
Answers

Section B
Marks
1 AB Ltd

	2015 €	2016 €	
Case I	40,000	0	
S396A	(40,000)		0.5
Case III	12,000	6,000	
Chargeable gain (adjusted)			
€10,000 x 33%/12.5%	0	26,400	1.0
Total profits	12,000	32,400	
Corporation tax at 12.5%	0	3,300	0.5
Corporation tax at 25%	3,000	1,500	0.5
S396B	(3,000)	(4,800)	1.0
Net corporation tax due	0	0	
Capital gains tax (CGT) on 2016 development land gain (€50,000 at 33%)		€16,500	1.0

XY Ltd

	2015 €	2016 €	
Case I	38,000	36,000	
S420A	–	(36,000)	1.0
Case III	0	12,000	
Total profits	38,000	12,000	
Corporation tax at 12.5%	4,750	0	0.5
Corporation tax at 25%	0	3,000	0.5
S420B	0	(2,700)	
Net tax due	4,750	300	

Loss memorandum

	Actual €	
Case I loss of AB Ltd, 2016	160,000	
Utilised by AB Ltd [under S396A] 2015	(40,000)	0.5
Utilised by AB Ltd [under S396B] 2016 (€26,400 + €12,000)	(38,400)	0.5
Utilised by AB Ltd [under S396B] 2015	(24,000)	0.5
Loss available for group relief	57,600	
Used by XY Ltd [under S420A] 2016	(36,000)	0.5
Used by XY Ltd [under S420B] 2016	(21,600)	0.5
Trade loss remaining	NIL	
XY Ltd's chargeable loss carried forward for use in future years	€15,000	1.0

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Tutorial notes:

1. The trading loss cannot be offset against AB Ltd's development land gain, as this gain is liable to capital gains tax and not corporation tax.
2. The 2016 chargeable loss of €15,000 cannot be relieved by XY Ltd in 2016 as it can only be offset against a chargeable gain, which XY Ltd does not have; it cannot be transferred to AB Ltd.

2 Curls Ltd

(a) Value added tax (VAT) liability for November/December 2016

	Value €	VAT rate	VAT amount €	
Output VAT				
Hairdressing services (including VAT)	80,000	9%	6,606	0·5
Sale of hair products (including VAT)	4,000	23%	748	0·5
Purchase of equipment from UK (excluding VAT)	800	23%	184	0·5
			<u>7,538</u>	
Input VAT				
Electricity	1,200	13·5%	162	0·5
Shampoos, conditioners, etc	10,000	23%	2,300	0·5
Contract cleaners (non-VAT registered)	900		0	0·5
Wages (out of scope)	24,000		0	0·5
Hotel bill for Christmas party (specifically disallowed)	1,000		0	0·5
Purchase of equipment from UK	800	23%	184	0·5
			<u>2,646</u>	
Net VAT payable			<u>4,892</u>	0·5
				<u>5·0</u>

- (b) (i) Where a business activity is classified as exempt from value added tax (VAT), the person carrying on the business activity is not required to register for VAT in respect of turnover regardless of the level of sales. 1·0
- As a result, the business will never be required to charge VAT on sales but will also never be entitled to recover VAT on business costs related to the making of such exempt sales. Therefore, the cost of VAT on purchases will always have to be borne as a business cost. However, an income tax deduction should be allowed for the gross cost of such purchases including VAT. 1·0
- 3·0
- (ii) The nail bar business will need to register for value added tax (VAT) as the annual turnover is expected to be €60,000, which is in excess of the €37,500 VAT registration threshold for services. 1·0
- As most clients will be private consumers or business consumers without an entitlement to recover VAT on such personal services, the requirement to charge VAT will cause a price increase, as the final consumer will bear the full final cost including the VAT charge. 1·0
- 2·0
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3 Kate and Donal – Capital gains tax (CGT) liability for 2016

(1) Share disposal

			Lot 1 €	Lot 2 €	
Sale proceeds	Each share sold at €6 each		8,400	33,600	
Less cost		Index			
Share lot 1	€2000	1·232	(2,464)		0·5
	€800	1	(800)		0·5
Share lot 2	€14,400	1·049		(15,106)	0·5
	€3,200	1		(3,200)	0·5
Gain on share disposal			<u>5,136</u>	<u>15,294</u>	

