

TAXATION REPUBLIC OF IRELAND

Diploma stage examination

12 June 2007

From 10.00am to 12.00noon
plus ten minutes reading time from 9.50am to 10.00am

Instructions to candidates

There are **four** questions on this question paper

Answer **three** questions in total

One compulsory question from **Section A**

Two of the three questions from **Section B**

The question in Section A carries in total, **40** marks

The questions in Section B carry each carry a total of **30** marks

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 examinations room.

Formula sheets, Proforma booklets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.

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.



SECTION A (Compulsory)

1

Acme Ltd has the following results for the 15 months to 31 March 2007. Unless specified below, the income and expenses accrued evenly over the 15 month period:

	€
Adjusted trading profits before deduction of capital allowances (note 1)	727,000
Income from rental property (note 2)	42,000
Irish dividend received (note 3)	30,000
Bank Deposit Interest:	
Received to 31 December 2006	7,450
Accrued to 31 March 2007	3,100
Capital Gains:	
Disposal on 30 November 2006	2,500
Disposal on 10 March 2007	4,000

Notes

1. The tax written down value (TWDV) of Acme's plant and machinery at 1 January 2006 was €227,000. The cost of the plant and machinery was €540,000 and it was all acquired after 4 December 2002. The company made a purchase of plant of €50,000 on 1 June 2006.
2. The property was let on 1 July 2006 under a 10 year lease agreement for a rental of €32,000, payable annually in advance. The figure shown above was received on 1 July 2006, and includes a one-off premium of €10,000. Expenses incurred since the date of inception of the lease to the accounting period end amounted to €18,000.
3. The company receives dividends of €15,000 from other Irish companies on 1 February each year. This is the amount actually received, without adjustment for tax credits.
4. Acme has a chargeable loss brought forward at 1 January 2006 of €3,750.
5. In the year to 31 December 2005, Acme incurred a trading loss of €140,000 which was carried forward under s396(1), TCA 1997.

• **Requirement for question 1**

- (a) Identify and briefly explain the ways in which a company's trading losses may be relieved, and the issues which will influence its choice of loss relief. 10
- (b) Compute Acme's chargeable profits for the two accounting periods. 20
- (c) Compute Zenith's chargeable gain arising on the disposal of the shares in January 2007. 10

Zenith plc acquired the following shares in Nadir plc:

Date	No of Shares	Cost €
23 March 1981	5,000	5,000
8 May 1984	10,000	18,000

Zenith plc sold 8,000 shares for €30,000 in January 2007.

(40)

SECTION B (Answer two from three questions)

2

(a) William, who is single and aged 45, is the marketing manager for Dorset Enterprises Ltd. He earns a gross salary of €42,500 per annum and paid PAYE of €10,000 on this salary. Additional benefits received during the year are as follows:

- He has also been given a loan by his employer at an interest rate of 3% - the amount outstanding on 1 January 2006 was €4,000, and he paid €2,000 back as a lump sum on 31 March 2006. This loan did not relate to his home. The official rate of interest throughout the period was 5%.
- He pays an allowable professional subscription of €120 each year and is reimbursed by his employer for this subscription.
- He eats free of charge in a staff canteen which is open to all members of staff.
- His employer provides him with a parking space in a car park across the road from his office (an annual season ticket would cost €350).
- He is also provided with a mobile phone as he is on the road and this is necessary for the business. Private use is incidental to the business use.
- William's employer does not provide a company car, but does reimburse mileage at the rate of 50 cents per kilometre. In 2006, William drove 5,000 kilometres on business.

In addition to his employment income, William received net building society income of €3,000 during the year and dividend income of €15,000.

• **Requirement for question 2 (a)**

- (i) Calculate William's taxable income and tax payable for 2006. 12
- (ii) List the types of expenses which are deductible from employment income for tax purposes 5
- (iii) William's employers are planning to lend him computer equipment with a market value of €2,750 for his own private use. The computer equipment will remain the property of the employers throughout the usage period by William. Explain how it should be treated for tax purposes in 2007. 3

(b) Elizabeth, a taxpayer, has two different sources of income. She works part-time as an IT consultant for a small number of clients, on a project management basis. A separate contract is drawn up for each project, specifying the deadline, expected output and the fee to be paid. Elizabeth uses her own diagnostic software on her laptop when necessary. She reserves one day a week (Monday) for one particular client who likes her to be on the company premises between 8am and 4pm to answer computer help-line queries and troubleshoot problems. This client allows her to invoice for the day even when she is sick, and allows her to take five paid days off each year.

