# Answers

*Marks*

**1 Charlie and Susan**

**(a) Taxable lump sum on Susan's termination package**

| Payment/benefit received | € | Status | |
|---|---|---|---|
| Statutory redundancy | 25,800 | Exempt termination payment | 0·5 |
| Holiday pay | 1,200 | Taxable as salary | 0·5 |
| *Ex gratia* compensation | 38,700 | Taxable termination payment | 0·5 |
| Loan amount, written off | 5,500 | Taxable termination payment | 0·5 |

Total amount of taxable termination payment €44,200.

Exempt lump sum:

(i) Basic exemption.

€10,160 + (€765 x 21) = €26,225. 1·0

(ii) Increased exemption: €36,225. 1·0

The basic exemption as calculated in (i) above can be increased by €10,000, as no claim for relief has been made in the previous ten years and no tax free lump sum has been received or will be receivable under an approved superannuation scheme.

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

A = average annual emoluments received over the past three years.

| | € | |
|---|---|---|
| 1 January 2011 to 30 April 2011 | 10,200 | |
| Year to 31 December 2010 | 31,000 | |
| Year to 31 December 2009 | 30,000 | |
| Eight months from 1 May to 31 December 2008 (€28,000 x 8/12) | 18,667 | |
| Total earned income over the past three years | 89,867 | |
| Average annual income over the past three years | 29,956 | 1·5 |

B = number of complete years of service, i.e. 21 years

SCSB = €29,956 x 21/15 – 0 = €41,938. 1·0

Of the three alternative methods available for calculating the tax free lump sum, the SCSB method gives the highest exemption.

The amount of Susan's taxable lump sum is €44,200 less €41,938 = €2,262. 0·5

7·0

| | | | Marks |
|---|---|---|---|
| **(b)** **Income tax computation for 2011** | | | |
| | € | € | |
| Schedule E – Susan | | | |
| Salary including BIK | | 10,200 | 0·5 |
| Lump sum taxable (from (a)) | | 2,262 | 0·5 |
| Schedule E – Charlie | | | |
| Salary | 58,000 | | 0·5 |
| Benefit in kind | | | |
| Car (note 1) | 6,000 | | N1 |
| Car parking space | 0 | | 0·5 |
| Health screening | 0 | 64,000 | 0·5 |
| *Less* pension contribution (note 2) | | (15,000) | N2 |
| Schedule D | | | |
| Case III – UK interest | | 800 | 0·5 |
| Case IV – Irish interest €1,460/0·73 | | 2,000 | 0·5 |
| Schedule F | | | |
| Irish dividends €1,500/0·8 | | 1,875 | 0·5 |
| Gross income | | 66,137 | |
| *Less* charges | | | |
| Interest in loan to purchase shares (€1,400 x 75%) | | (1,050) | 1·0 |
| Covenant to father (restricted to 5% of total income) | | (3,254) | 1·0 |
| Total income | | 61,833 | |
| *Less* reliefs | | | |
| Payment to a qualifying charity | | (1,000) | 0·5 |
| Taxable | | 60,833 | |
| €41,800 at 20% | | 8,360 | 0·5 |
| €12,462 at 20% | | 2,492 | 1·0 |
| €2,800 at 27% | | 756 | 0·5 |
| Balance, €3,771 at 41%, | | 420 | 0·5 |
| Total tax due | | 13,154 | |
| *Less* non-refundable tax credits | | | |
| Married persons | | (3,300) | 0·5 |
| PAYE (2 x €1,650) | | (3,300) | 1·0 |
| Dependent relative tax credit | | (0) | 0·5 |
| DIRT | | (540) | 0·5 |
| | | 6,014 | |
| *Less* refundable tax credits | | | |
| PAYE paid Charlie | | (6,000) | 0·5 |
| Susan | | (1,500) | 0·5 |
| Dividend withholding tax | | (375) | 0·5 |
| | | (1,861) | |
| *Add* tax due on covenant (€6,000 x 20%) | | 1,200 | 1·0 |
| Net tax refund due | | (661) | |
| Note 1 – Benefit in kind on car | | | |
| 30% x OMV, no high mileage relief available | | | |
| 30% x €36,000 | 10,800 | | 0·5 |
| *Less* annual contribution to employer (12 x €400) | 4,800 | 6,000 | 0·5 |
| Note 2 – qualifying pension contributions | | | |
| Salary including benefit in kind | | 64,000 | 0·5 |
| Percentage allowed 25% max | | 16,000 | 0·5 |
| | | | 16 |

As this is greater than the sum paid, 100% relief is available.

