
Answers

1 Kieran and Marie		Marks
(a) (i) Kieran's Schedule D Case I income for 2012		
As Kieran has been in farming for a number of years and has opted for income averaging, his assessment for 2012 would be:		
Year ended 31 December	€	
2010	75,000	
2011	56,500	
2012	65,000	
	<u>196,500</u>	
Average for the past three years $196,500/3 = 65,500$		1·0
(ii) If Kieran decides to opt out of income averaging in 2012, then his Schedule D Case I income for 2012 will be calculated on a current year basis.		1·0
The Inspector of Taxes would also have the option to revise the years 2009 and 2010. Where the amount assessed for these years is less than 2012, they will be revised upwards. The effect of this being that the amount assessed for 2010 and 2011 will not be less than that assessed in 2012. The Inspector of Taxes would revise where such a revision would lead to a higher income being assessed.		1·0
	<u>2·0</u>	
(iii) Kieran's capital allowances for 2012		
Cost of all assets at 1 January 2012	€	
140,000		
Disposal of machine	(10,000)	0·5
	<u>130,000</u>	
Wear and tear at 12·5%	16,250	0·5
	<u>16,250</u>	
Disposal of machine		
Cost	€	
10,000		
Cumulative wear and tear (three years)	(3,750)	0·5
	<u>6,250</u>	
Tax written down value	6,250	
Sales proceeds	6,000	
	<u>250</u>	0·5
Balancing allowance		2·0
	<u>2·0</u>	
Summary of capital allowances		
Plant and equipment, wear and tear	€	
16,250		
Balancing allowance	250	
	<u>16,500</u>	

		Marks
(b) (i) Income tax computation for Kieran and Marie for 2012		

	€	€
Kieran		
Schedule D Case I (from (a)(i))	65,500	0·5
Less capital allowances (from (a)(iii))	<u>(16,500)</u>	0·5
Schedule D Case III	900	0·5
Schedule D Case IV, interest €1,470/0·7	2,100	1·0
Schedule F Shares in lieu of dividend €800/0·8	1,000	1·0
Schedule D Case V (W1)	<u>2,850</u>	6,850
		W1
Marie		
Schedule E, salary	28,000	0·5
Travel pass	0	0·5
Share option (W2)	<u>3,000</u>	31,000
		W2
Gross income		86,850
Less reliefs		
Pension contributions (W3)		<u>(17,150)</u>
		W3
Total income/taxable income		<u>69,700</u>
Tax payable:	€	
€41,800 at 20%	8,360	
€23,800 at 20%	4,760	0·5
€3,000 at 30%	900	0·5
€1,100 at 41%	<u>451</u>	0·5
Gross tax before tax credits		14,471
Less non-refundable tax credits		
Married persons	3,300	0·5
PAYE	1,650	0·5
Medical expenses €2,700 x 20%	540	0·5
Third level tuition fee (W4)	1,400	W4
DIRT	<u>630</u>	(7,520)
		0·5
		<u>6,951</u>
Less refundable tax credits		
PAYE		(7,000)
Withholding tax on share issue		<u>(200)</u>
Tax paid on exercising of share option		(1,230)
		0·5
Net tax refundable		<u>(1,479)</u>

Workings:

1. Rental income

	€	
Rental income before tax	9,600	
Less interest €9,000 x 75%	<u>(6,750)</u>	1·0
Net rental income	<u>2,850</u>	

2. Share options

	€	
Payment for options 2,000 x €2	4,000	0·5
Market value at date of exercise 2,000 x €3·50	<u>7,000</u>	0·5
Taxable benefit	<u>3,000</u>	

3. Pension contributions

	€	
Relevant earnings	49,000	
Less charges not absorbed by non trading sources of income	<u>Nil</u>	
Net relevant earnings	<u>49,000</u>	0·5
Maximum relief possible, aged 56, 35%	17,150	0·5
Pension paid	18,000	
Relief restricted to	<u>17,150</u>	0·5

		<i>Marks</i>
4.	Third level fees	
	Amy, restricted to max of €7,000, less excess of €2,250 = €4,750.	0·5
	Kate, €2,250 paid, no excess.	0·5
	Total relief on €7,000 x 20% = €1,400.	0·5
	Note: Exclusion of relief for medical insurance from income tax computation, as tax relief is given at source.	0·5
		<u>15</u>

