Certified Accounting Technician Examination
Advanced Level

Preparing Taxation Computations (Irish)

Tuesday 15 December 2009

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

This paper is divided into two sections:

Section A – ALL 10 questions are compulsory and MUST be attempted

Section B – ALL FOUR questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 3–6.

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 T9 (IRL)

ACCA

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The question paper begins on page 3.

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

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		
	Rent limit	
– 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%

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

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 €275,238

Corporation tax

Standard rate	$12^1/_2$%
Higher rate	25%

Capital gains tax

Rate	20%
Annual exemption	€1,270

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+

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

Section A – ALL 10 questions are compulsory and MUST be attempted

Please use the space provided on the inside cover of the Candidate Answer Booklet to indicate your chosen answer to each multiple choice question.
Each question within this section is worth 2 marks.

1 An employee is supplied with a company car. The company pays all of the running expenses relating to the car. The employee's business mileage is less than 15,000 miles per year.

What percentage of the original market value of the car will the employee be assessed on?

A 20%
B 10%
C 30%
D 15%

2 An individual is obliged to file his/her income tax return by a certain date to avoid penalties.

What is the latest date by which an individual must file his/her tax return for the tax year ended 31 December 2008 to avoid penalties? You may assume the individual does not file his/her tax return on-line.

A 30 September 2009
B 31 October 2009
C 31 October 2008
D 31 January 2009

3 Tax relief at the standard rate is available for certain third level college fees.

What is the maximum allowance for qualifying fees in the tax year 2008?

A €1,000
B €2,500
C €4,000
D €5,000

4 Mark is self employed. His Case I profits for the year ended 31 December 2008 were €50,000 and his capital allowances €4,000. He also contributed €6,000 to his pension scheme during the year.

What is Mark's PRSI and health contribution liability for 2008?

A €2,300
B €1,380
C €1,200
D €2,500

5 Gains made on the disposal of certain assets are exempt from capital gains tax.

Which one of the following disposals is exempt from capital gains tax?

A Gain on the sale of shares from a brother to his sister
B Gain on the sale of shares from a husband to his wife
C Gain on the sale of shares from a father to his daughter
D Gain on the sale of shares from a mother to her son

6 Retirement relief is available to individuals disposing of businesses or shares in family companies.

What age must an individual be to qualify for this relief?

A Over 40 years of age
B Over 45 years of age
C Over 50 years of age
D Over 55 years of age

7 A Ltd commenced trading on 1 October 2007 and made up its first set of accounts to 31 March 2009.

What is A Ltd's first accounting period?

A Three months ended 31 December 2007
B 18 months ended 31 March 2009
C 15 months ended 31 December 2008
D 12 months ended 30 September 2008

8 B Ltd makes up its accounts annually to 31 December each year.

What is the due date for payment of B Ltd's preliminary tax for the year ended 31 December 2008?

A 30 June 2009
B 31 January 2009
C 21 November 2008
D 21 September 2009

9 Most value added tax (VAT) registered businesses are required to file VAT returns on a bi-monthly basis.

What is the due date for filing the November/December 2008 VAT return?

A 19 January 2009
B 31 January 2009
C 15 January 2009
D 21 January 2009

10 Business expenses are generally deductible in calculating the value added tax (VAT) liability.

Which one of the following expenses is NOT deductible for VAT purposes?

A Goods purchased for resale
B Plant and machinery
C Accountancy fees
D Motor cars

(20 marks)

Section B – ALL FOUR questions are compulsory and MUST be attempted

1 Fiona, who is single, has been a property investor for a number of years.

She owns two properties. The details on each are as follows:

Apartment 1:

Apartment 1 is located in Dublin and was purchased in February 2001 for €175,000. Fiona financed the purchase by way of a €100,000 mortgage, the annual payments for which comprise capital of €5,800 and interest of €8,750.

Fiona incurred the following expenditure on the property during the year ended 31 December 2008:

	€
Repairs to front door	750
Addition of garage	2,500
Insurance	460

This property is rented at an annual rent of €13,000. The property is registered with the Private Residential Tenancies Board (PRTB).

Apartment 2:

Apartment 2, which is located in Mullingar, was purchased on 1 April 2008 for €315,000.

This property was financed by way of a mortgage of €290,000 and payments to 31 December 2008 comprised capital of €11,000 and interest of €13,000.

Before the property was let on 1 July 2008 the property had to be repainted at a cost of €3,000 due to damp caused by a leak in the water tank. The cost of repairing the water tank was €300 and neither the repainting nor the repairs to the tank were covered by insurance.

The property was insured from the 1 July 2008 to 31 May 2009 at a cost of €480.

The rent from 1 July 2008 to 31 December 2008 was €5,000. The property was registered with the PRTB on 30 June 2009 at a cost of €70.

Other income and expenditure.

Fiona is a primary school teacher and earns €30,000 (gross) per annum, and PAYE of €5,000 was deducted. She pays €1,500 into her pension scheme and has un-reimbursed medical expenses of €800 for 2008.

