Fundamentals Level – Skills Module

Taxation (Irish)

Thursday 10 December 2015

Paper F6 (IRL)

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 2–7.

Do NOT open this question 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.

Do NOT record any of your answers on the question paper.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

ACCA

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest Euro.
2. All time apportionments should be made to the nearest month.
3. All workings should be shown in Section B.

TAX REFERENCE MATERIAL

The following rates, credits, formulae and allowances are based on the Finance (No 2) Act 2013 and are to be used for all questions in this paper.

Income tax rates

Tax	
	€
Single/widow(er)/surviving civil partner without qualifying children	
€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%	
Single/widow(er)/surviving civil partner qualifying for single person child carer credit	
€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/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 person child carer credit	1,650
Incapacitated child credit	3,300
Dependent relative credit	70
Age credit – single/widowed/surviving civil partner	245
– married or in a civil partnership	490
Employee/PAYE credit	1,650

Rent allowance credit

	Rent limit €	
– single aged under 55	800	160
– married/widowed/in a civil partnership/survivor of a civil partnership aged under 55	1,600	320
– single aged 55 and over	1,600	320
– married/widowed/in a civil partnership/survivor of a civil partnership aged 55 and over	3,200	640

Note: The rent allowance credit is only available to individuals who were tenants and eligible for the relief on 7 December 2010.

Third level tuition fees	Upper limit €7,000
Full-time qualifying courses	First €2,750 is ignored
Part-time qualifying courses	First €1,375 is ignored

Rates of PRSI
Self-employed

Rate 4%

Where income is above €5,000, the rate is 4% of reckonable earnings or €500, whichever is greater.

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

Rates of PRSI
Employee – Class A1

Rate 4%

No PRSI on earnings of €352 or less per week.

Rates of PRSI

Employer (for employees – Class A1)

Rate	10·75%

Universal social charge (USC) 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 relevant (non-PAYE) income that exceeds €100,000 per annum, regardless of age.

For individuals aged 70 and over, and individuals who hold a medical card regardless of age, the maximum rate is 4% on income up to €60,000, and 7% on income over €60,000.

Exemptions:
– Individuals whose income does not exceed €10,036 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 net relevant 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 less the present value of a current/future entitlement to a pension lump sum).

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

Where: A = Annual average salary over the last three years of employment
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	23%
Lower rate	13·5%
Additional lower rate	9%

Capital gains tax

Rate	33%
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 27 January 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, if first in use by 1 February 2007
	From 1 August 2006	15% for six years and 10% in year seven	15 years, if first in use after 1 February 2007
Childcare facilities	From 2 December 1998 to 31 July 2006	15% for six years and 10% in year seven	10 years, if first in use by 1 February 2007
	From 1 August 2006	15% for six years and 10% in year seven	15 years, if first in use after 1 February 2007

Motor cars – limits on capital costs

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/leasing charges are based on the specified amount of €24,000 regardless of the cost of the car.

Category D/E vehicles – capital allowances/leasing charges 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/leasing charges.

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%

Preferential loan rates

Loans used to fund the cost/repair of the employee's principal private residence	4%
All other loans	13·5%

Local property tax

Tax bands for valuation purposes

€
0–100,000
100,001–150,000
150,001–200,000
200,001–250,000
250,001–300,000
300,001–350,000
350,001–400,000
400,001–450,000
450,001–500,000
500,001–550,000
550,001–600,000
600,001–650,000
650,001–700,000
700,001–750,000
750,001–800,000
800,001–850,000
850,001–900,000
900,001–950,000
950,001–1,000,000

Properties worth up to and including a value of €1 million will be assessed at a rate of 0·18%.

Properties worth more than €1 million will be assessed on their actual value at 0·18% on the first €1 million and at 0·25% of their actual value on the portion above €1 million.

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

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.
Each question is worth 2 marks.

1 X Ltd prepares its accounts annually to 31 December. For the year ended 31 December 2014, X Ltd incurred the following costs on the construction of a factory (a qualifying industrial building):

	€
Site cost	50,000
Site clearance and development costs	40,000
Architect fees	12,000
Building costs	100,000
	202,000

Included in the factory building is an administration office. The cost of the office makes up 15% of the total expenditure on the building. The factory was introduced into use from 1 April 2014.

What is the industrial buildings annual allowance available on the factory for the year ended 31 December 2014?

A €8,080
B €6,080
C €5,168
D €4,560

2 John had gross income of €80,000 for the tax year 2014. During 2014, he entered into a deed of covenant and agreed to pay €8,000 per annum to his father, aged 70, for the next eight years. John also paid permanent health insurance of €1,200 during 2014.

What is the amount of the covenant on which John can receive tax relief in the tax year 2014?