(ii) Kieran PRSI and USC for 2012

	€	
Reckonable income:		
Relevant earnings	49,000	1·0
Other income	<u>6,850</u>	0·5
	<u>55,850</u>	
PRSI at 4%	2,234	0·5
USC	€	
Relevant earnings	49,000	0·5
Other income, excluding income liable to DIRT, (€900 + €2,850 + €1,000)	<u>4,750</u>	1·0
	<u>53,750</u>	
€10,036 at 2%	201	
€5,980 at 4%	239	
€37,734 at 7%	<u>2,641</u>	
	<u>3,081</u>	0·5
		<u>4·0</u>

(c) Filing obligations

The couple's 2012 income tax return must be filed on or before 31 October 2013.	1·0
	<u>25</u>

2 Trisport Ltd

(a) (i) There is no obligation on Trisport Ltd to deduct income tax from the royalty payment to the UK company. Under the double taxation agreement, the UK company is not liable to Irish tax on this income. Trisport Ltd will need confirmation that the recipient company is a UK tax resident.

(ii) Trisport Ltd will not be exempt from paying tax on the gain arising on the disposal of the retail unit. Sportshoe Ltd is not part of a capital gains tax group with Trisport Ltd as there is not a 75% effective shareholding relationship in place.

			Marks
(b) Corporation tax payable – year ended 31 December 2012			
Profit before tax	€	800,000	0.5
<i>Addbacks:</i>			
Depreciation	50,000		0.5
Royalties	30,000		0.5
Entertainment	13,000		1.0
Motor expenses	0		0.5
Legal expenses	60,000	<u>153,000</u>	1.5
		953,000	
<i>Deduct:</i>			
Capital allowances (W1)		(67,300)	W1
Case I income		885,700	
Less trade charge, royalties paid		<u>(20,000)</u>	0.5
		865,700	
Case III dividend from UK company		8,000	1.0
Total income		873,700	
Chargeable gain adjusted (W2)		<u>120,000</u>	W2
Total profits		993,700	
Corporation tax payable	€993,700 at 12.5%	€124,213	1.0
Workings:			
1. Capital allowances			
Industrial building allowance			
Cost of building when first purchased		€400,000	1.0
Remaining tax life when purchased by Trisport Ltd (25 – 9)		16 years	0.5
Annual industrial building allowance, €400,000/16		€25,000	0.5
Wear and tear allowance			
General plant	€	Motor car (restricted cost)	
Cost	240,000	€	
Wear and tear 12.5%	30,000	86,400	12,000
		10,800	1,500
Summary:			
Industrial buildings allowance		€	
Wear and tear allowance		<u>25,000</u>	
		42,300	
		<u>67,300</u>	
2. Capital gain			
Sales proceeds	€	350,000	
Cost		<u>300,000</u>	
Chargeable gain		50,000	0.5
Adjustment: €50,000 x 30%/12.5% = €120,000			1.0
			<u>13</u>
Tutorial notes:			
1. The patent royalties are allowed on a paid rather than an accruals basis. Patent royalties paid during the year give rise to a trade charge, and are deducted from Case I income.			
2. Entertainment expenses incurred on customers and suppliers are not allowable.			
3. The legal expenses incurred on the failed take-over bid were in connection with a proposed capital acquisition and, therefore, classified as being capital in nature.			
(c) The first instalment of corporation tax is due on 21/23 June 2012, and the amount payable is either 45% of the current year's liability or 50% of the previous period liability.			1.5

	<i>Marks</i>
The second instalment is due on 21/23 November 2012. On paying this instalment, the total tax paid should equal 90% of the final tax liability for 2012.	1·0
The company must pay any outstanding balance by 21/23 September 2013 (the filing date).	0·5
	<u>3·0</u>

(d) (i) Liffey Ltd and Lee Ltd

Liffey Ltd

	2011 €	2012 €	
Case I	25,000	0	0·5
S396A	(25,000)	0	0·5
Case III	6,000	4,000	
Total profits	6,000	4,000	
Corporation tax at 25%	1,500	1,000	0·5
S396B	(1,500)	(1,000)	1·0
Net tax due on income	0	0	
Tax due on development gain at 30%		9,000	1·0

Lee Ltd

	2011 €	2012 €	
Case I	38,000	36,000	
S420A	0	(36,000)	0·5
Case III	0	12,000	
Total profits	38,000	12,000	
Corporation tax at 12·5%	4,750	0	0·5
Corporation tax at 25%	0	3,000	0·5
S420B		(1,000)	0·5
Net tax due	4,750	2,000	

Loss memorandum – Liffey Ltd

	Actual €	
Case I loss of Liffey Ltd, 2012	85,000	
Utilised by Liffey [under S396A] 2011	(25,000)	0·5
Utilised by Liffey [under S396B] 2012	(8,000)	0·5
Utilised by Liffey [under S396B] 2011	(12,000)	0·5
Available for group relief	40,000	
Used by Lee Ltd [under S420A] 2012	(36,000)	0·5
Used by Lee Ltd [under S420B] 2012	(4,000)	0·5
Loss remaining	Nil	
		<u>8·0</u>

Tutorial note: A trading loss may not be used to offset a development land gain, as such gains are liable to capital gains tax and not corporation tax.

