

Fundamentals Level – Skills Module

Taxation (Irish)

Monday 1 December 2008

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are printed on pages 2–5.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (IRL)

ACCA

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest Euro.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following rates, credits, formulae and allowances are based on the Finance Act 2007 and are to be used for all questions in this paper.

Rates of income tax 2007

	Tax €
Single/Widow(er)	
€34,000 at 20%	6,800
Balance at 41%	
Married couple (one income)	
€43,000 at 20%	8,600
Balance at 41%	
Married couple (dual income)	
€68,000 at 20%	13,600
Balance at 41%	
One parent family	
€38,000 at 20%	7,600
Balance at 41%	

Abbreviated list of personal tax credits for the income tax year 2007

	€
Single person's credit	1,760
Married couple's credit	3,520
Widowed person's credit (without dependent children)	2,310
Home carer credit (maximum)	770
Single parent credit	1,760
Dependent relative credit	80
Age credit – single/widowed	275
– married	550
Employee/PAYE credit	1,760
Rent allowance credit – single aged under 55	Rent limit €1,800 360
– married/widowed aged under 55	Rent limit €3,600 720
– single aged 55 & over	Rent limit €3,600 720
– married/widowed aged 55 & over	Rent limit €7,200 1,440
Service charge credit (maximum)	Upper limit €400 80

Self-employed

Rates of PRSI/levies 2007

PRSI	
Rate	3%
Note: No PRSI where income is below €3,174 per annum	
Health contribution	
Lower exemption limit	€24,960
Rate: First €1,925 per week (€100,100 per annum)	2%
Balance	2.5%
Note: No upper limit for PRSI or health contribution	

Employee – Class A1
Rates of PRSI/levies 2007

PRSI

Upper limit	€48,800
Rate	4%
The first €127 per week (non-cumulative) is exempt from PRSI	
No PRSI on income up to €17,628 per annum (€339 per week)	

Health contribution

Lower exemption limit (€480 per week)	€24,960
Rate: First €1,925 per week (€100,100 per annum)	2%
Balance	2·5%
Note: No upper limit for health contribution	

Employer (for employees – Class A1)
Rates of PRSI/levies 2007

PRSI

Rate	10·75%
For salaries less than €18,512 (€356 per week) the rate is 8·5% per annum	
Note: No upper limit for employer's contribution	

Retirement annuities

Age	Percentage of net relevant earnings
	%
Up to 30 years	15
30 years but less than 40 years	20
40 years but less than 50 years	25
50 years but less than 55 years	30
55 years but less than 60 years	35
60 years and over	40
Cap on earnings of €262,382	

Corporation tax

Standard rate	12·5%
Higher rate	25%

Capital gains tax

Rate	20%
Annual exemption	€1,270

Rural/Urban renewal allowances

Industrial and commercial buildings

Owner occupier	%
Free depreciation	50
or	
Initial allowance	50
Annual allowance	4
Maximum	100

Lessor

Initial allowance	50
Annual allowance	4
Maximum	100

Residential property

Owner occupier

Construction	5% per annum (10 years)
Refurbishment	10% per annum (10 years)

Lessor (Section 23 relief)

Construction	100
Conversion	100
Refurbishment	100

Motor cars – limits on capital costs

	€
Capital allowances:	
1 January 2002 to 31 December 2005	22,000
1 January 2006 to 31 December 2006	23,000
1 January 2007 onwards	24,000
Leasing charges	24,000

Motor cars – benefit-in-kind rates

Lower limit miles	Upper limit miles	Percentage of original market value of car %
Less than	15,000	30
15,001	20,000	24
20,001	25,000	18
25,001	30,000	12
30,001	upwards	6

