
Answers

Section A

- 1 The correct answer is €15,000

As the option is a short option (less than seven years), tax is levied at the date of exercise only. Tax is levied at the date of exercise on the difference between the market value at the date of exercise and the option price at the date of grant. $€3 (€5 - €2) \times 5,000 = €15,000$

- 2 The correct answer is €57,090

	€	€
Net proceeds		68,000
Less base cost		
Total cost	52,000	
$\times 70,000/70,000 + 280,000$	10,400	
Indexation	1.049	(10,910)
Chargeable gain		<u>57,090</u>

- 3 The correct answer is 1, 2, 3 and 4

Capital gains tax (CGT), stamp duty, capital acquisition tax (CAT) and local property tax are all forms of capital taxation.

- 4 The correct answer is €12,500

Less than 5% shareholding (portfolio investment), 12.5% rate applies. $12.5\% \times €100,000 = €12,500$

- 5 The correct answer is 1, 2, 3 and 4

Tutorial notes:

1. VAT is now due on single purpose vouchers from 1 January 2019.
2. VAT is due on customer gifts with a value in excess of €20 each.
3. The appropriation by a trader of goods for his own use is deemed to be a self-supply for VAT purposes.
4. VAT is charged at 0% on the export of goods.

- 6 The correct answer is €40,000

$€200,000 \times 20\% = €40,000$

- 7 The correct answer is 1, 2 and 3 only

Regardless of the scenario, interest will be applied on the late payment of tax.

- 8 The correct answer is €2,425

$€1,000,000 \times 0.18\% = €1,800 + (€250,000 \times 0.25\% = €625) = €2,425$

- 9 The correct answer is: They are in a group for chargeable gains purposes but not for group loss relief purposes

A Holdings Ltd only owns 72% of C Trading Ltd ($90\% \times 80\% = 72\%$) and therefore they are not in a group for loss relief purposes, but because capital gains tax includes effective subsidiaries, they are in a group for chargeable gains purposes.

- 10 The correct answer is €6,000

$€180,000/12 = €15,000 \times 40\% = €6,000$

- 11 The correct answer is €1,553

$€11,500 \times 13.5\% = €1,553$ (2/3rds rule not broken)

12 The correct answer is €40,000

Gain on gift to son, no capital gains tax to spouse, loss to daughter is ringfenced against disposals to same connected party. €250,000 – €210,000 = €40,000

13 The correct answer is €920

		€
Schedule E private pension		50,000
Schedule F dividends		5,000
Total liable to universal social charge		<u>55,000</u>
12,012	at 0.5%	60
42,988	at 2%	<u>860</u>
55,000		
Total		920

14 The correct answer is: Profits of the branch, Irish source income of the company, plus any Irish chargeable gains of the company not attributable to the branch

15 The correct answer is €260

$$€2,540 - €2,800 = €260$$

2 marks each

30

Section B

Marks

1 PRL Ltd

(a) Tax deductible pre-trading expenses

	€	€	
Market research (outside three-year limit/not allowable)	0		1·0
Architect's/professional fees (capital in nature/not allowable)	0		0·5
Trade fair (allowable revenue expenditure)	800		0·5
Client entertainment (specifically not allowable)	0		0·5
Digital marketing (allowable revenue expenditure)	3,200	4,000	0·5
			<u>3·0</u>

(b) Patent royalties

PRL Ltd must deduct 20% IT from the gross covenant (€30,000 x 20%)	6,000	0·5
And pay over with final corporation tax (CT) liability 21 September 2020.		0·5
		<u>1·0</u>

(c) CT liability for the year ended 31 December 2019

	€	€	
Schedule D Case I – trading income	280,000		0·5
Less patent royalties (allowed on a paid basis)	(20,000)		1·0
Less Schedule D Case I losses b/f (allowable pre-trading expenses)	(4,000)	256,000	1·0
Schedule D Case V income – rental income		16,000	0·5
Taxable profits		<u>272,000</u>	
Taxed as follows:			
€256,000 at 12·5%	32,000		0·5
€16,000 at 25%	4,000		0·5
€272,000			
Total tax		36,000	
As less than €40,000, entitled to three-year start up relief.			0·5
However, capped at PRSI paid		(25,500)	0·5
Net tax		<u>10,500</u>	5·0

- (d) 21/23 September 2020 – new company, CT liability less than €200,000, no preliminary tax, so all payable at filing deadline. 0·5
- 21/23 September 2020 – filing deadline. 0·5

