

# **Taxation I**

## **Republic of Ireland**

1<sup>st</sup> Year Examination

**May 2011**

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



### 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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**1<sup>st</sup> Year : Summer 2011****TAXATION I (Republic of Ireland)****Thursday 19<sup>th</sup> May 2011 – 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 2010. The provisions of the Finance Act 2011 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:**

- **Form P45 (QUESTION 4)**
- **Multiple Choice Answer Sheet (QUESTION 5)**
- **Tax Reference Material**

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

Samantha and Eric were married on the 1<sup>st</sup> August 2010. Details of their income and outgoings for the 2010 tax year are as follows:

***Samantha***

Samantha has been self employed as a hairdresser for a number of years. In March 2010 the lease on Samantha's business premises was up for renewal. Following lengthy discussions regarding the rent, Samantha decided her business was not viable and ceased trading on the 30<sup>th</sup> April 2010.

Accounts have been prepared to cessation and the adjusted profit per accounts is as follows:

Year ended 30 <sup>th</sup> September 2008	€26,500
Year ended 30 <sup>th</sup> September 2009	€21,000
Period ended 30 <sup>th</sup> April 2010	€12,950

Following the cessation of her business Samantha commenced employment as a hairdresser with Cut and Snip Hairdressers on the 14<sup>th</sup> May 2010. Details from her P60 show:

Wages	€15,600
PAYE deducted	€ 1,150

Samantha has to travel 20 miles to and from work each day. Her employer agreed to pay her €30 per week travel expenses and this amount has been included in the wages figure quoted above. Samantha has estimated that the expense of travelling to and from work for the period May to December 2010 amounted to €2,150. This estimate is based on Civil Service mileage rates.

***Eric***

Eric is a director and 50% shareholder of E & B Consultants Ltd. In the 2010 tax year he earned €65,000 with PAYE of €18,500 deducted.

E & B Consultants Ltd. provides Eric with a company car. The car cost €40,000 when purchased new in 2009. Eric travels extensively for the company and in the 2010 tax year he travelled 55,000 kilometres in total. 20% of the total kilometres travelled are in respect of private motoring. Eric pays the company €50 per month in respect of private motoring. In addition to this payment Eric also paid his local garage for the cost of servicing the car. Bills for servicing the car during the 2010 tax year amount to €750 and were paid by Eric.

**Requirement**

- (i) Prepare Samantha's and Eric's Income Tax computations for 2010. **10 marks**
- (ii) Calculate the tax refundable in total for 2010 resulting from the marriage of Samantha and Eric on the basis that joint assessment applied for the 2010 tax year. **8 marks**
- (iii) Briefly explain the tax treatment of the motor expenses incurred by Samantha and paid by her employer. **2 marks**
- Total 20 Marks**

**N. B.** *For the purposes of answering this question ignore PRSI, Health Contribution and Income Levy*

**QUESTION 2** (*Compulsory Question*)

You have been asked to review the Value Added Tax records of Appleby Ltd. a firm in the plumbing supplies business.

Appleby Ltd. accounts for VAT on a cash receipts basis. All sales are at 21%.

You have extracted the following totals from the records for the year ended 31 December 2010.

**Cashbook**

The cashbook for the year ended 31 December 2010 is analysed as follows:

	€
Opening cash balance	850
Cash Receipts	
Receipts from cash sales	489,500
Cash receipts from credit customers	1,121,655
Cash Payouts	
Wages	68,650
Sundry expenses	1,900
Bank lodgements	1,539,895
Closing cash balance	1,560

You have cross checked the bank statements with the cash book and notice that lodgements totalling €16,900 from credit customers have not been recorded in the cashbook.

