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# **Taxation II**

## **Republic of Ireland**

2<sup>nd</sup> Year Examination

**August 2010**

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



### NOTES TO USERS ABOUT THESE SOLUTIONS

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## **Accounting Technicians Ireland**

**2<sup>nd</sup> Year Examination : AUTUMN 2010**

**Paper : TAXATION II (Republic of Ireland)**

**Wednesday 18<sup>th</sup> AUGUST 2010 - 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 2009. The provisions of the Finance Act 2010 should be ignored.**

**Credits 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**
- **Form 11 [Question 5]**
- **Multiple Choice Question Sheet [Question 6]**

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

Lorraine Kelly and Shane Dolan, both aged thirty one, were married on the 15<sup>th</sup> August 2009.

In 2005 Lorraine had left her job and set up her own business. Her profits for the year ended 31<sup>st</sup> March 2009 were €4,000. She has a trade loss carried forward from 2008 of €5,000. Her only other income for 2009 was rental income as follows:-

**Property A**

Date acquired: 1<sup>st</sup> December 2008

Date first let: 1<sup>st</sup> July 2009

Rent per month: €1,600

Her only expense was interest on a loan taken out to acquire the property. The interest for the year ended 31<sup>st</sup> December 2009 was €8,000.

**Property B**

Date acquired : 1<sup>st</sup> May 2004

Date first let: 1<sup>st</sup> August 2004

Rent per month: €1,150

The tenant left this property on 1<sup>st</sup> March 2009. The property was vacant for a few months and Lorraine took the opportunity to carry out some much needed repairs and renewals. She re-let the property on the 1<sup>st</sup> October 2009 at a monthly rent of €1,600. Details of her expenses for this property for 2009 are:-

	€
Insurance – yearly	600
Painting – April to June 2009	2,600
Advertising for new tenant	250
Purchase of new furniture – July 2009	5,000

Both properties were correctly registered with the Private Residential Tenancies Board. Lorraine's only outgoing for 2009 was a retirement annuity premium of €1,500.

Shane was employed as a warehouse manager by Apex Ltd. He had worked for this company for ten years. Details of his remuneration package is as follows:-

- Basic salary €46,250
- PAYE deducted € 8,100
- A mobile phone costing €350, which Shane only used for the purpose of his employment.
- On 1<sup>st</sup> May 2009 his employer lent him €15,000 at 2.5% interest. Shane used this to help pay for his wedding to Lorraine. He hopes to repay this loan in 2011.
- In June 2009 Shane received €860 from his employer as an award under the company's staff suggestion scheme.

Shane had no other income in 2009, and his only outgoing was medical expenses of €1,000 he incurred when his nephew Paul needed an urgent operation on his spine.

**Required**

Calculate Lorraine's and Shane's income tax for 2009 assuming all reliefs are claimed.

**Total 20 Marks**

**QUESTION 2** (*Compulsory*)

- (a) Industrial Ltd. is an Irish resident company that manufactures garden furniture since 2002. The company's results for the year ended 30<sup>th</sup> September 2009 are summarised as follows:-

	<b>Notes</b>	<b>€</b>
Case I (as adjusted for taxation, but before taking account of capital allowances)		320,000
Income from Irish properties	1	46,000
Profit on the sale of shares	2	56,700

**Notes:**

- Since 1<sup>st</sup> March 2009 Industrial Ltd. has rented out an office building that is surplus to requirements. On that date the company received a premium of €25,000 for the grant of a ten year lease, and an annual rent of €36,000 which is payable monthly.
- The profit on disposal of shares is in respect of a shareholding in a service company that was sold on the 15<sup>th</sup> August 2009 for €68,000. The shares were purchased for €10,000 in July 2002. Legal fees on acquisition and disposal were €500 and €800 respectively.  
At the 1<sup>st</sup> October 2008 Industrial Ltd. has unused capital losses brought forward of €5,000.

**Plant and Machinery**

On the 1<sup>st</sup> October 2008, the tax written down values of plant and machinery were as follows:

	<b>€</b>
Motor vehicles 12½%	39,000
Plant and machinery 12½%	25,000

Details of the motor vehicles:-

<b>Details</b>	<b>Date of purchase</b>	<b>Cost €</b>	<b>Private use</b>
Sales director	1 <sup>st</sup> March 2007	28,000	20%
Managing director	1 <sup>st</sup> June 2008	30,000	nil

The plant and machinery was purchased new for €40,000 in February 2006. The only transactions by Industrial Ltd. for this year were the sale of the Sales director's car in May 2009 for €18,500. The car was replaced at a cost of €30,000. The emissions were 160g/km. Private use remained at 20%. Industrial Ltd. always had a September year end.

**Required**

Calculate the corporation tax payable by Industrial Ltd. for the year ended 30<sup>th</sup> September 2009.

**10 Marks**

***Question continues on the next page***

**QUESTION 2** (*Cont'd*)

- (b)** Alpha Ltd. is an Irish resident company engaged in the retail sector. It has been in business for many years. Its year end is the 30<sup>th</sup> June each year.

