Answers

Section A

1 C

(40,000 + 12,000 + 100,000) = 152,000
152,000 x 85% x 4% = €5,168

2 B

€80,000 x 5% = €4,000

Tutorial note: *As the covenant is in favour of an adult aged at least 65, tax relief is available but restricted to 5% of John's total income.*

3 A

€2,540 – €3,000 = €460

Tutorial note: *As the painting is a non-wasting chattel disposed of for less than €2,540, the proceeds are deemed to be €2,540 when calculating Susan's allowable loss.*

4 C

Tutorial note: *The restriction on the utilisation of losses only applies to current year and carried back losses and does not apply to the carry forward of losses.*

5 A

Tutorial note: *As Obe Ltd holds no more than 5% of the share capital in Pony Ltd, the dividend income is assessed to tax at 12·5%.*

6 D

	€
Year ended 28 February 2014	18,000
Less second year excess (W)	(5,000)
	13,000

Working

	€
2013 actual	
2/12 x €24,000 =	4,000
10/12 x €18,000	15,000
	19,000
2013 assessment	
Year ended 28 February 2013	24,000
Second year excess (€24,000 – €19,000)	5,000

7 B

Surcharge – €24,000 x 5% = €1,200
Interest – €1,200 x 0·0219% x 396 days (31 October 2013 to 1 December 2014) = €104

Tutorial note: *As a surcharge forms part of the tax liability, a tax amount equal to the surcharge is deemed to have been paid late and is therefore subject to interest.*

8 B

Marks

9 C

Tutorial note: *As Patricia has remitted €50,000 of sales proceeds into Ireland, the full €15,000 of the gain is treated as remitted and thus subject to capital gains tax in Ireland.*

10 D

Tutorial note: *Local property tax is only charged on residential property in the State and nursing homes are specifically exempt. New and previously unused residential properties purchased from a builder or a property developer between 1 January 2013 and 31 October 2016 are also exempt.*

11 D

12 A

Income subject to USC – €120,000 + €10,000 = €130,000

	€
€10,036 x 2%	201
€5,980 x 4%	239
€113,984 x 7%	7,979
€130,000	8,419

Surcharge on non-PAYE income (€120,000 – €100,000)
€20,000 x 3% = €600

Total USC = €9,019

13 C

Tutorial note: *As the proceeds on disposal do not exceed €500,000, Seamus is not required to withhold capital gains tax from the proceeds payable to Luke.*

14 A

Tutorial note: *As the customer is not registered for VAT in Germany, Jack Ltd cannot zero rate the intra-community supply, but must charge Irish VAT on the sale.*

15 B

2 marks each **30**

Section B *Marks*

1 Modern Kitchens Ltd – Corporation tax computations

	Year ended 30 September 2012	Period ended 30 June 2013	Year ended 30 June 2014	
	€	€	€	
Case I income – trade 1	20,000	Nil	9,000	0·5
S396(1)			(9,000)	0·5
Case I income – trade 2	70,000	30,000	50,000	0·5
S396A	(67,500)	(30,000)		0·5
Case V	40,000	40,000	20,000	
Case V capital allowances	(30,000)	(30,000)	(20,000)	1·0
Total profits	32,500	10,000	50,000	
S308 (excess CAs)			(10,000)	1·0
Taxable profits	32,500	10,000	40,000	
Tax at 12·5%	2,813	–	5,000	0·5
Tax at 25%	2,500	2,500	–	0·5
S396B	(3,985)	(2,500)		0·5
Net tax due	1,328	0	5,000	

Loss memorandum

	€	
Trade loss, period ended 30 June 2013	(180,000)	
S396A, period ended 30 June 2013	30,000	0·5
S396A, period ended 30 September 2012 (restricted to 9/12 of 90,000)	67,500	1·0
Loss remaining	(82,500)	
Loss value (82,500 x 12·5%)	(10,313)	0·5
S396B, period ended 30 June 2013 (against Case V income)	2,500	0·5
S396B, period ended 30 September 2012 (restricted to 9/12 of 5,313) (2,813 + 2,500)	3,985	1·0
Loss value remaining	(3,828)	
Equivalent loss for S396(1) (3,828/12·5%)	(30,624)	0·5
S396(1), year ended 30 June 2014	9,000	0·5
Loss forward unused	(21,624)	
		10

