Accounting Technicians Ireland

Advanced Taxation

Republic of Ireland

2nd Year Examination

May 2012

Exam 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.

There are often many possible approaches to the solution of questions in professional examinations. The examiner will accept alternatives to the suggested solution shown herein as long as that alternative is appropriate.

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 : Summer 2012

Paper : ADVANCED TAXATION(Republic of Ireland)

Wednesday 16th May 2012 - 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 (No. 3) 2011. The provisions of the Finance Act 2012 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 labeled as appropriate e.g. €, units, etc.

Question 1 begins on Page 4 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*)

Paul is a widowed man with three young children aged 10, 8 and 4. His wife Michelle died in January 2009. Paul owned his own business, which was very successful. However, due to family commitments, Paul ceased trading on the 31st March 2011 so he could spend more time at home with his young family. Details of his trading income for the last few years is as follows:-

	€
Year ended 30th June 2008	80,000
Year ended 30th June 2009	60,000
Year ended 30th June 2010	98,000
Period ended 31st March 2011	86,000

Details of the tax written down values (TWDV) of his fixed assets at 1st January 2009 are as follows:-

	Fixtures and fittings	**Motor car**
TWDV – 1/1/2009	€13,125	€21,000

The fixtures and fittings were purchased for €15,000 in May 2008. The motor car was purchased in June 2008 for €26,500, the emissions were 135 g/km, and private use of the car was 25% of total use.

The fixtures and fittings and the car were sold by Paul on the 30th March 2011 for €8,000 and €15,000 respectively.

Details of Paul's other income and outgoings are as follows:-

Income	€
Deposit interest received from the AIB plc	36,500
Dividend received from an Irish company	9,600

Outgoings

1. Paul paid a covenant of €5,000 (net after deduction of income tax at the standard rate) per annum to his widowed mother-in-law who is aged 71 years. This is a ten year covenant.
2. Paul paid €1,600, net of relief, to the VHI during the year ended 31st December 2011.
3. Details of medical expenses incurred by Paul and his family during 2011 are as follows:-

	€
Eye tests	90
Spectacles	280
Prescriptions	810
Hospital bills	1,200
	2,380

The VHI reimbursed €550 with regard to the hospital bills.

4. Paul paid domestic refuse collection charge of €380 in 2010 and €450 in 2011.

QUESTION 1 *(Cont'd)*

Requirement:

(a) Calculate Paul's Case I income after capital allowances for 2011, 2010 and 2009.

8 Marks

(b) Calculate Paul's Income tax for 2011.

10 Marks

(c) Calculate Paul's PRSI and USC for 2011.

2 Marks

Total 20 Marks

QUESTION 2 (*Compulsory)*

ABC limited is an Irish resident close company. The shareholders are four brothers and their shareholdings are as follows:-

Owen Brooke	25%
Andrew Brooke	25%
Jack Brooke	25%
Marc Brooke	25%

Owen, Andrew and Jack are directors of the company and work full time for the company. Marc is a full time music teacher and is not a director and does not work for the company.
The following information has been extracted from the financial statements of the company for the year end 30th June 2011:-

	Notes	€
Turnover		1,600,000
Cost of Sales		(1,280,000)
Gross profit		320,000
Direct costs and overheads	1	(480,000)
		(160,000)
Other income	3	250,000
Net profit		90,000

Notes:

1. The following are included in direct costs and overheads:

		€
Depreciation		150,000
Directors remuneration		230,000
Motor lease charges	2	12,000

2. Details of the motor lease charges:-

Employee	Car	Lease Rental €	Emissions	Retail Value €	Private Use
Owen	08 XX231	4,000	130g/km	22,000	25%
Andrew	09 XX651	8,000	185g/km	34,000	30%

3. Other income is broken down as follows:-

		€
Rental income		180,000
Dividend received from another Irish company		30,000
Dividend received from a UK company		20,000
Gain from the sale of a warehouse	See Note 4	20,000
		250,000

4. The warehouse was purchased by the company in May 1998 for €5,000. Legal fees on acquisition were €500. The warehouse was sold in March 2011 for €28,000. Legal fees on disposal amounted to €2,500.

QUESTION 2 *(Cont'd)*

5. ABC Limited had trading losses carried forward from the accounting period year ended 30th June 2010 of €10,000.
6. During the year ended 30th June 2011 the company made an advance of €20,000 to Marc Brooke to enable him to record his first album. The loan was for 5 years and was interest free.

Required:

(i) Calculate the corporation tax of ABC Limited for the accounting period year ended 30th June 2011. You may assume the company always makes maximum use of any losses arising.

13 Marks

(ii) State the time limit (if any) for any loss claims made by ABC Limited in its accounting period year ended 30th June 2011.

2 Marks

(iii) State and calculate the tax implications (if any) for both the company and Marc for the loan made in the accounting period year ended 30th June 2011.

3 Marks

(iv) State the preliminary payment date for the corporation tax for the accounting period year ended 30th June 2011.