1·010

2 MTEC Ltd – Value added tax (VAT) computation for the VAT period May/June 2019

	Net €	VAT rate	VAT €	
VAT on sales				
Sales of computers (tutorial note)	375,000	23%	86,250	0.5
Sales of computer software	456,000	23%	104,880	0.5
Sales of computer repairs	137,000	13.50%	18,495	1.0
Sales of computer training	98,000	Exempt	0	1.0
Intra-community acquisitions (ICA) – computers from Spain for re-sale	225,000	23%	51,750	0.5
ICA – computers from Spain not for re-sale	24,000	23%	5,520	0.5
Total VAT on sales			<u>266,895</u>	
VAT on purchases				
ICA – computers from Spain for re-sale	225,000	23%	51,750	0.5
ICA – computers from Spain not for re-sale [used in exempt activity, no VAT deduction]	24,000	23%	0	1.0
Software Irish suppliers	170,000	23%	39,100	0.5
Rent [no invoice/no deduction]	60,000	23%	0	1.0
Light and heat [75% recovery only]	6,200	13.50%	628	1.0
Insurance – no VAT	45,000	Exempt	0	0.5
Wages – no VAT	152,000		0	0.5
Motor – repairs	4,200	13.50%	567	0.5
Motor – diesel	2,100	23%	483	0.5
Total VAT on purchases			<u>92,528</u>	
Net VAT payable			<u>174,367</u>	

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Tutorial note: The fact that a business customer has a laptop delivered directly to their daughter has no implications for the vendor (MTEC). It would, however, have implications for the purchaser, i.e. it would be a self-supply.

3 Terry – Capital gains tax (CGT) liability 2019

(1) Dublin (Ireland) investment property

Terry is taxable on Irish gains plus remittances of foreign gains. 1.0

	€	€	
Sales proceeds	295,000		0.5
Less incidental costs of disposal	<u>(4,250)</u>		0.5
Base cost		290,750	
Purchase price (12 May 1991)	45,000		1.0
Legal and professional fees	<u>1,900</u>		0.5
Total base cost	46,900		
Indexation (May 1991 to December 2003)	<u>1.406</u>	(65,941)	0.5
Chargeable gain		<u>224,809</u>	

(2) UK (Manchester) principal private residence (PPR)

As it is a gift to a connected party, market value rules normally apply.

However, as the property is not an Irish property, and as there are no proceeds to remit, then the transfer is not subject to CGT in Ireland. 1.0

(3) Shares

	€	
Sales proceeds [500 shares]	3,900	0.5
Base cost [200 shares]	<u>(1,800)</u>	0.5
Base cost [300 shares €4,400 x 300/600]	<u>(2,200)</u>	1.0
Capital loss	<u>(100)</u>	

Marks**(4) UK painting**

As the disposal is only taxable on a remittance basis, the loss on disposal is not allowable.

2·0

Total assessable gains

	€	
(1) Ireland (Dublin) investment property	224,809	
(2) UK (Manchester) PPR	—	
(3) Shares	(100)	
(4) Painting	—	
Total	224,709	
Less annual exemption	(1,270)	0·5
	<u>223,439</u>	
CGT at 33%	73,735	0·5
	<u>10</u>	

4 Timothy**(a) (i) Deed of covenant**

Deed of covenant must be a legally binding written agreement.

1·0

Must be for a period in excess of six years, i.e. seven.

1·0

Recipient must either be over 65 years/permanently incapacitated.

1·0

3·0

(ii) Taxable income

	€	€	
Schedule E – salary		90,000	0·5
Schedule F – Irish dividends (3,200 x 100/80)		4,000	0·5
Gross income		<u>94,000</u>	
Less charges/reliefs			
Deed of covenant (see working 1)	4,700		W1
Employment incentive investment scheme (EIS) [€25,000 x 30/40ths]	<u>18,750</u>	(23,450)	1·0
Taxable income		<u>70,550</u>	

Workings**W1 Deed of covenant**

	€	
Total income (gross income, less other charges)	94,000	
Max 5%	4,700	1·0
Paid	5,000	
Allowable	<u>4,700</u>	1·0
		<u>4·0</u>

(b) Income tax computation for Dorothy for 2019

	€	
Schedule D Case IV – deed of covenant	5,000	0·5
Schedule E – State pension	<u>12,652</u>	0·5
Gross/taxable income	<u>17,652</u>	
Exempt from income tax as over 65 and under income limit of €18,000.		1·0
Refund of income tax from deed of covenant (5,000 x 20%)	1,000	1·0
		<u>3·0</u>
		<u>10</u>

5 Peter

(a) Commencement

	€	
Year 1 – 2017 – actual basis [39,000 x 7/13]	21,000	1·0
Year 2 – 2018 – 12 months [39,000 x 12/13]	36,000	0·5
Year 3 – 2019 – 12 months	115,000	0·5
Prior year review of 2018 to actual		
39,000 x 6/13	18,000	0·5
115,000 x 6/12	57,500	0·5
Total	<u>75,500</u>	<u>3·0</u>

Exceeds original, no change.

