

Taxation I
Republic of Ireland
1st Year Examination

May 2010

Paper, Solutions & Examiner's Report



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Accounting Technicians Ireland
1st Year Examination: Summer 2010
TAXATION I (Republic of Ireland)

Thursday 20th May 2010 - 9.30 a.m. to 12.30 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 ALL THREE questions from SECTION A. Answer ANY TWO of the three questions from 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.

Answers should be illustrated with examples, where appropriate.

Question 1 begins on Page 2 overleaf.

The following inserts are enclosed with the paper:

- **Multiple Choice Answer Sheet (QUESTION 1)**
- **Form P9/P11 [Tax Deduction Card] (QUESTION 5)**
- **Tax Reference Material**

Answer ALL THREE questions in this section**QUESTION 1** (*Compulsory Question*)

The following multiple-choice question consists of TEN parts, each of which is followed by FOUR possible answers. There is ONLY ONE right answer in each part.

Requirement

Indicate the right answer to 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] In September 2009 Thomas earned €4,100 from his employment with ABC Ltd. The assessable benefit in kind for the month amounted to €650. The Income Levy due for the month of September 2009 amounts to:

- (a) €82
- (b) €95
- (c) €246
- (d) €285

[2] Alice is single and following an accident her mother Mary moved in to live with her. Mary is in receipt of the widow's pension amounting to €204 per week. In addition, Mary has rental income of €5,000 per annum net after expenses. The dependent relative tax credit due to Alice for the 2009 tax year amounts to:

- (a) Nil
- (b) €16
- (c) €80
- (d) €160

[3] IRP Ltd. commenced trading on the 1st July 2009. Turnover from the supply of taxable goods amounted to €68,000 in the six month period to the end of December 2009. It is expected that turnover will increase by 5% per month over the year to December 2010. With regard to registration for VAT, IRP Ltd:

- (a) is not obliged to register for VAT as its turnover for the first six months is less than the registration limit.
- (b) can elect to register for VAT from a date which is convenient to it.
- (c) is obliged to register for VAT with effect from 1st July 2009 as its turnover is likely to exceed the registration limit.
- (d) is obliged to register for VAT with effect from the 1st January 2010 when it is clear that the turnover will exceed the registration limit.

[4] In relation to VAT, the cash receipts basis applies if the trader has:

- (a) turnover of less than €500,000 in a 12 month period.
- (b) turnover of less than €750,000 in a 12 month period.
- (c) turnover of less than €1,000,000 in a 12 month period.
- (d) turnover of less than €1,500,000 in a 12 month period.

QUESTION 1 (Cont'd.)

- [5]** Shane and Nora are married and both in employment. Details per P60s show that Nora earned €58,000 and Shane earned €24,000 in the 2009 tax year. If Shane and Nora are jointly assessed for income tax purposes the 20% rate band for the 2009 tax year will amount to:
- (a) €72,800
 - (b) €82,000
 - (c) €45,400
 - (d) €69,400
- [6]** Colm is a director of RRT Ltd. and pays PRSI under Class S. In the month of November 2009 his pay amounted to €2,400. The amount of PRSI and Health Contributions deductible from Colm's pay for the month amounts to:
- (a) €72.00
 - (b) €168.00
 - (c) €177.57
 - (d) €192.00
- [7]** Pascal was employed on a part time basis for the period 1st January 2009 to the 30th June 2009. In this period he earned €9,000. From the 1st July 2009 he commenced self employment as a carpenter and in the period to the 31st December 2009 he earned €14,000. For the 2009 tax year Pascal is entitled to a PAYE tax credit amounting to:
- (a) Nil
 - (b) €1,830
 - (c) €915
 - (d) €1,800
- [8]** Anna's employer supplied her with a house for a period of 6 months in the 2009 tax year. The house originally cost €100,000 ten years ago but now has a market value of €250,000. Anna paid her employer €100 per month for the use of the house. Anna's assessable BIK for the 2009 tax year amounts to:
- (a) €9,400
 - (b) €10,000
 - (c) €18,800
 - (d) €20,000
- [9]** For VAT purposes, which of the following is an 'exempt supply':
- (a) supply of banking services to an electrician.
 - (b) supply of a computer to a bank.
 - (c) supply of a cleaning service to a credit union.
 - (d) supply of newspapers to a college.
- [10]** For PAYE purposes, which of the following benefits are exempt from any charge to tax under the benefit in kind legislation:
- (a) provision of a company car.
 - (b) provision of accommodation.
 - (c) provision of a preferential loan.
 - (d) provision of employer run crèche facilities.

