Answers

Section B *Marks*

1 Link Ltd

(a) Corporation tax liability for 2013, 2014 and 2015

Year ended 31 December	2013	2014	2015	
	€	€	€	
Case I profit	80,000	20,000	40,000	
Less S396(1) (W1)			(3,000)	1·0
Less trade charges	(25,000)	(20,000)	(26,000)	1·5
Case V income	5,000	16,000	18,000	
Less non-trade charges	(9,000)	(10,000)	(0)	2·0
Total profits	51,000	6,000	29,000	
Tax at 12·5%	6,375	0	1,375	0·5
Tax at 25%	0	1,500	4,500	0·5
Excess trade charges S243(b) (W1)	0	(1,500)	0	1·5
Tax payable	6,375	0	5,875	
Trade charges carried forward	0	3,000	0	0·5
Unrelieved non-trade charges	0	0	0	0·5
				8·0

W1: Trade charges

Unused in 2014 against trade income		€15,000	
Relieved on a value basis against non-trade income			
	€		
Available €15,000 x 12·5%	1,875		
Used in 2014	(1,500)		
Unused and carried forward to 2015	375		
€375/12·5%		€3,000	

Tutorial notes:
1. *Unused trade charges are carried forward and offset against future income of the trade from which they first arose.*
2. *Non-trade charges are set off in the first instance against income taxed at 25%, then income taxed at 12·5%. Any unused non-trade charges cannot be carried forward and so are lost.*

(b) Loss restriction

Where a company is more than two months late in filing its corporation tax return, relief is restricted to 50% of the losses available or to 50% of the profits to which the loss relief will apply, subject to a maximum of €158,715. Loss relief restriction does not apply to losses carried forward. 2·0

10

2 Yvette

(a) Capital gains tax (CGT) liability for 2015

(1) **Car**

	€	
Sales proceeds	22,000	
Cost	(20,000)	
Gain	2,000	0·5
Business use of 30% is liable to CGT	600	1·0

			Marks
(2) House			
	€	€	
Sales proceeds		280,000	
Less market value at 1 January 2000	160,000		0·5
Index factor	1·193	(190,880)	0·5
Gain		89,120	
Exempt gain €89,120 x 12/15·5		(68,996)	1·0
Taxable gain		20,124	

Total period of ownership of the house from 1 January 2000 to 30 June 2015 is 15 years and six months (15·5 years).

Periods of occupation/non-occupation for principal private residence relief

	Occupied	Non-occupied	
1 January 2000 to 31 December 2010	11 years		0·5
1 January 2011 to 30 June 2014		3·5 years	0·5
1 July 2014 to 30 June 2015 (deemed)	1 year		0·5
Exempt portion of gain	12 years		

(3) Painting

		€	
Market value		5,300	0·5
Less cost	€3,000		
Indexation factor May 1992	1·356	(4,068)	0·5
Enhancement expenditure	€1,800		
Indexation factor August 1999	1·193	(2,147)	0·5
Indexed loss		(915)	
No gain/no loss			0·5

Total assessable gains

	€	
(1) Car	600	
(2) House	20,124	
(3) Painting	Nil	
Total	20,724	
Less annual exemption	(1,270)	0·5
	19,454	
CGT at 33%	6,420	0·5
		8·0

(b)	The CGT must be paid by 15 December 2015	1·0
	and the return must be filed by 31 October 2016.	1·0
		2·0
		10

Marks

3 Geoff

(a) Value added tax (VAT) payable for September/October 2015

	€	€	
Output VAT			
Sales including VAT €13,500/1·09 x 9%		1,115	1·0
UK invoice for sport equipment €700 x 23%		161	1·0
		1,276	
Input VAT			
Rent €1,000/1·23 x 23%	187		0·5
Lease payment on van €620/1·23 x 23% x 30%	35		1·0
Petrol for van	0		1·0
Electricity €180/1·135 x 13·5%	21		0·5
Computer and printer €900/1·23 x 23%	168		1·0
Sports equipment from UK supplier €700 x 23%	161		0·5
	572		
Net VAT payable		704	0·5
			7·0

Tutorial note: *Reclaim of input VAT is always based on the date of purchase, even where the cash receipts basis is used.*

(b) The filing date for the September/October VAT return is 23 November 2015. 1·0

(c) The Revenue have the discretion to allow a trader to submit an annual return. They will usually allow this for a trader who is tax compliant and who has low VAT liabilities. 1·0 A trader who is allowed to submit annual VAT returns must make direct debit payments monthly. 1·0

2·0

10

4 Andrew

(a) Deductibility of pre-commencement expenses

Andrew will be able to claim relief for the €20,000 of consultants' fees incurred in relation to the new 'glamping' business idea as pre-trading expenditure on the assumption that the business commences in 2017. 1·0 This is because the expenses satisfy the normal deductibility rules and will be incurred by Andrew in the three years prior to the commencement of the trade. 1·0

However, the expenses can only be offset against income of the new trade when it commences in 2017. Relief is not currently available against other income. 1·0

3·0

(b) Taxable income for 2015

	€	€	
Schedule D Case I	26,000		W1
Less stock relief	(3,750)	22,250	W2
Schedule D Case IV		4,000	0·5
Schedule D Case V		0	W3
Schedule E, UK civil service pension		30,000	1·0
Gross income		56,250	
Less excess Case V capital allowances, restricted		(31,750)	W3
Taxable income		24,500	

W1: Farm income (€32,000 + €36,000 + €22,000 + €20,000 + €20,000)/5 = €26,000 1·0

W2: Stock relief (€60,000 – €45,000) x 25% = €3,750 1·0

W3: Case V

	€	Marks
Rental income	45,000	0·5
Less interest	(20,000)	0·5
Net rental income	25,000	
Less industrial building allowance €800,000/8	(100,000)	1·5
Rental income	0	
Excess Case V capital allowance	75,000	
For a sole trader the maximum which can be claimed is	31,750	1·0
		7·0
		10

Tutorial note: *The industrial buildings allowance is restricted to the amount paid for the building by Andrew as this is less than the original qualifying cost. The cost can be written off over the remaining useful life of the building.*

5 Deirdre

(a) Taxable lump sum

	€	
Statutory redundancy – exempt	0	0·5
Pension lump sum – exempt	0	0·5

Ex gratia compensation – liable to tax after deduction of tax free amount.