(b) Income tax computation for Peter and Irene for 2019

	€	€	
Schedule D Case II – trading income		115,000	0·5
Schedule D Case III – UK dividends		800	0·5
Schedule D Case IV – deposit interest		980	W1
Schedule E – salary	26,000		0·5
Schedule E – capital allowances car	<u>(1,125)</u>	<u>24,875</u>	W2
Gross income		141,655	
Less charges/reliefs		<u>0</u>	
Taxable income		<u>141,655</u>	
Taxed as follows:			
€69,175 at 20% [35,300 + 9,000 + 24,875]	13,835		1·0
€980 at 35% (W1)	343		1·0
€71,500 at 40%	<u>28,600</u>		0·5
€141,655			
Gross tax		42,778	
Less non-refundable tax credits			
Married	3,300		0·5
Earned	1,350		0·5
Employee/PAYE	1,650		0·5
DIRT (W1)	343		0·5
Medical expenses	<u>512</u>	<u>(7,155)</u>	W3
Less refundable tax credits			
Paid PAYE		<u>(1,900)</u>	0·5
Net tax		<u>33,723</u>	

Workings

W1 Irish deposit interest

	€	
Deposit interest (net of DIRT at 35%)	637	0·5
DIRT credit (non-refundable unless over 65/incapacitated) x 35/65	<u>343</u>	0·5
Taxable on gross	<u>980</u>	

Tax separately at 35%.

W2 Schedule E – Capital allowances on private car

	€	€	
Qualifying cost [€20,000 x 50%]	10,000		1·0
Wear and tear at 12·5%	1,250		0·5
Business use 90%		1,125	0·5

			Marks
W3 Medical expenses			
	€	€	
Doctor's bills/prescriptions	730		0·5
Dentist – routine clean and polish/not allowable	0		0·5
Repair of dentures	250		0·5
Root canal treatment	1,580	2,560	0·5
Tax credit at 20%		512	0·5
		<u>12</u>	
		15	

6 Plastic Products Ltd

Corporation tax computation for the year ended 30 September 2019

	€	€	
Net profit per accounts		1,657,100	
<i>Add-backs</i>			
Depreciation	36,900		0·5
Legal fees (trading – allowable)	0		0·5
Lease interest	28,600	65,500	0·5
<i>Deductions</i>			
Disposal of non-current assets	250,000		0·5
Irish bank deposit interest (Case III)	17,500		0·5
Allowable lease payment	210,000		1·0
Capital allowances [234,000 – 15,560]	(218,440)	(259,060)	W1/3
Schedule D Case I – trading income		1,463,540	
Less group relief		(62,500)	W4
		<u>1,401,040</u>	
Schedule D Case III income – deposit interest		17,500	0·5
Total income		1,418,540	
<i>Add: chargeable gain</i>		494,406	W2
Taxable profits		<u>1,912,946</u>	

Workings

W1 Balancing allowance/charge calculation

	€	
Proceeds	575,000	0·5
Tax written down value	(91,000)	0·5
Balancing charge	<u>484,000</u>	
Restricted to allowances claimed [325,000 – 91,000]	234,000	1·0

W2 Chargeable gain (disposal of factory premises)

	€	€	
Proceeds		575,000	0·5
Base cost	325,000		0·5
Indexation (January 2000 to December 2003)	1·193	(387,725)	0·5
Chargeable gain		<u>187,275</u>	
Re-gross chargeable gain [187,275 x 33/12·5]		494,406	1·0

W3 Qualifying cost for industrial buildings allowance

	€	
Architect's fees	37,000	0·5
Construction costs	352,000	0·5
Administration offices	81,000	0·5
	<u>470,000</u>	

	€	Marks
Administration offices [greater than 10%, $81,000/470,000 = 17\%$]		1·0
Net qualifying cost [470,000 – 81,000]	389,000	1·0
Industrial buildings allowance [389,000 x 4%]	15,560	0·5
W4 Group loss relief		
Losses brought forward are not available for group relief.		1·0
Current year losses are available but are restricted to common accounting period – €125,000 x 6/12	62,500	1·0
Offset directly against trading profits of Plastic Products Ltd.		0·5
		<u>15</u>