

Fundamentals Level – Skills Module

# Taxation (Irish)

Monday 7 December 2009

**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 time 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 2008 and are to be used for all questions in this paper.

### Rates of income tax

	Tax €
<b>Single/Widow(er)</b>	
€35,400 at 20%, Balance at 41%	7,080
<b>Married couple (one income)</b>	
€44,400 at 20%, Balance at 41%	8,880
<b>Married couple (dual income)</b>	
€70,800 at 20%, Balance at 41%	14,160
<b>One parent family</b>	
€39,400 at 20%, Balance at 41%	7,880

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

	€
Single person's credit	1,830
Married couple's credit	3,660
Widowed person's credit (without dependent children)	2,430
Home carer credit (maximum)	900
Single parent credit	1,830
Dependent relative credit	80
Age credit – single/widowed	325
– married	650
Employee/PAYE credit	1,830
Rent allowance credit	
	<b>Rent limit</b>
– single aged under 55	€2,000 400
– married/widowed aged under 55	€4,000 800
– single aged 55 and over	€4,000 800
– married/widowed aged 55 and over	€8,000 1,600
Service charge credit (maximum)	Upper limit €400 80
Third level tuition fees	Upper limit €5,000 1,000

**Rates of PRSI/levies  
Self-employed**

**PRSI**

Rate	3%
Minimum contribution where income is below €26,000	€253

No PRSI where income is below €3,174 per annum

**Health contribution**

Lower exemption limit (€500 per week)	€26,000
Rate: First €1,925 per week (€100,100 per annum)	2%
Balance	2.5%

Note: No upper limit for PRSI or health contribution

**Rates of PRSI/levies  
Employee – Class A1**

**PRSI**

Upper limit	€50,700
Rate	4%

The first €127 per week (non-cumulative) is exempt from PRSI  
No PRSI on income up to €18,304 per annum (€352 per week)

**Health contribution**

Lower exemption limit (€500 per week)	€26,000
Rate: First €1,925 per week (€100,100 per annum)	2%
Balance	2.5%

Note: No upper limit for health contribution

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

**PRSI**

Rate	10.75%
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For salaries less than €18,980 (€365 per week) the rate is 8.5% per annum

Note: No upper limit for employer's contribution

**Retirement annuities**

	Percentage of net relevant earnings
<b>Age</b>	<b>%</b>
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 €275,238	

### Corporation tax

Standard rate	12 <sup>1</sup> / <sub>2</sub> %
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 (s.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 to 30 June 2008	24,000
Running costs restrictions (excluding lease charges)	None

For cars purchased on or after 1 July 2008:

Capital allowances are based on the carbon dioxide emissions category of the car. The specified limit is €24,000.

Carbon emissions table:

Category A Vehicles	Category B/C Vehicles	Category D/E Vehicles	Category F/G Vehicles
0–120g/km	121–155g/km	156–190g/km	191g/km+

Category A, B and C vehicles – capital allowances are based on the specified amount of €24,000 regardless of the cost of the car.

Category D/E vehicles, capital allowances are based on 50% of either €24,000 or the cost of the car, whichever is lower.

Category F/G vehicles do not qualify for capital allowances.

#### **Motor cars – benefit-in-kind rates**

Lower limit business miles	Upper limit business miles	Percentage of original market value of car %
Up to	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 the year ending 31 December 2004 et seq.
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
1999–2000	1·193
2000–2001	1·144
2001	1·087
2002	1·049
2003 et seq.	1·000

**ALL FIVE questions are compulsory and MUST be attempted**

- 1 Ryan and Shane have had an architectural business, operated through a partnership since the mid 1990s. Due to an upturn in business they took in a new partner Denise from 1 September 2006. The profit sharing ratios of the partnership were as follows:

Prior to 1 September 2006	
Ryan	50%
Shane	50%
On/after 1 September 2006	
Ryan	35%
Shane	35%
Denise	30%

Details of the professional income of the practice, as adjusted for tax purposes and before capital allowances, was as follows:

	€
Year ended 30 June 2006	340,000
Year ended 30 June 2007	310,000
Year ended 30 June 2008	290,000

In May 2006, the partnership purchased office furniture for €56,000 and computer equipment (including software) for €40,000. Some of the computer software, purchased in May 2006 that had cost €21,700, was scrapped during the year to 30 June 2008.

