

PUBLIC POLICY AND TAXATION REPUBLIC OF IRELAND

**Professional 2 examination
11 June 2004**

From 10.00 am to 1.00 pm,
plus 10 minutes reading time from 9.50 am to 10.00 am.

Instructions to candidates

*Answer **four** questions in total. **Two** questions from **Section A** and **two** questions from **Section B**. The marks available for each question are shown in italics in the right hand margin.*

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examination room.

Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication.

Calculations may be performed to the nearest € and any necessary apportionments may be made to the nearest month. There is a summary of useful tax data distributed with the examination paper.



SECTION A (Answer two questions)

1 Ireland's political system derives mainly from the Westminster model but it does possess some indigenous innovations. One of these innovations is the electoral system known as proportional representation by means of the single transferable vote (PR-STV).

• **Requirement for question 1**

- (a) Briefly describe how Ireland's electoral system operates. 4
 - (b) Ireland's electoral system inevitably produces political instability. Assess this statement. 8
 - (c) It is generally accepted that Irish political representatives (TDs) pay little attention to their legislative role and more attention to resolving constituency difficulties. Why might this be the case? 13
- (25)**
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2

The influence of the European Union upon Irish affairs is becoming increasingly significant but needs to be clarified.

- **Requirement for question 2**

- (a) Briefly describe the structure and key functions of the following institutions of the European Union:
 - (i) The European Court of Justice. 2
 - (ii) The Council of the European Union. 2
 - (iii) The European Parliament. 2
 - (b) Assess how Ireland's relationship with the European Union has developed since first joining the European Community in 1973. 10
 - (c) 'The effects of EU membership on the Republic of Ireland have been profound and essentially beneficial' (Laffan 1999). Will this continue to be the case in the future? Support your answer with examples from three particular policy areas. 9
- (25)**
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3

The process of public sector reform in Ireland, known as the Strategic Management Initiative (SMI), is concerned with producing a more efficient and effective public service. However, recent commentary has stressed that the SMI needs to have a 'whole-of-government' approach to avoid becoming a narrow technical exercise.

• **Requirement for question 3**

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| (a) Discuss what is meant by a 'whole-of-government' approach. | 5 |
| (b) Analyse why it is an important dimension of public sector reform. | 10 |
| (c) Assess how such an approach might be incorporated within the SMI. | 10 |
| | (25) |
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SECTION B (Answer two questions)

4

Highvale Trading Ltd, an Irish resident trading company, has the following results for the two years to 31 December 2003:

	y/e 31/12/02	y/e 31/12/03	Notes
	€	€	
Trading profit/(loss)	1,230,300	(258,320)	1,2
Bank interest received	21,150	16,680	3
Dividends received	nil	13,500	4
Charitable donation	1,000	1,000	

Notes:

1 The figures shown for the company's trading profit or loss have already been adjusted for tax purposes. Capital allowances on plant and machinery have also been accounted for. However, no adjustment has yet been made for industrial buildings allowances.

2 The company owned no industrial buildings until 1 October 2002, when €300,000 was spent on the purchase of a second-hand industrial building from Gamma plc. This price included €120,000 for the land on which the building stands.

The building was constructed on 1 October 1997 by Gamma plc (which prepares accounts to 31 December each year) at a cost of €160,000, excluding land. The building was used continually for industrial purposes until it was sold to Highvale Trading Ltd. Highvale Trading Ltd wishes to claim the maximum available capital allowances in relation to this building. The building is not in a tax incentive area.

3 The figures shown for bank interest received are the amounts actually received in each accounting period. Accrued interest at the end of each year was as follows:

	€
31 December 2001	4,430
31 December 2002	3,980
31 December 2003	nil

4 The figures shown for dividends received are the amounts actually received in each accounting period, with no adjustment for withholding tax.

5 On 28 November 2003, the company sold 10 hectares of land for €20,000. This was one-half of a 20-hectare plot bought in June 1996 for €17,500. The value of the remaining 10 hectares on 28 November 2003 was €30,000.

6 There were no trading losses brought forward on 1 January 2002 but there were capital losses brought forward of €12,758.

7 The company wishes to claim tax relief in relation to its trading loss at the earliest possible opportunity.

- 8 Chargeable profits for the year to 31 December 2004 are expected to be approximately €2 million. Corporation tax rates and limits for that year are expected to be the same as for the year to 31 December 2003.

• **Requirement for question 4**

- (a) Compute the industrial buildings allowances available for the year to 31 December 2002 and 2003 and hence the company's adjusted Schedule D Case I for those years. 5
- (b) Compute the chargeable gains arising on the sale of the land. 3
- (c) Calculate the company's corporation tax liabilities for the year to 31 December 2002 and the year to 31 December 2003, *before* relief is given for the trading loss incurred in the year to 31 December 2003. 8
- (d) Calculate the company's corporation tax liabilities for the year to 31 December 2002 and the year to 31 December 2003, *after* relief is given for the trading loss incurred in the year to 31 December 2003. 3
- (e) Comment on the company's decision to claim relief for its trading loss "at the earliest possible opportunity", contrasting this approach with the available alternative. 6
- (25)**
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5 Howard was born in 1955 and is not married. He is employed by his local County Council as a senior systems analyst and his gross salary for tax year 2003 was €42,500. He is a member of an occupational pension scheme and contributes 6% of his gross salary into this scheme each month.

