influence the Revenue in selecting a case for Revenue audit. 3 Marks
- (b) Outline the procedures which the Revenue auditor will follow in the conduct of the audit. 8 Marks
- (c) The taxation code contains withholding tax provisions in the case of payments made for professional services.
- (i) What is the rate of this withholding tax? 1 Mark
- (ii) State *three* services which come within the ambit of professional fees withholding tax. 3 Marks
- (iii) State *three* persons who are obliged to operate professional fees withholding tax. 3 Marks
- (iv) How does the individual affected by this withholding tax obtain credit for the tax suffered? 2 Marks
- Total 20 Marks**



STANDARD ANSWER SHEET FOR ALL MULTIPLE CHOICE QUESTIONS



**Accounting
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Ireland**

Candidates are required to insert the following details.

Examination Session

Examination Session

Examination Session

Examination Session

To answer each section, please tick appropriate box.

Part	Part	Part	Part	Part
1 (a) <input type="checkbox"/>	6 (a) <input type="checkbox"/>	11 (a) <input type="checkbox"/>	16 (a) <input type="checkbox"/>	21 (a) <input type="checkbox"/>
(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>
(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>
(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>
2 (a) <input type="checkbox"/>	7 (a) <input type="checkbox"/>	12 (a) <input type="checkbox"/>	17 (a) <input type="checkbox"/>	22 (a) <input type="checkbox"/>
(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>
(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>
(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>
3 (a) <input type="checkbox"/>	8 (a) <input type="checkbox"/>	13 (a) <input type="checkbox"/>	18 (a) <input type="checkbox"/>	23 (a) <input type="checkbox"/>
(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>
(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>
(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>
4 (a) <input type="checkbox"/>	9 (a) <input type="checkbox"/>	14 (a) <input type="checkbox"/>	19 (a) <input type="checkbox"/>	24 (a) <input type="checkbox"/>
(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>
(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>
(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>
5 (a) <input type="checkbox"/>	10 (a) <input type="checkbox"/>	15 (a) <input type="checkbox"/>	20 (a) <input type="checkbox"/>	25 (a) <input type="checkbox"/>
(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>	(b) <input type="checkbox"/>
(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>	(c) <input type="checkbox"/>
(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>	(d) <input type="checkbox"/>



Taxation Reference Material

Republic of Ireland

**For use in First and Second Year Taxations Examinations
Summer & Autumn 2009**

Professional, Practical, Proven

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TAXATION REFERENCE MATERIAL**FOR THE 2008 TAX YEAR****(To be used by candidates in answering the Taxation papers)****INCOME TAX - RATES**

<i>Single/Widow(er)</i>	Rate	<i>Married Couple One Income</i>	Rate
First €35,400	20%	First €44,400	20%
Balance	41%	Balance	41%
<i>One Parent Family</i>		<i>Married Couple Two Incomes</i>	
First €39,400	20%	First €70,800	20%
Balance	41%	Balance	41%

Tax Credits - INCOME TAX

	Non Refundable Tax Credits €
Single/widowed person	1,830
Married person	3,660
Widowed person who qualifies for One Parent Tax Allowance	3,660
Widowed person's additional tax credit (without dependent children)	600
Widowed person (in year of bereavement).....	3,660
First year after bereavement	4,000
Second year after bereavement.....	3,500
Third year after bereavement.....	3,000
Fourth year after bereavement.....	2,500
Fifth year after bereavement.....	2,000
Home carers	900
Incapacitated child	3,660
One Parent Family.....	1,830
Age allowance - single or widowed	325
Age allowance - married	650
Dependent relative (dependent relative's income limit €13,473)	80
PAYE	1,830
Blind person	1,830
Both spouses blind	3,660
Trade Union Subscriptions (maximum €350 * 20%)	70

Other reliefs/allowances

Employed person taking care of incapacitated person
(deducted from total income) 50,000 (max)

Rent allowable

Maximum allowable at the standard rate of tax (20%)

Single.....(Over 55)	4,000	(Under 55)	2,000
Married & widowed.....(Over 55)	8,000	(Under 55)	4,000

