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# Taxation I Republic of Ireland

1<sup>st</sup> Year Examination

**August 2011**

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



### NOTES TO USERS ABOUT THESE SOLUTIONS

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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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Accounting Technicians Ireland

**1<sup>st</sup> Year – August 2011**

**TAXATION I (Republic of Ireland)**

Thursday 18<sup>th</sup> August 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 P9/P11 [Tax Deduction Card (QUESTION 3)]**
- **Form P45 (QUESTION 3)**
- **Multiple Choice Answer Sheet (QUESTION 6)**
- **Tax Reference Material**

## SECTION A

**Answer ALL THREE questions in this section**

### QUESTION 1

Tomasz and Katie have been married for a number of years. Tomasz is aged 66 years while Katie is aged 57 years. Details of their respective incomes and outgoings are as follows:

#### **Tomasz**

Tomasz had been employed as a carpenter up until his retirement in 2009. His former employer subscribed to a pension fund on Tomasz's behalf and following retirement Tomasz received a pension of €9,200 per annum. No tax has been deducted from this pension.

In addition to his former employer's pension Tomasz qualified for the old age pension in 2010. He has received a total of €5,200 from this source in the 2010 tax year.

A number of years ago Tomasz bought an apartment for renting. In the 2010 tax year he received rental income of €9,250 and his expenses in respect of the apartment were as follows:

	€
Maintenance charges	1,240
Service charges	1,065
Mortgage interest	1,800
Advertising	100
Insurance	320
Private Residential Tenancies Board	80
Repairs following flooding	2,650

Tomasz claimed from the insurance company in respect of the damage caused during the flooding. He received a cheque for €2,000 in respect of the cost of the flood repairs as detailed above.

Following retirement Tomasz decided to let a bedroom in his private residence to a student who was attending a university nearby. In the 2010 tax year, he received rental income of €2,650 from the student and he estimates expenses regarding this letting amounted to €250.

**QUESTION 1** (Cont'd.)**Katie**

Katie is a doctor. She runs her own GP practice and prepares accounts for the year ending 31 January each year.

Details of her assessable Case II income are as follows:

	€
Year ended 31 January 2010	79,500
Year ended 31 January 2011	86,600

In the 2010 tax year, Katie contributed €32,000 to a Revenue approved pension fund.

During the 2010 tax year, Katie received a net dividend of €3,600 (net of dividend withholding tax at 20%) in respect of quoted shares owned. In addition, she received interest of €3,720 in respect of deposit interest earned. The deposit interest received was net of D.I.R.T at 25%.

Katie's sister, Julia, is permanently incapacitated. In 2008, Katie drew up a deed of covenant and agreed to pay Julie €2,000 per annum for a period of ten years. In the 2010 tax year, Katie gave Julia a cheque for €1,600. The amount paid is net of income tax of €400.

**Requirement**

Prepare income tax computations for 2010 in respect Tomasz and Katie on the basis that separate assessment applies.

You are requested to clearly show the difference in tax due using separate assessment compared to joint assessment.

**Total 20 Marks**

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

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

You are employed by a firm of Chartered Accountants and have been asked to draft a letter to your new manager outlining your understanding of the following issues:

(a) Marginal relief as it applies to exempted individuals for income tax.

**5 Marks**

(b) The system of tax credits outlining the difference between refundable and non-refundable tax credits.

**5 Marks**

(c) Relief for permanent health insurance premiums paid.

**3 Marks**

(d) Relief for charitable donations outlining the difference between contributions by a self employed person and a PAYE earner.

**7 Marks**

**Total 20 Marks**

### QUESTION 3 (Compulsory Question)

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

#### Kevin Mulkerrins

Kevin has been an employee of AAB Ltd. for a number of years. Details of monthly salary costs and deductions for the month of January 2010 are as follows:

	€
Salary	7,500.00
Add Employer contribution to Pension Fund	<u>750.00</u>
	8,250.00
Less Employee contribution to Pension Fund	<u>600.00</u>
	7,650.00
Add Expenses paid on basis of Civil Service rates	<u>250.00</u>
	<u>7,900.00</u>

In July 2009 AAB Ltd. provided Kevin with a company car. The car cost €25,000 second hand but the original market value when purchased new was €45,000. In the six months to December 2009, Kevin travelled a total of 34,500 kilometres. 30% of the total kilometres travelled was for personal purposes. Kevin expects the monthly travel in 2010 to be similar to that travelled in 2009.

