



**Accounting  
Technicians**  
Ireland

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# **Taxation II**

## **Republic of Ireland**

2<sup>nd</sup> Year Examination

**May 2011**

**Paper, Solutions & Examiner's Report**

**Professional, Practical, Proven**

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**Accounting Technicians Ireland**  
**2<sup>nd</sup> Year Examination : Summer 2011**  
**Paper : TAXATION II (Republic of Ireland)**

Wednesday 18<sup>th</sup> May 2011 - 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 2010. The provisions of the Finance Act 2011 should be ignored.**

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

**Answer QUESTION 1, QUESTION 2 and QUESTION 3 (Compulsory) in Section A and ANY TWO of the four questions in Section B. If more than TWO questions are answered in Section B, then only the first two questions, in the order filed, will be corrected.**

**Candidates should allocate their time carefully.**

**All workings should be shown.**

**All figures should be labelled as appropriate e.g. €, units, etc.  
Question 1 begins on Page 2 overleaf.**

**The following inserts are enclosed with this paper:**

- Tax Reference Material
- Multiple Choice Answer Sheet (Question 6)

## SECTION A

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

## QUESTION 1 (Compulsory)

Peter Jones commenced to practice as a doctor on the 1<sup>st</sup> March 2006. His professional income as adjusted for tax purposes but before capital allowances is as follows:-

	€
Year ended 30 <sup>th</sup> April 2009	58,000
Year ended 30 <sup>th</sup> April 2010	65,000

The tax written down value of Peter's fixed assets at the 1<sup>st</sup> January 2010 was as follows:-

	€
Fixtures and fittings	6,250
Motor car (purchased 1 <sup>st</sup> May 2007 €26,000)	18,000

Peter had purchased the fixtures and fittings in February 2007 at a cost of €10,000.

Peter has 65% private use of the motor car.

During the last twelve months Peter had the following additions and disposals to his fixed assets:-

Purchase date	Cost price (€)	Details
1 <sup>st</sup> May 2009	5,000	Computer system
10 <sup>th</sup> February 2010	2,000	Phone system
15 <sup>th</sup> June 2010	2,500	Reception desk and chairs
16 <sup>th</sup> August 2010	28,000	New car – emissions 140 g/km (private use remains at 65%)
Disposal date	Proceeds (€)	Details
16 <sup>th</sup> August 2010	14,000	Motor car purchased 1 <sup>st</sup> May 2007

Continued on the next page.

**QUESTION 1** (*Cont'd*)

Peter's wife Mary works in a multi-national company. Her remuneration package comprised:-

- (1) Basic salary of €18,000, PAYE deducted €3,800.
- (2) A company car which was purchased on the 1<sup>st</sup> July 2010 for €35,000 (original market value). Mary paid €350 for the road tax. She travelled 16,200 business kilometres up to the 31<sup>st</sup> December 2010.
- (3) Her employer paid her VHI premium of €2,000 gross.

Peter and Mary have the following additional income and outgoings:-

	<b>Year ended 31/12/2009</b>	<b>Year ended 31/12/2010</b>
	€	€
<b>Income</b>		
<b>Mary</b>		
Deposit income – gross	800	1,000
<b>Peter</b>		
Dividend from an Irish company – gross	500	600
<b>Outgoings</b>		
<b>Mary</b>		
Service charge to local council	350	420
Part-time university fees for an approved course	1,000	1,200
<b>Peter – aged 32 years</b>		
Retirement annuity (note1)	Nil	6,000
<b>Note1</b>		
Peter started a pension fund in 2010. Details of his payments are:-		
<b>Date</b>	<b>€</b>	
June 2010	6,000	
March 2011	5,000	
November 2011	4,000	

**Continued on the next page.**

**QUESTION 1** (*Cont'd*)

**Requirement**

**(i)** You are required to calculate Peter and Mary's Income Tax for 2010 on the basis that a valid election for separate assessment is in force. **17 Marks**

**(ii)** Calculate Peter's PRSI and Income Levy for 2010.

**3 Marks**  
**Total 20 Marks**

**QUESTION 2 (Compulsory)**

- (a)** ABC Ltd is an Irish incorporated and resident company. It is owned equally by John Byrne and his wife Sarah. The authorised share capital is 100,000 €1 ordinary shares. Both John and Sarah are directors of the company. The company is a fruit and vegetable distribution company. Its accounting period is the 31<sup>st</sup> March each year. The company's results for the year ended 31<sup>st</sup> March 2010 are as follows:-

	€
Case I – adjusted profit before capital allowances	210,000

Details of the written down values of the company's vans, fixtures and fittings as at 1<sup>st</sup> April 2009 was as follows:-

	€
Vans	93,750
Fixtures and Fittings	10,875

The vans were purchased on the 15th October 2006 for €150,000. The fixtures were purchased on the 1<sup>st</sup> April 2007 for €14,500. During the current accounting period the company sold a van for €8,800 which was originally purchased for €12,500. The company purchased two new vans for €28,000.

