

Preparing Taxation Computations (Irish)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 12 JUNE 2007

QUESTION PAPER

Time allowed **3 hours**

ALL FOUR questions are compulsory and **MUST** be answered

Tax rates and allowances are on pages 2–4

Do not open this paper until instructed by the supervisor

This question paper must not be removed from the examination hall

The Association of Chartered Certified Accountants

Paper T9(IRL)



**Rates of PRSI/levies 2006
Employer (for employees – Class A1)**

PRSI
Rate: 10.75%

For salaries less than €18,512 (€356 per week) the rate is 8.5% per annum

Note: No upper limit for employer's contribution

Age	Retirement annuities	Percentage of net relevant earnings
		%
Up to 30 years		15
30 years but less than 40 years		20
40 years but less than 50 years		25
50 years but less than 55 years		30
55 years but less than 60 years		35
60 years or more		40
Cap on earnings of €254,000		

Corporation tax	
Standard rate	12.5%
Higher rate	25%

Capital gains tax	
Rate	20%
Annual exemption	€1,270

Motor cars – limits on capital costs		
	To 31 December 2005	1 January 2006 onwards
	€	€
Capital allowances	22,000	23,000
Leasing charges	22,000	23,000
Running costs	No limit	No limit

Capital allowances	
Expenditure incurred	Plant and machinery including motor vehicles
1 January 2001 – 31 December 2002	20% Straight line
4 December 2002 onwards	12.5% Straight line
Industrial buildings	
Annual rate	4%

Motor cars – benefits-in-kind rates

Standard rate – 30% of original market value

Lower limit miles	Upper limit miles	Percentage of original market value of car
15,001	20,000	24
20,001	25,000	18
25,001	30,000	12
30,001	upwards	6

Indexation factors for capital gains tax

Year expenditure incurred	Multipliers for disposals in year ending 2004 <i>et seq</i>
1974-75	7.528
1975-76	6.080
1976-77	5.238
1977-78	4.490
1978-79	4.148
1979-80	3.742
1980-81	3.240
1981-82	2.678
1982-83	2.253
1983-84	2.003
1984-85	1.819
1985-86	1.713
1986-87	1.637
1987-88	1.583
1988-89	1.553
1989-90	1.503
1990-91	1.442
1991-92	1.406
1992-93	1.356
1993-94	1.331
1994-95	1.309
1995-96	1.277
1996-97	1.251
1997-98	1.232
1998-99	1.212
1999-2000	1.193
2000-2001	1.144
2001	1.087
2002	1.049
2003 <i>et seq</i>	1.000

ALL FOUR questions are compulsory and MUST be attempted

- 1 (a) Andrew is an architect who has been in practice for many years. He is 45 years of age and is married to Imelda. Imelda works part-time in the local pharmacy. They have two children who are aged 15 and 8. Andrew and Imelda's income and expenses for the year ended 31 December 2006 were as follows:

Andrew	€
Case II income	140,000
Interest from Irish government securities	1,500
Andrew had capital allowances of €8,000 for 2006.	
Imelda	€
Salary (gross)	18,000
PAYE deducted from Imelda's salary	4,000
Imelda also has the use of a company car. The car was purchased new by her employer in April 2004 for €18,000. Her total mileage for the year ended 31 December 2006 was 9,000 miles, of which 2,000 miles were on business. The company pays for all of her motor expenses.	
Irish dividend income (gross)	1,200
Andrew had the following outgoings in 2006:	
	€
Permanent health insurance – Grove Insurances Ltd.	1,200
Mortgage interest	4,500
Contribution to a Revenue approved retirement annuity scheme	30,000

Required:

Calculate Andrew and Imelda's income tax liability, PRSI and levies for the year ended 31 December 2006, assuming that they are jointly assessed. State the various Schedules and Cases under which Andrew and Imelda's income is assessed and show all of your workings clearly. (22 marks)

- (b) Self employed individuals who are liable to income tax are required to submit their tax returns annually under the self assessment system.

Required:

- (i) **State the latest date by which an individual must file his or her tax return each year to avoid a surcharge.** (1 mark)
- (ii) **State the surcharge payable if the return is filed**
 - **one week after the due date; and**
 - **six months after the due date.** (3 marks)
- (iii) **State to whom the tax return must be submitted.** (1 mark)

- (c) Self employed taxpayers must pay preliminary income tax each year.

Required:

State the minimum percentage of tax that must be paid by a taxpayer in order to avoid interest if:

- **the taxpayer pays his tax by monthly direct debit; and**
- **the taxpayer pays his tax in one annual instalment.** (3 marks)

(30 marks)

2 Top Marks Ltd operates a ladies fashion store in Dublin. The company has traded profitably for many years and had the following results for the year ended 31 December 2006:

		€	€
Sales			2,940,000
Less: Cost of sales			<u>(1,340,000)</u>
			1,600,000
Less	Notes		
Wages		750,000	
Depreciation		89,000	
Loss on sale of fixed assets		3,200	
Rent and rates		158,000	
Motor expenses	(1)	40,630	
Repairs and renewals	(2)	11,500	
Donations	(3)	1,500	
Interest paid	(4)	2,680	
Subscriptions	(5)	2,300	
Professional fees	(6)	<u>11,100</u>	<u>(1,069,910)</u>
Net profit from trading			530,090
Interest received (gross)	(7)		<u>3,500</u>
Total profits before tax			<u><u>533,590</u></u>