(ii) Where a company is late in submitting its return of income for a chargeable period, there will be a restriction on the loss relief that it may claim.

Where the delay in making the return is less than two months, the loss relief will be restricted by 25% of the loss available or a maximum restriction of €31,750. Where the return is more than two months late, the restriction will be subject to a maximum of 50% of the loss available or €158,715.

0·5	
1·5	
2·0	
<u>30</u>	

		<i>Marks</i>
3 (a) CARE Ltd		
(i) Chargeable gains/losses 2012		
1. Land sale		
Sales proceeds	€ 45,000	0.5
Less cost $\€80,000 \times \€45,000 / (\€45,000 + \€60,000)$	(34,286)	2.0
Gain	<u>10,714</u>	
2. Warehouse		
Sales proceeds	€ 50,000	0.5
Less cost	€25,000	0.5
Index factor 1999/2000	1.193	0.5
Enhancement expenditure, heating system	€20,000	1.0
Index factor 2000/2001	1.144	0.5
Roof replacement (repair)	0	0.5
Indexed loss	<u>(2,705)</u>	
As there was an actual gain but an indexed loss, it is treated as no gain/no loss.		1.0
3. Plant and equipment		
Sales proceeds	€ 22,000	1.0
Cost	(20,000)	1.0
Gain	<u>2,000</u>	
		<u>9.0</u>
Tutorial notes:		
1. The replacement of the roof with one of similar specification is a repair (revenue) not an enhancement (capital).		
2. A gain on a wasting asset which is used for business purposes is taxable.		
(ii) Tax payable in 2012		
1. Development land gain	€ 10,714	0.5
Chargeable gain liable to capital gains tax at 30%	3,214	1.0
Disposal in April 2012, so the capital gains tax is payable by 15 December 2012.		1.0
2. Other chargeable gains		
Warehouse	Nil	
Plant and equipment	<u>2,000</u>	
Total	<u>2,000</u>	0.5
Adjustment for corporation tax purposes: $\€2,000 \times 30\% / 12.5\%$	€4,800	0.5
Corporation tax at 12.5%	€600	0.5
As this gain is included in the corporation tax computation, the tax will be payable on the relevant corporation tax payment dates, i.e. 21 June and 21 November 2012 and 21 September 2013.		1.0
		<u>5.0</u>

			Marks
(b) Rhona			
(i) Share disposal			
Market value of shares (connected person) ($\text{€}400,000 \times 25\% / 2$)		€ 50,000	1.5
Cost, June 1999	€125		1.0
Index factor 1999/2000	1.193	(149)	0.5
Cost July 2005	€100	(100)	1.0
Gain		<u>49,751</u>	<u>4.0</u>
Date	No. of shares	Cost	Enhancement expenditure
June 1999	250	€ 250	
July 2005	50		200
	<u>300</u>	<u>250</u>	<u>200</u>
Disposal 2012	<u>150</u>	<u>125</u>	<u>100</u>
(ii) Tax payable			
Gain on share disposal (from (i))		€ 49,751	
Less annual exemption		<u>(1,270)</u>	<u>0.5</u>
		<u>48,481</u>	
Tax on gain at 30%		14,544	0.5
Disposal in December 2012, so capital gains tax is payable by 31 January 2013.			1.0
			<u>2.0</u>
			20
4 (a) (i) Residence			
An individual who spends 183 days or more in the State during the year will be treated as Irish tax resident (a day is spent if the person is present in the State at any time during that day).			0.5
Alternatively, an individual may be tax resident in Ireland if he/she spends a combined total of 280 days in the State during a tax year and the preceding tax year, but excluding any tax year where the total time spent is 30 days or fewer.			0.5
It is also possible for an individual to elect to be resident as long as he/she can satisfy the Revenue that they intend to continue to be resident in Ireland in the future. Such an option would only be taken by a taxpayer if it were advantageous to do so.			0.5
			<u>0.5</u>
			<u>2.0</u>
(ii) Ordinary residence			
Where a person has been tax resident in Ireland for each of the preceding three years, then he/she will become ordinarily resident in the fourth year. He/she will then continue to be ordinarily resident thereafter until he/she has been non-resident for three consecutive years, in which case in the fourth year he/she will no longer be considered to be ordinarily resident.			1.0
			<u>1.0</u>
			<u>2.0</u>
(iii) Domicile			
Unlike residence, there is no statutory definition for domicile; domicile is based on the facts of the case and is supported by case-law.			0.5
A person's domicile is generally the country which he/she regards as his/her natural home.			0.5
At any given time, a person must have a domicile, and a person may not be domiciled in two places at the same time. The only way to lose an existing domicile is to acquire a new one.			0.5
Everyone acquires a domicile at birth, referred to as a domicile of origin. This is usually the domicile of the father, although sometimes it can be the mother's (where the parents are not married). Until a person reaches 18, their domicile changes with that of the parent from whom they acquired their domicile at birth.			0.5

