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# Answers

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**Marks**

**1 Martin and Breda**

**(a) Schedule D Case II income for 2012 and 2013**

	€	
<b>2012 Original assessment</b>		
Current year basis – year ended 31 August 2012	38,000	0·5
<b>2013 Final year</b>		
Actual income		
Period ended 30 June 2013 €36,000 x 6/10	21,600	1·0
<b>Revision of 2012 to actual:</b>		
Year ended 31 August 2012 €38,000 x 8/12	25,333	
plus		
Period ended 30 June 2013 €36,000 x 4/10	14,400	
Total of revised amount	<u>39,733</u>	1·0
The Inspector of Taxes will revise the 2012 assessment upwards to €39,733.		0·5
		<u>3·0</u>

**(b) Income tax computation for 2013**

	Working	€	
<b>Martin</b>			
Schedule E pension		18,000	0·5
Schedule D			
Case V (1)		23,490	W
Case II (2)		5,000	1·0
<b>Breda</b>			
Schedule D Case II (from (a))		21,600	
Capital allowances (3)		<u>(2,000)</u>	1·0
Gross income		66,090	
Less: Reliefs			
Payment to carer		(7,000)	1·0
Pension contributions paid by Breda (4)		(7,840)	1·5
EIIS investment (5)		(7,317)	1·5
Donation to charity		0	0·5
Taxable income		<u>43,933</u>	
€43,933 at 20%		8,787	0·5
Less: Non-refundable tax credits			
Married persons		(3,300)	0·5
PAYE		(1,650)	0·5
Age		(490)	0·5
Less: Refundable tax credits			
PSWT		<u>(2,000)</u>	1·0
Net tax due		<u>1,347</u>	
<b>Note:</b> Relief for interest on mortgage if available will be given at source.			0·5

## Workings:

## (1) Case V income

	Working	Commercial €	Apt A €	Apt B €	
Rental income					
Rent	(i)	18,000	5,400	nil	1·0
Lease premium	(ii)	10,800	0	0	1·0
		<u>28,800</u>	<u>5,400</u>	<u>nil</u>	
Less: Expenses					
Interest on loan	(iii)	6,000	2,250	nil	1·5
Rates on building	(iv)	1,920			1·0
Insurance on building	(v)	300	150	nil	1·0
NPPR (no relief allowed)			0	0	1·0
PRTB registration			90		0·5
		<u>8,220</u>	<u>2,490</u>	<u>nil</u>	
Net rental income		<u>20,580</u>	<u>2,910</u>	<u>nil</u>	
Total rental income €20,580 + €2,910 = €23,490.					0·5
					<u>18</u>

## (i) Rental income

	€
Commercial property, €36,000 x 6/12	18,000
Apartment A, €900 x 6	5,400
Apartment B	nil

## (ii) Lease premium on commercial property

€15,000 x (51 – 15)/50	€10,800
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## (iii) Interest on loan

Loan interest 1 March to 31 December	€20,000
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	Commercial €	Apt A €	Apt B €
Loan interest applied	10,000	5,000	5,000
Interest post letting	6,000	3,000	nil
Interest allowed as an expense	6,000	2,250	nil

## (iv) Rates on building

All the rates relate to the commercial property.  
Only post letting rates are allowed, €3,200 x 6/10 = €1,920.

## (v) Insurance on building

1 July to 31 December 2013: €1,200 x 6/12 = €600.

	Commercial €	Apt A €	Apt B €
Insurance applied	300	150	150
Relief available	300	150	nil

## (2) Case II income

	€
Received	45,000
Less: Artist exemption	(40,000)
Taxable	<u>5,000</u>

## (3) Capital allowances

	€
Tax written down value	12,000
Sales proceeds	(10,000)
Balancing allowance	<u>2,000</u>

**(4) Pension contributions**

	€
Breda's net relevant earnings	19,600
40% relief allowed	(7,840)
Relief restricted to	<u>7,840</u>

**(5) Employment and investment incentive scheme (EIS)**

Sum invested €10,000, relief given at 30% in 2013.  
 $€10,000 \times 30\%/41\% = €7,317$

