Fundamentals Level – Skills Module

Taxation (Irish)

Tuesday 3 June 2014

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 2–7.

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.

Paper F6 (IRL)

The Association of Chartered Certified Accountants

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 REFERENCE MATERIAL

The following rates, credits, formulae and allowances are based on the Finance Act 2013 and are to be used for all questions in this paper.

Income tax rates

	€
Single/widow(er)/surviving civil partner	
€32,800 at 20%	6,560
Balance at 41%	
Married or in a civil partnership (one income)	
€41,800 at 20%	8,360
Balance at 41%	
Married or in a civil partnership (dual income)	
€41,800 at 20%	8,360
€23,800 at 20%	4,760
Balance at 41%	
One parent family	
€36,800 at 20%	7,360
Balance at 41%	

Tax credits

	€
Single person's credit	1,650
Married person's/civil partner's credit	3,300
Widowed person/surviving civil partner	
– in year of bereavement	3,300
– without dependent children	2,190
– with dependent children	1,650
Widowed person/surviving civil partner with dependent children	
– first year after bereavement	3,600
– second year after bereavement	3,150
– third year after bereavement	2,700
– fourth year after bereavement	2,250
– fifth year after bereavement	1,800
Home carer credit (maximum)	810
Single parent credit	1,650
Incapacitated child credit	3,300
Dependent relative credit	70
Age credit – single/widowed	245
– married or in civil partnership	490
Employee/PAYE credit	1,650
Rent allowance credit	

	Rent limit €	
– single aged under 55	1,000	200
– married/widowed/in a civil partnership/survivor of a civil partnership aged under 55	2,000	400
– single aged 55 and over	2,000	400
– married/widowed/in a civil partnership/survivor of a civil partnership aged 55 and over	4,000	800

Note: The rent allowance credit is only available to individuals who were tenants and eligible for the relief on 7 December 2010.

Third level tuition fees	Upper limit €7,000
Full-time qualifying courses	First €2,500 is ignored
Part-time qualifying courses	First €1,250 is ignored

Rates of PRSI
Self-employed

Rate 4%

Where income is above €5,000, the rate is 4% of reckonable earnings or €500 whichever is greater.

No PRSI where income is below €5,000 per annum.

Rates of PRSI
Employee – Class A1

Rate 4%

No PRSI on earnings of €352 or less per week.

Rates of PRSI
Employer (for employees – Class A1)

Rate 10·75%

Universal social charge (USC) for all taxpayers

On the first €10,036	2%
On the next €5,980	4%
On the balance	7%

For individuals, a surcharge of 3% applies in respect of relevant (non-PAYE) income that exceeds €100,000 per annum regardless of age.

For individuals, aged 70 and over, and individuals who hold a medical card regardless of age, the maximum rate is 4% on income up to €60,000, and the maximum rate is 7% on income over €60,000.

Exemptions:
– Individuals whose income does not exceed €10,036 per annum
– All social welfare payments and income subject to DIRT

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 net relevant earnings of €115,000.

Tax free amount of *ex gratia* payments

Basic exemption: €10,160 + (€765 x number of years of complete service).

Increased exemption: (€10,160 + (€765 x number of years of complete service)) + (€10,000 less the present value of a current/future entitlement to a pension lump sum).

Standard capital superannuation benefit (SCSB): (A x B/15) – C

Where: A = Annual average salary over the last three years of employment
B = Number of complete years of service in the employment
C = Any tax free lump sum received or receivable under an approved superannuation scheme.

Corporation tax

Standard rate	12·5%
Higher rate	25%

Value added tax (VAT)

Registration limits	
Turnover from the supply of goods	€75,000
Turnover from the supply of services	€37,500

Rates:	
Standard rate	23%
Lower rate	13·5%
Additional lower rate	9%

Capital gains tax

Rate	33%
Annual exemption	€1,270

Writing down and wear and tear allowances

Type of expenditure	Date incurred	Writing down allowance	Tax life (where relevant)
Plant and machinery	From 4 December 2002	12·5%	
Motor vehicles	From 4 December 2002	12·5%	
Industrial buildings	From 1 April 1992	4%	25 years
Farm buildings	From 27 January 1994	15% for six years and 10% in year seven	10 years
Hotels	From 27 January 1994 to 3 December 2002	15% for six years and 10% in year seven	7 years
	From 4 December 2002	4%	25 years
Nursing homes and private hospitals	From 3 December 1997 to 31 July 2006	15% for six years and 10% in year seven	10 years, if first in use by 1 February 2007
	From 1 August 2006	15% for six years and 10% in year seven	15 years, if first in use after 1 February 2007
Childcare facilities	From 2 December 1998 to 31 July 2006	15% for six years and 10% in year seven	10 years, if first in use by 1 February 2007
	From 1 August 2006	15% for six years and 10% in year seven	15 years, if first in use after 1 February 2007

Motor cars – limits on capital costs

Carbon emissions table:

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

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

Category D/E vehicles – capital allowances/leasing charges 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/leasing charges.

