Fundamentals Level – Skills Module

Taxation (Irish)

Tuesday 2 December 2014

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

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are printed 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.

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

The Association of Chartered Certified Accountants

Paper F6 (IRL)

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.

TAX REFERENCE MATERIAL

The following rates, credits, formulae and allowances are based on the Finance Act 2013 and are to be used for all questions in this paper.

Income tax rates

	€
Single/widow(er)/surviving civil partner	
€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%	
One parent family	
€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 parent credit	1,650
Incapacitated child credit	3,300
Dependent relative credit	70
Age credit – single/widowed/surviving civil partner	245
– married or in civil partnership	490
Employee/PAYE credit	1,650
Rent allowance credit	

	Rent limit €	
– single aged under 55	1,000	200
– married/widowed/in a civil partnership/survivor of a civil partnership aged under 55	2,000	400
– single aged 55 and over	2,000	400
– married/widowed/in a civil partnership/survivor of a civil partnership aged 55 and over	4,000	800

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 €2,500 is ignored
Part-time qualifying courses	First €1,250 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

Valuation	Mid-point	Rate	Property tax for a full year	Property tax for 2013
€	€		€	€
0–100,000	50,000	0·18%	90	45
100,001–150,000	125,000	0·18%	225	112
150,001–200,000	175,000	0·18%	315	157
200,001–250,000	225,000	0·18%	405	202
250,001–300,000	275,000	0·18%	495	247
300,001–350,000	325,000	0·18%	585	292
350,001–400,000	375,000	0·18%	675	337
400,001–450,000	425,000	0·18%	765	382
450,001–500,000	475,000	0·18%	855	427
500,001–550,000	525,000	0·18%	945	472
550,001–600,000	575,000	0·18%	1,035	517
600,001–650,000	625,000	0·18%	1,125	562
650,001–700,000	675,000	0·18%	1,215	607
700,001–750,000	725,000	0·18%	1,305	652
750,001–800,000	775,000	0·18%	1,395	697
800,001–850,000	825,000	0·18%	1,485	742
850,001–900,000	875,000	0·18%	1,575	787
900,001–950,000	925,000	0·18%	1,665	832
950,001–1,000,000	975,000	0·18%	1,755	877

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

ALL FIVE questions are compulsory and MUST be attempted

1 Marie is married to Sean and they have two children, Tom and Eva, aged four and six respectively. Both Marie and Sean are Irish domiciled. During 2013 Marie was made redundant and this, together with the falling profits of Sean's business, caused the couple to decide to emigrate to England. They left Ireland on 1 December 2013, but they hope that the move will not be permanent and that they will return home to Ireland after five years.

Marie was employed as a personal assistant by a large company for the past 13 years and six months. Due to a restructuring in her workplace, she was made redundant on 30 June 2013.

The payments received by Marie on the termination of her employment are as follows:

Payments	€
Statutory redundancy	16,200
Holiday pay	600
Ex gratia compensation payment	35,000

There were no pension entitlements associated with Marie's employment.

Details of Marie's salary are as follows:

Salary	€
1 January 2013 to 30 June 2013, excluding any additional termination payments received (above)	18,200
Year to 31 December 2012	35,000
Year to 31 December 2011	33,000
Year to 31 December 2010	32,000

Marie's employer deducted PAYE of €4,900 during 2013. Marie received job seekers benefit of €3,750 from 1 July to 30 November 2013.

Sean has been a partner in a quantity surveying firm since he started the business in April 2000 with his partners George and Tony. They have always shared profits equally. Sean decided to leave the partnership with effect from 31 October 2013, leaving George and Tony to run the firm between them.

The partnership trading profits are as follows:

Year to 31 May	**Case II adjusted income**
	€
2014	210,000
2013	300,000
2012	360,000

The cost of plant and equipment in use by the partnership business at 1 January 2013 was €80,000; and the tax written down value was €50,000.