Marks

2 Ciara – Capital gains tax 2014

(a) Capital gains/losses

			€	Marks
1. **Disposal of principal private residence (PPR)**				
Sales proceeds			400,000	0·5
Less disposal costs			(20,000)	0·5
			380,000	
Cost of house	Hope value (€200,000 – €180,000)		(20,000)	1·0
	Current use value	€180,000		
	Index factor – 1999–2000	1·193	(214,740)	1·0
Gain before PPR relief			145,260	
Exempt portion of gain (working)			(89,260)	0·5
Taxable gain			56,000	
Working: Gain if property bought and sold as a principal private residence only				
Sales proceeds (current use value)			320,000	0·5
Less disposal costs €20,000 x €320,000/€400,000			(16,000)	1·0
			304,000	
Less cost of property using current use value only				
Cost of house – Indexed cost of use value (as above)			(214,740)	1·0
PPR exempt gain			89,260	
2. Disposal of wasting assets – non business use – exempt – no allowable loss				1·0
3. **Part disposal of land to the local authority**				
Sales proceeds			24,000	0·5
Less apportioned cost				
Market value (MV) at inheritance date x sales proceeds/(sales proceeds + MV of remainder)				
€60,000 x €24,000/(€24,000 + €48,000)			(20,000)	1·5
Gain			4,000	
				9·0

(b) Capital gains tax payable

		€	Marks
Gains	1	56,000	
	2	0	
	3	4,000	
		60,000	
Less annual exemption		(1,270)	0·5
		58,730	
Tax at 33%		19,381	0·5
			1·0
			10

		Marks
3	**Mark – Value added tax (VAT) issues**	

(a) VAT registration

Based on his turnover, Mark will not be required to register for VAT initially but will be required to do so as soon as it becomes evident that his turnover in a 12-month period is likely to exceed €37,500. From the projected turnover figures, this is likely to be sometime during the tax year 2014.	1·0
The lower threshold which applies to the supply of services, rather than the higher threshold, will apply to Mark as while he will be routinely supplying parts during service and repair, it is assumed that the cost of the parts will not equal or exceed 90% of the turnover.	1·0
The Revenue now encourage registration through the Revenue On-line Service (ROS) system.	0·5
VAT registration may be completed either by Mark himself or by his tax agent.	0·5
	3·0

(b) Details to be included on a VAT invoice

Mark should include the following items on his invoices for them to be valid for VAT purposes:

- His name and business address
- His VAT registration number
- The name and address of the customer
- The date of issue of the invoice
- The date of supply of the services
- A full description of the service provided
- The amount charged excluding VAT
- The rate and amount of VAT at each rate
- The total invoice amount excluding VAT
- Where the supply is to a customer outside the State and within the EU, the invoice should also include the VAT registration number of the customer
- Unique invoice number

Any EIGHT items from the above list; 0·5 marks per item, maximum	4·0

(c) VAT rate to be charged on the invoice for parts and labour

Mark should charge VAT at 13·5% on the total invoice amount.	1·0

Tutorial note: *As Mark's services will be considered to be 'work on moveable goods', he will usually be required to charge Irish customers Irish VAT at the reduced rate of 13·5%. In this case, he will still be able to charge VAT at 13·5% on the entire supply as the cost of the goods included in the contract to provide the repair does not exceed two-thirds of the contract price or invoice value.*

(d) Requirement to charge VAT to non-Irish EU customers

Where he supplies repair services to an EU customer, Mark will need to establish whether the customer is a consumer in their private capacity or acting as a business.	
If the supply is to a private individual, then the supply is regarded as being a business to consumer (B2C) supply. Mark must then charge Irish VAT (at the applicable rates of either 13·5% or 23%).	1·0
If the customer is a business customer, then the supply will be regarded as being a business to business (B2B) supply. Mark will need to establish if the EU business is registered for VAT in its country of residence. If it is registered for VAT and Mark states the customer's EU VAT number on his Irish invoice, Irish VAT at 0% will apply.	1·0
	2·0
	10

4 David – Computation of total income for the tax year 2014

	€	€	Marks
Schedule D Case I	111,000		
Less capital allowances (W1)	(7,150)		0·5
Less S382 loss brought forward	(20,000)	83,850	0·5
Schedule D Case V (W2)		0	0·5
Gross income		83,850	
Less excess Case V capital allowances		(4,400)	1·0
Total income/taxable income		79,450	

Workings:

W1 Capital allowances

	Plant	Motor vehicle	Business use 60%	
	€	€	€	
Cost at 1 January	40,000	12,000		
Additions	10,000			
Disposals	0			
	50,000	12,000		1·0
Wear and tear 12·5%	6,250	1,500	900	1·5

Disposal of plant

	€	
Sales proceeds	1,500	0·5
TWDV (asset owned for more than 8 years)	nil	0·5
Balancing charge	1,500	0·5

