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# Answers

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			<i>Marks</i>
<b>1</b>	<b>Giannis and Ioanna</b>		
	<b>(a) Income tax payable for 2008</b>		
	<b>Giannis</b>		
	Income	€	€
	Employment income	28,000	1/2
	Ex gratia bonus received	5,000	1
	Gain from disposal of an antique	0	1
	Trading gain from the disposal of the flat (working 1)	45,000	1/2
	Rental income (working 2)	5,600	1/2
	Interest received – exempted	0	1/2
	Total income		83,600
	Allowances		
	Social insurance contributions	3,000	1/2
	Provident fund contributions	4,500	1/2
	Seminar registration fees	0	1/2
	1st employment exemption		
	Lower of 20% of salaried income (28,000 + 5,000) or €8,550	6,600	1
	Total allowances		(14,100)
	Taxable income		<u>69,500</u>
	Income tax liability		
	First 19,500 at 0%		0
	19,501–28,000 at 20%		1,700
	28,001–36,300 at 25%		2,075
	36,301 and over at 30%		9,960
			<u>13,735</u>
			1
	<i>Less</i>		
	PAYE		<u>(3,000)</u>
	Tax payable		<u><u>10,735</u></u>
	<b>Ioanna</b>		
	Income	€	€
	Income from self-employment	50,000	1/2
	Trading gain from the disposal of the flat (working 1)	45,000	1/2
	Rental income (working 2)	5,600	1/2
	Interest received – exempted	0	1/2
	Total/taxable income		<u>100,600</u>
	Income tax liability		
	First 19,500 at 0%		0
	19,501–28,000 at 20%		1,700
	28,001–36,300 at 25%		2,075
	36,301 and over at 30%		19,290
			<u>23,065</u>
	Tax payable		<u><u>23,065</u></u>
	<b>Workings:</b>		
	<b>1. Gain from the sale of the flat in Athens</b>	<b>Giannis</b>	<b>Ioanna</b>
		<b>50%</b>	<b>50%</b>
		€	€
	Disposal proceeds	100,000	100,000
	Cost	(50,000)	(50,000)
	Agent fees	(5,000)	(5,000)
	Trading profit	<u>45,000</u>	<u>45,000</u>

	<b>Giannis 50% €</b>	<b>Ioanna 50% €</b>	<b>Marks</b>
<b>2. Rental income</b>			
Income from rents (7 months at €2,000 per month)	7,000	7,000	1
Advertising	0	0	1
Painting	0	0	1
Agent commission	0	0	1
20% allowance	(1,400)	(1,400)	1
Taxable income from rent	<u>5,600</u>	<u>5,600</u>	<u>19</u>
<b>(b) Capital gains tax payable for 2008</b>			
<b>Profit from the sale of holiday house</b>	<b>Giannis 50% €</b>	<b>Ioanna 50% €</b>	
Disposal proceeds	150,000	150,000	1
Cost	(25,000)	(25,000)	1
Indexation allowance 25,000 x (111·43/82·96) – 25,000	(8,579)	(8,579)	1
Land transfer fees	(750)	(750)	1
Loan interest	(840)	(840)	1
Taxable profit	114,831	114,831	
Less: general exemption	(17,086)	(17,086)	1
	<u>97,745</u>	<u>97,745</u>	
Capital gains tax payable at 20%	<u>19,549</u>	<u>19,549</u>	<u>1</u>
			<u>7</u>
<b>(c) Special defence contribution payable for 2008</b>			
	<b>Giannis 50% €</b>	<b>Ioanna 50% €</b>	
Income from rents subject to special defence contribution	7,000	7,000	½
25% allowance	(1,750)	(1,750)	1
Taxable income from rent	<u>5,250</u>	<u>5,250</u>	
3% special defence contribution payable	<u>158</u>	<u>158</u>	½
	<b>Giannis 50% €</b>	<b>Ioanna 50% €</b>	
Interest income subject to special defence contribution	2,250	2,250	½
10% special defence contribution due	225	225	½
10% special defence contribution deducted at source	225	225	½
Special defence contribution payable	<u>0</u>	<u>0</u>	½
			<u>4</u>
			<b><u>30</u></b>

