Fundamentals Level – Skills Module

Taxation (Irish)

Tuesday 2 June 2015

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

This 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 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 exam paper.

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

Paper F6 (IRL)

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 Andrew commenced to trade on 1 July 2012. He prepares accounts to 30 June annually. The following are his tax adjusted trading profits.

	€
Year ended 30 June 2013	42,000
Year ended 30 June 2014	36,000
Year ended 30 June 2015	48,000

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

A €36,000
B €42,000
C €33,000
D €39,000

2 Niamh is self-employed and assessed to Case I income on a current year basis. In her accounts for the year ended 31 December 2014, she incurred a Case I adjusted loss of €20,000. Niamh has investment income of €10,000 for 2014.

Which of the following alternative loss reliefs are available to Niamh?

(1) Carry the loss back against her Case I income in the previous year
(2) Carry the loss back against all her income in the previous year
(3) Carry the loss forward against her Case I income in future years
(4) Offset the loss against all of her other income in the current year

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

3 In 2014 John, aged 46, received a salary of €50,000 and in addition received benefits-in-kind with a taxable value of €4,000. John also received gross deposit interest of €8,000 from a deposit with an Irish bank. He paid €10,000 into an approved pension scheme in the year.

What is the amount of universal social charge (USC) which John must pay in 2014?

A €3,659
B €2,959
C €2,399
D €3,099

4 Maurice bought ten acres of land in July of 2003 for €50,000. In May 2005, Maurice sold five acres of the land for €80,000, when the market value of the remaining land was €60,000. In December 2014, he sold the remaining five acres of the land.

What is the cost of the land sold by Maurice in December 2014 for capital gains tax purposes?

A €25,000
B €60,000
C €28,571
D €21,429

5 Kent and Sheena were married on 15 November 2014. Details of their tax liabilities for 2014 are:

Kent as a single person	€15,000
Sheena as a single person	€1,700
Kent and Sheena, jointly assessed for the full year	€15,100

Kent and Sheena have paid all their taxes up to date.

What is the amount of the tax refund which Kent can expect to receive?

A €800
B €240
C €100
D €1,600

6 Bay Ltd is classified as a small company for corporation tax purposes. It prepares annual accounts to 30 June. On 1 September 2013, Bay Ltd disposed of a factory, giving rise to a chargeable gain of €80,000. The disposal does not relate to development land.

What is/are the due date(s) for payment of the tax arising on the disposal of the factory by Bay Ltd?

A 31 October 2013
B 15 December 2013
C 23 May 2014 and 23 March 2015
D 23 December 2013 and 23 May 2014 and 23 March 2015

7 On 4 July 2014, Cal Ltd, an Irish resident company, paid dividends to its shareholders as follows:

Kate – an individual resident in Ireland	€10,000
Justin – an individual resident in the UK	€8,000
Zero Ltd – a company resident in Ireland	€6,000

Cal Ltd has received all relevant documentation from its shareholders.

What is the amount of dividend withholding tax which Cal Ltd should have withheld from the dividends paid?

A €4,800
B €3,200
C €3,600
D €2,000

8 John is self-employed and pays his income tax under the self-assessment system. He overpaid his income tax for 2012 and submitted a claim for a refund on 1 December 2013. The Revenue agreed with the refund claim and John received the refund on 1 October 2014. The repayment did **not** arise due to a mistaken application of the law by the Revenue.

From what date will interest on the tax overpaid by John for 2012 be calculated?

A 1 December 2013
B 31 October 2013
C 4 March 2014
D 3 April 2013

9 **Which of the following conditions must be met in order for an accountable person to use the cash receipts basis for value added tax (VAT) purposes?**

(1) At least 90% of all goods and services supplied are supplied to persons who are not registered for VAT
(2) Turnover must not exceed €2,000,000 in any continuous period of 12 months

A Both conditions 1 and 2
B Condition 1 only
C Condition 2 only
D Either condition 1 or condition 2

10 Andy, a self-employed tradesman, is registered for value added tax (VAT). Andy is called to Home Baking Ltd to fix a broken oven, and prepares an estimate for the work as follows:

	€
Cost of parts	900
Cost of labour	550
Total	1,450

How much VAT should Andy charge on the invoice to Home Baking Ltd?

