Fundamentals Level – Skills Module

Taxation (Irish)

Tuesday 12 June 2012

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.

Paper F6 (IRL)

ACCA

The Association of Chartered Certified Accountants

SUPPLEMENTARY INSTRUCTIONS

1. You should assume that the tax rates and credits shown below, for the Finance Acts 2011, will continue to apply for the foreseeable future.
2. Calculations and workings need only be made to the nearest Euro.
3. All time apportionments should be made to the nearest month.
4. All workings should be shown.

TAX REFERENCE MATERIAL

The following rates, credits, formulae and allowances are based on the Finance Acts 2011 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 couple/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	**Tax credit**
	€	€
– single aged under 55	1,600	320
– married/widowed/in a civil partnership/survivor of a civil partnership aged under 55	3,200	640
– single aged 55 and over	3,200	640
– married/widowed/in civil partnership/survivor of a civil partnership aged 55 and over	6,400	1,280
Service charge credit (maximum)	Upper limit €400	80
Third level tuition fees	Upper limit €7,000	

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.

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

Rates of PRSI/levies
Employee – Class A1

PRSI

Rate 4%

The first €127 per week (non-cumulative) is exempt from PRSI
Note: No upper limit for employee's contribution

Rates of PRSI/levies
Employer (for employees – Class A1)

PRSI

Rate 10·75%

Note: No upper limit for employer's contribution

Universal social charge for all taxpayers

On the first €10,036	2%
On the next €5,980	4%
On the balance	7%

For individuals a surcharge of 3% applies in respect of income from self-employment that exceeds €100,000 per annum, regardless of age.

For individuals aged 70 and over, the maximum rate, excluding surcharge, is 4%.

Exemptions:
– Individuals where income does not exceed €4,004 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 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 – present value of future entitlement to pension lump sum).

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

Where: A = Annual average salary over the past three years
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	21%
Lower rate	13·5%
Additional lower rate from 1 July 2011	9·0%
Flat rate for farmers	5·2%

Capital gains tax

Rate	25%
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 3 December 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
	From 1 August 2006	15% for six years and 10% in year seven	15 years
Childcare facilities	From 2 December to 31 July 2006	15% for six years and 10% in year seven	10 years
	From 1 August 2006	15% for six years and 10% in year seven	15 years

Motor cars – limits on capital costs

	€
For cars purchased between 1 July 2007 and 30 June 2008:	
Capital allowances	24,000
Leasing charges	24,000
Running cost	No limit

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 and C vehicles – capital allowances are based on the specified amount of €24,000 regardless of the cost of the car.

Category D/E vehicles, capital allowances 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.

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

Note: the above table is to be applied to all categories as the new legislation is not examinable in 2012.

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 (68) has been divorced from Anne (51) since 2005. James is self-employed and has run his business for the past 20 years.

Details of his trading income, as adjusted for tax purposes, but before capital allowances, were as follows:

	€
Year ended 31 May 2010	100,000
Period ended 30 September 2011	150,000
Year ended 30 September 2012 (estimated)	110,000

The cost of the assets used in the trade at 1 June 2010 was €50,000, all assets had been purchased in the previous two years.

On 1 October 2010 James bought a new, category D car, for €30,000, this car replaced one he had bought in June 2009. The car bought in 2009 was a category A car and had cost €20,000. Both cars are used 50% for trade purposes. James had crashed the car bought in 2009 and he received a trade-in of €2,000 and €10,000 in compensation from the insurance company.

James also owns a number of investment properties, details of rental income and outgoings are as follows:

Property A (residential property).
This apartment has been let to the same tenant for a number of years, it is registered with the private rental tenancy board (PRTB). The monthly rent is €1,000, and the annual interest paid on the loan to purchase the property is €7,000. James also pays the property maintenance charges of €1,200 and the €200 non-principal private residence (NPPR) tax by the due date.

Property B (commercial).
This property was acquired in July 2009 but was vacant until 1 July 2011. On that date the property was leased for 15 years at an annual rent of €50,000, the rent to be paid quarterly in advance. A premium of €50,000 was also received under the terms of the lease. A bank loan had been raised to help purchase the property, and annual interest of €30,000 is paid on the loan. Insurance on the property is €2,000 per annum.

Property C (commercial).
James built a crèche during 2009. The cost of the crèche was as follows:

	€
Site cost	100,000
Site development costs	100,000
Building costs	300,000

The annual net rental income from the crèche is €23,000, this is before capital allowances.

