Answers

Marks

1 Marie and Sean

(a) Marie's taxable lump sum on the termination of her employment

Termination payment:

Statutory redundancy	Exempt	0·5
Holiday pay	Taxed under Schedule E	0·5
Ex gratia compensation payment	Liable to income tax, with relief for the tax free amount	

Tax-free amount

Basic exemption	€10,160 + (€765 x 13) = €20,105	1·0
Increased basic exemption	€20,105 + €10,000 = €30,105	1·0
Standard capital superannuation benefit	€34,267 x 13/15 = €29,698	1·0

Average annual salary:

	€		
1 January to 30 June 2013	18,200		
Holiday pay	600		
2012	35,000		
2011	33,000		
2010 (six months) (€32,000 x 6/12)	16,000		
	102,800/3	= €34,267	1·0
Taxable termination payment:		€35,000 – €30,105 = €4,895	1·0
			6·0

(b) (i) Sean's Case II adjusted income for 2012 and 2013

2012	Year ending 31 May 2012	€360,000/3 = €120,000	0·5
2013	Actual, 1 January 2013 to 31 October 2013		
	Year ending 31 May 2013	(€300,000 x 5/12)/3 = €41,667	
	Year ending 31 May 2014	(€210,000 x 5/12)/3 = €29,167	
	Total	€70,834	1·5

Revision of 2012 to Actual:

Year ending 31 May 2012, (€360,000 x 5/12)/3 =	€50,000	
Year ending 31 May 2013, (€300,000 x 7/12)/3 =	€58,333	
Total	€108,333	1·5
As this figure is less than that originally assessed, there will be no revision.		0·5
		4·0

(ii) Sean's capital allowances for 2013

Plant and machinery

1 January 2013 (€80,000 x 12·5%)/3 x 10/12 = €2,778 wear and tear 1·5

Disposal of motor vehicle

2012 Addition of €35,000, restricted to €24,000 at 12·5% = €3,000		1·0
2013 Sales proceeds	€29,000	
	€	
Adjusted proceeds (€29,000 x €24,000/€35,000)	19,886	1·0
Tax written down value (€24,000 – €3,000)	21,000	0·5
Balancing allowance	1,114	
Restricted to 50%	557	0·5
Sean's share 1/3rd	186	0·5
		5·0

Total capital allowances €2,778 + €186 = €2,964

				Marks
(c) Income tax computation of Marie and Sean for 2013				
		€	€	
Sean				
Schedule D Case II (from (b)(i))		70,834		0·5
Less capital allowances (from (b)(ii))		(2,964)	67,870	0·5
Marie				
Case III				
Rental income from Belfast property (working)		0		0·5
UK dividends		4,000		0·5
Case IV				
Deposit interest earned in Ireland (€1,340/·67)		2,000		0·5
Schedule E				
Salary (including holiday pay)		18,800		0·5
Job seekers benefit		3,750		0·5
Taxable termination payment (from (a))		4,895	33,445	0·5
Gross income/Total income			101,315	
Less reliefs				
Carer for son		0		1·0
Investment in EIIS (€12,000 x 30%/41%)		8,780	(8,780)	1·5
Taxable income			92,535	
€41,800 at 20%		8,360		0·5
€23,800 at 20%		4,760		0·5
€2,000 at 33%		660		0·5
€24,935 at 41%		10,223		0·5
Gross tax liability		24,003		
Less non-refundable tax credits				
Married persons tax credit	3,300			0·5
PAYE tax credit	1,650			0·5
Incapacitated child tax credit	3,300			0·5
DIRT (€2,000 x 33%)	660	(8,910)		0·5
		15,093		
Less refundable tax credits				
PAYE paid by Marie		(4,900)		0·5
Net tax due		10,193		

Working:

Rental income

	€	
Rental income before interest	6,000	
Interest relief €10,000 x 75%	(7,500)	
Net loss	(1,500)	0·5

No relief for medical insurance premiums or mortgage interest. 0·5

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Tutorial notes:

1. *It is not possible to offset the loss from the UK rental property against other foreign non-rental income.*
2 *As the carer's allowance and the incapacitated child credit cannot both be claimed in the same year, the taxpayer is better off in this instance to claim the incapacitated child tax credit.*
3. *No relief is given in the computation for either private medical insurance premiums or mortgage interest as relief for these is given at source (TRS).*

(d) Marie and Sean will not be resident in Ireland in 2014. Therefore, the tenant will be obliged to pay them the rent net of a deduction of 20% tax. This tax must be paid directly to the Revenue Commissioners. 0·5 1·0

Any failure by the tenant to deduct the tax will leave the tenant liable where the tax due on the rental property is not paid by the owner. 0·5

		Marks
Marie and Sean will need to register the property with the private residential tenancies board (PRTB) if they wish to avail of interest relief on the property.		1·0
		3·0
		30

2 (a) Nuapp Ltd – Corporation tax liability for the year ending 31 December 2013

	Working	€	€	
Net profit per accounts			395,000	0·5
Less:				
Gain on the sale of Irish quoted shares		(40,000)		0·5
Interest on Irish government bonds		(10,000)		0·5
Deposit interest earned from an Irish bank		(12,000)		0·5
Grant received		(80,000)		1·0
Double deduction for hiring long-term unemployed		(120,000)		1·0
Lease payments – capital and finance charges		(25,000)		0·5
Pre-trading expenses	(1)	(66,000)		W
Capital allowances	(2)	(19,970)	(372,970)	W
			22,030	
Addback:				
Depreciation		40,000		0·5
Legal and other professional fees	(3)	61,000		W
Motor expenses	(4)	9,545		W
Insurance		0		0·5
Lease interest		18,000		0·5
Client entertainment		5,000	133,545	0·5
Case I adjusted income			155,575	
Case III				
Interest on Irish government bonds		10,000		0·5
Interest on Irish bank deposit		12,000	22,000	0·5
Total income			177,575	
Chargeable gain	(5)		102,960	W
Total profits			280,535	
Tax payable				
€258,535 (€155,575 + €102,960) at 12·5%			32,317	0·5
€22,000 at 25%			5,500	0·5
Total tax payable			37,817	

Workings:

(1) Pre-trading expenditure

Allowable expenses:

	€	
May 2010 Legal and start-up consultancy	16,000	0·5
December 2012 Managing director's salary	50,000	0·5
	66,000	

No relief for:

Market research expenditure (outside three year limit)	0·5
Entertainment (never an allowable expense for tax purposes)	0·5

		Marks
(2) Capital allowances		
Industrial building allowance (IBA)		
Qualifying cost of building	€	
Site development costs	80,000	0·5
Architect's plans	60,000	0·5
Building costs	190,000	0·5
	330,000	
IBA 4%	13,200	0·5
Disallow 15% due to use as office	(1,980)	0·5
Allowance	11,220	
No relief for expenditure on site cost.		0·5
	€	
Plant and equipment at cost	70,000	0·5
Wear and tear at 12·5%	8,750	
Total capital allowances €11,220 + €8,750 = €19,970		
(3) Legal and professional fees		
	€	
Fees incurred on the purchase/sale of shares	1,000	0·5
Architect's plans for new factory	60,000	0·5
	61,000	
(4) Motor expenses		
Leased car – cost €33,000		
Qualifying cost restricted to €12,000 (category E)		0·5
Lease payment disallowed $€15{,}000 \times \frac{€33{,}000 - €12{,}000}{€33{,}000}$	= €9,545	0·5
No restriction in respect of motor expenses.		0·5
(5) Disposal of shares in an Irish quoted company		
	€	
Sales proceeds	100,000	
Less disposal costs	(1,000)	0·5
	99,000	
Less cost	(60,000)	0·5
Gain	39,000	
Adjusted gain €39,000 x 33%/12·5%	102,960	0·5
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Tutorial notes:

1. *Business related expenses incurred in the three years prior to the start-up of the business are allowable.*
2. *A grant received from Enterprise Ireland is not taxable.*

