Accounting Technicians Ireland

Advanced Taxation
Republic of Ireland

2nd Year Examination

August 2013

Exam Paper, Solutions & Examiner's Report

Professional. Practical. Proven.

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.

Accounting Technicians Ireland

Accounting Technicians Ireland

2nd Year Examination : Autumn 2013

ADVANCED TAXATION (Republic of Ireland)

Thursday 22nd August 2013 - 2.30 p.m. to 5.30 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 2012. The provisions of the Finance Act 2013 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 QUESTION 1, QUESTION 2 and QUESTION 3 (Compulsory) in Section A and ANY TWO of the four questions in Section B. If more than TWO questions are answered in Section B, then only the first two questions, in the order filed, will be corrected.

Candidates should allocate their time carefully.

All workings should be shown.

All figures should be labelled as appropriate e.g. €, units, etc.

Question 1 begins on Page 2 overleaf.

The following insert is enclosed with this paper:

- **Tax Reference Material**

SECTION A

Answer QUESTION 1, 2, 3 (Compulsory) in this Section

QUESTION 1 (*Compulsory)*

Tom Keogh (45 years) is a self-employed plumber. His accounts for the year ended 30th April 2012 show a tax adjusted profit of €80,000. On the 1st January 2012 he sold his van for €9,000 and purchased a new van for €30,000. The emissions of the new van were 160g/km. The van is used 100% for business use. The van sold was originally purchased by Tom in July 2008 for €25,000, emissions 160g/km.

Tom's only other asset was tools and equipment that he purchased in June 2009 for €8,000. Tom has always had April as his year end.

Tom's wife Sheila does not work and stays at home to look after their two young children.

Tom had the following payments in 2012:-

1. A pension contribution of €8,000.
2. Premium of €2,000 to the VHI for his family's private health care.
3. During 2012 his family had the following medical expenses:-

	€
GP visits	500
Prescription charges	650
Visit to dentist, including two fillings	250
X-ray	150
	1,550

   Tom received a refund of €220 from the VHI for the above GP visits.

4. Permanent health insurance premium of €1,850.

Tom had the following other income in 2012:-

1. Tom and Sheila rent out a room in their home and received rent of €9,500 in 2012.
2. Tom won €5,000 on the Lotto in May 2012.
3. Tom received a dividend of €960 from his shares in O'Reilly Limited an Irish company.

Tom paid preliminary tax of €15,800 by cheque for the 2012 tax year on the 30th October 2012. Tom's total tax liability for the 2011 tax year was €20,000.

Requirement:

(1) Calculate Tom and Sheila's Income tax, PRSI and USC for 2012. **16 Marks**

(2) Did Tom pay enough preliminary tax for 2012? If not please calculate any penalties now facing Tom. You may assume Tom's Form 11 for 2012 and any outstanding tax for 2012 will be paid and submitted on the 31st October 2013. **4 Marks**

Total 20 Marks

QUESTION 2 (*Compulsory)*

Kelly Limited is an Irish resident company. The share capital of the company comprises 10,000 ordinary of €1 each owned as follows:-

Sean Kelly	4,000
Michael Kelly	4,000
Maureen Kelly	2,000
	10,000

Sean and Michael Kelly are directors of the company and work in the company full time. Maureen is a full time mother and is not a director and does not work for the company.

The year ended 31st May 2012 shows the following results:-

	Notes	**€**	**€**
Sales			450,000
Cost of sales			(260,000)
Gross profit			190,000
Other income	1		60,000
			250,000
Less Expenses:			
Depreciation		5,400	
Motor expenses	2	15,850	
Directors remuneration		110,000	
Rent and Rates		37,600	
Legal fees	3	3,100	
Insurance		1,450	
Sundries	4	6,000	
Telephone		1,960	(181,360)
Net Profit			68,640

Notes:

1. Other Income:	**€**
Rental income	40,000
Dividend from Irish company	5,000
Dividend from a UK investment company	5,000
Deposit income received gross	10,000
	60,000

QUESTION 2 *(Cont'd)*

2. **Motor expenses:**

	Running costs	Lease rental	Cost	Emissions
	€	€	€	
Van	4,150	5,100	35,000	159g/km
Motor vehicle used by Sean Kelly (25% Private use)	2,800	3,800	22,000	170g/km

3. **Legal Fees**

	€
Pursuing breach of contract by a supplier	1,600
Fine for illegal dumping	800
Drafting conditions of sale of supplier contract	700
	3,100

4. **Sundries:**
To celebrate 10 years in business the company paid for the 3 shareholders Sean, Michael and Maureen to go on a cruise for a week. The cost to the company was €2,000 per person and was paid by the company on 2nd April 2012.

