Fundamentals Level – Skills Module

Taxation (Irish)

Thursday 7 December 2017

Paper F6 (IRL)

Time allowed: 3 hours 15 minutes

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.

Do NOT record any of your answers on the question paper.
This question paper must not be removed from the examination hall.

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 2015 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)		1,000
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
Earned income tax credit		550
Rent allowance credit	**Rent limit** €	
– single aged under 55	400	80
– married/widowed/in a civil partnership/survivor of a civil partnership aged under 55	800	160
– single aged 55 and over	800	160
– married/widowed/in a civil partnership/survivor of a civil partnership aged 55 and over	1,600	320

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%

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.

Employee – Class K

Rate 4%

Rates of PRSI

Employer (for employees – Class A1)

Rate	10·75%

Universal social charge (USC) for all taxpayers

On the first €12,012	1%
On the next €6,656	3%
On the next €51,376	5·5%
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%.

Exemptions:
– Individuals whose income does not exceed €13,000 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 (CGT)

Rate	33%
Annual exemption	€1,270
Entrepreneur relief:	
Rate for disposals on or after 1 January 2016	20%
Lifetime limit on gains	€1,000,000

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	550,001–600,000
100,001–150,000	600,001–650,000
150,001–200,000	650,001–700,000
200,001–250,000	700,001–750,000
250,001–300,000	750,001–800,000
300,001–350,000	800,001–850,000
350,001–400,000	850,001–900,000
400,001–450,000	900,001–950,000
450,001–500,000	950,001–1,000,000
500,001–550,000	

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

Year expenditure incurred	Multipliers for disposals in the year ending 31 December 2004 *et seq*	Year expenditure incurred	Multipliers for disposals in the year ending 31 December 2004 *et seq*
1974-75	7.528	*1989-90*	1.503
1975-76	6.080	*1990-91*	1.442
1976-77	5.238	*1991-92*	1.406
1977-78	4.490	*1992-93*	1.356
1978-79	4.148	*1993-94*	1.331
1979-80	3.742	*1994-95*	1.309
1980-81	3.240	*1995-96*	1.277
1981-82	2.678	*1996-97*	1.251
1982-83	2.253	*1997-98*	1.232
1983-84	2.003	*1998-99*	1.212
1984-85	1.819	*1999-2000*	1.193
1985-86	1.713	*2000-2001*	1.144
1986-87	1.637	*2001*	1.087
1987-88	1.583	*2002*	1.049
1988-89	1.553	*2003 et seq*	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 Comfort Line Ltd, an Irish company, is registered for value added tax (VAT). Comfort Line Ltd operates three tour buses within Ireland, and also owns two delivery vans, which it uses to operate a courier service. At the bus depot there is a food counter where customers can buy drinks and food.

Comfort Line Ltd uses the cash basis of accounting for VAT. Details of the company's sales and purchases for July/August 2016 are as follows:

Sales

	VAT inclusive amount (where applicable)
	€
Tour bus sales receipts – VAT exempt	212,625
Courier service sales receipts – at standard rate	22,500
Food counter sales receipts – at standard rate	7,000
– at additional lower rate	36,000
– at zero rate	2,000

Purchases

	VAT exclusive amount
	€
Purchases for resale	
Food and drink purchases – at standard rate	3,000
Food and drink purchases – at zero rate	7,000
Other purchases	
Diesel (note 1)	56,000
Maintenance and repairs of delivery vans	1,600
Website development cost (note 2)	13,000
Customer entertainment at launch of new website	5,000

Notes:

1. 80% of the diesel cost incurred is for the tour buses and 20% for the delivery vans.
2. The website advertises all of the products/services provided by the company.

Required:

Compute the value added tax (VAT) payable by/refundable to Comfort Line Ltd for the July/August 2016 VAT period.

(10 marks)

2 Lauren had the following capital transactions during the tax year 2016:

(1) On 30 June 2016, she sold her house and one acre of land in Kildare for €400,000 to a local property developer. She incurred selling and legal costs on the sale of €10,000. The value of the house as a residence at this time was €300,000.