2 Marks

Total 20 Marks

QUESTION 3 (*Compulsory)*

(a) Apex Limited is an Irish company operating from Carlow. The company manufactures and sells computer parts. During May/June 2011 it recorded the following transactions:-

Sales	**€**
Sales to VAT registered customers in the EU	120,000
Sales to non-registered customers in the EU	10,000
Sales to Irish customers	310,000
Sales to customers in Australia	25,000
Purchases	
Irish suppliers	105,000
UK suppliers	140,000
Purchase of a new machine from France	80,000

The sales figures are net of VAT. The purchases include VAT, where applicable. All goods are at the standard rate of VAT.

Required:

(i) Compute the VAT payable by Apex Limited for the period May/June 2011.

12 Marks

(ii) State the latest date by which this return must be filed and the VAT paid to the Revenue.

1 Mark

(b) State the factors a trader should take into account in deciding whether to register for VAT.

4 Marks

(c) Black Limited has been registered for VAT since 1998. All sales of goods are standard rated. Due to the economic climate, the company has recently seen a downturn in business. The sales to the year ended 30th June 2011 totalled €71,500. It is forecast that total sales for the year ended 30th June 2012 will be €69,500. Both of these figures are exclusive of VAT.

Required:

State whether Black Limited will be permitted to voluntarily deregister for VAT and if there are any implications.

3 Marks

Total 20 Marks

SECTION B

Answer any TWO of the FOUR questions in this section

QUESTION 4

(a) Liu Jing is resident and ordinarily resident in Ireland but domiciled in China, Liu is single and had the following disposals in 2011:-

(1) Liu had inherited five acres of land from her uncle in August 2001. The five acres were located in south west Ireland. Her uncle had originally purchased the land in June 1978 at a total cost of €5,250. The market value of the five acres in August 2001 was €13,250. Lui sold two acres in May 2011 for €8,000. Legal fees on disposal were €500. The market value of the three acres remaining was €12,650.

(2) Liu sold a house she owned in France for €80,000 in August 2011. This house had been let to tourists since its acquisition in August 1996 for €22,500. Liu lodged the proceeds of the sale into her French bank account.

(3) Liu sold Irish government stock in September 2011 for €5,000. This stock was purchased in July 2008 for €8,000.

(4) Liu gave her daughter April an antique ring in November 2011. Liu's own mother had given her the ring in January 1992 when she left China. Liu's mother had purchased the ring in 1959 for €50. Market value on the 5th April 1974 was €80. The rings value when given to Liu in January 1992 was €1,250. Its market value now in 2011 was €2,750.

Requirement:

(i) Calculate Liu's capital gains tax for 2011.

8 Marks

(ii) State Liu's payment date for her 2011 capital gains tax.

2 Marks

(iii) What if any are the capital gains tax consequences if Liu Jing was to remit to Ireland the following proceeds from the sale of the house in France:-

- December 2011 €30,000 **2 Marks**
- March 2012 €25,000 **1 Mark**

(b) Lee Ryan owns shares in Maxi Limited. In August 2011 he sold 3,000 shares for €2.50 per share. Lee's previous acquisitions and disposals in Maxi Limited were as follows:-

(i) Lee received a gift of 2,000 shares from his brother in August 1999. His brother had originally purchased the shares in March 1998 for €1.50 a share. The market value of the shares in August 1999 was €2.00 per share.

(ii) Lee purchased 4,000 shares in the company for €1.95 each on the 2nd April 2000.

(iii) Lee sold 1,500 shares in May 2006 for €2.80 per share.

Lee Ryan is single and has made no other disposals in 2011.

QUESTION 4 *(Cont'd)*

You are required to:-

(i) Calculate Lee's capital gain on the sale of his shares in 2011.

6 Marks

(ii) State Lee's filing date for his 2011 capital gains tax return.

1 Mark

Total 20 Marks

QUESTION 5

(a) Marp Limited has a year end of the 30th September each year. The company is owned by five shareholders as follows:-

Shareholder	**Residence**	**% holding**
John Morris	Ireland	35%
Susan Doyle	UK	15%
Stephen Morris	Spain	5%
X Limited	Ireland	40%
Y Limited	USA	5%

Note: Ireland has a tax treaty with the USA.
On the 2nd April 2011 Marp Limited paid a final dividend of €80,000 for its accounting period 30th September 2010.

Required:-

(i) What is Marp Limited's rate of dividend withholding tax that will apply to the dividend paid on the 2nd April 2011.

1 Mark

(ii) Calculate the dividend withholding tax, if any, due by Marp Limited with regard to the dividend of €80,000 paid on the 2nd April 2011.

You are required to state why the withholding tax applies/does not apply to the dividend paid to each shareholder.

5 Marks

(iii) State the payment date for the dividend withholding tax calculated at (ii) above.

2 Marks

(b) Arple Limited is an Irish company.