Details of its results for the last two years are as follows:-

	<b>30<sup>th</sup> June 2008</b>	<b>30<sup>th</sup> June 2009</b>
	<b>€</b>	<b>€</b>
Case I	30,000	(100,000)
Case V	10,000	10,000
Gain – as adjusted	Nil	5,000

**Required**

- (i)** Calculate Alpha Ltd's corporation tax for the accounting periods 30<sup>th</sup> June 2008 and 30<sup>th</sup> June 2009. You can assume that Alpha Ltd. claims maximum loss relief for its trade loss of €100,000.

**9 Marks**

- (ii)** State the loss, if any, remaining after these claims and what relief, if any, Alpha Ltd. may claim for this loss.

1 Mark  
**Total 20 Marks**

**QUESTION 3** (*Compulsory*)

Mark Hughes, who is single and resident and domiciled in Ireland, made the following disposals in 2009:-

1. On 10<sup>th</sup> March 2009 he sold an antique table for €2,900. He purchased the table from his brother in May 2001 for €1,000. The market value of the table was €1,250 in May 2001.
2. On the 31<sup>st</sup> May 2009 he sold his private residence and  $\frac{3}{4}$  of an acre he had used as a garden for €400,000. Legal fees on disposal were €10,000. Mark had purchased the house on the 1<sup>st</sup> June 1995 for €50,000. Legal fees on acquisition were €2,400. Mark lived in the house until 31<sup>st</sup> May 1997, his employer then sent him to work in Cork. During that time he was unable to occupy his main residence and the house was let. He returned from Cork on 30<sup>th</sup> November 2004. He lived in the house until the 1<sup>st</sup> June 2006 when he moved to France to take up a two year contract. On 31<sup>st</sup> May 2008 he returned to Ireland, but did not return to live in his main residence as he intended to move permanently to France in 2009, and the house was let to a family since June 2006.
3. On the 16<sup>th</sup> June 2009 he sold 10,000 shares in Beta Plc for €6 each. His previous dealings in these shares were as follows:-
  - 1<sup>st</sup> August 2000 he had purchased 5,000 shares for €28,000.
  - 1<sup>st</sup> March 2001 he had purchased 10,000 shares for €80,000.
4. Mark made a gift of his car to his sister Joan in August 2009. The market value of the car was €5,000. He had bought the car in June 2005 for €15,000.

**Requirement**

- (a) Calculate Mark Hughes' capital gains tax for 2009.

**14 Marks**

- (b) What is the rate of withholding tax in capital gains tax?

**1 Mark**

- (c) Who must deduct this tax, and when should it be paid to the Revenue Commissioners?

**2 Marks**

- (d) When will a clearance certificate be issued by the Revenue Commissioners in relation to this withholding tax?

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

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

- (a) Explain the reverse charge principle (self account rule for Fourth Schedule services).

**4 Marks**

- (b) Explain the concepts: "exempt person", "partially exempt person" and "exempt activity" in VAT law.

**6 Marks**

- (c) Explain the VAT treatment of exports to non – EU member states.

**4 Marks**

- (d) Bedroom Bargains Ltd. supplies and fits bedroom furniture. The company's sales (exclusive of VAT) for the two month period May/June 2009 was €300,000. This is broken down as follows:-

	€
• Sales to retailers	230,000
• Direct sales to general public (note)	<u>70,000</u>
	<u>300,000</u>

**Note:**

Sales where the cost of the bedroom furniture accounted for 60% of the total amount charged	60,000
Sales where the cost of the bedroom furniture accounted for 75% of the total sum charged	<u>10,000</u>
	<u>70,000</u>

The VAT rate applicable to goods was 21½% and the supply of services was 13½%. Bedroom Bargains Ltd. outgoings for this period were as follows:-

	€
• Purchase of bedroom furniture	180,000
• Lease rental for company vans	2,500
• Lease rental for sales managers car – private use 50%	600
• Other allowable business expenses	10,000

All of the above figures are inclusive of VAT at 21½%

**Required**

Calculate the VAT payable for the period May/June 2009.

**6 Marks**  
**Total 20 Marks**

**QUESTION 5**

Joe Jones is single with a daughter; Amy aged eight years who lives with him at 1623, The Lawns, Santry, Dublin 9.

Joe had owned his own business for many years as a florist. On the 30<sup>th</sup> June 2009, due to the recession, he ceased trading. His year end was 30<sup>th</sup> September each year. His results for his last few years were as follows:-

	€
Year ended 30 <sup>th</sup> September 2007	15,000
Year ended 30 <sup>th</sup> September 2008	5,000
Period ended 30 <sup>th</sup> June 2009	3,150

Joe commenced employment with Maxi Limited on 1<sup>st</sup> August 2009. His salary was €2,500 a month.

Joe had the use of a company van since 1<sup>st</sup> August 2009. He travelled 5,000 business kilometres each month. The original market value of the van is €18,500.

His PAYE deducted to 31<sup>st</sup> December 2009 was €800.

Joe's only other income was a dividend of €4,600 received in November 2009 from an Irish company.

Joe's only outgoing was physiotherapy expenses of €500 for his daughter Amy and €1,000 course fee for an approved course for himself.

**Requirement**

- (a)** Calculate Joe's final assessment for his trading income for 2007, 2008 and 2009. **5 Marks**
- (b)** Calculate Joe's income tax for 2009. **8 Marks**
- (c)** Complete Joe's Form 11 for 2009, with the information provided in the question.

