

iati



ADMISSION EXAMINATION

Autumn 2008

TAXATION II (Republic of Ireland)

**PAPER, SOLUTIONS
and
EXAMINERS REPORT**

NOTES TO USERS ABOUT THESE SOLUTIONS

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

Although they are published by the Institute, it should be noted that neither the Institute nor its Examination Committee necessarily endorses these solutions or agrees 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 the Institute.

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.

This publication is copyright 2008 and may not be reproduced without the permission of the Institute.

© The Institute of Accounting Technicians in Ireland, 2008.

The Institute of Accounting Technicians in Ireland

Admission Examination : Autumn 2008

PAPER 7 : TAXATION II (Republic of Ireland)

Tuesday 26th August 2008 - 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.

In this examination paper the € symbol may be understood and used by candidates in the Republic of Ireland to indicate the Euro.

Candidates should answer the paper in accordance with the appropriate provisions up to and including the Finance Act 2007. The provisions of the Finance Act 2008 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 (Compulsory) in Section A and ANY THREE of the four questions in Section B. If more than THREE questions are answered in Section B, then only the first three 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:

- **Tax Return Form 11E [QUESTION 1] and VAT 3 Form [QUESTION 3]**
- **Multiple Choice Question answer sheet [QUESTION 2]**
- **Tax Reference Material**

SECTION A

Answer QUESTION 1 (Compulsory) in this section

QUESTION 1 (Compulsory)

Mr Auric Gold is a director of and the majority shareholder in ZEEBRUKA Ltd. He is married to Jill who is an army officer. They reside in Dublin with their children Sara and Dara both of whom are full time students in third level education. Auric's date of birth is 10th June 1949 and Jill's is 5th May 1955. The couple are jointly assessed for tax purposes with Auric being the assessable person.

During the tax year ended 31st December 2007, Auric's remuneration package received from ZEEBRUKA Ltd. included the following non monetary remuneration:

- (1) Auric was provided with the use of a company owned house. The house had originally been acquired by the company in April 2003 at a cost of €1,450,000. When Auric moved into it on 1st July 2007 its market value was €2,250,000. Auric paid the company a rent of €1,000 a month for the use of this house, whereas a reputable estate agent had estimated that the market rent was €3,000 per month for the unfurnished letting of the house. The company provided Auric with the use of furniture which had a market value of €50,000 when Auric first moved into the house, but which had originally cost the company €70,000. The house was not classed as job related and Auric paid all the household bills relating to the property.
- (2) Auric had a Mercedes-Benz company car with a list price of €90,000 and which was first allocated to him by ZEEBRUKA Ltd. on 1st September 2007. ZEEBRUKA Ltd. received a discount of 10% for cash payment when it acquired the car. The company also paid all costs in respect of this car.

Prior to being provided with this car Auric had used his own car for work and had been reimbursed for any business use at the standard civil service mileage rate. Auric travels a similar amount on business each month and during this period Auric had travelled and claimed for 5,000 miles on behalf of the company's business. Auric spends more than 75% of his time away from the company's premises on company business.

- (3) ZEEBRUKA Ltd. paid medical insurance contributions of €4,200 net of tax relief at source for Auric and his family to the VHI. The amount referable to Auric was €1,800.
- (4) On 1st January 2007 the company provided Auric with a company loan of €30,000 towards the deposit on an overseas holiday home. ZEEBRUKA Ltd. charged Auric interest at a rate of 3% per annum on this loan. Auric repaid €6,000 of this loan on 1st October 2007, leaving the remainder of the loan still outstanding at 31st December 2007.

Auric's P60 from ZEEBRUKA Ltd. showed the following:

	€
Total Pay	500,000
Total Tax Deducted.....	192,000

In addition to the above, the couple's income and outgoings for the year 2007 were as follows:

Income and gains:

- (i) Jill received a gross salary of €72,000 from the army from which Income Tax of €18,900 has been deducted. Jill paid PRSI at class D rates.
- (ii) Bank interest of €5,200 was received on a joint bank account. This amount was net of DIRT.
- (iii) Auric sold antique furniture on 6th May 2007 for €10,500. Auric had purchased the furniture on 1st July 1993 for €1,200. In January 2007 Auric paid an auctioneer €500 to have the furniture valued for insurance purposes.

