Fundamentals Level – Skills Module

Taxation (Irish)

Tuesday 3 December 2013

Paper F6 (IRL)

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.

The Association of Chartered Certified Accountants

ACCA

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 Act 2012 and are to be used for all questions in this paper.

Income tax rates

	Tax €
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 person's/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 €	Maximum credit €
– single aged under 55	1,200	240
– married/widowed/in a civil partnership/survivor of a civil partnership aged under 55	2,400	480
– single aged 55 and over	2,400	480
– married/widowed/in a civil partnership/survivor of a civil partnership aged 55 and over	4,800	960

Note: The rent allowance credit is only available to individuals who were tenants and eligible for the relief on 7 December 2010.

Third level tuition fees	Upper limit €7,000
Full-time qualifying course	First €2,250 is ignored
Part-time qualifying course	First €1,125 is ignored

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.

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

Rates of PRSI
Employee – Class A1

PRSI

Rate 4%

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

Rates of PRSI
Employer (for employees – Class A1)

PRSI

Rate 10·75%

Universal social charge (USC) 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 USC rate excluding the 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 €10,036 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 annual 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 less the present value of a current/future entitlement to a pension lump sum).

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

Where: A = Annual average salary over the last three years of employment
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	23%
Lower rate	13·5%
Additional lower rate from 1 July 2011	9%

Capital gains tax

Rate	30%
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 27 January 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, if first in use by 1 February 2007
	From 1 August 2006	15% for six years and 10% in year seven	15 years, if first in use after 1 February 2007
Childcare facilities	From 2 December 1998 to 31 July 2006	15% for six years and 10% in year seven	10 years, if first in use by 1 February 2007
	From 1 August 2006	15% for six years and 10% in year seven	15 years, if first in use after 1 February 2007

Motor cars – limits on capital costs

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/leasing charges are based on the specified amount of €24,000 regardless of the cost of the car.

Category D/E vehicles – capital allowances/leasing charges 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/leasing charges.

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

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 James (28) married Audrey (24) on 19 July 2012.

James's employment income

James is the marketing manager with a hotel and details of his employment package in 2012 are as follows:

	€
Gross salary	110,000
Round sum expenses	5,000
Private medical insurance, gross	1,000

PAYE of €29,000 was deducted from James's salary in 2012.

On 1 July 2012, James was given a loan of €30,000 by his employer; the interest rate charged was 2%. James used the loan towards the purchase of a new home. James purchased his house on 1 July 2012 and lived there from that date.

James is provided with a company car; the car had been purchased new by his employer, in May 2010, for €40,000. James has used the car since its date of purchase. The car is a category D car and its current market value is €30,000. James drives 26,000 business kilometres per year.

James's other income

James's only other income in 2012 was €4,800 (net) deposit interest, received from an Irish financial institution.

James's outgoings

James and his two sisters pay equally for nursing home care for their mother, aged 72. The total cost of the nursing home fees for the year 2012 was €45,000.

James's employer does not have an occupational pension scheme. James joined a private pension scheme in 2012 and made contributions during the year of €23,000. However, James feels that he will not be able to make such large contributions in future years.

Audrey's business income

Audrey completed a photography course in June 2012 and on 1 August 2012, she set up her own business. Her first accounts for the year to 31 July 2013 show the following:

	Notes	€	€
Turnover			24,000
Less expenses			
Motor and travel	(1)	6,000	
Equipment	(2)	4,000	
Drawings		12,000	(22,000)
Net profit per accounts			2,000

Notes:

(1) Audrey has agreed with the Revenue that 50% of all the motor and travel expenses incurred are business related. In carrying out her work Audrey uses a Jeep (category F) that she bought second-hand in July 2012, for €7,000.

(2) The expenditure on equipment was incurred on the purchase of cameras and lenses.

Audrey's other income

For 2012 Audrey's other income comprised:

- Irish dividends (net) of €1,200; and
- PAYE income of €6,000 for part-time work undertaken, from which PAYE of €1,000 was deducted.

