

Fundamentals Level – Skills Module

# Taxation (Irish)

Thursday 7 June 2018



# 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 2016 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)	1,100
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	950
Rent allowance credit	Rent limit
	€
– single aged under 55	200      40
– married/widowed/in a civil partnership/survivor of a civil partnership aged under 55	400      80
– single aged 55 and over	400      80
– married/widowed/in a civil partnership/survivor of a civil partnership aged 55 and over	800      160

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

On the first €12,012	0.5%
On the next €6,760	2.5%
On the next €51,272	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 2.5%.

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%
Reduced rate	13.5%
Second reduced rate	9%

### Capital gains tax (CGT)

Rate	33%
Annual exemption	€1,270
Entrepreneur relief:	
Rate for disposals on or after 1 January 2017	10%
Lifetime limit on gains	€1,000,000

### Writing down and wear and tear allowances

Type of expenditure	Date incurred	Writing down and wear and tear 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.

<b>Benefits in kind</b>		
<b>Motor cars</b>		
<b>Business travel</b>	<b>Business travel</b>	<b>Percentage of original</b>
<b>lower limit</b>	<b>upper limit</b>	<b>market value of car</b>
<b>Kilometres</b>	<b>Kilometres</b>	
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>
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 <i>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** Tony is Irish resident and domiciled. During 2017, he made the following disposals of assets:
- (1) On 1 April 2017, he sold 5,000 shares in Lagard Ltd, an Irish company, for €40,000. Tony acquired Lagard Ltd shares as follows:
    - 1 September 2001 bought 7,000 shares at €5 per share
    - 1 February 2012 took up a rights issue of 1 for 10 at €4 per share
  - (2) On 1 July 2017, he sold his house in Limerick for €350,000 net of disposal costs. Tony had bought the house on 1 January 2004 for €320,000 and lived in it until 31 December 2008. At that time he was made redundant and moved abroad to work on 1 January 2009. He returned to Ireland three years later, on 1 January 2012, and was employed by XY Ltd in Dublin from that date. On 1 January 2017, XY Ltd opened an office in Limerick and Tony immediately moved back into his house and lived there until the date of sale. During Tony's years of absence from the house he always let the property.
  - (3) On 15 November 2017, he sold a piece of antique furniture for €15,000. Tony had bought the furniture while working abroad during 2011 for €7,000. He used materials to restore the furniture costing €800 and estimated if he had got the work done professionally instead of carrying out the repairs himself the labour would have cost €2,000.
  - (4) Tony uses his own van in the course of his employment with XY Ltd and is reimbursed by his employer for all motoring expenses. In December 2017, he sold the van for €19,000, Tony had bought the van in August 2015 for €22,000.

**Required:**

- (a) **Compute Tony's capital gains tax (CGT) liability for the tax year 2017. Give a brief explanation in the case of any disposal which does not give rise to a capital gain or capital loss.** (9 marks)
- (b) **State the date/dates of payment for any CGT due (as calculated in part (a)).** (1 mark)

**(10 marks)**



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Question 2 begins on page 14.**

- 2 Monty Ltd is an Irish incorporated and resident services company. Monty Ltd has been trading for many years and its statement of profit or loss for the accounting year ended 31 December 2017 shows the following:

	Notes	€
Turnover		2,300,000
Direct costs	(1)	(600,000)
Indirect costs and overheads	(2)	(1,100,000)
Trading profit		600,000
Other income	(3)	28,000
Net profit		628,000

**Notes:**

(1) Depreciation of €48,000 is included in direct costs.

(2) Indirect costs and overheads include:

(i) Pension costs of €90,000:

Contributions to a pension fund for directors and staff of €90,000 were charged in 2017. At 1 January 2017, there was an opening prepaid amount of €30,000, but at the year end there was neither an accrual nor a prepayment.

(ii) Motor expenses of €32,300 comprise:

	€
Motor expenses reimbursed to employees for validated business travel	8,000
Running expenses for director's and marketing manager's motor cars (see below)	24,300
	32,300

The managing director's motor car is a category F car. The car was purchased new in April 2016 for €52,000. The car is used 50% for business purposes. Running expenses for this car comprise running costs of €6,200 and annual depreciation of €6,500.