5. On 1st March 2012 the company made an interest free loan to Sean Kelly of €20,000 to enable him to discharge a personal debt.

6. The company had a trade loss of €15,000 carried forward from the previous accounting period.

7. The capital allowances for plant and machinery for Kelly Limited for the accounting period the year ended 31st May 2012 are €8,100.

Requirement:

(1) Compute Kelly Limited's tax liabilities in respect of the year ended 31st May 2012.

Note: you are not required to calculate the close company surcharge. **15 Marks**

(2) When should Kelly Limited file its corporation tax return for this accounting period?

1 Mark

(3) When should Kelly Limited pay its corporation tax for this accounting period?

Note: You may assume that Kelly Limited is a small company.

2 Marks

(4) What are the tax consequences for late payment of the corporation tax?

2 Marks

Total 20 Marks

QUESTION 3 (*Compulsory)*

(a) Joseph Murphy has set up a new retail electrical shop in North County Dublin. In preparation registered for VAT and done a lot of research into the VAT rules. However he still has conce regarding the matters listed below:-

(1) Does he have to issue a VAT invoice to all his customers and what is the deadline for issuing a VAT invoice?

3 Marks

(2) He plans to take the staff out for a meal and drinks as a reward for all their hard work. Will Joseph be able to claim an input credit for this expense?

2 Marks

(3) He plans to import most of his electrical goods from VAT registered German suppliers. Explain the VAT procedure he must follow.

5 Marks

(4) He plans to take a dishwasher from stock to give to his wife as a gift. The dishwasher cost €200 net of 23% VAT. Joseph would normally sell this dishwasher for €410 including VAT.

2 Marks

Requirement:

Advise Joseph of the VAT treatment of each of the above situations.

(b) Julian who is registered for VAT and has successfully applied for the cash receipts basis of accounting for VAT had the following transactions for September/October 2012:-

	September 2012	**October 2012**
	€	**€**
Sales to Debtors	18,500	21,000
Cash Sales	3,000	4,200
Received from Debtors	15,450	22,100
Purchases from Creditors	9,500	12,500
Payments to Creditors	10,100	9,800

All the above amounts are inclusive of VAT at 23%.

Requirement:

(1) Calculate the VAT payable for September/October 2012.

5 Marks

(2) State the tax consequences if Julian paid the VAT due on the 10^{th} December 2012. Julian uses ROS to submit his VAT return.

3 Marks

Total 20 Marks

SECTION B

Answer any TWO of the FOUR questions in this section

QUESTION 4

Jane and Ken Lyons have been married since 2005. They are both resident and domiciled in the State. During 2012 they have the following disposals:-

(i) Jane sold a painting for €2,400, she originally purchased the painting in June 1987 for €3,000.

(ii) Ken gave his wife Jane 4,000 shares he owned in Green Limited. Ken had purchased these shares in July 1990 for €6,000. The market value of the shares now in 2012 is €12,500.

(iii) Ken sold 5 acres of land in 2012 for €10,000, legal fees on disposal were €500. Ken had originally received 20 acres of farm land when his uncle Bert died in July 2003. Its market value in July 2003 was €25,000. Ken had previously sold 15 acres in November 2006 for €30,000. The market value of the 5 acres remaining was €11,000 in November 2006.

(iv) Ken sold a van in September 2012 he used for business use for €10,000. The van was purchased in July 2010 for €8,500. Ken's year end is the 30th November each year and he claimed wear and tear of 12½% per annum on the van.

Requirement:

(1) Calculate Jane and Ken's capital gains tax for 2012. **13 Marks**
(2) List three specified assets. **3 Marks**
(3) Christiano, who is Italian, has been in Ireland since May 2008. On the 10th January 2012 he returned to Italy. What is his liability to Irish capital gains tax for 2012? **4 Marks**

Total 20 Marks

QUESTION 5

Alan Black, a single man, commenced practice as a solicitor on the 1st June 2009. Details of his income are as follows:-

	€
Year ended 31st May 2010	17,000
Year ended 31st May 2011	10,000
Year ended 31st May 2012	30,000

QUESTION 5 *(Cont'd)*

Details of his assets are as follows:-

Purchase date	**Cost Price (€)**	**Details**
1/6/2009	30,000	Car – emissions 175g/km
15/12/2009	14,000	Computer and phone system
1/8/2010	8,000	Fixtures and fittings
16/7/2012	35,000	Car – emissions 140g/km

Disposal	**Sales proceeds (€)**	**Details**
16/7/2012	16,250	Car purchased 1/6/2009

Alan's other income for 2012 is:-

(1) Dividend received from an Irish company in August 2012 of €2,400
(2) Gross deposit interest of €1,500 from his deposit account with AIB. D.I.R.T. applies to the interest.