QUESTION 2 (Compulsory Question)

You have been asked to complete the September/October 2009 VAT return for Jimmy, who accounts for VAT on an invoice basis. Details extracted from Jimmy's business records are as follows:

Sales Book

Total €	21.5% Sales €	VAT €
301,320	248,000	53,320

The sales book records the transactions Jimmy had with his credit customers. Jimmy excluded some invoices from the sales book as he was unsure of how to treat the items in question. Details provided regarding these items are as follows:

1. Jimmy sold goods to a customer in the UK for €8,000. The customer provided Jimmy with his UK VAT registration number and the goods were delivered by courier to an address in the UK.
2. A customer in the Republic of Ireland was not satisfied with the goods that were delivered and Jimmy has agreed to reduce the price of the goods by 20%. The original invoice issued shows that the goods were sold for €6,075 VAT inclusive.
3. Jimmy has recently started to deal with ADV Ltd. In October, Jimmy sold the company goods to the value of €3,000 VAT exclusive. Around the same time ADV Ltd. supplied and fitted a new gas boiler to Jimmy's private residence. Jimmy received an invoice for €4,000 plus VAT at 13.5% from ADV Ltd. Jimmy informs you he sent a business cheque to ADV Ltd. for the difference between the two amounts due. He has asked you to ensure that the VAT on the gas boiler is reclaimed.
4. Jimmy discovered that he made a mistake on an invoice that was issued in September. The goods were sold for €2,000 VAT exclusive and VAT at 13.5% was added. Jimmy later discovered that the correct VAT rate is 21.5%. Jimmy is reluctant to make a change to the invoice as he knows the customer is VAT registered and can reclaim the VAT charged.

Cash Book

In addition to his credit customers, Jimmy supplies goods to cash customers. Invoices are not written for any of these sales but the total is recorded in the cash book on a daily basis. You have extracted the following details from the records kept for September/October.

	Cash In €		Cash Out €
Opening Cash	850	Wages	9,850
Cash Sales	39,800	Drawings	6,400
Cheques written for petty Cash	12,000	Cash Purchases	650
Credit Union Loan	8,000	Bank Lodgements	43,000
		Closing Cash	750
	60,650		60,650

QUESTION 2 (Cont'd.)

On checking the bank statements you discover a number of lodgements that have been omitted from the cash book. Details regarding these are as follows:

1. Lodgements from credit customers amounting to €289,500. Jimmy explains that he keeps a separate record of the receipts from debtors and these details are used to update his debtor's ledger. When you check this record you discover that a lodgement of €15,000 received by electronic bank transfer from a debtor has not been recorded.
2. A lodgement of €12,000 has not been recorded. Jimmy explained that he sold a car that was used 80% of the time for business purposes. The car originally cost €20,000 plus VAT at 21% two years ago.
3. A lodgement for €4,000 has not been recorded. This refers to the sale of a machine by Jimmy. This machine was used exclusively in the business. It was originally purchased new four years ago for €7,000 plus VAT at 21%.

Jimmy informs you that all sales attract the higher rate of VAT at 21.5%.

Purchases Book

Total	For Resale			Not For Resale			VAT
	21.5%	13.5%	VAT	21.5%	13.5%	Zero%	
€	€	€	€	€	€	€	€
263,191	165,800	-	35,647	36,800	7,200	8,860	8,884

Again Jimmy has omitted certain invoices that he wishes you to advise on.

- (i) A new car was purchased for €22,000 plus VAT at 21.5%. Jimmy informs you that the car will be used by the sales rep exclusively for business purposes.
- (ii) An invoice shows the cost of goods for resale as Sterling £8,500. Jimmy paid for these goods by electronic transfer and the cost in € amounted to €9,497.
- (iii) At the end of the month, Jimmy gets invoices from his garage for the fuel purchased. The invoice for diesel for the two months amounts to €972, while the invoice for petrol amounts to €1,125. Both these figures are VAT inclusive at 21.5% and the amount of VAT charged per the invoices amounts to €371.07. Jimmy estimated he uses 80% of the diesel for business purposes while the balance is used for his private motoring. 100% of the petrol is used for business purposes.
- (iv) A cash register was purchased in September. A receipt is available showing a list price of €4,800 and a trade discount of 20% which was applied to the transaction. Jimmy asks you to work out the VAT on this transaction as the receipt refers to the 21.5% rate of VAT but does not show the actual amount of VAT charged. Jimmy has confirmed that he wrote a cheque for €3,840.