Benefits in kind

Motor cars

Business travel lower limit Kilometres	Business travel upper limit Kilometres	Percentage of original market value of car %
0	24,000	30
24,001	32,000	24
32,001	40,000	18
40,001	48,000	12
48,001	Upwards	6

Preferential loan rates

Loans used to fund the cost/repair of the employee's principal private residence	4%
All other loans	13·5%

Local property tax

Valuation	Mid-point	Rate	Property tax for a full year	Property tax for 2013
€	€		€	€
0–100,000	50,000	0·18%	90	45
100,001–150,000	125,000	0·18%	225	112
150,001–200,000	175,000	0·18%	315	157
200,001–250,000	225,000	0·18%	405	202
250,001–300,000	275,000	0·18%	495	247
300,001–350,000	325,000	0·18%	585	292
350,001–400,000	375,000	0·18%	675	337
400,001–450,000	425,000	0·18%	765	382
450,001–500,000	475,000	0·18%	855	427
500,001–550,000	525,000	0·18%	945	472
550,001–600,000	575,000	0·18%	1,035	517
600,001–650,000	625,000	0·18%	1,125	562
650,001–700,000	675,000	0·18%	1,215	607
700,001–750,000	725,000	0·18%	1,305	652
750,001–800,000	775,000	0·18%	1,395	697
800,001–850,000	825,000	0·18%	1,485	742
850,001–900,000	875,000	0·18%	1,575	787
900,001–950,000	925,000	0·18%	1,665	832
950,001–1,000,000	975,000	0·18%	1,755	877

Properties worth more than €1 million will be assessed on the actual value at 0·18% on the first €1 million and 0·25% on the portion above €1 million.

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 Martin (69) and Breda (61) are married, they are both Irish resident and domiciled. Martin had worked for a number of years in the Irish civil service and in 2013 he received a pension of €18,000 gross (PAYE deducted nil) as a result of this employment.

Martin owns the following investment property:

A new building bought from a builder, which is located in Quay Street, Cork. Martin purchased this property on 1 March 2013; a loan to fund the purchase of the property was taken out on this date.

The building has a ground floor and an upper floor. The ground floor is rented commercially for an annual rent of €36,000. The date of first letting was 1 July 2013. The tenant has a 15-year lease, and paid an initial lease premium of €15,000. The area of the upper floor equals that of the ground floor. This upper floor is divided into two apartments: Apartment A and Apartment B. Apartment A was rented from 1 July 2013, at a monthly rent of €900. Apartment B is still vacant.

Expenditure associated with the investment property is as follows:

– Interest on a loan from 1 March to 31 December 2013, €20,000
– Rates on the building for the period 1 March to 31 December 2013, €3,200
– Insurance on the building for the year to 28 February 2014, €1,200
– Non-principal private residence levy for 2013 (NPPR) €400
– Property registration with the Private Residential Tenancy Board (PRTB) €90

Martin's other income:

Martin wrote a play in 2013 and received €45,000 from this work during the tax year. The Revenue Commissioners made a determination that this was an original and creative work which had cultural merit.

Breda

Breda is a self-employed dentist. She has been in business for the past seven years, and has always prepared accounts to 31 August. In the course of her business Breda carried out work for the Health Service Executive (HSE). In 2013 she had billed the HSE for €10,000 in respect of services provided. By the end of 2013, the HSE had paid all outstanding sums less professional services withholding tax (PSWT) to Breda.

Due to illness Breda decided to sell her practice and ceased to trade from 30 June 2013. Details of her Case II adjusted income are:

	€
Year ending 31 August 2012	38,000
Period ending 30 June 2013	36,000

Equipment used in her trade had a tax written down value of €12,000 at 1 January 2013 and was sold for €10,000 to the new owner.

Details of the couple's outgoings for 2013 are as follows:

	€
Hire of carer to look after Breda for two months following a serious operation	7,000
Donation to an approved charity	1,000
Pension contributions paid by Breda	8,000
Subscription for shares in a new company	10,000
This investment qualified for relief under the employment and investment incentive scheme (EIIS)	

Martin and Breda own their family home in Kinsale. The property has a market value of €300,000. There is a mortgage loan of €90,000 provided by AIB. Martin and Breda paid €6,500 interest on this mortgage loan in 2013.