Exemption limits

Single and widowed*	
65 and over	€20,000
Additional for dependent children	
1st and 2nd child (each)	€575
Each subsequent child	€830

* Married couple – double

**PAYE
EMERGENCY BASIS**

If weekly paid:

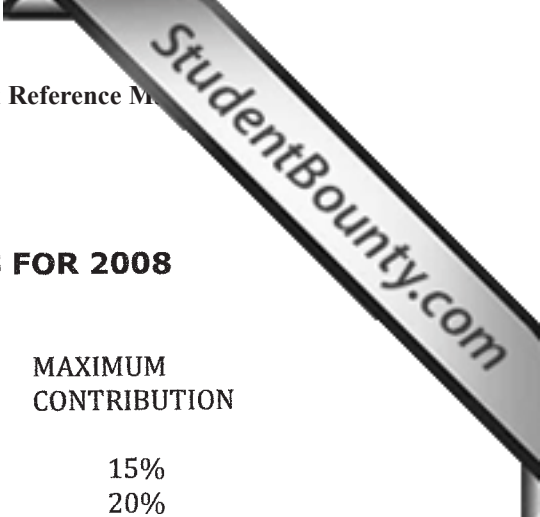
<i>Week</i>	<i>Tax Credit</i>	<i>Standard Rate cut-off point</i>
	€	€
First 4 weeks	35.19	680.77
Next 4 weeks	Nil	680.77
Each subsequent week	Nil	Nil

If monthly paid:

First month	152.50	2,950.00
Second month	Nil	2,950.00
Each subsequent month	Nil	Nil

If an employee does not provide his employer with a PPS number or other relevant documentation the emergency system is applied on the following basis:

<i>Week/Month</i>	<i>Tax Credit</i>	<i>Standard Rate cut-off point</i>
1 et seq	Nil	Nil



RETIREMENT ANNUITY PREMIUMS – LIMITS FOR 2008

AGE	MAXIMUM CONTRIBUTION
Less than 30 years of age	15%
30 years of age but less than 40 years	20%
40 years of age but less than 50 years	25%
50 years of age but less than 55 years	30%
55 years of age but less than 60 years	35%
60 years of age or more.....	40%
Relevant earnings ceiling	€275,238

MORTGAGE INTEREST RELIEF 2008

MORTGAGE RELIEF FIRST CLAIMED ON OR AFTER 1st JANUARY 2002

	<i>Maximum Allowable</i>
	€
Single	10,000
Married/Widowed	20,000

MORTGAGE TAKEN OUT PRIOR TO 1st JANUARY 2002

	<i>Maximum Allowable</i>
	€
Single	3,000
Married/Widowed	6,000

Note: Maximum allowable at the standard rate of tax (20%). Tax relief is granted at source on interest paid to a 'qualifying lender'.



BENEFIT IN KIND

Preferential Loans 2008

Loan for purpose of Principal Private Residence5.5%
 Other loans 13%

Accommodation

Notional annual value – 8% of the market value of property.

MOTOR BENEFIT-IN-KIND SCALE

Business Miles per annum Cash Equivalent

<i>Exceeding</i>	<i>Not Exceeding</i>	
0	15,000	30%
15,000	20,000	24%
20,000	25,000	18%
25,000	30,000	12%
30,000	Upwards	6%

CAPITAL ALLOWANCES

Maximum allowances

Plant and Machinery

Plant purchased on or after 1 st April, 1992	15%
Plant purchased on or after 1 st January, 2001	20%
Plant purchased on or after 4 th December 2002	12.5%