A €196
B €281
C Nil
D €334

11 Pat owns properties in the State with the following values at 1 May 2013:

His own home	€320,000
A holiday home in Kerry	€260,000
A shop in Dublin	€400,000

How much local property tax (LPT) must Pat pay in 2014?

A €1,080
B €1,845
C €1,764
D €1,044

12 In 2014 Casey made two disposals of chargeable assets, which resulted in him realising a development land gain of €30,000 and a non-development land loss of €25,000. Casey is married and jointly assessed for capital gains tax. Casey's wife made no disposals of assets during the year 2014.

What is the amount of Casey's taxable gain in 2014?

A €3,730
B €28,730
C €27,460
D €5,000

13 On 1 January 2001, David bought a house in Ennis, Ireland. He lived in the house from the date of purchase until 1 January 2009, when he moved to Dublin to work. David never lived in the house again. He sold the house on 31 December 2014. The gain on the disposal of the house was €8,120.

What is the amount of principal private residence relief available to David?

A €8,120
B €0
C €5,220
D €4,640

14 **Which of the following statements relating to company start-up relief are TRUE?**

(1) Start-up companies relief is available to qualifying companies for the first five years of trading
(2) Start-up companies relief only applies to companies whose profits do not exceed €40,000
(3) A sole trader who incorporates their business into a limited company cannot avail of start-up relief
(4) Start-up companies relief only applies to a company's trading profits and chargeable gains on trading assets

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

15 DVP Ltd, an Irish resident trading company, opened a shop in Belfast during 2014.

Which of the following statements correctly describes the tax exposure of DVP Ltd on the profits arising from the Belfast shop trade?

A The shop will be considered a branch of the Irish company and the profits arising will be taxed in Ireland only
B The shop will be considered a branch of the Irish company and the profits arising will be taxed in both Ireland and the UK. Credit will be given for UK tax paid on the branch profits but may not exceed the Irish tax charged on the same income
C The shop profits arise from a trade in the UK and thus only UK tax will be payable
D The shop will be considered a branch of the Irish company and the profits arising will be taxed in both Ireland and the UK. No credit will be given for any UK tax paid due to the operation of the UK–Irish double tax treaty

(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 Carmen was born in Ireland in 1992, when her parents were Spanish domiciled but Irish resident. In 2008, Carmen and her parents returned to live in Spain. On 1 April 2012, Carmen returned to Ireland to work, but leaves Ireland for two weeks every year to visit Spain.

Carmen intends to return to Spain permanently at the end of 2015.

In 2014 Carmen had the following income:

	€
Irish salary	32,000
UK bank deposit interest received, left in her UK bank account	4,000
UK dividends received by cheque, lodged into her Spanish bank account	800
UK dividends received by cheque, lodged into her Irish bank account	1,500

Required:

(a) State, giving reasons, whether or not Carmen is resident, ordinarily resident and/or domiciled in Ireland in 2014. (6 marks)

(b) State the basis on which Carmen will be liable to tax in Ireland in 2014 and compute her taxable income for that year. (4 marks)

(10 marks)

2 A Ltd owns 90% of B Ltd and B Ltd owns 80% of C Ltd. All three companies are Irish resident.

The companies' results for the year ended 31 December 2014 are as follows:

	A Ltd	**B Ltd**	**C Ltd**
	€	€	€
Tax adjusted Case I profit/(loss)	(100,000)	66,000	58,000
Case V income	10,000	5,000	12,000
Unadjusted chargeable gain/(loss)	(10,000)	5,000	0

A Ltd and C Ltd have Case I trading losses brought forward of €14,000 and €60,000 respectively.

Required:

(a) State, giving reasons, which of the companies A Ltd, B Ltd and C Ltd will qualify as a group for loss relief purposes. (3 marks)

(b) Compute the corporation tax payable by each of the three companies for the year ended 31 December 2014, clearly identifying the nature and amount of any losses carried forward.