Joe's PPS number is 6521165 D and his date of birth is 26<sup>th</sup> March 1969.

**7 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]** Morris Limited's year end is the 30<sup>th</sup> June each year. In its accounting period 30<sup>th</sup> June 2009 it has a trading loss of €10,000. The company wishes to carry this loss back to a previous accounting period of corresponding length to reduce its trading income liable at the standard rate under Section 396(A). What is Morris Limited's time limit to exercise this option:-

- (a) 30<sup>th</sup> June 2011
- (b) 30<sup>th</sup> June 2010
- (c) 21<sup>st</sup> March 2010
- (d) 21<sup>st</sup> March 2009

- [2]** Lock Distribution Limited has a six month accounting period ended 30<sup>th</sup> September 2009. Its opening tax written down value at 1<sup>st</sup> April 2009 was:-

	€
Plant and Machinery (including motor vehicles)	60,000
Cost price (excluding VAT) was	80,000

During the current period Lock Distribution Limited had the following acquisitions:-

Date	Details	Cost (incl. VAT at 21½%)	
<b>Emissions</b>			
1/5/09	Machine	€30,375	-
1/9/09	Car	€18,225	130 g/km
1/9/09	Van	€48,600	160 g/km

You are required to calculate the company's capital allowances to the nearest euro for the six month period 30<sup>th</sup> September 2009:-

- (a) €19,872
- (b) €10,000
- (c) €10,563
- (d) € 8,750

**Question continues on the next page**

**QUESTION 6** (Cont'd)

- [3]** Kathleen and Anthony Power are married, previously they had joint assessment. For 2009 they wish to elect for separate assessment. This election must be made to the Inspector of Taxes before:-

- (a) 31<sup>st</sup> December 2009
- (b) 31<sup>st</sup> October 2010
- (c) 1<sup>st</sup> April 2009
- (d) 31<sup>st</sup> October 2009

- [4]** Daniel sold an asset in May 2009. He made a gain and owes tax of €10,800. What is Daniel's payment date for this tax and when should he file his capital gains tax return for 2009?

- |     | <b>Payment Date</b>            | <b>Filing Date</b>             |
|-----|--------------------------------|--------------------------------|
| (a) | 31 <sup>st</sup> October 2009  | 31 <sup>st</sup> December 2009 |
| (b) | 15 <sup>th</sup> December 2009 | 31 <sup>st</sup> October 2009  |
| (c) | 15 <sup>th</sup> December 2009 | 31 <sup>st</sup> October 2010  |
| (d) | 31 <sup>st</sup> January 2010  | 31 <sup>st</sup> October 2010  |

- [5]** Peter Smith sold a painting for €2,000 in May 2009. He had purchased the painting at an auction in May 2001 for €2,800. What is Peter's capital gains tax position on the disposal?

- (a) Exempt as a durable chattel and the sales proceeds are below €2,540
- (b) Loss of €260
- (c) Loss of €504
- (d) Loss of €1,044

- [6]** What is the VAT registration limit for business persons who acquire goods from other EU member States?

- (a) €75,000
- (b) €37,500
- (c) €35,000
- (d) €41,000

- [7]** Geraldine Duke ceased to trade on the 30<sup>th</sup> April 2009. Her results for her last few years were as follows:-

	€
Year ended 30 <sup>th</sup> September 2007	15,000
Year ended 30 <sup>th</sup> September 2008	9,000
Period ended 30 <sup>th</sup> April 2009	10,500

What are the correct final assessable profits for Geraldine Duke for her last two tax years.

- (a) 2009 €6,000  
2008 €9,000
- (b) 2009 €10,500  
2008 €9,000
- (c) 2009 €6,000  
2008 €11,250
- (d) 2009 €10,500  
2008 €11,250

**Question continues on the next page**

**QUESTION 6** (*Cont'd*)

- [8]** Mark Jones is provided with a company car in June 2008. Its original market value is €30,000. His employer paid €25,000 for the car. It has emissions of 160g/km. Mark pays for the annual insurance of the car. In 2009 this was €550. Mark travels 35,000 business kilometres in 2009. What is Mark Jones BIK assessable under Schedule E for 2009?

- (a) €5,250
- (b) €5,750
- (c) €6,300
- (d) €5,400

- [9]** Audrey Larkin is self-employed. She has the following income assessable to tax in 2009:-

	€
Case I before capital allowances	100,000
Capital allowances	5,500
Irish rent	20,000
Irish deposit interest assessable to DIRT – gross	2,800

You are required to calculate Audrey Larkin's PRSI, Health contributions and Income levy for 2009 (all calculations to the nearest euro).

- (a) €10,318
  - (b) €10,500
  - (c) €10,408
  - (d) €10,600
- [10]** Tom Curtin commenced to trade in 2007. He wishes to avail of his option in commencement under Section 66 TCA 1997. What is Tom's time limit for exercising this option?

- (a) 31<sup>st</sup> October 2009
- (b) 31<sup>st</sup> December 2009
- (c) 31<sup>st</sup> December 2008
- (d) 31<sup>st</sup> October 2010

**QUESTION 7**

- (a) Discuss the criteria required to qualify for the relief on borrowings to invest in a company and a partnership.

