TAXATION REPUBLIC OF IRELAND

Diploma stage examination
12 December 2005

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

Instructions to candidates

*Answer **three** questions in total: **One** question from **Section A**, and **two** questions from **Section B**. The marks available for each question are shown in italics in the right-hand margin.*

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 examination room.

Where a question asks for a specific format or style, such as a letter or report, 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.

CIPFA

SECTION A (Compulsory)

1 Quantock Ltd is an Irish company which prepares accounts to 31 December each year. The company always claims maximum capital allowances. The company's summarised profit and loss account for the year to 31 December 2004 is as follows:

	€	€	*Note*
Gross profit		825,480	
Operating expenses:			
Bad and doubtful debts	12,940		1
Legal and professional expenses	30,550		2
Entertaining and gifts	24,570		3
Royalties payable	50,000		4
Motor expenses (MD's car)	5,200		5
Car hire	3,300		6
Amortisation of lease premium	5,000		7
Depreciation	113,340		
Loss on disposal of equipment	2,820		
Profit on disposal of motor car	(440)		
Other expenses	251,380	498,660	8
		326,820	
Other operating income:			
Royalties receivable		100,000	9
Operating profit		426,820	
Profit on sale of freehold property		105,000	10
Profit on sale of shares		12,000	11
Investment income:			
Irish dividends received	43,110		12
Interest receivable	14,840	57,950	13
		601,770	
Interest payable		7,440	14
Profit before taxation		594,330	

Notes:

1 Bad and doubtful debts are as follows:

	€
Trade debts written off	7,250
Trade debts recovered	(100)
Increase in specific provision for doubtful debts	6,290
Decrease in general provision for doubtful debts	(500)
	12,940

2 Legal and professional expenses are as follows:

	€
Arranging lease of new business premises	2,500
Fine for breach of environmental legislation	8,000
Legal fees re environmental prosecution	2,700
Debt collection	17,350
	30,550

3 Entertaining and gifts comprise:

	€
Entertaining Irish customers	3,270
Entertaining overseas customers	4,800
Staff entertaining	11,500
Donations to approved bodies - paid in year	1,500
- accrued at 31 December 2004	500
"Quantock" calendars for customers (cost €3 each)	3,000
	24,570

4 Patent royalties of €40,000 were paid during the year for trade purposes. A further €10,000 was accrued at the end of the year.

5 The Managing Director's car is used for both business and private journeys. The company pays all of the car's running costs. Private journeys accounted for 60% of the car's mileage during the year to 31 December 2004.

6 During the year, a car was hired wholly for business use. Car hire fees totalled €3,300. The car would have cost €15,000 to buy and was not a low-emission motor car.

7 On 1 January 2004, the company paid a €50,000 premium on being granted a 10 year lease on new business premises. This premium is being written off to the profit and loss account on the straight line basis.

8 The other expenses of €251,380 are all deductible under the rules of Schedule D Case I.

9 Royalties of €60,000 were received during the year for trade purposes. A further €40,000 was accrued at the end of the year.

10 In October 2004, the company sold a freehold property for €400,000. This property had been acquired for €295,000 in July 1998, when it had replaced a previous property. The previous property had cost €125,000 in February 1985 and was sold for €310,000 in September 1998. Rollover relief was claimed in relation to the disposal in September 1998. The proceeds from the sale in October 2004 were not reinvested.

11 In October 2004, the company sold 10,000 shares in Bodmin plc for €5.20 per share. Shares in Bodmin plc had been acquired as follows:

10 April 1987	Bought 10,000 shares at €4 per share
5 October 1991	Bought 10,000 shares at €5.50 per share
21 June 1995	Bought 10,000 shares at €8.50 per share

For accounting purposes, the company has assumed that the shares sold in October 2004 are those which were bought in April 1987.

12 The amount shown for Irish dividends is the actual amount received during the year, with no adjustment for tax credits.

13 A bank deposit account was opened in July 2004 (not for trade purposes). No interest was received during the year, but interest of €14,840 was accrued at the end of the year. This interest was not subject to deposit interest retention tax.

14 Interest of €11,440 was paid during the year for trade purposes. No interest was accrued at the end of the year, but €4,000 had accrued at the start of the year.

15 After deducting capital allowances for the year ended 31 December 2003, the cost and the tax written down values of the company's plant and machinery were:

	Cost	**TWDV**
	€	**€**
Equipment	224,000	89,600
Audi motor car	16,229	14,200
Office Furniture	2,743	2,400

In June 2004, the Audi car was sold for €15,800 and the office furniture was sold for €1,100. In July 2004, equipment costing €8,000 in 2001 was sold for €4,450. The company bought the following plant and machinery during the year:

		€
February 2004	Motor Car	9,250
March 2004	Equipment	30,000
June 2004	BMW car (60% private use by MD)	28,600
August 2004	Equipment	12,000
November 2004	Computer system	4,700
December 2004	Motor van	18,900

16 Capital losses brought forward at 1 January 2004 amounted to €96,215. These losses were to be utilized at the earliest opportunity. There were no trading losses brought forward.