Alan who is 35 years old started a pension fund in 2012. Details of his payments are:-

Date	**€**
April 2012	6,000
May 2013	11,000
November 2013	5,000

Requirement:

(1) Calculate Alan's Schedule D Case II income before Capital allowances for 2009, 2010, 2011 and 2012 exercising all available options. **5 Marks**

(2) Calculate Alan's capital allowances for 2009, 2010, 2011 and 2012. **6 Marks**

(3) Calculate Alan's retirement annuity relief for 2012. **4 Marks**

(4) Calculate Alan's PRSI and USC for 2012. **4 Marks**

(5) State the payment date for Alan's preliminary tax for 2012. **1 Mark**

Total 20 Marks

QUESTION 6

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

Requirement
Indicate the right answer to each of the following TEN parts. **Total 20 Marks**

N. B. ***Each part carries 2 marks.***
Candidates should answer this question by ticking the appropriate boxes on the special answer sheet which is contained within the answer booklet.

1. Joe Byrne was born in Cork of Irish parents. On the 10th January 2012 he left Ireland and moved to Spain to work with his Uncle who had a building company in Madrid. When will Joe be considered not ordinarily resident in Ireland?

(a) 2013
(b) 2012
(c) 2015
(d) 2014

2. Kevin is self employed. He has been in business for many years. His year end is the 30th April each year.

On 1st July 2012 he sold a machine for €5,000. He had originally purchased this machine in November 2008 for €10,250. What are Kevin's capital allowances for this asset for 2012:

(a)	Wear and Tear	€1,281
(b)	Balancing charge	€ 125
(c)	Balancing allowance	€ 125
(d)	Balancing charge	€1,407

3. Angela and Simon Burns are married. They have two children. As the children now attend school, Angela has got a part-time job. She commenced employment in 2009. Her salary for 2012 was €5,500.

Calculate Angela's carer's credit for 2012:

(a) None as her income exceeds €5,080.
(b) €810 as her income is less than €6,700.
(c) €390
(d) €600

QUESTION 6 (*Cont'd)*

4. Sarah Duffy works for Jones and Company. Her employer provides her with a company car. The ... was purchased on the 1^{st} April 2012 for €28,000. The market value of the car was €35,000. Sarah travelled 22,000 km from April 2012 to December 2012. Sarah also paid €150 for the service of the car in November 2012. Calculate Sarah's B.I.K for 2012:

(a) €8,400

(b) €6,150

(c) €7,875

(d) €6,300

5. Janet and Brian Cullen are married. They have joint assessment and Brian is the assessable spouse. Janet obtained first place in the May 2011 Advanced Tax paper with ATI. They have decided that Janet should now be the assessable spouse for 2012. When must they elect to change the assessable spouse for 2012?

(a) 31^{st} October 2012.

(b) 31^{st} December 2012.

(c) 1^{st} April 2012.

(d) 1^{st} January 2012.

6. Alpha Limited has a year end the 31^{st} July each year. The company had a trade loss in its accounting period the year ended 31^{st} July 2012 of €10,000. The company elected to carry this loss back to its previous accounting period 31^{st} July 2011 to reduce trading income liable at the standard rate. What is the time limit for this election?

(a) 31^{st} July 2013.

(b) 31^{st} December 2012.

(c) No time limit required as only trading income is reduced.

(d) 31^{st} July 2014.

7. Beta Limited is an Irish company registered for VAT. It paid its VAT for May/June 2012 on the 28^{th} July 2012. The penalty for late payment was:-

(a) €4,000

(b) Interest of .0274% per day.

(c) 5% surcharge.

(d) Interest of .0219% per day.

QUESTION 6 (*Cont'd)*

8. Gamma Limited's accounting period is the year ended 31st December 2012. It is a large company fo corporation tax purposes.

State when Gamma Limited must pay the balance of its corporation tax for its year ended 31st December 2012.

(a) 23rd September 2013.

(b) 23rd November 2012.