Required:

(a) **Compute Breda's assessable Case II income for the years 2012 and 2013.** (3 marks)

(b) **Prepare Martin and Breda's income tax computation for the tax year 2013, on the basis that they are jointly assessed (giving credit for all taxes paid).** (18 marks)

(c) **Explain to Martin and Breda any obligation they may have in respect of local property tax.** (5 marks)

(d) During the three years ending 30 June 2013, Breda employed a dental hygienist on a part-time basis and paid her €400 gross per week.

Required:

Briefly explain Breda's obligations under the PAYE system in respect of this employee. (4 marks)

(30 marks)

2 Arrow Ltd is an Irish incorporated and resident company which manufactures solar energy units. Arrow Ltd commenced to trade on 1 January 2011 and its statement of profit or loss for the year ended 31 December 2013 shows the following:

	Notes	€
Turnover		2,000,000
Direct production costs	(1)	(1,300,000)
Indirect costs and overheads	(2)	(600,000)
Trading profit		100,000
Other income	(3)	72,000
Net profit		172,000

Notes:

(1) Included in direct production costs are:

	€
Machine depreciation	80,000
Employer's PRSI	75,000

All PRSI payments are up to date. There was no employer's PRSI on the directors' salaries. PRSI in respect of no one employee exceeded €5,000. The company did not employ any employees under the employer job (PRSI) incentive scheme.

(2) Indirect costs and overheads include:

		€
(i)	Contributions to a pension fund for the directors	55,000
(ii)	Motor expenses	30,400
(iii)	Legal and professional fees	42,000
(iv)	Repairs and renewals	34,000

Further information:

(i) Contributions to a pension fund for the directors:

At 1 January 2013, there was an opening accrual of €10,000, but at the year end there were no accruals or prepayments in respect of contributions to the directors' pension fund.

(ii) Motor expenses comprise:

	€
Motor expenses reimbursed to employees for validated business travel	8,000
Expenses for running director's and manager's cars (see below)	22,400
	30,400

The managing director's car is a category D car. It had been purchased new in July 2011 for €32,000. The car is used 50% for business purposes. Running expenses for this car are €8,000 and depreciation on this car is €4,800.

The production manager's car is leased. It is a category B car and if purchased new it would have cost €22,000. The car is used 25% for business purposes. The lease payments are €5,000 per annum and the running costs of this car are €4,600.

(iii) Legal and professional fees comprise:

	€
Audit, tax and consultancy fees	14,000
Legal fees re letting part of the factory premises	10,000
Architects' and surveyors' fees incurred in respect of a site which Arrow Ltd hopes to acquire, with a view to expanding its production facilities	18,000
	42,000

(iv) Repairs and renewals comprise:

	€
General repairs	4,000
Refurbishment of the part of the factory used in Arrow Ltd's trade, which are considered to be improvements	30,000
	34,000

(3) Other income

25% of the factory space owned by Arrow Ltd was rented to a tenant who carries on a qualifying trade. The property was let on 1 September 2013 and the rent is paid annually in advance. The rent received on 1 September 2013 was €72,000.

Other information:

On 1 January 2013, Arrow Ltd, in addition to the managing director's car (as in 2(ii) above), owned the following non-current assets (all of which had been purchased on 1 January 2011):

	Cost €
Production machinery	500,000
Office equipment and computer technologies	80,000
Factory, purchased second hand	200,000

The factory had been built by the previous owner and put into use for the first time on 1 January 1996. The qualifying cost of the factory at that time was €150,000.

Required:

(a) Compute the Case I adjusted income of Arrow Ltd for the year ended 31 December 2013. (12 marks)

(b) Compute the corporation tax liability of Arrow Ltd for 2013, ignoring any start-up company relief which may be available. (3 marks)

(c) (i) State, giving reasons, whether start-up company relief will be available to Arrow Ltd in 2013. (2 marks)

(ii) Assuming that the relief is available, compute the amount of start-up company relief to which Arrow Ltd is entitled. (1 mark)

(d) Bow Ltd is an Irish incorporated and resident company. The company had been trading since 1 January 2000, but ceased to trade on 31 December 2013.

Bow Ltd's taxable income for the five years up to cessation are as follows:

Year ending 31 December	2009	2010	2011	2012	2013
	€	€	€	€	€
Case I income	60,000	10,000	40,000	30,000	(120,000)
Case III income				6,000	10,000
Irish dividend income					2,000

Required:

(i) Compute the terminal loss of Bow Ltd; and
(ii) Show how the terminal loss calculated in (i) will be relieved.

