

Professional Pilot Paper – Options module

Advanced Taxation (Ireland)

December 2012 pilot question 1

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

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.

The Association of Chartered Certified Accountants

Paper P6 (IRL)

ACCA

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 person's/civil partner's credit	3,300	
Widowed person or surviving civil partner's credit (without dependent children)	2,190	
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 aged 70 and over the maximum rate is 4%

Where relevant income exceeds €100,000 per annum there is a surcharge of 3% regardless of age.

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

Corporation tax

Standard rate	12.5%
Higher rate	25%

Value added tax

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

Motor cars – limits on capital costs

	€
<i>For cars purchased between 1 July 2007 and 30 June 2008</i>	
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/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

Capital acquisitions tax

Class thresholds 2011	€
Class 1: Child or minor child of deceased child (or inheritance taken by parent):	332,084
Class 2: Lineal ancestor (other than inheritance taken by parent)	
Lineal descendant (other than a child or a minor child of a deceased child)	33,208
Brother, sister, child of brother or sister	
Class 3: Any other person	16,604
Rate	25%

Life interest tables for capital acquisitions tax

Years of age	Joint factor	Value of an interest in a capital of €1 for a male life aged as in column 1	Value of an interest in a capital of €1 for a female life aged as in column 1	Years of age	Joint factor	Value of an interest in a capital of €1 for a male life aged as in column 1	Value of an interest in a capital of €1 for a female life aged as in column 1
0	.99	.9519	.9624	50	.92	.7287	.7791
1	.99	.9767	.9817	51	.91	.7156	.7683
2	.99	.9767	.9819	52	.90	.7024	.7572
3	.99	.9762	.9817	53	.89	.6887	.7456
4	.99	.9753	.9811	54	.89	.6745	.7335
5	.99	.9742	.9805	55	.88	.6598	.7206
6	.99	.9730	.9797	56	.88	.6445	.7069
7	.99	.9717	.9787	57	.88	.6288	.6926
8	.99	.9703	.9777	58	.87	.6129	.6778
9	.99	.9688	.9765	59	.86	.5969	.6628
10	.99	.9671	.9753	60	.86	.5809	.6475
11	.98	.9653	.9740	61	.86	.5650	.6320
12	.98	.9634	.9726	62	.86	.5492	.6162
13	.98	.9614	.9710	63	.85	.5332	.6000
14	.98	.9592	.9693	64	.85	.5171	.5830
15	.98	.9569	.9676	65	.85	.5007	.5650
16	.98	.9546	.9657	66	.85	.4841	.5462
17	.98	.9522	.9638	67	.84	.4673	.5266
18	.98	.9497	.9617	68	.84	.4506	.5070
19	.98	.9471	.9596	69	.84	.4339	.4873
20	.97	.9444	.9572	70	.83	.4173	.4679
21	.97	.9416	.9547	71	.83	.4009	.4488
22	.97	.9387	.9521	72	.82	.3846	.4301
23	.97	.9356	.9493	73	.82	.3683	.4114
24	.97	.9323	.9464	74	.81	.3519	.3928
25	.97	.9288	.9432	75	.80	.3352	.3743
26	.97	.9250	.9399	76	.79	.3181	.3559
27	.97	.9209	.9364	77	.78	.3009	.3377
28	.97	.9165	.9328	78	.76	.2838	.3198
29	.97	.9119	.9289	79	.74	.2671	.3023
30	.96	.9068	.9248	80	.72	.2509	.2855
31	.96	.9015	.9205	81	.71	.2353	.2693
32	.96	.8958	.9159	82	.70	.2203	.2538
33	.96	.8899	.9111	83	.69	.2057	.2387
34	.96	.8836	.9059	84	.68	.1916	.2242
35	.96	.8770	.9005	85	.67	.1783	.2104
36	.96	.8699	.8947	86	.66	.1657	.1973
37	.96	.8626	.8886	87	.65	.1537	.1849
38	.95	.8549	.8821	88	.64	.1423	.1730
39	.95	.8469	.8753	89	.62	.1315	.1616
40	.95	.8384	.8683	90	.60	.1212	.1509
41	.95	.8296	.8610	91	.58	.1116	.1407
42	.95	.8204	.8534	92	.56	.1025	.1310
43	.95	.8107	.8454	93	.54	.0939	.1218
44	.94	.8005	.8370	94	.52	.0858	.1132
45	.94	.7897	.8283	95	.50	.0781	.1050
46	.94	.7783	.8192	96	.49	.0710	.0972
47	.94	.7663	.8096	97	.48	.0642	.0898
48	.93	.7541	.7997	98	.47	.0578	.0828
49	.93	.7415	.7896	99	.45	.0517	.0762
				100 or over	.43	.0458	.0698

Interest for a period certain

This table is used to determine a figure on the value of an interest in property for a period certain.