(c) 23rd June 2012.

(d) 31st January 2013.

9. James O'Reilly started his first part-time job on the 1st September 2012. His wages to the 31st December 2012 was €5,000. His PAYE credit for 2012 was:

(a) €1,650

(b) None as James works part-time.

(c) €1,000

(d) €1,650 x 4/12 = €550

10. The rate of withholding tax in capital gains tax is:

(a) 35%

(b) 20%

(c) 15%

(d) 27%

QUESTION 7

(a) Give two examples of a covenant allowed for tax purposes. **3 Marks**

(b) Mark Hughes, who is single, is sales director for ABC Limited. Details of his remuneration package for 2012 are as follows:-

(i) Salary €48,000 – PAYE deducted €14,000.

(ii) Mark received commission in addition to his salary. He earned commission of €10,000 for 2012, but €2,000 was not paid to Mark until January 2013.

(iii) Mark is provided with a company car. The original market value was €35,000. Mark pays for the insurance of the car which was €500 for 2012. Mark travels 10,000 business kilometers per annum.

The nature of Mark's job means that he spends 60% of his time working away from the office.

Details of Mark's other income and outgoings for 2012 are as follows:-

Income	**Note**	**€**
Irish bank deposit interest – net of DIRT		1,400
Irish dividend received from Jones Limited		400
Outgoings		
Covenant	1	8,000
Private health insurance		850
Third level tuition fee for a part-time approved course		4,000

Note 1

Mark's sister Caroline, who is 22 years old and single, is permanently incapacitated since birth. Mark set up a ten year covenant of €8,000 per annum to help Caroline with her living expenses. Caroline has a part-time job and earns a salary of €6,900 for 2012. Her only outgoings are qualifying medical expenses of €2,000.

Requirement:

(1) Calculate Mark's income tax for 2012. **12 Marks**

(2) Calculate Caroline's income tax for 2012. **5 Marks**

Total 20 Marks

2nd Year Examination: August 2013

Advanced Taxation ROI

Suggested Solutions

Students please note: These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

Solution 1:

Tom Keogh

(i) **Tom and Sheila**
Income tax computation – 2012

	Notes	**€**	**Marks Allocated**
Schedule D – Case I	1	68,625	**1 Mark**
Schedule D – Case V	2	–	**2 Marks**
Schedule F €960 / 80 x 100		1,200	**1 Mark**
		69,825	
Less: Charges: Retirement annuity	4	(8,000)	
Statutory income		61,825	
Permanent health insurance	6	(1,850)	**½ Mark**
		59,975	
€41,800 at 20%	=	8,360	**½ Mark**
€18,175 at 41%	=	7,452	
€59,975		15,812	
Less: Married credit		(3,300)	**½ Mark**
Carers credit		(810)	**1 Mark**
Medical expenses	7	(216)	**1½ Marks**
Income tax liability		11,486	
PRSI	8	2,793	**1 Mark**
USC	9	4,207	**1 Mark**
		18,486	
Less: DWT €1,200 at 20%		(240)	**½ Mark**
Preliminary tax		(15,800)	**½ Mark**
Tax Due		2,446	

(ii) **Preliminary tax for 2012:**

Lower of:-

(a) 100% of 2011	=	20,000	**1 Mark**
Or			
18,486 – 240 = 18,246 x 90%	=	16,421	**1 Mark**

The amount paid of €15,800 was not sufficient.

Interest payable on preliminary tax underpaid

Underpayment €18,246 – €15,800 =		2,446	
Interest of 0.0219% per day			
31/10/2012 to filing date 31/10/2013 total 365 days			
€2,446 x 0.0219% x 365	=	196	**2 Marks**

Notes:

1. Capital allowances

		€	
Van		30,000	
Tools/equipment		8,000	
		38,000	
€38,000 at 12½%	=	4,750	

Balancing position: Disposal of van

Sales proceeds	9,000	
TWDV (W1)	15,625	
Balancing allowance	6,625	

Summary:

	€	
Wear and Tear	4,750	**1 Mark**
Balancing allowance	6,625	**2 Marks**
	11,375	
Case I – 30/4/2012	80,000	
Less: Capital allowances	11,375	
	68,625	

Working 1

July 2008: 30th April 2009: 2009

	Van €
2009	
Addition	25,000
Wear and Tear	(3,125)
TWDV – 31/12/2009	21,875
2010	
Wear and Tear	(3,125)
TWDV – 31/12/2010	18,750
2011	
Wear and Tear	(3,125)
TWDV - 31/12/2011	15,625