Its corporation tax computation for the year ended 31st July 2011 is as follows:-

	Notes	**€**
Case I		650,000
Case III		50,000
Case V	A	nil
Income		700,000
Gain		10,000
Profits		710,000
Non – Trade charge		20,000
Profits liable to tax		690,000

QUESTION 5 *(Cont'd)*

Notes:

(A) The company had a Case V loss of €60,000 in this accounting period.

(B) Arple Limited's corporation tax liability for its accounting period year ended 31st July 2010 was €220,000.

Required:-

(i) State how Arple Limited can use its Case V loss of €60,000.

3 Marks

(ii) Calculate Arple Limited's corporation tax for its accounting period the year ended 31st July 2011.

5 Marks

(iii) State Arple Limited's preliminary tax payment date for the accounting period 31st July 2011.

2 Marks

(iv) State the filing date of Arple Limited's corporation tax return for its accounting period 31st July 2011.

1 Mark

(v) State when Arple Limited must pay the balance of its corporation tax for the period the 31st July 2011.

1 Mark

Total 20 Mark

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.

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. Ken and Jane are married. They wish to elect for single assessment for 2011. What is the time limit for this election?

(a) 1st April 2011.
(b) 31st October 2011.
(c) 31st October 2012.
(d) 31st December 2011.

2. Elaine Kelly sold an asset on the 20th November 2011. State Elaine's payment date for this disposal:

(a) 15th December 2011.
(b) 31st January 2012.
(c) 31st December 2011.
(d) 31st October 2012.

3. Star Limited is a close company resident in Ireland. Its authorised share capital is 100,000 €1 ordinary shares. The company's issued share capital is 50,000 €1 ordinary shares.

The company wanted to expand its operations so two of its directors lent the company €250,000. Details are as follows:-

Name	Loan advanced	% of share capital	Interest charged in company accounts
Joe Star	€100,000	8%	€12,000
Aoife Bond	€150,000	20%	€18,000
			€30,000

The interest allowed as an expense in the company's accounts is:

(a) €30,000
(b) € 6,500
(c) none
(d) €13,000

QUESTION 6 *(Cont'd)*

4. Walsh Ltd. is a close company. It pays interest to its directors Joe and Mary Walsh. The interest in the accounts of Walsh Ltd. is €20,000. Allowed as an expense is €12,000, €8,000 is disallowed due to the close company provisions. Calculate Walsh Limited's dividend withholding tax on the above interest payment.

(a) €2,400
(b) €4,000
(c) €1,600
(d) none as not a dividend.

5. Patricia and Gary are married. They have elected for joint assessment. Gary is an engineer and employed by Service Limited. His salary for 2011 was €80,000. His wife Patricia has a flower shop which she has owned since 2004. Details of her recent profits/(losses) are as follows:

	€
Year ended 31st March 2011	(10,000)
Year ended 31st March 2012	4,000

Calculate their income tax for 2011, assuming Patricia claimed maximum relief for her trade loss.

(a) €19,172
(b) €14,972
(c) €14,279
(d) € 9,974

6. Using the information in Question 5 above, state Patricia's time limit for her loss claim in the tax year 2011:

(a) 31st December 2013.
(b) 31st March 2013.
(c) 31st October 2012.
(d) 31st October 2013.

7. Linda Byrne is a sole trader and VAT registered. In May 2011 she purchased a car that would be used 80% for business use. The car cost €30,000 including VAT. It had emissions of 145g/km. The car was purchased new.
Linda's input credit for this purchase is:

(a) None
(b) €5,207
(c) €6,300
(d) €1,041

QUESTION 6 *(Cont'd)*

8. John Kelly is self employed. Details of his taxable income and allowable outgoings for 2011 are as follows:-

	€
Case I before capital allowances	150,000
Capital allowances	21,500
Case V	10,000
Case IV	8,000
Retirement annuity	11,500
Permanent heath insurance	800

Calculate John's USC for 2011:

(a) €13,119
(b) € 9,739
(c) €10,169
(d) €10,969

9. Nigel and Susan Burke are married. In 2011 Nigel had the following disposals:-

(i) A holiday home he owned in Kerry was sold in May 2011 for €80,000. Nigel had been given this property on 10th March 2001 as a gift on his twenty first birthday from his uncle Mike.

Mike originally purchased this house for €35,000 in August 1995. Its market value in March 2001 was €38,500.

(ii) Nigel bought a painting in May 2010 for €3,000. His wife Susan took an immediate dislike to the painting, so Nigel decided to sell it for €2,200 in June 2011.

Susan had no disposals in 2011, however she had a capital loss coming forward of €1,000.

Requirement:

Calculate Nigel and Susan's Capital Gains Tax for 2011 assuming maximum reliefs available are used.