James's only other income was €5,840 deposit interest, received net from an Irish financial institution.

James had outgoings as follows:

	€
Maintenance for ex-wife, payments are legally enforceable	11,000
Maintenance of their children, aged 21 and 17	16,000
College fees (€2,200 student contribution and €5,300 tuition fees)	7,500

Both children live with their mother during the school year but live with James during the summer months. The college fees relate to Tim, the older child, who is studying for a masters, an approved course, and were paid in August 2011 for the 2011/12 academic year.

Required:

(a) (i) Compute James's original and final Schedule D Case I income for the tax years 2010 and 2011; (3 marks)

(ii) Compute James's Schedule D Case I capital allowances for the tax year 2011. (6 marks)

(b) Compute James's Schedule D Case V rental income for the tax year 2011. (8 marks)

(c) Compute James's income tax liability for the tax year 2011, if an election has not been made for joint assessment.

Note: The high income earners restriction does not apply. (8 marks)

(25 marks)

2 (a) Summer Ltd is an Irish resident manufacturing company. The company commenced to trade on 1 April 2010 and prepared its first set of accounts for the year ended 31 March 2011. The trading results are as follows:

	Notes	€
Turnover		860,000
Direct costs	(1)	440,000
Gross profit		420,000
Overheads	(2)	280,000
		140,000
Other income	(3)	11,000
Net profit before tax		151,000

Notes

(1) Direct costs include:

	€
Depreciation	70,000
Royalties	43,000

The royalties relate to a manufacturing process used, the licence is with a UK company. The royalty is computed as 5% of turnover. Not all the royalties have been paid and €12,000 was accrued at the year end.

(2) Overheads include:

		€
Travel and entertainment	(i)	20,000
Audit fee		15,000
Legal expenses	(ii)	8,000
Directors salaries and pensions	(iii)	120,000
Motor lease charges	(iv)	15,000
Repairs	(v)	58,000

(i) Travel and entertainment comprise:

	€
Airline, hotel and travel costs to trade fairs	7,500
Entertaining suppliers and customers	4,500
Staff summer BBQ	3,000
Round sum payments to staff for use of own cars on company business – the rates paid are in line with Revenue approved rates	5,000
	20,000

(ii) Legal expenses comprise:

	€
Bad debt collection costs	5,000
Negotiations with insurance company (see note 4)	1,000
Negotiation of a new leasehold interest in a premises to be used as a factory outlet shop	2,000
	8,000

(iii) Directors salaries and pensions include a pension contribution expense of €30,000, of which €12,000 was not paid until May 2011.

(iv) Motor lease charges comprise:

	€
Lease payments for managing director's car, leased from April 2010, the car is a category D car and would have cost €36,000 if purchased new	8,400
Lease payments for HR manager's car, leased from June 2010, the car is a category B car and would have cost €26,000 if purchased new	6,600
	15,000

(v) Repairs comprise:

	€
Extension to factory building	40,000
General maintenance of factory building	10,000
Interest on lease of photocopier, under a finance lease	8,000
	58,000

The lease payments on the copier were €12,000 in total.

(3) Other income comprises bank deposit interest received gross from an Irish financial institution, €11,000.

(4) Details of assets acquired in the year to 31 March 2011 are as follows:

A factory was purchased second-hand on 1 April 2010 and immediately put into use. The factory cost €300,000 and is used entirely for qualifying manufacturing activities. The previous owner had purchased the factory new on 1 April 2003 at a qualifying cost of €216,000, industrial building allowances of 4% per annum had been claimed.

A cutting machine was bought new on 1 September 2010 at a cost of €10,000, the machine was immediately put into use. Unfortunately an untrained employee damaged the machine when he used it while unsupervised, the machine cannot be repaired and now sits unused in the store room. The insurance company have agreed to pay €6,000 in compensation.

The capital allowances for the year to 31 March 2011 on all the company's other assets are €20,000.

Required:

(i) Compute the Case I income of Summer Ltd for the year ended 31 March 2011; (12 marks)

(ii) Compute the corporation tax payable by Summer Ltd for the year ended 31 March 2011. (3 marks)

(b) (i) In relation to start-up company relief, state the conditions that must be complied with and the circumstances in which the relief will be given; (4 marks)

(ii) State the time period for which the start-up relief is available. (1 mark)

(c) Sea Ltd's results for its last three accounting periods are as follows:

	15 months ended 31 December 2009	Year ended 31 December 2010	Year ended 31 December 2011
	€	€	€
Case I adjusted income/(losses)	60,000	(130,000)	10,000
Case V income/(loss)	(4,000)	6,000	8,000
Chargeable gain/(loss)	10,000	(8,000)	6,000
Non trade charges	Nil	Nil	(5,000)

Required:

Compute the tax liabilities of Sea Ltd, if any, on the profits arising in respect of the above three accounting periods, assuming any available loss reliefs are claimed as early as possible. Clearly identify the order in which the reliefs for the trading loss are given.