- (c)** Local property tax (LPT) is payable on residential properties only, from 1 July 2013. 0·5
- Martin and Breda will be liable to pay LPT on their home in Kinsale, at its market value as of 1 May 2013. 1·0  
 No relief is given for the mortgage. 0·5
- As the market value of their family home is €300,000, they will be required to pay LPT for 2013 based on the midpoint value of €275,000. Only a half year's tax is due for 2013. 1·0
- The tax is self-assessed. A range of methods for paying the tax are available, including deduction by an employer. 0·5  
 0·5
- LPT will not be payable on the apartments. As they were bought new from a builder in 2013, a three-year exemption from LPT is available on such properties. 1·0  
5·0
- (d)** Breda should have registered as an employer with the Revenue Commissioners. 0·5
- She should have operated PAYE and PRSI/USC on all the employee's emoluments. She was also responsible for remitting the employee's PAYE/PRSI and USC, as well as the employer's PRSI to the Revenue on a monthly basis and completing an online P30. 0·5  
 0·5  
 1·0
- Annually she should have completed a P35 and sent this to the Revenue Commissioners. She should also have prepared, at the end of each tax year, a P60 for the employee, and on 30 June 2013 when the employee left her employment, given the employee a P45. 0·5  
 0·5  
 0·5  
4·0  
**30**

**2 (a) Arrow Ltd****Case I adjusted income – year ended 31 December 2013**

	€	€	
Profit before tax		172,000	0·5
<i>Add backs:</i>			
Depreciation	80,000		0·5
Depreciation on managing director's car	4,800		0·5
Legal and professional fees (€10k + €18k)	28,000		1·0
Repairs and renewals	<u>30,000</u>		0·5
		142,800	
		<u>314,800</u>	
<i>Deductions:</i>			
Contribution to pension fund	(10,000)		1·0
Lease payment $€5,000 \times (€22k - €24k)/€22k$	(455)		1·0
Other income	(72,000)		0·5
Capital allowances (working)	<u>(86,450)</u>		W
		(168,905)	
Case I adjusted income		<u>145,895</u>	
No adjustment for:			
PRSI.			0·5
Non-business use of motor car.			1·0

**Working: Capital allowances**

	Production machinery €	Office equipment €	Motor vehicles €	
Cost 1 January 2013	500,000	80,000	12,000	0·5
Wear and tear at 12·5%	62,500	10,000	1,500	1·0

Total of wear and tear allowances = €74,000

**Industrial buildings allowance (IBA)**

Actual cost	€200,000	
Restricted to qualifying cost	€150,000	1·0
Number of years of tax life left on purchase, 25 years – 15 years = 10 years. €150,000/10 = €15,000 per annum.		1·0
Restricted to 75% area in use for trade = €11,250.		1·0
Improvements to building during the year €30,000 at 4% = €1,200.		0·5
		<u>12</u>

Total capital allowance claim for the year (€74,000 + €11,250 + €1,200) = €86,450.

**(b) Corporation tax liability 2013**

	€	
Case I adjusted income (from part (i))	145,895	0·5
Case V rental income (working)	10,250	W
Total income	<u>156,145</u>	
<b>Corporation tax</b>		
€145,895 at 12·5%	18,237	0·5
€10,250 at 25%	2,563	0·5
	<u>20,800</u>	

**Working: Rental income**

	€	
Rent received for a year	<u>72,000</u>	
Rent earned 1 September to 31 December 2013	24,000	0·5
Less: Capital allowance on building (€15,000 x 25%)	(3,750)	0·5
Letting fees	(10,000)	0·5
	<u>10,250</u>	
		<u>3·0</u>

**(c) (i) Start-up company relief will be available to Arrow Ltd in 2013 because:**

- the company commenced trading on 1 January 2011, and the relief is available for a company's first three years of trading; 1·0
  - its total corporation tax liability does not exceed €40,000; 0·5
  - the company carries on a qualifying trade. 0·5
- 2·0

- (ii)** The relevant corporation tax is that on trading income of €18,237. As the employer's PRSI exceeds this amount, this sum will be relieved in full. 1·0

**(d) Bow Ltd – terminal loss****(i) Unrelieved Case I loss for the year ended 31 December 2013**

	€	
Case I loss	(120,000)	
Relieved as follows:		
Case I income year ended 31 December 2012 (S396A)	30,000	1·0
Case III income year ended 31 December 2013 (S396B)	20,000	1·0
Case III income year ended 31 December 2012 (S396B)	12,000	1·0
Terminal loss	<u>58,000</u>	
Irish dividend income is not subject to corporation tax.		1·0
		<u>4·0</u>

**Tutorial note:** The terminal loss is the amount of the trade loss which is incurred in the last 12 months of trading and unrelieved after all other available reliefs have been utilised, i.e. using the previous year's trading income (S396A) or other income of the current and previous years on a value basis (S396B).

