
Answers

1 Mr Dias – Capital (net worth) statement

		1 January 2003 €	31 December 2008 €	Marks
Assets				
Co-operative Society deposit account		0	309.000	0.5
Business equipment	(note 5)	20.000	65.000	1
Stock in trade	(note 4: $130 - 130 \times 30/130$)	25.000	100.000	1
Debtors	(note 3)	50.000	105.000	1
Office premises	(note 7)	100.000	150.000	1
Immovable property	(note 1)	100.000	0	1
Investment in shares	(note 2: $4.000 \times 5 + 2.000 \times 3$)	0	26.000	1
Motor vehicles	(note 6: $10.000 + 60.000$)	0	70.000	1
Total assets		295.000	825.000	
Liabilities				
Loan to acquire the Audi A5	(note 6)	0	(60.000)	1
Motor van creditor	(note 6)	0	(8.000)	1
Business bank overdraft		(30.000)	(100.000)	0.5
Trade creditors		(40.000)	(60.000)	0.5
Net assets		225.000	597.000	
Less: net assets 1 January 2003			(225.000)	0.5
Capital increase for the period			372.000	
Add				
Business rent	(note 8)		0	1
Residential house rent	(note 8: 72×2.000 per month)		144.000	1
Social insurance contributions	(note 8)		20.000	0.5
Income taxes	(note 8)		50.000	0.5
Wife's taxes	(note 8)		20.000	0.5
Wife's social insurance	(note 8)		10.000	0.5
Loss on sale of shares	(note 2: 4.000×1 each)		4.000	1
Capital gains tax	(note 1: 6.280×2 : working)		12.560	0.5
Special contribution for the defence on interest income	(note 1)		1.000	1
Living expenses	(note 8)		180.000	0.5
Interest on loan	(note 6: $60.000 \times 8\% \times 3$ years)		14.400	1
Interest on late payment of capital gains tax	(note 1: working)		419	1
Total assets and expenses			828.379	
Deduct				
Wife's emoluments	(note 8)		(150.000)	1
Capital disposal	(note 1)		(200.000)	1
Interest income	(note 1)		(10.000)	1
Taxable Income for the period			468.379	

	€	€	Marks
Working			
Disposal of plot of land:			
Disposal proceeds		300.000	0.5
Cost	(100.000)		0.5
Indexation allowance (100.000 x 108.07/53.23) – 100.000	(103.025)		1
		(203.025)	
Capital gain		96.975	
	50% Dias	50% Hra	
Allocated as follows	48.488	48.487	1
Lifetime exemption	(17.086)	(17.086)	1
Taxable capital gain	31.402	31.401	
Capital gains tax at 20%	6.280	6.280	1
Interest payment from 3 February 2008 to 2 July 2008 (12.560 x 8% x 5/12) = 419)	209	210	2
			30

2 (a) Pulpo Ltd – Computation of taxable income

	2007 €	2008 €	
Net profit (per question)	350.000	100.000	
<i>Add: Adjustments on income</i>			
Balancing addition (working 4)	6.000		0.5
Profit from permanent establishment (note 1) (loss allowed in 2007)		30.000	1
Balancing addition on shop (workings 2, 3) – restricted to allowances granted		78.000	1
<i>Deduct: Adjustments on income</i>			
Loss from permanent establishment (note 1)		(50.000)	1.5
Profit from sale of machinery (note 2)	(4.000)	(3.000)	0.5
Profit from sale of building (note 3)	(325.000)		0.5
Balancing deduction (working 5)		(800)	0.5
<i>Add: Adjustments on expenditure</i>			
Depreciation (note 2)	50.000	20.000	0.5
<i>Deduct: Capital allowances:</i>			
Shop (6.750 + 6.000)	(12.750)		0.5
Machinery (12.000 x 10%)	(1.200)		0.5
Profit for the year	63.050	174.200	

