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# Answers

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				Marks
<b>1 James and Audrey</b>				
<b>(a) (i) Audrey's Schedule D Case II income for 2012</b>				
	€	€		
Net profit for year ended 31 July 2013		2,000		0·5
<i>Addback</i>				
Motor and travel (50%)	3,000			0·5
Equipment	4,000			0·5
Drawings	12,000	19,000		0·5
Case II adjusted income		<u>21,000</u>		
<b>2012:</b>				
Commencement, actual basis, 1 August 2012 to 31 December 2012.				
Year to 31 July 2013 €21,000 x 5/12 = €8,750.				1·0
				<u>3·0</u>
<b>(ii) Capital allowances for 2012</b>				
Equipment, €4,000 x 12·5% x 5/12 = €208.				0·5
Jeep, nil as it is a category F vehicle.				0·5
				<u>1·0</u>
<b>(b) Income tax computation for 2012</b>				
	€ James	€ Audrey	€ Joint James and Audrey	
<b>James</b>				
Schedule E				
Salary	110,000		110,000	0·5
Round sum expenses	5,000		5,000	0·5
Benefit in kind				
Preferential loan (Working 1)	450		450	W1
Motor car (Working 2)	9,600		9,600	W2
Private medical insurance	1,000		1,000	0·5
Schedule D				
Case IV (€4,800/0·7)	6,857		6,857	1·0
<b>Audrey</b>				
Schedule D Case II		8,750	8,750	0·5
Less capital allowances		(208)	(208)	
Schedule E				
Salary		6,000	6,000	0·5
Schedule F				
Irish dividends (€1,200/0·8)		1,500	1,500	1·0
Gross income	<u>132,907</u>	<u>16,042</u>	<u>148,949</u>	
Less reliefs				
Nursing home (€45,000/3)	(15,000)		(15,000)	1·0
Pension contribution (Working 3)	(17,250)		(17,250)	W3
Taxable	<u>100,657</u>	<u>16,042</u>	<u>116,699</u>	

	€ James	€ Audrey	€ Joint James and Audrey	Marks
Tax payable:				
At 20% on €32,800/€16,042/€41,800	6,560	3,208	8,360	1·0
At 20% on €16,042			3,208	0·5
At 30% on €6,857	2,057		2,057	0·5
At 41% on €61,000/€52,000	25,010	–	21,320	0·5
Total tax due	33,627	3,208	34,945	
Less non-refundable tax credits				
Single/married persons	(1,650)	(1,650)	(3,300)	0·5
PAYE	(1,650)	(1,200)	(2,850)	1·5
Private medical insurance	(200)		(200)	1·0
DIRT	(2,057)		(2,057)	0·5
	28,070	358	26,538	
Less refundable tax credits				
PAYE paid	(29,000)	(1,000)		0·5
Dividend withholding tax		(300)		0·5
Year of marriage saving (Working 4)	(933)	(12)		W4
Tax refund due	(1,863)	(954)		0·5

#### Working 1, Benefit in kind on preferential loan

Preferential rate 5%.

BIK = €30,000 x (5% – 2%) x 6/12 450 1·5

#### Working 2, Benefit in kind on car

24% x €40,000 (OMV) 9,600 1·0

#### Working 3, Qualifying pension contributions

	€	
Salary including benefit in kind	126,050	0·5
Restricted to a maximum salary	115,000	0·5
Percentage allowed 15%	17,250	0·5
As this is less than the pension contribution paid for 2012, relief is restricted to	17,250	0·5

#### Tutorial notes:

1. The unrelieved amount of the pension paid may be carried forward to 2013.
2. Audrey's PAYE tax credit is restricted to the maximum of 20% of her PAYE income or €1,650.