The company had rental income from a warehouse that was surplus to requirements. This warehouse was originally purchased by the company in 2007. It was first let (under a lease for 15 years ) on the 1<sup>st</sup> September 2009. The rent is €3,500 per month. The premium charged on the lease was €24,000. The company paid interest for the year ended 31<sup>st</sup> March 2010 of €9,600. The company sold one of its warehouses on the 1<sup>st</sup> February 2010 for €75,000, the disposal costs totaled €3,000, the company purchased the warehouse for €80,000 in June 2001. The legal fees on acquisition were €2,000.

**Requirement**

- (i) Compute the corporation tax payable for the year ended 31<sup>st</sup> March 2010. **12 Marks**
- (ii) State the due date for the payment of ABC Ltd's corporation tax for the period 31<sup>st</sup> March 2010. You may assume ABC Ltd. is a small company. **3 Marks**
- (b)** Due to the loss of a number of major customers ABC Ltd. is likely to incur significant trading losses for the year ended the 31<sup>st</sup> March 2011.

State, assuming that there is no change in the relevant legislation, how any trading losses for this accounting period can be utilised for corporation tax purposes.

**5 Mark**  
**Total 20 Marks**

**QUESTION 3** (*Compulsory*)

**(a)** You are required to indicate the time of disposal in each of the examples below:-

- (i) Harry signed a contract to sell ten acres of land on 13<sup>th</sup> May 2010. The land was transferred on the 15<sup>th</sup> June 2010 and Harry received his sales proceeds on that day.
- (ii) In November 2010 Paul's house was destroyed by fire. In February 2011 he received €300,000 in insurance compensation.
- (iii) Joan had her house compulsorily purchased by Dublin City Council. In May 2010 they agreed compensation of €500,000. In June 2010 they entered the property and in July 2010 Joan received her compensation.

**4 Marks**

**(b)** Heather and Luke Manning are married. They are both resident and domiciled in Ireland. They have the following disposals in 2010:-

- (1) Luke gave Heather 10,000 shares in Market Ltd. in January 2010. The shares had a market value of €2 each on that date. Luke had purchased these shares in January 2001 for €1.60 each.
- (2) Luke sold his Jeep in February 2010 for €6,000. He had purchased the Jeep for personal use two years ago for €5,500.
- (3) In May 2010 Luke won €10,000 on the National Lottery. He used the money to take Heather on a cruise of the Caribbean.
- (4) In August 2010 Heather sold an antique ring for €2,800 that she had inherited from her mother in February 2002. The market value of the ring in February 2002 was €1,000. Heather's mother had bought the ring at an auction for €350 in June 1996.
- (5) Heather sold 6,000 of the shares in Market Ltd. in December 2010 for €3.10 each.

**Continued on the next page.**

**QUESTION 3** (*Cont'd*)**You are required to:-**

- (i) Calculate Luke and Heather's Capital Gains Tax for 2010. You may assume joint assessment applies. **11 Marks**
- (ii) State Luke and Heather's filing date for 2010. **1 Mark**
- (iii) In 2011 Luke and Heather are considering emigrating to Canada. Briefly explain the three periods of time you are deemed to occupy your principal private residence and any conditions necessary to obtain the periods as deemed occupation. **4 Marks**
- Total 20 Marks**

**SECTION B****Answer any TWO of the FOUR questions in this section****QUESTION 4**

- (a) State the conditions that must be satisfied before a person can account for VAT on the cash basis. **4 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 receipts basis would he only be entitled to an input credit when he paid his suppliers? **2 Marks**
- (d) State the position in relation to the cash basis for transactions between connected parties. **2 Marks**
- (e) Susan Connolly is registered for VAT and deals solely in goods subject to VAT at 21%. Susan had the following transactions in March/April 2010:-

	<b>March 2010</b>	<b>April 2010</b>
	<b>€</b>	<b>€</b>
Sales to debtors	15,125	24,200
Cash sales	3,630	2,420
Received from debtors	14,520	11,495
Purchases from creditors	7,260	15,730
Payments to creditors	4,840	14,520

All the above amounts are inclusive of VAT at 21%. Susan is authorised to account for VAT on the cash receipts basis.

**Requirement:**

- (i) Calculate the amount of VAT payable to the collector general for March/April 2010. **6 Marks**
- (ii) State the payment date of the VAT liability for March/April 2010. **2 Marks**
- (iii) What is the tax consequence if Susan was late paying the above liability? **2 Marks**
- Total 20 Marks**

**QUESTION 5**

- (a) McTigue Limited commenced to trade on the 1<sup>st</sup> July 2008. Details of the company's first two accounting periods are as follows:-

	<b>Trading income</b>
	€
Period ended 31 <sup>st</sup> December 2008	60,000
Period ended 30 <sup>th</sup> June 2010	288,000

You may assume the trading income occurs evenly throughout the above accounting periods. McTigue Limited also had rental income of €5,000 a month from excess warehouse space. This rental income commenced on 1<sup>st</sup> January 2010.

