Fundamentals Level – Skills Module

# Taxation (Irish)

Tuesday 4 December 2012

**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)

ACCA

**The Association of Chartered Certified Accountants**

**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 Acts 2011 and are to be used for all questions in this paper.**

**Income tax rates**

| | Tax<br>€ |
|---|---|
| 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 couple/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 | 1,600 | 320 |
| – married/widowed/in a civil partnership/survivor of a civil partnership aged under 55 | 3,200 | 640 |
| – single aged 55 and over | 3,200 | 640 |
| – married/widowed/in a civil partnership/survivor of a civil partnership aged 55 and over | 6,400 | 1,280 |
| Service charge credit (maximum) | Upper limit €400 | 80 |
| Third level tuition fees | Upper limit €7,000 | |

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

**PRSI**

Rate 4%

Where income is above €5,000, the rate is 4% of reckonable earnings or €253 whichever is greater.

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

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

**PRSI**

Rate 4%

The first €127 per week (non-cumulative) is exempt from PRSI

Note: No upper limit for employee's contribution

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

**PRSI**

Rate 10·75%

Note: No upper limit for employer's contribution

**Universal social charge for all taxpayers**

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

For individuals aged 70 and over, the maximum rate excluding surcharge is 4%.

For individuals a surcharge of 3% applies in respect of income from self-employment that exceeds €100,000 per annum, regardless of age.

Exemptions:
– Individuals where income does not exceed €4,004 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 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 – present value of future entitlement to pension lump sum).

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

Where: A = Annual average salary over the past three years
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 | 21% |
| Lower rate | 13·5% |
| Additional lower rate from 1 July 2011 | 9·0% |
| Flat rate for farmers | 5·2% |

**Capital gains tax**

| | |
|---|---|
| Rate | 25% |
| 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 3 December 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 |
| | From 1 August 2006 | 15% for six years and 10% in year seven | 15 years |
| Childcare facilities | From 2 December to 31 July 2006 | 15% for six years and 10% in year seven | 10 years |
| | From 1 August 2006 | 15% for six years and 10% in year seven | 15 years |

**Motor cars – limits on capital costs**

| | € |
|---|---|
| *For cars purchased between 1 July 2007 and 30 June 2008* | |
| Capital allowances | 24,000 |
| Leasing charges | 24,000 |
| Running cost | No limit |

*For cars purchased on or after 1 July 2008*
Capital allowances and leasing charges are based on the carbon dioxide emissions category of the car. The specified limit is €24,000.

**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 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.

## 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 |

**Note: The above table is to be applied to all categories as the new legislation is not examinable in 2012.**

## Preferential loan rates

| | |
|---|---|
| Loans used to fund the cost/repair of the employee's principal private residence | 5% |
| All other loans | 12·5% |

**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 Charlie (49) and Susan (52) are married; they are both Irish resident and domiciled. They have one child, aged 17, who attends secondary school.

Susan's employer, PPC Ltd, offered her a voluntary redundancy package, which Susan accepted. She was made redundant on 30 April 2011. Susan had worked for PPC Ltd since leaving college, 21 years and 11 months previously. PPC Ltd did not have a company pension scheme, and Susan had not provided for a pension privately.

The following details relate to Susan's final payment received from her employment:

| | € |
|---|---|
| Statutory redundancy | 25,800 |
| Holiday pay | 1,200 |
| *Ex gratia* compensation payment | 38,700 |
| Loan amount outstanding, written off | 5,500 |

Details of Susan's salary received, including benefits in kind (BIK), are as follows:

| | **Salary including BIK** |
|---|---|
| | € |
| 1 January 2011 to 30 April 2011 | 10,200 |
| Year ended 31 December 2010 | 31,000 |
| Year ended 31 December 2009 | 30,000 |
| Year ended 31 December 2008 | 28,000 |

**Note: Any amount received in Susan's final payment that is classed as Schedule E has already been included in the salary figure in the table above.**

Susan had PAYE of €1,500 deducted in 2011.