#### Sheila Landsdale

Sheila commenced employment with AAB Ltd. in week 48 of the 2009 tax year. Form P45 supplied by Sheila when she started with AAB Ltd. is enclosed with this paper.

Sheila is paid €355.00 per week.

#### Requirement

- (a) Compute Kevin's take home pay for month 1 of the 2010 tax year and complete the tax deduction card (form P9/P11) supplied.
- (b) Compute Sheila's take home pay for week 1 of the 2010 tax year. You are required to explain the basis used in your calculation of PAYE due for week 1.

**12 Marks**

**8 Marks**

**Total 20 Marks**

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

- (i) In relation to VAT, write a note clearly distinguishing between a 'Zero Rated' activity and an 'Exempt' activity.

**5 Marks**

- (ii) AAX Ltd. is registered for VAT and accounts for VAT on sales at 21% on an invoice basis. The following information has been extracted from the business records in the year ended 31 December 2010.

- (1) The sales manager has the use of a company car. He travels extensively for business purposes and approximately 15% of his travel is for private use. In October 2010, he was involved in a crash while travelling to business customers. The invoice for crash repairs amounts to €1,200 plus VAT at 13.5% of €162.00.
- (2) In December 2010, a credit customer lodged €9,000 directly into the bank account of AAX Ltd. by credit transfer. The lodgement was in respect of the part payment of goods sold on credit in October 2010 amounting to €12,000 plus VAT of €2,520.
- (3) Premises were purchased in February 2010 with the intention of opening a new shop after renovations. Legal fees associated with the purchase amounted to €4,840 VAT inclusive at 21%. In addition the architect's bill for drawing up plans for the new shop and submitting these with the planning application amounted to €2,420 VAT inclusive at 21%.
- (4) A bad debt amounting to €3,630 was written off in July 2009 and relief was claimed for the VAT content when submitting the July/August VAT return. In September 2010, a cheque for €2,000 was received from the debtor and this amount has been treated as a bad debt recovered.
- (5) In November 2010 a new laptop was purchased for the sales manager at a cost of €1,210 VAT inclusive at 21%. The old laptop was sold to an employee for €300. The cash received was not recorded but was taken by the managing director for his personal use.

**Requirement**

Compute the amount of VAT chargeable or recoverable in respect of each of the above transactions. Your answer should include a brief explanation of your treatment of each of the transactions.

**15 Marks**  
**Total 20 Marks**



## QUESTION 5

Ciaran is a quantity surveyor who has been in business for many years. He operates his business from his private house in an effort to keep his expenses to a minimum. The following is a summary of his profit and loss account for the year ended 31<sup>st</sup> December 2010.

	Notes	€	€
Fees earned			151,215
Other income			
Deposit interest earned		250	
Discount received		<u>256</u>	
			<u>506</u>
			151,721
Less expenses:			
Employee costs	1	40,650	
Legal and professional costs	2	3,750	
Depreciation		1,600	
Interest and charges	3	4,702	
Bad debts	4	2,660	
Repairs	5	14,250	
Administration costs	6	3,330	
Premises costs	7	6,450	
Motor expenses	8	10,140	
Travel and subsistence	9	2,000	
Advertising and promotional costs	10	2,300	
Other expenses	11	<u>2,560</u>	
			<u>94,392</u>
Net Profit			57,329

### NOTES:

(1) <i>Employee costs</i>	€
Drawings by Ciaran	12,500
Staff training on health and safety	3,000
Wages to Ciaran's spouse - Milena	8,500
Employee Wages	15,000
PAYE/PRSI paid during the year	<u>1,650</u>
	40,650

Milena is part time employed in Ciaran's business.

In February 2011 a further €800 was paid with the submission of form P35 for 2010 and this has not been included in the accounts. The figure of €800 includes €80 in respect of interest on late payment of PAYE/PRSI.