**Sales Book**

Invoices are written for sales to credit customers. Totals for the year ended 31 December 2010 are as follows:

Total	21% Sales	VAT
€	€	€
1,887,600	1,560,000	327,600

**Purchases Book**

Totals for the year ended 31 December 2010 are as follows:

	Total	21%	13.5%	VAT
	€	€	€	€
Purchases for resale	1,378,472	1,141,010	0	237,462
Purchases not for resale	59,943	45,600	4,200	10,143

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

As part of your cross checking you notice the following errors:

**Purchases for resale:**

- (i) An invoice received in respect of the purchase of solar panels shows:

VAT exclusive amount	€10,100
VAT at 21%	€2,121
Total	€12,221

This invoice was incorrectly recorded as:

VAT exclusive amount	€11,010
VAT at 21%	€1,212
Total	€12,221

- (ii) An invoice is on file in respect of the purchase of taps from the U.K. amounting to St£5,000. The U.K. supplier did not charge VAT but the invoice amount in sterling was included in both the total column and the 21% column with no entry included in the VAT column. On examination of the bank statements you note the cost of the goods amounted to €5,700.

**Purchases not for resale**

- (i) A laptop was purchased for use by the sales manager. The invoice was mislaid but the bookkeeper has a cheque stub showing the cost of the laptop as €605. A duplicate invoice has been requested but to date none has been supplied.

The purchase has been included in the total, 21% and VAT columns.

- (ii) An invoice was recorded in respect of the purchase of a car for use by the managing director. The car cost €30,000 plus VAT at 21% €36,300. The full amount of the VAT was reclaimed even though the managing director only uses the car 30% of the time for business purposes.

**Requirement**

Calculate the VAT payable by Appleby Ltd. for the year ended 31 December 2010.

**Total 20 Marks**

**QUESTION 3**

Marian Vazal been trading as a retailer of fashions for a number of years and prepares accounts to the 30 April each year. The following is a summary of her profit and loss account for the year ended 30 April 2010.

	Notes	€	€
Gross profit			93,984
Other income			
Profit on sale of equipment		1,450	
Dividends received		<u>895</u>	
			<u>2,345</u>
			96,329
Less expenses:			
Repairs	1	15,750	
Light and heat	2	10,830	
Legal and professional fees	3	7,520	
Premises costs	4	3,840	
Interest and charges	5	9,940	
Office expenses	6	3,866	
Business rates		3,750	
Depreciation		2,990	
Motor expenses	7	17,700	
Entertainment expenses	8	1,260	
Employee costs	9	<u>29,980</u>	
			<u>107,426</u>
Net (Loss)			(11,097)

**NOTES:**

(1) <i>Repairs</i>	€
Painting and decorating shop premises	950
Fittings for new shop extension	3,150
Extension to shop	10,000
Replacement of damaged windows	<u>1,650</u>
	15,750

The insurance company forwarded a cheque for €1,500 in respect of a claim for the damage to the windows. It has now been realised that this cheque was mislaid and not cashed. The insurance company has agreed to forward a replacement cheque.

(2) <i>Light and heat</i>	€
Heating oil for living accommodation	1,250
ESB for shop premises and living accommodation (see note 4)	2,800
Purchase and installation of new storage heaters for shop	3,150
Heating oil for shop	<u>3,630</u>
	10,830

(3) <i>Legal and professional fees:</i>	€
Legal fees regarding purchase of new shop	1,850
Due to the recession Marian decided not to proceed with the purchase.	
Accountancy fees for preparation of annual accounts and tax computations	2,500
Legal fees regarding unfair dismissal claim by an employee	2,000
Architect's fees for submission of planning permission re new shop	<u>1,170</u>
	7,520



**QUESTION 3 (Cont'd.)***(4) Premises costs*

Marian lives over the shop premises. 25% of premises costs relate to living accommodation.

*(5) Interest and charges*

	€
Current account fees on personal bank account	65
Mortgage repayments	8,560
Overdraft interest on business bank account	560
Term loan interest in respect of shop extension	630
Current account fees on business bank account	<u>125</u>
	9,940

Mortgage loan repayments include interest of €2,700. The mortgage refers to the purchase of the shop and the living accommodation.

*(6) Office expenses*

	€
Stationery	1,860
Printer cartridges	256
Replacement printer	1,200
Postage	<u>550</u>
	3,866

Stationery includes €1,000 spent on advertising for the local sports club for which Marian acts as secretary. The club have promised to repay the costs involved but no cheque has yet been received.

