

Fundamentals Level – Skills Module

# Taxation (Irish)

Thursday 9 June 2016



**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

This question 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 question 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 question paper.**

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

# Paper F6 (IRL)

Think Ahead

**ACCA**

The Association of  
Chartered Certified  
Accountants

## 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 Act 2014 and are to be used for all questions in this paper.

Income tax rates	
	Tax €
Single/widow(er)/surviving civil partner without qualifying children	
€33,800 at 20%	6,760
Balance at 40%	
Married or in a civil partnership (one income)	
€42,800 at 20%	8,560
Balance at 40%	
Married or in a civil partnership (dual income)	
€42,800 at 20%	8,560
€24,800 at 20%	4,960
Balance at 40%	
Single/widow(er)/surviving civil partner qualifying for single person child carer credit	
€37,800 at 20%	7,560
Balance at 40%	

### 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	600	120
– married/widowed/in a civil partnership/survivor of a civil partnership aged under 55	1,200	240
– single aged 55 and over	1,200	240
– married/widowed/in a civil partnership/survivor of a civil partnership aged 55 and over	2,400	480

**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 €3,000 is ignored
Part-time qualifying courses	First €1,500 is ignored

### Rates of PRSI Self-employed – Class S

Rate	4%
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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%
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No PRSI on earnings of €352 or less per week.

### Employee – Class K

Rate	4%
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**Rates of PRSI**  
**Employer (for employees – Class A1)**

Rate	10.75%
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**Universal social charge (USC) for all taxpayers**

On the first €12,012	1.5%
On the next €5,564	3.5%
On the next €52,468	7%
On the balance	8%

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, if aggregate income for the year is €60,000 or less, the maximum rate is 3.5%.

Exemptions:

- Individuals whose income does not exceed €12,012 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):  $(A \times B/15) - C$

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 (CGT)

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**

<b>Year expenditure incurred</b>	<b>Multipliers for disposals in the year ending 31 December 2004 <i>et seq</i></b>
<i>1974-75</i>	7.528
<i>1975-76</i>	6.080
<i>1976-77</i>	5.238
<i>1977-78</i>	4.490
<i>1978-79</i>	4.148
<i>1979-80</i>	3.742
<i>1980-81</i>	3.240
<i>1981-82</i>	2.678
<i>1982-83</i>	2.253
<i>1983-84</i>	2.003
<i>1984-85</i>	1.819
<i>1985-86</i>	1.713
<i>1986-87</i>	1.637
<i>1987-88</i>	1.583
<i>1988-89</i>	1.553
<i>1989-90</i>	1.503
<i>1990-91</i>	1.442
<i>1991-92</i>	1.406
<i>1992-93</i>	1.356
<i>1993-94</i>	1.331
<i>1994-95</i>	1.309
<i>1995-96</i>	1.277
<i>1996-97</i>	1.251
<i>1997-98</i>	1.232
<i>1998-99</i>	1.212
<i>1999-2000</i>	1.193
<i>2000-2001</i>	1.144
<i>2001</i>	1.087
<i>2002</i>	1.049
<i>2003 et seq</i>	1.000

**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** Link Ltd prepares its accounts to 31 December every year. The company's results for the last three years are as follows:

Year to 31 December	2013	2014	2015
	€	€	€
Case I income	80,000	20,000	40,000
Trade charges	(25,000)	(35,000)	(26,000)
Non-trade charges	(9,000)	(10,000)	0
Case V income	5,000	16,000	18,000

**Required:**

- (a) **Compute the total profits and corporation tax liability (if any) of Link Ltd for each of the years 2013–2015 assuming the company wishes to claim relief as early as possible. Clearly show how and when relief is claimed for the trade and non-trade charges and identify any charges which are carried forward or unrelieved at each year end.** (8 marks)
- (b) **State the loss relief restriction which applies where a company is more than two months late in filing its corporation tax return.** (2 marks)

**(10 marks)**

- 2** Yvette, an Irish resident, made the following asset disposals during 2015:

- (1) On 1 March 2015, Yvette sold her car for €22,000. She had bought the car in May 2013 for €20,000 from a friend who was emigrating. The car is a category C car and Yvette used it 30% for business purposes.
- (2) On 30 June 2015, Yvette sold her principal private residence for €280,000 net of all disposal costs. She had inherited the house on her mother's death on 1 January 2000, when the market value of the house was €160,000. Her mother had bought the house in 1970 for €14,000. The market value of the house at 6 April 1974 was €20,000. Yvette had occupied the house from the date of inheritance to 31 December 2010. The house has been vacant since that date.
- (3) On 1 September 2015, Yvette gifted a painting to her brother, Ronan. She had bought the painting in May 1992 for €3,000 and in August 1999 she had the painting professionally framed at a cost of €1,800. The market value of the painting on 1 September 2015 was €5,300.