Requirement

Calculate the amount of VAT payable/refundable for the September/October VAT period. You are requested to provide a brief explanation of your treatment of the items referred to in the question.

Total 20 marks

QUESTION 3 (Compulsory Question)

Declan is married to Jennifer and both are aged 55 years. Details of income and outgoings for the 2009 tax year are as follows:

<i>Declan</i>	€
Salary from DDL Ltd. (excluding assessable benefit in kind)	46,400

Declan is a director of DDL Ltd. and he owns 80% of the share capital of the company. PAYE deducted in 2009 amounted to €8,150.

On the 1st July 2009 DDL Ltd. provided Declan with a short term loan of €15,000 to assist him in the purchase of a new car. This loan was repaid by Declan to the company on the 1st November 2009. The company charged Declan interest of €250 for the period of the loan.

Declan uses his private car for the purposes of the business. DDL Ltd. paid him a total of €3,730 in 2009 in respect of expenses incurred while on business. Declan travels extensively for the company and conducts business meeting with clients while away from the office. The expenses paid are analysed as follows:

	€
Motor expenses paid on the basis of receipts provided	1,250
Meals and entertainment expenses on the basis of receipts provided	980
Lump sum payment.....	1,500

Declan has not been diligent when it comes to keeping all receipts for expenses incurred. He feels that he has lost many receipts over the year and he estimates that the total of the lost receipts could amount to between €1,800 and €2,000. With this in mind, he has taken expenses from the company as above of €1,500 in compensation for these expenses paid. He feels the Revenue will approve his conservative estimate for the total of the lost receipts.

	€
Deposit interest earned	600

This interest was earned on a deposit account in Declan's name and the amount received is net of D.I.R.T. at 25%.

Jennifer

Jennifer gave up full time work a number of years ago. She works part time for DDL Ltd. and another company SPP Ltd. as a part time bookkeeper. Details of income earned for 2009 are as follows:

	€
DDL Ltd.	4,000

Jennifer owns 20% of the share capital of DDL Ltd. No PAYE was deducted by DDL Ltd.

SPP Ltd.	8,000
---------------	-------

PAYE deducted amounted to €1,600.

	€
Dividends received	1,920

Jennifer inherited money on the death of her father four years ago. She bought shares in a number of 'Listed' companies and the dividends received in 2009 were net of dividend withholding tax at 20%.

Requirement

- (i) Prepare Declan's and Jennifer's Income Tax computation for 2009 on the basis that single assessment applies.

12 marks

- (ii) Calculate the tax payable/refundable on the basis that joint assessment applied for the 2009 tax year.

8 marks**Total 20 Marks**

N. B. For the purposes of answering this question ignore PRSI and levies.

Answer TWO of the three questions in Section B**QUESTION 4**

Conor commenced business as a merchant on the 1st January 2009. Due to a lack of knowledge in accounting Conor feels he may have made a number of mistakes in the preparation of his accounts for the year ended 31st December 2009. He asks that you bear this in mind when preparing the adjusted profit computation for submission to the Revenue. The accounts for the year ended 31st December 2009 as prepared by Conor are reproduced below:

	Notes	€	€
Gross profit	(1)		89,456
Profit on the sale of shares	(2)		11,150
Bank interest earned			<u>156</u>
			100,762
<i>Less:</i>			
Employee costs	(3)	35,600	
Repairs	(4)	7,450	
Premises costs	(5)	14,100	
Advertising and promotional costs	(6)		3,030
Telephone	(7)	1,680	
Light and heat	(8)	4,680	
Motor expenses	(9)	12,630	
Rent of business premises		6,590	
Discount received		(345)	
Financial costs	(10)	4,370	
Legal and professional fees	(11)	850	
Sundry expenses – all allowable			<u>3,250</u>
			<u>93,885</u>
Net profit/(loss)			6,877