(2) <i>Legal and professional costs</i>	€
Legal fees in respect of debt collection	800
Legal fees in respect of a dispute with a neighbour concerning a boundary wall	1,200
Professional subscriptions to Institute of Engineers in Ireland	<u>1,750</u>
	3,750

(3) <i>Interest and charges</i>	€
Interest on personal credit card	250
Interest on term loan for purchase of business software	892
Mortgage interest on house loan	3,300
Business bank overdraft facility fees and bank charges	<u>260</u>
	4,702

Ciaran estimates that 20% of the house is used for business purposes.

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

(4) <i>Bad debts</i>	€
Bad debts written off	2,860
General provision for bad debts	(800)
Specific provision for bad debts	1,800
Bad debts recovered	<u>(1,200)</u>
	2,660

In December 2010, Ciaran received a cheque for €1,210 in respect of a further bad debt recovered. The cheque was not cashed until January 2011 and has not been included in the 2010 accounts prepared. The amount received includes €210 VAT.

(5) <i>Repairs</i>	€
Partitioning of office to facilitate meetings with clients	2,800
Installation of office air conditioning system	4,100
Repairs to printer	450
Servicing of office machinery	2,400
Provision for repairs to be carried out in 2011 and 2012	<u>4,500</u>
	14,250

Ciaran entered into a three year contract regarding the servicing of office machinery. The payment of €2,400 was made in January 2010 and represents the cost of servicing the equipment for three years.

(6) <i>Administration costs</i>	€
Telephone calls - land line and mobile call	1,150
Building insurance (note 3 above refers)	880
Magazines and journals for waiting room	300
Rent of office equipment	850
Donation to charity	<u>150</u>
	3,330

Ciaran pays €50 per month for his mobile telephone. 25% of his calls are personal.  
20% of land line calls are also personal.

(7) <i>Premises costs</i>	€
New driveway installed for direct access to offices	6,000
Painting office	<u>450</u>
	6,450

(8) <i>Motor expenses</i>	€
Leasing of a car	6,500
Car running expenses	2,600
Employee car expenses	800
Speeding fines	<u>240</u>
	10,140

The leased car is used by Ciaran for private and business purposes. The list price of the car was €40,000 when it was first leased by Ciaran in July 2009. Total kilometres travelled in 2010 amounted to 50,000 and 18,000 of these were for private use. The car is a category B car based on CO<sub>2</sub> emissions.

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

(9) *Travel and subsistence*

Ciaran attended a business conference in Manchester at a cost of €1,200. Valuable contacts were made at the two day event and Ciaran is confident he will secure additional business from the contacts he made. In an effort to build business relationships he took two of the contacts to a football match at a cost of €800, which included meals and match tickets.

(10)

*Advertising and promotional*

*costs*

	€
Sponsorship of local football team	600
Business cards	500
Maintenance of internet website	<u>1,200</u>
	2,300

Sponsorship of the football team involved the purchase of a set of jerseys with Ciaran's business logo printed on the back.

A clerical error by Ciaran resulted in 5,000 business cards being printed rather than the 500 needed. The surplus business cards have been destroyed.

(11) *Other expenses*

All allowable

**Requirement**

Compute Ciaran's Schedule D, Case I tax adjusted profits for the year ended 31 December 2010.

**Total 20 Marks**

**QUESTION 6**

The following multiple-choice question consists of TEN parts, each of which is followed by FOUR possible answers. There is ONLY ONE 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]** Shauna is an employee of AAL Ltd. and pays income tax at the marginal rate of 41%. In the 2010 tax year she paid €100 permanent health insurance premium. The tax saved by Shauna in respect of this payment is:
- (a) Nil
  - (b) €20
  - (c) €41
  - (d) None of the above
- [2]** Income earned in respect of dividends from Irish companies is taxable in the hands of an individual under:
- (a) Sch. D Case III
  - (b) Sch. D Case IV
  - (c) Sch. E
  - (d) Sch. F
- [3]** The surcharge for the late filing of an income tax return is:
- (a) 10% if the return is submitted within 2 months of the filing date subject to a maximum of €12,695
  - (b) 5% if the return is submitted within 2 months of the filing date subject to a maximum of €12,695
  - (c) 5% if the return is submitted within 2 months of the filing date subject to a maximum of €63,485
  - (d) 10% if the return is submitted within 2 months of the filing date subject to a maximum of €63,485
- [4]** The International Federation of Accountants has set out 5 fundamental principles in the Code of Professional Ethics for use by members and students. These fundamental principles are:
- (a) Integrity, Objectivity, Professional Competence and Due Care, Confidentiality, Professional behaviour.
  - (b) Consistency, Objectivity, Professional Competence and Due Care, Confidentiality, Professional behaviour.
  - (c) Integrity, Timeliness, Professional Competence and Due Care, Confidentiality, Professional behaviour.
  - (d) Integrity, Objectivity, Cleanliness, Confidentiality, Professional behaviour.