- **Requirement for question 2 (b)**

Discuss and apply the criteria which may be used to determine whether Elizabeth should be regarded as employed or self-employed.

10

(30)

3

- (a) Alice began trading on 1 January 2006. Her taxable turnover for her first 20 months of trading is as follows:

2006	€	2007	€
January	1,200	January	6,200
February	2,000	February	8,800
March	1,800	March	12,000
April	1,500	April	7,400
May	2,200	May	4,800
June	3,000	June	5,600
July	3,400	July	4,400
August	2,200	August	3,000
September	1,700		
October	6,800		
November	4,000		
December	6,100		

These figures include a self-supply of goods worth €2,500 in October 2006 and €1,800 relating to the sale of plant used in the business in February 2007.

• **Requirement for question 3 (a)**

- (i) Explain, using an example in each case, the difference between zero-rated and exempt supplies. 6
- (ii) Using the information above, state and explain the date on which Alice must register for VAT. 5

- (b) Jack, a taxable person, made the following supplies in the two month period to 31 December 2006:

	€
Standard-rated supplies (excluding VAT)	155,000
Zero-rated supplies	72,000
Exempt supplies	47,000

Jack made a self-supply of €2,000, which is included in the total shown above for zero-rated supplies. The input tax Jack suffered is attributed in the following way:

	€
Attributed to taxable supplies	9,750
Attributed to exempt supplies	6,205
Unattributed	10,000

• **Requirement for question 3 (b)**

- (i) Explain the VAT position of a company which makes both taxable supplies and exempt supplies. 8
- (ii) Compute the VAT provisionally payable to the Revenue by Jack for the two month period. 11
- (30)**
-

4

Taxation allows the government to intervene where market-based economies are deemed not to be working efficiently and effectively.

- **Requirement for question 4**

- (a) Discuss the circumstances where market-based economies do not work effectively and explain, with examples, how taxation can be used to intervene in such cases. 12
- (b) There are a number of ways of distinguishing between taxes. State and explain, with examples, three methods of distinguishing between taxes according to their economic nature. 12
- (c) A 'good' tax should possess certain characteristics. Two of three are 'equity' and 'efficiency'. Explain and illustrate what is meant by these **two** concepts in relation to taxation. 6

(30)

PRSI Rates and Levies

Employee – Class A1			
	PRSI		Health Levy
	Employer	Employee (Income Limit)	Employee
2005	10.75%	4% (€44,180)	2%
2006	10.75%	4% (€46,600)	2%

Self Employed			
	Income	PRSI (Min)	Health Levy
2005	If Income < €20,800	3%	Nil
	Otherwise	3%	2%
2006	If Income < €22,880	3%	Nil
	Otherwise	3%	2%

Motor Kilometric Rates:

For individuals who are obliged to use their car in the normal course of their duties:

Motor Cars effective from 1 July 2006			
Official Motor Travel in a calendar year	Engine Capacity		
	Up to 1,200 cc	1,201 – 1,500 cc	1,501cc and over
Up to 6,437km	52.16 cent	61.66 cent	78.32 cent
6,437km and over	26.97 cent	30.96 cent	36.65 cent

Value Added Tax

Standard rate 21%

Capital Gains Tax

Rate – 20%

Indexation Factors

1974/75	7.528
1975/76	6.080
1976/77	5.238
1977/78	4.490
1978/79	4.148
1979/80	3.742
1980/81	3.240
1981/82	2.678
1982/83	2.253
1983/84	2.003
1984/85	1.819
1985/86	1.713
1986/87	1.637
1987/88	1.583
1988/89	1.553

1989/90	1.503
1990/91	1.442
1991/92	1.406
1992/93	1.356
1993/94	1.331
1994/95	1.309
1995/96	1.277
1996/97	1.251
1997/98	1.232
1998/99	1.212
1999/00	1.193
2000/01	1.144
2001	1.087
2002	1.049
2003 et seq	1.000

Note: No indexation is available for expenditure made within 12 months prior to the date of disposal