Sean owns an Audi A3 car, category B, which he bought in August 2012 at a cost of €35,000. 50% of Sean's use of this car was for the purposes of the partnership business. Sean sold the car in November 2013 for €29,000.

Details of Marie's other income for 2013 are as follows:

Other income	€
Net rental income before interest (see expenditure below), received from an apartment in Belfast. The money was lodged into a UK bank account	6,000
Deposit interest received (net) from an Irish banking institution	1,340
UK dividends received. The money was lodged into her bank account in Dublin	4,000

Details of Marie and Sean's expenditure in 2013 are as follows:

Expenditure	€
Private medical insurance (net)	2,400
Part-time carer hired to look after Tom. Tom has been incapacitated since birth	8,000
Investment by Sean in an Employment and Investment Incentive Scheme (EIIS)	12,000
Interest incurred on a mortgage used to purchase the Belfast apartment. The loan was provided by an Irish banking institution	10,000
Interest incurred on a mortgage to purchase their own residential home in Ireland	8,000

Required:

(a) Compute Marie's taxable lump sum on the termination of her employment. (6 marks)

(b) (i) Compute Sean's Case II adjusted income (before capital allowances) for the tax years 2012 and 2013. (4 marks)

(ii) Compute Sean's share of capital allowances for the tax year 2013. (5 marks)

(c) Prepare Marie and Sean's income tax computation for the tax year 2013, on the joint assessment basis.

Note: PRSI or universal social charge (USC) computations are not required. (12 marks)

(d) From January 2014 Marie and Sean will rent their home in Ireland. The tenants will pay the rent directly into the couple's bank account in the UK.

Required:

Advise Marie and Sean of the tax obligations which will arise with the Irish Revenue in respect of this rental income. (3 marks)

(30 marks)

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Question 2 begins on page 11.

2 **(a)** Nuapp Ltd is an Irish incorporated and resident company which manufactures mobile phone applications. Nuapp Ltd commenced trading on 1 January 2013 and its statement of profit or loss for the year ended 31 December 2013 shows the following:

	Note	€	€
Gross profit			800,000
Other income			
Gain on the sale of Irish quoted shares	(1)	40,000	
Interest on Irish government bonds	(2)	10,000	
Deposit interest earned from an Irish bank	(3)	12,000	
Grant received	(4)	80,000	142,000
			942,000
Less expenses			
Salaries and wages	(5)	320,000	
Depreciation		40,000	
Audit and accountancy fees		11,000	
Legal and other professional fees	(6)	90,000	
Motor expenses	(7)	28,000	
Insurance	(8)	25,000	
Lease charges	(9)	18,000	
Entertainment and subscriptions	(10)	15,000	(547,000)
Net profit			395,000

Notes:

1. The shares in the Irish quoted company were purchased by Nuapp Ltd on 1 February 2013. They cost €60,000, and were sold for €100,000 in November 2013.
2. Due to excess cash-flow in the early months of trading, Nuapp Ltd purchased Irish government bonds. Interest on the bonds was received gross in October 2013.
3. Nuapp Ltd placed funds on deposit with an Irish bank in March 2013. Interest on this deposit is paid bi-annually, Nuapp Ltd received the interest gross in September 2013.
4. Nuapp Ltd applied to Enterprise Ireland for funding and in May 2013 received a grant of €80,000 under a Key Manager Grant. This grant helps small businesses to hire essential management.
5. Salaries and wages include a figure of €120,000 for wages and employer's PRSI for new employees who were long-term unemployed. The wages and PRSI qualified for relief under the Revenue Job Assist scheme.
6. Legal and other professional fees comprise:

	€
Fees incurred on the purchase and sale of the Irish quoted shares	1,000
Drawing up a standard contract of employment	6,000
Resolving a trade dispute with a new customer	8,000
Architect's plans for the new factory building	60,000
Miscellaneous other (all tax deductible)	15,000
	90,000

7. Motor expenses comprise:

	€
Operating lease payments – leased car	15,000
Motor expenses – leased car	8,000
Motor expenses reimbursed to employees	5,000
	28,000

The leased car is driven by Nuapp Ltd's managing director, who uses it 20% for business purposes. The car is a category E car and would have cost €33,000 if purchased outright.