Number of years	Value	Number of years	Value
1	.0654	26	.8263
2	.1265	27	.8375
3	.1836	28	.8480
4	.2370	29	.8578
5	.2869	30	.8669
6	.3335	31	.8754
7	.3770	32	.8834
8	.4177	33	.8908
9	.4557	34	.8978
10	.4913	35	.9043
11	.5245	36	.9100
12	.5555	37	.9165
13	.5845	38	.9230
14	.6116	39	.9295
15	.6369	40	.9360
16	.6605	41	.9425
17	.6826	42	.9490
18	.7032	43	.9555
19	.7225	44	.9620
20	.7405	45	.9685
21	.7574	46	.9750
22	.7731	47	.9815
23	.7878	48	.9880
24	.8015	49	.9945
25	.8144	50 and over	1.0000

Rates of stamp duty

Non residential property

Aggregate consideration	Rate of duty
Up to €10,000	Exempt
€10,001 – €20,000	1%
€20,001 – €30,000	2%
€30,001 – €40,000	3%
€40,001 – €70,000	4%
€70,001 – €80,000	5%
Over €80,000	6%

Residential property

Owner occupiers and investors

Value	Rate
First €1,000,000	1%
Excess over €1,000,000	2%

N.B: Where applicable value added tax (VAT) should be excluded from the chargeable consideration.

Stocks and marketable securities

Where the aggregate consideration is less than €1,000	0%
Where the aggregate consideration exceeds €1,000	1%

Section A – BOTH questions are compulsory and MUST be answered

1 For the purposes of this question, you should assume that today’s date is 6 November 2011.

You are a tax senior with a medium sized firm of accountants. Your client, Mr Eddie Thompson, is in the process of selling his business, Boardwalk News Ltd to Bignews plc, a public company which operates a chain of retail shops.

The issued share capital of Boardwalk News Ltd comprises 1,000 ordinary shares of €1 each. It is a single member company and Eddie Thompson owns 100% of the shares. The company owns and operates two newsagents in the west of Ireland.

The company was formed and commenced trading in June 1989. Eddie subscribed at par for his shares at that time. He is now aged 47 and has always worked full time in the business.

The following is an extract from the Statement of Financial Position of Boardwalk News Ltd as at 31 August 2011.

	Note	Cost €	Market Value €
Non-Current Assets			
Premises	1	<u>620,000</u>	<u>800,000</u>
Investments			
20,000 Shares in Luciano plc	2	<u>20,000</u>	<u>60,000</u>
Current Assets			
Inventory		63,000	63,000
Trade receivables		4,000	4,000
Cash		46,000	46,000
		<u>113,000</u>	<u>113,000</u>
Current Liabilities			
Trade payables		(72,000)	(72,000)
Non-Current Liabilities			
Bank Loan		<u>(220,000)</u>	<u>(220,000)</u>
Net Assets		<u>461,000</u>	<u>681,000</u>

Note 1: Premises

The company owns two premises, which are used exclusively for the purposes of its retail trade. Neither property is classified as development land.

- The “Atlantic News” premises was bought in June 1989 at a cost of €140,000 and has a current market value of €420,000.
- The “City News” premises was bought in November 2002 at a cost of €480,000 and has a current market value of €380,000.

Note 2: Investments

The shares in Luciano plc were acquired in June 1994. Luciano plc has no connection with the newsagency trade. Eddie Thompson wants to retain these shares in a personal capacity and does not under any circumstances want ownership of the shares to transfer to Bignews plc.

Apart from any adjustment arising from the email below, you are satisfied that the balances included in the Statement of Financial position at 31 August 2011 are approximately the same as they will be at the date of closure of the deal.