NOTES

- (1) *Gross profit*
When calculating gross profit Conor ignored his closing debtors. He understood the profit on the sales to debtors would only be taxable when the money was collected. Conor informs you that his closing debtors amounted to €15,000. Included in this figure is an amount of €800 owed by a customer who ceased business in November 2009 and Conor knows he will not receive any money from this customer. In addition Conor estimates that approximately 10% of the money owed to him will not be collected due to the economic downturn.
- (2) *Profit on the sale of shares*
Shortly after commencing business Conor needed money to buy additional stock to cope with the sales demand. The bank refused to extend additional loan facilities to him and he was forced to sell shares to fund the purchase of the additional stock.
- (3) *Employee costs*
Included in the employee costs is a figure of €15,000 taken by Conor as a wage. PAYE and PRSI for the month of December amounting to €800 were paid in February 2010 when the form P35 was submitted. This has not been included in the figures above.

QUESTION 4 (Cont'd.)

(4) <i>Repairs</i>	€
Repairs to delivery vans	2,600
Depreciation on equipment	1,250
Maintenance agreement	<u>3,600</u>
	7,450

The depreciation on the equipment is an estimate of how much the equipment has decreased in value since it was purchased new in January 2009. The engineer who serviced the equipment informed Conor that the equipment that cost €10,000 in January 2009 was now worth €8,750.

Conor entered into a maintenance agreement for the equipment when it was purchased new in January 2009. The amount paid of €3,600 covers the annual servicing costs and a warranty for replacement of faulty parts for a three year period.

(5) <i>Premises costs</i>	€
Painting premises prior to opening in January 2009	3,000
Builder's estimate	8,500
Rates for business premises	<u>2,600</u>
	14,100

Towards the end of 2009, Conor realised he would have to spend money upgrading the premises to comply with Health and Safety regulations. He asked an old friend, who is a builder, to estimate the cost of the improvements necessary and Conor has accepted the estimate as reasonable. Work commenced in the spring of 2010 and the first payment of €2,125, representing 25% of the total cost, was made to the builder in March 2010.

(6) *Advertising and promotional costs*

	€
Printing of leaflets advertising promotions	1,120
Buffet at a local hotel	1,500
Purchase and postage of Christmas cards	360
Advertising private boat for sale	<u>50</u>
	3,030

In March, Conor invited customers to a function in the local hotel. The hotel provided the room free of charge provided food was served. Conor feels the money was well spent as he received orders on the night for €10,000. In addition he has received considerable repeat orders from customers who attended the function.

After posting Christmas cards to his customers, Conor discovered that he had a number of boxes of cards left over. Rather than throwing these away he used them to send cards to his family and friends. The cost of these cards amounted to €50 and the postage cost another €50.

- (7) *Telephone*
Private calls represent 30% of the total calls made.

(8) *Light and heat*

This figure includes €2,400 in respect of the purchase and installation of storage heaters. Shop customers were complaining of the cold and Conor approached his landlord about improving the heating of the shop. The landlord agreed to fund 50% of the cost on production of invoices. The work was completed in November 2009 and in January 2010 Conor received a cheque for €1,200 from his landlord.

(9) *Motor expenses*

	€
Car expenses	1,650
Van expenses	1,980
Loss on van damaged in crash	3,400
Replacement van	<u>5,600</u>
	12,630

Conor uses the car for business and personal use. He estimates that business use represents 60% of the total use.

In January Conor purchased a van for use in the business for €6,000. In November, the van was involved in a crash and was sold for €2,600. Conor is hoping the insurance company will compensate him for his loss but to date he has not received any offer from the insurance company.

(10) *Financial costs*

This represents the total repayments made on a business loan received from the bank in January 2009. Included in this amount is €960 interest. The loan was used for working capital purposes.

(11) *Legal and professional fees*

Conor asked an engineer to provide a report on the suitability of a site for the construction of a warehouse. The engineer did not think the site was suitable and following this advice Conor decided against purchasing the site. Conor has not paid this bill yet as he is hoping the engineer will give him a discount of 20%.

Requirement

Compute Conor's Schedule D, Case I tax adjusted profits for the period ended 31st December 2009.