**Requirement:**

- (i) Calculate the company's corporation tax for all accounting periods.

**6 Marks**

- (ii) State the filing date for the company's tax return for all accounting periods.

**3 Marks**

- (b) Apple Limited is an Irish incorporated company engaged in the retail sale of household appliances. Details of its vehicles lease rental for its June 2010 accounts is as follows:-

Vehicle	Employee	Emissions rental	Lease	Value	Private use
Van	-	160g/km	€5,000	€30,000	None
Ford Mondeo	Managing Director	195g/km	€7,000	€40,000	25%
Ford Focus	Sales Director	160g/km	€6,000	€28,000	10%

**Requirement:**

Calculate Apple Limited's addback for Vehicle lease rental for their accounting period the 30<sup>th</sup> June 2010.

**6 Marks**

- (c) North Limited is a close company whose issued share capital is 20,000 shares of €1. In the accounting period year ended 30<sup>th</sup> September 2010 it received the following loans:-

Date	Name	Position	Loan	Number of Shares held	Interest paid
1/10/09	Philip	Director	€30,000	5,000	€3,600
1/10/09	Susan	Director	€10,000	400	€1,200
1/10/09	Michelle	Director	€40,000	6,000	€4,500

The above interest was included as an expense in North Limited's accounts for the year ended 30<sup>th</sup> September 2010. All loans were used for trading purposes of North Limited. None of the directors are related to one another.

**Requirement:**

- (i) Calculate the addback, if any, in North Limited's corporation tax computation for the interest.

**3 Marks**

- (ii) Calculate the dividend withholding tax liability of North Limited for the above accounting period.

**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]** Mark is a sole trader. His year end is the 30<sup>th</sup> September 2010. He leased his car which he used 75% for business use. The car was first leased in 2009. The retail value of the car is €22,000. The emissions are 145g/km. The lease rental in the accounts for 30<sup>th</sup> September 2010 is €4,000. What is the addback in Mark's Case I computation for the lease rental:

- (a) Nil as the car has a value of less than €24,000
- (b) €1,000
- (c) €364
- (d) €727

- [2]** Swords Limited has a nine month accounting period to the 31<sup>st</sup> December 2010. Swords Limited is a small company for corporation tax purposes. When must Swords Limited pay its preliminary tax for its accounting period 31<sup>st</sup> December 2010?

- (a) 31<sup>st</sup> October 2011.
- (b) 21<sup>st</sup> November 2010.
- (c) 21<sup>st</sup> June 2011.
- (d) 21<sup>st</sup> September 2011.

- [3]** What VAT rate applies to hotel accommodation?

- (a) exempt
- (b) 13½%
- (c) Zero
- (d) 21%

- [4]** Declan Boyle is a 48 year old dentist and has the following income for 2010:

Case II	€80,000
Case II loss carried forward	€10,000
Case V – rental income	€ 5,000
Irish Dividend – gross	€ 4,000

He pays a qualifying deed of covenant of €4,000 in 2010.

Declan has a retirement annuity contribution carried forward from 2009 of €2,000 and he pays a premium of €14,000 in May 2010.

Calculate Declan's retirement annuity allowed as a charge in 2010:

- (a) €17,500
- (b) €16,500
- (c) €14,000
- (d) €16,000

**QUESTION 6** (Cont'd)

- [5]** Lauren Fagan is 68 years old and single. Her only income is Irish rental income of €22,000. You are required to calculate her tax liability for 2010:
- (a) €2,245  
 (b) €2,570  
 (c) €800  
 (d) €415
- [6]** Capsule Ltd. is an Irish resident company with a year end of 30<sup>th</sup> June 2010. The company's income for the above period is:-
- |                                |         |
|--------------------------------|---------|
| Trading income                 | €80,000 |
| Irish rental income            | €10,000 |
| Dividend from an Irish company | € 5,000 |
| Trade charge                   | €20,000 |
- You are required to calculate Capsule Ltd's corporation tax for its accounting period year ended 30<sup>th</sup> June 2010:
- (a) €10,000  
 (b) €11,250  
 (c) € 8,750  
 (d) €11,000
- [7]** Green Ltd. year end is the 30<sup>th</sup> June each year. The shareholders of Green Ltd. are:-
- |                             |     |
|-----------------------------|-----|
| Mary Green (Irish resident) | 25% |
| Joe Green (UK resident)     | 25% |
| X Ltd. (Irish company)      | 50% |
- On the 10<sup>th</sup> February 2010 Green Ltd. paid a dividend of €100,000 to its shareholders. You are required to calculate Green Ltd's dividend withholding tax in respect of the dividend of €100,000:
- (a) €10,000  
 (b) €15,000  
 (c) €20,000  
 (d) € 5,000
- [8]** You are required to give Green Ltd's payment date for the dividend withholding tax calculated in question 7 above:
- (a) 14<sup>th</sup> March 2010  
 (b) 21<sup>st</sup> March 2010  
 (c) 21<sup>st</sup> March 2011  
 (d) 31<sup>st</sup> October 2010
- [9]** Lilly Murphy sold an asset in May 2010. What is Lilly Murphy's filing date for this disposal:
- (a) 15<sup>th</sup> December 2010  
 (b) 31<sup>st</sup> October 2010  
 (c) 31<sup>st</sup> January 2011  
 (d) 31<sup>st</sup> October 2011

