

Fundamentals Level – Skills Module

Taxation (Irish)

Thursday 8 June 2017



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.

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 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): $(A \times B/15) - C$

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 |
| Entrepreneur's 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 <i>et seq</i> | Year expenditure incurred | Multipliers for disposals in the year ending 31 December 2004 <i>et seq</i> |
|---------------------------------|---|---------------------------------|---|
| <i>1974-75</i> | 7.528 | <i>1989-90</i> | 1.503 |
| <i>1975-76</i> | 6.080 | <i>1990-91</i> | 1.442 |
| <i>1976-77</i> | 5.238 | <i>1991-92</i> | 1.406 |
| <i>1977-78</i> | 4.490 | <i>1992-93</i> | 1.356 |
| <i>1978-79</i> | 4.148 | <i>1993-94</i> | 1.331 |
| <i>1979-80</i> | 3.742 | <i>1994-95</i> | 1.309 |
| <i>1980-81</i> | 3.240 | <i>1995-96</i> | 1.277 |
| <i>1981-82</i> | 2.678 | <i>1996-97</i> | 1.251 |
| <i>1982-83</i> | 2.253 | <i>1997-98</i> | 1.232 |
| <i>1983-84</i> | 2.003 | <i>1998-99</i> | 1.212 |
| <i>1984-85</i> | 1.819 | <i>1999-2000</i> | 1.193 |
| <i>1985-86</i> | 1.713 | <i>2000-2001</i> | 1.144 |
| <i>1986-87</i> | 1.637 | <i>2001</i> | 1.087 |
| <i>1987-88</i> | 1.583 | <i>2002</i> | 1.049 |
| <i>1988-89</i> | 1.553 | <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** AB Ltd has carried on a retail trade for a number of years. The adjusted income/(losses) of AB Ltd have been as follows:

| Year ended | Case I | Case III |
|------------------|-----------|----------|
| | € | € |
| 31 December 2015 | 40,000 | 12,000 |
| 31 December 2016 | (160,000) | 6,000 |

AB Ltd also realised the following capital gains:

- €50,000 in respect of the disposal of development land on 1 May 2016; and
- €10,000 in respect of the disposal of a storage unit on 1 September 2016.

Note: None of the gains have been adjusted.

XY Ltd is a 100% subsidiary of AB Ltd. The adjusted income of XY Ltd has been as follows:

| Year ended | Case I | Case III |
|------------------|--------|----------|
| | € | € |
| 31 December 2015 | 38,000 | NIL |
| 31 December 2016 | 36,000 | 12,000 |

XY Ltd also has a chargeable loss of €15,000, which arose on the disposal of a warehouse on 1 October 2016.

It is group policy that (1) any losses incurred in an individual group company are used in that company first before being made available to the other group company; and (2) losses should be relieved as early as possible.

Required:

Compute the tax liabilities of AB Ltd and XY Ltd, if any, for each of the years 2015 and 2016 respectively, and show any unrelieved losses carried forward to 2017.

(10 marks)

- 2 (a) Curls Ltd is a company which provides hairdressing services to clients. The company accounts for value added tax (VAT) on the cash receipts basis.

Details of Curls Ltd's sales and purchases for November/December 2016 are given below:

| | Notes | € |
|--|-------|--------|
| Sales (all sales figures are inclusive of VAT) | | |
| Hairdressing services (VAT at 9%) | | 80,000 |
| Sales of hair products (VAT at 23%) | | 4,000 |
| Purchases (all purchases figures are exclusive of any applicable VAT except where otherwise stated) | | |
| Electricity | | 1,200 |
| Shampoos, conditioners, etc | | 10,000 |
| Contract cleaners | (1) | 900 |
| Wages | | 24,000 |
| Hotel bill for food and drink at Christmas party | (2) | 1,000 |
| New hair dryer purchased from a UK supplier | (3) | 800 |

Notes:

- (1) The contract cleaners are not registered for VAT.
 (2) The €1,000 is inclusive of €51 VAT on the food and €70 VAT on the drinks.
 (3) The UK supplier is registered for VAT in the UK.

Required:

Compute the value added tax (VAT) payable by/refundable to Curls Ltd for the period November/December 2016. (5 marks)

- (b) Lynda, one of the employees of Curls Ltd, is considering leaving and setting up either a nail bar business or a beauty education school.