The marketing manager's motor car is a category B car. The car is leased but if it had been purchased new it would have cost €32,000. The car is used 25% for business purposes. Running expenses for this car comprise the annual lease payments of €7,000 and running costs of €4,600.

(iii) Legal and professional fees of €48,000 comprise:

	€
Audit fees	18,000
Investment advice on the potential purchase of shares in an Irish trading company (a final decision on this transaction has not yet been made by the management)	10,000
Consultancy costs incurred on establishing a potential new trade partner (these talks were still on-going at the year end)	20,000
	48,000

(iv) Repairs and renewals of €24,000 comprise:

	€
General repairs	4,000
Cost of providing a hard surface on the staff car park (prior to this the car park surface comprised small loose stones and sand)	20,000
	24,000

(3) Other income of €28,000 comprises:

	€
Irish bank deposit interest received gross	8,000
Dividends received gross from an Irish quoted trading company	20,000
	<hr/>
	28,000
	<hr/>

**Other information:**

Capital allowances for the year ended 31 December 2017 (other than those arising on motor vehicles) were €30,000.

**Required:**

**(a) Compute the Case I adjusted income of Monty Ltd for the accounting year ended 31 December 2017.**

Note: Your computation should commence with the net profit of €628,000 and should list all of the items referred to in notes (1) to (3) indicating by the use of zero (0) any items which do not require adjustment.

(8 marks)

**(b) Compute the corporation tax payable by Monty Ltd for the tax year 2017.**

(2 marks)

**(10 marks)**

- 3** Bob is a value added tax (VAT) registered, self-employed carpenter, who accounts for VAT on a cash receipts basis. During the VAT period September/October 2017, Bob's sales and purchases of goods were as follows:

	Notes	VAT exclusive amount
<b>Sales</b>	(1)	€
Work carried out for homeowners		6,000
Work carried out for main contractors		12,000
<b>Purchases</b>	(2)	
Materials from Irish suppliers		2,000
Materials from French suppliers		3,000
Materials from Canadian suppliers		2,500

**Notes:**

- (1) All of Bob's sales carry VAT at 13·5% where applicable.  
 (2) All of Bob's purchases attract VAT at 23%.

**Other information:**

On 1 September 2017, Bob purchased a new van costing €30,750 (inclusive of VAT at 23%). As at 31 October 2017, Bob had paid €20,500 to the dealer for the van and agreed to pay the balance in November 2017. Bob uses this van wholly for work purposes.

Bob bought diesel for the van at a cost of €400 (inclusive of VAT at 23%) during September and October 2017.

**Required:**

- (a) **Compute Bob's value added tax (VAT) liability/refund for the September/October 2017 VAT period. Where no VAT is charged/can be claimed give a brief explanation.** (6 marks)
- (b) **State the conditions which must be satisfied in order that a chargeable person may account for VAT on a cash receipts basis.** (2 marks)
- (c) **State, with reasons, if Bob should move from the cash receipts basis to an invoice basis for VAT purposes.** (2 marks)

**(10 marks)**

- 4 A Dublin based rugby club recruited Rhys, a Welsh rugby player, as their new coach. Rhys moved to Dublin on 1 September 2017. A condition of his employment as a coach is that Rhys can no longer play competitive rugby.

In addition to his salary of €5,000 per month, the club made the following payments to Rhys, or for his benefit, during the period 1 September 2017 to 31 December 2017:

	€
1. Inducement payment to take the position as coach	60,000
2. Furniture removal costs reimbursed	4,000
3. New bicycle	950
4. Rent for September and October 2017	3,000

Rhys bought a category B motor car on 1 September 2017, the car is two years old and cost Rhys €20,000. The car had an original market value when new of €25,000. Rhys will use the car 40% for work purposes. The club will not pay Rhys's motor expenses.

**Required:**

- (a) For each of the four amounts paid to Rhys or for his benefit, explain whether they will be assessable to Irish income tax for the tax year 2017, and if so, state the taxable amount. (6 marks)
- (b) Compute the capital allowance which Rhys may claim on the motor car for the tax year 2017. (2 marks)
- (c) Compute the PRSI payable by Rhys for the tax year 2017. (2 marks)

**(10 marks)**

- 5 Kathleen, aged 68 and single, is Irish resident and domiciled. Kathleen was employed for many years before she retired at age 65. Upon retiring Kathleen began to write novels; she has become quite a successful novelist and her novels have been classed as 'original and creative' by the Revenue commissioners.