Ryan is married to Kate (aged 43), Kate is employed by a property management company; she works 35 hours a week. The details of her remuneration package are as follows:

- Salary €40,000. PAYE deducted €12,000.
- Kate receives commission in addition to her salary. She earned commission of €18,000 for 2008, but €4,000 of this was not paid to Kate until 31 March 2009.
- €10 per day for lunch expenses. Kate works a five-day week for 46 weeks a year. When Kate needs to entertain a client at lunch she may make a separate claim for this expense.
- Kate's employer does not have a staff pension retirement scheme. Kate provides for her pension by making contributions to a personal retirement savings account (PRSA). She pays €700 a month into this scheme and her employer pays an additional €700. Kate's €700 monthly payment is deducted by her employer when computing her net pay.
- Kate is provided with a company car. The car was bought new in May 2007 for a cash price of €26,000. Kate's employer pays all of the running expenses of the car but Kate is required to pay €20 per week towards the private use costs of the car. Kate's annual mileage is 16,000, 60% of which is for business purposes. The nature of Kate's job is such that she spends 75% of her working week out of the office.
- Kate's employer provides her with a mobile phone, and also pays all the phone bills. The phone cost €200 when bought new in January 2008 and the phone bills for the year were €1,800, 20% of which related to Kate's personal calls.

Details of Ryan's and Kate's other income are as follows:

	Ryan €	Kate €
Irish bank deposit interest, net of deposit interest retention tax (DIRT)	1,000	
UK dividends received		600
Interest from a Special Medium Term Credit Union account		400

Details of Ryan's and Kate's outgoings are as follows:

	Ryan €	Kate €
Permanent health insurance	1,500	
Private health insurance		1,900
Third level tuition fees to NUI Galway for their son Cormac who is studying on a one year Masters in Accounting course. This is an approved course.		7,500
Rent paid on behalf of Cormac, who is single		3,500
Medical expenses incurred for Cormac on qualifying health care, net after re-imbursement of expenses from the health insurance care provider	600	

**Required:**

- (a) **Compute the Case II income of Ryan, Shane and Denise for the income tax years 2006, 2007 and 2008.** (11 marks)
- (b) **Compute the capital allowances claimable by Ryan for the tax year 2008.** (3 marks)
- (c) **Compute Ryan's and Kate's income tax due for the tax year 2008 on the assumption that they are jointly assessed.** (16 marks)

**(30 marks)**

- 2 Cribben Ltd is an Irish incorporated and resident company, its business is selling spare parts for machines. The company's income statement for the year ended 31 December 2008 shows the following:

	Notes	€	€
Sales			2,400,000
Cost of sales			(1,900,000)
Gross profit			500,000
Other income			
Rental income	(1)	6,000	
Investment income	(2)	15,000	
Loss on disposal of shares	(3)	(10,000)	11,000
			511,000
Less expenses			
Depreciation		80,000	
Royalties	(4)	30,000	
Bank interest	(5)	20,000	
Rent and rates		15,000	
Light and heat		18,000	
Salaries and wages	(6)	191,000	
Motor expenses	(7)	50,000	
Subscriptions	(8)	15,000	419,000
Net profit			92,000

Notes:

- (1) This income arose from the rental of a vacant storage unit which was surplus to requirements. The unit is let at a monthly rent of €500 and has been let since mid 2007. The storage unit was purchased a number of years ago. There are no borrowings on this property.

- (2) Investment income comprised of the following:

	€
Dividend from an Irish company, Briste Ltd	10,000
Deposit interest, received gross	5,000
	15,000

- (3) The shares in question were in a quoted company, no dividend has been received during the year in respect of these shares. The shares had been purchased in June 2004 for €40,000. Fees associated with their purchase were €5,000, and brokerage fees on their sale were €4,000. The shares were sold for €39,000 in October 2008.

- (4) The trade patent royalties paid in the year were €25,000 gross.

- (5) Bank interest comprises:

	€
Interest on bank overdraft	5,000
Interest on loan used to purchase the quoted shares referred to in note (3)	3,000
Interest on loan to purchase a 10% holding in the Irish trading Company, Briste Ltd (as referred to in note (2)). Sean Dwyer who is a director of Cribben Ltd is also a director of Briste Ltd.	12,000
	20,000

- (6) Salaries and wages includes €50,000 for a pension. There had been no opening accrual or prepayment in respect of the pension, but €20,000 was prepaid as at 31 December 2008.



(7) Motor expenses comprise:

	€
Paid to staff for using own cars in the course of their work	20,000
Running expenses of cars/vans owned by the company	15,000
Car lease expense for the managing director's car	11,000
Running expenses of the managing director's car	4,000
	<u>50,000</u>

The managing director's car was leased new on 1 February 2008, the car would have cost €30,000 if bought for cash. The car is a category D car.

(8) Subscriptions comprise:

	€
Trade	4,000
Political – to election of local councillor	3,000
Charity – registered	2,000
Staff social fund	6,000
	<u>15,000</u>

Other information:

(a) Fixed asset movements: motor vehicles:

	Cost €
Additions during the year	
1 April Purchased a Ford car (net of trade in value – see disposals below)	22,000
1 July Purchased a Ford van	28,000
1 October Purchased an Opel car (Category B)	22,000
Disposals during the year	
1 April Traded in a car that had been bought in June 2003 for €25,000; the trade in value was €6,000.	