| | | Marks |
|---|---|---|
| **(c) Charlie's universal social charge (USC) for 2011** | | |
| Charlie's gross income for USC purposes in 2011 is €64,000 + €1,875 + €800 = €66,675. | | 1·0 |
| | € | |
| €10,036 at 2% | 201 | |
| €5,980 at 4% | 239 | |
| €50,659 at 7% | 3,546 | |
| Total USC for 2011 | 3,986 | 1·0 |
| | | 2·0 |
| | | **25** |

**Tutorial note:** *There is no deduction for pension contributions, and income that is liable to DIRT is exempt.*

**2 Modern Media Ltd**

**(a) Case I adjusted income – year ended 31 December 2011**

| | € | € | Marks |
|---|---|---|---|
| Profit before tax | | 243,000 | 0·5 |
| *Addbacks:* | | | |
| Depreciation | 27,000 | | 0·5 |
| Advertising space and airtime | 5,000 | | 1·0 |
| Rates, light and heat (W1) | 5,250 | | 1·0 |
| Interest paid (W2) | 4,700 | | 2·0 |
| Salaries and wages (pension not paid) | 2,000 | | 0·5 |
| Motor expenses (W3) | 2,480 | 46,430 | 1·0 |
| | | 289,430 | |
| *Deductions:* | | | |
| Rental income | 12,000 | | 0·5 |
| Capital allowances (W4) | 13,750 | (25,750) | W4 |
| Case I adjusted income | | 263,680 | |

**Workings:**

(1) Rates, light and heat:

Disallow 15% as this relates to the rented space: €35,000 x 15% = €5,250.

(2) Interest paid:

Disallow

| | € |
|---|---|
| (i) 15% of interest on office as it relates to rented space: €18,000 x 15% | 2,700 |
| (ii) Interest on late payment of VAT | 2,000 |
| | 4,700 |

(3) Car lease expense restriction:

Limit for relief is €24,000 as this is a category C car.

Disallow: $€12{,}400 \times \frac{(€30{,}000 - €24{,}000)}{€30{,}000} = €2{,}480$

(4) Capital allowances:

| | Cameras | Lighting | Office Furniture | |
|---|---|---|---|---|
| | € | € | € | |
| Additions at cost (excluding VAT) | 60,000 | 40,000 | 10,000 | 2·0 |
| Wear and tear 12·5% | 7,500 | 5,000 | 1,250 | 1·0 |
| | | | | 10 |

Total of capital allowance claim for the year (€7,500 + €5,000 + €1,250) = €13,750.

| | | | Marks |
|---|---|---|---|
| **(b) Corporation tax liability 2011** | | | |
| | | € | |
| Case I adjusted income (ex part (a)) | | 263,680 | 0·5 |
| Case V rental income (W5) | | 12,250 | 0·5 |
| Total income | | 275,930 | |
| Corporation tax | | | |
| €263,680 at 12·5% | | 32,960 | 0·5 |
| €12,250 at 25% | | 3,063 | 0·5 |
| | | 36,023 | |
| *Less* credit for PSWT paid (W6) | | (100,800) | W6 |
| Net tax refund due | | (64,777) | |

**Workings:**

(5) Rental income

| | € | € | |
|---|---|---|---|
| Annual rent | | 12,000 | 0·5 |
| Lease premium | | | |
| €10,000 x (51 – 10)/50 | | 8,200 | 1·0 |
| | | 20,200 | |
| *Less* expenses | | | |
| Rates, light and heat | 5,250 | | 0·5 |
| Bank interest | 2,700 | (7,950) | 0·5 |
| Net rental income | | 12,250 | |

(6) PSWT

| | € | |
|---|---|---|
| Work invoiced to government departments and HSE | 560,000 | |
| Gross value of payments received: 90% | 504,000 | |
| PSWT withheld at 20% | 100,800 | 1·5 |
| | | 6·0 |

**(c) (i)** Factors that indicate that Modern Media Ltd will qualify for start-up company relief are:

- It is a new company which commenced to trade on 1 January 2011.
- It was incorporated on/after 14 October 2008.
- It is not an exempt trade.
- There is nothing to indicate that this business had been carried on before through the medium of a sole trader or that the company is an extension of an existing business.
- There is nothing to indicate that Modern Media Ltd is connected with any other company.
- The company's corporation tax liability is below the limit of €40,000.