A €8,000
B €4,000
C €3,940
D €0

3 Susan disposed of a painting for €2,000 during 2014. She had bought the painting in 2010 for €3,000 and had hoped that the artist would become famous quickly.

What is the amount of Susan's allowable loss for capital gains tax on the disposal of the painting?

A €460
B €1,000
C €0
D €230

4 Meath Ltd prepares its accounts annually to 31 December. For the year ended 31 December 2014, the company recorded a trading loss and filed its corporation tax return one month late.

Which of the following statements correctly describes the restriction which will apply to the utilisation of Meath Ltd's trade loss for the year ended 31 December 2014?

A There will be a 25% restriction on relief against current, previous and future year income subject to a maximum restriction of €31,740
B There will be a 50% restriction on relief against current, previous and future year income subject to a maximum restriction of €158,715
C There will be a 25% restriction on relief against current and previous year income only, subject to a maximum restriction of €31,740
D There will be a 50% restriction on relief against current and previous year income only, subject to a maximum restriction of €158,715

5 Obe Ltd, an Irish resident company, received a dividend of €10,000 from Pony Ltd, a UK trading company. Obe Ltd holds 5% of the share capital of Pony Ltd.

What is the rate of Irish tax payable by Obe Ltd on this dividend income?

A 12·5%
B 25%
C 0%
D 20%

6 Harry commenced to trade on 1 March 2012. He prepares his annual accounts to 28 February and recorded the following tax adjusted trading profits:

	€
Year ended 28 February 2013	24,000
Year ended 28 February 2014	18,000
Year ended 28 February 2015	36,000

What is the amount of Case I income on which Harry will be assessed for the tax year 2014?

A €18,000
B €19,000
C €33,000
D €13,000

7 Sean, a self-employed individual, had an income tax liability for the tax year 2013 of €24,000. Sean paid the correct amount of preliminary tax by the required dates but did not file his income tax return for 2013 until 1 December 2014.

What is the amount of the surcharge and interest payable by Sean in respect of the tax year 2013?

Note: Interest should be calculated using the daily rate of 0·0219% and all calculations should be done to the nearest day.

A Surcharge €1,200, interest €8
B Surcharge €1,200, interest €104
C Surcharge of €2,400, interest €16
D Surcharge of €2,400, interest €208

8 Which of the following value added tax (VAT) charges are NOT available as an input tax credit to a VAT registered trader?

(1) VAT charged on the lease payments for a delivery van
(2) VAT charged on meals and accommodation for a sales representative
(3) VAT charged on the diesel for a delivery van
(4) VAT charged on an invoice which does not contain the customer's VAT number

A 1 and 3
B 2 only
C 2 and 4 only
D 1, 2 and 4

9 Patricia is an Irish resident, but non-domiciled, individual. In 2014, Patricia sold a UK property for €100,000 on which she made a gain of €15,000. She remitted €50,000 of the sale proceeds into Ireland during 2014.

What is the amount of the gain which will be subject to Irish capital gains tax for 2014?

A €50,000
B €0
C €15,000
D €7,500

10 To which of the following properties will local property tax apply for 2014?

(1) An apartment over a shop
(2) A holiday home abroad
(3) A nursing home
(4) A home occupied as a principal private residence, bought from a builder in 2014

A 1 and 4 only
B 1, 2 and 4
C 3 and 4
D 1 only

11 Andy is a self-employed subcontractor, who prepares his accounts annually to 30 September. During the year, principal contractors deducted relevant contracts tax (RCT) from the payments made to Andy. For the year ended 30 September 2014, Andy is due a refund of RCT.

Which of the following correctly describes the repayment option available to Andy?

A Andy may claim and receive an interim refund of RCT at any time during the year
B Any refund will be paid to Andy after his accounting year end of 30 September 2014
C Any excess of RCT over other taxes payable by Andy, will be refunded to Andy after the income tax return filing date for the tax year 2014 of 31 October 2015
D Any excess of RCT over other taxes payable by Andy, will be refunded to Andy after he has actually filed his income tax return for the tax year 2014

12 Peter is aged 50 and has the following income for the tax year 2014:

	€
Schedule D Case II	120,000
Schedule D Case IV (Irish deposit interest – gross)	5,000
PAYE income	10,000

What is the universal social charge (USC) payable by Peter for the tax year 2014?

A €9,019
B €8,769
C €8,419
D €9,319

13 In 2014, Luke disposed of land in County Clare, Ireland, to Seamus for €400,000 making a gain on disposal of €150,000.

What is the amount of capital gains withholding tax which Seamus should deduct?

A €60,000
B €22,500
C €0
D €49,500

14 Jack Ltd is an Irish resident company which is registered for value added tax (VAT) and is engaged in the sale of computers. Jack Ltd sells a computer to a private customer in Germany.