2. The rental income is exempt as it is qualifies for rent a room relief.

3. The winnings on the Lotto are also exempt. **½ Mark**

4. Retirement annuity:

	€	
Relevant earnings: Schedule D – Case I	68,625	
Maximum relief: €68,625 at 25% =	17,156	**1 Mark**
Limited to premium paid of	8,000	

5. Tax relief is available at source for the VHI premium. **½ Mark**

6. The maximum allowed is 10% of Tom's statutory income.

7.	**Medical expenses:**		**€**
	GP visits		500
	Prescription costs		650
	Dentist		–
	X-ray		150
			1,300
	Less: Refund from VHI		220
			1,080
	Credit €1,080 at 20%	=	216
8.	**PRSI**		
	Total income		69,825
	4%	=	2,793
9.	**USC**		**€**
	Total income		69,825
	€10,036 at 2%	=	201
	€ 5,980 at 4%	=	239
	€53,809 at 7%	=	3,767
	€69,825		4,207

...ks ...ted

Solution 2:

(a) **(i)** **Corporation tax computation Year ended 31st May 2012**

	Notes	€	
Case I	1	–	
Case III	2	5,000	
Case III		10,000	**½ Mark**
Case V		40,000	**½ Mark**
		55,000	
Corporation Tax: €55,000 at 25% =		13,750	**1 Mark**

(ii) **DWT**

The holiday paid by the company for Maureen is treated as a distribution as Maureen is not a director/employee of the company.

The company must account for DWT as it is deemed to have made a distribution. The expense paid of €2,000 is treated as the distribution amount.

DWT of €400 (€2,000 at 20%) is payable. The amount is payable to the collector general on or before the fourteenth day after the month the benefit was paid, in this case 14th May 2012. **2 Marks**

(iii) **Income tax**

As the company made a loan to a participator the company is required to pay income tax in respect of the amount of the loan re-grossed at the standard rate.

Ap 31/5/2012

Income tax

€20,000 x 20/80 = €5,000 **2 Marks**

The €5,000 is payable by Kelly Limited with its corporation tax under Section 239 TCA 1997. No deduction is allowed in the company's accounts for the loan or the tax paid.

Summary of Kelly Limited Tax liabilities:

	€
Corporation tax	13,750
DWT	400
Income tax	5,000

(b) 23rd February 2013. **1 Mark**

(c) Kelly Limited is a small company as its corporation tax in its previous period is less than €200,000 as it had losses being carried forward.

The payment dates are:-

Preliminary payment date:	23rd April 2012.	**1 Mark**
Final payment date:	23rd February 2013.	**1 Mark**

(d) Interest charges will apply at the rate of 0.0219% per day (8% per annum) on late payment of corporation tax. **2 Marks**

Notes:

1. Case I computation

		€	€	
Net profit per accounts			68,640	
Addbacks:	Depreciation	5,400		½ Mar
	Motor expenses (W1)	1,900		1 Mark
	Legal fees – fine	800		½ Mark
	Sundries (W2)	2,000	10,100	2 Marks
			78,740	
Deductions:	Other income	60,000		½ Mark
	Capital allowances	8,100	68,100	½ Mark
			10,640	
Less: Section 396(I)			(15,000)	2 Marks
			–	

Loss carried forward to the next accounting period is €4,360.
This loss can only reduce profits of the same trade.

2. **(i)** The dividend from the Irish company is franked investment income and exempt from tax. **1 Mark**

(ii) The dividend from the UK company is liable to tax at 25% as it does not qualify for the 12½% rate as it is not a trading company. **1 Mark**

Workings:

1. Motor expenses;

Van: no addback, expenses allowed in full
Motor vehicle no adjustment required for private use
Sean will be assessed on a B-I-K

Limit: Lower of:
(i) €22,000 x 50% = €11,000
or
(ii) €24,000 x 50% = €12,000

$$€3,800 \times \frac{€22,000 - €11,000}{€22,000} = €\ 1,900$$

2. Sundries:

As Sean and Michael are directors the company will be entitled to tax relief for this expense.
Sean and Michael will be assessed to tax on this benefit under the B-I-K rules.
As Maureen is not a director/employee of the company this payment is treated as a distribution.
The company must operate DWT on the amount and the expense is not allowed in the company accounts and must be added back.

