Answers

Section B *Marks*

1 (a) Chris

Value added tax (VAT) liability for September/October 2015

	Value	VAT rate	VAT amount	
	€		€	
Output VAT				
Irish customers (190,000 + 15,000)	205,000	23%	47,150	1·0
UK customers	30,000	0%	0	1·0
Purchases from Germany	40,000	23%	9,200	1·0
Goods for own use	5,000	23%	1,150	1·0
			57,500	
Input VAT				
Goods for resale				
Irish suppliers	(90,000)	23%	(20,700)	0·5
German supplier	(40,000)	23%	(9,200)	0·5
US supplier	(29,000)	23%	(6,670)	0·5
Diesel for delivery van	(800)	23%	(184)	0·5
Painter's bill	(3,000)	0%	(0)	1·0
Catering for customer open evening	(1,500)		(0)	0·5
			(36,754)	
VAT payable by Chris			20,746	0·5
				8·0

Tutorial notes:

1. *VAT is accounted for in the period in which the goods are supplied or on receipt of a payment, whichever is earlier.*
2. *Goods which are taken by an owner for their own use are a self-supply and VAT must be accounted for under output VAT in box T1 of the VAT return.*
3. *The VAT on the decorating bill may not be claimed as the absence of the VAT registration number on the invoice means that the invoice is not a valid VAT invoice.*
4. *The VAT on the catering invoice may not be reclaimed as it is considered to be entertainment.*

(b) Chris will be providing the electrical equipment only, so it is the place of supply rules for goods which apply. 0·5

The place of supply rules state that where goods are transported, the place of supply is where the transport begins which, in this case, is Ireland. 0·5

As the customer in the UK is not UK VAT registered, Chris must charge the Irish rate of VAT at 23%. 1·0

2·0

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Marks

2 Dan and Elaine

(a) **Taxable income computations for the tax years 2015 and 2016**

	2015	2016	
	€	€	
Dan			
Case I	0	8,000	1
Schedule E	35,000	54,000	0·5
S382		(8,000)	1·0
Elaine			
Case I	25,000	24,000	0·5
Gross income	60,000	78,000	
S381	(31,750)	0	1·5
Taxable income	28,250	78,000	

The loss carried forward to 2017 is €30,250 (being €70,000 loss – €31,750 (S381) – €8,000 (S382)). 0·5

5·0

Tutorial note: *The Finance Act 2014 introduced a restriction on the loss relief which can be claimed against total income in the year of loss. S381B set an upper limit of €31,750 on the relief which can be claimed where an individual is not engaged in the trade in an 'active capacity', i.e. for not more than ten hours per week.*

(b) It would be best if Dan were to make a qualifying disclosure. This is where he would contact the Revenue stating that he has made some mistakes/omissions in his tax return. 1·0

Where this is done prior to a discovery being made by the Revenue, the disclosure is described as unprompted. 1·0

In order to make such a qualifying disclosure, Dan needs to contact the Revenue in writing setting out the full particulars of the matter arising and stating the amount of tax and interest due. 1·5

The benefits to Dan of making such an unprompted qualifying disclosure are that he may avoid his name being published in the Revenue list of tax defaulters, the penalties on the unpaid tax may be substantially mitigated and it will remove the risk of a Revenue prosecution. 1·5

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3 (a) Sam – Gains and losses on the disposal of assets

		€	€	Marks
Business premises				
Sales proceeds			360,000	
Less cost		300,000		0·5
Index factor 1998/99	1·212		(363,600)	0·5
Enhancement expenditure (shelter)			0	1·0
Indexed loss			(3,600)	
No gain/no loss				0·5
Goodwill				
Sales proceeds			40,000	
Less cost			0	1·0
Gain			40,000	
Motor car				
Sales proceeds			16,000	
Cost			(20,000)	
Loss on disposal			(4,000)	0·5
Loss for capital gains tax (CGT) purposes			0	0·5
Inventory – not a chargeable asset			0	0·5
Irish Government securities – exempt asset (gain not taxable)			0	1·0
Rare book collection				
Deemed proceeds (market value)			30,000	1·0
Market value 6 April 1974		3,000		0·5
Index factor 1974/75	7·528		(22,584)	0·5
Gain			7,416	
				8·0

Tutorial notes:

1. *The enhancement expenditure on the shelter is not reflected in the sale proceeds (due to its destruction). As a result, no deduction for this is permitted in the calculation of the capital gain on the business premises.*
2. *Any loss in value on the motor car which relates to the business use of the asset is relieved through capital allowances. There is no relief for loss in value incurred on the non-business cost of the motor car as the motor car is a wasting asset.*

(b) Specified Irish asset

A specified Irish asset is an asset chargeable to Irish capital gains tax (CGT) irrespective of the residence or ordinary residence of the owner. 1·0

Such assets include:

(i) Land and buildings in the State.
(ii) Minerals in the State including exploration rights within the limits of the Irish continental shelf.
(iii) Unquoted shares deriving all or the greater part of their value from (i) and (ii) above.
(iv) Assets situated in the State which are used for the purpose of a trade carried on in the State.