(a) €8,422
(b) €8,104
(c) €8,307
(d) €8,557

10. What is Nigel and Susan's filing date for the gains at **9** above?

(a) 15th December 2011
(b) 31st October 2012
(c) 31st October 2011
(d) 31st January 2012

Total 20 Marks

QUESTION 7

Luke Rogers is a vet with his own veterinary practice which he started in May 2008. Details of his professional income are as follows:-

	€
6 months to 31st October 2008	30,000
12 months to 31st October 2009	80,000
12 months to 31st October 2010	90,000
12 months to 31st October 2011	110,000

Luke carries out work on behalf of the Department of Agriculture and Food. The fees he received from the Department have been included in the accounts above. Details of the fees received and the professional fees withholding tax deducted by the Department are as follows:-

	Gross	**Professional fees withholding tax**	**Net**
	(€)	**(€)**	**(€)**
1st June 2010	3,000	600	2,400
1st November 2010	10,000	2,000	8,000
1st July 2011	5,000	1,000	4,000
1st December 2011	8,000	1,600	6,400

Luke is married. His wife Louise was not in receipt of any income in 2011 as she remained at home to care for Luke's widowed mother Rose who recently had a mild stroke. Rose still lives on her own 1 km from Luke and Louise's house and communicated regularly by telephone.

Luke's only other income for 2011 was Irish deposit interest received of €1,460 and a dividend received from an Irish company of €960.

Requirement:

(a) List four persons or bodies who are required to operate professional fees withholding tax.

2 Marks

(b) List four professional services that come within the ambit of the professional fees withholding tax legislation.

2 Marks

(c) Compute Luke and Louise's income tax, PRSI and USC for 2011. You may assume joint assessment applies.

11 Marks

(d) State the due dates for Luke and Louise's income tax for 2011, together with the percentage of tax that must be paid on each date to avoid interest.

5 Marks

Total <u>20</u> Marks

●

2nd Year Examination: May 2012

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

(a)	**Tax year**	**Basis of assessment**	**Amount €**	**Marks Allocated**
	2011	Actual 1/1/2011 to 31/3/2011		
		€86,000 x 3/9	28,667	1
	2010	C/y 30th June 2010	98,000	½
	2009	C/y 30th June 2009	60,000	½

Section 67 – Inspector of Taxes option

2010	Actual 1/1/2010 to 31/12/2010			
	€98,000 x 6/12	=	49,000	
	€86,000 x 6/9	=	57,333	2
			106,333	

The Inspector of Taxes will exercise his option as the actual profits for 2010 exceed the original assessment.

Final assessments

2011	€ 28,667
2010	€106,333 (as revised)
2009	€ 60,000

Capital allowances

No wear and tear will be available in 2011 as the assets are not in use at the end of the basis period as they were sold by Paul on the 30th March 2011. Paul will calculate balancing positions in this year.

	Fixtures and fittings €	**Motor car €**	**Marks**
Cost	15,000	24,000 (restricted)	
TWDV - 1/1/2009	13,125	21,000	
2009 – Wear and tear	(1,875)	(3,000)	1
TWDV - 31/12/2009	11,250	18,000	
2010 – Wear and tear	(1,875)	(3,000)	1
TWDV – 31/12/2010	9,375	15,000	
2011 – Disposals	(9,375)	(15,000)	

Solution 1 *(Cont'd)*

2011 – Balancing position

Fixtures and fittings	**€**			**Marks Allocated**
Sales proceeds	8,000			
TWDV	9,375			
Balancing allowance	1,375			½

Motor car			**€**	
Sales proceeds €15,000 x 24,000 / 26,500		=	13,585	**1**
TWDV		=	15,000	
Balancing allowance			1,415	
Business use €1,415 x 75%		=	1,061	½

Summary of Capital allowances

2009		
Wear and tear		€
Fixtures and fittings		1,875
Car €3,000 x 75%	=	2,250
		4,125
2010		
Wear and tear		
Fixtures and fittings		1,875
Car €3,000 x 75%	=	2,250
		4,125
2011		
Balancing allowances		
Fixtures and fittings		1,375
Car		1,061
		2,436

Summary Year	**Assessable profit €**	**Capital allowances €**	**Case I €**
2009	60,000	4,125	55,875
2010	106,333	4,125	102,208
2011	28,667	2,436	26,231

Solution 1 *(Cont'd)*

(b)

Paul
Income Tax computation – 2011

Income		**Notes**	**€**	**Ma Alloc**
Schedule D – Case I			26,231	
Schedule D – Case IV				
$\frac{36,500}{73} \times 100$			50,000	**1**
Schedule F $\frac{9,600}{80} \times 100$			12,000	**1**
			88,231	
Charges				
Covenant		1	4,412	**1 ½**
Statutory income			83,819	
€33,819 at 20%	=	2	6,764	**½**
€50,000 at 27%	=		13,500	**½**
€83,819			20,264	
Less:				
1. Widowed person	=		(1,650)	**¼**
2. Lone parent	=		(1,650)	**¼**
3. Second year after bereavement	=		(3,150)	**½**
4. Medical expenses	=	3	(292)	
5. Service charge	=	4	(76)	
6. DIRT €50,000 at 27%	=		(13,500)	**½**
Tax liability			nil	
Less: Tax paid				
DWT €12,000 at 20%	=		(2,400)	**½**
Add: Tax due on covenant (Note 1)			882	**1**
Refund due			1,518	

Solution 1 *(Cont'd)*

(c) **PRSI**

			Am
Total income €88,231 at 4%	=	3,529	1

USC

Total income less deposit interest and covenant (note 5).