*(7) Motor expenses*

	€
Marian's motor expenses	4,500
Van purchased for business use	7,750
The van is used exclusively for business purposes	
Van running expenses	890
Employee's motor expenses	<u>4,560</u>
	17,700

Marian travelled 45,000 kilometres during the year. She estimates that 25,000 of these kilometres refer to business use.

*(8) Entertainment expenses*

	€
Staff Christmas party	600
Entertaining customers during 'Sales Week'	<u>660</u>
	1,260

*(9) Employee costs*

This figure includes drawings taken by Marian amounting to €12,800. It also includes €2,800 paid into Marian's pension fund.

Form P35 for 2009 was submitted late and interest on late payment of PAYE/PRSI amounting to €550 is included under employee costs.

**Requirement**

Compute Marian's Schedule D, Case I tax adjusted profits for the year ended 30 April 2010.

**Total 20 Marks**

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

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

**Joan Soloman**

Joan commenced as an employee on the 16<sup>th</sup> August 2010 (week 33 of the 2010 tax year). Details regarding her weekly wage are as follows:

	€
Wage	652.00
Less Pension contribution	<u>56.00</u>
	596.00

Joan received a form P45 from her previous employer and on commencement of employment with XTV Ltd. she handed this form to the wages department. (Copy form P45 is included with this paper.)

XTV Ltd. used the details from the form P45 when calculating Joan's take home pay for week 33.

Prior to the calculation of take home pay for week 34 XTV Ltd. received a tax deduction card in respect of Joan. Details contained on the tax deduction card were as follows:

Weekly Tax Credit	€71.60
Weekly Cut Off Point	€700.00
Cumulative Basis from 1 <sup>st</sup> January 2010	

**Kevin Nugent**

Kevin has been employed by XTV Ltd. for a number of years and is paid on a monthly basis. For the month of August 2010 he earned €3,850.

In addition to his monthly salary Kevin has been provided with a number of benefits as follows:

- Monthly bus passes which Kevin uses when travelling to and from work each day. The cost to XTV Ltd. is €80 per month.
- Subsidised canteen meals which are provided to all employees. Kevin estimates this saves him approximately €50 per month.
- Gym membership which costs XTV Ltd. €100 per month.

Kevin has a monthly tax credit of €310.45, a monthly cut off point of €3,104.00 and the Month 1 basis applies.

**Requirement**

- (a) Compute Joan's take home pay for week 33 and 34.  
**10 Marks**
- (b) Compute Kevin's take home pay for the month of August.  
You are required to briefly explain your treatment of the benefits provided by XTV Ltd.  
**8 Marks**
- (c) Calculate the amount to be paid with the submission of form P30 for the month of August on the basis that XTV Ltd. has no other employees other than Joan and Kevin.

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

**QUESTION 5**

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 specified answer sheet, which is supplied with the examination paper.*

- [1]** Henry has been paying premiums in respect of permanent health insurance for a number of years. In June 2010 he was injured in an accident at work and for ten weeks he received €100 per week from the insurance company while he was unable to work. The amount received in 2010 is:
- (a) exempt from income tax.
  - (b) taxable in full.
  - (c) taxable on the amount received less 10% which is exempt.
  - (d) taxable on the amount received less €13 per week which is exempt.
- [2]** Ida and Paul are married and both aged 66 years. Their income for tax purposes for the 2010 tax year amounts to €35,000. Their only source of income comes from a grocer's shop which they both own and run. For the 2010 tax year the tax payable by Ida and Paul based on joint assessment amounts to:
- (a) Nil
  - (b) €2,690
  - (c) €3,340
  - (d) €7,000
- [3]** Patricia is a director of MMX Ltd. Her monthly salary is €5,000 and out of her salary she contributes €650 per month towards a Revenue approved pension fund. In addition to her salary Patricia has an assessable benefit in kind of €4,800 per annum. The monthly amount of income levy payable by Patricia is:
- (a) €95
  - (b) €108
  - (c) €190
  - (d) €216