Lauren had inherited the house on her father's death on 1 January 1998. The current use value of the house at that time was €85,000 and its total market value was €110,000. Lauren's father had bought the house for €70,000 in March 1990; on this date the house had no development potential.

Lauren had lived in the house from 1 January 1998 to 30 June 2004. On 1 July 2004, she moved to Mallow for work reasons and remained working in Mallow until 31 December 2009. On 1 January 2010, Lauren moved back to Kildare and resumed living in the house until it was sold.

(2) In August 2016 she gifted an antique table and chairs to her sister as a wedding gift. The table and chairs had cost Lauren €5,000 when she bought them in 2008, and their market value at the date of the gift was €3,800.

(3) In December 2016 she sold a half acre site in Mallow for €60,000. The site was from a small land holding of two acres which Lauren had bought in 2006 for €150,000, when she worked in Mallow and was considering moving there to live. At the time of the sale the value of the remaining one and a half acre holding was €140,000.

Required:

Compute the net chargeable gains on which Lauren will be assessed in the tax year 2016.

(10 marks)

3 Sean (aged 68) is married to Anne (aged 64). In 2016 Sean received a State pension of €16,000. In addition, the couple received income from a number of investment properties they own.

Property 1

This is a residential house in Dublin. Sean inherited the house three years ago and immediately let the house at a rent of €1,200 per month. The original tenants vacated the house on 30 June 2016. The house was not let again until 1 September 2016 when the rent was increased to €1,500 per month.

Sean incurred the following expenditure on the property during 2016:

February	Repaired broken window and door	€350
March	Paid local property tax	€803
July	Hired a skip and carried out cleaning and repair work	€1,800
August	Purchased new furniture	€4,000
August	Advertised for a new tenant and paid a solicitor for drawing up a new rental agreement	€600
September	Paid Residential Tenancies Board fee	€90

Property 2

In April 2016, Sean purchased a warehouse for €30,000. He leased the property at a rent of €300 per month from 1 July 2016. The tenant signed a ten-year lease agreement and paid a lease premium of €8,000. Interest incurred on a loan drawn down on 1 April 2016 to purchase this property during 2016 was €1,000.

Property 3

Sean and Anne also let out two rooms in their own home during the academic year. In 2016 they received rent of €8,000 and €3,000 for meals from their tenants.

Required:

(a) Compute the assessable Case V rental income of Sean and Anne for the tax year 2016. (8 marks)

(b) Briefly discuss the application of the age exemption to the income of individuals aged 65 years and over. (2 marks)

(10 marks)

4 (a) DEFCO Ltd commenced to trade on 1 July 2014 and prepared its first set of accounts for the 27 months to 30 September 2016. DEFCO Ltd reported the following income during this period:

	€
Income from trading	540,000
Irish rental income (source commenced on 1 October 2015)	30,000
Irish deposit interest received gross:	
– 1 June 2015	6,000
– 1 July 2016	7,000
Irish dividend income received gross:	
– 1 March 2016	10,000

Required:

Compute the total assessable profits of DEFCO Ltd for all of the accounting periods covered by the accounts to 30 September 2016. (5 marks)

(b) SMALL Ltd commenced to trade on 1 January 2016 and in the year to 31 December 2016 earned Case I income of €200,000. The company, which is owned and managed by its two directors, also has six other employees. Details of their gross salaries and employer's PRSI in 2016 are as follows:

	Gross income	PRSI class	Employer's PRSI
Director 1	€65,000	S	Nil
Director 2	€60,000	S	Nil
Employee 1	€50,000	A1	€5,375
Employee 2	€38,000	A1	€4,085
Employees 3/4/5/6	€30,000 each	A1	€12,900 in total

Required:

(i) Calculate the amount of corporation tax payable, if any, by SMALL Ltd for the year to 31 December 2016 assuming the company avails of start-up relief. (3 marks)

(ii) Identify TWO circumstances in which start-up relief would NOT be available to a new company commencing to trade in 2016. (2 marks)

(10 marks)

5 Paul (aged 63) and Sheena (aged 54) formally separated by legal agreement in 2015. The couple have two children, Jack (aged 22) and Emily (aged 20). Jack and Emily live with their mother when not in college.