Note: All the companies wish to arrange their affairs to ensure that they pay no corporation tax, if possible, before surrendering relief to another group member. (7 marks)

(10 marks)

3 Roadtow Ltd is a company based in Donegal, which provides breakdown assist services in the Republic of Ireland to motorists. During the taxable period May/June 2014, Roadtow Ltd had the following transactions. All amounts are stated exclusive of any applicable value added tax (VAT).

	€
Sales (note 1)	
To Irish customers	450,000
To customers in Northern Ireland (not VAT registered)	125,000
To customers in Northern Ireland (VAT registered)	225,000
Purchases (notes 2 and 3)	
Towing equipment purchased from a UK supplier	85,000
Spare parts for own equipment repair	35,000
Overheads (note 3)	
Diesel for the company tow trucks	53,600
Computer (note 4)	1,000
Electricity (lower rate VAT)	2,000
Attendance of staff at a qualifying trade conference in Dublin (note 5)	7,500

Notes:

1. All of Roadtow Ltd's sales subject to Irish VAT are chargeable at the lower rate.
2. All of Roadtow Ltd's purchases and overheads were made from Irish suppliers except for the towing equipment which was bought from a UK supplier.
3. Where Roadtow Ltd's purchases and overheads are liable to Irish VAT, the standard rate applies, unless otherwise stated.
4. There was no VAT registration number given on the invoice for the purchase of the computer.
5. The bill from the Dublin hotel when attending the trade conference was broken down as follows. VAT on the accommodation and meals was charged at the additional lower rate.

	€
Accommodation	4,000
Meals	2,000
Drinks	1,500
	7,500

6. Roadtow Ltd formally wrote off irrecoverable debts of €5,000 owed by Republic of Ireland corporate customers during the period May/June 2014.

Required:

Compute the value added tax (VAT) liability of Roadtow Ltd for the two-month period ended 30 June 2014.

Note: You should indicate by the use of zero (0) any items referred to in the question where there is no VAT impact.

(10 marks)

4 Noel, who is Irish resident and domiciled, made disposals of the following assets during 2014:

(1) In February, he sold 6,000 shares in Vee Ltd, an Irish quoted company for €30,000.

Noel had inherited 4,000 Vee Ltd shares on his father's death on 1 March 1998, when the market value of this shareholding was €6,000. His father had bought the shares in May 1976 for €1 per share.

Noel bought a further 3,000 Vee Ltd shares for €2 each on 1 May 2003.

Vee Ltd made a bonus issue of one for ten on 1 July 2008 and a rights issue, which Noel took up in full, of one for five at €3 per share on 1 August 2010.

(2) In April, Noel sold a painting for €2,300. He had bought the painting in June 2008 for €2,000.

(3) In October, Noel sold his Irish holiday home for €210,000 and furnishings for €2,000.

Noel had bought the house in May 2001. The house had cost €180,000 and Noel paid stamp duty and solicitor's fees on the purchase of €18,000.

In April 2006, Noel had replaced the electrical wiring in the house at a cost of €10,000.

The furnishings had all been bought between 2003 and 2006 for a total cost of €14,000.

Required:

Compute the chargeable gain/loss on each of Noel's disposals of assets in 2014. Give a relevant explanation for any disposal which you treat as not giving rise to a capital gain or capital loss.

(10 marks)

5 Alice (aged 67) is a widow following her husband's death in 2006. The couple had one child, Trudy, who is a single parent. Unfortunately, Trudy is ill and Alice is now caring for her grandchild.

Alice works 20 hours per week for a charitable organisation, visiting elderly people in their homes. In 2014 she earned a gross salary, before benefits, of €18,000. PAYE of €800 was deducted from Alice's earnings.

In 2012 Alice borrowed €10,000 from her employer and used the money to carry out renovations to her home. Her employer charges her annual interest at the rate of 2% on this loan. Alice has not repaid any of the loan capital and her interest payments are up to date.