QUESTION 1 (Cont'd)

Outgoings:

- (i) Health expenses paid in 2007 were as follows:
- | | Cost | Reimbursed |
|---------------------|-------------|-------------------|
| | € | € |
| Paid in respect of: | | |
| Auric Gold | 4,600 | 2,700 |
| Sara Gold | 400 | 300 |
- (ii) Tuition fees of €4,000 were paid for Dara in respect of a Revenue approved course.
- (iii) €560 was paid for waste removal services. The corresponding amount for 2006 was €200.
- (iv) Joan paid €300 for uniform laundry and dry cleaning. Claims for similar amounts had been allowed by the Revenue in previous years.

Requirement

In respect of the tax year ended 31st December 2007 for Auric and Jill Gold:

- | | |
|--|------------------------------|
| (a) Calculate the assessable benefit in kind amounts included in the P60 issued to Auric as non monetary remuneration under 1 to 4 above. Hence calculate the monetary remuneration earned by him. | 14 Marks |
| (b) Compute the PRSI payable by Auric, on his pay from ZEEBRUKA Ltd. | 2 Marks |
| (c) Calculate their Capital Gains Tax liability. | 2 Marks |
| (d) Calculate the balance of Income Tax, PRSI and levies payable. Show clearly the amounts for gross income, total deductions, net tax due and the balance of tax due/refundable. | 13 Marks |
| (e) Complete their Tax Return. | 6 Marks |
| (f) In respect of the income and gains for 2007, state the tax filing obligations of the couple for 2007. | 3 Marks |
| | Total <u>40</u> Marks |

N. B. Form 11E is supplied with the examination paper for the purposes of answering this question.

SECTION B

Answer any THREE of the FOUR questions in this section

QUESTION 2

The following multiple choice questions consist of TEN parts, each of which is followed by FOUR possible answers. There is only ONE correct answer.

Requirement

Indicate the correct answer to each of the following TEN parts.

N. B. Each part carries 2 marks.

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

[1] ALTAIR Ltd. a manufacturer of lights, makes up its first set of financial accounts for a period of 21 months from 1st April 2006 to 31st December 2007 and thereafter annually to the 31st December. The accounting periods' profits that will be assessed are as follows:

- (a) The 9 month period to 31st December 2006, followed by the 12 month period to 31st December 2007.
- (b) The 12 month period to 31st March 2007, followed by the 9 month period to 31st December 2007.
- (c) The 12 month period to 31st March 2007, followed by the successive 12 month period, time apportioned appropriately.
- (d) The period of 21 months to 31st December 2007.

[2] AQUILA Ltd. a close company made a loan of €5,000 to Andrew, a shareholder with 20% of the voting shares, on the 30th June 2007. The amount was still outstanding at the end of the company's financial year, 31st December 2007. In respect of this loan, the company has to pay tax of:

- (a) Nil.
- (b) €500.
- (c) €1,000.
- (d) €1,250

[3] Colm commenced trading on 1st July 2005 and prepared accounts to 30th June 2006 and annually thereafter. Profits as adjusted for tax purposes were:

	€
Y/e 30/06/06	15,000
Y/e 30/06/07	20,000
Y/e 30/06/08	25,000

The Schedule D Case I profit assessed for 2006 was:-

- (a) €15,000
- (b) €17,500
- (c) €20,000
- (d) €22,500

[4] Doreen is married to Donal, and they have been assessed on the joint assessment basis for Income Tax purposes. In January 2007, Doreen recommenced employment after taking time out to take a third level degree. She wished to be assessed on the separate assessment basis. The time limit for a valid claim to separate assessment (joint assessment on a separate basis) for 2007 is:

- (a) Anytime within the tax year 2007.
- (b) Within 2 years of the end of the tax year 2007.
- (c) Anytime between 1st October 2006 and 31st March 2007.
- (d) Anytime before 1st January 2007, the start of the tax year.

