

Fundamentals Level – Skills Module

Taxation (Irish)

Thursday 8 December 2016



Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

Tax rates and allowances are on pages 2–7.

Do NOT open this question paper until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

This question paper must not be removed from the examination hall.

Paper F6 (IRL)

Think Ahead

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 in Section B.

TAX REFERENCE MATERIAL

The following rates, credits, formulae and allowances are based on the Finance Act 2014 and are to be used for all questions in this paper.

Income tax rates	
	Tax €
Single/widow(er)/surviving civil partner without qualifying children	
€33,800 at 20%	6,760
Balance at 40%	
Married or in a civil partnership (one income)	
€42,800 at 20%	8,560
Balance at 40%	
Married or in a civil partnership (dual income)	
€42,800 at 20%	8,560
€24,800 at 20%	4,960
Balance at 40%	
Single/widow(er)/surviving civil partner qualifying for single person child carer credit	
€37,800 at 20%	7,560
Balance at 40%	

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 person child carer credit	1,650
Incapacitated child credit	3,300
Dependent relative credit	70
Age credit – single/widowed/surviving civil partner	245
– married or in a civil partnership	490
Employee/PAYE credit	1,650
Rent allowance credit	

Rent limit

	€	
– single aged under 55	600	120
– married/widowed/in a civil partnership/survivor of a civil partnership aged under 55	1,200	240
– single aged 55 and over	1,200	240
– married/widowed/in a civil partnership/survivor of a civil partnership aged 55 and over	2,400	480

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 courses	First €3,000 is ignored
Part-time qualifying courses	First €1,500 is ignored

Rates of PRSI Self-employed – Class S

Rate	4%
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Where income is above €5,000, the rate is 4% of reckonable earnings or €500, whichever is greater.

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

Rates of PRSI Employee – Class A1

Rate	4%
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No PRSI on earnings of €352 or less per week.

Employee – Class K

Rate	4%
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**Rates of PRSI
Employer (for employees – Class A1)**

Rate	10.75%
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Universal social charge (USC) for all taxpayers

On the first €12,012	1.5%
On the next €5,564	3.5%
On the next €52,468	7%
On the balance	8%

For individuals, a surcharge of 3% applies in respect of relevant (non-PAYE) income that exceeds €100,000 per annum, regardless of age.

For individuals aged 70 and over, and individuals who hold a medical card regardless of age, if aggregate income for the year is €60,000 or less, the maximum rate is 3.5%.

Exemptions:

- Individuals whose income does not exceed €12,012 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 net relevant 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): $(A \times B/15) - C$

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	9%

Capital gains tax (CGT)

Rate	33%
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

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	4%
All other loans	13·5%

Local property tax**Tax bands for valuation purposes**

€
0–100,000
100,001–150,000
150,001–200,000
200,001–250,000
250,001–300,000
300,001–350,000
350,001–400,000
400,001–450,000
450,001–500,000
500,001–550,000
550,001–600,000
600,001–650,000
650,001–700,000
700,001–750,000
750,001–800,000
800,001–850,000
850,001–900,000
900,001–950,000
950,001–1,000,000

Properties worth up to and including a value of €1 million will be assessed at a rate of 0·18%.

Properties worth more than €1 million will be assessed on their actual value at 0·18% on the first €1 million and at 0·25% of their actual value on the portion above €1 million.

Indexation factors for capital gains tax

Year expenditure incurred	Multipliers for disposals in the year ending 31 December 2004 <i>et seq</i>
<i>1974-75</i>	7.528
<i>1975-76</i>	6.080
<i>1976-77</i>	5.238
<i>1977-78</i>	4.490
<i>1978-79</i>	4.148
<i>1979-80</i>	3.742
<i>1980-81</i>	3.240
<i>1981-82</i>	2.678
<i>1982-83</i>	2.253
<i>1983-84</i>	2.003
<i>1984-85</i>	1.819
<i>1985-86</i>	1.713
<i>1986-87</i>	1.637
<i>1987-88</i>	1.583
<i>1988-89</i>	1.553
<i>1989-90</i>	1.503
<i>1990-91</i>	1.442
<i>1991-92</i>	1.406
<i>1992-93</i>	1.356
<i>1993-94</i>	1.331
<i>1994-95</i>	1.309
<i>1995-96</i>	1.277
<i>1996-97</i>	1.251
<i>1997-98</i>	1.232
<i>1998-99</i>	1.212
<i>1999-2000</i>	1.193
<i>2000-2001</i>	1.144
<i>2001</i>	1.087
<i>2002</i>	1.049
<i>2003 et seq</i>	1.000

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1** Chris is a sole trader, who sells electrical goods from his shop in Galway. Details of all of Chris's purchases and sales for September/October 2015 are given below. All amounts are exclusive of any applicable value added tax (VAT).