Lynda has been told that the services of the nail bar business will be liable to VAT at the second reduced rate of 9% but that the beauty education school sales will be exempt from VAT. Lynda expects the annual turnover of the chosen business to be €60,000.

Required:

- (i) **Explain the VAT implications of setting up an exempt business, such as the beauty education school.** (3 marks)
- (ii) **State, with reasons, whether Lynda will be required to register the nail bar business for VAT, and the consequences for her clients if she has to do so.** (2 marks)

(10 marks)

- 3** Kate is married to Donal and they are both Irish resident and domiciled. During 2016 the couple made the following disposals of assets:
- (1) On 1 March 2016, Kate sold 7,000 shares in Waygal Ltd, an Irish company for €42,000. Kate's previous dealings in Waygal Ltd shares are as follows:
- 1 September 1997 purchased 1,000 shares at €2 per share.
 - 1 February 2002 purchased 6,000 shares at €3 per share.
- Waygal Ltd made:
- a 1 for 5 bonus issue on 1 December 2000; and
 - a rights issue of 1 for 6 at €4 per share on 1 April 2015.
- (2) On 1 April 2016 Kate sold a painting for €2,800, which she had bought in March 2007 for €300.
- (3) On 15 May 2016 Kate sold an antique necklace for €15,000. Kate had inherited the necklace from her aunt in June 1996 when its market value was €13,000. Kate's aunt had bought the necklace in July 1974 for €5,000.
- (4) Donal's pastime is photography and in July 2016 he sold some of his camera equipment for €3,000. Donal bought the equipment for €5,000 in 2014.

Required:

Compute the capital gains tax (CGT) liability for Kate and Donal for 2016. Give a brief explanation in the case of any disposal which does not give rise to a capital gain or capital loss.

(10 marks)

- 4 (a) Peter is married to Susan. They were both born in Ireland of Irish parents. In 2011 they moved from Cork to London to improve their careers. They see this time working abroad as temporary and intend to return to Ireland in 2018. They return to Ireland every year for ten days holiday.

Details of the couple's income in 2016 is as follows:

| | |
|--|--------|
| | € |
| Income from UK employment – Peter | 60,000 |
| – Susan | 63,000 |
| Deposit interest from a joint UK bank account | 6,000 |
| Rental income from a residential property in Ireland | 16,000 |

All the couple's income earned in the UK is kept in the UK and the Irish rental income is deposited directly into a UK bank account.

Required:

(i) **State, giving reasons, the country in which Susan is domiciled in 2016.** (2 marks)

(ii) **State whether Susan is resident and/or ordinarily resident in Ireland in 2016.**

Note: No explanations are required for this part. (1 mark)

(iii) **State, giving reasons, the income, if any, of Peter and Susan which is liable to Irish income tax in 2016.** (2 marks)

- (b) George is being offered the opportunity to run a 'posh' hostel in Galway, Ireland. George will be responsible for the day-to-day running of the hostel including the hiring of staff as needed and preparing financial projections and management reports. The hostel owner lives in Dubai and has agreed to pay George an annual fixed sum, plus 8% of all the revenue generated.

Required:

Explain whether the Revenue will regard George as being an employee or self-employed when carrying out his role running the hostel. (5 marks)

(10 marks)

- 5 David (aged 36) is married to Triona (aged 34) and they have two children, Jack (aged six) and Harper (aged four). David works full time in sales and Triona who stays at home with the children during the week has a part-time job on Sundays only.

Details of David's employment package are as follows:

1. Annual salary of €45,000.
2. A company motor car, purchased new by David's employer during 2014 for €34,000. The current market value of the motor car is €26,000. David drives 25,000 kilometres a year for business and has the sole use of the motor car.
3. Annual expenses of €1,500 paid to David without the need for any supporting documentation.
4. A loan of €20,000 from 1 April 2016 at an interest rate of 1%. David used the loan to carry out home improvements and has not repaid any of the loan amount to date.

PAYE deducted by David's employer in 2016 was €6,072.

David's other income for 2016 is as follows:

Deposit interest, net of DIRT, from an Irish bank of €300.

In October 2016, David exercised option rights on 500 ordinary shares. He paid €2 per share when the market value of the shares on the exercise date was €6. David had been granted the option rights in May 2012 when the shares were valued at €3 each. The options were exercisable until April 2019.