The standard rate of VAT in Germany is 19%. Germany is an EU Member State country.

What is the rate of value added tax (VAT), if any, to be charged by Jack Ltd on the sale to the German customer?

A Irish VAT at 23%
B German VAT at 19%
C Irish VAT at 0%
D Exempt from Irish VAT

15 **In the context of the Irish/UK double tax treaty, which of the following are considered to be a permanent establishment?**

(1) A workshop
(2) A building site which lasts for more than six months
(3) Facilities solely used for storage
(4) An office solely used for advertising or supplying information to customers

A 3 and 4 only
B 1 and 2 only
C 1, 2 and 3 only
D 1, 2, 3 and 4

(30 marks)

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 Modern Kitchens Ltd (MKL) is an Irish resident company. MKL manufactures kitchens, which are sold through the company's own retail outlets.

MKL's recent results are as follows:

	Year ended 30 September 2012	Period ended 30 June 2013	Year ended 30 June 2014
	€	€	€
Case I income/(loss) – manufacturing business	20,000	(180,000)	9,000
Case I income/(loss) – retail business	70,000	30,000	50,000
Case V income	40,000	40,000	20,000
Case V capital allowances	(30,000)	(30,000)	(30,000)

Required:

Compute the total profits and corporation tax liability (if any) of Modern Kitchens Ltd for all relevant periods. Your answer should be supported by a loss memorandum which clearly identifies the order in which the Case I trade loss should be used and any unused losses carried forward.

(10 marks)

2 Ciara is single, Irish resident and domiciled. During 2014, she made the following disposals of assets:

(1) On 1 July 2014, she sold her principal private residence, in Cork, Ireland, for €400,000, incurring disposal costs of €20,000 on the sale. A local supermarket which plans to demolish the house and redevelop the site purchased the property. Ciara had purchased the house on 1 January 2000 for €200,000. The current use value of the house when it was purchased was €180,000 and when it was sold was €320,000. Ciara has always lived in the house.

(2) On 20 July 2014, she sold all of the house furnishings in a yard sale. The total sales proceeds on the day were €10,000. Ciara estimated that the furnishings had cost her a total of €25,000.

(3) Ciara inherited 20 acres of land in Connemara, Ireland, on her mother's death in May 2004. The market value of the land at the date of her mother's death was €60,000. In August 2014, the local authority acquired four acres of the land for road widening purposes. Ciara received €24,000 from the local authority. The local authority paid all of the associated legal costs. A local auctioneer has valued the remaining 16 acres of land at €48,000.

Required:

(a) Compute Ciara's capital gains/losses (if any) on each of the above transactions. Give a relevant explanation for any disposal which you treat as not giving rise to a capital gain or capital loss. (9 marks)

(b) Compute the capital gains tax payable by Ciara for 2014. (1 mark)

(10 marks)

3 Mark is a watch repairer and is about to start up his own watch repair business in Sligo, Ireland. Mark has prepared projections which show the following turnover, excluding value added tax (VAT), for the tax years 2014, 2015 and 2016:

	€
2014	35,000
2015	70,000
2016	140,000

Mark has raised the following questions regarding his VAT position:

(a) When will he be required to register for VAT and how should he register? (3 marks)

(b) What details will he need to include on the sales invoices for VAT purposes?

Note: You should provide EIGHT examples. (4 marks)

(c) Where an Irish customer is charged a total of €100 for watch repair services, being €60 for parts and €40 for labour (all amounts excluding VAT), what is the rate/s of VAT which should be charged on the invoice? (1 mark)

(d) If watches are repaired in the Sligo workshop for customers from other EU countries (both private consumers and businesses), what rate/s of VAT should be charged on these invoices? (2 marks)

Required:

Provide brief answers to each of Mark's questions.

Note: The split of the mark allocation is shown against each of the four issues above.

(10 marks)

4 David has been trading for a number of years and prepares his accounts annually to 31 December. David's Case I adjusted income for the year to 31 December 2014 is €111,000. He also has Case I losses (from the same trade) carried forward from previous years of €20,000. David leases most of the plant used in his business. Details of the plant and motor vehicles he owns are as follows:

	Plant	**Motor vehicles**
	€	€
Cost at 1 January 2014 (note 1)	40,000	
Cost at 1 January 2014 (restricted) (note 2)		12,000
Additions during the year	10,000	
Disposals during the year at cost (note 3)	(8,000)	

Notes:

1. The cost of plant only includes plant which has not been fully written off for capital allowance purposes.
2. The motor vehicle was acquired during 2013 and is used 60% for business purposes.
3. The plant disposed of had been bought in May 2006 for €8,000 and was sold in August 2014 for €1,500.

