NOTES TO USERS ABOUT THESE SOLUTIONS

The solutions in this document are published by Accounting Technicians Ireland. They are intended to provide guidance to students and their teachers regarding possible answers to questions in our examinations. Although they are published by us, we do not necessarily endorse these solutions or agree 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 us. Alternative answers will be marked on their own merits.

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.

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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 Acts 2013. The provisions of the Finance Act 2014 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 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. €s, 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:

- Tax Reference Material
- Tax Deduction Card (Question 4)
SECTION A

Answer ALL THREE questions in this section

QUESTION 1

Mark and Mindy are married and have one daughter Sally aged 7 years. Mark is 42 years old while Mindy is aged 40 years. Details of their respective income and outgoings are as follows:

Mark has been a self-employed plumber since 2007. Business declined considerably for Mark in the last few months of 2014 and he ceased self-employment on the 31 December 2014.

Tax adjusted profits per accounts are as follows:

<table>
<thead>
<tr>
<th>Year ended</th>
<th>31st October 2012</th>
<th>€62,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year ended</td>
<td>31st October 2013</td>
<td>€48,000</td>
</tr>
<tr>
<td>Year ended</td>
<td>31st October 2014</td>
<td>€50,000</td>
</tr>
<tr>
<td>Period ended</td>
<td>31st December 2014</td>
<td>€3,700</td>
</tr>
</tbody>
</table>

In the year ended 31st December 2014 Mark earned deposit interest from CRB Bank Plc of €142 net of deposit interest retention tax of 41%.

Mark owns a residential property which has been rented.

Mark received €700 per month in rent from January to June 2014 inclusive and for the remaining months of the year he received €850 per month. Mark paid €5,900 in 2014 for expenses that relate to the investment property which are listed below.

- Mortgage interest: €2,750
- Broken window repairs: €350
- Management charges: €1,200
- New couch and 3 beds: €1,600

Mark contributed €300 a month to a Revenue approved pension scheme and also paid €100 per month for permanent health insurance.

He also paid €750 medical insurance premiums and incurred the following medical expenses in 2014:

- Dental care, check-up and clean: €125
- Doctors’ visits: €1,125
- X-ray: €200

€200 was reimbursed to Mark under his medical insurance policy for the x-ray and doctor visits.
Mindy is an employee of Shops For Life Limited and she earned €55,000 gross in 2014 and had PAYE of €18,750 deducted from her salary. In addition to her salary she was paid a bonus of €1,200 on 14 February 2014 based on sales achieved in 2013. In February 2015 she received a bonus of €1,750 based on her sales achievement in 2014.

In recognition of being such a dedicated worker her employers paid her gym membership for 2014 which cost €1,070.

**Requirement**

Prepare an income tax computation for 2014 in respect of Mark and Mindy on the basis that they are jointly assessed.

*For the purposes of answering this question you can ignore PRSI and USC*

**QUESTION 2**

The following multiple choice question comprises 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 answer sheet which is contained within the answer booklet.

(1) Indicate which of the following expenses is specifically disallowed by tax legislation:

   (a) Staff entertainment.
   (b) Customer entertainment.
   (c) Increase in specific bad debt provision.
   (d) Specific repairs.

(2) Anne commenced to trade as an accountant. She needs to register for VAT when her fee income for the year exceeds or is likely to exceed:

   (a) €35,000
   (b) €70,000
   (c) €37,500
   (d) €75,000
QUESTION 2 Cont.

(3) Mark’s final tax liability for 2013 was €20,000. He paid preliminary tax of €18,000 based on 90% of this tax liability. He filed his tax return for 2013 on 1 December 2014. His final tax liability for 2013 will amount to:

(a) €21,000
(b) €22,000
(c) €3,000
(d) €4,000

(4) Mary pays an amount of €6,000 under a qualifying covenant to Sam. Sam is a minor child who is incapacitated and is not a son of Mary’s. Mary earned a salary of €80,000 in 2014 and is single. Sam has no other income. How much does Mary pay directly to Sam?