Triona's income for 2016 is as follows:

1. Earnings of €6,000 from her Sunday job, from which PAYE of €960 was deducted.
2. Rental income from letting two rooms in the family home to students from Sunday night to Friday each week. On an annual basis Triona receives rent of €8,000 and a further €2,000 for meals.
3. Annual child benefit of €3,360.

David and Triona have the following outgoings in 2016:

| | € |
|---|-------|
| Private medical insurance (net) | 2,200 |
| Medical expenses (all qualifying) | 800 |
| David's pension contribution into a Revenue approved pension scheme | 1,600 |

Required:

Compute David and Triona's income tax payable/refundable for 2016, on the basis that they are jointly assessed.

(15 marks)

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Question 6 begins on page 18.**

- 6 Premier Ltd is an Irish resident company, which was incorporated in Ireland in 2006. The company has traded since that date from various manufacturing facilities and sales offices located in the State. Premier Ltd prepares its accounts to 31 July each year.

Premier Ltd's summarised results for the year ended 31 July 2016 are as follows:

| | Note | € | € |
|---|------|---------|---------------|
| Gross profit | | | 350,000 |
| Other income | | | |
| Profit on the sale of a company delivery van | (1) | 1,200 | |
| Profit on the sale of shares in a UK quoted company | (2) | 60,000 | |
| Irish bank deposit interest (received gross) | | 8,000 | 69,200 |
| | | | <hr/> 419,200 |
| Less expenses | | | |
| Salaries and wages | (3) | 175,000 | |
| Depreciation | | 70,000 | |
| Goods stolen | (4) | 14,000 | |
| Repairs and maintenance | (5) | 25,000 | |
| Professional fees and donations | (6) | 38,000 | |
| Interest payable | (7) | 4,000 | |
| Other expenses (all allowable) | | 48,500 | (374,500) |
| | | | <hr/> |
| Net profit | | | 44,700 |

Details of the company's business assets at 1 August 2015 are as follows:

| Asset | Cost € | Tax written down value € |
|--|-----------|-----------------------------|
| Qualifying industrial building purchased new in 2006 | 400,000 | 272,000 |
| General plant | 160,000 | 80,000 |
| Delivery vans | 78,000 | 27,000 |

Notes:

- (1) In June 2016 the company sold a delivery van for €9,200. The delivery van had been purchased new for €26,000 on 1 May 2013.
- (2) Premier Ltd purchased shares in a UK quoted company in April 2009 for €90,000. These shares were sold for €150,000 in December 2015.
- (3) Salaries and wages include:

| | € |
|--|--------|
| Holiday pay accrued in respect of the period to 31 July 2016 | 13,000 |
| Pension charge | 27,000 |

There was no opening prepayment or accrual in respect of the pension charge, but there was an accrual at 31 July 2016 of €5,000.

- (4) Goods were stolen from the company during the year by two employees. They have been identified and a criminal prosecution is on-going. The insurance company refused to reimburse Premier Ltd for the cost of the stolen goods of €14,000, as proper security protocols were not observed. The employees concerned have been dismissed and it is unlikely that they will pay the company for the goods taken.
- (5) Repairs and maintenance comprise:

| | € |
|--|--------------|
| Repainting of offices and replacement of old carpets | 5,000 |
| Replacement of wooden door to the warehouse with a steel electric door | 6,000 |
| Provision for new CCTV monitoring system | 14,000 |
| | <hr/> 25,000 |

The contract for the CCTV monitoring system has not yet been awarded but the work is expected to be completed in October 2016.

(6) Professional fees and donations include:

| | € |
|---|-------|
| Prosecuting the employees for the theft of goods (as in (4) above) | 7,000 |
| Speeding fines and clamping fines incurred on the company's delivery vans | 1,600 |
| Personal income tax advice for the managing director | 2,500 |
| Broker fees incurred on the sale of the UK shares (as in (2) above) | 1,000 |
| Donation to an Irish approved charity for homeless people | 3,900 |

(7) Interest payable comprises:

| | € |
|---|-------------|
| Interest on the late payment of PAYE/PRSI | 1,800 |
| Bank overdraft interest | 2,200 |
| | <hr/> 4,000 |

Required:

Prepare Premium Ltd's corporation tax computation for the year ended 31 July 2016.

Note: Your computation should commence with the net profit of €44,700 and should list all of the items referred to in notes (1) to (7) indicating by the use of zero (0) any items which do not require adjustment.

(15 marks)

End of Question Paper