Answers

Section B *Marks*

1 (a) Tony – Capital gains tax (CGT) liability for 2017

(1) Share disposal

		Index	€	€	
Sales proceeds				40,000	
Less cost					
Share lot (W1)	€22,727	1·087	24,704		0·5
	€1,818	1	1,818	26,522	W1
Gain on share disposal				13,478	

Working 1

		No. of shares	Cost €	Enhancement expenditure €	
1 September 2001	Purchase	7,000	35,000		
1 February 2012	Rights issue 1:10	700	–	2,800	0·5
		7,700	35,000	2,800	
1 April 2017	Sold	(5,000)	(22,727)	(1,818)	1·0
Balance remaining		2,700	12,273	982	

(2) House

		Index	€	
Sales proceeds			350,000	
Cost of house	320,000	1	(320,000)	
Gain			30,000	0·5
Portion of the gain exempt	30,000 x 13 years/13·5 years (W1)		(28,889)	0·5
Gain taxable			1,111	

Working 1

Total period of ownership	13·5 years	
Periods of residence/deemed residence:		
Occupied prior to going abroad	5 years	0·5
Qualifying period of absence abroad, deemed residence	3 years	0·5
Qualifying period of absence in Ireland – maximum	4 years	0·5
Absent in Ireland – non-qualifying (6 months)		0·5
Last 12 months on ownership	1 year	0·5
Total qualifying period	13 years	

Tutorial note: *The period that a house is rented is ignored in calculating periods of deemed occupation. Also, the deemed occupation of the last 12 months from 1 July 2016 to 30 June 2017 reduces the period of non-occupation during 2016.*

(3) Antique furniture

	€	€	
Sales proceeds		15,000	
Less costs			
Initial cost	7,000		0·5
Materials to restore the furniture	800		0·5
Own work value	0	(7,800)	0·5
Gain		7,200	

(4) Van

As the van is a wasting asset on which no capital allowances are allowed (due to Tony receiving motor expenses from his employer), it is not within the scope of CGT and so no relief is available for the loss. 1·0

			Marks
Capital gains tax liability (all disposals are prior to 30 November):			
		€	
Shares		13,478	
House		1,111	
Furniture		7,200	
Van		0	
Total gains		21,789	
Less annual exemption for Tony		(1,270)	0·5
Taxable gain		20,519	
CGT at 33%		6,771	0·5
			9·0

(b) The due date for payment of the CGT is 15 December 2017. 1·0

10

2 Monty Limited

(a) Case I adjusted income for the year ended 31 December 2017

	€	€	
Net profit before tax		628,000	
Add backs:			
Depreciation	48,000		0·5
Pension costs not paid during the year	30,000		1·0
Motor expenses (W1)	8,250		W1
Legal and professional fees (W2)	10,000		W2
Repairs and renewals (W3)	20,000	116,250	W3
		744,250	
Deductions:			
Other income	(28,000)		0·5
Capital allowances	(30,000)	(58,000)	1·0
Case I adjusted income		686,250	

Workings:

W1

	€	
Managing director's car:		
Running costs – no restriction	0	0·5
Annual depreciation	6,500	0·5
Marketing manager's car:		
Running costs – no restriction	0	0·5
Lease payments restriction		
€7,000 x (€32,000 – €24,000)/€32,000	1,750	1·0
	8,250	

W2 Legal and professional fees

	€	
Audit fees	0	0·5
Investment advice	10,000	0·5
Consultancy costs	0	0·5
	10,000	

W3 Repairs and renewals		Marks
	€	
General repairs	0	0·5
Car park surfacing	20,000	0·5
	20,000	
		8·0

(b) Corporation tax liability 2017

	€	
Case I adjusted income (from part (a))	686,250	
Irish dividend income (exempt)	0	0·5
Case III deposit interest	8,000	0·5
Total income	694,250	
Corporation tax		
€686,250 at 12·5%	85,781	0·5
€8,000 at 25%	2,000	0·5
	87,781	
		2·0
		10