Indexation factors for capital gains tax

Year expenditure incurred	Multipliers for disposals in year ending 2004 <i>et seq</i>
<i>1974-75</i>	7.528
<i>1975-76</i>	6.080
<i>1976-77</i>	5.238
<i>1977-78</i>	4.490
<i>1978-79</i>	4.148
<i>1979-80</i>	3.742
<i>1980-81</i>	3.240
<i>1981-82</i>	2.678
<i>1982-83</i>	2.253
<i>1983-84</i>	2.003
<i>1984-85</i>	1.819
<i>1985-86</i>	1.713
<i>1986-87</i>	1.637
<i>1987-88</i>	1.583
<i>1988-89</i>	1.553
<i>1989-90</i>	1.503
<i>1990-91</i>	1.442
<i>1991-92</i>	1.406
<i>1992-93</i>	1.356
<i>1993-94</i>	1.331
<i>1994-95</i>	1.309
<i>1995-96</i>	1.277
<i>1996-97</i>	1.251
<i>1997-98</i>	1.232
<i>1998-99</i>	1.212
<i>1999-2000</i>	1.193
<i>2000-2001</i>	1.144
<i>2001</i>	1.087
<i>2002</i>	1.049
<i>2003 et seq</i>	1.000

ALL FIVE questions are compulsory and MUST be attempted

- 1** Tom Dunne (aged 34) is married to Susan (aged 30). They are both Irish resident and domiciled. Tom has carried on a trade as personal fitness trainer from 1 October 2005. He has found it difficult to be self-employed and decided to cease to trade as and from 30 June 2007.

Details of his results are as follows:

	Adjusted Case 1 Income/(Loss)
	€
Year end 30 September 2006	12,000
Period end 30 June 2007	(10,000)

He has found employment as a fitness coach for a chain of health clubs, XRZize Ltd. XRZize Ltd runs health clubs that are independent from, but run alongside an Irish hotel chain. Tom will be responsible for overseeing the management of all the clubs. He started his new job on 1 December 2007, details of his employment package are as follows:

- His annual salary is €36,000 and is paid monthly.
- Tom has been given a company car. The car was bought second hand for €16,000, its list price when new was €25,000. He expects to drive 18,000 kilometres over a year, of this 50% will be business related.
- He will be able to eat his meals in the companies own café docks. All employees are entitled to do this and the annual benefit is deemed to be €2,000.
- In December, he received a holiday break at one of the chain's hotels free of charge. The market value of the break was €500, but his employer paid €100 for the break. The reduced rate was due to the trading relationship between the two companies.
- Tom has accumulated various loans totaling €20,000 over the past three years and his new employer agreed to give him one favourable loan, from the date of commencement of his new job. The interest rate on this favourable loan is 4% per annum.

Other information:

Tom and Susan have been married since June 2006. They do not have any children. Susan does not work as she currently takes care of her sick widowed mother who lives 1 kilometer from Tom and Susan's apartment.

Tom and Susan pay monthly rent of €800 for their apartment to a private owner.

Susan receives Irish dividend income of €6,000, net of dividend withholding tax. She also earns rental income, the equivalent of €15,000 from a property in the UK, she remits all of this income into Ireland. Both the shares and property were inherited from her father, on his death in 2003.

Tom paid income tax of €570 under the PAYE system in 2007.

Required:

- (a) **Compute the total Case 1 income/(loss) which will be assessed for Tom's trade from the date of commencement to the date of cessation, giving brief explanations for any revisions made.** (7 marks)
- (b) **Compute the income tax payable by (refundable to) Tom and Susan for the tax year 2007, on the basis that they have opted for joint assessment.** (14 marks)
- (c) **Explain how an individual can obtain relief for a trading loss, clearly identifying the order in which the relief will be given.** (4 marks)

(25 marks)

2 Green Homes Ltd is an Irish Resident company that sells environmentally friendly furniture.

Results for the year to 30 September 2007 were as follows:

	Notes	€
Sales		9,500,000
Cost of Sales	(1)	5,400,000
Gross profit		4,100,000
Overheads	(2)	1,612,800
Net profit from operations		2,487,200
Other income	(3)	418,000
Profit before taxation		2,905,200
Dividends paid	(4)	400,000
Profit retained for the year		€2,505,200

Notes:

1. Cost of sales includes depreciation of €150,000, stock written off €60,000, and €10,000 in respect of goods misappropriated by staff.