Date		No. of shares	Cost	Enhancement expenditure	Marks
			€	€	
Lot 1					
1 September 1997	Purchase	1,000	2,000		
1 December 2000	Bonus issue 1:5	200	0	0	0·5
1 April 2015	Rights issue 1:6	200	0	800	0·5
		<u>1,400</u>	<u>2,000</u>	<u>800</u>	
1 March 2016	Sold	(1,400)	(2,000)	(800)	
Balance remaining		<u>0</u>	<u>0</u>	<u>0</u>	
Lot 2					
1 February 2002	Purchase	6,000	18,000		
1 April 2015	Rights issue 1:6	1,000	0	4,000	0·5
		<u>7,000</u>	<u>18,000</u>	<u>4,000</u>	
1 March 2016	Sold	(5,600)	(14,400)	(3,200)	1·0
Balance remaining		<u>1,400</u>	<u>3,600</u>	<u>800</u>	
(2) Painting					
				€	
Sales proceeds				2,800	
Cost				(300)	
Gain				<u>2,500</u>	0·5
Applying marginal relief:					
Sales proceeds				2,800	
Small chattel exemption limit				(2,540)	
Excess				<u>260</u>	
Maximum tax applying the marginal rate of 50%				130	1·0
As this is a better option, marginal relief will apply.					
(3) Antique necklace					
				€	
Sales proceeds				15,000	
Less market value when inherited					0·5
Indexation factor for 1996/97				€13,000 1·251	0·5
Indexed loss				<u>(1,263)</u>	
No gain/no loss.					0·5
(4) Camera equipment					
No gain/loss as equipment is for private use and is a wasting asset.					1·0
Capital gains tax liability					
				€	
Shares (from (1) above)				20,430	
Less annual exemption for Kate				(1,270)	0·5
Taxable gain				<u>19,160</u>	
CGT at 33%				6,323	0·5
Add tax on painting				130	0·5
Total CGT payable				<u>6,453</u>	
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4 Peter and Susan

(a) (i) Susan's domicile

Susan acquired an Irish domicile at birth, referred to as a domicile of origin, due to her father being Irish domiciled at this time.

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Susan could change her domicile of origin and acquire a new 'domicile of choice' but in order to acquire a UK domicile, she would need to have an intention to reside in the UK permanently, in addition to having a physical presence. As she does not have an intention for permanent residence, Susan will continue to be Irish domiciled.

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(ii) Susan's residence in 2016

In 2016 Susan is neither resident nor ordinarily resident in Ireland.

1.0**Tutorial notes:**

1. In 2016 Susan will spend ten days in Ireland. As this is less than 183 days, she is not deemed resident for 2016. The alternative rule for residency is not applicable as she does not spend at least 30 days in Ireland in either 2015 or 2016.
2. The last year when Susan is resident in Ireland is 2011, her ordinary residence status will continue for the next three years 2012, 2013 and 2014. She will not be ordinarily resident again until the year after she has spent three consecutive years of residence in Ireland. In this instance if she becomes resident in 2018, it will be 2021 before this happens.

(iii) Exposure to Irish income tax in 2016

Peter and Susan's exposure to Irish income tax is limited to their Irish income. This is the case regardless of where the income is deposited. Therefore, the couple will only be liable to pay Irish income tax on their Irish rental income in 2016.

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Tutorial note: As the couple are not resident in Ireland, their tenant must deduct tax at the standard rate of 20% from the rent paid to them directly. The tenant must then remit this tax directly to the Revenue.

(b) George

The terms employed and self-employed are not defined in law, so it is necessary to consider case law. The four main tests to be considered are:

1. Control test: The owner of the business is based overseas and will not be advising George on how to do his work, nevertheless George is subject to control as he can be dismissed if he does not perform his duties satisfactorily.
2. Integration test: George is carrying out key daily and managerial functions, his work is integral to the success of the business.
3. Economic relations test: George is paid a standard amount plus a percentage of revenue, which would indicate that he has a contract of employment. However, further details of the contract, such as, how many hours he will work, and whether he is entitled to sick pay and holiday pay, would need to be obtained.
4. Entrepreneurial test: George has the opportunity to profit from sound management but is not exposed to personal financial risk, as if the hostel is not a success, he does not stand to lose money.