**10 Marks**

- (b) Mark Fahy is 42 years of age and is married to Alice. They have four children. Mark is a self employed builder. His wife Alice is a school teacher. Details of their income for 2009 is as follows:-

**Mark**

	€
Self employed income	60,000
Irish rental income	10,000

**Alice**

Employment income	42,000
Irish deposit interest – gross	500

Mark pays a retirement annuity premium in 2009 of €20,000.

**Requirement**

- (i) Calculate Mark's retirement annuity allowed as a charge in his income tax computation for 2009. You may assume joint assessment applies and Mark is the assessable person.

**4 Marks**

- (ii) If the full premium is not allowed as a charge in 2009 what, if any, is the tax relief available for the balance of the premium?

**2 Marks**

- (iii) What is the latest date that a tax payer can pay a retirement annuity premium and still avail of tax relief in their 2009 income tax computation?

**2 Marks**

- (iv) What is the definition of relevant earnings for the purpose of retirement annuity relief?

**2 Marks****Total 20 Marks**

## 2<sup>nd</sup> Year Examination: August 2010

### Taxation II (ROI)

### Solutions

#### Solution 1

##### Single Assessment - Lorraine Kelly

	Notes	€	€
Schedule D - Case I		4,000	
Less: Loss carried forward	1	<u>(5,000)</u>	Nil
Schedule D - Case V	2		<u>9,625</u>
			9,625
Less: Retirement annuity	3		<u>Nil</u>
			<u>9,625</u>
€9,625 at 20%	=		1,925
Less: Single credit	=		<u>(1,830)</u>
Income tax liability	=		<u>95</u>

##### Single Assessment - Shane Dolan

	Notes	€	€
Schedule E	4		<u>48,110</u>
€36,400 at 20%	=	7,280.00	
€11,710 at 41%	=	<u>4,801.10</u>	
		12,081.10	
Less: Single credit		(1,830.00)	
PAYE credit		(1,830.00)	
Medical expenses: €1,000 at 20%		<u>( 200.00)</u>	
Income tax liability		<u>8,221.10</u>	

**Solution 1 (Cont'd)****Joint Assessment – Lorraine and Shane**  
**Notes**

		€
Schedule D – Case I		Nil
Schedule D – Case V		9,625
Schedule E		<u>48,110</u>
		57,735
<i>Less:</i> Retirement annuity		<u>Nil</u>
		<u>57,735</u>
€55,025 at 20%	5 =	11,005.00
<u>€ 2,710</u> at 41%	=	<u>1,111.10</u>
<u>€57,735</u>		12,116.10
<i>Less:</i> Married credit		(3,660.00)
PAYE credit		(1,830.00)
Medical expenses €1,000 at 20%		<u>( 200.00)</u>
		<u>6,426.10</u>

**Refund due to Marriage**

Lorraine and Shane are married for five months of 2009

Single assessment	€	
Lorraine	95.00	
Shane	<u>8,221.10</u>	
	8,316.10	
Joint assessment	<u>6,426.10</u>	
	<u>1,890.00</u>	
Refund €1,890 x 5/12	=	787.50
Refund due to Lorraine €787.50 x $\frac{95.00}{8,316.10}$	=	9.00
Refund due to Shane €787.50 x $\frac{8,221.10}{8,316.10}$	=	<u>778.50</u>
		<u>787.50</u>

**Solution 1 (Cont'd)****Final Income Tax due 2009**

		€
<b>Lorraine</b>	Single assessment tax liability	95.00
	Less: refund due to marriage	<u>(9.00)</u>
	Tax due	<u>86.00</u>
<b>Shane</b>	Single assessment tax liability	8,221.10
	Less: PAYE paid	(8,100.00)
	Refund due to marriage	<u>( 778.50)</u>
	Refund due	<u>657.40</u>

**Notes**

- The balance of the loss of €1,000 will be carried forward to reduce profits of the same trade.

- Schedule D – Case V €

**Property A**

Rent €1,600 x 6	=	9,600
Interest €8,000 x 6/12 = €4,000 x 75%	=	<u>3,000</u>
		<u>6,600</u>

Pre-letting interest is not allowed.

**Property B**

Rent €1,150 x 2	=	2,300
€1,600 x 3	=	<u>4,800</u>
		7,100
Less: Expenses	€	
Insurance	600	
Painting	2,600	
Advertising	<u>250</u>	<u>3,450</u>
		<u>3,650</u>

Between letting expenses are allowed in full.

<b>Summary</b>	€	€
Property A	6,600	
Property B	<u>3,650</u>	10,250
Less: Capital allowances €5,000 at 12½%		<u>(625)</u>
Schedule D – Case V		<u>9,625</u>

**Solution 1 (Cont'd)**

3. Lorraine will not be entitled to relief for her retirement annuity as her relevant earnings are nil due to her trade loss carried forward. She is entitled to carry forward the premium of €1,500 to see if relief is available next year.