Required:

(a) (i) Compute Audrey's Schedule D Case II income for 2012. (3 marks)

(ii) Compute Audrey's trade capital allowances for 2012. (1 mark)

(b) Compute the income tax payable or refund due to James and Audrey for the tax year 2012, on the basis that they will avail of year of marriage relief.

Note: You are not required to calculate the tax credit on interest paid on the home mortgage. (19 marks)

(c) Compute Audrey's universal social charge (USC) liability for 2012. (2 marks)

(25 marks)

2 **(a)** Ambucall Ltd is an Irish incorporated and resident company. The company provides private ambulance services and is approved by all the major private health insurance companies and statutory bodies.

The company's statement of profit or loss for the year ended 31 December 2012 shows the following:

	Notes	€	€
Turnover			1,190,000
Less expenses			
Depreciation		193,000	
Repairs and maintenance	(1)	70,000	
Motor and travel	(2)	175,000	
Rates, light and heat	(3)	85,000	
Interest paid	(4)	36,000	
Salaries and wages	(5)	600,000	
Legal and professional fees	(6)	50,000	(1,209,000)
			(19,000)
Other income	(7)		155,000
Profit on disposal of fixed assets			18,200
Net profit			154,200

Notes:

(1) Repairs and maintenance comprise:

	€
Rewiring of office	18,000
Replacing a flat roof on one of the garages with a pitched roof of superior quality	30,000
Resurfacing of car park to repair pot holes	22,000
	70,000

(2) Motor and travel comprise:

	€
Payments to staff for using own cars for work purposes	20,000
Running expenses of vehicles owned by the company	130,000
Conference costs for staff and directors	10,000
Entertainment of potential customers at sporting events	15,000
	175,000

(3) Rates, light and heat:

During the year the business paid annual rates of €22,000 for a premises which they had ceased to use in 2009. The premises had been advertised for rent from that time but was only rented for the first time from 1 July 2012. (See also note (7))

(4) Interest paid comprises:

	€
Interest on bank overdraft	14,000
Interest on a loan used to purchase non-current assets	20,000
Interest on late payment of PAYE	2,000
	36,000

(5) Salaries and wages comprise:

	€
Director's salary	110,000
Staff pension fund	150,000
Other wages and salaries	340,000
	600,000

Accrued pension contributions due at 1 January 2012 were €40,000; at 31 December 2012 this figure had fallen to €20,000.

(6) Legal and professional fees comprise:

	€
Audit fees	30,000
Legal fees	20,000
	50,000

Legal fees of €4,000 relate to the lease for the renting of the premises referred to in note (3).

(7) Other income comprises:

	€
Rental income from letting of the premises, referred to in note (3) The annual rent is €90,000, a 15-year lease agreement has been put in place and a lease premium of €100,000 was received.	145,000
Dividends received from a 1% shareholding in a UK company.	10,000
	155,000

Other information relating to fixed assets:

The company's fixed assets at 1 January 2012 were as follows:

	Equipment	Computers	Motor vehicles	Ambulances
	€	€	€	€
Cost	100,000	30,000	36,000	800,000
Tax written down value	62,500	25,000	27,000	125,000

Additions during the year were:

- Equipment and computers at a cost of €60,000 and €40,000, respectively.
- A car for one of the company's directors. This category D car cost €35,000 and the director uses the car 20% for business.

Disposals during the year were:

- An ambulance was disposed of following a crash. The ambulance had cost €80,000 when it was purchased in July 2009; the ambulance was sold for €12,000 and the insurers paid compensation of €42,000.
- A category B car, which had been purchased in May 2009 for €22,000, was sold for €9,000.

Required:

(i) Compute the Case I adjusted income of Ambucall Ltd for the year ended 31 December 2012. (15 marks)

(ii) Compute the total income and the corporation tax liability of Ambucall Ltd for 2012. (5 marks)

(b) AMX Ltd commenced to trade on 1 July 2010. Details of the company's income in each of its first three accounting periods is as follows:

	Six months to 31 December 2010	Year to 31 December 2011	Year to 31 December 2012
	€	€	€
Case I income/(loss)	400,000	(600,000)	250,000
Case III, foreign deposit interest income	20,000	48,000	50,000
Case V income	30,000	65,000	60,000
Case V capital allowances	16,000	20,000	120,000

Required:

Compute the tax payable, by AMX Ltd, for each of the three accounting periods ending 31 December, claiming any reliefs as early as possible.