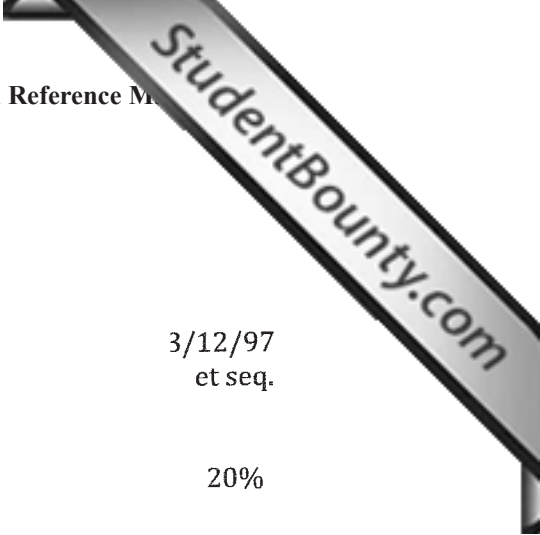
PRSI & LEVIES FOR 2008 TAX YEAR

	<i>Weekly Earnings Band</i>		<i>How Much of Weekly Earnings</i>	<i>Payable on Earnings up to €50,700</i>	<i>Payable on Earnings Over €50,700</i>
CLASS A0	€38- €352 inc	Employer	All	8.5%	8.5%
		Employee	All	Nil	Nil
CLASS AX	€352.01 - €356 inc	Employer	All	8.5%	8.5%
		Employee	First €127	Nil	Nil
		Employee	Balance	4%	Nil
CLASS AL	€356.01 - €500 inc	Employer	All	10.75%	10.75%
		Employee	First €127	Nil	Nil
		Employee	Balance	4%	Nil
CLASS A1	In excess of €500	Employer	All	10.75%	10.75%
		Employee	First €127	2%	2%
		Employee	€127.01 to €1,925	6.5%	2%
		Employee	Balance	6.5%	2.5%
CLASS S0	Up to €500		No Annual Ceiling		
		Employer	All	Nil	
CLASS S1	In excess of €500	Employee *	All	3%	
		Employer	All	Nil	
		Employee *	First €1,925	5%	
		Employee*	Balance	5.5%	

NOTES: (1) For PRSI purposes, reckonable earnings are calculated separately for husband and wife.

(2) * These rates are also applicable to "self employed" persons.

(3) €127 per week equates to €550 per month for monthly paid employees.



CAPITAL GAINS TAX - RATES

	3/12/97 et seq.
Standard Rate.....	20%

CAPITAL GAINS TAX - ALLOWANCES

Tax year 2008 €1,270 annual exemption per individual

CORPORATION TAX

TAX CREDITS

From 6th April 1999, withholding tax is at the standard rate of Income Tax

RATES OF TAX

	From 1st January 2003
Standard rate	12½%
Special rate – non-trade income and certain trading activities	25%

PRELIMINARY TAX PAYMENT

Accounting Period ending	First Installment	
	Standard	Small company
2006 et seq	90%	100%

CAPITAL GAINS TAX - INDEXATION TABLES

*Year of Assessment in
Which Expenditure
Was Incurred*

Multiplier for Disposal in Year Ended

	<i>31 Dec 2001</i>	<i>31 Dec 2002</i>	<i>31 Dec 2003</i>	<i>2004 et seq</i>
1974/75	6.930	7.180	7.528	7.528
1975/76	5.597	5.799	6.080	6.080
1976/77	4.822	4.996	5.238	5.238
1977/78	4.133	4.283	4.490	4.490
1978/79	3.819	3.956	4.148	4.148
1979/80	3.445	3.570	3.742	3.742
1980/81	2.983	3.091	3.240	3.240
1981/82	2.465	2.554	2.678	2.678
1982/83	2.074	2.149	2.253	2.253
1983/84	1.844	1.911	2.003	2.003
1984/85	1.674	1.735	1.819	1.819
1985/86	1.577	1.633	1.713	1.713
1986/87	1.507	1.562	1.637	1.637
1987/88	1.457	1.510	1.583	1.583
1988/89	1.430	1.481	1.553	1.553
1989/90	1.384	1.434	1.503	1.503
1990/91	1.328	1.376	1.442	1.442
1991/92	1.294	1.341	1.406	1.406
1992/93	1.249	1.294	1.356	1.356
1993/94	1.226	1.270	1.331	1.331
1994/95	1.205	1.248	1.309	1.309
1995/96	1.175	1.218	1.277	1.277
1996/97	1.152	1.194	1.251	1.251
1997/98	1.134	1.175	1.232	1.232
1998/99	1.115	1.156	1.212	1.212
1999/00	1.098	1.138	1.193	1.193
2000/01	1.053	1.091	1.144	1.144
2001	-	1.037	1.087	1.087
2002	-	-	1.049	1.049
2003 et seq	-	-	-	1.000