Total 20 Marks

QUESTION 5

You have been asked to manage the payroll system of IRN Ltd. Details regarding two employees are as follows:

Caroline Mulhall PPS Number 3366200A

Caroline took up employment with IRN Ltd. in month 5 of the 2009 tax year. Her salary has been fixed at €49,200 per annum payable monthly on the last day of each month. In addition to her salary, Caroline earns a commission based on monthly sales and this is paid on the 15th of the following month when the information regarding monthly sales is available. For the month of May 2009 she earned commission of €600 and this was paid on the 15th June. Commission of €950 was paid on the 15th July for the month of June.

Caroline handed you the P45 she received from her previous employer and the details extracted from this are as follows:

Date of leaving	30 November 2008
PPS number.....	3366200A
Weekly tax credit	€69.23
Basis	Cumulative
Gross pay to date of leaving	€29,800
Tax deducted to date of leaving	€2,605
Weekly cut off point.....	€750

Prior to the calculation of the wages for the month of June, you have been supplied with the enclosed tax deduction card.

Billy Elliott PPS Number 3356920X

Billy commenced employment with IRN Ltd. in week 22 of the 2009 tax year. When he commenced employment he gave his PPS number to the wages clerk. However, he mislaid his form P45 and did not produce it until the wages for week 24 were being calculated.

Details of Billy's pay for week 22 of the 2009 tax year are as follows:

<i>Week 22</i>	€
Wages	456.00
<i>Less</i>	
Trade union membership fee	<u>7.50</u>
	448.50

Requirement

(a) Compute Caroline's take home pay for month 5 and month 6 of the 2009 tax year and complete the tax deduction card (form P9/P11).

14 Marks

(b) Compute Billy's take home pay for week 22 of the 2009 tax year.

6 Marks

Total 20 Marks

N. B. Form P9/P11 is supplied with the examination paper for the purposes of answering this question.

Clearly show all your workings.

QUESTION 6

Sarah commenced business on the 1st March 2008. Details of the assessable Case I profits per accounts prepared are as follows:

	€
6 months to 31 August 2008	9,480
Year ended 31 August 2009	28,200

Sarah's accountant has estimated that the profits per accounts for the year ended 31 August 2010 will amount to €24,600.

Requirement

- (a)** Compute Sarah's assessable Case I income for the 2008, 2009 and 2010 tax years based on the figures outlined above.

10 Marks

- (b)** Write a letter to Sarah providing her with information concerning her obligations for 2009 regarding the following:

- (i) Her obligations to submit a tax return and the due dates for submission of same. You are requested to outline the alternative ways she can submit the return to the Revenue.

3 marks

- (ii) The amount of tax to be paid and the due dates for payment of same.

3 marks

- (iii) The penalties for the late payment of tax and the late submission of the tax return.

4 Marks

Total 20 Marks



1st Year Examination: May 2010

Taxation I 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

[1]	B
[2]	A
[3]	C
[4]	C
[5]	D
[6]	B
[7]	D
[8]	A
[9]	A
[10]	D

Solution 2**Sales Book**

	Total	21.50%	VAT	Zero%
	€	€	€	€
Per records	301,320	248,000	53,320	0
1 UK invoice	8,000	-	-	8,000
2 Credit Note	-1,215	-1,000	-215	-
3 ADV Ltd	3,645	3,000	645	-
4 Invoice	2,430	2,000	430	-
	314,180	252,000	54,180	8,000
Proof			54,180	314,180

Explanation

- UK invoice
As Jimmy received the UK VAT number of the customer and he can show the goods were delivered to the UK, Zero rate applies to the sale.
- Credit Note
The original invoice was for €5,000 VAT exclusive. 20% discount amounts to €1,000. This credit note has to be deducted from sales.
- ADV Ltd
The sale of the goods must be recorded. The fact that there was a contra is ignored as Jimmy must account for the VAT charged. The cost of the gas boiler VAT inclusive is drawings and Jimmy cannot reclaim VAT on this transaction.
- Jimmy must issue a further invoice to charge the correct amount of VAT.

Cash Sales	€
Cash sales per cash book	39,800
Sale of machine	4,000
	43,800
VAT content	7,751

Explanation

- Lodgements from debtors are ignored as Jimmy accounts for VAT on an invoice basis.
- Sale of the car does not attract VAT as when the car was purchased no VAT was reclaimable.
- Jimmy must account for VAT on the sale of the machine as VAT was reclaimed on purchase.