**QUESTION 6** (Cont'd)

**[10]** Justin Wright had the following disposals in 2010:

- (i) A painting he sold for €8,000 in May. He had purchased this painting from his sister in July 2000 for €1,200. Its market value in July 2000 was €1,350.
- (ii) Shares in XY Ltd. which he sold in July for €55,000. He had purchased these shares in August 1996 for €45,000.
- (iii) An antique watch which he gave to his nephew Charles in December. The market value of the watch was €2,800. Justin had purchased the watch in July 1998 for €500.

You are required to calculate the capital gains tax for Justin for 2010:

- (a)** €1,103
- (b)** €1,297
- (c)** €1,427
- (d)** €1,744

**QUESTION 7**

**(a)** Andrew, a trader, is a client of your firm. He has been notified that he has been selected for Revenue Audit for the Income Tax year 2010.

**Requirement:**

Outline the procedures which the Revenue Auditor will follow in the conduct of the audit.

**10 Marks**

**(b)** Joe Byrne has been self employed since 2005. His income tax liability for 2009 was €40,000 and for 2010 is €15,000.

**Requirement:**

**(i)** Outline the due dates for the payment of Joe's 2010 Income Tax liability and the amount that he is required to pay on each date.

**8 Marks**

**(ii)** On the basis that Joe files his form 11 for 2010 on the 10<sup>th</sup> November 2011, calculate the penalty, if any, that Joe must pay to the Collector General.

**2 Marks**

**Total 20 Marks**

## 2<sup>nd</sup> Year Examination: Summer 2011

### Taxation II (ROI)

### Suggested Solutions

**Students please note:** These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

#### Solution 1

		<b>Mary Jones – Income Tax Computation</b>	
		Notes	€
	Schedule E	1	23,150
	Schedule D – Case IV		<u>1,000</u>
			<u>24,150</u>
	€23,150 at 20%	=	4,630
	€ 1,000 at 25%	=	<u>250</u>
			4,880
<i>Less:</i>	Married (½)		(1,830)
	PAYE credit		(1,830)
	Service charge paid in 2009 €350 at 20%		( 70)
	VHI €2,000 at 20%		( 400)
	University fees €1,200 at 20%		<u>( 240)</u>
	Tax liability		510
	<i>Less:</i> DIRT		250
	PAYE paid		<u>3,800</u>
	Refund		<u>3,540</u>
	This is a refund of PAYE paid.		

		<b>Peter Jones – Income Tax Computation</b>	
		Notes	€
	Schedule D – Case I	2	61,825
	Schedule F		<u>600</u>
			62,425
<i>Less:</i>	Charge		
	Pension	3	<u>(11,000)</u>
	Statutory income		<u>51,425</u>
	€36,400 at 20%		7,280
	€ 9,000 at 20%		1,800 (note 4)
	€ 6,025 at 41%		<u>2,470</u>
	<u>€51,425</u>		11,550

**Solution 1 (Cont'd)**

Less: Married (½)	<u>1,830</u>
Tax liability	9,720
Less: DWT €600 at 20%	<u>120</u>
Tax Due	<u><u>9,600</u></u>

<b>(ii)</b>	<b>Peter Jones</b>	
<b>PRSI</b>		<b>€</b>
PRSI – Income		<u>62,425</u>
PRSI 3%	=	1,873
<b>Income levy</b>		
Schedule D – Case I – before capital allowances		65,000
Schedule F		<u>600</u>
		<u><u>65,600</u></u>
Income levy 2%	=	1,312

**Notes**

<b>(1)</b>	Mary – Schedule E	€
	Salary	18,000
	B-I-K 16,200/6 x 12 = 32,400	
	€35,000 x 18% = 6,300 x 6/12 =	3,150
	VHI premium	<u>2,000</u>
		<u><u>23,150</u></u>

The tax relief for the VHI premium will not be given at source in this case. Mary will claim a tax credit at the standard rate in her tax computation.