- [4] Nicole is single and commenced her first employment with VVT Ltd. in November 2010. For the 2010 tax year she earned €6,000 from her employment. For the 2010 tax year Nicole's tax credits total:
- (a) €1,830
  - (b) €3,030
  - (c) €3,660
  - (d) €3,800
- [5] The income of a self employed solicitor is taxable under:
- (a) Schedule D Case III
  - (b) Schedule D Case IV
  - (c) Schedule D Case I
  - (d) Schedule D Case II
- [6] A gift of taxable goods made in the course or furtherance of business is liable to VAT if the donor was entitled to a deduction on the acquisition of the item and the cost of the item exceeds:
- (a) €2 excluding VAT
  - (b) €6 excluding VAT
  - (c) €15 excluding VAT
  - (d) €20 excluding VAT
- [7] The VAT inclusive cost of a service is €136.20. If the VAT rate applicable to this service is 13.5%, the VAT element of the price amounts to:
- (a) €16.20
  - (b) €18.39
  - (c) €23.64
  - (d) none of the above
- [8] In an effort to stimulate trade, a VAT registered trader spent €600 on entertainment costs in a local hotel. Regarding the VAT charge incurred in this case:
- (a) a full VAT input credit is allowed.
  - (b) no VAT input credit is allowed.
  - (c) a partial VAT input credit is allowed.
  - (d) a full VAT input credit is allowed if a proper VAT invoice is produced.
- [9] After the 31 December in each tax year, an employer is obliged to complete all end of year PAYE/PRSI forms and give each employee a form:
- (a) P9/P11
  - (b) P45
  - (c) P50
  - (d) P60

**QUESTION 5** (*Cont'd.*)

**[10]** A director earns €6,000 per month. If class S1 is applicable the deduction for PR and Health Contribution on a monthly basis amounts to:

- (a) €420.00
- (b) €465.57
- (c) €480.00
- (d) None of the above

**QUESTION 6**

You have been acting as a volunteer in the offices of your local Citizens Information centre. The manager of the centre has asked you to write a letter in response to a query raised by a lady who has recently taken up residence in Ireland and is unfamiliar with the system of taxation that applies in this country.

**Requirement**

Prepare the content of a letter to be drafted in response to the query raised, outlining the following details:

- (i) The position regarding the taxation of various types of income. You understand that income is separated according to the source that it derived from and categorised into a number of schedules and cases.

**8 Marks**

- (ii) The tax collection system in Ireland covering the PAYE system, the self assessment system, and withholding taxes.

**9 Marks**

- (iii) The obligations regarding the filing of an income tax return.

**3 Marks**

**Total 20 Marks**

# 1st Year Examination: May 2011

## Taxation I (ROI)

### 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.

<b>Question 1</b>							
<b>(a) Samantha and Eric</b>							
<b>Income Tax Computation 2010 based on Single Assessment</b>							
<b>Samantha</b>				€			
<b>Sch. D</b>	Case 1 Hairdresser						
	Basis Period						
	1 January to 30 April 2010						
	€12,950 x 4/7			7,400			
<b>Sch. E</b>	Wages			15,600			
					23,000		
	Tax						
	23,000	20%		4,600			
	Tax credit						
	Single		1,830				
	PAYE		<u>1,830</u>				
				3,660			
				940			
	PAYE Paid			1,150			
	Refund due			<u>-210</u>			



<b>Eric</b>				€				€	
Sch. E	E & B Consultants Ltd.			65,000				<b>BIK</b>	
	BIK			4,200				Car	40,000
					69,200			Total mileage	55,000
								Private 20%	11,000
	Tax							Business	44,000
	36400	20%		7,280				% BIK	12%
	32,800	41%		13,448					4800
					20,728			Service Cost	
								Not allowable	
	Tax Credits							Paid to employer	
	Single			1,830				€50 pm * 12	600
	PAYE - proprietary director			Nil					4200
					1,830				
					18898				
	PAYE				18500				
	Tax payable				398				
Use of Single Assessment									

<b>(b) Joint assessment</b>				€		
<b>Samantha</b>	Above			23,000		
<b>Eric</b>	Above			69,200		
					92,200	
	Tax					
	45,400	20%		9,080		
	23,000	20%		4,600		
	23,800	41%		9,758		
	92,200					
					23,438	
	Tax Credits					
	Married			3,660		
	PAYE			1,830		
					5,490	
					17,948	
	Tax due on single assessment					
	Samantha	above		940		
	Eric	Above		18,898		
	Total				19,838	
	Difference				1,890	
	Months of marriage			5 months		
	Refund due		1,890 x 5/12		€787.50	

- (c) The employer was correct in operating PAYE/PRSI on the weekly lump sum paid to Samantha. Samantha cannot claim expenses in respect of travelling to and from work.