**Required:**

- (a) **Calculate Yvette's capital gains tax liability for 2015 based on the above transactions.** (8 marks)
- (b) **State the payment date for the tax liability calculated in part (a) and the tax return filing date.** (2 marks)

**(10 marks)**



- 3 Geoff runs an adventure centre from rented premises. He prepares bi-monthly value added tax (VAT) returns on a cash receipts basis. Details of his fees received and purchases for September/October 2015 are as follows:

	€
Admission fees received (including VAT at the additional lower rate)	13,500
<b>Expenses</b> (all expenses/invoiced amounts are inclusive of VAT where applicable)	
Rent	1,000
Lease payment on van (Note 1)	620
Petrol for van	160
Electricity (lower rate VAT)	180
New computer and printer (Note 2)	900
Sports equipment bought from a UK supplier (Note 3)	700

**Notes:**

1. The leased van is used 30% for business purposes.
2. The computer and printer were purchased in October 2015 but not paid for until November 2015.
3. Geoff provided the UK supplier with his Irish VAT registration number when placing the order for this equipment. The supplier did not charge UK VAT on the invoice.

**Required:**

- (a) Calculate Geoff's net value added tax (VAT) payable for September/October 2015.

Note: You should indicate by the use of zero (0) any items referred to in the question where there is no VAT impact. (7 marks)

- (b) State the filing and payment dates for the above return. (1 mark)

- (c) Advise Geoff whether it will be possible for him to change to an annual VAT return reporting basis. (2 marks)

**(10 marks)**

- 4 Andrew is 69 years old, retired and widowed. He was born in Ireland and has Irish parents but went to the UK to work when he was aged 22 and spent all his working life in the UK until he moved back to Ireland in 2009. Andrew now runs the family farm in Ireland and is Irish resident, ordinarily resident and domiciled.

In 2013, Andrew bought a factory building in Ireland for €800,000. Andrew immediately rented out the factory building for an annual gross rent of €45,000. When Andrew purchased the factory building, it had had one previous owner; been in use for qualifying activities since its construction; and had a remaining tax life of eight years. The qualifying cost to the previous owner was €1,000,000. Andrew pays annual interest of €20,000 in respect of the loan used to buy the factory.

During 2015, Andrew heard about 'glamping' for the first time so he started exploring the idea of opening a luxury campsite alongside the farm. He employed consultants to carry out market research and prepare a business plan. Andrew has spent €20,000 on consultants' fees to date. If the 'glamping' business goes ahead, it is likely to be 2017 before it commences.

Other information relevant to Andrew's position for the tax year 2015 is as follows:

	€
Pension received from the UK civil service	30,000
Irish bank deposit interest received (gross)	4,000

Farming income in respect of the year ended:

	€
31 December 2015	32,000
31 December 2014	36,000
31 December 2013	22,000
31 December 2012	20,000
31 December 2011	20,000

Andrew avails of the income averaging method.

Farm inventory (stock) value in respect of the year ended:

	€
31 December 2015	60,000
31 December 2014	45,000

**Required:**

- (a) Advise Andrew on any relief which may be available to him for the €20,000 consultants' fees he has already incurred in respect of the new 'glamping' business. (3 marks)

- (b) Compute Andrew's taxable income for the tax year 2015.

Note: You are not required to calculate the tax payable.

(7 marks)

**(10 marks)**

- 5 Deirdre is single and 63 years old. Due to a re-organisation within the company she was employed by for the past 34 years and six months, voluntary redundancies were offered. Deirdre decided to take voluntary redundancy and she was made redundant on 31 March 2015.

Deirdre received the following termination package when she was made redundant:

	€
Statutory redundancy	64,000
<i>Ex gratia</i> compensation	96,000
Pension lump sum, received 31 March 2015	20,800

Deirdre's salary received from 1 January 2012 to the date of the termination of her employment was as follows:

	€
1 January 2015 to 31 March 2015	11,250
Year ended 31 December 2014	43,500
Year ended 31 December 2013	42,000
Year ended 31 December 2012	41,000

Deirdre's employer deducted PAYE of €4,850 from her earnings in 2015.