<b>(2)</b>	Peter – Schedule D – Case II	€
	2010 c/y 30/4/2010	65,000
	Basis period for capital allowances	
	30/4/2010 1/5/2009 to 30/4/2010	

**Capital allowances computation**

	<b>Fixtures &amp; Fittings</b>		<b>Motor Car</b>
	€		€
TWDV – 1/1/2010	6,250		18,000
Additions	<u>7,000</u>		<u>-</u>
	13,250		18,000
Wear and tear	<u>(2,125)</u> (W1)		<u>(3,000)</u> (W2)
TWDV – 31/12/2010	<u><u>11,125</u></u>		<u><u>15,000</u></u>

**Solution 1 (Cont'd)****Summary of Capital allowances**

	€
Fixtures and fittings	2,125
Motor Car €3,000 x 35%	<u>1,050</u>
	<u>3,175</u>
Schedule D – Case II	65,000
Less: Capital allowances	<u>(3,175)</u>
	<u>61,825</u>

<b>(3) Retirement Annuity</b>	€
Relevant earnings – D II	<u>61,825</u>
Maximum tax relief: €61,825 at 20% =	12,365

Look at payments made to the 31<sup>st</sup> October 2011, the filing date of the 2010 tax return.

	€
Paid – June 2010	6,000
- March 2011	<u>5,000</u>
	<u>11,000</u>

Maximum relief is €11,000 the amount paid.

**(4) Married band**

€45,400 plus the income of the lowest earner which is Mary. Income excludes deposit interest.

$$€45,400 + €23,150 = €68,550$$

Peter	€36,400
Mary	<u>€32,150</u>
	<u>€68,550</u>

Mary only used €23,150 of her band. She may transfer the balance of €9,000 to her spouse.

**Workings:**

<b>1.</b>	Fixtures and fittings	€
	Opening cost	10,000
	Additions	<u>7,000</u>
		<u>17,000</u>
	Wear and tear at 12½% =	2,125
<b>2.</b>	Motor car	
	€26,000 limited to €24,000	
	Wear and tear at 12½% =	3,000

**Solution 2****ABC Ltd**

(a)	(i)	<b>Corporation tax computation</b>		€
			Notes	
	Case I		1	187,623
	Case V		2	<u>36,180</u>
	Income			223,803
	Gain		3	<u>Nil</u>
	Profits			<u>223,803</u>
	Corporation tax	€187,623 at 12½%	=	23,453
		€ 36,180 at 25%	=	<u>9,045</u>
				<u>32,498</u>

- (ii) The due date for payment of ABC Ltd preliminary tax is 21<sup>st</sup> February 2010. The balance of its corporation tax is due on the 21<sup>st</sup> December 2010.

**Notes****1. Capital allowances**

	Vans €	Fixtures €
TWDV – 1/4/2009	93,750	10,875
Disposal (W1)	(7,811)	
Addition (W2)	<u>27,011</u>	-
	112,950	10,875
Wear and tear	<u>(20,564)</u> (W3)	<u>(1,813)</u> (W4)
TWDV – 31/3/2010	<u>92,386</u>	<u>9,062</u>

Total capital allowances

	€
Vans	20,564
Fixtures	<u>1,813</u>
	<u>22,377</u>

Case I income €210,000 - €22,377 = €187,623

**Working**

- (i) Disposal of van  
15/10/2006 – Ap 31/3/2007

	€
	12,500
Ap – 31/3/2007	(1,563)
31/3/2008	(1,563)
31/3/2009	<u>(1,563)</u>
TWDV – 1/4/2009	<u>7,811</u>

**Balancing position**

Sales proceeds	8,800
TWDV	<u>(7,811)</u>
Balancing charge	<u>989</u>

**Solution 2 (Cont'd)****2. Replacement option**

The company is entitled to claim the replacement option.

	€
Cost of additions	28,000
Less: Balancing charge	<u>989</u>
	<u>27,011</u>

**3. Wear and Tear – Vans**

Opening cost	150,000
Less: Cost of disposal	(12,500)
Add: Cost of addition	<u>27,011</u>
	<u>164,511</u>

Wear and tear at 12½%	=	20,564
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**4. Wear and tear – Fixtures**

Cost	14,500	
Wear and tear at 12½%	=	1,813

**Case V Income**

Rent €3,500 x 7	24,500	
Premium €24,000 – (€24,000 x $\frac{15-1}{50}$ )	=	<u>17,280</u>
		41,780
Less: Interest €9,600 x 7/12	=	<u>5,600</u>
		<u>36,180</u>

Sales proceeds	75,000
Less: Legal fees on disposal	(3,000)
Acquisition cost	(80,000)
Legal fees on acquisition	<u>(2,000)</u>
Loss	<u>(10,000)</u>

The company will carry this loss forward to reduce gains in a future period.