2. Overheads are made up as follows:

		€
Repairs and maintenance	(a)	249,000
Office salaries		740,000
Motor expenses	(b)	125,300
Legal and professional	(c)	49,000
Entertainment	(d)	25,000
Depreciation		50,000
Rent and Rates		135,000
Light and heat		30,000
Bad Debts written off		135,000
Sundry expenses	(e)	74,500
Total overheads		€1,612,800

3. Other Income is made up as follows:

		€
Dividend Received from:		
Irish Resident Company	(f)	30,000
UK Resident company	(g)	9,000
Profit on sale of industrial site	(h)	379,000
		€418,000

4. Dividends paid:

Green Homes Ltd is owned equally by four shareholders, each of whom received a dividend of €100,000 on 31 July 2007. The four shareholders are:

Patrick O Reilly	– a Republic of Ireland resident individual
Seamus Kirk	– a Republic of Ireland resident individual
Henry Kirk	– a UK resident individual
Beautiful Homes Ltd	– a company resident in Ireland

(a) Repairs and maintenance comprise the following:	€
Construction of staff canteen	152,000
Painting and redecorating offices	32,000
Replacement of part of roof of showroom after storm damage	45,000
Maintenance of lifting equipment	20,000
	<u>€249,000</u>

(b) Motor expenses comprise the following:		€
	Vehicle registration	
Delivery trucks running expenses		96,000
Managing director's car	06XX1357	4,300
Sales representative 1's car	04XX3698	12,000
Sales representative 2's car	05XX8745	13,000
		<u>€125,300</u>

The breakdown of the motor expenses for the cars is as follow:

Car Registration	Date of Purchase /Lease	Cost of Car €	Business Use	Lease Payment €	Running Expenses €
06XX1357	May 2006	38,000	30%	0	4,300
04XX3698	May 2004	28,000	80%	6,800	5,200
05XX8745	July 2005	30,000	80%	5,500	7,500

(c) Legal and Professional charges consist of the following:	€
Penalty for illegal dumping	4,000
Pursuing the collection of bad debts	10,000
Negotiating contracts with new customers	23,000
Planning and design of new canteen	12,000
	<u>€49,000</u>

(d) Entertainment expenses consist of the following:	€
Staff Christmas party	10,000
Staff Summer Bar B Que	8,000
Suppliers at a Modern Homes exhibition	7,000
	<u>€25,000</u>

(e) Sundry expenses comprise of the following:	€
Purchase of five electronic point of sales systems (including VAT at 21%)	25,000
Working capital loan interest	42,000
Cash donation to a registered charity	7,500
	<u>€74,500</u>

Only four of these electronic point of sale systems were in use at the year end, the fifth system had technical problems and was not put into use until December 2007.

- (f) Dividend from Irish Resident company.
This was a dividend received from Interior Design Ltd. Green Homes Ltd owns 60% of the issued share capital of Interior Design Ltd.
- (g) Dividend from UK Resident company.
This dividend was received from a UK web design company. Green Homes Ltd holds a small shareholding of 1% of this company. No UK withholding or underlying tax was paid on this dividend.

(h) Profit on sale of industrial site.

Green Homes Ltd had bought a site zoned industrial in June 1999 for €200,000 paying stamp duty of €12,000. In September 2007 it sold part of the site for €500,000, incurring disposal costs of €15,000. The new owner will use the site for industrial purposes. The remainder of the site has a market value of €300,000. The site is not regarded as having development potential.

5. Details of the company's assets qualifying for capital allowances are as follows:

	Tax written down value (TWDV) 1 October 2006	Cost
	€	€
Motor car (May 2006)	20,125	38,000
Delivery trucks (June 2004)	62,500	100,000
Office furniture (May 2001)	Nil	60,000

Half of the office furniture that had been bought in 2001 was sold for €8,000 during the year.

6. Green Homes Ltd is not a small company for corporation tax payment purposes.

Required

(a) Compute the corporation tax payable by Green Homes Ltd for the year ended 30 September 2007.

(23 marks)

(b) State the due date(s) for payment of the corporation tax (as calculated in(a)) and the filing date for the corporation tax return for Green Homes Ltd for the year ended 30 September 2007.

(2 marks)

(c) (i) State, giving reasons, whether dividend withholding tax (DWT) will be deductible from the dividends paid to the four shareholders of Green Homes Ltd and

(4 marks)

(ii) State the due date for payment of any DWT deductible from the dividends paid on 31 July 2007.