Solution 2 (Cont'd)**(b) Purchases Book**

	Total €	For Resale		VAT €	21.5% €	13.5% €	Zero% €	VAT €	Exempt €
		21.5% €	13.5% €						
Per Q	263,191	165,800	0	35,647	36,800	7,200	8,860	8,884	0
Diesel 80%	972				640			138	194
Petrol	1,125								1,125
Cash register	3,840								3,840
	269,128	165,800	0	35,647	37,440	7,200	8,860	9,022	5,159
Proof	269,128			35,647				9022	

Explanation

- 1 VAT on the car is not reclaimable.
- 2 Jimmy needs to account for VAT on the imports from the UK. The VAT is added to sales and also claimed with purchases.
- 3 VAT on petrol is not reclaimable. VAT on diesel can be claimed but only the business element.
- 4 VAT on the cash register is not reclaimable as Jimmy does not have a proper VAT invoice.

VAT due/reclaimable		€
VAT on credit sales		54,180
VAT on cash sales		7,751
	9,497 *	
VAT on imports	21.5%	2,042
		63,973
		€
VAT on purchases		44,669
VAT on imports		2,042
		46,711
VAT due		17,262

Solution 3**Declan and Jennifer
Income Tax Computation 2009 based on Single Assessment**

Declan				€	
Sch E	Salary			46,400	
	Lump sum Expenses			1,500	
	BIK Loan			375	
Sch D	Case IV	Deposit interest		<u>800</u>	
	(800/.75)				49,075
	Tax				
		36,400	20%	7,280	
		800	25%	200	
		11875	41%	<u>4,869</u>	
		49075		12,349	
	Tax credit				
	Single			<u>1,830</u>	
				10,519	
	PAYE		8,150		
	DIRT		200		
				8,350	
	Tax due			<u>2,169</u>	
Jennifer					
Sch E	DDL			4,000	
	SPP			8,000	
Sch F	Dividends				
	(1920/.8)			2,400	14,400
	Tax				
		14400	20%		2,880
	Tax Credits				
	Single			1,830	
	PAYE			1,600	
	(8,000*20%)				3,430
	Tax due				Nil
	Refund due				
	PAYE			1,600	
	DWT			480	
	Refund due				2,080

Solution 3 (Cont'd)

Joint assessment

Declan

As

above

€ €

49,075

Jennifer

As

above

14,400

63,475

Tax

45,400

20%

9,080

DIRT

800

25%

200

14,400

20%

2,880

2,875

41%

1,179

13,339

Tax Credits

Married

3,660

PAYE

1,600

(8,000*20%)

5,260

8,079

Paid

PAYE

8,150

PAYE

1,600

DIRT

200

DWT

480

10,430

Refund due

-2,351

BIK

Loan 15,000

Preferential rate 12.5%

Yearly

BIK 1,875

4 months 625

Interest paid 250

375

Solution 4**Adjusted Profit Computation Question****Conor****Accounts for the year ended 31st December 2009****Schedule D Case I**

		€	€
Net Profit			6,877
<u>Add backs/(deduct)</u>			
Debtors	Debtors €15,000-Bad Debts W/O €800	14,200	
Employee Costs	Drawings 15,000 PAYE/PRSI -800	14,200	
Repairs	Depreciation 1,250 Maintenance agreement 2,400	3,650	
Premises costs	Painting premises 3,000 Builders estimate 8,500	11,500	
Advertising and promotional costs	Buffet 1,500 Christmas cards 100 Advertising boat 50	1,650	
Telephone	Private calls 30%	504	
Light and heat	Storage heaters	2,400	
Motor expenses	Car expenses 40% 660 Loss on van 3,400 Replacement van 5,600	9,660	
Financial costs	Loan repayment (4,370 - 960)	3,410	
Legal and professional fees	Engineer's report	850	
			62,024
<u>Deductions</u>			
Profit on sale of shares	-11,150		
Bank interest earned	-156		
			-11,306
Schedule D Case I - tax adjusted profits			57,595