Ignore balancing charge as proceeds are less than €2,000 0·5

Total capital allowances, €6,250 + €900 = €7,150

W2 Rental income

	€	
Industrial building	25,000	0·5
Office Rent (€3,000 x 2)	6,000	0·5
Premium taxable (€30,000 x (51 – 10)/50)	24,600	1·0
Gross rental income	55,600	
Less IBAA (€1,500,000 x 4%)	(60,000)	1·0
Excess IBAA	(4,400)	
		10

				Marks

5 Helena

(a) Income tax computation for 2014

		€	€	
Schedule D	Case IV			
	Maintenance – self		6,000	0·5
	Maintenance – children		0	0·5
Schedule E	Salary		35,000	0·5
	BIK – Car (note 1)		6,000	1·0
	BIK – TV		300	0·5
Gross income			47,300	
Less	Permanent health insurance	1,500		0·5
	Donation	0		0·5
			(1,500)	
Taxable income			45,800	
	Tax payable on €36,800 at 20%		7,360	0·5
	€9,000 at 41%		3,690	0·5
			11,050	
Non-refundable tax credits				
Single person		1,650		0·5
PAYE		1,650		0·5
Single person child carer credit		1,650		0·5
Third level fees (€7,000 – €2,750) x 20%		850		1·5
Private medical insurance (credit at source)		0		0·5
			(5,800)	
Refundable tax credits				
PAYE paid			(5,000)	0·5
Net income tax payable			250	
Note 1	**Benefit in kind (BIK) re car**			
	30% x original market value of €25,000		7,500	
	Relief of 20%		(1,500)	
			6,000	
				9·0

Tutorial notes:

1. *The 20% relief applies to employees who work in an urban area if they spend 70% of their working time away from the office, their annual business miles exceed 8,000 kilometres, they work at least 20 hours per week and a log book of recorded daily mileage is maintained.*
2. *Tax relief for private medical insurance is at 20% and is given at source.*

(b) The badges of trade

1. **Subject matter of the realisation**
The Revenue will consider whether the soft toys give personal enjoyment by virtue of their ownership to Helena. Where the Revenue believe that this is not the case, they may conclude that Helena is trading. 1·0

2. **Length of the period of ownership**
If the toys are made and then given to her friends/colleagues immediately following requests received from them, this would suggest that Helena is carrying on a trade. 1·0

3. **Frequency or number of similar transactions**
The number of toys made and sold needs to be considered. The greater the number/frequency, the more likely it is that Helena will be considered to be trading. 1·0

4. **Supplementary work done in connection with the property realised**
Helena does not appear to be making a marketing effort with the toys – rather information on the toys is spreading by word of mouth. Therefore, this is not suggestive of her trading. 1·0

		Marks
5. **Circumstances responsible for the realisation**		
There is no obvious evidence of any plan for dealing in the soft toys.		1·0
6. **Motive**		
There is no evidence of a profit motive, rather the motive is an enjoyable pastime.		1·0
		6·0
		15

6 Seaview Ltd – Corporation tax computation for the year ended 31 December 2014

	€	€	
Net profit		222,560	
Add back			
Patent royalties	60,000		1·0
Depreciation	20,000		0·5
Legal and professional fees:			
– Property valuation	1,250		0·5
– Accountancy fees re Revenue audit	0		0·5
– Legal fees re debt collection	0		0·5
Sundry expenses: late filing penalty	750		1·0
Repairs and maintenance: repairs to rented office space	300		0·5
Client entertaining	2,000		0·5
Leasing costs (W1)	3,992		2·5
Bank interest	0	88,292	0·5
		310,852	
Deductions:			
Investment income		(4,600)	0·5
Profit on the disposal of non-current assets		(30,000)	0·5
Capital allowances		(50,000)	0·5
Case I adjusted income		226,252	
Case V rental income (W2)		3,700	1·0
Irish dividend income		0	0·5
Total income		229,952	
Chargeable gain adjusted (W3)		66,713	3·0
Total profits		296,665	
Corporation tax payable:			
12·5%	292,965	36,621	0·5
25%	3,700	925	0·5
		37,546	
			15

Workings:

W1 Motor vehicles lease charges

	€
Category A car – €3,600 x (€17,000 – €24,000)/€17,000	(1,482)
Category D car – €8,000 x (€38,000 – €12,000)/€38,000	5,474
	3,992

W2 Rental income

Income earned	4,000
Less repairs	(300)
	3,700

Marks

W3 Chargeable gain

		€
Sale proceeds		80,000
Less professional valuation costs/disposal costs		(1,250)
		78,750
Cost May 2001	€40,000	
Index factor – 2001	1·087	(43,480)
Enhancement expenditure – November 2005		(10,000)
Gain		25,270
Adjusted gain: €25,270 x 33%/12·5%		66,713

Tutorial note: *Irish dividend income is not taxable when received by another resident company.*