You are given the following additional information regarding the above:

(1) Motor expenses

	€
Managing director's car 05 XX 1000	28,900
Sales director's car 05 XX 8888	11,500
Parking tickets and clamping charges	<u>230</u>
	<u>40,630</u>

The managing director's car is a Mercedes 350 which the company leases. The market value of the car was €65,000 when the car was first leased in 2005. The expenses incurred in relation to this car were as follows:

	€
Leasing repayments	20,000
Petrol	6,500
Tax and insurance	1,950
Repairs/servicing	<u>450</u>
	<u>28,900</u>

The sales director's car is owned by the company

(2) Repairs and renewals	€
Repairs to lighting system	3,000
New cash registers	<u>8,500</u>
	<u>11,500</u>

(3) Donations	€
Donations to political parties	250
Advertisement in local ladies hockey club magazine	<u>1,250</u>
	<u>1,500</u>

(4) Interest paid	€
Paid to banks for trade purposes	2,600
Paid to the Revenue for the late payment of taxes	80
	<hr/>
	2,680
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(5) Subscriptions	€
Dublin Chamber of Commerce	750
Fashion magazines	350
Health club subscription for the managing director	1,200
	<hr/>
	2,300
	<hr/>
(6) Professional fees	€
Audit and accounting	6,500
Legal fees in relation to an accident which occurred on the premises	4,600
	<hr/>
	11,100
	<hr/>

(7) Top Marks Ltd received deposit interest of €3,500 from the Bank of Ireland during the year. No DIRT was deducted from the amount received.

(8) The original cost and tax written down value of the shop fittings and motor vehicles as at 1 January 2006 were as follows:

	Shop fittings	Car	Van
	€	€	€
Original cost	390,000	42,000	16,000
TWDV 1 January 2006	273,000	19,250	12,000

The shop fittings and motor vehicles were all purchased between 1 January 2003 and 31 December 2005. The car was purchased in 2005.

During the year ended 31 December 2006 Top Marks Ltd acquired and disposed of the following assets:

Acquisitions

New counters and dressing rooms were purchased at a cost of €200,000.

Disposals

Shop fittings, which had been purchased for €8,000 in May 2003, were scrapped.

Required:

- (a) Prepare Top Marks Ltd's capital allowances schedules for the year ended 31 December 2006, clearly identifying the tax written down values forward at 1 January 2007. (12 marks)
- (b) Calculate Top Marks Ltd's corporation tax liability for the year ended 31 December 2006 giving brief explanations of your treatment of the items detailed in notes (1) to (6). (16 marks)
- (c) State the latest date by which Top Marks Ltd must file its corporation tax return to avoid a surcharge. (1 mark)

(29 marks)

- 3** On 1 June 2002 Elizabeth bought a house in Dublin for her own use. The house cost €270,000. She lived there until 30 November 2002 when she was required by her employer to move to Wexford for a period of time to carry out duties of her employment. She rented out her house in Dublin while she lived in Wexford. She did not acquire another property in Wexford.
- On 1 September 2004 Elizabeth returned to Dublin, moved back into her house and returned to university.
- In March 2005, Elizabeth extended her house at a cost of €25,000.
- On 1 June 2005 she went back-packing to Australia and again rented out her house. In November 2005 she decided that she would remain in Australia for a further year and continued to rent out her house in Dublin.
- On 1 November 2006 Elizabeth returned to Dublin. On 1 December 2006, she sold her house for €400,000.

Required:

- (a) **State the periods of ownership that qualify for exemption in the case of a person's principal private residence.** (5 marks)
- (b) **Calculate Elizabeth's capital gains tax liability for 2006, clearly identifying each period of her actual and deemed occupation of the house.** (13 marks)
- (c) **State the due date for payment of Elizabeth's capital gains tax for 2006 and the amount of tax which Elizabeth must pay on that date.** (2 marks)
- (20 marks)**

- 4 (a)** Candy Kitchens Ltd commenced trading on 1 November 2004. The company is engaged in the sale of confectionery. The company also runs a wholesale business. Candy Kitchens Ltd prepares its accounts to 31 October each year.

The company's results for the two years ended 31 October 2005 and 2006 were as follows:

	2005	2006
	€	€
Schedule D Case I profit/(loss) – wholesale business	(75,000)	140,000
Schedule D Case I profit/(loss) – retail business	60,000	35,000
Schedule D Case III deposit interest – gross	0	5,000

Required:

Compute the total profits and corporation tax liability, if any, of Candy Kitchens Ltd for each of the years ended 31 October 2005 and 2006, assuming that the company claims all available reliefs at the earliest possible date. (12 marks)

- (b) In order to claim a VAT input credit a valid invoice must be issued by the supplier.

Required:

List the information which must appear on an invoice in order that it is a valid invoice for VAT purposes. (9 marks)

(21 marks)

End of Question Paper