Solution 5**Caroline Mulhall**

				Month 5						Month 6	
Salary				4,100.00		Salary				4,100.00	
Commission				Nil		Commission				600.00	
Taxable				4,100.00		Taxable				4,700.00	
Class A1				Class AL							
PRSI Employee						PRSI Employee					
550.00	4%		22.00			550.00	4%		22.00		
3,550.00	8%		284.00			4150.00	8%		332.00		
4,100.00			306.00			4700.00			354.00		
PRSI Employer						PRSI Employer					
4,100.00	10.75%		440.75			4700.00	10.75%		505.25		
Total PRSI			746.75			Total PRSI			859.25		
Month 1						Per TDC			698.50	Tax refund	
3,250.00	20%		650.00								
850.00	41%		348.50								
Tax Credit			998.50								
Income Levy			300.00			Income Levy					
4,100.00	2%		698.50			4700.00	2%		94		
				Month 5						Month 6	
Take Home Pay						Take Home Pay					
PAY				4,100.00		PAY				4,700.00	
Less TAX				698.50		Add TAX Refund				698.50	
Less PRSI				306.00		Less PRSI				354.00	
Less Income Levy				82.00		Less Income Levy				94.00	
				3,013.50						4,950.50	

Solution 5
(Cont'd)

Billy Elliott

Week 22

Wages 456.00

Class AL

PRSI Employee			
127.00	0%		0.00
329.00	4%		13.16
456.00			13.16

PRSI Employer

456.00	10.75%		49.02
Total PRSI			62.18

Emergency Basis

456.00	20%		91.20
Tax Credit			36.00
			55.20

Income Levy

456.00	2%		9.12
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Week 22

Take Home Pay

PAY	456.00
Less TAX	55.20
Less PRSI	13.16
Less Income Levy	9.12
	378.52
Less Trade Union Subs.	7.50
	371.02

Solution 6**(a)**

	Basis Period	
2008	1 Mar 08 to 31 Dec 08	
	1 Mar 08 to 31 Aug 08	9480
	1 Sep 08 to 31 Dec 08	
	28,200 * 4/12	9400
		18880
2009	Year ended 31 Aug 2009	28,200
2010	Year ended 31 Aug 2010	24,600
	2009 excess	1,200
		23,400
2009 Review	Actual year ended 31 Dec 2009	
	1 Jan 2009 to 31 Aug 09	
	28,200 * 8/12	18,800
	1 Sep 2009 to 31 Dec 2009	
	24,600 * 4/12	8,200
		27,000
	Assessed	28,200
	Excess	1,200

(b)

Ms. Sarah Client,
A Street,
A Town

Tax Consultants,
Next Street,
A Town

20th May 2010

Dear
Sarah,

I am responding to your request for information concerning your obligations regarding the submission of tax returns, the payment of taxes due and the penalties that arise in the event of late payment and late submission of returns.

(i) Obligations to submit a tax return and the due dates for submission of same

As a 'chargeable person' you are obliged to file an Income Tax return (Form 11) with the Revenue Commissioners. The Income Tax return must be filed by 31 October following the end of the year of assessment. For example the tax return for the 2009 tax year must be filed by 31 October 2010. The Revenue Online System (ROS) is an internet facility which provides a quick and secure facility to file tax returns and pay your tax liabilities. I suggest the ROS system be used to file your tax returns.

(ii) The amount of tax to be paid and the due dates for payment of same

Preliminary tax is an advance payment of Income Tax liability for the current tax year. You are obliged to calculate an estimate of your tax liability for the current year and pay that amount to the Collector General before the 31 October of that year. For example you must estimate your 2010 Income Tax liability and pay this amount before the 31 October 2010. There are a number of options for you to choose when deciding how much to pay.

The options available are as follows:

1. 90% of the final liability for the current year.
2. 100% of the liability for the previous year.
3. 105% of the liability for the pre-preceding year (if paying by direct debit).

You may choose the lowest payment calculated using the three options.

When filing the Income Tax return you must also calculate the total Income Tax liability for the year and pay the balance of tax due by the 31 October.

For example the balance of Income Tax for 2009 must be paid by the 31 October 2010 together with the submission of the Income Tax return for 2009.

(iii) Penalties for late payment of tax and the late submission of the tax return

A surcharge may arise where the tax return is not filed by 31 October. The surcharge is 5% of the tax liability if the return is made within two months of the 31 December subject to a maximum amount of €12,695.

10% of the liability if more than two months late - subject to a maximum of €63,485.

Where the payment of preliminary tax does not satisfy one of the rules outlined above or the payment of tax is late, interest will run from the due date at a rate of 0.0219% per day.