VALUE ADDED TAX - RATES

THE MAIN ITEMS UNDER THE FOLLOWING HEADINGS ARE:

EXEMPTED ACTIVITIES

Certain financial services, including banking and stock exchange activities; insurance services; educational and training services provided by recognised educational bodies; medical, dental and optical services and hospital and nursing home services; certain welfare services and non profit making activities; theatrical, musical and cultural services; letting of certain immovable goods; certain agency services; transport of passengers and their baggage; admission to sporting events; betting.

GOODS AND SERVICES CHARGEABLE AT 0%

Most basic food and drinks for human consumption, oral medicine, certain books, children's clothing and footwear, most exports outside the state and related services, certain medical appliances, most animal feeding stuff except those sold for domestic pets, fertiliser, certain services connected with marine and aircraft navigation and safety.

GOODS AND SERVICES CHARGEABLE AT THE 13.5% RATE (SINCE 1 JANUARY 2003)

Development of immovable goods and building services, concrete, newspapers and magazines, letting of holiday accommodation, tour guide services, short-term hire of cars, boats, caravans; coal, electricity and fuels for heating and power, restaurant services, live performances; certain cakes, most photographic services, hairdressing, most repair or maintenance services, garage services, dry cleaning, driving lessons, waste disposal, veterinary surgeons, general agricultural services, commercial sporting facilities.

GOODS AND SERVICES CHARGEABLE AT THE 21% RATE [SINCE 1 MARCH 2002]

Generally goods and services not chargeable under any other heading, except certain live animals.

2nd Year Examination : Summer 2009

TAXATION II (ROI)

SOLUTIONS

NEW SYLLABUS

Solution to question 1

(a) Carmel & Declan - Income Tax Computation - 2008
Joint assessment

	Notes	€	€
Carmel			
Schedule D - Case I	(1)	12,000	
Schedule D - Case III		<u>3,000</u>	15,000
Declan			
Schedule E	(2)	63,300	
Schedule D - Case IV			
2,400/80 x 100		<u>3,000</u>	<u>66,300</u>
			81,300
Charges			
Retirement annuity	(3)		<u>(1,200)</u>
			<u>80,100</u>
Income tax payable			
(Note 4) €58,200 at 20% =		11,640	
(Note 5) € 3,000 at 20% =		600	
€18,900 at 41% =		<u>7,749</u>	
€80,100		<u>19,989</u>	
<i>Less: Credit</i>			
Married		(3,660)	
PAYE		(1,830)	
Carers (Note 6)		Nil	
University fees €750 x 20%		<u>(150)</u>	
Tax liability		<u>14,349</u>	
<i>Less: Tax paid</i>			
PAYE Paid		(12,500)	
DIRT tax €3,000 x 20%		<u>(600)</u>	
Tax Due		<u>1,249</u>	

Solution to question 1 continued on next page

Solution to question 1 (Cont'd)

PRSI and levies payable by direct assessment.

Declan: Levies

$$€3,000 \times 2\% = €60$$

Carmel: PRSI

$$€15,000 \times 3\% = €450$$

Carmel: Levies

Not liable to levies as her income is below €26,000.

- (b) Preliminary tax payment date for 2008 is 31st October 2008.
The filing date for the 2008 Income tax return is 31st October 2009.
- (c) The tax consequence if the tax return is filed late is a surcharge.
The surcharge is calculated as follows:
 - (i) 5% of the amount of tax subject to a maximum of €12,695 where the return is submitted before the expiry of two months after the specified date and
 - (ii) 10% of the amount of tax subject to a maximum of €63,458 where the return is not submitted within two months after the specified date.