Solution 3

(a) **(1)** Joseph is only required to issue a VAT invoice to registered customers. **1 M**

He is obliged to issue a VAT invoice within 15 days after the end of the month in which the goods are supplied. **2 Marks**

(2) The VAT incurred on the purchase of food and drink in a hotel or restaurant is always disallowed so Joseph will not be allowed to claim an input credit for this expense. **2 Marks**

(3) Where a VAT registered business imports goods from an EU supplier they will self-account for VAT on the purchase. The following steps are required to be followed in order to account for VAT correctly:-

(A) The Irish trader must supply their Irish VAT registration number to the EU supplier. Once this is done the EU supplier will supply an invoice with no VAT charged on it. It will only show the net amount. **2 Marks**

(B) The Irish trader will include the net amount on the invoice as a sale in their VAT return for that VAT period and increase the amount of VAT they pay over to the Collector General. **1 Mark**

(C) On the same VAT return they will also include a deduction for the VAT on the purchase. The amount of input credit is the amount of VAT they have charged themselves. This has the effect of rendering the transaction VAT neutral i.e. output VAT will be equal to input VAT in respect of the intra-community acquisitions. **2 Marks**

(4) This transaction will be treated as a self-supply. Joseph must record this as a sale at cost price. The VAT due to the revenue by Joseph is:- **2 Marks**

€200 x 23% = €46

(b) **(1)**

	€	**€**	
VAT on cash receipts			
Cash sales €3,000 + €4,200	7,200		**1½ Marks**
Receipts from debtors €15,450 + €22,100	37,550		**1½ Marks**
	$\frac{44,750}{123}$ x 23 =	8,368	
Less: VAT on purchases €9,500 + €12,500 =	$\frac{22,000}{123}$ x 23 =	4,114	**2 Marks**
VAT due		4,254	

(2) As Julian used ROS the due date for the September/October 2012 VAT return is the 23rd November 2012. **1 Mark**

As Julian was late paying his VAT he will be liable to interest of .0274% per day late. **1 Mark**

€4,254 x .0274% x 17 days = €20 **1 Mark**

Solution 4
(a)

rks
ted

(i) Jane:

	€	
Deemed sales proceeds	2,540	2
Cost	3,000	
Loss	460	

(ii) This is an exempt disposal, as it is a transfer between spouses. **2 Marks**

(iii) November 2006

	€	
€25,000 x $\frac{30,000}{30,000 + 11,000}$ =	18,293	**2 Marks**

The cost remaining after the disposal of 15 acres in November 2006 is

€25,000 – €18,293 =	6,707	
Sales proceeds – 2012	10,000	
Less: legal fees	500	
	9,500	
2003 cost	6,707	**1 Mark**
Gain	2,793	

(iv)

Sales proceeds	10,000	
July 2010 cost	8,500	**2 Marks**
Gain	1,500	

Summary:

Jane
No capital gains tax for 2012. Her annual exemption is lost. She may transfer her loss on the painting to her husband Ken. **2½ Marks**

Ken

	€	
5 acres of land	2,793	
Van	1,500	
	4,293	
Less: loss from Jane	460	**½ Mark**
Annual exemption	1,270	**½ Mark**
	2,563	
Capital gains tax at 30% =	769	**½ Mark**

(b) **Specified Assets**

(a) Land and buildings in the State.
(b) Minerals in the State.
(c) Rights in the Irish continental shelf.
(d) Unquoted shares deriving their value from assets (a) to (c).
(e) Assets of a trade carried on in the State.
Note: The question only requires three specific assets.

1 Mark for each (Max 3 Marks)

(c) Christiano is not resident in Ireland as he only spent 10 days in Ireland in 2012. He is however still ordinarily resident here as he remains ordinarily resident for three years after he leaves. Christiano has an Italian domicile. Christiano is liable to Irish capital gains tax in 2012 on his Irish gains and any foreign gain remitted to the state.

1 Mark
1 Mark
2 Marks

Marks Allocated

Solution 5:

Alan Black

1. | **Tax Year** | **Basis of Assessment** | | **Amount (€)** | |
|---|---|---|---|---|
| 2009 | Actual 1/6/09 to 21/12/09 €17,000 x 7/12 | | 9,917 | |
| 2010 | 31st May 2010 | | 17,000 | **1 M...** |
| 2011 | C/Y | 31st May 2011 | 10,000 | **½ Ma...** |
| 2012 | C/Y | 31st May 2012 | 30,000 | **½ Mark** |

Section 66 – tax payers option: **2 Marks**

• Original assessment for year 2		17,000
• Actual for year 2 – 2010 1/1/10 to 31/12/10		
	€17,000 x 5/12 = €7,083	
	€10,000 x 7/12 = €5,833	12,916
	Excess	4,084
	Year 3 = 2011	10,000
	Less: Excess	4,084
		5,916

Final assessments:

Year	**€**	
2009	9,917	
2010	17,000	
2011	5,916	(as revised)
2012	30,000	

The time limit for exercising the Section 66 option is the 31st October 2012.