<b>Question 2</b>				
<b>VAT on Sales</b>				
Cash Receipts basis				
			€	
Cash receipts from cash sales per cashbook			489,500	
Receipts from credit customers per cashbook			1,121,655	
Missing lodgments			16,900	
Sales Book			Nil	
Total cash receipts			1,628,055	
VAT content			282,555	
VAT on imports		(5700 * 21%)	1,197	
			283,752	
<b>(b) Purchases book</b>				
		For Resale		
	Total	21%	13.5%	VAT
Per Q	1,378,472	1,141,010	0	237,462
Solar panels error	-12,221	-11,010		-1,212
	1,366,251	1,130,000	0	236,250
Correct entry	12,221	10,100		2,121
St£ Purchase	-5,000	-5,000		
	1,373,472	1,135,100	0	238,371
Proof	1,373,471			238,371
		Not For Resale		
	Total	21%	13.5%	VAT
Per Q	59,943	45,600	4,200	10,143
Laptop	-605	-500		-105
Car	-36,300	-30,000	0	-6,300
	23,038	15,100	4,200	3,738
Proof	23,038			3,738
VAT due/reclaimable				
VAT on sales/imports			283,752	
VAT on purchases for resale			238,371	
VAT on purchases not for resale			3,738	
VAT on imports			1,197	
			243,306	
VAT due			40,446	

Question 3		Marian Vazal			
				€	€
Net loss per accounts					-11,097
Deduct					
	Profit on sale of equipment			1,450	
	Dividends			895	
Add					-2,345
	<b>Depreciation</b>				2,990
	<b>Repairs</b>				
	Fittings for new shop			3,150	
	Shop extension			10,000	
	Insurance claim received			1,500	
					14,650
	<b>Light and heat</b>				
	Heating oil for living accommodation			1,250	
	ESB Private element	(2,800 * 25%)		700	
	New storage heaters			3,150	
					5,100
	<b>Legal and Professional fees</b>				
	Purchase of new shop			1,850	
	Planning permission			1,170	
					3,020
	<b>Premises costs</b>	(3,840 * 25%)			960
	<b>Interest and charges</b>				
	Current account fees - personal			65	
	Mortgage repayments capital	(8,560 - 2,700)		5,860	
	Interest on mortgage	(2,700 * 25%)		675	
					6,600
	<b>Office expenses</b>				
	Replacement printer			1,200	
	Stationery			1,000	
					2,200
	<b>Motor expenses</b>				
	Private motoring	(4,500 * 20/45)		2,000	
	Van purchased			7,750	
					9,750

	<b>Entertainment</b>			
	Entertaining customers			660
	<b>Employee Costs</b>			
	Drawings		12,800	
	Pension		2,800	
	Interest on late payment		550	
				16,150
	Case I adjusted profit			48,638



Question 4											
Joan Soloman		Week 1 Basis Applies		Joan Soloman		Cumulative Basis Applies					
			Week 33				Week 34		Total Pay		
Wages			652.00		Cumulative Taxable Wages			14,962.00		P45 Wages	13,770
Less Pension			56.00						Week 33		596
Taxable			596.00			14,962.00	20%	2,992.40		Week 34	596
						Tax credits		2,434.40			14,962
						Tax Due		558.00			
596	20%		119.20			Tax Paid to Week 33		902.56		Weekly Tax Credit	
Tax Credit Per P45			70.38			Tax Refund		344.56		Per TDC	71.60
			48.82							Cumulative to Week 34	
											2,434.40
Class A1					Class A1					Weekly Cut Off	
PRSI Employee					PRSI Employee					Per TDC	700
127	4%	5.08			127	4%	5.08			Cumulative to Week 34	
469	8%	37.52			469	8%	37.52				23,800
596		42.60			596		42.60			Tax Paid	
										Per P45	853.74
PRSI Employer					PRSI Employer					Week 33	48.82
596	10.75%	64.07			596	10.75%	64.07				902.56
Total PRSI			106.67		Total PRSI			106.67			
Income Levy					Income Levy						
652	2%	13.04			652	2%	13.04				