- **Requirement for question 1**

(a) Compute the company's Schedule D Case I trading profit for the year to 31 December 2004, before deduction of capital allowances. (Your computation should begin with the pre-tax profit of €594,330.) *13*

(b) Perform a plant and machinery capital allowances computation for the year. *8*

(c) Compute the chargeable gains or allowable losses arising on the disposal of the freehold property and the disposal of the shares in Bodmin plc. *7*

(d) Compute the company's corporation tax liability for the year to 31 December 2004 and state the date (or dates) on which this tax is due for payment. *7*

(e) There are transitional arrangements for preliminary tax in place until 2006. What are these transitional arrangements? Set out the dates and the amounts that are required to be paid on those dates in relation to companies with an accounting period in 2004. *5*

(40)

SECTION B (Answer two questions from this section)

2 Robert Richardson is a director of Queensbury plc. He was born in 1963 and earned a gross salary in tax year 2003 of €45,000. Until 31 December 2003, his only other income from the company amounted to a mileage allowance of 40c per mile in relation to 3,000 business miles driven each year in his private motor car. However, as from 1 January 2004, Robert was offered a choice between the following options:

(i) a pay rise of €4,000 per annum

(ii) a petrol-engined company car with a list price of €17,200 and an emission rating of 192 g/km, which could be used for both business and private motoring.

If Robert accepted the pay rise, he would continue to receive the mileage allowance of 40c per mile. If he accepted the company car, the mileage allowance would cease but Queensbury plc would pay all of the car's running costs and Robert would be able to dispose of his own private car. This would save him €6,500 per annum in motor expenses (including depreciation). This figure of €6,500 is the amount of his annual motor expense before deducting the mileage allowance received from his employer.

Robert's wife Rita also works for Queensbury plc. She is currently employed as a senior computer programmer on a salary of €37,500 per annum, but is now considering a move into self-employment. She would like to become a freelance programmer working from home, using her own PC and an Internet connection. In the first instance, her only client would be Queensbury plc but she would hope to acquire more clients in the future.

Robert's parents (James and Jean) are both retired. James was born in August 1934 and his wife was born in July 1940. Their incomes for the 2004 tax year were as follows:

	James	**Jean**
	€	**€**
Pensions (before deduction of PAYE)	17,360	-
Net building society interest	4,160	2,160
Irish dividends received	1,710	4,230

- **Requirement for question 2**

(a) Assess the income tax, the PRSI and the health levy consequences of Robert accepting either the payrise or the company car. Which of these would be the better option for him? *7*

(b) Identify the tests which are used to distinguish between employment and self-employment. Is Rita's attempt to achieve self-employment status likely to succeed? *6*

(c) Compute the income tax liabilities of James and Jean for 2004 (before deduction of any PAYE tax paid). *10*

(d) Briefly outline the main features of the PAYE system. *7*

(30)

3 Quadrant Ltd has the following results for its three most recent accounting periods:

	y/e 30/6/03	1/7/03 to 31/12/03	y/e 31/12/04
	€	€	€
Trading profit/(loss)	2,050,000	260,000	(895,000)
Schedule D Case III income	51,600	39,000	28,700
Chargeable gains/(losses)	32,000	(3,000)	47,000
Non trade charges	10,000	8,000	5,000

Notes:

1 There were no trading losses brought forward on 1 July 2002.

2 Capital losses brought forward on 1 July 2002 were €67,300.

3 No dividends were paid or received in any of the accounting periods.

4 Following a bad trading result for the year to 31 December 2004, the company expects to return to making a sizeable trading profit in future years.

- **Requirement for question 3**

(a) Compute the company's corporation tax liability for each of the three accounting periods assuming that no claims are made in relation to the trading loss of €895,000. *9*

(b) Outline the order in which trading losses relief may be relieved. *5*

(c) Compute the company's corporation tax liability for each of the three accounting periods assuming that claims are made to relieve the €895,000 trading loss at the earliest opportunity. Also compute the amount of any trading losses carried forward. *9*

(d) Calculate the amount of tax which would be saved in consequence of the claims referred to in (c) above. *3*

(e) Distinguish between tax avoidance and tax evasion and briefly explain the Government's recent attempt to place statutory curbs on the use of VAT avoidance schemes. *4*

(30)

4

Quiver Ltd is VAT-registered. During the November/December 2004 period, the company made the following supplies of goods and services:

	€
Standard-rated supplies (including VAT)	74,260
Zero-rated supplies	16,800
Exempt supplies	12,500

The company also suffered the following input tax during the quarter:

	€
Attributed to taxable supplies:	5,210
Attributed to exempt supplies	860
Unattributed	2,470

The input tax which is attributed to taxable supplies includes €1,710 in relation to the purchase of a 1,300cc van and a further €180 in relation to the purchase of petrol used by this van during the period.

Unattributed input tax includes €620 of input VAT on customer entertaining costs and €590 of VAT on staff entertaining costs.

- **Requirement for question 4**

(a) Explain the VAT position of a company which makes wholly taxable supplies (at either the standard rate or the zero rate) and contrast this with the position of a company which makes wholly exempt supplies. Give at least two examples, each, of supplies which are taxable at the zero rate and supplies which are exempt. *4*

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

(c) Calculate the VAT liability of Quiver Ltd for the two month period November/December 2004. *9*

(d) Outline the VAT status of a local authority which makes both taxable supplies and exempt supplies. *3*

(e) Explain the following ways of classifying taxes and in each case indicate the class to which VAT belongs:

(i) by incidence
(ii) by tax base
(iii) by rate structure
(iv) specific or ad valorem. *6*

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

(30)