#### Working 4, Year of marriage tax saving:

##### Tax payable for 2012:

	€	
As single persons		
James	28,070	
Audrey	358	
Total	28,428	
As jointly assessed	€26,538	
Saving due, €1,890 x 6/12 = €945		0·5
Saving credited to James, €945 x 28,070/28,428 = €933		0·5
Saving credited to Audrey, €945 x €358/28,428 = €12		0·5
		19

		Marks
<b>(c) Audrey's universal social charge (USC) for 2012</b>		
Audrey's gross income for USC purposes in 2012 was €16,042.		1·0
	€	
€10,036 x 2%	201	
€5,980 x 4%	239	
€26 x 7%	2	
Total USC	442	1·0
		2·0
		<b>25</b>

**Tutorial note:** Audrey's employer would have deducted USC from her PAYE income.

## 2 (a) Ambucall Ltd

### (i) Case I adjusted income – year ended 31 December 2012

	€	€	
Profit before tax		154,200	0·5
<i>Addbacks:</i>			
Depreciation	193,000		0·5
Repairs and maintenance	30,000		1·0
Motor and travel	15,000		0·5
Rates, light and heat	22,000		0·5
Interest paid	2,000		0·5
Salaries and wages (pension payment)	(20,000)		1·0
Legal fees	4,000	246,000	0·5
		400,200	
<i>Deductions:</i>			
Other income	155,000		0·5
Profit on disposal of fixed assets	18,200		0·5
Capital allowances (working)	122,932	(296,132)	W
Case I adjusted income		104,068	

#### WORKING: Capital allowances

	Equipment	Computers	Motor vehicles	Ambulances	
	€	€	€	€	
Cost 1 January 2012	100,000	30,000	36,000	800,000	0·5
Additions at cost	60,000	40,000	12,000	–	1·0
Disposals	0	0	(24,000)	(80,000)	1·0
Totals	160,000	70,000	24,000	720,000	
Wear and tear 12·5%	20,000	8,750	3,000	90,000	1·0

Total of wear and tear allowances = €121,750

#### Disposal of ambulance

	€	
Cost in July 2009	80,000	0·5
Wear and tear at 12·5% for three years	(30,000)	0·5
Tax written down value	50,000	
Sales proceeds (€12,000 + €42,000)	54,000	0·5
Less tax written down value	(50,000)	0·5
Balancing charge	(4,000)	

		Marks
<b>Disposal of motor vehicle</b>		
	€	
Deemed cost in May 2009	24,000	1·0
Wear and tear at 12·5% for three years	(9,000)	0·5
Tax written down value	<u>15,000</u>	
Sales proceeds, adjusted, €9,000 x €24,000/€22,000	9,818	1·0
Less tax written down value	<u>(15,000)</u>	0·5
Balancing allowance	<u>5,182</u>	
Total of capital allowance claim for the year (€121,750 – 4,000 + 5,182) = €122,932		0·5
		<u>15</u>

**(ii) Corporation tax liability 2012**

	€	
Case I adjusted income (ex part (a))	104,068	0·5
Case V rental income (working)	102,000	W
Case III, UK dividends	<u>10,000</u>	0·5
Total income	<u>216,068</u>	
<b>Corporation tax</b>		
€114,068 at 12·5%	14,259	1·0
€102,000 at 25%	<u>25,500</u>	0·5
	<u>39,759</u>	

**Working: Rental income**

	€	
Rent (six months)	45,000	0·5
Lease premium €100,000 x (51 – 15)/50	<u>72,000</u>	1·0
	<u>117,000</u>	
Less expenses		
Rates (six months)	(11,000)	0·5
Legal fees	<u>(4,000)</u>	0·5
Net rental income	<u>102,000</u>	<u>5·0</u>

**(b) AMX Ltd**

**Tax payable for the three accounting periods ending 31 December**

	Six months to 31 December 2010	Year to 31 December 2011	Year to 31 December 2012	
	€	€	€	
Case I income	400,000	0	250,000	0·5
S396(A)	(400,000)			1·0
Case III	20,000	48,000	50,000	0·5
Case V income	30,000	65,000	60,000	0·5
Case V capital allowances	<u>(16,000)</u>	<u>(20,000)</u>	<u>(60,000)</u>	1·0
Total profits	<u>34,000</u>	<u>93,000</u>	<u>300,000</u>	
S308	–	–	(60,000)	W2
Taxable	34,000	93,000	240,000	0·5
Tax due:				
at 12·5%			30,000	0·5
at 25%	<u>8,500</u>	<u>23,250</u>	<u>0</u>	0·5
Total tax	8,500	23,250	30,000	
S396(B)	<u>(1,750)</u>	<u>(23,250)</u>	<u>0</u>	1·0
Net tax due	<u>6,750</u>	<u>0</u>	<u>30,000</u>	