Earlier this week you received the following email from an audit manager with your firm. In anticipation of a due diligence review by the purchaser, Eddie Thompson had asked your firm to conduct a review of the business for the past six years to determine whether any undiscovered liabilities exist.

Email from the audit manager

Our review is now complete. In the course of our work we discovered a systematic error in the accounting for lottery tickets which had the effect of understating the net profit of Boardwalk News Ltd for corporation tax purposes as follows:

Year ended	Understatement
	€
31/08/2009	20,000
31/08/2010	25,000

The error was caused by a “bug” in the till software. This was corrected by a software upgrade in July 2010 and therefore the under-declaration of profit is confined to the above two periods.

No other significant issues were encountered in the course of our review.

There are no VAT consequences of the above error.

You have discussed this issue with Eddie Thompson and he has instructed you to calculate the amount due to the Revenue, arising from the above and settle the matter by making the appropriate submission and payment to the Revenue Commissioners on 20 November 2011. Obviously Bignews plc will not take responsibility for any liabilities in this regard.

Boardwalk News Ltd is a “small” company for preliminary tax purposes. The corporation tax payable by the company (before taking account of any adjustments in relation to the above error) for the last two years was as follows:

Year ended	Corporation tax payable
	€
31/08/2009	9,000
31/08/2010	9,500

The negotiations with Bignews plc are now at an advanced stage and the following two options are available to Eddie Thompson.

Option 1

Bignews plc will purchase Eddie Thompson’s shares in Boardwalk News Ltd for **€1,000,000** on 30 November 2011.

Prior to the takeover Eddie Thompson will buy the shares in Luciano plc from Boardwalk News Ltd at their market value of **€60,000**.

The offer price will require adjustment for any taxes determined before completion of the contract.

Option 2

Bignews plc will purchase the following assets from Boardwalk News Ltd:

- both premises,
- inventory, and
- the goodwill of the company

for a total consideration of **€1,200,000** on 30 November 2011. The market values of the premises and inventory are not expected to be different from those applying at 31 August 2011. The amount by which the offer from Bignews plc exceeds the value of the specific assets to be acquired is attributable to goodwill. Boardwalk News Ltd will then be liquidated and the assets distributed to Eddie Thompson by the liquidator. Liquidator’s fees should be ignored in your analysis.

Required:

Write a letter to Eddie Thompson which contains:

- (i) **guidance on how the settlement with the Revenue should be dealt with and an explanation of your calculation of the tax, interest and penalties arising from the under-declaration of turnover;**

Note: You should use a rate of 8% per annum when calculating interest. (9 marks)

- (ii) **calculation of the taxes arising on the sale of the shares in Luciano plc to Eddie Thompson under Option 1 and the net, after tax proceeds available to Eddie Thompson if he selects Option 1;** (6 marks)

- (iii) **calculation of the net, after tax, proceeds available to Eddie Thompson in the event that he selects Option 2.**

Note: You are not required to consider the VAT implications of the transfer of assets (12 marks)

- (iv) **your recommendation regarding which option he should choose and a brief explanation of the key differences from his perspective between both options.** (4 marks)

Note: The following schedule of penalties is provided:

Schedule of tax geared penalties (defaults occurring on or after 24 December 2008)

Category of tax default	Penalty as a % of tax underpaid	Net penalty after reduction where there is:		
		Cooperation only	Cooperation AND a prompted qualifying disclosure	Cooperation AND an unprompted qualifying disclosure
Deliberate behaviour	100%	75%	50%	10%
Careless behaviour with significant consequences	40%	30%	20%	5%
Other careless behaviour	20%	15%	10%	3%

Professional marks will be awarded for the extent to which the calculations are approached in a logical manner and the effectiveness with which the information is communicated. (4 marks)

(35 marks)

End of Question

Answers

Letter

ABC & Co.
Chartered Certified Accountants,
Any Street,
Any Town,
6 November 2011

Mr Eddie Thompson,
Atlantic View,
Any Town

Re: Tax issues arising on the disposal of Boardwalk News Ltd

Dear Mr Thompson,

We refer to your queries with regard to the above.

(i) Revenue Settlement

Please refer to Schedule 1 of the Appendix. We suggest that a voluntary disclosure and payment of these liabilities should be made as soon as possible in order to mitigate interest and penalties. This will represent an “unprompted” disclosure as the company has not been notified, nor is it in the process of a Revenue Audit. For an unprompted disclosure to be effective, it must be a full disclosure of all taxes underpaid; a written submission must be made to Revenue along with an initial payment of the tax and interest (not penalties).

