Answers

Section A

1 **C** €33,000

Current year basis for 2014 is €36,000 less the revision downwards caused by the over-assessment in 2013.
Original 2013 on current year basis €42,000
Actual 2013 ((€42,000 x 6/12) + (€36,000 x 6/12)) = €39,000
The amount assessed in 2014 will be reduced by €3,000 (€42,000 less €39,000)

€36,000 – €3,000 = €33,000

2 **A**

3 **D** €3,099

Apply USC to earned income and correctly ignore income which has been liable to DIRT and correctly ignore the contribution to the pension fund – €50,000 + €4,000 = €54,000.

	€
€10,036 x 2%	201
€5,980 x 4%	239
€37,984 x 7%	2,659
	3,099

4 **D**

Cost of initial part-disposal = €50,000 x (€80,000/€80,000 + €60,000) = €28,571
€50,000 – €28,571 = €21,429

5 **B**

€15,000 + €1,700 = €16,700
€16,700 – €15,100 = €1,600
€1,600 x 2/12 = €267
€267 x 15,000/16,700 = €240

6 **C**

7 **D**

€10,000 x 20% = €2,000

8 **C**

93 days after the date on which a valid claim is made.

9 **D**

10 **A**

€900 + €550 = €1,450 x 13·5% = €196

11 **A**

(€325,000 + €275,000) x 0·18% = €1,080

Marks

12 B

€30,000 – €1,270 = €28,730

Tutorial note: *Non-development land losses cannot be used to shelter development land gains.*

13 C

€8,120 x 9/14 = €5,220

Tutorial note: *The last 12 months of ownership are treated as a period of deemed occupation as the house was previously David's principal private residence.*

14 B

15 B

2 marks each **30**

Section B	*Marks*

1 Carmen

(a) Carmen will be resident in Ireland in 2014 because she will spend at least 183 days in the State during the year 2014. 1·5

Tutorial note: *Carmen will also be resident in 2014 because she will have spent a combined total of 280 days during the tax year 2014 and the preceding tax year (2013).*

Carmen will not be ordinarily resident in Ireland in 2014 because her first year of tax residence was 2012 (present for 261 days (275 – 14)), therefore, she has only been tax resident in Ireland for each of the two (not three) preceding tax years. 2·0

Carmen will not be domiciled in Ireland because at birth she would have acquired the domicile of her father, i.e. Spain. She will retain this domicile of origin unless (or until) she acquires a new 'domicile of choice' by moving to another country with the intention of residing there permanently. As Carmen intends to return to Spain at the end of 2015, she has no intention of residing permanently in Ireland and thus has not acquired a new domicile of choice in Ireland. 1·0 1·5

6·0

(b) Income liable to Irish income tax for the tax year 2014

Carmen is resident but not domiciled in Ireland in 2014 and, as such, will only be subject to Irish income tax on her Irish source income and foreign income actually brought into Ireland. 1·0

	€	
Schedule E, salary	32,000	0·5
UK deposit interest	0	1·0
UK dividend income lodged in Spain	0	1·0
UK dividend income lodged in Ireland	1,500	0·5
	33,500	
		4·0
		10

2 A Ltd; B Ltd and C Ltd

(a) There will be two separate groups for loss relief purposes: A Ltd and B Ltd, and B Ltd and C Ltd. 1·0

This is because while all three companies are Irish resident and a 75% direct shareholding relationship exists between the two companies at each level, the indirect shareholding relationship between A Ltd and C Ltd is only 72% (90% x 80%). 0·5 0·5 1·0

3·0

(b) Corporation tax for the year ending 31 December 2014

	A Ltd €	B Ltd €	C Ltd €	
Case I	0	66,000	58,000	0·5
S396A	–	–	(58,000)	0·5
S420A	–	(66,000)	–	1·0
Case V	10,000	5,000	12,000	
Total income		5,000	12,000	
Chargeable gain (€5,000 x 33%/12·5%)	0	13,200	–	0·5
Total profits	10,000	18,200	12,000	
Corporation tax at 12·5%	0	1,650	0	0·5
Corporation tax at 25%	2,500	1,250	3,000	0·5
S396B (€20,000 x 12·5%)	(2,500)	–	0	1·0
S420B (€14,000 x 12·5%)		(1,750)		1·0
Net tax due	0	1,150	3,000	

