TAXATION
REPUBLIC OF IRELAND

Diploma stage examination

10 December 2007

From 2.00pm to 4.00pm
plus ten minutes reading time from 1.50pm to 2.00pm

Instructions to candidates

*There are **four** questions on this question paper*

*Answer **three** questions in total*

One** compulsory question from **Section A
Two** of the three questions from **Section B

*The question in Section A carries in total **40** marks*
*The questions in Section B each carry a total of **30** marks*

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examinations room.

Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication.

Calculations may be performed to the nearest €, and any necessary apportionments may be made to the nearest month. There is a summary of useful tax data at the end of the examination paper.

SECTION A (Compulsory)

1

Hartington Ltd is an Irish resident company. Its profit and loss account for the year to 31 December 2006 is as follows (all amounts are gross):

	€	€
Gross Trading Profit		1,964,500
Receivable from other Irish companies:		
Dividends		18,000
Debenture interest (note 1)		15,000
Bank interest receivable (note 2)		14,000
Income from rental property (note 3)		26,000
Profit on sale of investments (note 4)		17,500
		2,055,000
Less:		
Distribution costs (all allowable)	52,000	
Administrative expenses (all allowable)	106,000	
Other operating expenses (note 5)	407,000	565,000
Net profit for the year		1,490,000

Notes:

1. The debentures were acquired (for non-trade purposes) in 2005. Interest is receivable on 30 June and 31 December.

2. Bank interest receivable includes interest of €1,250 which had accrued at 31 December 2006 but which was not paid until 1 February 2007. There was no accrued interest at 31 December 2005. This interest is not subject to deposit interest retention tax.

3. The rental property was let on 1 May 2006 on a 10-year lease for a rental of €2,000 per month, payable in advance on 1 May, 1 August, 1 November, 1 February each year. The figure in the profit and loss account includes a premium of €10,000 which was received on 1 May 2006. There are no allowable expenses in the year to 31 December 2006, but an allowable loss of €6,000 has been brought forward to 1 January 2006.

4. The figure for the profit on sale of investments was arrived at as follows:

   - The company sold a chargeable asset in May 2006 for €10,500. It cost €4,250 in July 2000
   - A two-thirds interest in a second chargeable asset was sold for €21,250 in October 2006. The asset was originally purchased in September 1998 for €25,000. The value in the remaining one-third interest is €10,000.

5. Other operating expenses include the following:

	€
Directors' Fees	105,000

Debenture interest payable (note 6)	25,000
Patent royalties payable (note 6)	12,750
Depreciation of tangible fixed assets (note 7)	74,000

6. The debentures were issued and patent royalties payable for trade purposes.

7. Capital allowances of €37,250 are claimed for the year.

- **Requirement for question 1**

(a) Compute the company's Schedule D Case I income for the year, briefly explaining your treatment of items in the profit and loss account. *13*

(b) Compute the company's chargeable profits for the year, showing and briefly explaining calculations where necessary. *16*

(c) Compute the company's corporation tax liability. *3*

(d) State the date by which the company's tax must be paid. *3*

(e) ,State the date by which the company must submit its tax return for the year to 31 December 2006 and explain the consequences of submitting a late or an incorrect return. *5*

(40)

2

Tom is a 45 year-old company director with a property management company. He receives a salary of €65,000 a year, and a company car, which cost €27,000 when new, and for which all costs are paid by the company. Tom's annual business mileage is less than 15,000 miles.

Tom also receives the following benefits from his employer:

1) An interest free season ticket loan of €2,500, and a personal loan of €4,000 on which he pays interest at 4% annually. Neither loan related to his home.
2) Use of a company apartment (non job-related) in Dublin, in which he and his wife live. The apartment was purchased by the employer in 2004 for €350,000 and has an annual use value of €12,600 which was vouched by an independent auctioneer. The apartment is now worth €450,000. Furniture which cost the employer €8,500 is also provided for their use. During 2006, the employer paid €1,400 for weekly cleaners to come to the flat, the heating and lighting bills of €975, insurance of €625, and repairs of €1,080. All other costs were met by Tom.

In 2006, Tom received the following income from his investments (all amounts are net unless otherwise indicated):

Dividends from Irish companies	€7,200
Bank interest	€6,800
Prize Bonds winnings	€150
Building society interest	€2,100

In addition, Tom owns a seaside investment property which he rented out for the whole of 2006 at a rate of €650 a week. The expenses Tom incurred in 2006 in relation to this house were:

Advertising	€2,399
Gardener/handyman's wages @ €100 per week	€5,200
Insurance	€8,000
Service Charge	€2,300
Repairs to guttering	€890

Tom's wife, Miranda, is 39 years old and was in full-time employment in 2006. She is paid a salary of €34,600 per annum. She is a member of her employer's revenue approved pension scheme and pays 10% of her annual salary into this scheme. She does not receive a company car, using her own. Her employer reimburses her at a rate of 48 cent per KM. In 2006, she drove 5,000 business KMs. She also had her private medical insurance premium of €550 paid by her employer. In addition, she received €560 (net) in interest in Building Society Interest during 2006.

Both Tom and Miranda paid PAYE of €12,000 and €3,000 respectively and are entitled to the personal allowance. They are separately assessed. Neither Tom nor Miranda has ever made any donations to an Approved Charity or Sports Body in the past but they are thinking of doing so in the near future.