For both years, corporation tax is payable at 12.5% of the under-declared turnover and statutory interest at approximately 8% per annum is payable from the date that the tax was due up to the date of settlement. The initial payment amounts to €6,426.

We believe that the rate of penalties for the year ended 31 August 2009 will be at a reduced rate of 5% (“Careless behaviour with significant consequences”). The company will fully co-operate with the process and will explain that there was no deliberate attempt to evade tax and will cite the software error. However there was a lack of care insofar as the company’s cash control procedures did not detect this error. The consequences were significant as the additional tax arising amounted to approximately 22% of the final corporation tax payable, which exceeds the permitted threshold of 15%.

We believe that there will be nil penalties for the year 31 August 2010 as the company is within the time limit for “self correction” of that return which is 12 months from the return filing date (21 May 2011).

We expect the total settlement (including penalties) to be approximately €6,551.

(ii) Option 1 (sale of shares for €1 million)

Please refer to Schedules 2–4. The net proceeds receivable by you under Option 1 will be €738,839 after paying Capital gains tax (CGT) at 25% on the sale of shares in Boardwalk News Ltd (and stamp duty regarding the shares in Luciano plc.).

(iii) Option 2 (sale of assets for €1.2 million)

The net proceeds of Option 2 are calculated in Schedules 5 and 6 and amount to €669,205.

(vi) Comparison of Option 1 versus Option 2

You will note that, under option 1, the gross proceeds of €1 million have been reduced by the taxes payable in respect of the gain on the shares in Luciano plc and the revenue settlement.

Under option 2, the company must first pay tax of €111,645 on the gains arising on the sale of the relevant assets and then a further €222,144 is payable by you on the Liquidator’s distribution. This double charge to tax is very significant, along with the fact that Option 2 requires your company to repay its liabilities, in particular the bank loan of €220,000 (which is not required under Option 1).

Our calculations indicate that, even though it is a lower gross offer, the net proceeds of Option 1 exceed those of Option 2 by €69,634, and we would therefore recommend choosing option 1 .

Please do not hesitate to contact us if you have any further queries,

Yours faithfully,

**T Consultant
Tax Senior
ABC & Co**

Appendix

Schedule 1

Calculation of amount owing to Revenue Commissioners in respect of undeclared turnover.

Year End	Ref.	31/08/2009 €	31/08/2010 €	Total €
Amount of under-declared turnover		20,000	25,000	
Corporation tax payable at 12.5%		2,500	3,125	5,625
Interest Calculation				
Date tax should have been paid		21/07/2009	21/07/2010	
Settlement payment date		20/11/2011	20/11/2011	
Months outstanding		28	16	
Interest rate per month		0.667%	0.667%	
Interest payable		467	334	801
Amount initially payable to Revenue Commissioners				<u>6,426</u>
Net penalty % after reduction (see covering letter)		5%	–	
Net penalty €		125	–	125
Total settlement				<u>6,551</u>

Schedule 2

Tax on the sale of shares in Luciano plc to Mr Thompson

Corporation tax on chargeable gain	Ref.	€	€	Tax €
Proceeds			60,000	
Cost		20,000		
Indexation: 1994/95		1,309	(26,180)	
Gain			<u>33,820</u>	
Corporation tax at an effective rate of 25%				<u>8,455</u>
Payable by Eddie Thompson				
Stamp Duty		1%		<u>600</u>

Schedule 3

CGT on disposal of shares in Boardwalk News Ltd

Ref.	€	€
Proceeds (€1,000,000 – €6,551 – €8,455)		984,994
Cost	1,000	
Indexation: 1989/90	1,503	(1,503)
		<u>983,491</u>
Annual exemption		(1,270)
Taxable amount		982,221
CGT on disposal of shares	25%	245,555

Schedule 4

Calculation of net proceeds available under Option 1

Ref.	€	€
Proceeds from disposal of shares in Boardwalk News Ltd		984,994
Less Taxes		
Stamp Duty re. Luciano plc shares	2	(600)
CGT on disposal of shares in Boardwalk News Ltd	3	(245,555)
Net Proceeds available under Option 1		<u>738,839</u>