3 Bob

(a) Value added tax (VAT) liability/refund for the period September/October 2017

	Amount excluding VAT	VAT rate	€	
VAT on sales receipts				
Sales to homeowners	6,000	13·5%	810	0·5
Sales to main contractors (reverse-charge VAT as supply subject to relevant contracts tax (RCT))	12,000	n/a	0	1·0
Materials from French suppliers (intra-Community acquisitions)	3,000	23%	690	0·5
			1,500	
VAT on purchases/inputs				
Materials from Irish suppliers	2,000	23%	460	0·5
Materials from French suppliers (intra-Community acquisitions)	3,000	23%	690	0·5
Materials from Canadian suppliers (VAT paid at import and now recoverable in VAT3)	2,500	23%	575	1·0
Van €30,750/1·23	25,000	23%	5,750	1·0
Diesel €400/1·23	325	23%	75	0·5
			7,550	
Net VAT refund due			(6,050)	0·5
				6·0

Tutorial note: *Bob is not accountable for VAT on supplies to principal contractors irrespective of whether he is on the cash receipts basis or the invoice basis as the VAT liability is payable by the principals where relevant contracts tax (RCT) applies. However, such supplies are included when considering the €2 million turnover threshold for the cash receipts basis.*

(b) Turnover for the year must be less than €2 million,	1·0
or	
90% of all sales must be to unregistered businesses.	1·0
	2·0

	Marks
(c) Bob should not move from the cash receipts basis.	0·5
Under the cash receipts basis, persons do not become liable for VAT until they have actually received payment for the goods or services supplied. This ensures that a trader's cash flow is not adversely affected by having	0·5
to pay VAT on work done for which no payment has been received. Also, the cash receipts basis only affects	0·5
sales, purchases are always accounted for on an invoice basis.	0·5
	2·0
	10

4 Rhys

(a) Assessable income for 2017

1. **Inducement payment**

   Inducement payments are generally taxable under Schedule E, as emoluments of the new office or employment where the payment is made under the terms of a contract of service or in consideration of future services to be rendered. However, the payment to Rhys is compensation for the loss of his right to play competitive rugby as a result of taking up the new employment, and so the payment is not subject to income tax. 2·0

2. **Furniture removal costs**

   An employer may pay for or reimburse certain relocation expenses, incurred by an employee in moving house to take up employment, free of tax. The employer must ensure that the payments are in respect of expenses actually incurred, and the expenses must be reasonable in amount and necessary. 2·0

3. **New bicycle**

   A taxable benefit does not arise in respect of the first €1,000 spent by an employer on a bicycle and related safety equipment for an employee for the purpose of travelling to/from work. A claim can be made only once every five years. 1·0

4. **Rent for September/October 2017**

   Rent (vouched) can be paid for temporary accommodation for up to three months. 1·0

   6·0

(b) Capital allowance claimable on motor car for the tax year 2017

	€	
Allowable cost of the car for capital allowance purposes	24,000	0·5
Wear and tear 12·5%	3,000	0·5
Business use only 40%	1,200	0·5
Restriction to four months only in 2017	400	0·5
		2·0

(c) PRSI payable for 2017

	€	
Gross income – salary (€5,000 x 4)	20,000	0·5
Less capital allowance (as in (b))	(400)	0·5
	19,600	
PRSI at 4%	784	1·0
		2·0
		10

Marks

5 Kathleen

(a) Income tax computation for 2017

		€	
Schedule E	State pension	12,392	0·5
	Private pension	8,000	0·5
Schedule D			
Case II (€52,000 – €50,000 (exempt income threshold))		2,000	1·0
Case IV			
Irish deposit interest (€915/0·61) as DIRT at 39%		1,500	1·0
Short stay rentals		4,900	0·5
Case V student room rentals (exempt less than €14,000)		0	0·5
Schedule F (€1,760/0·8)		2,200	1·0
Gross income		30,992	
Less reliefs			
Covenant		(5,200)	1·0
Total income/Taxable income		25,792	
€25,792 at 20%		5,158	0·5
Less non-refundable tax credits			
Single person		(1,650)	0·5
PAYE		(1,650)	0·5
Earned income credit (n/a as higher PAYE credit will be chosen)		0	0·5
Age		(245)	0·5
Medical expenses (€900 x 20%)		(180)	0·5
Home renovation incentive (HRI) credit (€16,571 – €16,571/113·5%)/2		(986)	1·0
		447	
Less refundable tax credits			
DIRT		(585)	0·5
DWT		(440)	0·5
		(578)	
Add tax deducted on covenant (€5,200 x 20%)		1,040	1·0
Net tax due		462	
			12