Fiona is also in receipt of the following income for the year ended 31 December 2008:

	€
Deposit interest from an Irish bank (net)	1,600
Dividends from Irish companies (net of withholding tax)	12,000

Required:

(a) Calculate Fiona's income tax liability or overpayment for the tax year ended 31 December 2008, indicating under which tax schedule each item of the income will be assessed. (16 marks)

(b) Explain the treatment of the items of expenditure incurred in respect of the Mullingar property (Apartment 2) clearly stating why they are or are not allowed. (7 marks)

(c) State how rental losses can be used. (2 marks)

(25 marks)

2 IQ Communications Ltd operates a telecoms store in Galway. The company has traded profitably for many years and had the following results for the year ended 31 December 2008:

	Notes	€	€
Sales			1,430,000
Less: Cost of sales			(500,000)
			930,000
Less:			
Wages		75,000	
Motor expenses	(1)	14,440	
Insurance		2,750	
Repairs and renewals	(2)	9,500	
Advertising	(3)	22,100	
Depreciation		14,000	
Rent		250,000	
Donations	(4)	675	
Interest paid	(5)	8,320	
Professional fees	(6)	28,500	(425,285)
Net profit from trading			504,715
Interest received (gross)	(7)		8,000
Total profit before tax			512,715

Notes:

(1) Motor expenses comprise:

	€
Director's car	9,700
Staff travel passes	4,500
Speeding fines	240
	14,440

The director's car is an Audi A6, which the company owns. The market value of the car was €45,000 when it was purchased on 2 July 2007. The expenses incurred in relation to this car were as follows:

	€
Bank interest on car loan	3,000
Petrol	4,350
Tax and insurance	1,600
Repairs/servicing	750
	9,700

(2) Repairs and renewals comprise:

	€
Painting a storeroom	1,200
Repairs to window	800
New computers	7,500
	9,500

(3) Advertising comprises:

	€
TV advertising	18,000
Christmas gifts to suppliers	350
Christmas party for staff	3,750
	22,100

(4) Donations comprise:

	€
Charitable donation to an eligible charity	275
Political donation	400
	675

(5) Interest paid comprises:

	€
To the bank on a working capital loan	8,000
To the Revenue for the late payment of PAYE	320
	8,320

(6) Professional fees comprise:

	€
Audit and accounting	7,500
Legal fees in connection with a potential new investor for the company	18,000
Legal fees in connection with bad debt collection	3,000
	28,500

(7) IQ Communications Ltd received deposit interest of €8,000 from an Irish bank during the year. No DIRT was deducted from the amount received.

Additional information

The original cost and tax written down values (TWDV) of the company's equipment, furniture and motor vehicle as at 1 January 2008 were as follows:

		Computers	Fixtures and fittings	Motor car
		€	€	€
Original cost	(tax adjusted)	150,000	27,000	24,000
TWDV 1 January 2008		131,250	20,250	21,000

The computers and fixtures and fittings were all purchased between 1 January 2006 and 31 December 2007. The motor car is the director's motor car purchased on 2 July 2007 (as per (2) above).

Required:

Calculate IQ Communications Ltd's corporation tax liability for the year ended 31 December 2008, giving brief explanations for your treatment of the items detailed in notes (1) to (6) above.

(22 marks)

3 James purchased a house in Dublin as his principal private residence on 1 January 1992 for €180,000.

James lived in the house until 30 June 1995 when he moved to Cork as required by his employer. Throughout the period 1 July 1995 to 31 December 1997 while he worked in Cork, he lived in rented accommodation and rented out his house in Dublin.

James returned to his house in Dublin on 1 January 1998 and lived there until 30 June 2005.

He purchased a new house as his principal residence in Wicklow on 1 July 2005 for €350,000. James moved into this house immediately and rented out his old house from 1 July 2005 until he sold it on 31 December 2008, for €300,000.

Required:

(a) Calculate James's capital gains tax liability on the sale of his Dublin house, giving explanations for your treatment of the qualifying and non-qualifying periods of occupation for the purposes of principal private residence relief. (17 marks)

(b) State the due date of payment of the tax due. (1 mark)

(18 marks)

4 (a) Gladbags Ltd is a trading company engaged in the retail sale of ladies handbags. The company prepares its accounts to 30 September each year.

The company's results for the two years ended 30 September 2007 and 2008 were as follows:

	2007	2008
	€	€
Schedule D Case I profit/(loss) – handbag business	50,000	(97,000)
Schedule D Case III deposit interest (gross)	27,000	16,000
Schedule D Case V rents	3,000	2,500

Required:

Compute the total profits and corporation tax liability, if any, of Gladbags Ltd for each of the years 2007 and 2008, assuming that the company claims all available reliefs at the earliest possible date. Your answer should include a loss memorandum showing the order in which relief for the loss has been granted. (10 marks)

(b) Seasons Ltd is engaged in the manufacture of confectionery which is liable to value added tax (VAT) at 21%. The company's income and expenses for September and October 2008 were as follows:

	€
Sales of confectionery, exclusive of VAT	150,000
Expenses, inclusive of VAT at 21%:	
	€
Goods for resale	105,000
Petrol	8,000
Entertainment	1,000
Telephone	4,000
Expenses, inclusive of VAT at 13·5%:	
Electricity	3,400

Required:

Compute the value added tax (VAT) liability for Seasons Ltd for the bi-monthly period, September/October 2008, clearly identifying any non-deductible items. (5 marks)

(15 marks)

End of Question Paper