(a) €5,000
(b) €6,000
(c) €4,800
(d) €3,540

(5) Tom pays a VAT registered and tax compliant builder €16,000 to build an extension to his home in 2014. The work qualifies for the purpose of the Home Renovation Incentive Scheme (HRI). Tom can claim a HRI tax credit in total of:

(a) €3,200
(b) €4,000
(c) €1,000
(d) €2,160

(6) The VAT inclusive cost of goods is €15,750. If the VAT rate is 23%, the VAT amount is:

(a) €3,623
(b) €12,805
(c) €2,945
(d) €1,873

(7) On ceasing employment, an employee is entitled to receive from their employer a:
(a) Form P35  
(b) Form P45  
(c) Form P60  
(d) Form 11  

**QUESTION 2 Cont.**

(8) VAT records must be kept for a period of at least:

(a) 3 years  
(b) 4 years  
(c) 6 years  
(d) 5 years  

(9) 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 loan from employer to buy a house,  
(b) provision of a company car,  
(c) provision of a mobile phone where personal use is incidental,  
(d) provision of private health insurance.  

(10) AFT Limited commenced to trade on 1 January 2014. Their monthly turnover for the first six months was €7,500 per month. From 1 July 2014 they expect the turnover to rise to €8,000 per month. With regard to registration for VAT, AFT Limited:

(a) Is obliged to register from 1 January 2014,  
(b) Must elect to register for VAT in November 2014,  
(c) Is obliged to register for VAT from 1 July 2014 when it appears the turnover will exceed the relevant limit,  
(d) Is obliged to register for VAT from 1 October 2014.  

Total 20 Marks

**QUESTION 3**

You are employed as a newly qualified Accounting Technician by a firm of Accountants and have been asked to draft a letter to a client regarding the following matters:

a) Explain the VAT treatment and rules for exports of goods from Ireland to other EU countries. Outline the different treatment if the sale is to a registered person or an unregistered person and provide an example for each.  

5 marks
b) Explain the conditions that are necessary in order to receive a credit for fees paid to third level colleges for education.  

5 marks

c) Finance Act (No. 2) 2013 introduced the Start Your Own Business Exemption. Explain the conditions necessary in order to obtain the relief and how it applies to individuals.  

5 marks

d) Explain the conditions necessary in order to qualify for the home-carers tax credit.  

5 marks

Total 20 Marks
SECTION B

Answer TWO of the three questions in section B

QUESTION 4

You manage the payroll for AF2 Limited (employer number 9385692W) and the following details refer to two employees:

Shane Holt 59649861
Shane has been employed by AF2 Limited for a number of years and is paid monthly.

His monthly salary amounts to €3,700 and he has the use of a company car. The annual benefit in respect of the use of the car has been assessed at €2,400.

For the month of February 2014 Shane took unpaid leave to look after his daughter Sally while she was ill. He continued to have the use of the company car while absent from work. Shane returned to work on 1 March 2014.

Alan Smith
Alan started in AF2 on 1st March 2014. As it was his first job he did not have a P45 from a previous employer. He did not contact his employer and was unable to supply you with his PPS number.

Alan is paid €3,600 per month.

Requirement

(a) Complete the tax deduction card in respect of Shane for the three months January, February and March 2014. 10 marks

(b) Calculate the total Universal Social Charge due in respect of Shane for the three months January to March assuming the normal USC cut off points apply. 5 marks

(c) Calculate Alan’s take home pay for the month of March 2014. 5 marks

Total 20 marks
QUESTION 5

Mary is a self-employed grocer and commenced business on 1 April 2002. She has a small grocery shop on the main street of Gorey, County Wexford.

The accounts for the period ended 31st March 2014 as prepared by Mary are reproduced below:

<table>
<thead>
<tr>
<th>Notes</th>
<th>€</th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>170,432</td>
<td></td>
</tr>
<tr>
<td>Opening Stock</td>
<td>4,005</td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>(1) 74,304</td>
<td>78,309</td>
</tr>
<tr>
<td>Closing Stock</td>
<td>(3,742)</td>
<td></td>
</tr>
<tr>
<td>Add</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant for the purchase of a machine</td>
<td>(2) 2,500</td>
<td></td>
</tr>
<tr>
<td>Interest Earned</td>
<td>150</td>
<td>2,650</td>
</tr>
<tr>
<td>Less</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss on sale of computer</td>
<td>(3) 700</td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td>(4) 32,740</td>
<td></td>
</tr>
<tr>
<td>Light and Heat</td>
<td>(5) 5,320</td>
<td></td>
</tr>
<tr>
<td>Legal Fees</td>
<td>(6) 7,610</td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td>(7) 2,703</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>10,124</td>
<td></td>
</tr>
<tr>
<td>Bad Debts</td>
<td>5,230</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Rates</td>
<td>(8) 2,000</td>
<td></td>
</tr>
<tr>
<td>General Bad Debt Provision</td>
<td>3,170</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>(9) 3,400</td>
<td></td>
</tr>
<tr>
<td>Entertainment</td>
<td>(10) 2,870</td>
<td></td>
</tr>
<tr>
<td>Sundry</td>
<td>(11) 10,950</td>
<td>(91,817)</td>
</tr>
<tr>
<td>Net Profit</td>
<td>6,698</td>
<td></td>
</tr>
</tbody>
</table>

======
QUESTION 5 Cont.

Notes

(1) Purchases
The purchases figure includes €1,750 in respect of a new shelving system purchased in January 2014 and also €6,700 for the sausage machine in note 2.

(2) Grant
In November 2013 Mary recognised that she was losing business to the larger supermarket that had come into the town the previous year. In order to differentiate herself and claim back some of the business she decided to purchase a machine to make fresh sausages in view of the customers. The new machine that she imported from Italy cost €6,700. Her local County Enterprise Office grant aided the purchase to the tune of €2,500.

(3) Loss on sale of computer
Mary realised in late 2013 that her computer, which cost €800 in 2008, was no longer up to the tasks she wanted it to perform. It had become very slow and she decided to replace it with a new one. Mary sold the old computer for €100. She bought a new computer costing €1,200 and this is included in sundry expenses.

(4) Wages

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mary paid herself €370 a week as a wage.</td>
<td>€19,240</td>
</tr>
<tr>
<td>Staff wages</td>
<td>€7,500</td>
</tr>
<tr>
<td>Interest on late payment of tax.</td>
<td>€2,400</td>
</tr>
<tr>
<td>Preliminary tax payment for Mary.</td>
<td>€3,600</td>
</tr>
<tr>
<td><strong>Total Wages</strong></td>
<td><strong>€32,740</strong></td>
</tr>
</tbody>
</table>

Included in the staff wages figure is €750 for the child-minder Mary paid during the summer to look after her daughter Emily while she was on school holidays.

(5) Light and Heat
Mary pays light and heat for her home and office, 40% of the cost relates to her home.

(6) Legal Fees

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solicitors fees regarding dispute with neighbour at home</td>
<td>€750</td>
</tr>
<tr>
<td>Planning Permission for Shop extension</td>
<td>€6,110</td>
</tr>
<tr>
<td>Solicitors letters to debtor regarding payment of debt</td>
<td>€750</td>
</tr>
<tr>
<td><strong>Total Legal Fees</strong></td>
<td><strong>€7,610</strong></td>
</tr>
</tbody>
</table>

(7) Telephone
20% of the telephone costs relate to private use. Mary estimates that 10% of the total telephone costs are in respect of private calls made by staff.
(8) **Rates**

This figure includes €150 in respect of the local property tax for Mary’s home. The balance is business rates.

(9) **Insurance**

The insurance cost is made up of the following expenses:

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office premises insurance</td>
<td>€1,400</td>
</tr>
<tr>
<td>Loss of profits insurance for business</td>
<td>€1,320</td>
</tr>
<tr>
<td>Private medical insurance for Mary</td>
<td>€680</td>
</tr>
</tbody>
</table>

Total: €3,400

(10) **Entertainment**

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Christmas party</td>
<td>€870</td>
</tr>
<tr>
<td>Gifts to customers on their birthdays</td>
<td>€800</td>
</tr>
<tr>
<td>Mary’s 40th birthday party for staff and friends</td>
<td>€1,200</td>
</tr>
</tbody>
</table>

Total: €2,870

(11) **Sundry**

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>New van for deliveries</td>
<td>€6,650</td>
</tr>
<tr>
<td>New computer</td>
<td>€1,200</td>
</tr>
<tr>
<td>Advertising</td>
<td>€1,500</td>
</tr>
<tr>
<td>Stationery</td>
<td>€1,600</td>
</tr>
</tbody>
</table>

Total: €10,950

**Requirement**

Compute Mary’s Schedule D Case 1 tax adjusted profits for the year ended 31st December 2014.