<b>4. Schedule E</b>	<b>€</b>
• Basic salary	46,250
• Mobile phone – not taxable	
• Loan €15,000 x (12.5% - 2.5%) x 8/12	1,000
• Staff suggestion scheme	<u>860</u>
	<u><b>48,110</b></u>

<b>5. The married band is:-</b>	
Minimum band	45,400
Plus: income of the lowest earner – Lorraine	<u>9,625</u>
	<u><b>55,025</b></u>

**Solution 2****(a)**

**Industrial Ltd.**  
**Corporation tax computation**  
**Year ended 30<sup>th</sup> September 2009**

	Notes	€
Case I	1	308,357
Case V	2	<u>41,500</u>
Income		349,857
Gain	3	<u>102,370</u>
Profits		<u>452,227</u>
 <b>Corporation tax</b>		
€308,357 at 12½%	=	38,545
€ 41,500 at 25%	=	10,375
€102,370 at 12½%	=	<u>12,796</u>
		<u>61,716</u>

**(b) (i) Step 1**

In the period with the trade loss, reduce trading income liable at the standard rate.

		<b>30/6/2009</b>
		€
Case I		nil
Case V		<u>10,000</u>
Income		10,000
Gain		<u>5,000</u>
Profit		<u>15,000</u>
 <b>Corporation tax</b>		
€10,000 at 25%	=	2,500
€ 5,000 at 12½%	=	<u>625</u>
		<u>3,125</u>
 Loss remaining	 =	 100,000

**Step 2**

The loss can be carried back to a previous period of corresponding length to reduce trading income liable at the standard rate.

		<b>30/6/2008</b>
		€
Case I		30,000
Case V		<u>10,000</u>
Income		40,000
Section 396(A)		<u>30,000</u>
		<u>10,000</u>
 <b>Corporation tax</b>		
€10,000 at 25%	=	2,500
 Loss remaining	 =	 70,000

**Solution 2** (Cont'd)**Step 3**

In the period with the trade loss reduce corporation tax on a value basis.

<b>30/6/2009</b>	
€	
Corporation tax	3,125
Less: Trade loss	
Section 396(B) €70,000 at 12½%	<u>8,750</u>
	<u>nil</u>
Loss remaining	
€8,750 - €3,125 = €5,625/.125 =	<u>45,000</u>

**Step 4**

The balance of the loss can be carried back to a previous period of corresponding length to reduce corporation tax on a value basis.

<b>30/6/2008</b>	
€	
Corporation tax	2,500
Less: Trade loss	
Section 396(B) €45,000 x 12½%	<u>5,625</u>
	<u>nil</u>
Loss remaining	
€5,625 - €2,500 = €3,125/.125 =	25,000

- (ii)** The loss remaining is €25,000. This can be carried forward under Section 396(1) to reduce trading profit of the same trade only.

**Solution 2** (Cont'd)**Notes:****1. Schedule D – Case I****Capital allowances****Motor vehicles**

	€
TWDV – 1/10/2008	39,000
Disposal (W1)	(18,000)
Addition (W2)	<u>30,000</u>
	<u>12,000</u>
	33,000
Wear and Tear (W3)	<u>4,500</u>
TWDV – 30/9/2009	<u>28,500</u>

**Plant and machinery**

TWDV – 1/10/2008	25,000
Wear and tear (W4)	<u>5,000</u>
TWDV – 30/9/2009	<u>20,000</u>

**Balancing position**

Disposal of motor vehicle	
Sales proceeds:	
€18,500 x $\frac{24,000}{28,000}$	15,857
TWDV	<u>18,000</u>
Balancing allowance	<u>2,143</u>

There is no adjustment for private use. The company is entitled to full capital allowances for the car. The sales director will be assessed to tax on the private use under the Benefit-in-Kind system.

<b>Summary of allowances</b>	<b>€</b>	<b>€</b>
Wear and tear		
Motor vehicle	4,500	
Plant and machinery	<u>5,000</u>	9,500
Balancing allowance		<u>2,143</u>
		<u>11,643</u>

**Solution 2** (Cont'd)**Workings**

1. TWDV of disposal  
1/3/2007: accounting period 30/9/2007

<b>Straight line 12½%</b>	
Ap 30/9/2007	€
Addition	<u>28,000</u>
	24,000
Wear and tear – 2007	<u>3,000</u>
TWDV – 30/9/2007	21,000
Wear and tear – 2008	<u>3,000</u>
TWDV – 30/9/2008	<u>18,000</u>

2. As the emissions are over 155g/km the amount allowed is the lower of:-

(i) €30,000 x 50%	=	€15,000
	Or	
(ii) €24,000 x 50%	=	€12,000

3. Wear and Tear – Motor vehicle

Opening cost		€
Car – 1/3/2007	<u>28,000</u>	24,000
Car – 1/6/2008	<u>30,000</u>	24,000
Less: Cost of disposal		(24,000)
Add: Cost of addition		<u>12,000</u>
		<u>36,000</u>

Wear and Tear at 12½% = 4,500

4. Wear and Tear – plant and machinery

Opening cost	<u>40,000</u>
Wear and tear at 12½%	= 5,000
Case I income	320,000
Less: Capital allowances	<u>11,643</u>
	<u>308,357</u>