2. **Basis periods for capital allowances:**

2009	1/6/2009 to 31/12/2009	7/12
2010	1/6/2009 to 31/5/2010	
2011	1/6/2010 to 31/5/2011	
2012	1/6/2011 to 31/5/2012	

	Straight line 12½%	
2009		
Additions	30,000	**1 Mark**
	12,000	
	14,000	**½ Mark**
	26,000	
W + T (7/12)	(1,896)	**2 Marks**
TWDV – 31/12/2009	24,104	
2010		
W + T	(3,250)	**½ Mark**
TWDV – 31/12/2010	20,854	
2011		
Addition	8,000	
	28,854	**½ Mark**
W + T	(4,250)	**½ Mark**
TWDV – 31/12/2011	24,604	

Marks Allocated

2012		
W + T	(4,250)	
TWDV – 31/12/2012	20,354	

Summary:

Tax year	Profits assessed	Capital allowances	DII
	€	€	€
2009	9,917	1,896	8,021
2010	17,000	3,250	13,750
2011	5,916	4,250	1,666
2012	30,000	4,250	25,750

3. As Alan is aged 35 years the maximum tax relief available for the retirement annuity is 20% of his net relevant earnings. **1 Mark**

Alan's relevant earnings is his Case II income for 2012, €25,750. As Alan has no other charges this is also his net relevant earnings. **2 Marks**

Max tax relief:

€25,750 x 20% = €5,150

Alan paid €6,000 in 2012. The maximum relief is €5,150. Alan will have a premium carried forward to 2013 of €850. **1 Mark**

4. Alan's PRSI:

Total income – 2012		**€**	
Schedule D – Case II		25,750	
Schedule F $\frac{2,400}{80} \times 100$	=	3,000	
Schedule D – Case IV		1,500	
		30,250	**1 Mark**
PRSI: €30,250 at 4%	=	1,210	**1 Mark**

Alan's USC:

Schedule D – Case II		25,750	
Schedule F		3,000	
Schedule D – IV		exempt	
		28,750	**1 Mark**
€10,036 at 2%	=	201	
€ 5,980 at 4%	=	239	
€12,734 at 7%	=	891	**1 Mark**
€28,750		1,331	

5. Alan's preliminary payment date for 2012 is the 31st October 2012. **1 Mark**

Solution 6:

arks
cated

1.	(c)				
2.	(a)	2012 c/y 30/4/2012 The machine is in use at the end of the basis period.			E
		€10,250 at 12½%	=	€1,281	Carr
					2 Mark
3.	(d)	The carers credit is reduced by:-			
		½(€5,500 – €5,080)	=	€210	
		€810 – €210	=	€600	
4.	(d)	$\frac{22,000}{9}$ x 12	=	29,333km	
		€35,000 x 24% x 9/12	=	€6,300	
5.	(c)				
6.	(d)				
7.	(b)				
8.	(a)				
9.	(c)	€ 5,000 at 20%	=	€1,000	
10.	(c)				

Solution 7: **Marks Allocated**

(a) The covenants allowed for tax purposes are:-

Covenants to Minor Children
Tax relief is available on a covenant to a child in the following circumstances: **1½ Marks**

- The covenant is in favour of a permanently incapacitated child, and
- The covenant is from someone other than the child's parent.

Covenants to Adults
Tax relief is available on a covenant to an adult in the following circumstances: **1½ Marks**

- The covenant is in favour of a permanently incapacitated adult or
- The covenant is in favour of an adult over 65 years. In this case the maximum amount on which tax relief can be claimed is 5% of the covenanter's total income.

In all cases the covenant must be capable of lasting for more than six years to qualify for tax relief.