- **Requirement for question 2**

(a) Calculate Tom's income tax payable for 2006. *18*

(b) Calculate Miranda's income tax payable for 2006. *8*

(c) Briefly explain the tax relief available to a PAYE individual who makes a donation to an approved body. Provide an example of the total monetary benefit of the donation to the Approved Charity.. *4*

(30)

SECTION B (Answer two from four questions)

3

- **Requirements for question 3**

(a) Explain the VAT position of a company which makes both taxable supplies and exempt supplies. *4*

(b) Explain the circumstances under which a VAT registered person may opt to join the cash accounting scheme, clearly identifying the benefits of so doing. *8*

(c) Robert, a sole trader registered for VAT, recorded the following transactions in the two months to 31 December 2006:

Sales to Irish customers	
Standard-rated (VAT exclusive):	€58,000
Zero-rated	€8,500
Exports	
To VAT registered non-EU members	€9,800
Purchases	
Standard-rated	€27,200
Zero-rated	€4,600
Expenses	
Insurances	€750
Wages and salaries	€26,000
Motor expenses	€2,150
Entertaining – foreign customers	€980
Entertaining – Irish customers	€450
Other expenses (all standard-rated)	€6,400
Capital expenses	
Purchase of motor car for business use	€16,000

Robert drives a 2,100cc petrol engine car, the fuel for which is paid for out of the business bank account.

Calculate the amount of VAT due for the two month period, commenting on any items of non-deductible input tax. *14*

(d) Explain briefly how the supply of the following items should be treated for VAT purposes:

(i) Oral medicine
(ii) Banking services *4*

(30)

4

- **Requirements for question 4**

(a) Differentiate between direct and indirect taxes, identifying and briefly explaining the main Irish direct taxes. *10*

(b) Discuss the terms tax avoidance and tax evasion, giving an example of each. Explain the steps taken by the government to reduce tax avoidance. *10*

(c) Governments seeking an alternative to taxation as a means of raising revenue might consider charging for some of the goods and services provided by the public sector. So-called "user charges" have certain advantages and disadvantages when compared with taxation. Explain the concept of "user charges" and discuss the advantages and disadvantages of such charges as an alternative to taxation. *6*

(d) Explain the main features of a "good" tax. *4*

(30)

SUMMARY OF TAX DATA

Corporation Tax

	Financial Year 2006	*Financial Year 2005*	*Financial Year 2004*
Standard rate	12.5%	12.5%	12.5%
Higher rate	25%	25%	25%

Capital Allowances

Date expenditure incurred	***Rate***	***Basis***
Plant & Machinery		
6 April 1996 – 31 December 2000	15%	Straight Line
1 January 2001 – 4 December 2002	20%	Straight Line
On or after 4 December 2002	12.5%	Straight Line
Motor Vehicles		
Pre 1 January 2001	20%	Reducing Balance
1 January 2001 to 4 December 2002	20%	Straight Line
On or after 4 December 2002	12.5%	Straight Line

Maximum qualifying cost of Motor Vehicles for capital allowance purposes

2006	€23,000
2005	€22,000
2004	€22,000
2003	€22,000
2002	€22,000

Income Tax

	2006	*2005*
Rates – First Amounts:	**20%**	**20%**
Single/Widowed	32,000	29,400
Married Couples/One Income	41,000	38,400
Married Couples/Two Income	64,000	58,800
One-Parent Family	36,000	33,400
Balance	**42%**	**42%**

Income Tax Credits	**€**	**€**
Single Person	1,630	1,580
Married Person	3,260	3,160
Age Credit (over 65)		
Single/Widowed Person	250	205
Married	500	410
PAYE	1,490	1,270

Preferential Loans (Specified Interest Rates)

	2006	*2005*
Residential Home Loan	3.5%	3.5%
Other Loan	11%	11%

PRSI Rates and Levies

Employee – Class A1			
	PRSI		Health Levy
	Employer	Employee (Income Limit)	Employee
2005	10.75%	4% (€44,180)	2%
2006	10.75%	4% (€46,600)	2%

Self Employed			
	Income	**PRSI (Min)**	**Health Levy**
2005	If Income < €20,800 Otherwise	3% 3%	Nil 2%
2006	If Income < €22,880 Otherwise	3% 3%	Nil 2%

Motor Kilometric Rates:
For individuals who are obliged to use their car in the normal course of their duties:

Motor Cars effective from 1 July 2006			
Official Motor Travel in a calendar year	Engine Capacity		
	Up to 1,200 cc	1,201 – 1,500 cc	1,501cc and over
Up to 6,437km	52.16 cent	61.66 cent	78.32 cent
6,437km and over	26.97 cent	30.96 cent	36.65 cent

Value Added Tax

Standard rate 21%

Capital Gains Tax

Rate – 20%

Indexation Factors

1974/75	7.528
1975/76	6.080
1976/77	5.238
1977/78	4.490
1978/79	4.148
1979/80	3.742
1980/81	3.240
1981/82	2.678
1982/83	2.253
1983/84	2.003
1984/85	1.819
1985/86	1.713
1986/87	1.637
1987/88	1.583
1988/89	1.553

1989/90	1.503
1990/91	1.442
1991/92	1.406
1992/93	1.356
1993/94	1.331
1994/95	1.309
1995/96	1.277
1996/97	1.251
1997/98	1.232
1998/99	1.212
1999/00	1.193
2000/01	1.144
2001	1.087
2002	1.049
2003 et seq	1.000

Note: No indexation is available for expenditure made within 12 months prior to the date of disposal