€88,231 - €50,000 - €4,412 = €33,819			½
€10,036 at 2%	=	201	
€ 5,980 at 4%	=	239	½
€17,803 at 7%	=	1,246	
€33,819		1,686	

Notes:

1. This covenant must be restricted to 5% of Paul's total income.

€88,231 x 5% = €4,412

The requirement to deduct income tax at the standard rate of 20% only applies to the amount of the covenant payment which actually qualifies for income tax relief.
€4,412 at 20% = €882

2. Paul is a lone parent and entitled to the increased band at 20%.

3. Medical expenses – 2011

	€	
Eye test not qualifying	-	½
Spectacles not qualifying	-	
Prescriptions	810	
Hospital bills	1,200	
	2,010	
Less: VHI reimbursement	550	½
	1,460	
Tax relief at 20%	292	½

4. 2011 is the last year the credit for service charge can be claimed. Paul will get relief on the amount paid in 2010.

€380 at 20%	=	76	1

5. Deeds of covenant are not treated as income where made in accordance with section 792 TCA 1997. Payments made under such deeds should be deducted from the disponers gross income before calculating USC.

Solution 2

(i)

ABC Limited
Corporation Tax Computation
for year ended 30th June 2011

	Notes	€	Marks Allocated
Case I	1	nil	
Case III		20,000	½
Case V		180,000	½
Income		200,000	
Gain	3	37,668	
Profits		237,668	
Corporation tax:			
€200,000 at 25% =		50,000	1
€ 37,668 at 12½% =		4,709	1
		54,709	
Less: Trade loss	4	(649)	
Corporation tax due		54,060	

(ii) The time limit of the Section 396(B) claim used by ABC Limited in its accounting period 30th June 2011 is 30th June 2013. **2**

(iii) As ABC limited is a close company and it makes a loan to Marc who is a participator. ABC Limited will be required to pay income tax in respect of the amount of the loan.
The income tax due for the accounting period 30th June 2011 is:-

€20,000 x 20/80 = €5,000 **2**

When Marc pays back the loan the income tax will be refunded to the company (without interest).
The loan is not regarded as income in Marc's hands unless the loan is forgiven by the company. In this case, the income tax is not recoverable by the company and the "grossed up" loan is assessed on Marc for income tax purposes in the tax year of forgiveness. Also, the write-off is not deductible against ABC Limited's Case I profits. **1**

(iv) ABC Limited is a small company as its corporation tax for its previous accounting period is less than €200,000 due to its trade losses.

ABC Limited preliminary payment date is:-
21st May 2011. **2**

Solution 2 *(Cont'd)*

Notes					**Marks Allocated**
1. Case I					
	Case I Computation Workings				
			€	**€**	
Net profit per accounts				90,000	
Addbacks:	Depreciation		150,000		½
	Motor lease charges	A	4,812		
				154,812	
				244,812	
Deductions:	Other income			(250,000)	½
Net Loss				(5,188)	

2. Dividends from other Irish companies are exempt from corporation tax. **1**

3. Gain on the sale of the warehouse:

		€	€	Marks
Sales proceeds			28,000	
Less: Legal fees			(2,500)	
Cost 98/99		5,000		
Legal fees on acquisition		500		
	5,500 x	1.212 =	(6,666)	1
Gain			18,834	

Gain as adjusted for corporation tax: €18,834 x 25/12½= 37,668 **1**

4. Trade losses:

The trade loss carried forward from the accounting period 30th June 2010 of €10,000 can only be used to reduce profits of the same trade in a future accounting period. ABC Limited will not be able to use this loss in the current accounting period of 30th June 2011 as the company does not have any trading income as the company has made another loss. This loss will have to be carried forward once again to reduce profits of the same trade. **1**

The current loss of €5,188 can be used in this period to reduce corporation tax on a value basis:

€5,188 at 12½% = €649 **2**

Solution 2 *(Cont'd)*

Workings: **Mar Allocat**

A Motor lease charge

There is no addback required for private use. The employees will have a B-I-K:

08 XX 231 €4,000 x $\frac{€22,000 – €24,000}{€22,000}$ = (€364) **1 ½**

The company will be entitled to an additional lease rental charge of €364

09 XX 651

The limit for this car is the lower of:-

(i)	€34,000 x 50%	=	€17,000
	or		
	€24,000 x 50%	=	€12,000

€8,000 x $\frac{€34,000 – €12,000}{€34,000}$ = € 5,176 **1 ½**

Total addbacks:

08 XX 231	(€ 364)
09 XX 651	€ 5,176
	€ 4,812

Solution 3

				Marks Allocated
(a) (i)	**Calculation of Output VAT**		**€**	
	Exports to EU customers VAT registered		-	1 ½
	Exports to EU customers not registered for VAT €10,000 at 21%	=	2,100	2
	Sales in Ireland €310,000 at 21%	=	65,100	1
	Exports to Australia		-	1 ½
	EU acquisitions €140,000 at 21%	=	29,400	1
	Purchase of machine from France €80,000 at 21%	=	16,800	1
	Total of Output VAT		113,400	
	Calculation of Input VAT			
	Irish suppliers $\frac{€105,000}{121} \times 21$		18,223	2
	EU acquisitions €140,000 at 21%	=	29,400	1
	Purchase of machine from France €80,000 at 21%	=	16,800	1
			64,423	
	VAT due for May/June 2011 €113,400 - €64,423	=	48,977	
(ii)	19th July 2011			1

(b) The factors that should be taken into account in deciding whether or not to register for VAT include:

- Whether the customers (or at least a significant portion of them) are registered for VAT; **1 ½**
- Whether the VAT element of purchased input costs are significant; **1**
- The additional work involved in having to issue VAT invoices and lodging of VAT returns with the Revenue; **1**
- If you are registered for VAT you could be the subject of a VAT audit; **½**
- Possible interest and/or penalty exposure (and possible prosecution) if the returns are not correctly and/or the VAT is not paid on time.

(c) Black Limited can de-register for Vat as its turnover has fallen below the €75,000 registration limit and it is likely that its turnover for the following 12 months will not exceed €75,000. **3**

Solution 4

(a) (1)

			€	
(i)	Sales proceeds		8,000	
	Less: Legal fees on disposal		500	½
	Less: Cost 2001			
	$€13,250 \times \dfrac{€8,000}{€8,000 + €12,650}$	=		
	€5,133 x 1.087	=	(5,580)	1½
			1,920	

(ii) As Liu Jing is not domiciled in Ireland this gain is not liable to Irish capital gains tax as she did not remit the proceeds to the State. **1½**

(iii) The sale of Irish government stock is exempt. A gain is not liable and there is no relief for any loss. **1**

			€	
(iv)	Sales proceeds		2,750	
	Cost 1991/92 €1,250 x 1.406		1,758	1
	Gain		992	
	Capital gains tax €992 at 25%	=	248	

Marginal relief:-

½(€2,750 - €2,540) = €105 **1**

The tax on the sale of the antique ring is limited to €105.

Liu Jing – Capital gains tax – 2011

			€	
(i)	Sale of land		1,920	
(ii)	Sale of house		-	
(iii)	Sale of Irish government stock		Exempt	
(iv)	Sale of antique ring		Marginal relief	
Total gain			1,920	
Less: Annual exemption			(1,270)	½
			650	
Capital gains tax €650 at 25%		=	163	½
Plus: Marginal relief		=	105	½
			268	

(2) Liu Jings payment date is the 15th December 2011 as all disposals took place between 1st January and the 30th November 2011. **2**

(3) As Liu Jing is resident and ordinarily resident but not domiciled in Ireland she is only liable on the gain on the sale of the French house if she remits the sales proceeds to the State. Liu must calculate the gain when the asset is sold i.e. 2011. However she will only pay Irish capital gains tax in the tax year that she remits the sales proceeds to the State. The Irish Revenue deems Liu to remit the gain first.

Capital gain – 2011

		€
Sales proceeds		80,000
Cost 96/97 €22,500 x 1.251	=	28,148
Gain		51,852

There is no Irish capital gains tax on this gain until Liu remits the proceeds to Ireland.

Solution 4 *(Cont'd)*

December 2011 €30,000

Liu will pay Irish capital gains tax on a gain of €30,000 in 2011 as she has remitted some of the sales proceeds to Ireland. The Irish Revenue deems the taxpayer to have remitted the gain first. 2

March 2012 €25,000

Liu will pay Irish capital gains tax on a gain of €21,852 in 2012. This is because she pays tax in the tax year she remits the proceeds not when the asset is sold. Also the maximum she can pay tax on is the gain of €51,852. She has already paid tax on €30,000 in 2011 therefore the balance of the gain is liable in 2012. 1

(b) (i)

	Number	**Cost €**	
August 1999	2,000	4,000	
2nd April 2000	4,000	7,800	

Shares remaining after the disposal of 1,500 shares in May 2006

	Number	**Cost €**	
August 1999	500	1,000	1
2nd April 2000	4,000	7,800	

Sales proceeds 500 at €2.50	=	1,250	1
1999/00 €1,000 x 1.193	=	1,193	1
		57	
Sales proceeds 2,500 at €2.50	=	6,250	1
Cost 1999/00 €7,800 x $\frac{2,500}{4,000}$ = €4,875			
€4,875 x 1.193	=	5,816	2
		434	
Total gain = €57 + €434	=	491	

(ii)

Lee Ryan's 2011 filing date is 31st October 2012. 1

Solution 5

(a) (i) The rate of dividend withholding tax is 20%.