Charlie is a full-time employee and 6% shareholder in Walle Ltd, an Irish resident trading company. Charlie has been an employee of Walle Ltd for many years and in 2006 he became a shareholder. In order to buy his shares, he had taken out a loan of €20,000 with AIB and pays annual interest of €1,400 on this loan.

During 2011, Charlie earned a gross annual salary, before benefits, of €58,000. PAYE of €6,000 was deducted. He is a member of the company's defined benefit pension scheme and in 2011 he paid pension contributions of €15,000.

Charlie is provided with a company car and all the running costs are paid by his employer. The car was bought new in May 2010 at a cost of €36,000, and was made available to Charlie from that time. The car's current market value is €31,000. Charlie drives a total of 20,000 km per annum, of which 20% is for business purposes. He pays his employer €400 per month towards the running costs of the car.

Charlie has a designated car parking space in a local multi-storey car park which costs his employer €2,500 per annum.

Every year Charlie is required to undergo an executive health screening medical at a local private hospital. This costs his employer €350 per annum, which is at a reduced rate; the check-up would cost Charlie €500 if he were to arrange it himself.

Details of Charlie's other income for 2011 is as follows:

| | € |
|---|---|
| Dividends (net) received from an Irish plc | 1,500 |
| Deposit interest received gross from a UK bank account | 800 |
| Deposit interest received (net) from an Irish bank account | 1,460 |

Details of the couple's outgoings are as follows:

Charlie pays a qualifying covenant of €6,000 (gross) per annum to his widowed father, aged 70 years. His father's only other income is the State widowed persons' pension which is €11,960 per annum.

In 2011, Charlie also paid €1,000 to a qualifying Irish charity.

**Required:**

**(a) Compute Susan's taxable lump sum on the termination of her employment, clearly stating the tax treatment of each element of her redundancy package.**

Note: You are not required to prepare top slicing relief computations. (7 marks)

**(b) Prepare Charlie's and Susan's income tax computation for the tax year 2011, on the basis that they are jointly assessed.** (16 marks)

**(c) Calculate Charlie's universal social charge (USC) liability for 2011.** (2 marks)

**(25 marks)**

**2** Modern Media Ltd is an Irish incorporated and resident company which commenced to trade on 1 January 2011. The company provides advertising services which involve designing advertisements and conducting advertising campaigns. The company's income statement for the year ended 31 December 2011 shows the following:

| | Notes | € | € |
|---|---|---|---|
| Turnover | (1) | | 1,400,000 |
| *Less* expenses | | | |
| Depreciation | | 27,000 | |
| Advertising space and airtime | (2) | 500,000 | |
| Payments to models and actors | (3) | 252,000 | |
| Rates, light and heat | (4) | 35,000 | |
| Interest paid | (5) | 25,000 | |
| Salaries and wages | (6) | 280,000 | |
| Motor and travel expenses | (7) | 50,000 | (1,169,000) |
| | | | 231,000 |
| Other income – Rental | (8) | | 12,000 |
| Net profit | | | 243,000 |

**Notes:**

(1) The business has clients operating in the private and public sectors. Public sector clients include government departments and the Health Service Executive (HSE).

Gross turnover by sector was:

| | € |
|---|---|
| Private sector | 840,000 |
| Public sector | 560,000 |
| | 1,400,000 |

The public sector bodies deducted Professional Services Withholding Tax from the payments made to Modern Media Ltd. At 31 December 2011, 10% of the work invoiced to the public sector clients had not been paid to the company.

(2) Advertising space and airtime comprised:

| | € |
|---|---|
| Newspaper advertisements, placed for clients | 181,000 |
| Radio and television advertising, placed for clients | 310,000 |
| Advertising for own staff | 4,000 |
| Estimate of cost of designing a logo for a local charity in lieu of a cash donation | 5,000 |
| | 500,000 |

(3) Payments to models and actors:

These payments were made to individuals who provided work under 'contract for services'. All payments were made gross without deduction of any tax.