**Solution 2** (Cont'd)

5. Schedule D – Case V	€	
Premium	$25,000 - (25,000 \times \frac{10 - 1}{50}) =$	20,500
Rent	$€36,000 \times 7/12 =$	<u>21,000</u>
		<u>41,500</u>
6. Gain on disposal of shares		
Sales proceeds		68,000
Less: disposal costs		(800)
2002 acquisition costs	€10,000	
Legal fees	<u>€500</u>	
	<u>€10,500</u> x 1.049	<u>(11,015)</u>
Gain		56,185
Less: Capital loss forward		<u>5,000</u>
		<u>51,185</u>
Gains as adjusted	$€51,185 \times \frac{25}{12.5} =$	102,370

**Solution 3****(a)****Mark Hughes****(1)**

		<b>€</b>
Sales proceeds		2,900
Cost 2001 €1,250 x 1.087	=	<u>1,359</u>
Gain		<u>1,541</u>
Tax at 22%	=	339.02
Marginal relief $\frac{1}{2}$ (€2,900 - €2,540)	=	180

**(2)**

Sales proceeds		400,000
Less: Legal fees		10,000
Costs 1995/96	€50,000	
Legal fees	<u>€2,400</u>	
	€52,400 x 1.277	=
		<u>66,915</u>
Gain	=	<u>323,085</u>

Principal private residence relief:

Total ownership 1/6/1995 to 31/5/2009 = 14 years

**Non occupation:**

(i) Period working in Cork 1/6/1997 to 30/11/2004 = 7 years 6 months

Deemed occupation	=	4 years
Non occupation	=	3 years 6 months

(ii) Period working in France:

This is not allowed as deemed occupation as Mark did not return to live in the house.

Non occupation 1/6/2006 to 31/5/2008 = 2 years

(iii) Mark's last 12 months of ownership is allowed as deemed occupation.

**Non occupation:**

- (i) 3 years 6 months
- (ii) 2 years
- (iii) None

Total = 5 years 6 months

Gain liable:		€
€323,085 x $\frac{5.5}{14}$	=	126,926

**Solution 3 (Cont'd)**

<b>(3)</b>	<b>Number</b>	<b>Cost €</b>
1/8/2000	5,000	28,000
1/3/2001	10,000	80,000
Sales proceeds 5,000 x €6	=	30,000
Cost 00/01 €28,000 x 1.144	=	<u>32,032</u>
		<u>(2,032)</u>
<b>Actual position</b>		
Sales proceeds		30,000
Cost 00/01		<u>28,000</u>
Gain		<u>2,000</u>

Therefore no gain / no loss

Sales proceeds 5,000 x €6	=	30,000
Cost 00/01 €80,000 x $\frac{5,000}{10,000}$ = €40,000 x 1.144 =		<u>45,760</u>
Loss		<u>15,760</u>

<b>Actual position</b>	<b>€</b>
Sales proceeds	30,000
Cost 00/01	<u>40,000</u>
Loss	<u>(10,000)</u>

Therefore the loss will be restricted to the actual loss of €10,000.

**(4)** Exempt as a wasting chattel not used in a business.

<b>Summary</b>	<b>€</b>
(1) Marginal relief	
(2) House	126,926
(3) Shares	(10,000)
(4) Exempt	<u>-</u>
	116,926
Less: Annual exemption	<u>(1,270)</u>
	<u>115,656</u>
Tax at 25%	28,914
Plus marginal relief	<u>180</u>
	<u>29,094</u>

**(b)** The rate of withholding tax is 15%.

**(c)** The 15% liability must be paid by the purchaser (or his agent) to the Revenue Commissioners within 30 days of the date of the payment of the purchase price.

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

- (d)** The person who is chargeable to capital gains tax on the disposal of the asset may apply to the Inspector for a certificate exempting the transaction from the withholding tax provisions.

Providing the Inspector is satisfied that the person applying for the exemption is in fact the person who is making the disposal, and that:-

- He is resident in the State, or
- No amount of capital gains tax is payable in respect of the disposal, or
- The capital gains tax due has been paid.

**Solution 4**

1. If an EU business receives Fourth Schedule services from an Irish business, Irish VAT at the zero rate is chargeable as the service is deemed to be supplied abroad. Similarly, if an Irish business receives Fourth Schedule services from a French business no French VAT would be charged as the service is deemed to be supplied in Ireland. Unless a service is specifically exempt, it must be liable to Vat somewhere in the EU to ensure equality of competition. The Irish recipient of the service is therefore liable to a VAT charge as if he had supplied the service to himself. Obviously, if the Irish trader receives the service for the purposes of a VAT registered business, he should be able to claim an input credit for the VAT charged in the normal way.
2. **Exempt person**  
This is a person who is not obliged to charge VAT on the goods/services supplied. This could arise as a result of carrying on of exempt activities and/or by virtue of the annual turnover being below the registration threshold limits. While such a person is not obliged to charge VAT on the supply of goods or services, he cannot obtain a credit in respect of the VAT element of his input costs.

**Partially exempt person**

This is a person who carries on taxable and exempt activities. Where there is a mixture of taxable and exempt activities, the proportion of tax deductible by the taxable person shall be calculated on any basis which results in a proportion of tax deductible which correctly reflects the extent to which the dual use input are used for the purpose of the persons taxable activities.

However, if the vatable purchase is exclusively for the taxable activity, then the input credit is allowed in full.