(b) **Mark – Income tax compilation**

		Notes	€	Marks
Schedule E		1	68,500	
Schedule D – IV	$\frac{1,400 \times 100}{70}$ =		2,000	**1 Mark**
Schedule F	$\frac{400 \times 100}{80}$ =		500	**1 Mark**
			71,000	
Charges				
Covenant		2	8,000	**1 Mark**
Statutory Income			63,000	

			Marks
€32,800 at 20%	=	€ 6,560	
€ 2,000 at 30%	=	€ 600	**½ Mark**
€28,200 at 41%	=	€11,562	
€63,000		€18,722	
Less: Credits:			
Single		(€1,650)	**½ Mark**
PAYE		(€1,650)	**½ Mark**
Third level fees:			
€4,000 – €1,125 at 25%		(€ 575)	**1 Mark**
Tax liability		€14,847	
Add: Tax on covenant:			
€8,000 at 20%	=	€ 1,600	**1 Mark**
Less: PAYE paid	=	€14,000	**½ Mark**
DIRT	=	€ 600	**½ Mark**
DWT 500 at 20%	=	€ 100	**½ Mark**
Tax Due		€ 1,747	

Marks Allocated

Caroline – Income Tax compilation

Schedule E	6,900	
Schedule D – IV Covenant	8,000	
	14,900	

€14,900 at 20%		=	€ 2,980	½ Mark
Less:	Single credit	=	(€ 1,650)	
	PAYE credit			
	€6,900 at 20%	=	(€ 1,380)	1 Mark
	Medical expenses:			
	2,000 at 20%	=	(€ 400)	1 Mark
Tax liability			Nil	
Less:	Tax paid on covenant:			
	€8,000 at 20%	=	€ 1,600	1 Mark
Refund Due			€ 1,600	

Notes

1.

		€	
Schedule E			
Salary		48,000	½ Mark
Commission		10,000	1 Mark
BIK	35,000 x 30%	10,500	2 Marks
		68,500	

As Mark was not away from his employer's place of business 70% of his time he is not entitled to the 20% deduction in his BIK.

2. As Caroline is a permanently incapacitated adult this covenant is allowed in full.

3. Relief for the private health insurance is given at source. ½ Mark

2nd Year Examination: August 2013

Advanced Taxation ROI

Examiner's Report

Statistical Analysis – By Question							
Question No.	1	2	3	4	5	6	7
Average Mark (%)	50%	39%	54%	39%	57%	51%	65%
Nos. Attempting	200	202	200	153	59	136	55

Statistical Analysis - Overall	
Pass Rate	52%
Average Mark	48%
Range of Marks	**Nos. of Students**
0-39	59
40-49	38
50-59	57
60-69	38
70 and over	12
Total No. Sitting Exam	**204**
Total Absent	51
Total Approved Absent	7
Total No. Applied for Exam	262

General Comment:

The standard was disappointing with many candidates not adequately prepared for the exam. It is important to practice on the past paper questions and the pilot papers as well as the material in the manual to ensure exam success.

Question One
This was a straight forward income tax computation with a PRSI and USC calculation. It also included information on the taxpayer's preliminary tax requirements.

More time needs to be spent on PRSI and USC which was incorrectly calculated by most candidates. Also a large number of candidates still do not appreciate that tax relief for private health insurance is given at source. A large number of candidates showed no workings for the pension contribution allowed for tax, remember full workings need to be shown to obtain marks.

It was surprising the number of candidates who did not have any appreciation that your preliminary tax can be based on 100% of last year's tax or 90% of this year's tax liability.

Question Two
Candidates need to spend a lot more time on this tax. Most candidates were completely unaware of the close company implications in the question. Also a large number of candidates did not know the filing or payment dates for the corporation tax of the company. Also the tax consequences for late payment of corporation tax is not a surcharge, it is interest at .0219% per day.

Question Three
This question was answered satisfactorily by the majority of candidates. It was good to see that candidates studied imports as advised in the examiner's report in May 2013.

Question Four

This question was badly answered by most candidates. All topics in this question have been asked in previous papers. The importance of doing past paper questions cannot be under estimated. Candidates are advised to ensure they answer the question they have been asked. Part three of the question asked for Christiano's liability to Irish Capital Gains Tax for 2012. A large number of candidates gave Christiano's Income tax implications for 2012.

Question Five

This was an Income Tax question covering a number of topics. The commencement of a trade and the capital allowances in a commencement situation were well dealt with. However very few candidates could calculate the retirement annuity or the PRSI and USC correctly which was disappointing.

Question Six

The majority of candidates did well in the multi-choice question.

Question Seven

This was the best answered question and was well dealt with by those candidates who attempted it. It was an Income Tax question which dealt with Schedule E and a covenant.