Total 20 marks
QUESTION 6

Mike owns a hardware shop and he has asked you to prepare the VAT return for the July/August 2014 period. You have extracted the following details from the records of the business:

Cash collected
Mike has both cash and credit customers. The total receipts are recorded in the cash book and are analysed as follows:

<table>
<thead>
<tr>
<th>Months</th>
<th>Credit Customers</th>
<th>Cash Sales</th>
<th>Total Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2014</td>
<td>€34,560</td>
<td>€52,415</td>
<td>€86,975</td>
</tr>
<tr>
<td>August 2014</td>
<td>€35,450</td>
<td>€49,750</td>
<td>€85,200</td>
</tr>
</tbody>
</table>

Sales Book
Mike issued invoices to credit customers only and these are recorded in the sales book. Details for the two months are as follows:

<table>
<thead>
<tr>
<th>Months</th>
<th>VAT Exclusive</th>
<th>23% VAT</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2014</td>
<td>€35,600</td>
<td>€8,188</td>
<td>€43,788</td>
</tr>
<tr>
<td>August 2014</td>
<td>€26,800</td>
<td>€6,164</td>
<td>€32,964</td>
</tr>
</tbody>
</table>

Purchases Book

<table>
<thead>
<tr>
<th>Months</th>
<th>Total</th>
<th>Resale</th>
<th>Not for resale</th>
<th>Not for resale</th>
<th>VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>23%</td>
<td>23%</td>
<td>13.5%</td>
<td></td>
</tr>
<tr>
<td>July 2014</td>
<td>€67,674</td>
<td>€50,120</td>
<td>€2,500</td>
<td>€2,600</td>
<td>€12,454</td>
</tr>
<tr>
<td>August 2014</td>
<td>€56,314</td>
<td>€42,000</td>
<td>€1,200</td>
<td>€2,800</td>
<td>€10,314</td>
</tr>
</tbody>
</table>

On examining the purchases book you discover:
- A car for Mike’s wife costing €5,500 excluding VAT has been included in the purchases book in July in error under resale. Mike informs you it should have been included in the not for resale column.
- Imports of supplies for resale from France in August costing €8,000 excluding VAT have been omitted.
- Petrol costs for Mike’s car amounting to €500 per month (including VAT) have been included in the not for resale (23%) column each month.

Requirement
Calculate the VAT payable for the July/August 2014 period assuming:

(a) the cash receipts basis applies.  
(b) the invoice basis applies.

Total 20 marks
### Appendix 1 Tax Deduction Card (extract)

#### EMPLOYEE’S DETAILS
- **Employee’s Name**: Shane Holt
- **Total Tax Credit**: 3,300
- **Employee’s Address**: 
- **Total Cut-Off Point**: 39,600
- **Works/Payroll No.**: 
- **PPS Number**: 5964986I
- **Tax Rate 1**: 20%
- **Tax Rate 2**: 41%
- **Tax Year**: 2014

#### EMPLOYER’S DETAILS
- **Employer’s Name**: AF2 Ltd
- **Employer’s Number**: 9385692W
- **Date of Commencement**: 
- **Date of Cessation**: 
- **Gross Pay (less superannuation) this period**: 
- **Cumulative Gross Pay to Date**: 
- **Cumulative Cut-Off Point**: 
- **Cumulative Tax Due at Tax Rate 1**: 
- **Cumulative Tax Due at Tax Rate 2**: 
- **Cumulative Gross Tax**: 
- **Cumulative Tax Credit Monthly**: 
- **Cumulative Tax (cannot be less than 0)**: 
- **Tax Deducted this Period**: 
- **Tax Refunded this Period**: 

<table>
<thead>
<tr>
<th>Month</th>
<th>Date of Payment</th>
<th>Gross Pay (less superannuation) this period</th>
<th>Cumulative Gross Pay to Date</th>
<th>Cumulative Cut-Off Point</th>
<th>Cumulative Tax Due at Tax Rate 1</th>
<th>Cumulative Tax Due at Tax Rate 2</th>
<th>Cumulative Gross Tax</th>
<th>Cumulative Tax Credit Monthly</th>
<th>Cumulative Tax (cannot be less than 0)</th>
<th>Tax Deducted this Period</th>
<th>Tax Refunded this Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>3,300.00</td>
<td></td>
<td></td>
<td>275.00</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>6,600.00</td>
<td></td>
<td></td>
<td>550.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>9,900.00</td>
<td></td>
<td></td>
<td>825.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**1st Year Examination: August 2015**

**Taxation ROI**

**Suggested Solutions and Examiner’s Comments**

*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.