Note: you should assume that all income is evenly earned over all the accounting periods and that any transactions giving rise to chargeable gains take place on 1 July each year. (10 marks)

(30 marks)

3 (a) Enda (aged 50) started his business as a sole-trader in 2000, he has always prepared his accounts to 31 March. Enda decided to incorporate with effect from 1 April 2011, transferring all the assets and liabilities of his sole-trader business to EK Ltd, with the exception of cash. In return he received 30,000 €1 ordinary shares and a €40,000 director's loan account was set up in his favour.

Enda's statement of financial position at 1 April 2011 was as follows:

		€
Business premises (at cost, 1 June 2002)		300,000
Motor vehicle (see note)		12,000
Accounts receivable		40,000
Inventory		60,000
Bank		35,000
		447,000
	€	
Trade accounts payable	36,000	
Income tax (self) and PAYE/PRSI(employees)	15,000	(51,000)
Net assets		396,000

The market values of the assets as at 1 April 2011 were agreed as follows:

	€
Business premises	360,000
Motor vehicle	14,000
Goodwill	100,000
Accounts receivable	37,000
Inventory	55,000

Note:
Enda had acquired a category D car, in February 2009 for €20,000. The car is used 80% for business purposes.

Required:

(i) State the conditions that must be complied with in order for incorporation of a sole trader relief to apply; (4 marks)

(ii) Compute Enda's taxable gain, if any, arising on the incorporation of his sole trader business, giving a relevant explanation for any element of the transfer that you treat as NOT giving rise to an immediate gain/loss; (10 marks)

(iii) Compute the base cost of the shares in EK Ltd for the purposes of a future disposal. (1 mark)

(b) On 1 September 2011 Enda sold 2,000 of the quoted shares that he held in an international drinks company for €14 each.

Details of Enda's previous transactions in these shares are as follows:

1 March 2000	Bought 2,000 shares at €10 each
1 July 2003	Purchased rights, 1 for 4, at €11 each
1 August 2005	Received a bonus issue of shares, 1 for 10

Required:

Compute Enda's gain/loss on his September 2011 disposal of quoted shares. (5 marks)

(20 marks)

4 **(a)** **List any FIVE benefits commonly provided by an employer to an employee that are exempt from income tax under the benefit in kind legislation.** (5 marks)

(b) Brian Bailey has been self-employed for a number of years, he prepares his business accounts to 31 December annually. Brian has the following income/(losses), actual and estimated:

Tax year	2010	2011	2012
Irish rental income/(loss)	(6,000)	8,000	6,000
Irish deposit interest (gross)	1,500	1,800	2,000
Trading income/(loss) adjusted but before capital allowances	20,000	(18,000)	30,000
Trade capital allowances	8,000	9,000	10,000

Required

Prepare computations to show how Brian can make optimum use of the losses incurred by him for income tax purposes. Support your computations with relevant explanations. (10 marks)

(15 marks)

5 Adam commenced to trade on 1 July 2011. His business is essentially an internet cafe, selling a mix of hot and cold take-away food, internet access and photocopying. During the summer months he also runs scenic bus tours of the area for tourists.

Adam had the following sales and purchases for July/August 2011:

Sales	€
Standard rated	30,000
Reduced rate at 13·5%	2,000
Reduced rate at 9%	8,000
Bus tour sales (exempt)	24,000
Purchases	
Zero rated (food and drink)	3,000
Standard rated (food and drink)	2,000
Diesel for tour bus	10,000
Electricity and power for business premises (at 13·5%)	700
Ovens for kitchens (purchased from France)	2,500

All figures are stated exclusive of value added tax (VAT).

Required:

(a) **Advise Adam on the meaning of the following terms for the purpose of value added tax (VAT):**

(i) **Zero rated;**
(ii) **Exempt.** (3 marks)

(b) **Compute Adam's VAT payable/repayable for the period July/August 2011 on the basis that where costs are to be apportioned between chargeable and exempt activities it is done using the sales turnover basis.** (7 marks)

(10 marks)

End of Question Paper