8. Insurance comprises:

	€
Motor insurance on the leased car	800
Contents and public liability insurance	9,200
Keyman insurance, paid in respect of the managing director who currently owns 5% of the share capital of the company	14,000
Permanent health insurance paid on behalf of the managing director	1,000
	25,000

9. The lease charges relate to machines leased in 2013. The burden of wear and tear in respect of the machines remains with the lessor. The total payments made during the year were €25,000, which included both capital repayments and finance charges.

10. Entertainment and subscriptions comprise:

	€
Staff Christmas party	8,000
Client entertainment at the Irish soccer internationals	5,000
Professional subscriptions	1,500
Trade subscriptions	500
	15,000

Other information:

1. Prior to commencing to trade, Nuapp Ltd incurred the following expenditure:

		€
December 2009	Market research	25,000
May 2010	Consultancy costs incurred on the preparation of a business plan	16,000
March 2012	Entertainment of potential suppliers	5,000
December 2012	Managing director's salary	50,000

2. Expenditure on non-current assets:

During 2012 Nuapp Ltd acquired a site and built a qualifying industrial building. The building is mainly used for qualifying activities; however, 15% of the building is office space. The building was ready for use on the first day of trading on 1 January 2013. The costs incurred on the building, other than the architect's design costs (which were charged to legal and other professional fees), are as follows:

	€
Site cost	65,000
Site development costs	80,000
Building costs	190,000
Plant and equipment costs associated with the building	70,000
	405,000

Required:

Compute the corporation tax liability of Nuapp Ltd for the year ended 31 December 2013.

Note: You should assume that small company start-up relief is not available. (18 marks)

(b) Rock Ltd owns 90% of Paper Ltd and Paper Ltd in turn owns 80% of Scissors Ltd. All three companies are Irish incorporated and resident. The shares in the subsidiary companies were all purchased on 1 January 2013. The following shows each company's income/losses for the year ended 31 December 2013.

	Case I income/(loss)	**Case V income**	**Case V capital allowances**	**Chargeable gain adjusted/(loss)**
	€	€	€	€
Rock Ltd	(20,000)	20,000	(5,000)	Nil
Paper Ltd	40,000	20,000	Nil	20,000
Scissors Ltd	10,000	(5,000)	(22,000)	(10,000)

Required:

(i) Compute the corporation tax liability of each of the three companies, assuming group loss relief is not claimed, and state the amount of any unused losses. (5 marks)

(ii) State, giving reasons, how the unused losses of Scissors Ltd could be availed of if group loss relief is claimed.

Note: Scissors Ltd will avail of all loss relief possible itself before passing losses to other group companies. (2 marks)

(25 marks)

3 Gerry and his wife Jane are both Irish resident and domiciled. Gerry entered into the following transactions during 2013:

1. In February 2013, Gerry disposed of a ten acre parcel of land to his brother for €120,000. The market value of the ten acres of land at the date of disposal was €150,000. The land disposed of was part of a larger lot of land purchased by Gerry in May 1998. The lot originally purchased comprised 20 acres of land and Gerry paid €200,000 for the land and a further €16,000 in stamp duty and legal fees.

   Between March and August of 2004, following a winter of very heavy rain, Gerry carried out extensive drainage and flood defence work on the land at a cost of €40,000.

   In 2008 Gerry sold ten acres of the land to a neighbour for €180,000. At that date the market value of the remaining ten acres of land was €140,000.

   The land was zoned as agricultural and had no hope value.

2. In April 2013, Gerry gifted a separate site of a half acre to his daughter, Anne. The market value of the half acre site at the date of the gift was €38,000. The site had been purchased by Gerry in May 1996 for €20,000, and stamp duty and solicitors' fees paid were €2,000. The site was gifted to Anne so that she could build a home. Anne currently lives at home with her parents (pending the construction of a house on the gifted land) and does not own any residential property.