### Statistical Analysis – By Question

<table>
<thead>
<tr>
<th>Question No.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
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<tbody>
<tr>
<td>Average Mark (%)</td>
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<td>55</td>
<td>31</td>
<td>47</td>
<td>68</td>
<td>37</td>
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<tr>
<td>Nos. Attempting</td>
<td>153</td>
<td>154</td>
<td>149</td>
<td>105</td>
<td>138</td>
<td>61</td>
</tr>
</tbody>
</table>

### Statistical Analysis - Overall

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pass Rate</td>
<td>59%</td>
</tr>
<tr>
<td>Average Mark</td>
<td>50%</td>
</tr>
<tr>
<td>Range of Marks</td>
<td>Nos. of Students</td>
</tr>
<tr>
<td>0-39</td>
<td>35</td>
</tr>
<tr>
<td>40-49</td>
<td>28</td>
</tr>
<tr>
<td>50-59</td>
<td>56</td>
</tr>
<tr>
<td>60-69</td>
<td>21</td>
</tr>
<tr>
<td>70 and over</td>
<td>14</td>
</tr>
<tr>
<td>Total No. Sitting Exam</td>
<td>154</td>
</tr>
<tr>
<td>Total Absent</td>
<td>44</td>
</tr>
<tr>
<td>Total Approved Absent</td>
<td>6</td>
</tr>
<tr>
<td>Total No. Applied for Exam</td>
<td>204</td>
</tr>
</tbody>
</table>

**General Comments:**

Students did well overall. In general narrative questions were poorly answered and lacked depth. Students need to revise VAT and payroll. Income tax and tax adjusted profit calculations were in the main well answered.
Examiner’s Comments on Question One

The answers to this were mixed with some students scoring very well and others poorly. This was a computational question concentrating on joint assessment and a self-employed individual and a PAYE spouse. Areas where marks were lost included:

- Case I calculation
- Leaving out Permanent Health Insurance
- Bonus
- Gym membership
- Incorrect tax rates
- Tax credits

Solution 1

Income Tax Computation 2014

<table>
<thead>
<tr>
<th>Mark</th>
<th>€</th>
<th>€</th>
<th>Total Marks Allocated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case I</td>
<td>45,367</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Less: Pension</td>
<td>-3,600</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>41,767</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case IV</td>
<td>240</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Case V</td>
<td>5,687</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>Schedule E Mindy Salary</td>
<td>55,000</td>
<td>0.5</td>
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<tr>
<td>Bonus 2014</td>
<td>1,750</td>
<td>1.5</td>
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<tr>
<td>Gym</td>
<td>1,070</td>
<td>1</td>
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</tr>
<tr>
<td></td>
<td>105,514</td>
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</tr>
<tr>
<td>Gross Income</td>
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<td></td>
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</tr>
<tr>
<td>Less: Allowances/Reliefs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent Health Insurance</td>
<td>-1,200</td>
<td>0.5</td>
<td></td>
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<tr>
<td>Taxable Income</td>
<td>104,314</td>
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<td></td>
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<tr>
<td>Tax</td>
<td>13,120.00</td>
<td>1</td>
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<tr>
<td>PAYE paid</td>
<td>18,750.00</td>
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<td></td>
</tr>
<tr>
<td>Less:</td>
<td>28,992.74</td>
<td>1</td>
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<tr>
<td></td>
<td>0.5</td>
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</tr>
</tbody>
</table>

The answers to this were mixed with some students scoring very well and others poorly. This was a computational question concentrating on joint assessment and a self-employed individual and a PAYE spouse. Areas where marks were lost included:

- Case I calculation
- Leaving out Permanent Health Insurance
- Bonus
- Gym membership
- Incorrect tax rates
- Tax credits
Married Credit 3,300.00
PAYE Credit 1,650.00
Medical expenses €1,125 20% 225
DIRT €240 x 41% 98.4
Total 24,023.40
Tax Due 4,969.34

Workings

Working 1 Case I

Final year 2014

1/1/14 – 31/10/14 €50,000 x 10/12 = €41,667
1/11/14 – 31/12/14 €3,700
Total 45,367

Working 2 Rental

Case V Income (700x6)+(850x6) €9,300
Less:
- Repairs -350
- Management charges -1,200
- Mortgage interest -2,063 -3,613
2,750 x 75% 5,687
Total 20

Examiner’s Comments on Question Two
This question was the multi-choice question and overall students scored well here.

Solution 2

<table>
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<tr>
<th></th>
<th>Total Marks Allocated</th>
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<td>(1) B</td>
<td>2</td>
</tr>
<tr>
<td>(2) C</td>
<td>2</td>
</tr>
<tr>
<td>(3) A</td>
<td>2</td>
</tr>
<tr>
<td>(4) C</td>
<td>2</td>
</tr>
<tr>
<td>(5) D</td>
<td>2</td>
</tr>
<tr>
<td>(6) C</td>
<td>2</td>
</tr>
<tr>
<td>(7) B</td>
<td>2</td>
</tr>
<tr>
<td>(8) C</td>
<td>2</td>
</tr>
<tr>
<td>(9) C</td>
<td>2</td>
</tr>
<tr>
<td>(10) A</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
</tr>
</tbody>
</table>
Examiner’s Comments on Question Three

This question was a narrative question and tested students understanding of certain aspects of tax including VAT, tax credit for Third level fees, Start Your Own Business Exemption and the home carers credit. Like in the May sitting students often failed to expand on their answers and did not provide enough detail. The VAT section and the third level fees and the home carers credit were answered correctly in most cases but lacked detail in order to score a good mark. Most students did not answer the Start Your Own Business Exemption correctly.

Solution 3

A Exports of goods to other EU Countries

The Irish VAT rate depends on whether or not the customer is registered for VAT in the other EU country. The zero rate of VAT can apply to goods supplied to VAT registered persons provided that the Irish supplier obtains and quotes the VAT registration number of the EU company on the invoice issued. For example a computer is sold by a VAT registered person in Ireland to a VAT registered person in Germany. The Irish supplier will obtain the German VAT registration number and will charge 0% Irish VAT to the German customer.

The VAT rate applicable to sales to unregistered (private) persons in other EU countries will generally be the relevant Irish VAT applicable to the item.

For example an Irish food supplier sells a hamper of chocolate and biscuits to a private customer in the UK. Irish VAT of 23% will be charged to the UK customer.

B Credit for Fees Paid for Third Level Education

A tax credit is granted for qualifying fees paid for certain third level courses. In order to qualify the following conditions must apply:

- The course must be provided by an “approved college”
- The fees are paid to attend an “approved course”. To qualify as an approved course it must be a full time or part time undergraduate course of at least 2 years or a postgraduate course of at least 1 year but less than 4 years.
- The qualifying fees relate to tuition fees only. Tax relief is not available for registration fees or exam fees paid.
- Tax relief is not available for the first €2,750 of fees paid in respect of full-time course(s), or the first €1,375 in respect of part-time course(s) for the year of assessment 2014. The maximum amount on which tax relief is allowed is €7,000.
• The relief is available for fees paid by the taxpayer on behalf of any other individual.

The amount of the credit granted is the lower of:

(1) Amount of fees paid x 20%, or

(2) €7,000 x 20%

C. Start your Own Business Exemption

Finance Act (no. 2) 2013 introduced an exemption from Income Tax for an individual who sets up a new business as a sole trader/partnership (i.e. an unincorporated business) between 25 October 2013 and 31 December 2016.

The individual will qualify for relief if the business has been set up following a period of at least 12 months unemployment during which time the person was in receipt of a payment or credit from the Department of Social Protection.

The exemption allows relief from Income Tax up to a maximum of €40,000 per annum for two years. The relief applies to Income Tax only. PRSI and USC will continue to be payable on any profits made.