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

**[5]** An exempt supply for VAT purposes includes:

- (a) Supply of a computer to a hospital.
- (b) Supply of an X-ray machine to a hospital.
- (c) Supply of book-keeping services to a hospital.
- (d) Supply of hospital services.

**[6]** Jerry is an employee of AAX Ltd. In week 34 of the 2010 tax year he earned €1,700 and from this he contributed €150 to a Revenue approved pension fund. In addition he has an assessable BIK of €75 for week 34. The income levy payable by Jerry for week 34 amounts to:

- (a) €32.50
- (b) €35.50
- (c) €42.14
- (d) €65.00

**[7]** A trader can apply to use the cash receipts basis of accounting for VAT if:

- (a) The trader derives 70% or more of their turnover from sales to unregistered persons.
- (b) The trader derives 80% or more of their turnover from sales to unregistered persons.
- (c) The trader derives 90% or more of their turnover from sales to unregistered persons.
- (d) The trader derives 95% or more of their turnover from sales to unregistered persons.

**[8]** In order to simplify the VAT system the Revenue Commissioners have introduced the following in relation to filing VAT returns:

- (a) Where a trader has a total VAT liability of less than €30,000 in a 12 month period they are required to make two six monthly returns.
- (b) Where a trader has a total VAT liability of less than €3,000 in a 12 month period they are required to make two six monthly returns.
- (c) Where a trader has a total VAT liability of less than €30,000 in a 12 month period they are required to make three returns each year each covering four months.
- (d) Where a trader has a total VAT liability of less than €30,000 in a 12 month period they are required to make one 6 monthly return.

**[9]** Sheila is a single parent with two school going children. She is an employee of RRT Ltd. Her weekly tax credit and cut off point is most likely to be:

- (a) €35.10 per week and €700 per week respectively.
- (b) €70.38 per week and €700 per week respectively.
- (c) €105.58 per week and €700 per week respectively.
- (d) €105.58 per week and €776.92 per week respectively.

**[10]** The filing date for the submission of the end of year form P35 is:

- (a) 31 January 2011
- (b) 14 February 2011
- (c) 28 February 2011
- (d) 31 March 2011

# 1<sup>st</sup> Year Examination: August 2011

## 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.

#### Suggested Solution 1

**Tomasz and Katie**

**Income Tax Computation 2010 based on Separate Assessment**

<b>Tomasz</b>		€	
Sch E	Employer Pension	9,200	
	Old Age Pension	<u>5,200</u>	
			14,400
Sch D	Case V		
	Rental Income		4,445
	Rent a room	2,650	Exempt
	Total income		18,845

<b>Katie</b>			
Sch D	Case II Doctor	79,500	
	RAP Paid	32,000	
	Limit 35%	27,825	27,825
	Carried forward	4,175	51,675
Sch D	Case IV	(€3,720/.75)	4,960
Sch F	Dividends	(€3,600/.8)	4,500
			61,135
Less Charges			
	Deed of Covenant	2,000	
Taxable income			59,135

**Suggested  
Solution 1  
(Cont'd)**

	Tomasz		Katie		Joint	
20%	18,845	3769	45,400	9080	64,245	12849
25%	0	0	4,960	1240	4,960	1240
41%	0	0	8,775	3598	8,775	3598
	18,845	3,769	59,135	13,918	77,980	17,687
Tax Credits						
Single	1,830		1,830		3,660	
PAYE	1,830		0		1,830	
Age	109		541		650	
		3,769		2,371		6,140
		0		11,547		11,547
Deed of Covenant		0		400		400
				11,947		11,947
DIRT	0		1,240			
DWT	0		900			
		0		2,140		2,140
				9,807		9,807