## 2 Odessa Ltd

<b>(a) Taxable profit for the year ended 31 December 2008</b>	€	€	
Net profit (per question)		440,000	½
<i>Add:</i> Adjustments on income			
Loss on sale of shares (200,000 x 0.50) (note 3)	100,000		1
Interest on director's account (note 8) (50,000 x 9% x 5/12) + (50,000 x 9% x 1/12) x 50%	<u>1,125</u>		2
		101,125	
<i>Deduct:</i> Adjustments on income			
Dividends received (note 3)	20,000		1
Revaluation of land (note 2)	100,000		1
Profit on sale of shares (200,000 x €1 each) (note 3)	<u>200,000</u>		1
		(320,000)	
<i>Add:</i> Adjustments on expenditure			
Saloon car expenses (note 1)	5,000		1
Entertainment of employees (note 4) (party 5,000 + cruise 10,000 restricted to lowest of 17,086 or 1% of turnover)	560		1
Cash bonus paid to employees at Christmas (note 4)	0		½
Seminars organised for employees (note 4)	0		½
Contributions to employees medical fund	0		½
Interest restriction on saloon car (note 1) (80,000 x 8% x 6/12)	3,200		1
Interest restriction on land (note 2) (200,000 x 8%)	16,000		1
Interest restriction on investments (working 1)	28,001		½
Bonus shares (note 7)	300,000		1
Prospectus fees (note 5)	<u>10,000</u>		1
		<u>362,761</u>	
		583,886	
<i>Less</i>			
Group relief (working 2)		<u>200,000</u>	½
Taxable profit		<u><u>383,886</u></u>	
<b>Working 1 – Interest restriction on the cost of investments</b>		€	
Shares in Azale Ltd (note 3)			
1 February 2008 to 30 June 2008: €500,000 x 8% x 5/12		16,667	½
1 July 2008 to 30 November 2008: €300,000 x 8% x 5/12		10,000	½
1 December 2008 to 31 December 2008: €100,000 x 8% x 1/12		667	½
Shares in Ni Ltd (note 6)			
1 December 2008 to 31 December 2008: €100,000 x 8% x 1/12		<u>667</u>	½
Total interest restriction		<u>28,001</u>	
<b>Working 2 – Group relief (note 6)</b>		€	
Kappa Ltd is a 100% subsidiary for the whole year therefore group relief can be obtained		200,000	1
Lamda Ltd % of ownership decreased below 75% therefore no group relief is available		0	1
Mi Ltd % of ownership is below 75% therefore no group relief is available		0	1
Ni Ltd % of ownership exceeded 75% but not for the whole year therefore no relief is available		<u>0</u>	1
Group relief available		<u><u>200,000</u></u>	<u>21</u>

**(b) PAYE implications****Note 1**

The director of the company will be assumed to have a benefit in kind from the use of the company car. Such benefit in kind is subject to PAYE.

1

**Note 4**

The cash bonus is part of the employees' salaries and is subject to PAYE.

1

**Note 7**

The benefit arising from the bonus shares obtained by the employees, i.e the difference between the market price of the shares granted to the employees and the cost paid by the employees, is subject to PAYE.

2

4

25

3 (a) Christina

	€	
<b>(i) Capital gains tax payable</b>		
<b>Disposal in June 1999</b>		
Profit subject to capital gains tax	5,000	½
Less: Lifetime exemption – partly used	(5,000)	1
	<u>0</u>	
<b>Disposal in July 1999</b>		
Since the disposal resulted in a loss of €50,000 there is no capital gains tax payable.		1
<b>Disposal in March 2003</b>		
Since the disposal resulted in a loss of €80,000 there is no capital gains tax payable.		1
<b>Disposal in October 2004</b>		
Profit subject to capital gains tax	60,000	½
Less: loss brought forward (available loss is €130,000). €60,000 is utilised and €70,000 is carried forward.	<u>60,000</u>	1
Gain on disposal	<u>0</u>	
<b>Disposal in October 2005</b>		
Profit subject to capital gains tax	100,000	½
Less: loss brought forward	<u>(70,000)</u>	1
Gain on disposal	30,000	
Less: Lifetime exemption – unused (17,086 – 5,000)	<u>(12,086)</u>	1
Taxable gain	<u>17,914</u>	
Capital gains tax at 20%	<u>3,583</u>	½
		<u>8</u>