David also owns the following properties:

– A factory which he leases to a tenant who carries on a qualifying activity. The tenant pays David an annual rent of €25,000. The factory was built by David in 2010 at a qualifying cost of €1,500,000.

– An office which he rented out on a ten-year lease from 1 November 2014. The tenant paid David an initial lease premium of €30,000 and pays a monthly rent of €3,000. Prior to this lease, the office had been empty since David purchased it in 2013.

Required:

Compute David's total income for the tax year 2014.

(10 marks)

5 **(a)** Helena (45) and Pat (48) were divorced on 1 May 2010. The couple have two children; John (22) is at university and Amy (15) is still at school. The children live with Helena during the school year and with Pat during the holidays. Helena is the primary carer for the children.

Helena works full-time as a marketing assistant and her gross salary for the tax year 2014 was €35,000 (PAYE €5,000). Her job is based in the city but she spends 80% of her time out of the office. Her employer provides her with a company car, which has a current market value of €19,000 but cost her employer €25,000 when it was purchased new in 2012. Helena drives 10,000 business kilometres annually.

In August 2014, Helena's employer replaced the television in the office's reception area and gave Helena the old television. The television had been bought in 2010 for €1,000 but its market value in August 2014 was €300.

Helena receives annual legally enforceable maintenance payments from Pat of €12,000 in respect of the children and €6,000 for herself.

Helena's outgoings in the tax year 2014 were as follows:

1. Permanent health insurance of €1,500.
2. Donation of €600 to the Irish Cancer Society.
3. Private medical insurance of €1,600 (net).
4. Third level college fees of €8,000 for John who is studying on a qualifying postgraduate degree course.

Required:

Compute Helena's income tax liability for the tax year 2014 on the basis that she is taxed as a single person.

Note: You should indicate by the use of zero (0) any item referred to in the question which is not included in the computation. (9 marks)

(b) Helena is a very creative person and, as a pastime, she knits soft toys. Her friends and work colleagues often buy these soft toys from her as gifts for others.

Required:

Advise Helena on how the badges of trade may be used to determine whether she is carrying on a trade in respect of the sales of the soft toys she knits. (6 marks)

(15 marks)

6 Seaview Ltd is an Irish resident manufacturing company. The company's statement of profit or loss for the year ended 31 December 2014 is as follows:

	Notes	€	€
Turnover			1,525,000
Cost of sales			(1,050,000)
Gross profit			475,000
Expenses			
Patent royalties	(1)	60,000	
Depreciation		20,000	
Legal and professional fees	(2)	13,400	
Rent, rates and advertising		12,500	
Sundry expenses	(3)	4,540	
Repairs and maintenance	(4)	3,000	
Client entertaining		2,000	
Car leasing costs	(5)	11,600	
Wages and salaries		148,000	
Interest payable	(6)	12,000	(287,040)
Other income			
Investment income	(7)	4,600	
Profit on the disposal of non-current assets	(8)	30,000	34,600
Net profit			222,560

Notes:

(1) The patent royalties were payable to Ocean Nine Ltd, an unconnected Irish resident company. No royalties were paid during the year ended 31 December 2014, however, €40,000 was paid on 1 March 2015.

(2) Legal and professional fees include the following:

	€
Professional fees incurred in obtaining a property valuation, prior to the sale of a shop (see note 8)	1,250
Accounting fees incurred in dealing with a Revenue value added tax (VAT) audit	2,000
Legal fees for the collection of trade debts	2,000

(3) Sundry expenses include a Companies Registration Office late filing penalty of €750.

(4) A lock and a broken window in the rented office space (see note 7) were repaired during the year at a total cost of €300.

(5) Details of the car leasing costs for the year ended 31 December 2014 are as follows:

Car	Emissions category	Total lease payments for the year	Retail price of car when first leased
13DXXXX	A	€3,600	€17,000
12DXXXX	D	€8,000	€38,000

(6) The interest payable was incurred on a bank loan used to buy a new machine for use in the company's trade.

(7) The investment income comprised the following:

	€
Rental income from a small unused office space	4,000
Dividends from a small shareholding investment in an Irish quoted company – received gross	600
	4,600

(8) In December 2014, Seaview Ltd sold a shop from which it had previously traded for €80,000. The company had originally purchased the property in May 2001 for €40,000. In November 2005, a small car park was built outside the shop at a cost of €10,000.

Other information

Capital allowances for the year ended 31 December 2014 are €50,000.

Required:

Compute the corporation tax payable by Seaview Ltd for the year ended 31 December 2014.

Note: Your computation should commence with the net profit of €222,560 and should list all of the items referred to in notes (1) to (8) indicating by the use of zero (0) any items which do not require adjustment.

(15 marks)

End of Question Paper