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(ii) The dividend liable to dividend withholding tax is:- 1

John Morris	€28,000 Liable as an Irish resident individual	1
Susan Doyle	€12,000 Exempt as an individual resident in the EU	½
Stephen Morris	€ 4,000 Exempt as an individual resident in the EU	½
X Limited	€32,000 Exempt as an Irish company	1
Y Limited	€ 4,000 Exempt as a company resident in a country that Ireland has a tax treaty with.	1

Total dividend liable is €28,000.

Dividend withholding tax is €28,000 at 20% = €5,600. 1

(iii) The payment date for the dividend withholding tax is 14th May 2011. 2

(b) (i) Case V losses – Section 399

If a company makes a Case V loss it can carry the loss back to a previous period of corresponding length to reduce Case V income only. 1 ½ The carry back section is a choice open to the company. The time limit for claiming this relief is two years from the end of the accounting period in which the loss arose. If the company does not carry the Case V loss back to a previous period or if there is still some loss remaining 1 ½ it must be carried forward and reduce the next available rental income.

(ii) A non trade charge can reduce total profits of a company. Apple Limited can use the non trade charge to reduce total profits, reducing profits taxed at the highest rate first. This would be the Case III income which is taxed at 25%.

Apple Limited
Corporation Tax
Accounting period year ended 31st July 2011

		€	
€650,000 at 12½%	=	81,250	2
€ 50,000 – €20,000 = €30,000 at 25%	=	7,500	2
€ 10,000 at 12½%	=	1,250	1
		90,000	

(iii) Apple Limited is considered a large company as its corporation tax liability in its previous accounting period exceeded €200,000.

Preliminary tax payment dates:

1. 21st January 2011 1
2. 21st June 2011 1

(iv) Apple limited's filing date is 21st April 2012. 1

(v) Apple Limited must pay the balance of its corporation tax for the year ended 31st July 2011 when it files its tax return for this period on 21st April 2012. 1

Solution 6

Marks Allocation: **2 marks for each part**

1. (d)

2. (a)

3. (b) Lower of:-

13% x €50,000	=	€ 6,500
or		
13% x €250,000	=	€32,500

4. (c) Interest not allowed
€8,000 at 20% = €1,600

5. (b) Income Tax Computation

		€
D I		nil
Schedule E		80,000
		80,000
Less: Section 381		(10,000)
		70,000
€41,800 at 20%	=	8,360
€28,200 at 41%	=	11,562
		19,922
Less: Married credit		(3,300)
PAYE credit		(1,650)
Tax Liability		14,972

6. (a)

7. (d)

$\frac{€30,000}{121} \times 21$	=	5,207
€5,207 at 20%	=	1,041

8. (c)

		€
Case I		128,500
Case V		10,000
		138,500
€10,036 at 2%	=	201
€ 5,980 at 4%	=	239
€83,984 at 7%	=	5,879
€38,500 at 10%	=	3,850
		10,169

Solution 6 *(Cont'd)*

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9. (c)

	€
Sales proceeds	80,000
00/01 €38,500 x 1.144 =	44,044
	35,956
Deemed sales proceeds	2,540
Cost	3,000
Loss	460

Capital Gains Computation	**€**
Holiday home	35,956
Painting	(460)
Susan's loss	(1,000)
Annual exemption	(1,270)
	33,226
Tax at 25% =	8,307

10. (b)

Solution 7

Marks Allocated

(a) Income tax must be withheld on professional fees paid by an "accountable person", i.e. most bodies in the public sector. These include:- — **½ for each**

- A Minister of the Government
- RTE
- HSE
- Local authorities
- VHI
- Revenue

Note: The question only asked for four persons or bodies,

(b) Professional services include accountancy, legal consultancy, training, medical, veterinary, engineering and architectural services. — **½ for each**

Note: The question asked that four professional services be listed.

(c)

Luke and Louise
Income Tax Computation 2011

			€	Marks
Schedule D – Case II c/y 31st October 2011			110,000	1
Schedule D – Case IV 1,460/73 x 100			2,000	1
Schedule F - €960/80 x 100			1,200	1
			113,200	
	€41,800 at 20%	=	8,360	1
	€2,000 at 27%	=	540	1
	€69,400 at 41%	=	28,454	
			37,354	
Less:	Married credit		(3,300)	½
	Carers credit		(810)	½
Tax liability			33,244	
Less:	Professional fees withholding tax		(3,000)	1
	DIRT €2,000 x 27%		(540)	½
	DWT €1,200 x 20%		(240)	½
Tax due			29,464	
PRSI	€113,200 at 4%	=	4,528	1
USC	Schedule D Case I		110,000	
	Schedule F		1,200	1
			111,200	
	Deposit interest is excluded income for the USC.			
	€ 10,036 at 2%	=	201	
	€ 5,980 at 4%	=	239	
	€ 83,984 at 7%	=	5,879	
	€ 11,200 at 10%	=	1,120	1
			7,439	

Solution 7 *(Cont'd)*

	Ma Alloc
(d) Luke and Louise's preliminary tax for 2011 must be paid by the 31st October 2011.	1
In order to avoid interest the preliminary tax must be a minimum of:-	
• 90% of the final income tax payable for 2011	1
• 100% of the income tax payable for the tax year 2010	1
• 105% of the income tax payable for the pre-preceding income tax year (where it is paid by direct debit) i.e. 2009	1
The balance of their income tax must be paid by the 31st October 2012.	1

Notes:

1. **Carers credit**
   Louise is entitled to the carers credit as she stays at home to take care of an incapacitated person who lives within 2 km of her home.