<b>(ii) Christina must submit a declaration of disposal of property.</b>	1
She must do this within one month from the date of the disposal and pay the tax due as per such return.	1
	<u>2</u>

<b>(b) The subject matter of the transaction</b>	1
The length of ownership	1
Frequency of similar transaction	1
Supplementary work	1
Circumstances responsible for the sale	1
Motive	1
Method of financing the cost	1
Knowledge of the owner	1
Method of acquisition	1
How the sale proceeds are used	1
	<u>10</u>
	<u>20</u>

<b>4 (a) A voluntary correction of errors or misdeclarations may be made by a trader where he has submitted an erroneous VAT return in which he has declared a higher or lower amount of tax payable or repayable.</b>	1
Two alternative procedures apply:	
(1) Where the net value of the errors or misdeclarations made (underpayments of VAT less overpayments of VAT) in previous VAT returns does not exceed €1,710, a correction may be made by simply correcting the errors on the VAT account and in the next VAT return, provided the corrections made relate to erroneous VAT returns of not more than three years.	1
	1
	1

			<b>Marks</b>
(2)	Where the net value or errors or misdeclarations made in previous VAT returns exceeds €1,710, or they relate to erroneous VAT returns of more than three years, irrespective of the amount of the value of the errors, the VAT Commissioner must be notified of the intention of making corrections which, in such a case, may be made only on the direction or requirement of the VAT Commissioner.		1
			1
			1
			<u>7</u>
<b>(b)</b>	<b>Output VAT</b>		
	Cash sales		
	Zero rate	€3,000 x 0% =	€0
	Reduced rate	€2,000 x 5% =	€100
	Standard rate	€5,000 x 15% =	€750
	Credit sales		
	Standard rate	€10,000 x 97% x 15% =	€1,455
	Total output VAT		<u>€2,305</u>
	<b>Input VAT</b>		
	Zero rate	€2,000 x 0% =	€0
	Reduced rate	€1,500 x 5% =	€75
	Standard rate	€3,000 x 15% =	€450
	Services:		
	business entertaining		€0
	private use		€0
	services at standard rate (€4,000 – €400 – €600) =	€3,000 x 15% =	€450
	Total input VAT		<u>€975</u>
	Total output VAT		€2,305
	Less total input VAT		€975
	VAT payable		<u>€1,330</u>
			<u>8</u>
			<b>15</b>
<b>5</b>	<b>(a)</b>	Governments can seek to achieve a redistribution of wealth from the rich towards the poor because of the different social effects of different types of taxes:	
	(1)	Direct taxes (income tax and corporation tax, capital gains tax and immovable property tax) can be imposed on those who have income, gains and immovable properties.	1
	(2)	Indirect taxes paid by consumers (VAT) discourage spending and encourage savings, and are generally regressive i.e. impose more heavily on the poor than the rich. However, lower VAT rates or nil rates can be levied on essentials, such as food.	2
	(3)	Progressive taxes, such as income tax, can be used to collect more tax from those who can afford to pay due to their higher incomes. On the other hand personal allowances or low or nil rates of tax ensure that those on very low incomes pay little or no tax.	2
	(4)	Taxes on capital or wealth ensure that people cannot avoid taxation in cases where their income is low but their living standard depends on the sale of capital assets.	1
			<u>6</u>
	<b>(b)</b>	There is no tax payable since the 'Paid and Due' Temporary Tax is equal to the Final Tax assessed.	1
		Due date of 3rd instalment 2007	31 December 2007
		Tax payable (3rd instalment due)	€3,200
		There is no tax payable on that assessment since the 'Paid and Due' Temporary Tax is equal to the Final Tax Interest:	1/2
		– correct start date	1 January 2008
		– computation	(3,200 x 8% x 14/12 months) = €299
			1
			<u>4</u>
			<b>10</b>