QUESTION 2 (Cont'd)

- [5] Which of the following persons is NOT required to file a tax return under the “self assessment” rules by the 31st October each year?
- (a) An individual whose income consists of Schedule F income only.
 - (b) A proprietary company director whose income is all subject to PAYE.
 - (c) An individual who has Schedule E income subject to PAYE and rental income “coded” into their tax credit certificate.
 - (d) An individual whose only income consists of Schedule D income.
- [6] Which of the following is allowable as a Schedule D deduction from trading profits in the Corporation Tax computation of MAMMOTH Ltd. an Irish resident building company?
- (a) Legal fees incurred on the acquisition of a new business premises.
 - (b) Costs of an audio system presented to the production manager for 25 years service.
 - (c) A gift of €200 made to a local charity.
 - (d) Costs of providing corporate hospitality to customers at the All Ireland finals.
- [7] Gerry is a self employed builder with Income Tax, PRSI and levies liabilities of €20,000 for 2007 and €10,000 for 2006. He had made a preliminary tax payment of €9,000 on the 31st October 2007 for 2007. If Gerry does not pay the balance of tax due of €11,000 for 2007 until 30th April 2009, he will be liable to penalty interest at the specified rate based on:
- (a) No penalty due.
 - (b) €11,000 outstanding for 6 months.
 - (c) €11,000 outstanding for 18 months.
 - (d) €1,000 outstanding for 18 months and €10,000 outstanding for 6 months.
- [8] Sheila Shopper, a manager with a well known Irish financial institution, is planning a shopping trip to New York with her sister. She plans to spend €2,000 on clothes for her own use, which she intends to import into the State. Her Irish Value Added Tax obligations are as follows:
- (a) She has no obligations as she is not liable to Irish VAT.
 - (b) She is liable to pay VAT at standard rate on the value of the clothes at the point of importation.
 - (c) She is required to register for VAT and can reclaim any VAT paid.
 - (d) She is required to register for VAT but cannot reclaim any VAT paid.
- [9] Tommy is in business supplying farm machinery from his warehouse located in Galway. Recently a sales inquiry for a piece of machinery has come from Sammy, who operates a business based in Northern Ireland. Assuming a sale is agreed, the place of supply of this machinery, under Irish Value Added Tax rules is where:
- (a) Tommy’s business is located.
 - (b) Tommy and Sammy agree the place of supply is to be.
 - (c) The machinery is located at the time of the supply.
 - (d) Sammy’s business is located.
- [10] Michael purchased a house on 30th September 1997 for €750,000. On 1st October 2007 he sold the house for €1,500,000. Michael lived in this house as his main residence for the period 1st October 1997 to 30th September 2002. Michael’s chargeable Capital Gain, ignoring indexation relief, is:-
- (a) Nil
 - (b) €300,000
 - (c) €375,000
 - (d) €750,000

QUESTION 3

- (a) QUICKBUCK Ltd. operates a small business distributing packaging products to other businesses. The directors have received notification that the Revenue will conduct an audit of the company’s tax affairs. They have asked you to assist them in their preparation for the visit. They have indicated that there may be business transactions that have not been treated correctly for VAT purposes.

Requirement

Write a memorandum to the directors:

- (i) Detailing items on which the company is not entitled to a VAT input credit.
- (ii) Explaining briefly what is meant by the term “voluntary disclosure” in the context of a Revenue audit.