Marks

(b) Rock Ltd, Paper Ltd and Scissors Ltd

(i) **Corporation tax liability if no group loss relief claimed**

	Rock Ltd Holding company	Paper Ltd 90% subsidiary of Rock Ltd	Scissors Ltd 80% subsidiary of Paper Ltd	
	€	€	€	
Case I	nil	40,000	10,000	0·5
Case V	20,000	20,000	nil	
Case V capital allowances	(5,000)	nil	(10,000)	1·0
Capital gain	nil	20,000	nil	0·5
Total profits	15,000	80,000	0	
Tax payable at 12·5%	0	7,500	0	0·5
Tax payable at 25%	3,750	5,000	0	
Losses €20,000 at 12·5%	(2,500)	–	–	1·0
Net tax due	1,250	12,500	0	

The unused losses of Scissors Ltd at 31 December 2013 are as follows:

– a Case V loss of €5,000 0·5
– a capital/adjusted loss of €10,000 and 0·5
– excess Case V capital allowances of €12,000 (€22,000 – €10,000) 0·5

5·0

(ii) **Group loss relief**

The losses of Scissors Ltd can only be given to Paper Ltd as Paper Ltd owns 80% of Scissors Ltd and so these companies form a corporate tax group. 0·5

As no group relief is available for the capital/adjusted loss or the Case V loss, these must be carried forward by Scissors Ltd for use in future periods. 1·0

The excess Case V capital allowances may be used to reduce the taxable profits of Paper Ltd by €12,000. Relief can first be taken against the income which carries the highest tax rates (i.e. the Case V income taxable at 25%). 0·5

2·0

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3 Gerry and Jane

(a) Capital gains tax 2013

		€	€	
1.	Market value on disposal		150,000	0·5
	Less cost:			
	Original cost (€216,000 – €121,500 (W))	94,500		1·5
	Index factor 1998/99	1·212	(114,534)	0·5
	Enhancement expenditure (€40,000 – €22,500 (W))		(17,500)	1·5
	Gain		17,966	

Working:

Part-disposal in 2008:

Original cost: €216,000 x €180,000/(€180,000 + €140,000) = €121,500

Enhancement expenditure €40,000 x €180,000/(€180,000 + €140,000) = €22,500

2. The transfer of the site will be exempt from capital gains tax. 0·5

The site is transferred to Anne, a child of Gerry's, for the purpose of enabling her to construct on the site a dwelling house, to be occupied as her only or main residence. The house, when built, must be occupied by Anne for a period of at least three years. 2·0

A child may avail themselves of this relief only once; the value of the site must be less than €500,000; and the area of the site must be less than one acre. 1·0

			Marks
3. The sale of the horse is exempt from capital gains tax, as the horse is a wasting asset, used for private purposes only.			1·0

4.		€	
Market value at gift		6,500	0·5
Market value at date of inheritance	€6,000		1·0
Indexation factor 1999/2000	1·193	(7,158)	0·5
Indexed loss		(658)	

As indexation can only be used to reduce a gain and cannot create a loss, there is no gain/no loss. 1·0

5.	€	
Sale proceeds	400	
Original cost at purchase in 1972	(600)	
Loss	(200)	1·5

Summary: 1 January to 30 November 2013

	€	
Land	17,966	
Shares	(200)	
Gains for 2013	17,766	0·5
Losses brought forward	(11,000)	1·0
Chargeable gain	6,766	
Less annual exemption	(1,270)	1·0
Taxable gain	5,496	
CGT at 33%	1,814	0·5
		16

Tutorial note: *Losses incurred during the year are used before losses brought forward. Development land losses can be offset against all gains.*

(b) The 'bed and breakfast' anti-avoidance rule modifies the first in, first out (FIFO) rule of share identification where shares of the
same class are bought and sold within a period of four weeks. 1·0

Where shares are sold within four weeks of their acquisition, the shares sold are identified with the shares acquired within that period for the purposes of determining the base cost of the shares sold. 1·0

Furthermore, where a loss arises on the disposal of such 'bed and breakfast' shares, the loss is not available for offset against any other gains arising. 1·0

Instead the loss is only available for offset against any gain which might arise on the subsequent disposal of the same shares (note: this provision does not apply where there is a gain on the disposal). 1·0

4·0

20

4 (a) (i) A taxable supply of goods means the normal transfer of ownership of goods from one person to another 0·5
and includes the supply of goods liable to value added tax (VAT) at the zero rate. 0·5

It includes:

1. The sale of goods by agreement.
2. The handing over of goods under a hire purchase agreement.
3. Gifts of taxable goods made in the course of business, where the gift excluding VAT is €20 or more.
4. The seizure of goods by a sheriff or other person acting under statutory authority.
5. The appropriation by an accountable person of goods other than for the purposes of his/her business.