Difference in tax due using separate assessment compared to joint assessment: NIL

Rental Income		
Rent received		9,250
Expenses		
Maintenance	1,240	
Service Charges	1,065	
Advertising	100	
Insurance	320	
Tenancy Board	80	
Repairs	2,650	
Insurance	2,000	
	650	
Interest	1,800	
restrict 25%	450	
	1,350	

## **Suggested Solution 2**

### **(a) Marginal Relief as it applies to exempted individuals for income tax**

An individual is exempt from income tax where they satisfy the following rules:  
Individual is over 65 years or if they are a married couple and one person is over 65  
Total income does not exceed the relevant limit

The relevant limits for the 2010 tax year are:

Single €20,000

Married couple €40,000

These limits are increased by €575 for the first two dependent children and €830 for all other dependent children.

Marginal relief applies where an individual or couple has income above the specified limits listed above.

Marginal relief ensures that the tax payable does not exceed 40% of the income in excess of the relevant limit specified above.

### **(b) The system of tax credits outlining the difference between refundable and non-refundable tax credits**

Tax credits are amounts that an individual can deduct from their total income tax liability. The net amount of tax owed to the Revenue Commissioners is the tax calculated minus all tax credits.

There are two categories of tax credits:

(i) Non-refundable tax credits and (ii) refundable tax credits.

(i) Non-refundable Tax Credits

These are tax credits that an individual is entitled to based on their personal circumstances. They



## **Suggested Solution 2 (Cont'd)**

do not represent an amount paid by an individual. As they are non-refundable tax credits, where they exceed the tax liability for the year there is no refund due to the taxpayer. Non-refundable tax credits can therefore not reduce an individual's tax liability below zero.

The following are examples of non-refundable tax credits:

Personal Tax Credits  
One Parent Family Tax Credit  
Home Carer Tax Credit

### **(ii) Refundable Tax Credits**

Refundable tax credits are deducted from the income tax liability remaining after the non-refundable credits are deducted. However, unlike the non-refundable tax credits, where the total refundable credits exceed the tax liability any excess can be refunded to the individual.

This is because refundable tax credits represent amounts of tax actually paid by the individual.

The refundable tax credits will always be deducted from the tax liability after the non refundable tax credits have been deducted.

The following are examples of refundable tax credits:

PAYE paid  
Dividend Withholding Tax  
Tax on annual payments  
Deposit Interest Retention Tax (subject to restrictions)

### **( c ) Relief for permanent health insurance premiums paid**

Permanent Health Insurance or Income Protection as it is otherwise known, provides income to an individual in the event that they are unable to work due to ill health. An allowance can be claimed for the premiums paid on Permanent Health Insurance policies up to a maximum of 10% of total income.

Income payable to an individual from a Permanent Health Insurance policy is taxable income.

### **Suggested Solution 2 (Cont'd)**

**(d) Relief for charitable donations outlining the difference between contributions by a self employed person and a PAYE earner.**

Tax relief is available for contributions to approved charities. The rules that apply in order to qualify for the relief are as follows:

A minimum annual contribution of €250 to any one charity.

The contribution must be money. It cannot be repayable in any way not can it confer any benefit on the individual making the payment.

The maximum contribution amount is 10% of total income to charities associated with the individual.

The tax relief available is dependent on whether the taxpayer is self employed or a PAYE earner.

#### **Self Employed Individuals**

Where a self employed individual makes a contribution to an approved charity that qualifies for tax relief, the individual can deduct the amount of the contribution as an allowance in his tax computation.

#### **PAYE Relief**

Where a PAYE earner makes a donation to an approved charity the individual gets no relief on this. The charity receives a refund of the tax paid by the individual, in addition to the contribution by the individual. The amount of the refund that the charity gets will depend on whether the taxpayer pays tax at the standard rate of tax or the higher rate of tax.