(4) Rates, light and heat:

This reflects the costs for the full premises. As Modern Media does not at present require all the office space, it rents out 15% of the office area (see note 8).

(5) Interest paid comprises:

| | € |
|---|---|
| Interest on bank overdraft | 5,000 |
| Interest on loan used to purchase the office building | 18,000 |
| Interest on late payment of value added tax (VAT) | 2,000 |
| | 25,000 |

(6) Salaries and wages comprise:

| | € |
|---|---|
| Director's salary | 70,000 |
| Director's pension | 10,000 |
| Other wages and salaries | 200,000 |
| | 280,000 |

There is a pension accrual at 31 December 2011 of €2,000.

Employers' PRSI for the year was €19,400 and all payments are up to date. There was no employers' PRSI on the director's salary; PRSI in respect of no one employee exceeded €5,000. The company did not employ any employees under the Employer Job (PRSI) Incentive scheme.

(7) Motor and travel expenses comprise:

| | € |
|---|---|
| Amounts paid to staff, models and actors for travel to meetings and shoot locations | 33,000 |
| Lease expenses for the managing director's car | 12,400 |
| Running expenses for the managing director's car | 4,600 |
| | 50,000 |

The managing director's car was leased new on 1 March 2011. The car would have cost €30,000 if bought for cash. The car is a category C car.

(8) On 1 January 2011, unused office space was rented out by Modern Media, at €1,000 per month. Modern Media also received a lease premium on letting of €10,000. The lease agreement is for ten years.

**Other information:**

**Fixed assets:**
On 1 January 2011 the following assets were purchased:

Cameras, all new, for €72,600, including value added tax (VAT) at the standard rate.

Lighting, all second-hand, purchased from abroad for €40,000 (excluding VAT).

Office furniture and computers, new, purchased locally for €10,000 (excluding VAT).

**Required:**

**(a) Compute the Case I adjusted income of Modern Media Ltd for the year ended 31 December 2011.** (10 marks)

**(b) Compute the corporation tax liability for Modern Media Ltd for 2011, ignoring any start-up company relief that may be available.** (6 marks)

**(c) (i) Advise Modern Media Ltd on the reasons why you feel it would qualify for start-up company relief;** (4 marks)

**(ii) Calculate the amount of the relief available, if any.** (2 marks)

**(d)** Champ Ltd, an Irish resident company, has reported income, charges and losses for the years to 31 December 2010 and 2011 as follows:

| | 2010 | 2011 |
|---|---|---|
| | € | € |
| Case I income/(loss) | 20,000 | (30,000) |
| Trade charges | 30,000 | 0 |
| Case V income | 50,000 | 50,000 |
| Case V capital allowances | (5,000) | (10,000) |

**Required:**

**Compute the tax payable, by Champ Ltd, for each of the years 2010 and 2011, claiming any reliefs as early as possible. You MUST clearly identify the order of the reliefs claimed.** (8 marks)

**(30 marks)**

**3** John is Irish resident and domiciled. He had the following transactions during 2011.

(1) On 1 July 2011, John sold his principal private residence for €550,000.

He had inherited the house under his father's will in March 1973. His father had purchased the house in 1970, when its market value was €12,000. The market value of the house on 6 April 1974 was €16,000.

John lived in the house from the date he inherited it until 1 January 1986, when he went to live with his sister in England. During this time, he attended Oxford University and studied for an MBA. John returned to Ireland on 1 January 1989, when he took up employment with a multinational company and again took up residency in the house.

On 1 July 1990, John spent €30,000 on an extension to the house.

On 1 July 1995, John was required to move away from home, but within Ireland, for work purposes. On 1 July 1999, he returned to live in the house. The house was left unoccupied during this period.