**(b)** ABC Ltd. can avail of the following relief for its trading loss:-

- 1 In the current accounting period it can reduce trading income liable at the standard rate.
- 2 If there is any loss remaining it can be carried back to a previous period of corresponding length to reduce trading income liable at the standard rate.
- 3 If there is any excess the excess is available to reduce the companies total corporation tax liability for the current period and, provided the company was carrying on the trade in the previous accounting period of corresponding length against the corporation tax liability of that period. It is important to note that where a credit is being claimed in the prior period the value of the loss credit is at the appropriate rate for the year the loss arose and not the year the credit is claimed.
- 4 Any balance is carried forward to reduce profits of the same trade.

The time limit for claiming relief for losses against income of the previous or current accounting periods is 31<sup>st</sup> March 2013.

**Solution 3**

- (a) (i) The time of disposal of an asset is the date of the contract which is 13<sup>th</sup> May 2010.
- (ii) The time of disposal in the case of the destruction of an asset is the date the insurance compensation is received, which is February 2011.
- (iii) The time of disposal of an asset under a compulsory purchase order is the earlier of:-
- (A) Time the compensation is agreed  
or  
(B) Time they enter the property.

In this case it is May 2010 the date the compensation is agreed.

- (b) (1) Exempt as a transfer between spouses.
- (2) Exempt as a wasting chattel not used in business
- (3) Exempt as a win on the National Lottery.

(4)		€
	Sales proceeds	2,800
	2002 €1,000 x 1.049	<u>(1,049)</u>
	Gain	<u>1,751</u>
	Capital gains tax: €1,751 at 25%	= 438
	Marginal relief $\frac{1}{2}(\text{€}2,800 - \text{€}2,540)$	= 130
(5)	Sales proceeds €3.10 x 6,000	= 18,600
	Cost 2000/2001 6,000 x €1.60 = €9,600	=
	€9,600 x 1.144	<u>10,982</u>
		<u>7,618</u>

(i) **Capital Gains Tax computation  
Heather 2010**

(5)	Shares	€
	Less: Annual exemption	7,618
		<u>(1,270)</u>
		<u>6,348</u>
	Tax at 25%	= 1,587
	Plus: Marginal relief	<u>130</u>
		<u>1,717</u>

- (ii) The filing date for Luke and Heather for 2010 is 31<sup>st</sup> October 2011.

**Solution 3** (*Cont'd*)

(iii) The three periods of deemed occupation are:-

- (a) The last 12 months of ownership.
- (b) Any period the taxpayer worked abroad. To qualify for this period as deemed occupation the taxpayer must have lived in the house before he went to work abroad and he must return to live in the house. The taxpayer is not disqualified from this relief if he lets out his main residence while working abroad.
- (c) Any period that the taxpayer could not occupy his main residence due to his working conditions e.g. his employer sent him to Galway for one year. However the maximum period allowed as deemed occupation under this heading is a total of four years. Again for this period to qualify as deemed occupation the taxpayer must have lived in the house before and return to live in the house. Also the taxpayer is entitled to let the property while he is away from his main residence without affecting this relief.

**Solution 4**

- (a) The categories of persons who may apply to account for VAT on a cash basis are:-
- Taxable persons who derive at least 90% of turnover from taxable supplies to non-taxable persons;
  - Taxable persons whose total consideration in respect of taxable supplies is less than €1,000,000 per annum.
- (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 has actually paid the consideration. 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 taxpayer will receive an input credit in the period he purchased his 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) The cash receipts basis is not allowed in respect of the sale of goods or the supply of services between connected parties. The sales basis must be used in this case.

(e) (i) **Susan Connolly**  
**March/April 2010**

	€	€		€
<b>Cash sales</b>				
March 2010	3,630			
April 2010	<u>2,420</u>	6,050		
 <b>Receipts from debtors</b>				
March 2010	14,520			
April 2010	<u>11,495</u>	<u>26,015</u>		
		<u>32,065</u> x 21	=	5,565
		121		
 <b>Purchases from creditors</b>				
March 2010	7,260			
April 2010	<u>15,730</u>	<u>22,990</u> x 21	=	<u>3,990</u>
		121		
 <b>VAT due</b>				<u>1,575</u>

(ii) 19<sup>th</sup> of May 2010.

(iii) Interest of .0274% per day.

