Answers

Section B *Marks*

1 Comfort Line Ltd – Value added tax (VAT) computation for July/August 2016

VAT on sales	Tour sales Exempt €	Courier 23% €	Food 23% €	Food 9% €	Food 0% €	Total VAT €	Marks
Sales including VAT where applicable	212,625	22,500	7,000	36,000	2,000		
Sales excluding VAT	212,625	18,293	5,691	33,028	2,000		2·5
Total VAT on sales	0	4,207	1,309	2,972	0	8,488	0·5

VAT on purchases	€	VAT rate	VAT €	Marks
Food and drink at standard rate	3,000	23%	690	0·5
Food and drink at zero rate	7,000	0%	0	0·5
Diesel:				
Tour buses (exempt supply)	0	–	0	1·0
Delivery vans (€56,000 x 20%)	11,200	23%	2,576	1·0
Maintenance and repairs of delivery vans	1,600	13·5%	216	1·0
Website development costs (€13,000 x 22% (W))	2,860	23%	658	1·0
Customer entertainment (blocked)	0		0	0·5
Total VAT on purchases			4,140	
Net VAT payable			4,348	0·5

Working:

	€
Exempt sales	212,625
Non-exempt sales	59,012
Total sales	271,637

Non-exempt sales as a percentage of total sales: 22% 1·0

Allow 22% on the VAT incurred on the website development cost as an input credit.

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2 Lauren – Chargeable gains for the tax year 2016

(1) House (PPR)

	€	€	€	Marks
Sales proceeds			400,000	0·5
Less selling and legal costs			(10,000)	0·5
			390,000	
CUV at date of inheritance	85,000			0·5
Indexation factor	1·232	104,720		0·5
Development value at date of inheritance		25,000	(129,720)	1·0
Gain on disposal of house without PPR relief			260,280	
Exempt gain (working)			(172,555)	W
Taxable gain			87,725	

Working:

	€	Marks
Sales proceeds on house (PPR)	300,000	0·5
Less selling and legal costs (€10,000 x €300,000/€400,000)	(7,500)	1·0
	292,500	
Indexed CUV at date of inheritance (as above)	(104,720)	0·5
Gain on the house as a PPR	187,780	
Exempt gain €187,780 x 204/222 months	172,555	1·5

PPR relief periods:

Total period of ownership: 1 January 1998 to 30 June 2016, 18 years and 6 months.

Period of absence due to working elsewhere in Ireland: 1 July 2004 to 31 December 2009, 5 years and 6 months.

Absence not allowed as occupied for PPR relief purposes: 1 year and 6 months.

(2) Antique table and chairs

	€	
Sales proceeds	3,800	
Less cost	(5,000)	
Loss	(1,200)	0·5

(3) Half acre of land (part disposal)

	€	
Sales proceeds	60,000	
€150,000 x (€60,000)/(€60,000 + €140,000)	(45,000)	1·5
Gain	15,000	

Summary of gains

	€	
House (PPR)	87,725	
Antique table and chairs – transaction with a connected person	0	1·0
Half acre of land	15,000	
	102,725	0·5
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Tutorial note: *The loss on the gift of the antique table and chairs was incurred on a disposal to a connected person, therefore, this loss may only be used against gains incurred on transactions with the same connected person.*

Marks

3 Sean and Anne

(a) Case V rental income for the tax year 2016

	€	€	
Property 1			
Rental income (€1,200 x 6) + (€1,500 x 4)		13,200	1·0
Less expenses			
Window and door repair	350		0·5
Local property tax	0		1·0
Cleaning work in July	1,800		0·5
Advertising for new tenant	600		0·5
RTB fee	90		0·5
Wear and tear on capital expenditure (€4,000 x 12·5%)	500	(3,340)	0·5
Net rental income		9,860	
Property 2			
Rental income (€300 x 6)		1,800	0·5
Lease premium (€8,000 x (51 – 10)/50)		6,560	1·0
		8,360	
Less expenses			
Loan interest (€1,000 x 6/9)		(667)	1·0
Net rental income		7,693	
Property 3			
Rent and meals income, own home – exempt		0	1·0
Total assessable rental income for 2016		17,553	8·0

Tutorial note: *Income from Property 3 is subject to rent a room relief. The annual limit of exempt income for 2016 is €12,000.*

(b) Age exemption for income relief

An individual who is aged 65 or over, or a married couple where one of them is aged 65 or over, is entitled to complete exemption from income tax where their income is below certain limits. The limit for a single person is €18,000 and for a married couple €36,000. These limits may be increased where there are dependent children. 1·0

Where an individual or a married couple exceeds the relevant limit, they may be entitled to marginal relief. Marginal relief means that the excess over the relevant limit will be taxed at 40% where this gives a more beneficial result than using tax credits and bands. 1·0

2·0

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4 **(a)** DEFCO Ltd – Total assessable profits for accounting periods relating to the accounts to 30 September 2016

	Year ended 30 June 2015 €	Year ended 30 June 2016 €	Period ended 30 September 2016 €	1·5
Case I income	240,000	240,000	60,000	1·0
Case IV	6,000	0	7,000	1·0
Case V	0	22,500	7,500	1·0
Irish dividend income	0	0	0	0·5
Total profits	246,000	262,500	74,500	
				5·0