*Any four points at 1 mark per factor indicated, maximum* 4·0

**(ii) Start-up relief available**

| | | |
|---|---|---|
| The corporation tax on trading activities | €32,960 | 0·5 |
| Employers PRSI paid | €19,400 | 0·5 |

Therefore, the relief available will be €19,400. This amount should be refunded to the company. 1·0

2·0

*Marks*

**(d) Champ Ltd – Tax payable for the years 2010 and 2011**

| | 2010 | 2011 | |
|---|---|---|---|
| | € | € | |
| Case I income | 20,000 | 0 | 0·5 |
| Trade charges | (20,000) | 0 | 0·5 |
| Case V income | 50,000 | 50,000 | 0·5 |
| Case V capital allowances | (5,000) | (10,000) | 0·5 |
| Taxable income | 45,000 | 40,000 | |
| Tax at 25% | 11,250 | 10,000 | 0·5 |
| Relief on value basis for unrelieved trade loss €10,000 at 12·5% | (1,250) | | 1·0 |
| Relief under S396B of €30,000 at 12·5% | | (3,750) | 1·0 |
| Net tax due | 10,000 | 6,250 | |

**Order of relief:**

| | | |
|---|---|---|
| 2010 | Case V capital allowances are offset against Case V income. | 0·5 |
| | Trade charge first offset against Case I income. | 0·5 |
| | The excess trade charge is offset against corporation tax, on a value basis, for the current year. All trade charges are used in 2010. | 1·0 |
| 2011 | Case V capital allowances are offset against Case V income (as above). | |
| | No income in the previous year (2010) against which to offset the Case I loss. | 0·5 |
| | Case I loss offset on a value basis against corporation tax for 2011. Therefore, no unused loss. | 1·0 |
| | | 8·0 |
| | | **30** |

**3 John**

**(a) Capital gains tax 2011**

**(1) Principal residence – house**

| | € | € | € | |
|---|---|---|---|---|
| Sales proceeds on disposal | | | 550,000 | 0·5 |
| Market value 6 April 1974 | 16,000 | | | 0·5 |
| Index factor | 7·528 | (120,448) | | 0·5 |
| Extension in July 1990 | 30,000 | | | 0·5 |
| Index factor 1990/91 | 1·442 | (43,260) | (163,708) | 0·5 |
| Gain before principal private residence relief | | | 386,292 | |
| Exempt gain N1 | | | (344,811) | 0·5 |
| Taxable gain | | | 41,481 | |

N1: Principle private residence relief:

| Period | Time duration | Occupied/not occupied |
|---|---|---|
| Prior to 6 April 1974 | | Ignore for occupation purposes |
| 6 April 1974 to 1 January 1986 | 11 years and 9 months | Occupied |
| 1 January 1986 to 1 January 1989 | 3 years | Not occupied |
| 1 January 1989 to 1 July 1995 | 6 years and 6 months | Occupied |
| 1 July 1995 to 1 July 1999 | 4 years | Occupied (deemed) |
| 1 July 1999 to 1 January 2002 | 2 years and 6 months | Occupied |
| 1 January 2002 to 1 January 2007 | 5 years | Occupied (deemed) |
| 1 January 2007 to 1 January 2008 | 1 year | Not occupied |
| 1 January 2008 to 1 July 2011 | 3 years and 6 months | Occupied |

| | | |
|---|---|---|
| Total period of ownership | 37 years and 3 months (447 months) | 0·5 |
| Total period occupied/deemed occupied | 33 years and 3 months (399 months) | 2·5 |
| Exempt gain €386,292 x 399/447 | €344,811 | 1·0 |

**(2) Furniture and fittings**

Exempt – wasting asset, non-business use. 1·0

| | | | Marks |
|---|---|---|---|
| **(3) Antique table** | | | |
| | | € | |
| Sale proceeds from table – deemed | | 2,540 | 1·0 |
| *Less:* cost of desk, no indexation | | (4,000) | 1·0 |
| Allowable loss | | (1,460) | |
| **(4) Acre of land** | | | |
| | | € | |
| Sale proceeds from sale of land | | 15,000 | 0·5 |
| *Less* cost: €50,000 x €15,000/(€15,000 + €45,000) | €12,500 | | 1·5 |
| Index factor 1995/96 | 1·277 | 15,963 | 0·5 |
| Indexed loss | | (963) | |
| As we have a monetary gain but an indexed loss, this will lead to a situation which we refer to as a no gain/no loss. | | | 0·5 |
| **(5) Necklace** | | | |
| | | € | |
| Market value of necklace | | 12,000 | 0·5 |
| *Less* market value at May 1990 | €5,000 | | 1·0 |
| Index factor 1990/91 | 1·442 | (7,210) | 0·5 |
| Gain | | 4,790 | |
| **Taxable gains** | | | |
| | | € | |
| (1) Residence | | 41,481 | |
| (2) Furniture | | 0 | 0·5 |
| (3) Table | | (1,460) | |
| (4) Acre of land | | 0 | |
| (5) Necklace | | 4,790 | |
| Total taxable | | 44,811 | 0·5 |
| *Less* annual exemption | | (1,270) | 0·5 |
| Net taxable | | 43,541 | |
| Tax for the initial period at 25% | | €10,885 | 0·5 |
| | | | 17 |