[illegible]

PRSI Employee												
550	4%	22.00										
3,400	8%	272.00										
3,950		294.00										
PRSI Employer												
3,950	10.75%	424.63										
Total PRSI		718.63										
Income Levy												
3,950	2%	79.00										
Take Home Pay												
PAY			3,850.00									
Tax			657.21									
PRSI			294.00									
Income Levy			79.00									
Take Home Pay			2,819.79									

### Question 5

- [1]
- [2]
- [3]
- [4]
- [5]
- [6]
- [7]
- [8]
- [9]
- [10]

- [B]
- [A]
- [B]
- [B]
- [D]
- [D]
- [A]
- [B]
- [D]
- [A]



### Question 6

Addressee  
Centre,

Citizens Information

A Street,  
New Town  
Date:

Dear Madam,

This letter is in response to your recent query regarding the system of taxation that applies in Ireland.

#### (i) Taxation of various types of income

For tax purposes, income is separated according to the source that it is derived from, e.g. employment, investments, rental properties. Income is firstly categorised into a number of schedules and then sub-categorised into cases. The main classifications of income are as follows:

<b>SCHEDULE</b>	<b>CASE</b>	<b>SOURCE OF INCOME</b>
Schedule D	Case I	Income from a trade (a self employed carpenter)
Schedule D	Case II	Income from a profession (a self employed solicitor) or vocation
Schedule D	Case III	Investment income not subject to tax at source Foreign income – foreign employments, foreign rental income and foreign investment income
Schedule D	Case IV	Irish deposit interest subject to DIRT Foreign investments subject to Irish tax at source Covenant income received Other miscellaneous income
Schedule D	Case V	Irish rental income
Schedule E	n/a	Irish employments, pensions and directors fees
Schedule F	n/a	Dividends from Irish resident companies

Different rules must be used to calculate the amount of income from each source that will be subject to income tax.

Certain income is exempt from income tax e.g. social welfare child benefit payments, lottery and betting winnings etc.

## **(ii) Tax collection system in Ireland**

There are a number of methods for collecting Income Tax by the Revenue Commissioners.

### *The PAYE System*

Pay As You Earn (PAYE) is deducted at source from all income earned from employment. The employer has the responsibility to calculate and deduct the correct amount of Income Tax, PRSI and Levies from an employee's earnings and pay the amount over to the Revenue Commissioners each month. Where an employee has no other source of income, all of their tax will be paid through this system.

### *Self Assessment System*

The self assessment system is a system of collection of Income Tax. It applies to all 'Chargeable Persons' which include:

- All self employed individuals
- All employed individuals who have any income which is not collected through the PAYE system
- All Proprietary Directors (who own more than 15% of the share capital of a company)

All chargeable Persons have a number of obligations each year. They must

- File an Income Tax return for the previous year of assessment
- Make the following tax payments
  - (a) Balance of Income Tax for the previous year of assessment
  - (b) Preliminary Income Tax for the current year of assessment

### *Withholding Taxes*

In addition to PAYE and Self Assessment Systems there are a number of withholding taxes that are applied to certain payments. These are amounts of tax deducted from the payment at source and are generally calculated at a flat rate. Where they are deducted they are normally available as a tax credit for the individual receiving the payment against the individual's total tax liability for the year.

These withholding taxes include:

Deposit Interest Retention Tax (DIRT)

This is deducted by financial institutions from interest on deposit accounts. The current rate is 25%.

Dividend Withholding Tax (DWT)

This is deducted by Irish companies paying dividends to shareholders. The current rate is 20%.