D. Home Carer Tax Credit

This is a tax credit available in the situation where one spouse works at home looking after young children or an elderly dependent. The home carer can earn some income outside of the home and still qualify for the credit or part of the credit. The following conditions must be satisfied to qualify for the relief:

1. The couple must be married or civil partners and jointly assessed

2. The home carer must care for at least one dependant person.

A dependant person is:

• A child for whom the claimant is in receipt of child benefit

• A person aged 65 years or over

• A person who is permanently incapacitated

The dependant must normally reside with the married couple or civil partners. However, a relative may qualify if they live within two kilometres of the claimant and if there is a direct system of communication between the two properties.
3. The home carer must have income of less than €5,080 a year to qualify for the full credit of €810. Where the income exceeds €6,700, the tax credit cannot be claimed.

Total Marks 20

Please see the end of the document for Solution 4

Examiner’s Comments on Question Five

This question was particularly well answered with students understanding the addbacks. In some cases errors were made on the deductions.

Areas where marks were lost:
- Bad debt provision
- Machine
- Entertainment

Solution 5

Mary adjusted profit computation for the year ended 31 December 2014.

€

<table>
<thead>
<tr>
<th>Description</th>
<th>Per Accounts</th>
<th>Deduct</th>
<th>Interest earned</th>
<th>Add</th>
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</thead>
<tbody>
<tr>
<td>Per Accounts</td>
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<tr>
<td>Deduct</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant</td>
<td>2,500</td>
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<td></td>
<td></td>
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<tr>
<td>Interest earned</td>
<td>150</td>
<td>-2.65</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Add</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>General bad debt provision scheme</td>
<td>3,170</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shelving</td>
<td>1,750</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machine</td>
<td>6,700</td>
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<tr>
<td>Loss on computer</td>
<td>700</td>
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<tr>
<td>Computer</td>
<td>1,200</td>
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<td></td>
<td></td>
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<tr>
<td>Drawings</td>
<td>19,240</td>
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<tr>
<td>Interest on late payment of tax</td>
<td>2,400</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Preliminary tax</td>
<td>3,600</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child-minder</td>
<td>750</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Light and Heat 40% x 5,320</td>
<td>2,128</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solicitor’s fees dispute</td>
<td>750</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extension legal costs</td>
<td>6,110</td>
<td></td>
<td></td>
<td></td>
</tr>
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</table>

Marks Allocated
- 0.5
- 1
- 1
- 1
- 1
- 1
- 0.5
- 1
- 0.5
- 0.5
Telephone 20% x 2,703 541
Depreciation 10,124 0.5
Rates 150 1
Insurance 680 1
Gifts 800 1
Party (40th) 1,200 1
Van 6,650 68,643
Adjusted Profit 72,691

Total Marks 20

Examiner’s Comments on Question Six

This question was the least popular and those that answered it did not completely understand the VAT computation rules. VAT is an area that would benefit from more revision.

Solution 6

<table>
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<tr>
<th>Cash Basis</th>
<th>Invoice Basis</th>
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<tbody>
<tr>
<td>Sales</td>
<td>Total Marks Allocated</td>
</tr>
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<td>(52,415+49,750)</td>
<td></td>
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<tr>
<td>Debtors receipts</td>
<td>2</td>
</tr>
<tr>
<td>Credit sales</td>
<td>1</td>
</tr>
<tr>
<td>(43,788+32,964)</td>
<td></td>
</tr>
<tr>
<td>VAT Content</td>
<td>1</td>
</tr>
<tr>
<td>France Purchase -8000</td>
<td>1</td>
</tr>
<tr>
<td>VAT 23%</td>
<td>1</td>
</tr>
<tr>
<td>VAT On Purchases 23%</td>
<td>13.50%</td>
</tr>
<tr>
<td>July (50,120+2,500) x 23%</td>
<td>12,103</td>
</tr>
<tr>
<td>August (42,000+1,200) x 23%</td>
<td>9,936</td>
</tr>
<tr>
<td>Car 5,500 x 23%</td>
<td>-1,265</td>
</tr>
<tr>
<td>Supplies 8,000 x 23%</td>
<td>1,840</td>
</tr>
<tr>
<td>Petrol (500 x 2 x23/1 23%)</td>
<td>-187</td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
</tr>
<tr>
<td>--------------</td>
<td>---------</td>
</tr>
<tr>
<td>VAT on outputs</td>
<td>34,035</td>
</tr>
<tr>
<td>VAT on inputs</td>
<td>23,156</td>
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<tr>
<td>VAT on inputs</td>
<td>(22,427+729)</td>
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<tr>
<td>VAT payable</td>
<td>10,879</td>
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<td>Total Marks</td>
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b)  
<table>
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<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>VAT on outputs</td>
<td>35,296</td>
</tr>
<tr>
<td>VAT on inputs</td>
<td>23,156</td>
</tr>
<tr>
<td>VAT on inputs</td>
<td>(22,427+729)</td>
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<tr>
<td>VAT payable</td>
<td>12,140</td>
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<td>Total Marks</td>
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### Appendix 1 Tax Deduction Card (extract)