Between April and September 2015, Deirdre received unemployment benefit of €4,136 but this ceased in September when Deirdre commenced a part-time course.

During 2015, Deirdre rented out two rooms in her home to two students and received a total of €9,000 in rent and €4,000 for meals provided.

In 2015, Deirdre received dividends (net) from an Irish plc of €600.

Deirdre's mother lives alone, she is 89 years old and is cared for at home by Deirdre and a carer employed part-time by Deirdre. In 2015, Deirdre paid the carer €11,000. Deirdre's mother had income of €17,000 for 2015.

Details of Deirdre's other outgoings for 2015 are as follows:

Private medical insurance for self – amount paid	€1,300
Dentist visits for fillings and cleaning	€360

In 2014, Deirdre had renovations carried out on her house. These qualified for relief under the Home Renovations Incentive Scheme. Deirdre spent €11,350 including VAT on the qualifying work.

**Required:**

- (a) Compute Deirdre's taxable lump sum as a result of her termination package. (5 marks)
- (b) Prepare Deirdre's income tax computation for the tax year 2015, showing the amount of income tax payable/(refundable). (10 marks)

**(15 marks)**

- 6 Blue Ltd commenced to trade on 1 July 2014 and prepared its first set of accounts to 30 June 2015. A summary of the company's statement of profit or loss for the year ended 30 June 2015 is as below:

	Notes	€	€
Gross profit	(1)		235,900
<b>Other income</b>			
Irish bank deposit interest (gross)	(2)	1,500	
Profit on sale of van	(3)	900	2,400
			<u>238,300</u>
<i>Less expenses</i>			
Depreciation		8,000	
Finance lease interest	(4)	12,000	
Obsolete inventory written off		2,500	
Salaries and wages	(5)	150,000	
Travel and entertainment	(6)	16,000	
Rent	(7)	25,000	(213,500)
			<u>24,800</u>
Net profit before tax			

**Notes:**

- 1 Gross profit includes trade discounts received of €2,200.
- 2 Blue Ltd deposited money to this account on 1 October 2014. Interest has not been credited by the bank but the company has accrued for the interest due.
- 3 Blue Ltd bought a second-hand van on 1 August 2014 for €12,000. The van was too small for the work intended and was replaced with a new van on 1 March 2015. The company received €12,900 on the trade-in of the old van and the new van cost €18,000.
- 4 Blue Ltd leases all of its machinery and fixtures and fittings. The total lease payments (including interest) made during the period were €30,000.
- 5 Salaries and wages are analysed as follows:

	Salary	Employers' PRSI Class A1	Total
	€	€	€
Director Sean (owns 10% of the company)	60,000	6,450	66,450
Director Pat (owns 8% of the company)	25,000	2,688	27,688
Two other staff (equal salary and PRSI)	50,440	5,422	55,862
Total	<u>135,440</u>	<u>14,560</u>	<u>150,000</u>

- 6 Travel and entertainment comprises:

	€
Staff Christmas party	1,000
Trade fair attendance	5,000
Customer entertainment at Christmas	2,000
Motor car expenses (see note (a) below)	8,000
	<u>16,000</u>

- (a) The company purchased a car for Sean's use on 1 February 2015 for €38,000. The car is a category D car and Sean uses the car 60% for business purposes.

- 7 On 1 July 2014, Blue Ltd entered into a lease agreement to rent its business premises for five years and immediately paid the following amounts in respect of the lease:

	€
Lease premium	10,000
One year's rent	15,000
	<hr/>
	25,000
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**Required:**

- (a) **Compute the corporation tax liability of Blue Ltd for the year ended 30 June 2015 on the assumption that start-up relief is NOT available.**

Note: Your computation should commence with the net profit before tax of €24,800 and should list all of the items referred to in the question, indicating by the use of a zero (0) any items which do not require adjustment.

(11 marks)

- (b) (i) **State any FOUR of the necessary non-monetary conditions for start-up relief to apply.** (2 marks)

- (ii) **Assuming that Blue Ltd is eligible for start-up relief, state, giving reasons, the maximum relief available for the year ended 30 June 2015.** (2 marks)

**(15 marks)**

**End of Question Paper**