TWO examples only required, a ½ mark each, maximum 1·0

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Marks

4 Webix Ltd

(a) Corporation tax for the three accounting periods ending 31 December 2016

	Year ended 31 March 2015	Period ended 31 December 2015	Year ending 31 December 2016	
	€	€	€	
Case I income	15,000	0	10,000	0·5
S396(1)			(10,000)	1·0
S396A (9/12 x €15,000)	(11,250)			1·0
Case V	18,000	25,000	50,000	
Income	21,750	25,000	50,000	
Chargeable gains	0	10,000	0	0·5
Profits	21,750	35,000	50,000	
Corporation tax at 12·5%	469	1,250	0	0·5
Corporation tax at 25%	4,500	6,250	12,500	0·5
Less S396B	(3,727)	(7,500)	0	0·5
Tax payable	1,242	0	12,500	

Loss memorandum:

	€	
Trading loss period ended 31 December 2015	(160,000)	
S396A Year ended 31 March 2015	11,250	0·5
	(148,750)	
Loss value €148,750 x 12·5%	(18,594)	0·5
S396B, other income, period ended 31 December 2015	7,500	0·5
S396B, other income, year ended 31 March 2015 ((€4,500 + €469) x 9/12)	3,727	1·0
	(7,367)	
Trading loss carried forward €7,367/12·5%	(58,936)	0·5
S396(1) year ending 31 December 2016	10,000	0·5
Trading loss unused carried forward to 2017	(48,936)	
		8·0

(b) Loss restriction

The return should have been filed with the Revenue by 23 September 2016. If it were filed on 31 October 2016, it would be less than two months late. Therefore, a 25% restriction on the use of losses against current period or prior period profits would arise, subject to a maximum restriction of €31,740. 1·0

The S396B loss relief for the period ended 31 December 2015 would be reduced to €5,625 ((€1,250 + €6,250) x 75%). 1·0

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5	Sonia – Income tax computation for the tax year 2015					Marks
				€	€	
	Schedule E					
	Salary			50,000		0·5
	Home internet – personal use			0		W1
	Travel expenses reimbursement			0	50,000	0·5
					50,000	
	Schedule D					
	Case IV (€1,100/·59)				1,864	0·5
	Case V				4,400	W2
	Competition winnings (exempt)				0	1·0
	Gross income				56,264	
	Less reliefs					
	Pension contribution				(12,500)	W3
	Taxable income				43,764	
		€				
		37,800	20%	7,560		0·5
		1,864	41%	764		0·5
		4,100	40%	1,640		0·5
	Gross tax				9,964	
	Less non-refundable tax credits					
	Widowed person with dependent children			1,650		0·5
	PAYE credit			1,650		0·5
	Single person child carer credit			1,650		0·5
	Widowed person in third year following bereavement			2,700		1·0
	DIRT (€1,864 – €1,100)			764		0·5
	Home renovation scheme			675		W4
	Fees paid for qualifying training course – (€2,300 – €1,500) x 20%			160	(9,249)	1·0
	Refundable tax credits					
	PAYE paid				(6,000)	0·5
	Net tax refund				(5,285)	

Workings:

W1	Internet fee relating to private use €300 x 75%		€225	
	Below the small gift exemption of €500 – exempt.			1·0
W2		€	€	
	Rental income		10,500	0·5
	Less expenses			
	Interest (€8,000 x 75%)	6,000		0·5
	LPT	0		0·5
	New alarm system	0	(6,000)	0·5
			4,500	
	Capital allowances on alarm system (€800 x 12·5%)		(100)	0·5
			4,400	
W3			€	
	Pension contribution		40,000	
	Schedule E income		50,000	0·5
	Age 49 25% max relief		12,500	0·5
	Relief restricted to		12,500	
W4	VAT amount paid in 2014		€1,350	1·0
	Relief will be given over two years in 2015 and 2016		€675	1·0
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Marks

6 Alfor Ltd

(a) **Corporation tax and capital gains tax payable for the year ended 31 December 2015**

	€	€	
Trading profit		141,000	
Add backs			
Interest on loan for share purchase	5,000		0·5
Interest on loan to purchase non-current (fixed) assets	0		0·5
Depreciation	45,000		0·5
Computer software	12,000		0·5
Entertaining clients	8,000		0·5
Entertaining staff	0		0·5
Legal fees re personal injury claim	0		0·5
Employer's unpaid pension contributions (€30,000 x 20%)	6,000		0·5
Donations to political parties	5,000		0·5
Donations to qualifying charities	0		0·5
Lease interest on plant	12,000		0·5
Lease payment on financial controller's motor car	5,143	98,143	W1
Deductions			
Lease payment on plant	18,000		0·5
Capital allowances (40,000 + (12,000 x 12·5%)	41,500	(59,500)	1·5
Case I adjusted income		179,643	
Irish dividend income (exempt)		0	0·5
Case III UK dividend income		6,000	0·5
Total income		185,643	
Less non-trade charge			
Interest on loan to buy shares		(5,000)	1·0
Income liable to corporation tax		180,643	
Corporation tax at 12·5%		22,580	0·5
Chargeable gain		117,200	W2
Capital gains tax at 33%		38,676	1·5

Workings:

W1 Category D motor car

Restriction on lease payments €7,200 x (€42,000 – €12,000)/€42,000		5,143	1·5

W2 Chargeable gain

Sales proceeds		194,200	
Less			
Site cost, including stamp duty and legal costs	54,000		0·5
Enhancement expenditure	23,000	(77,000)	0·5
Chargeable gain		117,200	
			14

Tutorial note: *Chargeable gains and losses on development land are charged to capital gains tax (CGT) instead of corporation tax (CT). They do not therefore form part of the total profits of the company.*

(b) The filing date for the corporation tax return is 23 September 2016. 1·0

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