In January 2002, John was sent abroad for a five-year work assignment. He rented out the house during this absence. John came back to live in Ireland on 1 January 2007 but went to live in Dublin for all of 2007 and did not return to live in the house until 1 January 2008.

(2) In July 2011, John sold all the furniture and fittings from the house at a furniture auction. The total proceeds received were €20,000; John had spent €40,000 on the furniture and fittings, all of which he had bought new in local furniture and white goods stores. The auctioneer charged €1,000 for his day's work.

(3) In August 2011, John sold an antique table at an auction. The net sales proceeds were €2,000. He was very disappointed with the amount realised on the sale as he had paid €4,000 for the table in June 2000.

(4) In September 2011, John sold one acre of land from a holding of five acres that he had bought in February 1996. He had paid €50,000 for the holding. The sales proceeds were €15,000 and the remaining four acres were valued at €45,000. This land has always been zoned agricultural.

(5) In November 2011, John gifted a necklace to his niece. The necklace was a family heirloom, inherited from his mother on her death in May 1990. The market value in May 1990 was €5,000. As it had been in the family for a hundred years, no-one knew its original cost but its market value at 6 April 1974 was established at €800. His niece is delighted with the gift and a valuation received by her for the necklace assessed it as having a current value of €12,000.

**Required:**

**(a) Compute John's capital gains tax liability for the tax year 2011, showing the amount of tax due, if any, for the initial and final periods. Give a relevant explanation for any transaction that you treat as not giving rise to a capital gain in the tax year.** (17 marks)

**(b) State the circumstances in which withholding tax is required to be withheld from the consideration arising on the disposal of an asset.** (3 marks)

**(20 marks)**

4 (a) **Define and explain the treatment of each of the following terms for value added tax (VAT) purposes:**

(i) **composite supply; and** (2 marks)

(ii) **multiple supply.** (3 marks)

(b) **State, giving reasons, the VAT treatment in the following situations:**

(i) During the past month, a solicitor client has provided legal advice to Mr Dundee, who lives in Australia.

Mr Dundee had been on holiday in Ireland when he became involved in a road traffic accident. Mr Dundee was slightly injured and has since gone home to Sydney. The solicitors' practice supplied legal advice regarding the accident to Mr Dundee, however, they are unsure as to the VAT position for billing their client. (3 marks)

(ii) A private business college in Dublin is about to purchase a large number of computers and printers from a supplier in Germany. The expected cost of the computers excluding any VAT will be €60,000. As an education provider the college is exempt from VAT. (4 marks)

(c) **List SIX items of expenditure in respect of which a registered trader cannot claim back VAT.** (3 marks)

**(15 marks)**

5 Michael Eaton, a sole trader, has carried on his butchers business for a number of years. Due to competition from large supermarkets and parking difficulties, he has decided to cease trading from 31 December 2011. His Case I tax adjusted profits/(losses) were as follows:

| | € |
|---|---|
| Year ended 30 June 2009 | 50,000 |
| Year ended 30 June 2010 | 32,000 |
| Year ended 30 June 2011 | 12,000 |
| Period ended 31 December 2011 | (10,000) |

Almost all of the equipment used in Michael's business was leased and was repossessed by the leasing company. There was, however, a large refrigerator unit that he had bought in May 2008. This unit had cost him €22,000 and he sold it in December 2011 for €7,000.

Michael had no other income in the relevant years.

**Required:**

(a) **Compute Michael's assessable income for each of the years 2009, 2010 and 2011, before any terminal loss relief.** (5 marks)

(b) **Compute the balancing allowance/charge on the disposal of the refrigerator.** (2 marks)

(c) (i) **Compute the amount of the terminal loss, if any;** (1 mark)

(ii) **Advise Michael as to how a terminal loss can be relieved.** (2 marks)

**(10 marks)**

**End of Question Paper**