NOTES

1. Carmel - Schedule D - Case I
2008 c/y 30th September 2008 €12,000
2. Declan - Schedule E

	€	
Salary		60,000
B-I-K Car	€	
€26,000 x 30% x 6/12	3,900	
Less: contribution 100 x 6	600	3,300
Meals in staff canteen		Not taxed
		63,300
3. Carmel - retirement annuity

Schedule D - Case I	€12,000
Maximum contribution	
€12,000 x 20% =	€2,400
Limited to premium paid	€1,200
4. Married band

Married couple one income	€44,400
Add: Carmel's Income after retirement annuity	€13,800
	€58,200
5. The 20% band is increased by the deposit interest.
6. The home carer's credit does not apply as Carmel's income exceeds €6,880.

Solution to question 2

**(a) ABC Limited
Case I Computation**

Year ended 31st December 2008

	Notes	€	€
Net Profit			225,000
<i>Addbacks</i>			
Depreciation		10,580	
Legal expenses		5,000	
Increase in general provision		2,000	
Lease charges	(1)	4,100	
Repairs		<u>10,000</u>	<u>31,680</u>
			256,680
<i>Deductions</i>			
Other income		60,000	
Capital allowances	(2)	<u>13,875</u>	<u>73,875</u>
Case I			<u><u>182,805</u></u>

**(b) ABC Limited
Corporation Tax Computation**

Year ended 31st December 2008

	Notes	€
Case I		182,805
Case V	(3)	<u>36,800</u>
Income		219,605
Gain	(4)	<u>3,050</u>
Profits		<u><u>222,655</u></u>
Corporation Tax		
€182,805 at 12.5 %		22,851
€36,800 at 25 %		9,200
€3,050 at 12.5 %		381
		<u><u>32,432</u></u>

(c) The corporation tax return for this accounting period must be filed by 21st September 2009.

NOTES

1. Motor Lease rental

Sales director's car - limit for entire accounting period is €24,000 as the emissions are below 155 g/km.

$$4,000 \times \frac{(30,000 - 24,000)}{30,000} = \text{€}800$$

Managing Directors Car

As emissions are over 155 g/km, the limit is the lower of:-

$$\text{€}45,000 \times 50\% = \text{€}22,500$$

or

$$\text{€}24,000 \times 50\% = \text{€}12,000$$

$$4,500 \times \frac{(45,000 - 12,000)}{45,000} = \text{€}3,300$$

$$\text{Total addback } \text{€}800 + \text{€}3,300 = \text{€}4,100$$

Solution to question 2 (Notes) continued on next page

Solution to question 2 (Notes) (Cont'd)

2. Capital Allowances Computation	Machinery	Van
	€	€
TWDV - 1/1/2008	75,000	21,875
Disposal (a)	<u>7,500</u>	<u>21,875</u>
	67,500	21,875
Wear & Tear (b)	<u>11,250</u>	3,125 (c)
TWDV - 31/12/2008	<u>56,250</u>	<u>18,750</u>
(a) TWDV of Disposal	€	
Cost May 2006	10,000	
Ap - 31/12/06	<u>(1,250)</u>	
TWDV - 31/12/06	8,750	
Ap - 31/12/07	<u>(1,250)</u>	
TWDV - 31/12/07	<u>7,500</u>	
(b)	€	
Opening cost	100,000	
Less: cost of disposal	<u>(10,000)</u>	
	90,000	
Wear and Tear at 12.5%	<u>11,250</u>	
(c) Van		
Cost €25,000 x 12.5%	=	€3,125
Balancing charge/allowance computation (machine)	€	
Sales proceeds	8,000	
TWDV	<u>(7,500)</u>	
Balancing charge	<u>500</u>	
Summary of ABC Limited's Capital Allowances	€	€
Wear and tear		
Machinery	11,250	
Van	<u>3,125</u>	14,375
Balancing charge		<u>(500)</u>
		<u>13,875</u>

3. Schedule D - Case V

Rent	12,000
Premium	
40,000 - (40,000 x 20 - 1)	24,800
50	<u>36,800</u>

The repairs are not allowed as it is a pre-letting expense.

4. Gain on sale of shares

	€	
Sales proceeds	35,000	
Less: Legal fees	<u>(5,000)</u>	
Less: cost 95/96		
€27,500 x 4,000	=	€22,000
5,000		

€22,000 x 1.277	<u>(28,094)</u>
Gain	<u>1,906</u>

Gain as adjusted		
€1,906 x 20	=	€3,050
12.5		

Solution to question 3

- (a) Categories of persons who may account for VAT on a cash basis.