Working 1

Capital allowances claimed by Fredi Ltd	
Building cost €225.000 x 3% = €6.750 annual allowance	1
Total capital allowances claimed by Fredi Ltd €6.750 x 3 years (1997, 1998, 1999) = €20.250.	0.5

Working 2

Capital allowances claimed by Pulpo Ltd on unexhausted balance	
Unexhausted balance = €225.000 – €20.250 = €204.750	0.5
Remaining years = 33.33 years – 3 years (already claimed by Fredi Ltd) = 30.33 years	0.5
Annual capital allowances €204.750/30.33 = €6.750 per year.	0.5

Working 3

	Cost 1 January 2000 €	Additions 2004 €	Total 31 December 2007 €	Rate	Years	Capital allowances received up to sale €	Net book value 31 December 2007 €	
Shop building	204.750		204.750	W1	8	54.000	150.750	0.5
Shop building		200.000	200.000	3%	4	24.000	176.000	0.5
	204.750	200.000	404.750			78.000	326.750	

	€	Marks	
Selling price 24 October 2008	600.000	0-5	
Net book value 31 December 2007	326.750	0-5	
Excess	<u>273.250</u>		
Working 4			
	€		
Cost of machinery 2003	20.000	0-5	
Less: wear and tear allowance for the years 2003 to 2006 (4 years at 10%)	(8.000)	0-5	
Net book value	<u>12.000</u>		
Disposal proceeds 2007	(18.000)	0-5	
Balancing addition	<u>(6.000)</u>		
Working 5			
	€		
Cost of machinery 2007	12.000	0-5	
Less: wear and tear allowance for the year 2007 at 10%	(1.200)	0-5	
Net book value	<u>10.800</u>		
Disposal proceeds 2008	(10.000)	0-5	
Balancing deduction	<u>800</u>		
		<u>15</u>	
(b) Fasote Ltd			
	€		
Taxable income for the period 1 November 2006 to 31 March 2008	<u>500.000</u>		
Apportioned as follows			
for the tax year 2006 2/17	58.824	0-5	
for the tax year 2007 12/17	352.941	0-5	
for the tax year 2008 3/17	<u>88.235</u>	0-5	
Tax year	2007	2006	
	€	€	
Total tax liability for the tax year at 10%	35.294	5.882	1
Less: Provisional assessment paid	(15.000)	–	0-5
Tax due before interest	<u>20.294</u>	<u>5.882</u>	
10% additional tax for non-payment of provisional 10%	<u>2.029</u>	<u>588</u>	1
Total tax	<u>22.323</u>	<u>6.470</u>	
5% additional tax for late payment of the tax due 5%	<u>1.116</u>	<u>324</u>	1
Total taxes due	<u>23.439</u>	<u>6.794</u>	
If payment will be made on 20 December 2009			
Interest calculation			
	€	€	
Interest from 1 August 2007 28 8%		1.208	1
Interest from 1 August 2008 16 8%	2.381		1
Interest on 5% additional tax from 1 February 2008 22 8%		48	1
Interest on 5% additional tax from 1 February 2009 10 8%	74		1
	<u>2.455</u>	<u>1.256</u>	
Late submission penalty €51			1
			<u>10</u>
			25