Schedule 5
Calculation of net proceeds re Option 2

Tax at company level	Ref.	€	€	Gain (Loss)
“Atlantic News” premises		€	€	€
Proceeds			420,000	
Cost		140,000		
Indexation		1.503	(210,420)	
		<u> </u>	<u> </u>	
Taxable gain				209,580
“City News” premises				
Proceeds			380,000	
Cost			(480,000)	
Indexation (cannot increase a monetary loss)			–	
			<u> </u>	
Allowable loss: (only the monetary loss is allowed)				(100,000)
Goodwill				
Proceeds attributable to goodwill	Note 1		337,000	
Cost			–	
			<u> </u>	
Taxable gain				337,000
				<u> </u>
Total taxable gains less allowable losses				446,580
				<u> </u>
Corporation tax at an effective rate of 25%				111,645

Note 1

Proceeds attributable to goodwill	€
Total proceeds	1,200,000
Less proceeds attributable to specific assets	
Atlantic News premises	(420,000)
City News premises	(380,000)
Inventory	(63,000)
	<u> </u>
Proceeds attributable to goodwill	<u>337,000</u>

Schedule 6

Calculation of Liquidator’s distribution under Option 2	Ref.	€	€	€
Proceeds from disposal of the assets			1,200,000	
Market value of shares in Luciano plc			60,000	
Proceeds from the collection of trade receivables			4,000	
Cash balance			46,000	
			<u> </u>	
			1,310,000	
Less Liabilities				
Tax on disposal of the assets	5	111,645		
Tax on deemed disposal of Luciano plc shares (Note 2)	2	8,455		
Additional tax payable re under-declaration of turnover	1	6,551		
Repayment of bank loan		220,000		
Repayment of trade payables		72,000	(418,651)	
		<u> </u>	<u> </u>	
Liquidator’s distribution				891,349
Tax Payable at shareholder level on liquidation of company				
Proceeds from deemed disposal of shares	6		891,349	
Indexed Cost (as above)	3		(1,503)	
			<u> </u>	
Gain			889,846	
Annual Exemption			(1,270)	
			<u> </u>	
Taxable			888,576	
CGT payable by Shareholder		25%		(222,144)
				<u> </u>
Net proceeds available under Option 2				669,205
				<u> </u>

Note 2: Stamp duty is not payable on the distribution (in specie) of the Luciano plc shares by the liquidator

	Marks
(i) Unprompted Voluntary Disclosure explanation	1.0
Requirements of the Voluntary disclosure	1.0
Explanation of Corporation tax and interest	1.0
Explanation of 5% penalty rate for 31/08/09	2.0
Explanation of nil penalty for self correction in 31/08/10	1.0
Tax calculation	1.0
Penalty calculation	1.0
Interest calculation	1.0
	<hr/> 9.0
(ii) Tax on sales of Luciano shares (schedule 2)	
Corporation tax on gain	1.5
Stamp duty	1.0
Net proceeds – Option 1 (schedules 3 & 4)	
CGT on disposal	2.0
Net proceeds	1.5
	<hr/> 6.0
(iii) Net proceeds – Option 2 (schedule 5)	
Gain: Atlantic News premises	1.0
Gain: City News premises	1.5
Gain Goodwill	1.0
Corporation tax at 25%	0.5
Proceeds attributable to Goodwill	1.5
Calculation of liquidator’s distribution (schedule 6)	
Disposal proceeds	0.5
Market value of Luciano shares	0.5
Proceeds from trade receivables	0.5
Cash	0.5
Tax liability on disposal	0.5
Tax on deemed disposal of Luciano shares	1.0
Additional tax on undeclared turnover	0.5
Repayment of bank loan	0.5
Repayment of trade payable	0.5
Tax payable at the shareholder level	1.5
	<hr/> 12.0
(iv) Recommendation of Option 1	1.0
Explanation of taxes arising under Option 1	1.0
Explanation of the double tax charge arising under Option 2	1.0
Reference to the requirement to pay company liabilities under Option 2	1.0
	<hr/> 4.0
Professional marks	
Format and presentation of the letter	1.0
Effectiveness of written communication	1.0
Appropriate use of support schedules/appendix	1.0
Logical flow of calculations	1.0
	<hr/> 4.0
	<hr/> 35.0 <hr/>