Alice owns a car which she bought second hand in 2012 for €10,000. When the car was new in 2009, it had cost €15,000. The car is a category A car, for carbon emissions' purposes. Alice uses her car for work and her work usage is 10% of the total kilometres driven. Alice is not reimbursed by her employer for business related motor expenses incurred.

Alice has owned a residential investment property since 1990. Details of her income from this property for 2014 are as follows:

– 1 January to 31 May, the property was rented out for €900 per month.
– 1 June to 31 August, the property was vacant.
– 1 September to 31 December, the property was rented out for €1,000 per month.

The expenses associated with the investment property in 2014 are as follows:

	€
Insurance	500
Local property tax	405
Cleaning bill for cleaning carried out in July	350
Interest	2,800

Details of Alice's other income in 2014 are as follows:

	€
Dividends (net) received from an Irish plc	600
Deposit interest (gross) received from an Irish bank account	800
Contributory widow's pension	11,980

Details of Alice's outgoings in 2014 are as follows:

	€
Private medical insurance (net) for self	1,300
Qualifying medical expenses for Trudy	2,500
Routine dental care for self	400

Required:

Prepare Alice's income tax computation for the tax year 2014.

(15 marks)

6 Stack Ltd is an Irish resident company engaged in the hotel and leisure industry, which operates hotels. The company prepares accounts to 31 December each year.

Stack Ltd's summarised results for the year ended 31 December 2014 are as follows:

	Note	**€**
Net trading income		900,000
After deducting:		
Depreciation		750,000
Interest	(1)	95,000
Entertainment	(2)	21,000
Motor expenses	(3)	49,600
Legal expenses	(4)	65,000
Repairs and maintenance	(5)	30,000
Other income (**not** included in the net trading income figure)		
Compensation receipt	(6)	10,000
Capital gain	(7)	70,000

Notes:

(1) Interest comprises:

	€
Interest on overdraft	9,000
Interest on the late payment of PAYE/PRSI	6,000
Interest on capital loans for the purchase of a hotel and fittings	80,000
	95,000

(2) Entertainment comprises:

	€
Entertaining customers at the launch of a hotel's new function room	7,000
Entertaining customers at the launch of Stack Ltd's new website	6,000
Entertaining staff at the annual Christmas party	8,000
	21,000

(3) Motor expenses comprise:

	€
Motor vehicle lease charges	19,600
Reimbursement of staff travel expenses (in line with Revenue approved guidelines)	30,000
	49,600

The company has two leased motor vehicles. One is a category A car on which the lease payments are €6,500 and the other is a category C car on which the lease payments are €13,100. The category A car originally cost €21,000 and the category C car originally cost €38,000. The Revenue have agreed that all motor vehicles leased by Stack Ltd have a 20% business use.

(4) Legal expenses comprise:

	€
Out-of-court settlement in relation to an unfair dismissal claim	15,000
Legal expenses on the disposal of a hotel (see (7) below)	50,000
	65,000

(5) Repairs and maintenance comprise:

	€
Repainting and rewiring a number of bedrooms	5,000
Replacement of a kitchen roof after a small fire	25,000
	30,000

There was an element of improvement in the replacement of the kitchen roof (40%). The company's insurance policy did not cover the roof replacement as all required safety procedures had not been followed by Stack Ltd.

(6) The €10,000 was received under Stack Ltd's insurance policy as compensation for loss of profits due to a burst water main at one of the hotels.

(7) During the year Stack Ltd sold one of the three hotels from which it operated.

The hotel which was sold had been bought in May 1999, at a qualifying cost of €1,000,000. Stack Ltd was satisfied with the sales proceeds of €1,263,000. The chargeable gain on the disposal of the hotel was €70,000, none of the gain related to development land.

Stack Ltd's remaining two hotels were both bought in 2005 at a total cost of €5,000,000.

(8) The hotels are in need of major refurbishment. At 1 January 2014, the hotel fixtures had a nil tax written down value. New fixtures and fittings were bought during the year at a cost of €50,000.

Required:

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

Note: Your computation should commence with the net trading income of €900,000 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