### Suggested Solution 3

#### Kevin Mulkerrins

	Jan-10
Salary	7,500.00
Less Pension	600.00
Taxable	6,900.00
BIK	225.00
	7,125.00

#### Class A1

##### PRSI/HC Employee

550	4%	22.00
5,703	8%	456.24
872	9%	78.48
7,125		556.72

##### PRSI Employer

7,125	10.75%	765.94
-------	--------	--------

Total PRSI 1,322.66

3,038	20%	607.60
4,087	41%	1,675.67
7,125		2,283.27

Tax Credit 321.67  
1,961.60

##### Income Levy

6,253	2%	125.06
1,472	4%	58.88
7,725		183.94

#### Jan-10

Take Home Pay	
PAY	7,500.00
Pension	600.00
PRSI/HC	556.72
TAX	1,961.60
Income Levy	183.94
	4,197.74

Complete TDC

#### BIK

Car MV 45,000

Kilometres 34,500

Private 10,350

30% 24,150

Annual 48,300

BIK Rate 6%  
2,700

Monthly 225

### Suggested Solution 3 (Cont'd)

**Sheila Landsdale**

				Week 1		
Wages				355.00		
Class AX						
PRSI/HC Employee						
127.00	0%	0.00				
228.00	4%	9.12				
355.00		9.12				
PRSI Employer						
355.00	8.50%	30.18				
Total PRSI				39.30		
Week 1 Basis						
355.00	20%	71.00				
Tax Credit				32.05	Per P45	138.88
				38.95	Adjust	32.05
Income Levy						
355.00	2%	7.10				
Take Home Pay						
PAY				355.00		
PRSI/HC				9.12		
TAX				38.95		
Income Levy				7.10		
				299.83		

Sheila has produced a form P45 from her previous employer. AAB Ltd. will therefore apply the week 1 basis in the calculation of PAYE due. The standard rate cut off point and the tax credit to be used is that given in the form P45 as adjusted for weekly payment as above.

## Suggested Solution 4

(a)

Where an individual or company supplies zero rated goods or services they are obliged to register for VAT subject to registration limits as normal. This allows them to claim an input credit for all VAT paid on goods and services purchased by them. Where an individual or company supplies an exempt service they are not a taxable person and are not entitled to register for Value Added Tax. Therefore they cannot claim an input credit for VAT paid on goods and services received in the course of business.

(b)

[1] The costs associated with running the car for the sales manager are considered business expenses. VAT of €162 charged on the car repairs is allowed as a VAT input credit.

[2] VAT on the credit sale was accounted for when the sale took place in October 2010 and amounted to €2,520. The transfer of a payment of €9,000 will not impact on the calculation of VAT due as AAX Ltd. accounts for VAT on an invoice basis.

[3] Legal fees and architect's fees in this case are considered as business expenses and a VAT input credit can be claimed. The total credit due is €1,260.

[4] A VAT credit of €630 was claimed when the bad debt was written off in July 2009. VAT is due on the €2,000 received in September 2010 and amounts to €347.11.

[5] VAT input credit of €210 is due in respect of the purchase of the new laptop. VAT should have been charged on the sale of the old laptop. VAT at 21% is included in the sale proceeds of €300 and amounts to €62.07.

## Suggested Solution 5

### Adjusted Profit Computation Question

Ciaran

Accounts for the year ended 31st December 2010

Schedule D Case I

Net Profit		£	£
			57,329
<u>Add backs/(deduct)</u>			
<b>Employee costs</b>			
Drawings		12,500	
PAYE/PRSI	(800 - 80)	-720	
		11,780	
<b>Legal and professional costs</b>			
Dispute		1,200	
<b>Interest and charges</b>		1,200	
Personal credit card		250	
Mortgage interest	(3,300 * 80%)	2,640	
		2,890	
<b>Bad debts</b>			
General provision		(800)	
Bad debt recovered Dec 2010	VAT excl	1,000	
		200	
<b>Repairs</b>			
Partitioning		2,800	
Air conditioning		4,100	
Servicing contract	2/3 * 2,400	1,600	
Provision for repairs		4,500	
		13,000	