## Workings:

## 1. Trade loss incurred in year to 31 December 2011

	€	
Loss	(600,000)	0·5
S396A period to 31 December 2010	400,000	0·5
Loss remaining to be used on a value basis for 2010/11	<u>200,000</u>	
Loss value	25,000	
S396B year to 31 December 2011	(23,250)	0·5
S396B period to 31 December 2010	(1,750)	0·5
Trade loss unused	Nil	

## 2. Excess Case V capital allowances for 2012 (S308)

Section 308 reduces all profits, it reduces profits taxed at the highest rate first. In this instance this is Case III income of €50,000, the balance of €10,000 of excess capital allowances is then set off against Case I trading income of €250,000.	1·0
	1·0
	<u>10</u>
	<b>30</b>

## 3 (a) Shane and Laura

## 1. Share disposal

Date		Number of shares	Cost	Enhancement expenditure	
			€	€	
May 2001	Purchase	1,000	5,800		0·5
June 2005	Bonus issue 1:5	200			0·5
May 2009	Rights issue 1:4	300		1,800	1·0
		<u>1,500</u>	<u>5,800</u>	<u>1,800</u>	
April 2012		(1,200)	(4,640)	(1,440)	1·0
			€	€	
Sales proceeds, 1,200 at €5·75				6,900	0·5
Less cost	€4,640 x 1·087		5,044		1·0
	€1,440 x 1·0		<u>1,440</u>	<u>(6,484)</u>	0·5
Gain				<u>416</u>	

## 2. Holiday home

			€	
Sales proceeds			220,000	0·5
Less disposal costs			(5,000)	0·5
Less market value at date of inheritance	150,000			1·0
Index factor 98/99	1·212		<u>(181,800)</u>	0·5
			33,200	
Less PPR exemption, 8·5/14			<u>(20,157)</u>	0·5
Gain			<u>13,043</u>	
Period of ownership 14 years				0·5
Period of occupation as PPR 7·5 years				0·5
Deemed occupation, last 12 months				0·5

		<b>Marks</b>
3.	Land	
	€	
	Sales proceeds	20,000
	Less cost (part disposal)	
	€76,000 x €20,000/€20,000 + €35,000	(27,636)
	Loss on disposal	<u>(7,636)</u>
	No indexation as a monetary loss.	0·5
4.	The jeep is a wasting asset used in the business and, therefore it is a chargeable asset for capital gains tax purposes. The loss on the disposal of the jeep is relieved through wear and tear and balancing allowance. No further relief is given.	0·5
		<u>1·0</u>
		<u>14</u>

**(b) Capital gains tax**

**Summary of gains/losses in the period 1 January to 30 November 2012**

	€	
Share disposal	416	
Holiday home disposal	13,043	
Two acres of land	(7,636)	
Jeep	<u>0</u>	
Total gains	5,823	0·5
Losses forward	(2,000)	0·5
Less annual exemption	<u>(1,270)</u>	1·0
Taxable	<u>2,553</u>	
Capital gains tax at 30%	<u>€766</u>	0·5
Tax payable date:	15 December 2012	0·5
Capital gains tax return filing date:	31 October 2013	<u>1·0</u>
		<u>4·0</u>

**Tutorial note:** Only one annual exemption is available to the couple as Laura does not incur a capital gains tax gain during the year.