**(b)** Withholding tax at a rate of 15% will be applied where:

| | | |
|---|---|---|
| (i) | The asset being disposed of is categorised as a 'specified asset'. A specified asset is defined as: land and buildings in the State, or minerals or exploration rights in the State, or unquoted shares deriving the greater part of their value from the assets referred to above. | 2·0 |
| (ii) | The sale proceeds/market value exceed €500,000. | 0·5 |
| (iii) | The vendor is unable to provide the purchaser with a tax clearance certificate (form CG50A). | 0·5 |
| | | 3·0 |
| | | **20** |

## 4 Value added tax (VAT)

**(a) (i) Composite supply**

A composite supply arises where there is a principal element and an ancillary supply (e.g. an instruction manual with a computer). The VAT rate that is applied to both is that which is applied to the principal element (i.e. the computer). 1·0 1·0

2·0

**(ii) Multiple supply**

A multiple supply arises where two or more supplies are grouped together for a single overall consideration. Each supply is independent of each other and can be sold separately. 1·0

| | Marks |
|---|---|
| The consideration should be divided between the various supplies and taxed at the appropriate VAT rates (i.e. the supply of goods in a hamper, where each item is charged at its individual rate and the combined total of the individual rate equals the total VAT payable). | 2·0 |
| | 3·0 |

**(b) (i) Solicitor's advice to Mr Dundee**

| | |
|---|---|
| The general rule in relation to the supply of a service to a person not in business is that the supply takes place where the supplier is located. Therefore, even though Mr Dundee lives outside the EU, the Irish solicitors' practice should charge Irish VAT on the invoice. | 2·0<br>1·0 |
| | 3·0 |

**Tutorial note:** *There is an exception where the service being supplied relates to immovable goods (this exception does not arise in this instance).*

**(ii) Importation of computers by a private college**

| | |
|---|---|
| The Dublin-based private college is obliged to register for VAT as it will have acquired more than €41,000 of intra-community acquisitions in a 12-month period. | 1·0 |
| The college will be invoiced by the German supplier for the goods excluding any VAT but should charge itself VAT and pay it over to the Revenue. It will do this by showing the VAT as output VAT with no corresponding deduction in purchases. | 1·0<br>1·0<br>1·0 |
| | 4·0 |

**(c)** VAT incurred on the following items is non-deductible:

(i) Petrol
(ii) Meals
(iii) Accommodation (with some exceptions for qualifying conferences)
(iv) Purchase of private motor cars (except for a limited VAT deduction of 20% where the car is used at least 60% for business purposes, and is an A/B/C category car)
(v) Entertainment
(vi) Goods/services for own use
(vii) Purchases with an improper VAT invoice

| | |
|---|---|
| *Half mark per item, maximum* | 3·0 |
| | **15** |

**5 Michael Eaton**

**(a) Case I assessments, before any terminal loss relief**

| **Tax year** | | € | |
|---|---|---|---|
| 2009 | Year ended 30 June 2009 | 50,000 | |
| | *Less* capital allowances | (2,750) | |
| | | 47,250 | 0·5 |
| 2010 | Year ended 30 June 2010 | 32,000 | |
| | *Less* capital allowances | (2,750) | |
| | | 29,250 | 0·5 |
| 2011 | Actual: 1 January 2011 to 31 December 2011 | | |
| | Year ended 30 June 2011 €12,000 x 6/12 | 6,000 | |
| | Period ended 31 December 2011 | (10,000) | 2·0 |
| | Loss | (4,000) | |

Check for revision to actual for 2010:

| | | |
|---|---|---|
| Actual: 1 January 2010 to 31 December 2010 | | |
| Year ended 30 June 2010 €32,000 x 6/12 | 16,000 | |
| Year ended 30 June 2011 €12,000 x 6/12 | 6,000 | 1·0 |
| Actual profits | 22,000 | |

| | |
|---|---|
| As this is less than the current year basis, there will be no revision. | 1·0 |
| | 5·0 |

| | | | Marks |
|---|---|---|---|
| **(b)** | **Balancing allowance/charge** | | |

The refrigerator was purchased in the year ended 30 June 2008, therefore wear and tear has been claimed for 2008, 2009 and 2010.

| | | |
|---|---|---|
| Total wear and tear claimed €22,000 x 12·5% x 3 = €8,250. | | 1·0 |
| | € | |
| Sales proceeds | 7,000 | 0·5 |
| *Less* | | |
| Tax written down value (€22,000 – €8,250) | (13,750) | 0·5 |
| Balancing allowance | (6,750) | 2·0 |

**(c) Terminal loss**

**(i)** The terminal loss for 2011 is the loss unused of €4,000 plus the balancing allowance of €6,750. The terminal loss is therefore €10,750. 1·0

**(ii)** A terminal loss, i.e. the loss incurred in the last 12 months of trading, can be offset as follows:

– by carry back and offset against any Case I income from the same trade, only, of the three previous years. 2·0

**10**