**EMPLOYEE’S DETAILS**

<table>
<thead>
<tr>
<th>Employee’s Name</th>
<th>Shane Holt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Tax Credit</td>
<td>3,300</td>
</tr>
<tr>
<td>Total Cut-Off Point</td>
<td>39,600</td>
</tr>
<tr>
<td>Works/Payroll No.</td>
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<tr>
<td>PPS Number</td>
<td>5964986I</td>
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<tr>
<td>Tax Rate 1</td>
<td>20%</td>
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<tr>
<td>Tax Rate 2</td>
<td>41%</td>
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<tr>
<td>Tax Year</td>
<td>2014</td>
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**EMPLOYER’S DETAILS**

<table>
<thead>
<tr>
<th>Employer’s Name</th>
<th>AF2 Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer’s Number</td>
<td>9385692W</td>
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**Date of Commencement**

<table>
<thead>
<tr>
<th>Date of Cessation</th>
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</table>

<table>
<thead>
<tr>
<th>Mth</th>
<th>Date of Payment</th>
<th>Gross Pay (less superannuation) this period</th>
<th>Cumulative Gross Pay to Date</th>
<th>Cumulative Cut-Off Point</th>
<th>Cumulative Tax Due at Tax Rate 1</th>
<th>Cumulative Tax Due at Tax Rate 2</th>
<th>Cumulative Gross Tax</th>
<th>Cumulative Tax Credit Monthly</th>
<th>Cumulative Tax (cannot be less than 0)</th>
<th>Tax Deducted this Period</th>
<th>Tax Refunded this Period</th>
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<tbody>
<tr>
<td>1</td>
<td>3900</td>
<td>0.5 marks</td>
<td>3900</td>
<td>3300</td>
<td>0.5 marks</td>
<td>0.5 marks</td>
<td>906.00</td>
<td>0.5 marks</td>
<td>631.00</td>
<td>631.00</td>
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<tr>
<td>2</td>
<td>4100</td>
<td>0.5 marks</td>
<td>6600</td>
<td>0</td>
<td>0.5 marks</td>
<td>0.5 marks</td>
<td>820.00</td>
<td>0.5 marks</td>
<td>270</td>
<td>0</td>
<td>361.00</td>
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<tr>
<td>3</td>
<td>8000</td>
<td>0.5 marks</td>
<td>9900</td>
<td>0.5 marks</td>
<td>0.5 marks</td>
<td>0.5 marks</td>
<td>1600.00</td>
<td>0.5 marks</td>
<td>825</td>
<td>775</td>
<td>505</td>
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</table>
Form completion
Other marks as above
Total

(b)

**January to March 2014**

<table>
<thead>
<tr>
<th>Description</th>
<th>USC Calculation</th>
<th>Result</th>
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<tr>
<td>USC</td>
<td>2,508.99 x 2% =</td>
<td>50.18</td>
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<tr>
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<td>1,494.99 x 4% =</td>
<td>59.8</td>
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<td>3,996.02 x 7% =</td>
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(c)

Taxable pay €3600

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<th>Result</th>
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<tr>
<td>USC</td>
<td>€3,600 x 41% =</td>
<td>€1,476.00</td>
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<td>PRSI</td>
<td>€3,600 x 4% =</td>
<td>144</td>
</tr>
<tr>
<td>Net Pay</td>
<td>€3,600 - 1,476-144-252 =1,728.00</td>
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