8 Marks

- (b) Danny operates a wholesale business, in Cork and is registered for VAT on the cash receipts basis. He supplies small shops with a range of products which can be grouped under three headings, cigarettes, food, and hardware. During the VAT period ended 29th February 2008, Danny recorded the following business transactions:

Sales book:

	Net
	€
Sales of cigarettes	9,800
Sales of food items	24,400
Sales of hardware.....	3,000
Credit notes issued to customer re sale of food items.....	(2,100)

Purchases book:

	Net
	€
Purchases of cigarettes from Irish suppliers.....	9,200
Purchases of food stocks from Irish suppliers.....	26,400
Purchases of hardware stock from UK suppliers	8,000
Purchases of hardware stock from Irish suppliers.....	1,600
Credit notes received from Irish hardware suppliers	(6,000)
Trolley for warehouse.....	1,300
Repairs to warehouse door (all labour)	1,600
Diesel for sales representative car	200
Rent for warehouse and offices (see note)	2,000
Fire insurance on warehouse	800
Electricity for premises.....	400
New car for Danny (passenger vehicle)	28,000
Annual software support contract.....	2,200
Telephone costs.....	300
Legal costs re debt collection	700
Promotional key rings (issued free to customers and costing €5 each)	500

Cash book (including bank receipts and payments)

	Gross
	€
<i>Receipts:</i>	
Sales of Cigarettes	10,890
Sales of food items	24,700
Sales of hardware.....	3,872
<i>Payments for stock:</i>	
Cigarettes from Irish suppliers	9,680
Food stocks from Irish suppliers	29,000
Hardware stock from UK suppliers.....	-
Hardware stock from Irish suppliers	605

QUESTION 3 (Cont'd)

<i>Other payments:</i>	€
Trolley for warehouse	1,573
Repairs to warehouse door (all labour)	1,816
Diesel for sales representative car	242
Rent for warehouse and offices (see note)	2,000
Fire insurance on warehouse	800
Electricity for premises	454
New car for Danny (passenger vehicle)	28,000
Annual software support contract	2,497
Telephone costs	363
Legal costs re debt collection (paid in March 2008)	-
Promotional key rings (issued free to customers) (paid in May 2008)	-

NOTES:

The amounts set out in the sales and purchases books are net of VAT (VAT exclusive) where appropriate, while the amounts in the cash book are the actual payment inclusive of VAT where appropriate.

The food items are all basic food items.

No VAT has been charged by Danny's landlord for the rent of the business's premises.

You can assume that the VAT rate applicable to all relevant items is the normal rate applicable to such items.

Requirement

(i) Calculate the VAT liability payable by Danny for Jan - Feb 2008. Show clearly, how you calculate both the output tax and the input credits. **10 Marks**

(ii) Complete the VAT return for the period Jan - Feb 2008 (form VAT 3) **2 Marks**

Total 20 Marks

N. B. Form VAT3 is enclosed with the examination paper, for the purpose of answering this question.

QUESTION 4

MANSARD Ltd. an Irish registered trading company has been trading for many years as a manufacturer of roof tiles for the construction industry.

The company's profit and loss account for the year ended 31st December 2007 was as follows:

	Notes	€	€
Gross profit from Trading.....			355,700
Other income.....	(1)		29,100
<i>Expenses:</i>			
Salaries and wages.....		111,300	
Directors' remuneration.....		60,000	
Pension contributions.....	(2)	19,100	
Rent and rates.....		14,100	
Light and heat.....		3,800	
Motor and travel.....	(3)	36,200	
Repairs and renewals.....	(4)	16,900	
Legal and professional fees.....	(5)	20,900	
Insurance.....		15,000	
Interest paid.....	(6)	13,700	
Audit and accountancy.....		6,000	
Telephone.....		4,000	
Miscellaneous.....	(7)	8,600	
Depreciation.....		<u>25,900</u>	
			<u>355,500</u>
Net profit for the year			<u><u>29,300</u></u>

NOTES:

(1) *Other Income*

		€
Rental income.....		10,000
Bank deposit interest received.....		1,100
Irish dividends received.....		2,800
Profit on sale of fixed assets.....		2,200
Capital grant.....		<u>13,000</u>
		<u><u>29,100</u></u>

The rental income was obtained from the letting of a commercial unit. This unit was acquired on 1st February 2007 and the date of first letting was 1st October 2007.

The bank deposit interest was received net of DIRT at standard rate.

The capital grant is amortised to the profit and loss account over six years. It was received in the summer of 2002 to assist with the acquisition by the company of its premises from which it trades.