Professional Services Withholding Tax (PSWT)

This is deducted from payments by government departments or state bodies for professional services. The tax is deducted at a rate of 20%.

Relevant Contracts Tax (RCT)

This is deducted from payments made by a principal contractor to a subcontractor in the construction, forestry and meat processing industries. The tax is deducted at 35%.

**(iii) Obligations regarding the filing of an Income Tax return**

Chargeable persons, as described above, are obliged to file an Income Tax return for the year of assessment with the Revenue Commissions. The return should include:

- Details of all sources of income
- Claims for all allowances and credits

The return must be signed by the taxpayer or by the taxpayer's agent. It may be submitted in paper format or filed electronically using the Revenue Online Service (ROS).

A self employed individual completes a form 11 and this form must be filed by the 31 October following the end of the year of assessment.

## 1st Year Examination: May 2011 Business Management Examiner's Report

(1) Number of Candidates **924**

(2) Average Mark per Question

Question	1	2	3	4	5	6
Mark Available	20	20	20	20	20	20
Average Mark	11.7	11.0	14.7	10.4	13.3	10.7
Average %	58%	55%	73%	52%	67%	54%
No. attempting	903	848	908	658	898	267
% attempting	98%	92%	98%	71%	97%	29%

- (3) General comment:  
The pass rate in this examination was 76.2%. This compares to the pass rate of 68.5% achieved in the summer 2010 examination. It was noticeable this year that the candidates who presented for the examinations were well prepared and this is reflected in the marked improvement of the results achieved.
- (4) Comments on Individual Questions  
See attached

### Question 1

This question required the candidate to prepare income tax computations for the year of marriage. The average mark achieved was 11.7 (58%).

The solutions were well presented and easy to follow, however, some basis errors surfaced. In particular it was disappointing to note that very few candidates were able to explain the correct tax treatment of the motor expenses incurred by Samantha in travelling to and from work.

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

Incorrect calculation of the assessable Case I profits for Samantha.

Incorrect calculation of the assessable BIK. This area continues to cause difficulty for candidates.

Failure to notice that Eric was a proprietary director and therefore not entitled to the PAYE tax credit.

Incorrect calculation of the refund due in the year of marriage.

### 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 11 (55%)

Solutions presented showed an improvement compared to those presented for similar questions in the past. Many candidates still have difficulty laying out an answer to this type of question.

Common errors included:

Failure to identify the relevant cash receipts for inclusion in the calculation of the VAT due on outputs.

Failure to cross check to ensure there were no errors in the calculations.

Incorrectly adjusting for the private element of the car used by the managing director.

Incorrect treatment of the VAT on imports.

This question required the preparation of an adjusted profit computation. The average mark achieved was 14.7 (73%).

The question was well answered 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:

Incorrect adjustment for the insurance claim.

Failure to quantify the adjustment required for interest. Many candidates suggested the interest on the term loan should be added back. In addition too many candidates were unable to deal with the mortgage

Incorrect treatment of the pension contribution paid by Marian. Many candidates incorrectly deducted the pension from the drawings.

Failure to adjust for the profit made on the disposal of equipment.

#### **Question 4**

This question tested the candidates' knowledge of the PAYE/PRSI system. Overall the solutions were disappointing.

The average mark achieved was 10.4 (52%).

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

Failure to recognise the week 1 basis had to be applied to week 33. This resulted in very many candidates not applying the cumulative basis to week 34.

Incorrect treatment of the assessable BIK for Kevin and failure to explain the treatment applied.

Incorrect calculation of the amount to be remitted with the form P30. Too many candidates presented a jumble of figures without clearly identifying the component parts of the remittance due. A number of candidates were under the impression that form P30 was used to remit PRSI only.

**Question 5**

This was a multiple-choice question and the average mark achieved was 13.3 (67%).

**Question 6**

This was the least popular question with only 29% of candidates attempting it. The average mark achieved was 10.7 (54%).

Candidates are advised to spend time planning an approach before attempting this type of question. In particular candidates should pay particular attention to the requirements of the question.

While many candidates scored well, too many produced solutions that were disjointed and difficult to follow.

**General Matters**

None