The following mark allocation is provided as guidance for this requirement:

(i) 4 marks
(ii) 3 marks

(7 marks)

(25 marks)

3 **(a)** Clodagh and John are both Irish resident and domiciled. The couple are both in their late seventies and have been married since 1965. During the year 2013 they had the following transactions:

(1) On 5 April 2013, they sold their principal private residence for €450,000. The house has a big garden but its area is less than one acre. They had bought the house when they married in July 1965 for €6,000. The market value of the house at 6 April 1974 was €12,000.

The couple had always lived in the house, and from 1 January 1980 until John's retirement on 31 December 2005, John had used 20% of the area of the house to carry on his veterinary practice.

Since 1 September 2010, the couple had let a room in the house to a student. They earned €5,000 annual rent from this letting. The area of the room let was 5% of the total house area.

(2) In June 2013, they sold a pair of Victorian hand coloured prints for €850. They had bought the prints for €50 in May 1975.

(3) In August 2013, they gifted an Irish silver tea and coffee set to Clodagh's grandniece as a wedding present. The set had been bought at an antique fair by Clodagh and John in May 1995 for €3,200. Unfortunately, the value of the set had fallen and at the time of the gift it had a current market value of only €2,100.

(4) In December 2013, they sold an antique painting for €2,700. They had bought the painting in May 2010 for €2,000.

Required:

Compute Clodagh's and John's capital gains tax liability for the tax year 2013 showing the amount of tax due, if any, for the initial and final periods. Give a relevant explanation for any transaction which you treat as not giving rise to a capital gain in the tax year 2013. (16 marks)

(b) In 1990 John set up a veterinary supplies business with his son Paul. They conducted the business through an Irish resident company, JP Ltd, in which they each owned 50% of the shares. JP Ltd purchased a commercial investment property in Limerick in May 2001 for €200,000. In July 2013, JP Ltd sold this property at auction for €300,000 and paid auctioneers' fees of €15,000.

JP Ltd prepares its annual accounts to 30 June, it is a small company for corporation tax purposes.

Required:

Compute JP Ltd's tax liability on the disposal of the commercial property and state the due date of payment. (4 marks)

(20 marks)

4 Tim is a single man who has been in business as a self-employed carpenter for a number of years. Tim has recently become your client but he has not paid any income tax or filed any income tax returns for the years 2012 and 2013. His tax situation is as follows:

	€
Income tax outstanding for 2012	32,000
Income tax outstanding for 2013	10,000

Required:

(a) (i) Outline Tim's obligations under the pay and file system for income tax. (3 marks)

(ii) Advise Tim on the interest and surcharges he will be obliged to pay, if none of the outstanding tax is settled before 3 June 2014.

Note: You are not required to calculate the interest or penalty amounts. (4 marks)

(b) Tim has been offered a contract with a builder to carry out work on a project where Tim will be a subcontractor.

Required:

Advise Tim on the operation of relevant contracts tax (RCT also known as subcontractors tax). (5 marks)

(c) Explain the difference between tax avoidance and tax evasion. (3 marks)

(15 marks)

5 Ken is self-employed and registered for value added tax (VAT). Ken operates a restaurant which is open to the general public four days a week, is used for cookery classes two days a week and is closed one day a week.

Ken had the following transactions during the two-month VAT period ended 31 October 2013.

	Notes	VAT rate	VAT exclusive amount €
Sales			
Meals		9%	12,000
Soft drinks and other beverages		23%	8,000
Cookery courses		Exempt	2,220
Purchases			
Food from Irish suppliers	(1)	0%	6,000
Food and drink from Irish suppliers	(2)	23%	3,000
Other costs			
Electricity	(3)	13.5%	1,200
Diesel costs for own car	(4)	23%	400
Restaurant furniture from UK supplier	(5)	23%	1,500
Computer software from US supplier	(5)	23%	600

Notes:

(1) The zero rated food is used 85% for the restaurant and 15% for the cookery classes. The meals cooked at the cookery classes are eaten by the participants and are not for sale in the restaurant.

(2) 5% of the standard rated food and drink is used for the cookery classes, the remainder is used in the restaurant.

(3) The electricity relates to the whole premises, VAT recovery should be based on turnover.

(4) 20% of the diesel costs relate to the business, and these costs are incurred equally for the restaurant and the cookery classes.

(5) Both items are used wholly and exclusively for the restaurant business.

Required:

(a) Compute Ken's value added tax (VAT) liability/refund for the September/October 2013 VAT period. Where no VAT is charged/claimed give a brief explanation. (9 marks)

(b) State the date by which the VAT return for September/October 2013 must be filed. (1 mark)

(10 marks)

End of Question Paper