Please don't hesitate to contact me if you require any further information.

Yours faithfully,

Student

1st Year Examination: May 2010

Taxation I ROI

Examiner's Report

(1) Number of Candidates **1,155**

(2) Average Mark per Question

Question	1	2	3	4	5	6
Mark Available	20	20	20	20	20	20
Average Mark	12.1	9.1	13.4	12.9	9.3	11.1
Average %	61%	46%	67%	65%	47%	56%
No. attempting	1,151	1,039	1,116	1,048	609	578
% attempting	99%	90%	97%	91%	53%	50%

(3) General comment:

The pass rate in this examination was 68.5%. This compares to the pass rate of 64.4% achieved in the summer 2009 examination. It is encouraging to note the improvements in the quality of the scripts presented and this has been reflected in the increase in % pass rate.

(4) Comments on Individual Questions

See attached

Question 1

This was a multiple-choice question and the average mark achieved was 12.1 (61%).

Question 2

This question tested the candidates understanding of the VAT system and the ability to quantify the amount of VAT due for a VAT period.

The average mark achieved was 9.1 (46%)

Solutions presented for this question were disappointing. It appears that students had difficulty in laying out a solution to the question asked. Too often figures were laid out without any explanation. In many cases no reference was made as to whether the figures presented were relevant to VAT due on outputs or VAT on inputs.

Common errors included:

Charging VAT on exports at 21.5%. Very many candidates were confused about the treatment of exports and suggested the treatment was the same as that on imports from EU countries.

Incorrect treatment of the VAT on the gas boiler for the private residence. Very many suggested the invoice should be treated as a self supply and added to sales.

Incorrect calculation of the VAT on sales. It is clear that very many candidates did not understand the difference between the cash basis and the invoice basis of accounting for VAT on sales.

Claiming VAT on the purchase of the new car.

Suggesting that a VAT input credit was not due in respect of capital expenditure.

Failure to properly account for the importation of goods.

Failure to explain the treatment of the adjustments required.

Question 3

This question required the candidate to prepare an income tax computations based on single and joint assessment. The average mark achieved was 13.4 (67%)

This question was very well answered with many candidates scoring high marks. In general the solution presented were well laid out and easy to follow.

Candidates who failed to pick up marks made the following errors:

Failure to note that Declan was not due the PAYE tax credit.

Incorrect calculation of the assessable BIK. I will repeat the comments I made in my summer 2009 report. This is a common feature of these questions where candidates regularly demonstrate a weakness in this area. Candidates should be aware that the calculation of assessable BIK is regularly examined in the income tax and PAYE/PRSI type questions.

Failure to restrict Jennifer's PAYE tax credit to €1,600.

Incorrect calculation of the amount assessable under Schedule F.

Question 4

This question required the preparation of an adjusted profit computation. The average mark achieved was 12.9 (65%).

The question was well answered by many candidates and in general the presentation was good with solutions well laid out and easy to follow.

The main areas where candidates failed to pick up marks included:

Failure to adjust for the closing debtors omitted from the accounts.

Incorrect adjustment for the maintenance agreement.

Failure to add back the cost of painting the new premises.

Incorrect treatment of the cost of storage heaters and in particular the treatment of the cheque received from the landlord.

This question tested the candidates' knowledge of the PAYE/PRSI system. Overall the solutions were poorly presented and difficult to follow.

The average mark achieved was 9.3 (47%).

Candidates who failed to score high marks made the following errors:

Failure to operate on a month 1 basis for the month of May 2009 using the details from the form P45.

Incorrectly including the commission earned in May but paid in June in the calculations for May 2009.

Incorrectly adding the details of pay from form P45 to the amount earned in May 2009. The P45 details referred to the 2008 tax year.

Failure to operate on a cumulative basis for June 2009.

Using the net pay after trade union subscriptions in the calculation of take home pay for Billy Elliott.

On a positive note the majority of candidates correctly calculated the amount of Income Levy due for both employees.

Question 6

This was the least popular question with only 50% of candidates attempting it. The average mark achieved was 11.1 (56%).

Part (a)

This part tested the candidates understanding of the commencement rules. A number of candidates had difficulty with the calculations required.

Part (b)

Well answered by many students. Most candidates laid out the solution in the form of a letter to Sarah as required by the question. Content of the letter was mainly correct and well presented.

General Matters

None