2. **Professional fees withholding tax**
   The credit for this withholding tax is allowed for the withholding tax suffered in Luke's basis period.

   Luke's basis period is year ended 31st October 2011

   This is from 1/11/2010 to 31/10/2011. The tax suffered in that period was €3,000 which was allowed as a credit.

2nd Year Examination: May 2012

Advanced Taxation ROI

Examiner's Report

Statistical Analysis – By Question							
Question No.	1	2	3	4	5	6	7
Average Mark (%)	62%	46%	60%	55%	51%	39%	56%
Nos. Attempting	724	718	719	616	177	530	123

Statistical Analysis - Overall	
Pass Rate	60%
Average Mark	53%
Range of Marks	**Nos. of Students**
0-39	178
40-49	116
50-59	158
60-69	131
70 and over	148
Total No. Sitting Exam	**731**
Total Absent	87
Total Approved Absent	30
Total No. Applied for Exam	848

Note: Following the exam, a substantial amount of feedback was received about the difficulty of this paper. An independent review of the standard of these questions and a sample of scripts indicated that the questions were fair and appropriate to the level of the course. It also indicated that no unusual trend was observed.

Further to a review of this information, the Board of Examiners was satisfied that the paper was fair and that the standard required was appropriate.

Question One

This question was well answered by most candidates. The layout of part (a) could be improved. Some candidates did not appreciate the Inspector of Taxes option under section 67 TCA 1997. The other main error was the calculation of the balancing position for the car. A lot of candidates did not appreciate that the sales proceeds needed to be restricted as full capital allowances were not available on the car due to the limit of €24,000.

Part (b) was a straight forward income tax computation of a widowed person. This part was well answered except for the covenant. Only a few candidates appreciated that this was restricted to 5% of the taxpayer’s income. The calculation of PRSI and USC had improved from previous papers.

Question Two

Part (i) involved a corporation tax computation with a trade loss with a small case I calculation. The case I figure was calculated satisfactorily except for the lease rental addback, which needs more work.

A lot of work needs to be done on the corporation tax computation, which was not laid out correctly or at all. A lot of candidates also ignored the case I loss.

Part (ii) was the time limit for the section 396(B) claim in part (i) of the question. This time limit was only known by a few candidates. The exact time limit must be given to obtain the marks.

Part (iii) was on close company provisions. The vast majority of candidates did not know that the implications for the company were income tax under section 239 TCA 1997. A lot more work needs to be done on this area.

Part (iv) was well answered.

Question Three

This question was well answered by most candidates and it was good to see that quite a few candidates had studied the factors to be taken into account when deciding to register for VAT. Again a few candidates did not answer the question asked and just gave the registration limits. The calculation part of the question was well answered.

Question Four

This question was not well answered and quite a lot of candidates did badly here.
Part (a) involved four disposals including a part disposal and a gift. Quite a few candidates said a gift was an exempt disposal, which is incorrect. Most candidates could deal with the point that Liu Jing was not liable on the sale of the house in France as she was not domiciled in Ireland and she did not remit the sales proceeds to Ireland.

Part (b) was badly answered with quite a lot of candidates getting little or no marks. The layout of the answers was extremely hard to follow. Also a lot of candidates did not know the filing date for capital gains and instead gave the payment date.

Question Five

Part (a) was well answered by most candidates. For future exams please study th layout of the solution and the information required to why DWT does/does not apply.

Part (b) was a corporation tax calculation with theory on a case V loss and various payment and filing dates for companies. The theory on the use of case V losses for a company was known by most candidates, however their corporation tax calculation was badly laid out and most candidates ignored completely the non-trade charge.

Question Six

This is the multi-choice question. Again I must stress that no marks are given for working in this question. The answer is either right or wrong. Some candidates got very low marks in this question and for an average candidate it is hard to recover from a low mark in any question.

Question Seven

This was a straight forward income tax question on a married professional with some theory on professional fees withholding tax and income tax payment dates. It was done only by a small number of candidates. This question would have been a better choice than question six as there were some easy marks on a straight forward income tax computation and income tax payment dates. For the few candidates who did this question they did reasonable well. The theory on PWT could be better known.

Conclusion

Overall I was satisfied with the standard. Some candidates could improve their layout and the way they present their exam scripts. For future exams more work needs to be done on corporation tax as it appears to be the weak link for the vast majority of candidates.