**Solution 5****(a) (i)**

**Corporation Tax Computation**  
**AP six months 31<sup>st</sup> December 2008**

		<b>€</b>	
Case I		<u>60,000</u>	
Corporation tax €60,000 at 12½%	=		7,500

The accounting period 30<sup>th</sup> June 2010 is greater than 12 months and must be divided into two accounting periods:

(1)	12 months to 31 <sup>st</sup> December 2009		<b>€</b>	
	Case I €288,000 x 12/18	=		<u>192,000</u>
	Corporation tax €192,000 x 12½%	=		24,000
(2)	6 months to 30 <sup>th</sup> June 2010			
	Case I €288,000 x 6/12	=		96,000
	Case V €5,000 x 6	=		<u>30,000</u>
	Income			<u>126,000</u>
	Corporation tax			
	€96,000 at 12½%	=		12,000
	€30,000 at 25%	=		<u>7,500</u>
				<u>19,500</u>

**(a) (ii)****Accounting period****Filing date**31<sup>st</sup> December 200821<sup>st</sup> September 200931<sup>st</sup> December 200921<sup>st</sup> September 201030<sup>th</sup> June 201021<sup>st</sup> March 2011**(b)**

Van:	No addback, lease rental fully allowed	
Ford Mondeo:	Lease rental fully added back as the emissions exceed 190 g/km	
Ford Focus:	Private use has no effect. The employee will have BIK on their private use.	
	Limit: Lower of:-	
	(i) €24,000 at 50%	= 12,000 or
	(ii) €28,000 at 50%	= 14,000
Lease rental addback		
	$€6,000 \times \frac{€28,000 - €12,000}{€28,000}$	= €3,429

**Solution 5 (Cont'd)**

Summary		€
Van	-	none
Ford Mondeo	-	7,000
Ford Focus	-	<u>3,429</u>
		<u>10,429</u>

- (c) (i)** For an addback to apply to directors loan interest the director must have a material interest, which is the ability to control more than 5% of the ordinary share capital of the close company.

Susan does not have a material interest as she only owns 2% of the company (400/20,000). Therefore there is no addback for her loan interest of €1,200.

The interest allowed as an expense is the lower of:-

		€
(a)	13% of €70,000 =	9,100
(b)	13% of €20,000 =	2,600

Interest paid to Directors with a material interest is:-

Philip	€3,600	
Michelle	<u>€4,500</u>	8,100
Overall limit		<u>(2,600)</u>
Excess treated as a distribution		<u>5,500</u>

The excess of €5,500 must be added back in North Limited's Case I computation.

- (ii)** The dividend withholding tax liability of North Limited is as follows:-

€5,500 at 20%	=	€1,100
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**Solution 6**

1. d Private use 4,000 at 25% = €1,000

Additional tax deduction is available for the lease rental:

€4,000 x 75%	=	€3,000
€3,000 x $\frac{22,000 - 24,000}{22,000}$	=	€ 273
Total addback €1,000 - €273	=	<u>€ 727</u>

2. b

3. b

4. d	<b>Relevant earnings</b>		€
	Schedule D Case II		80,000
	Less: loss forward		<u>(10,000)</u>
			70,000
	<b>Other income</b>	€	
	Sch D Case V	5,000	
	Sch. F	<u>4,000</u>	
		9,000	
	Less: Other charges	<u>(4,000)</u>	-
	Net relevant earnings		<u>70,000</u>
	Maximum relief: €70,000 at 25% =		17,500
	This is limited to:-		
	Premium carried forward		2,000
	Premium paid in 2010		<u>14,000</u>
			<u>16,000</u>

5. c	Schedule D – Case V		<u>€22,000</u>
	Tax at 20%	=	€ 4,400
	Less: single credit		€(1,830)
	Age credit		<u>€( 325)</u>
			<u>€ 2,245</u>

Marginal relief will limit her tax to:  
40% (€22,000 - €20,000) = €800

6. a	<b>Capsule Limited</b>		€
	<b>Corporation tax computation</b>		
	Schedule D – Case I		80,000
	Schedule D – Case V		<u>10,000</u>
	Income		90,000
	Charge		<u>20,000</u>
			<u>70,000</u>
	As a trade charge it will reduce the trading income.		
	€80,000 - €20,000	=	60,000
	€60,000 at 12½%	=	7,500
	€10,000 at 25%	=	<u>2,500</u>
			<u>10,000</u>

**Solution 6 (Cont'd)**

7. d The only dividend that requires DWT to be withheld is the dividend to the Irish resident individual:

$$\begin{array}{rcl} \text{€100,000} \times 25\% & = & \text{€25,000} \\ \text{€25,000} \times 20\% & = & \underline{\underline{\text{€ 5,000}}} \end{array}$$