**(c) The following assets are exempt from capital gains tax (the list is not exhaustive):**

Wasting assets not used in a business	
Small chattels where the sales proceeds are less than €2,540	
Disposals by charities where the proceeds are re-invested in further charity assets	
Irish government stock	
Prize bond and lottery winnings	
Compensation for damages	
FOUR items only required – 0·5 marks each, maximum	2·0
	<u>20</u>

- 4 (a) (i)** A contract of service is held by an employee  
and a contract for services is held by a self-employed person. 1·0  
1·0  
2·0
- (ii) Factors used to distinguish the type of contract**
- Terms of the contract:** If the contract terms give the individual rights to sick pay, holiday pay, pension or other benefits, it is more likely to be a contract of service. 1·5
- Degree of financial risk undertaken by the individual:** Where a person provides their own capital and undertakes responsibility for running the business, this would indicate a self-employed person under a contract for services. 1·5
- Opportunity to benefit from sound management:** Where the individual can benefit financially from good business management, this would indicate a contract for services. 1·5

**Marks**

**Provision of equipment required to carry out the work:** Where an individual does not provide their own equipment, they are more likely to be considered an employee under a contract of service.

1.5

**Making decisions on when and who will carry out the work:** Where an individual does not have the freedom to decide when they will carry out their work or if they are unable to substitute their own labour to carry out the work, this would indicate a contract of service.

1.5

**Degree of integration into the organisation:** Considering the role played by the person in the organisation, the more the individual is integrated into the organisation, the more likely they are to be considered to be an employee and, thus, for it to be a contract of service.

1.5

9.0

**(b) Revenue assurance checks**

Assurance checks are direct interventions by Revenue officers which, although not audits, may involve checks and challenges by the Revenue with the taxpayer or agent to test a compliance issue. Such checks are generally risk-based. The contact can be by telephone, secure email, letter, or in person. These checks do not restrict a taxpayer's right to make a qualifying disclosure.

0.5

0.5

0.5

0.5

Assurance checks include:

- Requests for invoices to support VAT repayment claims.
- Requests for supporting documentation for various reliefs.
- Requests for information and explanations.

1.0

Assurance checks are frequently based on some apparent discrepancy in the data held by the Revenue on a particular taxpayer's record. They can also result from Revenue guidelines on checking claims for repayment or reliefs. An increasing use of assurance checks by the Revenue aims to clear up an issue in the record without the expense and inconvenience of a full audit.

0.5

0.5

4.0

15

**5 (a) Gerard – Value added tax (VAT) payable for the period September/October 2012**

Sales/Output VAT	Rate	VAT exclusive amount €	VAT €	
Sales of motor parts	23%	8,130	1,870	0.5
Repairs to motor vehicles	13.5%	52,863	7,137	0.5
Purchase of spare parts in the UK	23%	1,600	368	1.0
Total VAT on outputs			<u>9,375</u>	
<b>Purchases/Input VAT</b>				
Purchase of spare parts, Irish	23%	2,400	552	0.5
Purchase of spare parts, UK	23%	1,600	368	1.0
Diesel	23%	1,200	276	0.5
Petrol	23%	400	0	0.5
Wages	N/A	–	–	0.5
New computer	23%	80% of 1,000	184	1.0
Shelving	23%	2,200	0	1.0
Total VAT on inputs			<u>1,380</u>	
Net VAT due			<u>7,995</u>	
				<u>7.0</u>

**Tutorial notes:**

1. Where goods are purchased by a VAT registered business in Ireland from a VAT registered supplier elsewhere in the EU, the supplier will charge VAT at 0%, and the Irish business must then self-account for VAT.
2. VAT on petrol is not a deductible expense.
3. VAT can only be reclaimed on the business use of the computer.
4. VAT on the shelving is not deductible until the next VAT period as the invoice is dated 2 November 2012.

**(b)** A taxable supply of goods is not deemed to take place where:

- gifts are given to customers and their value is €20 or less;
- advertising goods and industrial samples, regardless of value, are supplied in special sample packaging;
- goods are exchanged in security of a debt; and
- gift vouchers are sold at face value, to a consumer.

Any THREE required – 1 mark each, maximum

3·0

**10**