		<i>Marks</i>
	Adults can change their domicile of origin at any given time by acquiring a new 'domicile of choice'. In order to acquire a domicile of choice, an individual must have both a physical presence in the country and an intention to reside there permanently.	0·5
		0·5
		<u>3·0</u>
(b) Hank		
(i) 2012		
	Hank will spend 153 days in Ireland, being 1 August to 31 December 2012. As Hank is not resident in Ireland in 2011, and he spends less than 183 days in Ireland in 2012, he is not tax resident in Ireland for 2012.	1·5
	Neither is Hank ordinarily resident in Ireland in 2012.	0·5
	2013	
	Hank will spend more than 183 days in Ireland in 2013 and so will be Irish resident in 2013.	0·5
	But he will not be ordinarily resident, as 2013 is only his first year of tax residence.	0·5
		<u>3·0</u>
(ii)	In 2013 Hank will be assessed on his Irish income and any foreign income which is remitted into Ireland.	1·0
(c) Paddy		
	In 2013, Paddy will be ordinarily resident and domiciled in Ireland, so he will be liable to pay tax on his worldwide income. However, he will not be required to pay Irish tax on the employment income earned in Canada or on any investment income earned outside Ireland as long as it does not exceed €3,810. Paddy will have an Irish tax liability on the rental income arising from the Dublin property. The tenant will be obliged to deduct tax at the standard rate from the rent paid to Paddy.	1·0
	In 2017, Paddy will be Irish domiciled, but not resident or ordinarily resident and so he will be exposed to Irish income tax on his Irish source income only.	1·0
		<u>4·0</u>
		15
5 (a) Annual accounting scheme		
	Traders with low value added tax (VAT) liabilities may be permitted to make one annual VAT return (instead of bi-monthly returns).	1·0
	It is at the discretion of the Revenue to allow a trader to use the annual accounting scheme.	0·5
	These traders must provide a return of trading details on form RTD EUR; the trader is also expected to pay VAT on a provisional basis by direct debit during the year.	0·5
	These traders must provide a return of trading details on form RTD EUR; the trader is also expected to pay VAT on a provisional basis by direct debit during the year.	0·5
	The annual VAT return is issued by the Collector-General for the 12-month period selected by the trader as her/his accounting year. In the case of a company registered for corporation tax, the annual VAT return will be required for the 12-month period based on the company's accounting period for corporation tax.	1·0
	The annual VAT return was due by the 19th day of the month following the end of the VAT year selected. From 1 June 2012, VAT registered persons are required to pay and file their VAT 3 form online. This has resulted in a changed due date, to the 23rd day of the month.	0·5
		<u>5·0</u>

		<i>Marks</i>
(b) Bob Brick		

Value added tax (VAT) liability/refund for November/December 2012

Output credit	Sale amount excluding VAT	VAT rate	VAT	
	€		€	
Mrs Jones	15,000	13.5%	2,025	0.5
KK Construction (note 1)	40,000	0%	0	2.0
Own home (note 2)	0	–	0	0.5
Total VAT on sales			<u>2,025</u>	
Input credits				
Mrs Jones	5,000	23%	1,150	0.5
KK Construction	12,000	23%	2,760	0.5
Own home (self-supply)	0	–	0	0.5
			<u>3,910</u>	
Net VAT refundable			<u>1,885</u>	0.5
				<u>5.0</u>
				10

Tutorial notes:

1. As the relationship between Bob (the service provider) and KK Construction (the person receiving the building service) is a contractor/subcontractor relationship, the recipient of the service is the accountable person for VAT. The subcontractor therefore will not charge VAT and the recipient of the service must self-account for the VAT on the building service received.
2. The work undertaken by Bob on his own home is a self-supply, on which the VAT on inputs cannot be reclaimed and VAT is not chargeable on the supply of the service.