## Suggested Solution 5 (Cont'd)

<b>Administration costs</b>			
Mobile calls	600 * 25%	150	
Land line calls	(1,150 - 600) * 20%	110	
Building insurance	880 * 80%	704	
Donation to charity		<u>150</u>	
		1,114	
<b>Premises costs</b>			
New driveway		6,000	
<b>Motor expenses</b>			
Leasing personal	6,500 * 18/50	2,340	
	(6,500 - 2,340) *		
Leasing	16/40	1,664	
Car running expenses	2600 * 18/50	936	
Speeding fines		240	
		5,180	
<b>Travel and subsistence</b>			
Football expenses		800	
<b>Advertising and promotional costs</b>			
Depreciation		-	
		1,600	
		43,764	
		101,093	
Deduct			
Deposit interest		-250	
<b>Schedule D Case I - tax adjusted profits</b>			<b>100,843</b>

**Suggested  
Solution 6**

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



# 1<sup>st</sup> Year Examination: August 2011

## Taxation I ROI

### Examiner's Report

Page 1 of Standardised Format of Examiners Report

(1) Number of Candidates **130**

(2) Average Mark per Question

Question	1	2	3	4	5	6
Mark Available	20	20	20	20	20	20
Average Mark	8.9	6.5	8.4	7.1	10.7	10.7
Average %	45%	33%	42%	36%	54%	54%
No. attempting	119	111	120	21	119	120
% attempting	92%	85%	92%	16%	92%	92%

(3) General comment:

The pass rate in this examination was 41%. This compares to the pass rate of 49% in the autumn 2010 examination and 57% in the autumn 2009 examination.

(4) Comments on Individual Questions

## Question 1

This question required the candidate to prepare an income tax computation based on separate assessment. The average mark achieved was 8.9 (45%).

Candidates failed to demonstrate an understanding of separate assessment. Most of the solutions presented were based on single and joint assessment.

A number of errors were noticeable namely:

Failure to restrict the mortgage interest allowed in the Case V computation.

Failure to notice that 'Rent a Room Relief' applied to the letting of a bedroom.

Incorrect calculation of the assessable Case IV and Sch. F income.

Incorrect treatment of the deed of covenant. Many candidates included the net figure rather than the gross. In addition many treated the tax deducted of €400 as a credit rather than a liability.

## Question 2

This question required the candidates to display an understanding of a number of issues relevant to Income Tax.

Overall the question was poorly answered with an average mark of only 6.5 (33%).

Part (a)

Candidates were unable to explain the term marginal relief as it applied to Income Tax. Very few candidates made reference to how the relief is calculated.

Part (b)

Some good answers were presented for this part. However, too many candidates failed to clearly distinguish between refundable and non refundable tax credits.

Part (c)

This part was very poorly answered. Very few candidates understand the treatment of permanent health insurance for Income Tax purposes.

Part (d)

As with part © this part was very poorly answered.

### **Question 3**

This question tested the candidates' knowledge of the PAYE/PRSI system.

The average mark achieved was 8.4 (42%).

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

#### **Kevin Mulkerrins**

Failure to identify the correct amount of taxable income. Very many included the employer pension contribution in taxable pay.

Incorrect calculation of the assessable BIK

Incorrect calculation of the PRSI due. This is surprising as the reference material gives guidance on the rates to be used.

#### **Sheila Landsdale**

Some candidates used the emergency basis rather than the temporary basis.

Failure to explain the basis used in the calculations presented.

### **Question 4**

This question required that the candidates display an understanding of VAT issues.

#### **Part (a)**

This part required candidates to explain the distinction between zero rated activities and exempt activities as it applies to Value Added Tax.

This part was very poorly answered. It is clear that most candidates had little understanding of these terms.

#### **Part (b)**

Most candidates failed to provide an explanation of the treatment of each of the transactions outlined.

The average mark achieved for this question was a disappointing 7.1 (36%).

### **Question 5**

This question required the preparation of an adjusted profit computation. The average mark achieved was 10.7 (54%).

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:

Incorrect treatment of bad debts and bad debts recovered

Incorrect adjustment for the service contract

Failure to correctly adjust for the leasing of the car. Very many of the calculation presented were incorrect.

### **Question 6**

This was a multiple-choice question and the average mark achieved was 10.7 (54%).