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Consideration of the above would indicate that George would be regarded as being employed rather than self-employed.

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5 David and Triona – Income tax computation for the tax year 2016

	€	€	
Schedule E – David			
Salary	45,000		0·5
Benefit in kind (BIK) company car (24% x €34,000)	8,160		1·0
Round sum expenses	1,500		0·5
BIK loan (€20,000 x (4% – 1%) x 9/12)	450		1·0
Gain on exercise of share options ((€6 – €2) x 500)	<u>2,000</u>	57,110	1·0
Case IV Irish deposit interest (€300/0·59)		508	1·0
Schedule E – Triona			
Salary		6,000	0·5
Rent a room income (not taxable as less than €12,000)		0	0·5
Child benefit		0	0·5
Gross income		63,618	
Less reliefs			
Pension contribution (max €57,110 x 20% = €11,442)		<u>(1,600)</u>	1·0
Taxable income		<u>62,018</u>	
Tax liability:			
€42,800 20%	8,560		0·5
€6,000 at 20%	1,200		1·0
€508 at 41%	208		0·5
€12,710 at 40%	<u>5,084</u>		0·5
Gross tax		15,052	
Less non-refundable tax credits			
Married persons	3,300		0·5
PAYE David	1,650		0·5
PAYE Triona (income less than €8,250 – (€6,000 x 20%))	1,200		1·0
DIRT	208		0·5
Private medical insurance (tax credit given at source)	0		0·5
Medical expenses (€800 x 20%)	160		0·5
Home carer credit	<u>0</u>	(6,518)	0·5
Refundable tax credits			
PAYE paid – David	6,072		0·5
– Triona	<u>960</u>	<u>(7,032)</u>	0·5
Net income tax due		<u>1,502</u>	

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Tutorial note: A non-refundable home carer credit could be claimed by Triona's as she works in the home caring for their young children. The full available credit claimable for 2016 is €1,000, however, the couple will forego this in favour of widening the 20% tax band by the amount of Triona's income of €6,000.

6 Premier Ltd – Corporation tax for the year ended 31 July 2016

	€	€	
Net profit per accounts		44,700	
<i>Add-backs</i>			
Salaries and wages:			
Holiday pay accrual	0		0.5
Pension accrual	5,000		0.5
Depreciation	70,000		0.5
Goods stolen	0		0.5
Repairs and maintenance:			
Repainting	0		0.5
Steel door	6,000		0.5
Provision for new CCTV	14,000		0.5
Professional fees and donations:			
Staff prosecutions	0		0.5
Fines relating to delivery vans	1,600		0.5
Income tax advice for managing director (taxed on employee as a benefit in kind via PAYE)	0		0.5
Broker fees	1,000		0.5
Donations to approved charity	0		0.5
Interest payable:			
Interest on late payment of PAYE/PRSI	1,800		0.5
Bank overdraft interest	0	99,400	0.5
<i>Deductions</i>			
Capital allowances (€16,000 + €27,250 + €7,050)	50,300		0.5
Profit on sale of delivery van	1,200		0.5
Profit on sale of shares in UK quoted company	60,000		0.5
Irish bank deposit interest	8,000	(119,500)	0.5
Case I income		24,600	
Case III income – deposit interest		8,000	0.5
Chargeable gain (€150,000 – (€90,000 + €1,000)) x 33%/12.5%		155,760	1.5
Income liable to corporation tax		188,360	
Tax liability:			
€180,360 at 12.5%		22,545	0.5
€8,000 at 25%		2,000	0.5
Total tax due		24,545	

Working: Capital allowances:

	Industrial building €	General plant €	Delivery vans €	
Cost at 1 August 2015	400,000	160,000	78,000	
Additions	0	6,000	0	0.5
Disposals	0	0	(26,000)	0.5
Cost at 31 July 2016	400,000	166,000	52,000	
IBAA at 4%	16,000			0.5
Wear and tear at 12.5%		20,750	6,500	0.5
Balancing allowance/balancing charge on the disposal of the delivery van:				
			€	
Sales proceeds			9,200	
Tax written down value (€26,000 – (€26,000 x 12.5% x 3))			(16,250)	
Balancing allowance			(7,050)	1.0

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