Persons engaged in the supply of goods or services where at least 90% in value are supplied to non-registered persons.

Persons where turnover has not or is not likely to exceed €1,000,000 in a twelve month period.

- (b) The principal advantage in accounting for VAT on the cash basis is that a taxable person does not have to account for the VAT until the customer/client has actually paid the consideration/fee. This, in general, means that the customer has actually paid over the VAT to the taxable person before the taxable person must pay over the VAT to the revenue.
- (c) A taxable person will receive an input credit in the period he/she purchased his/her supplies, not the actual date of payment. This applies irrespective of whether the taxpayer accounts for VAT on the cash basis or the sales basis. In order to claim an input credit, a valid VAT invoice must have been received from suppliers.
- (d) Details which must be shown on a VAT invoice include:-
 Suppliers name and address
 Suppliers VAT registration number
 Name and address of customer
 Description of the transaction and the goods or service supplied
 Date of issue of the invoice
 Date on which the goods or service was supplied
 Price excluding VAT
 The rate or rates of VAT and the amount of VAT at each rate

- (e) 15th June 2008

		€
(f) Cash received	$\frac{42,350}{121} \times 21$	7,350
Less:		
Motor expenses: petrol		Not allowed
Diesel	$\frac{640}{121} \times 21$	(111)
Entertainment of customers		Not allowed
Lease of equipment	$\frac{500}{121} \times 21$	(87)
Telephone	$\frac{600}{121} \times 21$	(104)
Other expenses	$\frac{1,500}{121} \times 21$	(260)
VAT due		<u><u>6,788</u></u>

Solution to question 4

(a) (i)	€	€
Sales proceeds		650,000
Less: legal fees		(4,800)
Estate agents fees		(6,000)
1984/85 Cost	€80,000	
Legal fees	<u>€3,000</u>	
	€83,000 x 1.819	(150,977)
Gain		<u><u>488,223</u></u>

Principal private residence relief

Period	Total Ownership	Occupation	Deemed occupation	Non occupation
1/4/1985 to 31/12/1990	5 years 9 months	5 years 9 months		
1/1/1991 to 31/12/1996	6 years		6 years	
1/1/1997 to 30/06/2002	5½ years	5½ years		
1/7/2002 to 1/4/2007	4 years 9 months			4 years 9 months
1/4/2007 to 1/4/2008	1 year		1 year	
	<u>23 years</u>	<u>11 years 3 months</u>	<u>7 years</u>	<u>4 years 9 months</u>

Gain liable to tax

$$€488,223 \times \frac{4.75}{23} = €100,829$$

(ii) Sales proceeds		€
98/99	1,350 x 1.212	5,000
		<u>1,636</u>
		<u><u>3,364</u></u>

(iii) Sales proceeds 4,000 x €2.50 = €10,000

2002 €35,000 x $\frac{4,000}{20,000}$ =

€7,000 x 1.049 = 7,343
2,657

Summary	€
House	100,829
Antique table	3,364
Shares	<u>2,657</u>
	106,850
Less: annual exemption	<u>(1,270)</u>
	<u><u>105,580</u></u>

Capital gains tax at 20% = €21,116

(b) As all disposals are between the 1st January 2008 and the 30th September 2008 the capital gains tax of €21,116 is due on 31st October 2008.

(c) The 15% withholding tax will apply to the sale of Terry's house as the sales proceeds is over €500,000 and it is one of the five specified assets i.e. land and buildings in the state. As Terry is resident in the state he can apply for a clearance certificate.

Solution to question 5

(a) Mark Jones' Case 1 Income

Tax Year	Basis of Assessment	Amount
2008	Actual 1/1/2008 to 30/09/2008 $\text{€}24,000 \times 9/12 =$	€18,000
2007	C/y 30/09/2007	€20,000
2006	C/y 30/09/2006	€15,000

**Section 67 TCA 1997
Inspector of Taxes option**

2007	Actual 1/1/2007 to 31/12/2007 $\text{€}20,000 \times 9/12 + \text{€}24,000 \times 3/12$ $\text{€}15,000 + \text{€}6,000 = \text{€}21,000$
------	--

As the actual for 2007 is greater than the original assessment the Inspector of taxes will exercise his option.