Paul

Paul is a director of an Irish incorporated company, Ali Ltd, in which he holds 20% of the ordinary share capital. During 2016 he earned a salary of €50,000 and received dividends of €6,000, net of dividend withholding tax.

Paul's outgoings during 2016:

Paid monthly maintenance of €1,000 to Sheena, €600 of which was in respect of the children.

Paid the third level fees for Jack and Emily. Jack is studying for a masters degree, and his qualifying course fees are €8,000; Emily is undertaking an undergraduate course and her qualifying course fees are €3,000.

Invested €6,000 in the ordinary share capital of a qualifying company, which qualifies for the employment and investment incentive scheme (EIIS).

Sheena

Sheena had always stayed at home and was the full-time carer for her children. On 1 July 2015, she started her own business, trading as a sole trader. She carries on her business from a small studio where she designs, makes and sells unique pieces of jewellery.

Details of her Case I adjusted income are as follows:

Period ended 31 March 2016	€18,000
Year ended 31 March 2017	€24,000

Sheena bought the following assets for use in her trade:

1 July 2015, equipment	€8,000
1 December 2015, shelving	€3,000
1 February 2016, motor car (10% business use)	€25,000

The motor car is a category C car, which was bought second hand. The price of this car when new was €30,000.

Sheena's outgoings during 2016:

Paid for the private medical insurance for herself and her two children of €2,300.

Paid for other medical expenses as follows:

Eye testing and new spectacles for Jack – €220

Orthodontic braces for Emily – €1,800

Required:

Compute Paul's and Sheena's respective income tax liabilities for the tax year 2016 assuming they did NOT make an election to be jointly assessed.

(15 marks)

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Question 6 begins on page 18.

6 **(a)** Ash Ltd recorded the following accounting information for its year to 30 September 2016:

Net trading profit	€240,000
Irish deposit interest, gross	€10,500
Chargeable gain (non-development), on the disposal of a warehouse	€26,000

The trading profit has been arrived at after deduction of the following:

(1) Wages and salaries

Included in wages and salaries is a charge for employees' pensions of €80,000. There was an opening accrual for pension contributions due of €12,000 but there was neither an accrual nor prepayment at 30 September 2016.

(2) Loss on disposal of a truck

During the year, a truck which had cost €40,000 in May 2013 was sold for €14,000. At the time of sale, the truck had a net book value of €24,000 and a loss of €10,000 was recorded in the accounts.

(3) Interest

Included in the interest charge for the year was a sum of €8,000 incurred on a loan which was used to purchase 8% of the ordinary share capital in Oak Ltd, an Irish resident company. A director of Ash Ltd is also a director of Oak Ltd. This share purchase was made on 1 January 2016.

(4) Motor expenses

Three new motor cars were leased during the year. All of the leased cars are category B cars and each would have cost €26,000 if purchased new.

The total motor expenses for these cars comprised the following:

	€
Leasing charges for the three cars	9,000
Running costs for the three leased cars	10,400
Total	19,400

(5) Entertainment expenses

A total of €22,000 was incurred on entertaining existing and potential customers.

(6) Depreciation

The total charge for the year was €11,000.

Other information:

Capital allowances for the year have been calculated as €20,000, including any balancing allowance/charge on the disposal of the truck (as in (2) above).

Required:

Compute the corporation tax liability of Ash Ltd for the year to 30 September 2016. (9 marks)

(b) Oak Ltd, which commenced to trade on 1 January 2016, recorded the following results in its year to 31 December 2016:

	€
Case I income	220,000
Irish rental income	(36,000)
Interest on Irish government securities	1,000
Case V capital allowances	(38,000)
Irish deposit interest, gross	4,000

Required:

(i) Compute the corporation tax liability of Oak Ltd for the year to 31 December 2016 making maximum use of its losses as early as possible. (4 marks)

(ii) Identify the losses to be carried forward to 2017 by Oak Ltd and state how these may be relieved. (2 marks)

(15 marks)

End of Question Paper