(1 mark)

(30 marks)

3 Sally, a widow, is Irish resident and domiciled. She has been operating as a freelance journalist since 2002. In 2007 she decided to move to Spain, and as a result of this decision, she decided to dispose of the following assets:

- (i) On 30 April 2007, she sold her house in Dublin together with its garden (less than one acre) to a developer for €500,000. The current use value of the house at the date of sale, was €350,000 and the incidental costs of sale were €6,300. The house had been purchased from her uncle for €15,000 on 1 May 1980. Its market value (and current use value) on that date was €30,000. In October 1997 she extended the house at a cost of €50,000.

Sally lived in the house from the date of purchase until 30 April 1986, at which time she was required to move to the Galway office by her employer.

Because of this move she was unable to live in her house until she was reassigned to the Dublin office on 1 May 1992. She re-inhabited the house until 30 April 2000, at which time she resigned from her job and went to study for a Masters in Human Rights in Barcelona. Having completed her studies at the end of August 2002, she undertook a number of work assignments on a self employed basis in Spain and in Ireland. As the house was rented to a reliable tenant she decided not to move back into the house and did not do so before selling it. She did not use her house for the purpose of her business at any time.

- (ii) She sold her car in December 2007. The sales proceeds were €19,000. She had bought the car second hand in March 2005 for €32,000. The car was used 80% for work purposes. She always prepared her accounts for the year ended 31 December.
- (iii) On 21 October 2007 she disposed of 1,400 shares in ABC plc for €7,000.

Sally had had the following dealings in the shares of ABC plc:

Date	Transaction type	No. of shares	Cost €
1 May 1997	Purchase	1,000	3,000
31 July 1999	Purchase	500	2,000
1 April 2001	Rights issue 1 for 4	375	1,650
1 May 2005	Bonus issue 1 for 5	375	–

Required:

- (a) **Compute Sally's capital gains tax liability for the tax year 2007, giving relevant explanations for any transactions (if any) that you have treated as not giving rise to a capital gain in this year.** (18 marks)
- (b) **State the due date(s) for the payment of any capital gains tax calculated in (a) above.** (2 marks)

(20 marks)

- 4 John Walsh is an accountant, he has his own accountancy practice and has been in practice since 2005. He is registered for Value Added Tax (VAT) and accounts for VAT on a cash receipts basis.

John's practice is made up of accounting, auditing, tax compliance and financial services. Financial services income (commission) is exempt from VAT, all other services are liable to VAT at the standard rate (21%).

The following information relates to John Walsh's practice for the two months to 31 December 2007. All amounts are stated excluding VAT (where applicable).

Sales	€
Invoiced sales for accounting/auditing/tax	81,000
Invoiced sales for investment services	9,000
Cash received for accounting/auditing/tax	70,000
Cash received for financial services	10,000

Expenses excluding VAT

Invoice Date	Date of payment	Expense	VAT Rate	€
20 November 2007	20 November 2007	Hotel bills **	13·50%	500
15 December 2007	18 December 2007	Electricity	13·50%	2,000
20 December 2007	5 January 2008	Stationery	21%	5,000
For two months ending on 31 December 2007		Wages	exempt	14,000

** The hotel expense was incurred by John Walsh when he attended a qualifying conference on auditing. The hotel bill is broken down between €380 for accommodation and €120 for food.

Required:

- (a) **Compute the liability to VAT of John Walsh for the VAT period November/December 2007.**

Note: Where necessary you should apportion expenses between qualifying and non qualifying activities, based on the ratio of taxable turnover to total turnover. You may assume that the turnover ratio for November/December is representative of annual turnover figures. (10 marks)

- (b) **State the conditions that must be satisfied so that a trader may be eligible to account for VAT on a cash receipts basis.** (2 marks)

- (c) **State the due date for the submission of a VAT return, together with the consequences, if a taxable person fails to submit a return and/or pay the tax due.** (3 marks)

(15 marks)

- 5** The terms 'employed' and 'self-employed' are not defined in law. As a consequence it is sometimes difficult to determine the taxable status of an individual.

Required

Identify and briefly explain any FIVE of the main factors which are taken into account in determining whether an individual is an 'employee' or is 'self employed'.

(10 marks)

End of Question Paper