During the college year Kathleen lets a room in her home to a student and during the summer when she tends to travel to gain experiences which will help her creativity, she rents out her house for short stays through an online booking service.

Kathleen had the following income for 2017:

	€
State pension (gross)	12,392
Private pension	8,000
Irish dividend income (net of dividend withholding tax)	1,760
Bank deposit interest received (net of DIRT)	915
Income from the sale of her novels	52,000
Rental income from student room rentals	3,640
Rental income from short stays	4,900

Kathleen had the following outgoings during the tax year 2017:

	€
Private medical insurance (net)	2,800
Covenant to an incapacitated niece (gross)	5,200
Medical expenses not reimbursed by the insurance company	900

Kathleen had the following outgoings during the tax year 2016:

	€
Expenditure on qualifying renovation work on own home (amount paid including value added tax (VAT))	16,571

**Required:**

(a) Calculate the income tax payable by Kathleen for the tax year 2017. (12 marks)

(b) Advise Kathleen of her obligations under the pay and file system for income tax. (3 marks)

**(15 marks)**

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Question 6 begins on page 20.**

- 6 PA Ltd is a holding company incorporated in Ireland on 1 January 2010. On the same date, PA Ltd formed an Irish incorporated 100% subsidiary called M Ltd. M Ltd is a manufacturing company, which has traded since its date of incorporation.

On 1 January 2017, PA Ltd incorporated a services company called S Ltd which has traded since its date of incorporation.

All three companies prepare their accounts to 31 December each year.

Due to trading difficulties and changing markets, M Ltd will cease to trade from 31 December 2017 (see note (3)).

The results of M Ltd for the accounting year ended 31 December 2017 are as follows:

	Note	€
Turnover		1,556,000
Direct costs		(1,500,000)
Gross profit		56,000
Overhead expenses	(1)	(500,000)
Trading loss		(444,000)
Other income and gains	(2)	91,000
Net loss		(353,000)

**Notes:**

(1) Overhead expenses disallowed for taxation purposes were €80,000.

(2) Other income and gains comprise:

	€
Profit on sale of factory building (i)	65,000
Profit on sale of factory outlet shop (ii)	10,000
Irish bank deposit interest received gross	16,000
	91,000

- (i) The factory building was sold on 31 December 2017 to an unconnected third party. The factory had been constructed by M Ltd and used for manufacturing operations from 1 January 2010. The profit on disposal is calculated as follows:

	€
Sales proceeds	300,000
Less	
Legal fees on sale	(15,000)
Cost of site for factory	(40,000)
Site preparation and building cost	(180,000)
Profit on sale	65,000

- (ii) The outlet shop was sold to S Ltd on 30 November 2017. The profit on disposal is calculated as follows:

	€
Sales proceeds	40,000
Less cost when constructed on 1 April 2013	(30,000)
Profit on sale	10,000

The market value of the shop at the date of sale was €45,000.



(3) The results of M Ltd for the four previous years were:

	2013	2014	2015	2016
	€	€	€	€
Case I income	100,000	90,000	80,000	9,000
Case III Irish deposit interest	2,000	3,000	4,000	5,000

**Required:**

- (a) State the shareholding requirements for Irish resident companies to be deemed to be part of a capital gains tax (CGT) group. (1 mark)
- (b) Calculate the balancing allowance/charge, if any, arising to M Ltd on the disposal of:
- (i) the factory; (3 marks)
- (ii) the outlet shop. (1 mark)
- (c) Calculate M Ltd's Case I adjusted loss for the accounting year ended 31 December 2017. (1 mark)
- (d) Calculate M Ltd's total adjusted chargeable gains for the accounting year ended 31 December 2017. (3 marks)
- (e) Prepare calculations to show how M Ltd can get relief for the loss incurred in its last year of trading, if it does not intend to claim group loss relief. (6 marks)

**(15 marks)**

**End of Question Paper**