Tax free amount for *ex gratia* payment

Basic exemption
€10,160 + (€765 x 34) = €36,170 — 1·0

Increased basic exemption
€36,170 + (€10,000 – €20,800) = €25,370 — 1·0

Standard capital superannuation benefit (SCSB)
(€42,500 x 34/15) – €20,800 = €75,533 — 1·0

Average annual salary over the last three years of employment

	€		
1 January 2015 to 31 March 2015	11,250		
Year ended 31 December 2014	43,500		
Year ended 31 December 2013	42,000		
1 April 2012 to 31 December 2012 (9/12 x €41,000)	30,750		
	127,500/3 =	€42,500	0·5
Taxable amount (€96,000 – €75,533)		€20,467	0·5
			5·0

Marks

(b) Income tax payable/refundable for 2015

			€	
Schedule E	Salary		11,250	0·5
	Taxable termination payment (from (a))		20,467	0·5
	Unemployment benefit		4,136	0·5
Schedule D	Case V (€9,000 + €4,000)		13,000	1·0
Schedule F	Irish dividends €600/0·8		750	0·5
Gross income			49,603	
Less reliefs				
Payment to carer			(11,000)	1·0
Taxable income			38,603	
		€		
€33,800 at 20%		6,760		0·5
€4,803 at 40%		1,921		0·5
			8,681	
Less non-refundable tax credits				
Single person		1,650		0·5
PAYE		1,650		0·5
Dental expenses		0		0·5
Dependent relative		0		0·5
Private medical insurance		0		0·5
Home renovation scheme (€11,350/113·5% x 13·5%)/2		675		1·5
			(3,975)	
Refundable tax credits				
PAYE paid		4,850		0·5
DWT (€750 – €600)		150		0·5
			(5,000)	
Income tax refundable			(294)	
				10
				15

Tutorial notes:

1. *Deirdre cannot avail of rent a room relief in 2015 as the gross income from room rentals and ancillary services (provision of meals) exceeds the exemption limit of €12,000. Where the limit is exceeded, all the income from the room rentals is assessable as Case V.*
2. *The dependent relative tax credit cannot be claimed by Deirdre as the income of her mother exceeds the relevant limit of €13,904 in 2015.*

Marks

6 Blue Ltd

(a) Corporation tax for the year ended 30 June 2015

	€	€	
Net profit before tax		24,800	
Add back			
Depreciation	8,000		0·5
Finance lease interest	12,000		0·5
Obsolete inventory written off	0		0·5
Salaries and wages	0		0·5
Travel and entertainment (customer entertainment)	2,000		1·5
Lease premium €10,000 – ((€10,000 x ((51 – 5) ÷ 50))/5)	8,160	30,160	1·0
Less			
Trade discount received	0		0·5
Lease payment, interest and capital	30,000		0·5
Profit on sale of van	900		0·5
Bank interest accrued	1,500		0·5
Capital allowance for van (€18,000 x 12·5%)	2,250		1·0
Capital allowance for Sean's car (€12,000 x 12·5%)	1,500	(36,150)	1·0
Adjusted Case I income		18,810	
Case III, bank deposit interest		0	1·0
Total income		18,810	
Capital gain on van (€900 x 33%/12·5%)		2,376	1·0
Total profits		21,186	
Tax due (€21,186 x 12·5%)		2,648	0·5
			11

Tutorial notes:
1. *Blue Ltd is entitled to a Case I deduction in respect of the lease premium of €10,000 based on the portion of the premium assessed on the landlord as income, spread over the five-year lease term.*
2. *There is no adjustment required in respect of an employee's private use of a company provided car.*
3. *Blue Ltd is entitled to a Case I deduction in respect of the total payments made under the lease of the machinery and fixtures and fittings.*

(b) (i) Start-up relief – non-monetary conditions

- The company must be in its first three years of trading.
- The company must be incorporated within the EEA.
- The company must have commenced to trade before 31 December 2015.
- The company must carry on a qualifying trade.
- The company must be carrying on a new trade, i.e. not a trade which has been previously carried on by another company.

ANY FOUR conditions, 0·5 marks each, maximum 2·0

(ii) Maximum start-up relief available for the year ended 30 June 2015

Limits to relief:

Start-up relief is available as the corporation tax payable on trading, trade capital gains and passive income does not exceed €40,000. 0·5

The relief is further restricted to the employers' PRSI paid up to a maximum of €5,000 per employee (and an overall limit of €40,000): 0·5

(€5,000 (capped) + €2,688 + €5,422) = €13,110 0·5

Blue Ltd will have a nil corporation tax liability in the current year and €10,462 (€13,110 – €2,648) can be carried forward against Blue Ltd's corporation tax for future periods, but may be used no earlier than year four. 0·5

2·0

15