The Council does not provide Howard with a motor car but expects him to use his own car when traveling from Council headquarters (where he is based) to visit Council offices situated throughout the County. In 2003 he was paid 32c per mile for driving his own car for 2,500 miles on Council business. His motoring in 2003 can be analysed as follows:

	Miles
Travel between home and work	4,800
Travel on Council business	2,500
Private motoring	4,700
	<u>12,000</u>

The total cost of running Howard's car during 2003 (including depreciation) was €3,600.

The Council has a policy of offering low-interest loans to its employees and Howard has taken advantage of this policy by borrowing €10,000 at an annual interest rate of 2%. The amount outstanding on this loan at the start of 2003 was €8,000. The corresponding amount at the end of 2003 was €5,600. Further benefits received by Howard from the Council during the year were as follows:

- his own parking space at Council headquarters
- a mobile telephone costing €150 for making both business and private calls; the council paid line rental of €180 and call costs of €225 (60% of which related to private calls)
- a long service award comprising a cheque for €400 in recognition of 20 years of service with the Council
- the annual staff party (which cost the Council €40 per employee).

However, the Council does not pay Howard's annual subscription to an Irish Computer Society. In 2003, this cost him €114.

Other than his income from employment, Howard had other income during 2003 as follows:

- Commercial Bank interest of €75 from an ordinary account and €115 from an investment account
- interest on an AIB SSIA of €375
- dividends of €4,860
- a €1,000 premium bond prize

- rent of €70 per week for 52 weeks from a lodger who lives in Howard's own home.

He made charitable donations totalling €507 during the year.

Howard has no wish to leave the Council or to work for anyone else but he would like to change his status so that he is no longer regarded as an employee. He is thinking of asking the Council to treat him as a self-employed consultant as from the start of the next tax year. Alternatively, he might form a private limited company (of which he would be the only shareholder and director) and provide his services to the Council via this intermediary company. In either case, he would continue working exclusively for the Council in the same role as at present.

- **Requirement for question 5**

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| (a) Identify those elements of Howard's income (from employment or otherwise) which are <i>not</i> subject to income tax. If necessary, briefly explain why the income in question is not taxable. | 4 |
| (b) Explain why Howard's donations of €507 are worth more than €507 to the charities concerned, but (in effect) cost Howard less than €507. | 2 |
| (c) Calculate the amount of income tax borne by Howard in 2003. | 8 |
| (d) Calculate the PRSI contributions payable under Class A1 in relation to Howard by himself and by his employer in 2003. | 3 |
| (e) Explain the tests which are used to distinguish between employment and self-employment and give your view as to whether Howard is likely to achieve his goal of being treated as a self-employed consultant for tax purposes. | 5 |
| (f) Explain why the formation of a private limited company would probably not provide any tax advantages in Howard's case. | 3 |
| | (25) |

6

- (a) In general, a "person" who is VAT-registered makes bi-monthly returns to Revenue, showing the tax charged to customers during the period and the tax charged by suppliers. The amount by which output tax exceeds input tax is payable with the VAT return. If input tax exceeds output tax, the excess may be recovered. There are penalties for failing to submit a VAT return on time or failing to make a VAT payment on time.

However, there are several variations to this procedure. In particular:

- Subject to certain conditions, registered persons may join the annual accounting scheme and make only one VAT return per year.
- Again subject to certain conditions, registered persons may join the cash accounting scheme and account for VAT on a cash basis.

Furthermore, registered persons who make both taxable and exempt supplies may recover only part of their input tax, though special rules apply to certain public sector organisations.

• **Requirement for question 6 (a)**

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| (i) State the conditions which must be satisfied before a registered person may join the annual accounting scheme. Explain the main features of this scheme. | 4 |
| (ii) State the conditions which must be satisfied before a registered person may join the cash accounting scheme. Explain the main features of this scheme. | 3 |
| (iii) Explain the rules which determine the extent to which a person making both taxable and exempt supplies may recover input tax. | 3 |
| (iv) Explain the special VAT regime which applies to a public sector organisation for intra community acquisitions. | 3 |
| (v) Explain the consequences which follow if a registered person submits a late VAT return and makes a late payment of VAT to Revenue. | 3 |
| (vi) Explain what fourth schedule services are and the VAT implications for public service bodies availing of these services from abroad. | 3 |
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- (b) The system of Self Assessment for individuals was introduced in the early 1990's and is now well established. Previously, the assessment of an individual's tax liability was entirely the responsibility of Revenue and it was quite possible for taxpayers to delay the assessment and payment of tax by withholding information from Revenue for as long as they could. The introduction of Self Assessment shifted responsibility from Revenue to the taxpayer and made it much more likely that tax is assessed and paid on time.
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- **Requirement for question 6 (b)**

Outline the main features of the system of Self Assessment for individuals.

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(25)