		Marks
3	Edwin	
(i)	Disposal of private residence	
	Disposal proceeds (260.000 x 50%)	130.000 1
	Less:	
	Cost 20 March 1990 (120.000 x 50%)	(60.000) 1
	Indexation allowance (60.000 x 109·30/59·37) – 60.000	(50.460) 1·5
	Cost of addition June 2001 (20.000 x 50%)	(10.000) 1
	Indexation allowance (10.000 x 109·30/89·65) – 10.000	(2.192) 1·5
	Painting of the house	0 1
	Immovable property tax	0 1
		(122.652)
	Capital gain	7.348
	Lifetime exemption (working)	(7.348) 1
	Taxable capital gain	0 0·5
	Working	
	Lifetime exemption available (€85.430 x 50%)	42.715 1
	Lifetime exemption used in the private residence	(7.348) 0·5
(ii)	Disposal of agriculture land	
	Disposal proceeds	150.000 0·5
	Less:	
	Cost 1 January 1980	(10.000) 1
	indexation allowance (10.000 x 110·59/34·96) – 10.000	(21.633) 1·5
		(31.633)
	Capital gain	118.367
	Agriculture exemption	25.629 1
	Lifetime exemption available	25.629
	Taxable capital gain	92.738
	Capital gains tax payable at 20%	18.547·60 0·5
(iii)	Disposal of building plot	
	Disposal proceeds	100.000 0·5
	Less:	
	Cost September 1999	(50.000) 0·5
	Indexation allowance (50.000 x 111·61/84·72) – 50.000	(15.870) 1
	Transfer fees	(4.000) 1
		(69.870)
	Capital Gain	30.130
	Lifetime exemption	0 1
	Taxable capital gain	30.130
	Capital gains tax payable at 20%	6.026 0·5
		20

		Marks
4	(a) A supplier may claim bad debt relief where the failure to pay is due to bankruptcy, insolvency or other reasons.	1
	Relief is obtained by including the previously accounted for output value added tax (VAT) charged to the customer but which is now irrecoverable in the total of input VAT on the VAT return.	1
	The following conditions must be satisfied:	
	– A supply of goods and services has been made for consideration in money or by barter; and	1
	– output VAT has been accounted for and paid by the supplier; and	1
	– the whole or part of the debt has been written off as a bad debt in the supplier's books; and	1
	– at least 12 months have elapsed since the time that payment was due.	1
	If there has been a series of supplies, any payments made by the customer must be allocated on a FIFO basis unless the customer allocated a payment to a particular supply and paid in full.	1
	On a claim by the supplier, bad debt relief is given for the VAT chargeable on the outstanding amount less any amount subsequently received in respect of that bad debt.	1
	Claims for bad debt relief are subject to a four-year time limit.	1
	Following a bad debt relief claim, the customer is required to repay any VAT to the VAT Commissioner that he has claimed on the supplies for which he has not paid.	1
	The supplier must notify the customer that bad debt relief is being claimed within seven days of the claim. This notification then serves as an instruction to the customer to repay the input VAT to Customs.	1
	The supplier should keep all documents to support the claim and a record must be made in the 'bad debt recovery account'.	1
		<u>12</u>
	(b) Ms Elena	
		€
	Surcharge for late submission of the VAT return	51
	Surcharge for late payment of the tax	
	Surcharge 10% on €2.500 tax due	250
	Interest from 10 April 2009 i.e. for 30 days $(2.500 \times 30/365) \times 8\%$	16
		<u>3</u>
		15
5	(a) The Director of the Inland Revenue, where there is reasonable suspicion that the correct quantities and prices of the goods of a trade or business are not entered into books of account, has the power to audit the correctness and may require that an agent specially authorised by him in this respect be present during the stock-taking of such goods.	1
		1
		<u>3</u>
	(b) On receipt of a notice of objection the Director of the Inland Revenue may within a period of 12 months from the date of submitting the objection require the person giving the notice of objection to furnish or produce within such time-limit as may be specified, such particulars as the Director may deem necessary with respect to the object of the tax, such as:	1
	(i) Accounts to the satisfaction of the Director.	1
	(ii) Books of account, documents and other vouchers, extracts from bank and other accounts relating to the object of the tax or to the object of the tax of any of his dependants and husband or wife.	1.5
	(iii) Statements showing as at a certain date full details of all the business and private assets and liabilities or both, whether in the Republic or elsewhere, of the person objecting any of his dependants and the husband or wife and any other supplementary evidence or details as the Director may deem necessary.	1.5
	(iv) Summon the person objecting to attend before him for the purpose of examining him with regard to such objection.	1
	(v) Summon any other person capable of giving information with respect to the assessment made.	1
		<u>7</u>
		10