Note: You MUST clearly identify the order of the reliefs claimed. (10 marks)

(30 marks)

3 Shane and Laura have been married since 2007. They are both Irish resident, ordinarily resident and domiciled. They have purchased a number of assets over the past decade but now find that they are having difficulty in paying their loans, and during 2012 decided to dispose of some assets in an attempt to ease the financial pressure.

1. In April 2012, Shane sold 80% of his shares in an Irish plc at €5·75 per share. He had bought 1,000 shares in this company in May 2001 at €5·80 per share. In June 2005, the company made a bonus issue of one share for every five shares held. In May 2009, Shane had subscribed to a rights issue of one share for every four shares held at €6 per share.
2. On 1 July 2012, Shane sold a house he owned in Kinsale for €220,000, incurring incidental costs of disposal of €5,000. Shane had inherited the house, which was the family home, from his father, on his father's death, on 1 July 1998, at which time the house had a market value of €150,000. Shane's father had purchased the house on 1 July 1984 for €30,000. Shane had been living in the house with his father when his father died and continued to live there until 1 January 2006 when he moved to Dublin. Since then Shane has used the house as a holiday home. Shane and Laura purchased their own home jointly in June 2007.
3. In August 2012, Shane sold two acres from a five acre parcel of land which he had bought in July 2001. He had bought the plot for €70,000, paying stamp duty of €6,000 on the purchase. The sale proceeds of the two acres were €20,000 and the remaining three acres had a market value of €35,000. The land was zoned as agricultural, and due to the location of the land, there was no possibility of re-zoning.
4. In September 2012, Laura sold a Jeep type van for €10,000, which she had used in her business. The tax written down value of the jeep at 1 January 2012 was €8,250. The jeep had been bought new in July 2006 for €22,000, and it was used 80% for work purposes.

Shane and Laura are jointly assessed for capital gains tax. Shane has non-development losses brought forward from 2011 of €2,000.

Required:

(a) Compute the chargeable gains/losses incurred by Shane and Laura on the four transactions above. If no gain or loss arises, explain why this is the case. (14 marks)

(b) Compute the capital gains tax payable and state the due date for payment of the tax and the return filing date. (4 marks)

(c) List ANY FOUR assets which are completely exempt from capital gains tax. (2 marks)

(20 marks)

4 (a) (i) Distinguish between the terms 'contract of service' and 'contract for services'. (2 marks)

(ii) Identify and briefly explain SIX factors used in determining which type of contract exists. (9 marks)

(b) Explain what is meant by a revenue assurance check and the circumstances in which such a check is likely to arise. (4 marks)

(15 marks)

5 Gerard carries on a garage repair and sale of motor parts business. He accounts for value added tax (VAT) on a cash receipt basis. Details of his turnover and purchases for the period September/October 2012 are detailed below:

	Note	€
Turnover (inclusive of VAT), all Irish sales		
Sales of motor parts (23%)		10,000
Repairs to motor vehicles (13·5%)		60,000
Outgoings (exclusive of VAT)		
Purchase of spare parts	1	4,000
Fuel costs	2	1,600
Wages		30,000
New computer and printer	3	1,000
New shelving for store room	4	2,200

Notes:

1. 40% of the spare parts purchased were bought in the UK, from a UK VAT registered supplier; the remaining 60% were all bought from Irish suppliers.
2. Fuel costs for the garage's diesel tow trucks were €1,200; the remaining €400 was in respect of petrol for staff cars.
3. The new computer and printer will be used 80% for business purposes and 20% by Gerard's son, who is pursuing a business degree.
4. The payment for the shelving was made on 26 October 2012, but the shelving was not delivered until 2 November 2012 and the invoice is also dated 2 November 2012.

Required:

(a) Compute the value added tax (VAT) payable by Gerard for the period September/October 2012. (7 marks)

(b) Identify ANY THREE circumstances in which a supply of goods is deemed NOT to be a taxable supply. (3 marks)

(10 marks)

End of Question Paper