	Note	€
Sales	(1)	
Goods sold to Irish customers		190,000
Deposits received from Irish customers	(2)	15,000
Goods sold to UK customers (all VAT registered)		30,000
Purchases		
Goods purchased for resale from:		
(a) Irish suppliers		90,000
(b) German supplier		40,000
(c) American (US) supplier		29,000
Diesel for delivery van		800
Decorating bill from painter	(3)	3,000
Catering at a customer open evening event		1,500

Notes:

- (1) All of Chris's sales subject to Irish VAT are chargeable at the standard rate.
- (2) Chris received a deposit from a customer who ordered specialised kitchen equipment for his restaurant. Chris has ordered the equipment but has not yet received it from the supplier.
- (3) The painter is VAT registered but did not show a VAT registration number on this invoice.

Additional information:

Chris took goods with a cost of €5,000 out of inventory for his own use. These goods had been purchased four months previously and had been intended for resale. Had the goods been sold, they would have had a sales value of €8,000.

Required:

- (a) Compute the value added tax (VAT) payable by/refundable to Chris for September/October 2015.** (8 marks)
- (b)** Chris has received his first sales enquiry from a non-VAT registered UK customer. Chris needs to prepare a sales quotation for the supply of electrical goods. The total sales value is expected to be around €10,000.

Required:

State, giving reasons, whether Chris will be required to charge VAT on the supply of the electrical goods to the UK customer. (2 marks)

(10 marks)

- 2 Dan is married and jointly assessed with his wife, Elaine. Dan is a chef and works for a large hotel in Dundalk, Ireland. Dan also has an interest in vintage cars and carries on a car hire trade, renting out cars to customers for special events such as weddings. Dan spends approximately eight hours per week on his vintage car hire business.

Elaine owns and operates a ladies' fashion boutique on a full-time basis.

The following information relates to the couple's income for the tax years 2015 and 2016:

	2015	2016 (estimated)
	€	€
Salary – Dan	35,000	54,000
Case I (loss)/profit – Dan	(70,000)	8,000
Case I profit – Elaine	25,000	24,000

Dan and Elaine wish to avail of loss relief as early as possible.

Required:

- (a) **Compute Dan and Elaine's taxable income for the tax years 2015 and 2016, and the amount of the loss carried forward (if any) at 31 December 2016.** (5 marks)
- (b) Dan also owns an Irish rental property from which he receives rental income which he has never declared to the Revenue.

Required:

Advise Dan on the best course of action for him to take to remedy this situation and the benefits of taking such action. (5 marks)

(10 marks)

- 3 Sam (aged 50) has operated his own retail business in Wexford as a sole trader since May 1998. Sam has decided to emigrate to Spain and on 1 September 2015 sold all of his business assets. An extract from Sam's statement of financial position as at 1 September 2015 showed the following assets:

	Note	€
Business premises (at cost)	(1)	300,000
Motor car (net book value)	(2)	17,000
Inventory		60,000

The purchaser of Sam's business assets paid the following sums, which reflected the market value of the business assets on 1 September 2015:

	€
Business premises	360,000
Motor car	16,000
Goodwill	40,000
Inventory	55,000

Notes:

- (1) The business premises were purchased on 1 May 1998 for €300,000. In May 2002, Sam had built a bicycle shelter at the rear of the premises at a cost of €13,000. The shelter was used by staff and customers. However, in January 2009, the shelter was destroyed in a storm. Sam did not carry out any repairs to the shelter.
- (2) Sam had acquired the category D motor car in February 2014 for €20,000. The motor car is used 80% for business purposes.

In addition to the above, Sam carried out the following transactions during the year 2015:

- In June 2015, Sam sold Irish Government securities, which he had bought in May 2010 for €6,000, for proceeds of €10,000.
- On 1 July 2015, Sam gifted a rare book collection to his niece Sarah on her wedding day. The collection had been purchased by Sam's grandfather in 1960 for €600. Sam inherited the collection in May 1973 when its market value was €2,950. The market value of the collection at 6 April 1974 was €3,000 and on 1 July 2015 it was €30,000.

Required:

- (a) **Compute the gains or losses for the purposes of capital gains tax incurred by Sam on the disposal of each of the above assets in 2015. Give a brief relevant explanation in the case of any disposal which does not give rise to such capital gain or a capital loss.** (8 marks)
- (b) **Define the term *specified Irish asset*, giving TWO examples of such assets.** (2 marks)

(10 marks)

- 4 Webix Ltd is an Irish incorporated and resident company. The company's recent results are summarised as follows:

	Year ended 31 March 2015 (12 months) €	Period ended 31 December 2015 (9 months) €	Year ending 31 December 2016 (12 months – forecast) €
Case I profit/(loss)	15,000	(160,000)	10,000
Case V income	18,000	25,000	50,000
Chargeable gain (adjusted)	0	10,000	0

Required:

- (a) Compute the corporation tax payable by Webix Ltd for each of the three accounting periods, clearly identifying the nature and amount of any loss carried forward.