**(ii) Relief of terminal loss**

	€	
Terminal loss (from (i))	58,000	
Case I income year ended 31 December 2012	nil	0·5
Case I income year ended 31 December 2011	(40,000)	1·0
Case I income year ended 31 December 2010	(10,000)	1·0
Terminal loss unrelieved	<u>8,000</u>	0·5
		<u>3·0</u>
		<b><u>25</u></b>

**Tutorial note:** A terminal loss can be carried back against the trading profits from the same trade for a period of three years preceding the last 12 months.

**3 (a) Clodagh and John – capital gains tax 2013****(1) Principal private residence – house**

		€	
Sales proceeds on disposal		450,000	0·5
Market value 6 April 1974	€12,000		0·5
Index factor	7·528	(90,336)	0·5
Gain before principal private residence relief		359,664	
Exempt gain (working)		(312,016)	W
Taxable gain		<u>47,648</u>	

**Working: Principal private residence (PPR) relief**

The total period of qualifying ownership, 6 April 1974 to 5 April 2013, is 39 years (468 months). 0·5

The period for which the PPR is used for business, 1 January 1980 to 31 December 2005, is 26 years x 20% = 62 months and this is non-qualifying. 1·0

Exempt gain is €359,664 x 406/468 = €312,016. 0·5

The room in the house is let under the rent a room relief scheme and will not affect the amount of PPR relief due. 1·0

(2) Victorian coloured prints are exempt from capital gains tax (CGT) as the sales proceeds are less than €2,540. 1·5

**(3) Silver tea and coffee set**

		€	
Market value of set – deemed		2,540	1·0
Less: Cost of set (no indexation)		(3,200)	1·5
Allowable loss		<u>(660)</u>	

			Marks
(4) Painting			
		€	
Sale proceeds from sale of painting		2,700	0·5
Less: Cost		(2,000)	0·5
Gain		<u>700</u>	
Alternative, marginal relief			
		€	
Sales proceeds		2,700	1·0
Exemption limit		(2,540)	0·5
Excess		<u>160</u>	
The tax liability using marginal relief is €160 x 50% = €80; as this is less than €231 (€700 x 33%) marginal relief will apply.			1·0
<b>Taxable gains 2013</b>	<b>1 January to 30 November</b>	<b>1 December to 31 December</b>	1·0
	€	€	
(1) Residence	46,111		
(2) Prints (exempt)	0		
(3) Silver tea set	(660)		
(4) Painting	<u>0</u>	<u>700</u>	
Total taxable	<u>45,451</u>	<u>700</u>	
	<b>Clodagh</b>	<b>John</b>	
	€	€	
Gains apportioned	22,725	22,726	1·0
Less: Annual exemption	(1,270)	(1,270)	1·0
Net taxable	<u>21,455</u>	<u>21,456</u>	
Tax for the initial period at 33%	7,080	7,080	0·5
Tax for final period (see (4) above), split equally.		80	0·5
		<u>16</u>	
<b>Marking note:</b> Equal credit will be awarded to candidates who do not offset the capital loss on the silver tea set due to it being a loss on a connected party transaction.			
(b) JP Ltd – tax liability on 2013 gain			
		€	
Sales proceeds		300,000	
Less: Auctioneers' fees		(15,000)	
		<u>285,000</u>	0·5
Cost May 2001	€200,000		
Indexation factor	1·087	(217,400)	
Gain		<u>67,600</u>	0·5
As a company, JP Ltd will pay corporation tax on the gain:			
Adjusted gain €67,600 x 33%/12·5%		178,464	1·0
Tax payable €178,464 at 12·5%		22,308	0·5
Payment will be included with the payments of mainstream corporation tax made on 23 May 2014 and 23 March 2015.			1·5
			4·0
			<u><b>20</b></u>