3. Gerry bought a race horse with four friends in June 2010. Each of the four friends paid €20,000 towards the cost of the horse. The horse has been very successful on the track over the past year. Gerry and his friends decided to take advantage of the horse's recent success and sold the horse in June 2013 for €200,000.

4. In July 2013, Gerry gifted an antique ring, valued at €6,500, to his daughter, Sarah, on the occasion of her 21st birthday. The market value of the ring at 6 April 1974 was €2,000. Gerry had been left the ring in his mother's will when she died in August 1999. The market value of the ring at that date was €6,000.

5. In September 2013, Gerry sold 200 shares in a UK quoted company for €2 per share. Gerry originally bought 200 shares in 1972 for €3 each and the shares had a market value at 6 April 1974 of €4 each. Gerry lodged the sales proceeds into a UK bank account.

Gerry has development land capital losses brought forward from 2012 of €11,000.

Required:

(a) Compute the capital gains tax (CGT) payable by Gerry and Jane for the tax year 2013, in respect of the above transactions. The couple are jointly assessed and wish to minimise their CGT liability.

Note: Give a relevant explanation for any transaction which you treat as not giving rise to a capital gain in the tax year 2013. (16 marks)

(b) Explain the anti-avoidance rule commonly referred to as the 'bed and breakfast' rule. (4 marks)

(20 marks)

4 (a) For the purposes of value added tax (VAT):

(i) Define a taxable supply of goods and give ANY TWO examples of WHEN a taxable supply of goods is deemed to take place. (3 marks)

(ii) Identify ANY TWO examples of WHERE a place of supply of goods is deemed to take place. (2 marks)

(b) Cable Knit is an Irish business which operates from Spiddal in County Galway. The business provides Irish crafted knitwear for adults only. The business is registered for value added tax (VAT) and prepares bi-monthly returns on an invoice basis.

Details of Cable Knit's transactions for May/June 2013 are stated below. All amounts are exclusive of VAT unless otherwise stated.

Sales

1. Ten aran knit jumpers sold to private French customers via the internet for €1,100.
2. 20 aran knit hats sold to a local third level college for €400. The hats will be given as a present by the college to European exchange students.
3. 30 aran knit jumpers sold to a business in Tokyo for €2,500.
4. Four jumpers given as a gift to the family of the President of Ireland.

   The jumpers were specially designed with materials costing €400. It is estimated that the selling price of the jumpers would be €600.
5. 60 jumpers sold to an Irish design store in Dublin for €5,000.
6. A replacement jumper given to a Galway customer after the customer complained that the jumper they had purchased in March 2013 had shrunk in the wash. The replacement jumper had a cost of €50 and a market value of €120.

Purchases and other costs

1. Wool used in making the jumpers bought from a company in Donegal at a cost of €3,000.
2. Additional wool bought from a business in Scotland at a cost of €1,200.
3. A new diesel car bought in May 2013 for €20,000. The car is a qualifying car for vehicle registration tax (VRT) purposes and is a category B car for carbon emissions. The car will be used 80% for business purposes.
4. Diesel costs incurred for the car during the period of €700 (including VAT).
5. Hotel accommodation costs of €200 (including VAT), incurred when the owner of Cable Knit attended the State function at which the jumpers were presented to the Irish President.

Required:

Prepare the value added tax (VAT) return for Cable Knit for the period May/June 2013. (10 marks)

(15 marks)

5 (a) Identify ANY THREE fundamental principles in the Code of Ethics and Conduct for a Chartered Certified Accountant and briefly explain how these would apply when dealing with the taxation issues of clients.

(3 marks)

(b) (i) Explain the factors to be considered in determining whether a company is resident in Ireland.

(5 marks)

(ii) Explain the term permanent establishment in the context of the Irish/UK double tax treaty. (2 marks)

(10 marks)

End of Question Paper