ONLY TWO examples required, 1 mark each – maximum 2·0

3·0

Marks

(ii) The basic rule is that supplies of goods in the State are subject to VAT.

A supply of goods is deemed to take place:

1. In the case of goods which are not dispatched or transported, the place where the goods are at the time of their supply.
2. In the case of goods which are installed or assembled, the place where the goods are installed or assembled.
3. In the case of goods which are supplied on board vessels, aircraft and trains during intra-EU transport, the place where the transport begins.

ONLY TWO examples required, 1 mark each – maximum 2·0

(b) Cable Knit

Value added tax (VAT) liability for May/June 2013

Output credits	Sales excluding VAT	VAT rate	VAT	
	€		€	
Sales to French customers	1,100	23%	253	1·0
Sales to Irish third level college	400	23%	92	0·5
Sales to business in Tokyo	2,500	0%	0	0·5
Gifts	400	23%	92	1·0
Sales to Irish store	5,000	23%	1,150	0·5
Replacement jumper	0	0%	0	1·0
Wool from Scottish supplier	1,200	23%	276	1·0
			1,863	

Input credits	Purchases excluding VAT	VAT rate	VAT	
	€		€	
Wool from Irish supplier	3,000	23%	690	0·5
Wool from Scottish supplier	1,200	23%	276	1·0
Diesel car (W1)	4,000	23%	920	1·0
Diesel (W2)	455	23%	105	1·0
Hotel – no relief	0		0	1·0
Total VAT on inputs			1,991	
Net VAT repayable			(128)	
				10
				15

Workings:

1. **Diesel car**
   As the business use of the car exceeds 60%, a claim for a VAT refund of 20% of the VAT incurred on the purchase of the car can be made. The refund value is therefore €20,000 x 20% = €4,000.

2. **Diesel**
   80% of the diesel, being the portion relating to business use, is allowable. The relevant VAT exclusive cost is €700 x 80% = €560/1·23 = €455.

5 (a) The fundamental principles of the Code of Ethics, as applied to the provision of tax advice, are as follows:

- Integrity – to be straightforward and honest in your business relationships both with your client and the Revenue.
- Objectivity – to avoid bias and conflict of interest, and not to favour one tax client over another.
- Professional competence and due care – to maintain your professional knowledge and skill at the level required to give tax advice to clients, by keeping up to date with changes to the tax law.
- Confidentiality – not to disclose client information to third parties (including the Revenue) without specific authority, except in compliance with legislation.
- Professional behaviour – to comply with laws and regulations and to avoid any behaviour which may bring the profession into disrepute.

ONLY THREE principles required, 1 mark each – maximum 3·0

		Marks
(b) **(i)**	All companies incorporated in Ireland on/after 11 February 1999 are deemed to be resident in Ireland.	1·0
	However there are two exceptions to the above rule:	
	1. **The trading exemption** – this applies where a company carries on a trade in Ireland but is controlled by persons resident in another EU Member State or a country with which Ireland has a double taxation treaty. Also, if the company incorporated in Ireland is controlled by a non-Irish quoted company, it will be deemed not to be resident in Ireland.	1·5
	2. **The treaty exemptio**n – this applies where the terms of a double taxation treaty entered into by Ireland deem the company to be resident in the other treaty country.	1·0
	Companies not incorporated in Ireland will still be deemed to be Irish resident if their place of 'central management and control' is in Ireland.	
	The factors to be considered when determining a company's place of 'central management and control' include where directors' meetings are held; where the company's head office is located; and where the company's profits are realised.	1·5
		5·0
(ii)	A permanent establishment (PE) is a fixed place of business through which the business of the enterprise is wholly or partly carried out. Examples of a PE include a branch, office or factory.	1·0 1·0
		2·0
		10