Note: You are required to prepare a loss memorandum.

(8 marks)

- (b) Explain the impact on the amount of loss relief which can be claimed for the period ended 31 December 2015 only, if the corporation tax return for that period was not filed until 31 October 2016 and calculate the adjusted loss relief amount.

(2 marks)

(10 marks)

- 5 Sonia (aged 49) is a widow whose husband died in 2012. She has two dependent children, John aged 16 and Kate aged 14.

Sonia is employed full time as a marketing manager for a large company. She earns an annual salary of €50,000, from which PAYE of €6,000 was deducted in the tax year 2015.

Sonia carries out some of her duties from home and her employer pays her annual home internet connection bill of €300. 25% of Sonia's internet usage is work related.

Sonia drives her own motor car for work purposes and is reimbursed for travel expenses at the civil service rates. The total reimbursement in the tax year 2015 was €6,000.

Sonia bought her motor car new in 2011 for €25,000. The motor car is a category B car and she drives it 20% of the time for work related purposes. The current market value of the motor car is €15,000.

In July 2015, Sonia won €100,000 in a national competition.

During 2015, Sonia also received rent of €10,500 (gross) from a residential property which she owns in Dublin. The property has been rented by the same tenant since June 2013 and is registered with the Private Rental Tenancies Board (PRTB).

The expenses associated with the property in the year 2015 are as follows:

	€
Loan interest	8,000
Local property tax	675
New alarm system	800

Sonia also earned interest income of €1,100 (net) on an Irish bank deposit account in 2015.

Outgoings:

Sonia is undertaking a part-time third level qualifying course. The annual fees paid by Sonia in 2015 were €2,300.

Sonia decided to invest €40,000 of her competition winnings in a Revenue approved pension scheme.

Sonia hired a builder to carry out a complete renovation of her kitchen. She paid the builder the following amounts:

Year	Net amount	Value added tax (VAT)	Gross amount
2014	€10,000	€1,350	€11,350
2015	€6,000	€810	€6,810

All the conditions relating to the home renovation incentive (HRI) scheme have been satisfied.

Required:

Prepare Sonia's income tax computation for the tax year 2015, and show the balance of income tax payable or refundable.

(15 marks)

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Question 6 begins on page 18.**

- 6 Alfor Ltd is an Irish resident company. For the year ended 31 December 2015, the company recorded a trading profit of €141,000 after deducting the following expenses:

	Note	€
Interest expense	(1)	9,000
Depreciation		45,000
Computer software – accounting program		12,000
Entertaining potential clients		8,000
Staff entertainment		10,000
Legal fees incurred on defending a legal claim made by a customer for an injury sustained by them in Alfor Ltd's customer car park		8,500
Employer's pension contributions, of which 20% remained outstanding at the year end		30,000
Donations to two political parties of €2,500 each; the donations are in compliance with the Standards in Public Office Commission guidelines		5,000
Donations to four qualifying charities of €1,000 each		4,000
Lease interest on plant and equipment	(2)	12,000
Lease payment on the financial controller's motor car	(3)	7,200

Alfor Ltd had the following other income and proceeds from asset disposals in the year ended 31 December 2015:

	Note	€
Dividend income	(4)	13,000
Sale proceeds on disposal of site, net of selling costs	(5)	194,200

Notes:

- (1) The interest expense comprises the following:

	€
Interest on a loan to purchase shares in an Irish trading company Alfor Ltd owns 8% of the company's ordinary share capital and a director of Alfor Ltd is also a director of this company.	5,000
Interest on a loan to purchase non-current (fixed) assets	4,000
	<u>9,000</u>

- (2) The total lease payments (including interest) made during the year were €18,000.
- (3) The financial controller's motor car was leased new in 2014. The motor car is a category D car and would have cost €42,000 if purchased outright.
- (4) The dividend income comprises the following:

	€
Dividend from an Irish trading company	7,000
Dividend from a UK trading company	6,000
	<u>13,000</u>

- (5) During the year, Alfor Ltd disposed of a site for net sale proceeds of €194,200, which it had purchased in July 2010; Alfor Ltd had intended to build a factory on the site but its plans changed in 2015. The site had cost €54,000, which includes stamp duty and legal costs on acquisition. Expenditure on access roads and pipe laying was incurred on the site in 2013 at a cost of €23,000.

Alfor Ltd's capital allowances for the year ended 31 December 2015, other than in respect of any of the items referred to above, have been calculated as €40,000.

Required:

- (a) **Compute the corporation tax and capital gains tax payable, if any, by Alfor Ltd in respect of the year ended 31 December 2015.**

Note: You should start your computation with the trading profit figure of €141,000 and list all of the items referred to in the question, indicating by the use of zero (0) any item which does not require adjustment.

(14 marks)

- (b) **State the relevant corporation tax return filing due date for Alfor Ltd for the year ended 31 December 2015.**

(1 mark)

(15 marks)

End of Question Paper