**Exempt activity**

An exempt activity is a supply of goods or services, which are exempt from VAT. These goods/services are set out in Schedule 1 of the VAT Act.

3. The rate of VAT applicable to goods that are exported is 0% in all circumstances whether the purchaser is in business or is a private individual is irrelevant, and the rate applicable to such goods if supplied within Ireland is irrelevant. The logic behind this zero rating is to ensure that Irish products remain competitive in an international context. If domestic rates of VAT were applied to exports, traders based in jurisdictions with low VAT rates would have a competitive advantage over Irish traders.

**Solution 4 (Cont'd)**

4.

**Bedroom Bargains Ltd.**  
**Computation of VAT payable May/June 2009**

<b>Output VAT</b>	<b>Notes</b>	<b>€</b>
Sales to retailers	1	49,450
Direct sales to general public	2	<u>10,250</u>
		59,700
 <b>Less: Input VAT</b>		
Purchase of bedroom furniture	3	31,852
Lease rental of company vans	4	442
Lease of car	5	-
Allowable business expenses	6	<u>1,770</u>
VAT payable		<u>25,636</u>

**Notes:**

		<b>€</b>
1.	€230,000 x 21½%	= 49,450
2.	€ 60,000 x 13½%	= 8,100
	€ 10,000 x 21½%*	= <u>2,150</u>
		<u>10,250</u>
* As the cost of materials exceed 66.67% of the total charged to the customer, it is deemed to be a supply of goods (2/3 rule).		
3.	€180,000 x $\frac{21.5}{121.5}$	= 31,852
4.	€ 2,500 x $\frac{21.5}{121.5}$	= 442
5.	Not entitled to an input credit for the VAT element of lease rental for cars as the business use is only 50%.	
6.	€10,000 x $\frac{21.5}{121.5}$	= 1,770

**Solution 5**

(i)	Tax Year	Basis of assessment	Amount €
	2009	Actual 1/1/2009 to 30/6/2009 €3,150 x 6/9	2,100
	2008	c/y 30 <sup>th</sup> September 2008	5,000
	2007	c/y 30 <sup>th</sup> September 2007	15,000

**Inspector of taxes option – Section 67**

2008	Actual 1/1/2008 to 31/12/2008 €5,000 x 9/12 + €3,150 x 3/9 €3,750 + €1,050 = €4,800
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The Inspector of taxes will not exercise his option.

**Final assessments**

2009	€ 2,100
2008	€ 5,000
2007	€15,000

**(ii)**

**Joe Jones**  
**Income tax computation – 2009**

	€
Schedule D – Case I	2,100
Schedule E (W1)	12,885
Schedule F $\frac{€4,600}{80} \times 100$	<u>5,750</u>
	<u>20,735</u>
€20,735 at 20% (W2)	= 4,147
Less: Single	(1,830)
Single parent	(1,830)
PAYE credit	(1,830)
Course fee: €1,000 at 20%	= ( 200)
Medical expenses: €500 at 20%	= <u>( 100)</u>
	Nil
Less: Tax paid	
PAYE deducted	( 800)
DWT €5,750 at 20%	= <u>(1,150)</u>
Tax refund	= <u>1,950</u>

**Workings**

1. Schedule E	€
Salary €2,500 x 5	12,500
B-I-K – Van	
€18,500 x 5% = €925 x 5/12	<u>385</u>
	<u>12,885</u>

**Solution 6**

1. (a)

2.	(c)	-	Opening cost	€80,000
			Additions:	
			Machine $\frac{€30,000}{121.5} \times 100 =$	€25,000
			Car - As low emissions	€24,000
			Van $\frac{€48,600}{121.5} \times 100 =$	<u>€40,000</u>
				<u>€169,000</u>
			Wear and Tear:	
			€169,000 x 12½% x 6/12 =	€10,563

3. (c)

4. (c)

5.	(b)		Deem sales proceeds	€2,540
			Cost	<u>€2,800</u>
			Loss	<u>€ (260)</u>

6. (d)

7.	(c)	-	2009 Actual 1/1/09 to 30/4/09	
			€10,500 x 4/7 =	€6,000
			2008 c/y 30/9/08 =	€9,000

**Section 67 - Inspector of Taxes option**

			2008 Actual 1/1/08 to 31/12/08	
			€9,000 x 9/12 =	€6,750
			€10,500 x 3/7 =	<u>€4,500</u>
				<u>€11,250</u>

The Inspector of Taxes will exercise his option

<b>Final assessments:</b>	2009	€6,000
	2008	€11,250

8.	(d)	-	€30,000 x 18%	=	€5,400
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9.	(c)	-	Case I	
			€100,000 - €5,500	€94,500
			Case V	€20,000
			Case IV	<u>€ 2,800</u>
				<u>€117,300</u>

**Solution 6 (Cont'd)**

PRSI €117,300 at 3%	=	€3,519
Health contributions:		
€75,036 at 3.333%	=	€2,501
€25,064 at 4%	=	€1,003
€17,200 at 4.167%	=	<u>€ 717</u>
		<u>€4,221</u>
Income levy		
On total Case I		
before capital allowances		€100,000
Case V		€20,000
Case IV		— n/a
		<u>€120,000</u>
€75,036 at 1.67%	=	€1,253
€25,064 at 3%	=	€ 752
€19,900 at 3.33%	=	<u>€ 663</u>
		<u>€2,668</u>
Total €3,519 + €4,221 + €2,668 =		<u>€10,408</u>

10. (d)

**Solution 7**

**(a)** Tax relief is granted as a charge to individuals for interest paid on loans to acquire ordinary shares in or to lend money to certain “qualifying companies”. Interest relief is not given on loans to acquire shares in quoted companies. A quoted company is a company whose shares are listed on the Irish Stock Exchange or any other stock exchange, or are quoted on an unlisted securities market of any stock exchange.