8. a

9. d

10.	c	(i)	Sales proceeds	€8,000
			00/01 €1,350 x 1.144	<u>€1,544</u>
				<u>€6,456</u>
			Tax at 25%	= €1,614
			Marginal relief:	
			½(€8,000 – €2,540)	= €2,730
			Marginal relief does not apply.	
		(ii)	Sales proceeds	€55,000
			96/97 €45,000 x 1.251 =	<u>€56,295</u>
			Loss	<u>€ 1,295</u>
			<b>Actual position</b>	
			Sales proceeds	€55,000
			Cost	<u>€45,000</u>
			Gain	<u>€10,000</u>
			Therefore No Gain/No Loss	
		(iii)	Sales proceeds	€2,800
			98/99 €500 x 1.212	<u>€606</u>
			Gain	<u>€2,194</u>
			Tax at 25%	= € 549
			Marginal relief	
			½(€2,800 – €2,540)	= € 130
			The tax is limited to €130	
			<b>Summary:</b>	
		(i)	Gain	€6,456
		(ii)	No Gain/No Loss	<u>-</u>
				€6,456
			Less: Annual exemption	<u>(€1,270)</u>
				<u>€5,186</u>
			Tax at 25%	= €1,297
			Plus: Marginal relief	= <u>€ 130</u>
				<u>€1,427</u>

**Solution 7**

(a) The procedures which the authorised officer (Inspector of Taxes) will follow in the case 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 his/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 is 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 for 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, generally, 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 arrangements made to have the matter(s) brought before the Income Tax Appeals Commissioners.

**Solution 7 (Cont'd)**

(b) (i) the due dates for the payment of Joe's Income Tax liability for 2010 are as follows:

- A Preliminary Tax due by 31<sup>st</sup> October 2010
- B Balance of Income Tax due by 31<sup>st</sup> October 2011.

The amounts required to be paid are:-

- Preliminary Tax
    - (i) 100% of his final 2009 tax liability i.e. €40,000
    - (ii) 90% of his estimated tax liability for 2010 i.e. €15,000 x 90% = €13,500
    - (iii) 105% of 2008 Income Tax liability. This option is only available if the direct debit option is used.
  - Balance of Income Tax – if Joe pays preliminary tax based on 90% of his estimated liability for 2010, he will be required to pay the balance (€1,500) by 31<sup>st</sup> October 2011.
- (ii) If Joe filed his form 11 on the 10<sup>th</sup> November 2011 the return will be less than two months late. A surcharge of 5% of his tax liability will apply i.e. €15,000 at 5% = €750.

## 2nd Year Examination: May 2011

### Taxation II

### Examiner's Report

#### Question One

Overall I was pleased with the general standard. Candidate's layout had improved from previous exams and the calculation of the retirement annuity had improved with most students showing good workings.

The main problems with this question was the calculation of the capital allowances with a lot of students not appreciating that additions and disposals apply for the basis period which was to the 30<sup>th</sup> of April 2010. Also the PRSI and the Income Levy needs a lot more work. The vast majority of candidates could not calculate these figures. Also full workings should be given outlining the figure that is being multiplied by 3% and 2% as a lot of candidates would not have had the correct case I figure because of the earlier errors with the capital allowances. The amount of times I had to work backwards to see what figure the candidate had used to see if they had the correct method was maddening. I should not have to use my calculator when correcting. All workings should be shown. The rule from now on is no workings no marks.

#### Question Two

Very disappointing that most candidates did not know the payment dates for corporation tax. This needs to be rectified for future exams.

Also the theory on loss relief needs to be better explained. When you use the word profit in a corporation tax question it means all the income of the company plus capital gains. A lot of candidates were using the word profits to stand for case I income.

The vast majority of candidates did not use the capital loss correctly. A capital loss cannot reduce corporation tax on a value basis. A capital loss can only reduce capital gains in the current period. The remaining loss if any is carried forward to reduce capital gains in a future period.

#### Question Three

This question was well answered. Very disappointing that few candidates could give the filing date for capital gains. Most candidates gave the payment date instead. Between question two and three that was 4% lost by most candidates because they did not know basic dates.

Also more work needs to be done on the disposal date of an asset.

#### Question Four

This was a straight forward VAT question which was well answered by most candidates.

**Question Five**

This was a three part question on corporation tax. Part (a) was badly answered. Most candidates used the income tax commencement rules here. Companies do not have tax years so therefore do not require commencement rules. The main point was the eighteen month period needed to be divided into two periods as in corporation tax the companies accounting period cannot exceed 12 months. A lot more work is needed here.

Part (b) was well answered. You needed to state in your solution that no addback was required for the van and private use was irrelevant.

Part (c) was poorly answered and candidates need to work more on the close company rules and DWT.

**Question Six**

This is the multi-choice question. This question was better answered than previous years.

**Question Seven**

Overall well answered by most candidates.

**Conclusion**

Overall I could see that most candidates are working hard to improve layout and presentation however I would be grateful if candidates could show workings for each solution after that solution and not at the end of the answer booklet. Also please fill out the front of the answer booklet with the questions you have completed.

Also please do not do three of the non compulsory questions as this is a complete waste of time as only the first two shown in the answer booklet will be corrected and count towards the candidates pass mark.