## 4 Tim

- (a) (i) The pay and file system provides that a self-assessed individual must on a single due date – being 31 October:
- pay preliminary tax for income tax purposes for the current year; 0·5
  - file a tax return for the previous tax year for income tax and capital gains tax; and 0·5
  - pay any balance of income tax due for the previous year. 0·5
- In computing the amount of preliminary tax due, the following options are available to the tax payer:
- 90% of the tax due for the relevant year; 0·5
  - 100% of the tax due for the previous year; 0·5
  - 105% of the tax due for the penultimate year (this option is only available where tax is being paid by direct debit). 0·5
- 3·0
- (ii) **Interest and surcharges as at 3 June 2014**
- Income tax outstanding for 2012 is €32,000.
- Interest at 0·0219% per day or part thereof will be charged from 31 October 2012 to 3 June 2014. 1·0
- A surcharge of 10% of the tax liability for 2012 will apply as the return is more than two months late. 1·0
- Income tax outstanding for 2013 is €10,000.
- As preliminary tax has not been paid, interest at 0·219% per day or part thereof will be charged from 31 October 2013 to 3 June 2014. 1·0
- At 3 June 2014, the 2013 tax return is not yet due so no surcharge will apply in respect of 2013. 1·0
- 4·0
- (b) **Relevant contracts tax (RCT) or subcontractors tax**
- The principal contractor for whom Tim will do the work is required to deduct RCT at one of three rates, as advised to him by the Revenue:
- 0% where the subcontractor has a history of being tax compliant and is currently tax compliant;
  - 20% where the subcontractor is registered for tax and is tax compliant, but an adequate history of compliance has not yet been established;
  - 35% where the subcontractor is either not registered with the Revenue or has serious compliance issues. 2·0
- On entering a contract with Tim, the principal contractor will have to make a contract notification with the Revenue. Prior to paying Tim, the principal contractor will be required to notify the Revenue that a payment is about to be made and the Revenue will inform the principal contractor of the rate of RCT to be applied. 0·5
- The principal contractor will be responsible for checking the deduction summary and paying the RCT to the Revenue by the 23rd day of the following month. 0·5
- Interim refunds of RCT cannot be made to the subcontractor during the year but the RCT deducted may be offset against any PAYE/PRSI or value added tax (VAT) due. 1·0
- 5·0
- (c) Tax avoidance is the legal use of the tax legislation to one's own advantage, in order to reduce the amount of tax which is payable and is within the law. Tax shelters and tax havens are jurisdictions which facilitate such a reduction in taxes. General anti-avoidance legislation attempts to invalidate tax avoidance which is technically legal but not in the spirit of the legislation. 1·5
- Tax evasion, on the other hand, is the general term where effort is made to evade taxes by illegal means, such as the non-disclosure of information or the falsification of records. 1·5
- 3·0
- 15**



5 Ken

## (a) Value added tax (VAT) liability for September/October 2013

Output credits	Sales excluding VAT €	VAT rate	VAT €	
Meals	12,000	9%	1,080	0·5
Soft drinks and other beverages	8,000	23%	1,840	0·5
Cookery courses	2,220	exempt	nil	0·5
Restaurant furniture from UK	1,500	23%	345	1·0
Total VAT on outputs			<u>3,265</u>	
Input credits	Purchases excluding VAT €	VAT rate	VAT €	
Food from Irish suppliers	6,000	0%	0	0·5
Food and drink from Irish suppliers	2,850	23%	656	0·5
Food and drink from Irish suppliers (exempt)	150	n/a	nil	0·5
Electricity (W1)	1,080	13·5%	146	1·0
Electricity, no VAT credit available	120	n/a	nil	0·5
Diesel (W2)	40	23%	9	1·5
Restaurant furniture from UK supplier	1,500	23%	345	0·5
Computer software from US supplier	600	23%	138	1·0
Total VAT on inputs			<u>1,294</u>	
Net VAT payable			<u>1,971</u>	0·5
				<u>9·0</u>

## Workings:

## 1. Electricity

Total sales are €22,220, 90% of which relates to meals and drinks and 10% to an exempt activity.  
Disallow 10% of the electricity for VAT input credit purposes.

## 2. Diesel

Allow 20% of diesel as this is the portion relating to business.  
But restrict to 50% as only 50% of the diesel relates to non-exempt trade.  
 $€400 \times 20\% \times 50\% = €40$

**Tutorial note:** The software bought from the US is standardised software, and so is treated as a supply of goods.

## (b) The return must be filed by 23 November 2013 (via ROS).

1·0

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