Final Assessments

2008	€18,000
2007	€21,000 (as revised)
2006	€15,000

(b) Peter Smith - Capital Allowances Computation 2008

	Machinery €	Van €	Car €
TWDV - 1/1/2008	15,000	-	-
Additions	10,000	30,000	12,000 <i>Note 1</i>
Disposal	(3,000) <i>Note 2</i>		
	<u>22,000</u>	<u>30,000</u>	<u>12,000</u>
Wear & Tear	(3,250) <i>Note 3</i>	(3,750)	(1,500)
TWDV - 31/12/2008	<u>18,750</u>	<u>26,250</u>	<u>10,500</u>

Balancing charge computation

Sales proceeds	3,200
TWDV	<u>3,000</u>
Balancing charge	<u>200</u>

Summary

Wear & tear	€	€
Machinery	3,250	
Van	3,750	
Car 1,500 x 75%	<u>1,125</u>	8,125
Balancing charge		(200)
Total Capital Allowances		<u>7,925</u>

Solution to question 5 (Cont'd)

NOTES

1. As the car was purchased on or after 1st July 2008 and the emissions exceed 155 g/km the limit is lower of:-

$$€24,000 \times 50\% = €12,000$$

Or

$$€26,000 \times 50\% = €13,000$$

2. Tax written down value of disposal

Cost €4,000
 May 2006: Accounting period 31/12/2006

12 ½ % Straight Line

	€
Cost	4,000
W+T 31/12/06	<u>(500)</u>
TWDV - 31/12/06	3,500
W+T 31/12/07	<u>(500)</u>
TWDV 31/12/07	<u><u>3,000</u></u>

3. Wear & Tear - Machinery

	€
Opening cost	20,000
Disposal: cost	(4,000)
Addition: cost	<u>10,000</u>
	<u><u>26,000</u></u>

Wear and Tear 12½ % = €3,250

Solution to question 6

- [1] (d)
 [2] (d)
 [3] (c) Allowed as a tax deduction against trading income is lower of
 (i) 13% of the issued share capital
 13% of €10,000 = €1,300
 Or
 (ii) 13% of the loan
 13% of €40,000 = €5,200
 [4] (d) €1,500 x 12 = €18,000
 [5] (b)
 [6] (c)
 [7] (a) May 2006 : 30th June 2006: 2006
 December 2007 : 30th June 2008: 2008

	€
Cost	30,000
W+T 2006	(3,750)
W+T 2007	(3,750)
TWDV 31/12/07	<u>22,500</u>

Balancing computation 2008

Sales proceeds	18,000
TWDV	<u>22,500</u>
Balancing allowance	<u>4,500</u>

- [8] (b) Sales proceeds 10,000
 Market value 2002
 €1,650 x 1.049 1,731
 Gain 8,269
 Less: Annual exemption (1,270)
€6,999

Tax at 20% 1,400

- [9] (a) Widow 1,830
 Lone parent 1,830
 Third year after bereavement 3,000
 PAYE credit - max
 €8,000 @ 20% 1,600
8,260

- [10] (c)

Solution to question 7**(a) Tax returns are selected for revenue audit:-**

- On a random basis
- On the basis of a general investigation into a particular trade or business activity
- On the basis of a third party information received
- On the basis of inconsistencies contained in the tax return

(b) Procedures which the authorised officer will follow.

Procedures which the authorised officer (Inspector of Taxes) will follow in the conduct of the audit will be as follows:

- There will be an initial meeting at which the inspector will ask if the taxpayer wishes to make a voluntary disclosure
- At this meeting it is also likely he will enquire about the taxpayer's personal and private expenditure commitments. The purpose of this is to enable him/her to form an overall view as to the credibility of the drawings figure in the accounts;
- It is likely also that he will seek details of business and non-business assets owned by him/her spouse and children;
- The inspector will then obtain an overview of the business by seeking information such as, the type of goods sold, business hours, price lists and the nature of the books and records maintained by the taxpayer.