Tutorial notes:

1. *Kathleen technically qualifies for marginal income relief ((€25,792 – €18,000) at 40%) but she pays less tax overall when she is taxed in the normal manner and receives the relevant tax credits.*
2. *Income from providing short-term guest accommodation is taxed as Case IV where the income is occasional in nature.*

(b) The pay and file system provides that a self-assessed individual must on a single due date – being 31 October:

– pay preliminary tax for income tax purposes for the current year,	0·5
– file a tax return for the previous tax year for income tax and capital gains tax, and	0·5
– pay any balance of income tax due for the previous year.	0·5

In computing the amount of preliminary tax due, the following options are available to the taxpayer:

– 90% of the tax due for the relevant year	0·5
– 100% of the tax due for the previous year	0·5
– 105% of the tax due for the penultimate year (this option is only available where tax is being paid by direct debit).	0·5
	3·0
	15

Marks

6 M Ltd

(a) Two companies are deemed to be members of a CGT group if one company is a 75% subsidiary of the other or both are 75% subsidiaries of a third company. 1·0

(b) (i) Balancing charge on the disposal of the factory

	€	Marks
Sales proceeds	300,000	
Less legal fees on sale	(15,000)	0·5
Net proceeds	285,000	
Less tax written down value		
€180,000 – (€180,000 x 4% x 7)	(129,600)	1·5
	155,400	
Balancing charge restricted to allowances received (€180,000 x 4% x 7)	50,400	1·0
		3·0

(ii) Balancing allowance/charge on the disposal of the outlet shop

The outlet shop was not an industrial building; the definition of an industrial building specifically excludes retail shops, so no allowances are applicable. 1·0

(c) Case I adjusted loss for the year ended 31 December 2017

	€	Marks
Trading loss	(444,000)	
Add back:		
Disallowed overhead expenses	80,000	0·5
Balancing charge on factory (part (b)(i))	50,400	0·5
Case I adjusted loss	(313,600)	
		1·0

(d) Adjusted chargeable gains for the year ended 31 December 2017

Gain arising on the disposal of the factory

	€	Marks
Net sales proceeds (from part (b)(i))	285,000	
Less		
Site cost	(40,000)	
Site preparation and building cost	(180,000)	
Profit on sale	65,000	1·0
Gain arising on the disposal of the outlet shop (made to a group company)	Nil	1·0
Total chargeable gains	65,000	
Total adjusted gain (€65,000 x 33%/12·5%)	171,600	1·0
		3·0

Marks

(e) **Relief for loss incurred in the last year of trading**

Using S396A and S396B

	2016	2017	
	€	€	
Case I income	9,000	0	
S396A	(9,000)	0	0·5
Case III income	5,000	16,000	0·5
Income	5,000	16,000	
Chargeable gain adjusted (from part (d))	0	171,600	
Profits	5,000	187,600	
Tax at 25%	1,250	4,000	0·5
Tax at 12·5%	0	21,450	0·5
S396B	(1,250)	(25,450)	0·5

Using terminal loss relief

	€	
2016	Nil	
2015	80,000	1·0
2014	11,000	1·0
	91,000	

Loss memorandum:

	€	
Case I loss	(313,600)	
S396A 2016	9,000	0·5
S396B 2017 (€25,450/12·5%)	203,600	0·5
S396B 2016 (€1,250/12·5%)	10,000	0·5
Loss remaining – to be used as a terminal loss	(91,000)	
		6·0
		15

Tutorial note: *A terminal loss may be offset against trading profits only for the three years of assessment prior to the year of cessation, latest years first.*