(2) *Pension contributions:*

		€
Pension payments made during the year.....		18,700
Accrued at 1 st January 2007.....		(2,500)
Accrued at 31 st December 2007.....		<u>2,900</u>
		<u><u>19,100</u></u>

QUESTION 4 (Cont'd)

(3) *Motor and travel:*

Motor costs included lease costs of €8,100 which related to the cost of the managing director's car. This car would have cost €49,000 if purchased new.

(4) *Repairs and renewals:*

	€
Alterations to reception area of company's premises.....	12,500
Repairs to roof of let property due to storm damage in November.....	2,500
Boiler maintenance	1,900
	<u>16,900</u>

(5) *Legal and professional:*

	€
Consultancy fees paid to a former director	12,000
Legal costs of registering a new patent	1,400
Legal costs of new employment contracts	3,500
Legal costs of acquiring let property	4,000
	<u>20,900</u>

(6) *Interest paid:*

	€
Interest paid re acquisition of let property	11,000
Interest paid arising from late payment of Corporation Tax	100
Interest paid in respect of new car for sales director.....	2,600
	<u>13,700</u>

(7) *Miscellaneous:*

	€
Canteen expenses	2,400
Annual charitable donation to a recognised charity	1,000
Holiday cost for sales director and his wife	800
Recruitment agency cost for new staff	4,000
Christmas hampers for staff.....	300
Subscription to the Institute of Directors	100
	<u>8,600</u>

(8) *Trading loss:*

The company has an allowable trading loss of €22,000 brought forward from 31st December 2006.

(9) *Fixed assets:*

A car which had been purchased on 1st April 2003 at a cost of €16,750 was traded in on 1st September 2007 for €7,000. This trade in was against a new car which was purchased for the sales director which cost €30,000.

The tax written down value of the car was €8,375.

Requirement

In respect of the accounting year ended 31st December 2007 for MANSARD Ltd:

- (i) Prepare the adjusted Case I trading profits and Case V rental income computations.

12 Marks

- (ii) Prepare the capital allowances computations including the balancing allowances/charges computation. Show the amount of the tax written down value of the assets at 31st December 2007.

3 Marks

- (iii) 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.

5 Marks
Total 20 Marks

QUESTION 5

Patricia is married to Peter and they are tax resident in Ireland. During the tax year 2007 they had asset disposals as follows:

- (a) On 1st May 2007, Peter sold 10 acres of farmland for €150,000. Selling expenses amounted to €3,000. This land was part of a 35 acre holding which Peter had original purchased for €10,000 on 1st June 1994. Peter had sold the other 25 acres in September 2005 for €212,500 when the value of the portion that remained was €85,000. Peter was an estate agent in Dublin and never used the land for farming. Ignore any development land gains issues.
- (b) On 2nd February 2007, Patricia sold 10,000 shares in LONELY ROCK Ltd. and received €33,000 after sales commission. She had inherited 5,000 of these shares on the death of her great aunt Priscilla, who died on 3rd May 2001. These shares had been valued at €75,000 at the date of her death and had cost her great aunt €5,000 on 5th August 1999. Patricia had purchased a further lot of 10,000 LONELY ROCK Ltd. shares on 3rd September 2006 for €20,000.
- (c) On 10th November 2007, Peter sold a painting for €10,000. Patricia had gifted Peter this painting on 21st May 2001 when its value was €8,000, and which she had acquired on 18th June 1992 for €3,000.
- (d) On 29th September 2007, Patricia sold a building which she had used in her business for €740,000. This building had originally been bought in September 1996 at a cost of €650,000. In February 2002 she had built an extension to this building at a cost of €40,000.
- (e) On 8th December 2007, Patricia received €5,000 from her insurance company in respect of her diamond engagement ring, which had been stolen on 14th October 2006. She received this ring from Peter on 25th July 1998 when he purchased it for €1,250.

Requirement

Calculate the Capital Gains Tax payable by Patricia and Peter for the tax year 2007 assuming that they have no other capital transactions for the year.

Total 20 Marks