At the end of the initial meeting, it is likely that the inspector will take away the business books and records for a detailed examination unless the taxpayer can provide office accommodation for him/her. When he/she has carried out this detailed examination he/she may raise a number of detailed queries. Depending on whether he/she is satisfied with the replies to these he/she may proceed as follows:

- State that he/she is satisfied, there is no tax arrears and therefore the audit finalised; or
- Express dissatisfaction with the replies and seek further clarification; or
- Express dissatisfaction with the replies, seek clarification on a number of issues and indicate his/her computation of tax arrears together with a figure of interest and penalties; or
- Express satisfaction with the explanation(s) and forward his/her computation.

After various queries, raised by the inspector, have been replied to, and if there are no major issues arising from the audit it should in general, be possible to reach agreement with the inspector at a final meeting.

However, if major issues arise, it may not be possible to reach agreement with the inspector, it is likely at this stage that the Internal Revenue Review procedure may be availed of or alternatively arrangement made to have the matter(s) brought before the Income Tax Appeal Commissioners.

(c) (i) 20%

- (ii) Medical
Dental
Accounting
Legal
Financial
Engineering

- (iii) Government Departments
Health Service Executive
Radio Telefis Eireann
An Bord Bia
The Dublin Institute of Technology
Revenue Commissioners

- (iv) The taxpayer will receive a credit for the withholding tax in their Income tax computation. The credit for a particular tax year will be the amount of withholding tax deducted from income earned during the professional's basis period for the tax year.



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2nd Year Examination : Summer 2009

TAXATION II (ROI)

EXAMINER'S REPORT

NEW SYLLABUS

Question 1- *Income Tax*

This question was well answered by most students. The common mistakes were:-

- No workings for the retirement annuity. Students must calculate the taxpayers net relevant earnings to show that the retirement annuity premium paid is less than 20% of Carmel's net relevant earnings.
- UK rental income is Schedule D case III not case V.
- Interest is not the penalty for a late return.
- Calculation of PRSI and levies.
- Some students gave the corporation tax payment and filing dates.

Question 2 - *Corporation Tax*

Well answered, the common mistakes were:

- Capital allowances calculated on TWDV instead of cost.
- Some students limiting the van to €24,000 for capital allowances.
- Not calculating the balancing position on the sale of the machine. Some students mis-stated the balancing position as a gain and assessed it to capital gains.
- A lot of students allowed the repairs as a deduction when calculating the case V income. The repairs were a pre-letting expense.
- Most students did not allow the legal fees on the sale of the shares as a deduction in the capital gains computation.
- A lot of students gave the income tax filing date or they gave the corporation tax payment dates even though the question asked for the corporation tax filing date.

Question 3 - *VAT*

This question was very well answered by the vast majority of students.

The main point to note for future exams is that students must state that petrol and entertainment are not allowed as an input credit.

Question 4 - Capital Gains Tax

This question was answered satisfactorily. A lot of students had very poor workings when it came to the principal private residence relief.

A large number of students could not calculate that the ownership of the house was 23 years.

Also the time working in Spain was not allowed as deemed occupation or some students allowed four years.

Nearly all students had no idea of the withholding tax that applies in capital gains. Most students confused it with dividend withholding tax for companies on dividends paid as the taxpayer in the question made a disposal of shares.

Question 5 - Income Tax

Well answered. For future questions of this nature students must show the basis of assessment for each tax year. The capital allowances section was well answered. I allowed full marks for students who granted the replacement option. This option was not claimed in the solution as I considered it too difficult for my first paper. I will keep it in mind for future papers.

Question 6 - Multi Choice

This was the hardest question on the paper. Weaker students did badly in this question and they might have been better served choosing another question.

Question 7 - Theory

This question was only done by a very small number of students. It was very badly answered. The rate of professional fees withholding tax and the persons obliged to operate this tax were largely unknown.

Conclusion

Overall I was very impressed with the standard and most students were well prepared.