		Marks
Losses carried forward:		
A Ltd: Case I loss forward from 2013 €14,000		0·5
Chargeable loss from 2014, €10,000		0·5
C Ltd: Case I loss from 2013 €2,000 (W2)		0·5
		7·0
		10

Workings:

1. **Loss memorandum – A Ltd**

	€
Case I loss 2014	100,000
Utilised by A Ltd under S396B	(20,000)
Available for group relief	80,000
Used by B Ltd under S420A	(66,000)
Case I loss remaining from 2014	14,000
Used by B Ltd under S420B	(14,000)
	0

2. **Loss memorandum – C Ltd**

	€
Case I loss forward from 2013	60,000
Utilised by C Ltd under S396(1)	(58,000)
Case I loss remaining and carried forward to 2015	2,000

3 Roadtow Ltd

Value added tax (VAT) liability for May/June 2014

	VAT exclusive value €	VAT rate	VAT €	
Output VAT:				
Irish customers	450,000	13·5%	60,750	0·5
Northern Ireland (not VAT registered)	125,000	13·5%	16,875	1·0
Northern Ireland (VAT registered)	225,000	0%	0	1·0
Towing equipment from UK	85,000	23%	19,550	1·0
VAT refund on irrecoverable debt written off	(5,000)	13·5%	(675)	1·0
			96,500	
Input VAT:				
Towing equipment from UK	(85,000)	23%	(19,550)	0·5
Spare parts from Ireland	(35,000)	23%	(8,050)	0·5
Overheads:				
Diesel for company tow trucks	(53,600)	23%	(12,328)	0·5
Computer	(1,000)	–	(0)	1·0
Electricity	(2,000)	13·5%	(270)	0·5
Hotel accommodation	(4,000)	9%	(360)	1·0
Hotel meals	(2,000)	–	(0)	0·5
Hotel drinks	(1,500)	–	(0)	0·5
			(40,558)	
VAT liability			55,942	0·5
				10

Tutorial notes:

1. *Input VAT may only be reclaimed when evidenced by means of a valid VAT invoice. Therefore, the VAT suffered on the purchase of the computer is not recoverable.*
2. *No input VAT reclaim is permitted in relation to the provision of food, drink or accommodation, with the exception of VAT on accommodation in relation to a qualifying conference.*

4 Noel

Chargeable gains/losses in the tax year 2014

(1) Disposal of shares in Vee Ltd

Date	Number of shares	Market value/cost €	Enhancement expenditure €	
1 March 1998	4,000	6,000		
1 July 2008 – 1 for 10	400	0	0	
1 August 2010 – 1 for 5 at €3	880	0	2,640	
	5,280	6,000	2,640	
1 February 2014	(5,280)	(6,000)	(2,640)	1·5
	0	0	0	
1 May 2003	3,000	6,000		
1 July 2008 – 1 for 10	300	0	0	
1 August 2010 – 1 for 5 at €3	660	0	1,980	
	3,960	6,000	1,980	
1 February 2014	(720)	(1,091)	(360)	1·5
	3,240	4,909	1,620	

		€	
Disposal of 5,280 shares at €5 each		26,400	0·5
Market value at date of inheritance	€6,000		
Index factor 1997/1998	1·232	(7,392)	1·0
Rights issue August 2010	€2,640		
Index factor	1·0	(2,640)	0·5
Gain		16,368	
Disposal of 720 shares at €5 each		3,600	
Cost on 1 May 2003	€1,091		
Rights issue, August 2010	€360		
	€1,451		
Index factor	1·0	(1,451)	0·5
Gain		2,149	
Total gain		18,517	

(2) The gain on the sale of the painting is exempt as the sale proceeds are less than €2,540. 1·0

(3) Holiday home

	€	€	
Sales proceeds		210,000	
Cost of house May 2001	180,000		1·0
Incidental costs of acquisition	18,000		
	198,000		
Index factor 2001	1·087	(215,226)	0·5
Indexed loss		(5,226)	

There is no relief for the expenditure on the electrical wiring as there is no enhancement of the asset. 0·5

There is a monetary gain but an indexed loss, this means that there will be no gain/no loss on the disposal of the holiday home. 1·0