Marks

(b) SMALL Ltd

(i) Corporation tax payable for the year to 31 December 2016

	€	
Case I income	200,000	
Tax at 12·5%	25,000	0·5
Start-up relief (working)	(21,985)	0·5
Corporation tax payable	3,015	

Working:

Employer's PRSI paid by the company during the year:

	€	
Directors	0	0·5
Employee 1 (maximum)	5,000	0·5
Employee 2	4,085	0·5
Employees 3/4/5/6	12,900	0·5
Total specified contributions	21,985	
		3·0

Tutorial note: *Relief is capped at €5,000 PRSI per employee.*

(ii) Non-qualifying trades for start-up relief

- Where the activities of the company were previously carried on as part of another person's trade or profession.
- Where the activities are excluded due to an EU regulation on state aid, examples include: certain fishery, agricultural and transport activities.
- Where the new company carries on an activity which was previously carried on by an associated company.
- Where the new company has an annual corporation tax liability of more than €60,000.
- Where the new company has no employer's PRSI payable (as directors only).

Two items only required, 1 mark each, maximum 2·0

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Marks

5 Paul and Sheena – Income tax liabilities for the tax year 2016

		€	Paul €		Sheena €	Marks
Schedule E	Salary		50,000			0·5
Schedule F	Irish dividends (€6,000/0·8)		7,500			0·5
Schedule D	Case I				24,000	W1
	Less: capital allowances				(1,675)	W2
	Case IV					
	Maintenance (€400 x 12)				4,800	1·0
Gross income			57,500		27,125	
Less charges						
Maintenance payments			(4,800)			0·5
Less reliefs						
Investment in EIIS scheme (€6,000 x 30/40)			(4,500)		–	1·0
Taxable income			48,200		27,125	
Paul: €33,800	20%	6,760				0·5
€14,400	40%	5,760				0·5
Sheena: €27,125	20%				5,425	0·5
Gross tax			12,520		5,425	
Less non-refundable tax credits						
Single person		1,650		1,650		0·5
Earned income		550		550		1·0
Single person child carer		–		1,650		0·5
Third level fees		1,400		–		W3
Medical insurance		–		0		0·5
Medical expenses		–	(3,600)	360	(4,210)	W4
Less refundable tax credits						
DWT (€7,500 x 20%)			(1,500)		–	0·5
Net tax due			7,420		1,215	

Workings:

W1 Case 1 income 2016

		€	Marks
Actual income:			
Period to 31 March 2016	€18,000 x 3/9	6,000	1·0
Period from 1 April 2016 to 31 December 2016	€24,000 x 9/12	18,000	1·0
		24,000	

W2 Capital allowances

	Equipment €	Shelving €	Motor vehicles €	Business use 10% €	Total allowances €	Marks
Cost at 1 January 2016	8,000	3,000				0·5
Additions			24,000			0·5
Wear and tear at 12·5%	1,000	375	3,000	300	1,675	1·5

W3 Third level fees

	€	Marks
Fees for Jack (restricted to maximum)	7,000	0·5
Fees for Emily	3,000	
	10,000	
Fee disregard	(3,000)	0·5
	7,000	
Relief at 20%	1,400	0·5

			Marks
W4 Medical expenses			
		€	
Eye testing – routine, no relief available		0	
Non-routine dental care		1,800	
		1,800	0·5
Relief at 20%		360	0·5
			15

Tutorial notes:

1. *Paul qualifies for the earned income credit as he is a proprietary director.*
2. *2016 is the second year in which Sheena has Case I income. As there is not a set of accounts of 12 months ending in 2016, the amount assessed is the actual income earned in 2016.*

6 (a) Ash Ltd – Corporation tax liability for the year to 30 September 2016

	€	€	
Net trading profit		240,000	
Add back			
Loss on disposal of truck	10,000		0·5
Interest	8,000		0·5
Motor expenses:			
Lease charges (€9,000 x (€26,000 – €24,000)/€26,000)	692		1·0
Running expenses	0		0·5
Entertainment expenses	22,000		0·5
Depreciation	11,000	51,692	0·5
Deductions			
Wages and salaries	12,000		1·0
Capital allowances	20,000	(32,000)	0·5
Case I income		259,692	
Case III deposit interest		10,500	0·5
Total income		270,192	
Adjusted capital gain (€26,000 x 33%/12·5%)		68,640	1·0
Total profits		338,832	
Less charges			
Non-trade charge – protected interest		(8,000)	1·0
Profits liable to corporation tax		330,832	
Corporation tax payable:			
€328,332 at 12·5%		41,042	0·5
€2,500 (€10,500 – €8,000) at 25%		625	1·0
		41,667	
			9

Marks

(b) Oak Ltd

(i) Corporation tax liability for the year to 31 December 2016

	€	
Case I income	220,000	0·5
Case V Irish rental income	0	0·5
Case III interest on Irish government securities	1,000	0·5
Case III Irish deposit interest	4,000	0·5
	225,000	
Excess Case V capital allowances	(38,000)	1·0
Total income	187,000	
Tax at 12·5%	23,375	1·0
		4·0

Tutorial note: *All the income is taxed at 12·5%, as the excess Case V capital allowances are offset against the income taxed at 25% first.*

(ii) Loss forward to 2017

There is a Case V loss carried forward to 2017 of €36,000.	0·5
This loss can be offset against Case V rental income in future years,	1·0
in priority to any current year losses which might be incurred.	0·5
	2·0
	15