(b) Capital allowances

The tax written down values (TWDV) of the company's assets at 1 January 2008 were as follows:

	Cost (restricted) €	TWDV €
Motor vehicles	45,000	25,500
Office furniture and equipment	50,000	37,500

**Required:**

- (a) **Compute the Case I adjusted income of Cribben Ltd for the year ended 31 December 2008.** (14 marks)
- (b) **Compute the corporation tax liability for Cribben Ltd for 2008.** (6 marks)
- (c) **State how a company can get relief for a loss incurred on the sale of quoted shares.** (2 marks)
- (d) **State how a company can claim relief for non-trade charges.** (3 marks)

**(25 marks)**

**3** Michelle is an Irish resident single lady. She had the following transactions in assets during 2008.

- (1) In June she sold an antique painting at an auction. The gross sale proceeds were €2,200 and auctioneers costs were €220. She was very disappointed with the amount realised on the sale as she had paid €3,800 for the painting in June 2006.
- (2) In September she sold a holiday home located at Lahinch for €235,000 net of selling costs. The holiday home had been purchased newly built in May 1998 for €220,000.
- (3) In September 2008 she also sold the moveable contents of the holiday home, the new owner was not interested in acquiring these. These contents included everyday furniture and white goods. The sales proceeds were €12,000, while the original cost of these goods had been €20,000. The holiday home had never been rented and was always used for Michelle's private use.
- (4) In October a commercial property, which Michelle owned 50:50 with her brother, was sold by the two of them for €250,000. The property had cost her brother €50,000 when he bought it in May 1985. He subsequently gifted Michelle half of the property on 1 July 1998, when the market value of the property was €120,000.
- (5) In October Michelle sold 2,000 shares in a public quoted company at €8.50 each. The share history was as follows:

Date	Transaction type	Number of shares	€
1 October 1992	Purchase	1,000	4,000
1 October 2002	Purchase	1,200	12,000
1 January 2003	Rights issue, 1 for 5	440	5,280
1 September 2003	Sold	800	12,000
1 January 2004	Bonus issue, 1 for 4	460	

**Required:**

- (a) **Compute Michelle's capital gains tax liability for the tax year 2008 showing the amount of tax due, if any, for the initial and final period. Give a relevant explanation for any transaction that you treat as not giving rise to a capital gain in this year.** (17 marks)
- (b) **Define the term 'specified asset' for capital gains tax purposes.** (3 marks)

**(20 marks)**

- 4 (a) Retail Warehouse (RW) is a business that supplies small to medium size grocery shops with their stock. RW accounts for its value added tax (VAT) on the invoice basis. The following information relates to RW's sales and purchases for September/October 2008. All amounts are stated excluding any applicable VAT.

	Note	€
Sales		
Zero rated goods		10,000
Standard rated goods		90,000
Stock purchases		
Zero rated goods		7,000
Standard rated goods		60,000
Other costs		
Motor expenses	(1)	2,000
Light and heat (ESB)		1,200
Bad debt	(2)	2,000
Hotel accommodation	(3)	700
Cleaning	(4)	600

Notes:

- (1) Motor expenses comprise:

	€
Repairs to delivery van (invoice dated 12 November 2008)	800
Diesel for delivery vans	700
Diesel for staff cars	300
Petrol for managing director's car, which is a company car	200
	<u>2,000</u>

- (2) The bad debt related to a sale made in January 2008 and arose when one of RW's customers went into liquidation in September 2008. The sale was at the standard rate.

- (3) The hotel accommodation costs were all incurred in relation to the general manager:

	€
Attendance at international soccer match	250
Attendance at national trade conference	450
	<u>700</u>

- (4) The cleaning relates to cleaning done in the warehouse. RW employed a new cleaning firm in September. The invoice received from the cleaning firm included an amount charged for VAT, but the invoice itself did not have a VAT number. The cleaning firm have been contacted and they have promised to send on the VAT number next week.

**Required:**

**Compute the VAT liability, if any, of Retail Warehouse for September/October 2008, giving brief explanations of the treatment of the items included/excluded in your computation.** (8 marks)

- (b) Retail Warehouse has some items in stock that are slow moving. They are considering offering them for sale by packaging them with complementary stock items that are in high demand. A typical package would be a slow moving item selling for €6 (zero rated) and a high demand item selling for €14 (standard rated).

**Required:**

**Advise Retail Warehouse on the value added tax (VAT) implications of this proposal.** (4 marks)

- (c) **List six details that must be included on a valid VAT invoice.** (3 marks)

**(15 marks)**

- 5** John Black, a new client, who has been a chargeable person for a number of years, has asked you to explain the following, with reference to income tax.

**(a) The rules applicable in determining the amount of preliminary tax to be paid for the tax year 2008.**

(3 marks)

**(b) The penalty for late filing of an income tax return.**

(4 marks)

**(c) The implications of late payment of income tax.**

(3 marks)

**(10 marks)**

**End of Question Paper**