The relief is given by way of a charge in arriving at the individuals statutory or total income.

A qualifying company is a company:-

- (i) which exists wholly or mainly for the purpose of carrying on a trade or trades, or
- (ii) whose business consists wholly or mainly of the holding of stocks, shares or securities of a company referred to in (i) above.

Relief is available to individuals who work for the greater part of their time in the management or conduct of the business of the company or of a connected company and who have a “material interest” (more than 5% of the equity) in the company.

Relief is also available to full or part-time directors and employees, even if the “material interest” test is not satisfied.

The table below shows the relief available in respect of loans taken out on or after 7<sup>th</sup> December 2005:

	<b>Unquoted trading Company</b>	<b>Unquoted holding company of a Trading company</b>
Full-time director/employee	unrestricted	unrestricted
Part-time director/employee	unrestricted	none

Tax relief is available to an individual who obtain a loan to purchase a share in a partnership or to advance money to a partnership. The money advanced must be used wholly and exclusively for the purpose of the trade or profession carried on by the partnership. Any interest paid on the loan is available for relief if, throughout the period from the application of the proceeds of the loan until the interest is paid:

- The individual personally acts in the contact of the trade or profession carried on by the partnership, and
- The individual has not recovered any capital from the partnership during the period of the loan.

**Solution 7 (Cont'd)**

<b>(b)</b>	<b>(i)</b>	<b>Mark</b>	€
		Relevant earnings	
		Case I	<u>60,000</u>
		Maximum relief €60,000 x 25%	= 15,000
		Allowed as a charge for 2009 is €15,000	
			€
	<b>(ii)</b>	Premium paid in 2009	20,000
		Allowed as a charge	<u>15,000</u>
		Balance	<u>5,000</u>

The balance of the premium paid of €5,000 may be carried forward to see if Mark can avail of relief in a future year.

- (iii)** To Qualify for tax relief in 2009 the premium must be paid before the filing date of the 2009 tax return, which is 31<sup>st</sup> October 2010.
- (iv)** Relevant earnings are earnings from trades, professions and non-pensionable employment. The earnings of a husband and wife are treated separately for purposes of determining relevant earnings.

## 2<sup>nd</sup> Examination: Autumn 2010

### Taxation II (ROI)

### Examiner's Report

#### Question 1

##### Income Tax

This Income tax question was on getting married during the year. The majority of candidates did not have any knowledge of the relief which lead to quite poor scores on this relatively straight forward question. The common mistakes were:

- Knowledge of Section 382 for the trade loss was poor. Most candidates used the loss to reduce total income.
- The Case V calculations were also poor. Candidates did not appreciate between letting expenses are allowed and the fixtures and fittings qualified for capital allowances.
- Candidates did not appreciate that Case V is not part of relevant earnings for the retirement annuity.
- The married band was incorrectly calculated by the majority of candidates.

#### Question 2

##### Corporation Tax

This question was broken down into two separate parts. Part one was a straight forward corporation tax computation with capital allowances/Case V/Capital Gains workings. This was answered satisfactorily.

Part two was on corporation tax losses. This was either answered correctly or extremely poorly with a large number of candidates not even attempting this part. In the summer 2010 examiners report I highlighted that this area needed work. That remains the case.

#### Question 3

##### Capital Gains Tax

After the good work in the summer examination I was disappointed with the solutions given for this question. Some candidates did not even give principal private residence relief and if they did it was badly calculated with a large number of candidates failing to calculate total ownership and non occupation correctly. Some solutions were hard to correct and candidates need to show clearer workings. In the summer 2009 examiners report I highlighted that candidates had a very poor knowledge of Capital Gains withholding tax. This has not improved the answer's given were abysmal.

**Question 4****Value Added Tax**

This was poorly answered which was disappointing as part of the question on exempt persons/partially exempt persons and an exempt activity was on pilot paper number 2 question 4. VAT needs to be covered in a lot more detail.

**Question 5****Income Tax**

This question was well handled by most candidates. However it was disappointing that some candidates made little or no attempt to fill in the Form 11.

**Question 6****Multi-Choice**

This was better handled than the summer. As always candidates must remember that no marks are given for workings in this question.

**Question 7****Charges in Income Tax**

This question was only attempted by a handful of candidates. It was divided into two parts. Part one was theory on interest as a charge in Income tax and part two was on retirement annuities. This question was poorly done by the few that attempted it which was disappointing as I had highlighted in my examiners report for the summer exams that charges required work. That is still the case.

**Conclusion**

The standard was extremely disappointing. A lot of candidates were totally unprepared for the exam. Candidates need to spend a lot more time practicing on the past paper questions and the questions in the pilot papers.