The sale of furnishings is ignored as they are wasting assets. 0·5

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			Marks

5 Alice

Income tax computation for the tax year 2014

	€	€	
Schedule D Case III, Irish bank interest gross		800	0·5
Schedule D Case V (W1)		5,550	W1
Schedule E			
Salary	18,000		0·5
Benefit-in-kind (W2)	200		W2
Less capital allowances (W3)	(300)		W3
	17,900		
Contributory widow's pension	11,980	29,880	0·5
Schedule F, Irish dividends €600/0·8		750	1·0
Gross income		36,980	
Less charges/reliefs		0	
Total income/taxable income		36,980	
Tax payable			
€36,800 at 20%	7,360		1·0
€180 at 41%	74		0·5
Gross tax before credits		7,434	
Less non-refundable tax credits			
Widowed person, no dependent children	2,190		0·5
Age credit	245		0·5
PAYE	1,650		0·5
Single person child carer credit	1,650		1·0
Medical expenses €2,500 x 20%	500	(6,235)	0·5
Less refundable tax credits			
PAYE	800		0·5
Dividend withholding tax (DWT)	150	(950)	0·5
Net tax due/(refund)		249	

Workings:

1. **Rental income**

	€	€	
Rental income before tax ((5 x 900) + (4 x 1,000))		8,500	0·5
Less			
Interest €2,800 x 75%	2,100		1·0
Local property tax	0		1·0
Insurance	500		0·5
Cleaning	350	(2,950)	0·5
Net rental income		5,550	

2. Benefit-in-kind on preferential loan €10,000 x (4% – 2%) — 200 — 1·0

3. **Capital allowances on car used for work related activities**

	€	€	
Specified amount	24,000		0·5
Wear and tear 12·5%	3,000		0·5
Business use 10%		300	0·5

Tax relief will be given at source on Alice's private medical insurance. 0·5

No tax relief available for routine dental care costs. 0·5

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6 Stack Ltd

Marks

Corporation tax for the year ended 31 December 2014

	€	€	
Net trading income		900,000	
Addbacks			
Depreciation	750,000		0·5
Interest on:			
Overdraft	0		0·5
Late payment of PAYE/PRSI	6,000		0·5
Capital loans	0		0·5
Entertainment for:			
Customers (7,000 + 6,000)	13,000		1·0
Staff	0		0·5
Motor expenses:			
Motor vehicle lease charges (W1)	3,897		W1
Staff reimbursed expenses	0		0·5
Legal expenses:			
Out of court settlement – unfair dismissal claim	0		0·5
Disposal of hotel	50,000		0·5
Repairs and maintenance:			
Repainting and re-wiring	0		0·5
Roof replacement (25,000 x 40%)	10,000		0·5
Loss of profits compensation received	10,000	842,897	1·0
		1,742,897	
Deductions			
Capital allowances (W2)		(206,650)	W2
Balancing charge on sale of hotel (W3)		0	W3
Case I income and total income		1,536,247	
Chargeable gain adjusted (W4)		184,800	W4
Total profits		1,721,047	
Corporation tax payable €1,721,047 at 12·5%		215,131	0·5

Workings:

1. **Motor vehicle lease charges**

	€	€	
Category A car, €6,500 x (€21,000 – €24,000)/€21,000	(929)		1·0
Category C car, €13,100 x ((€38,000 – €24,000)/€38,000	4,826	3,897	1·0

2. **Capital allowances**

Industrial buildings annual allowance (IBAA) and wear and tear

	Hotels €	**Fixtures and fittings** €	
Cost	5,000,000	NIL as wear and tear allowances fully claimed	
Additions – kitchen roof enhancement and new fixtures	10,000	50,000	1·0
Cost for IBAA/wear and tear	5,010,000	50,000	1·0
IBAA/wear and tear (4%/12·5%)	200,400	6,250	1·0

Total of capital allowances (€200,400 + €6,250) = €206,650.

3. **Balancing adjustments on disposals**

Hotel: As the hotel was bought in 1999 it would have had a NIL tax written down value (TWDV) and its tax life has expired, so there will be no clawback of the IBAA claimed. 1·5

4. Capital gain adjustment: €70,000 x 33%/12·5% = €184,800. 1·0

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