Answers

Section A

1 B

Fabio is resident in Ireland (under the 183-day rule) in 2018 and as he is not Irish domiciled, he is liable to taxation in Ireland on Irish source income plus remittances of foreign income to Ireland.

2 B

As the supply is a supply between connected persons, market value rules apply. Therefore, the VAT liability is €440,000 x 13·5% = €59,400.

3 B

	€
DWT liability [2,000 x 20%]	400

Tutorial note: *The only recipient who will be subjected to DWT will be the Irish tax resident individual. The Irish tax resident company is exempt from tax on franked investment income (no DWT applies) and the French tax resident company and the UK tax resident individual are entitled to receive their dividends free from DWT (assuming they have completed the necessary documentation).*

4 D

				€
Schedule D Case II				180,000
Less capital allowances				(25,600)
Net liable to USC				154,400
Schedule D Case V				12,000
Total liable to USC				166,400
12,012	at	0·5%		60
7,360	at	2%		147
50,672	at	4·75%		2,407
29,956	at	8%		2,396
66,400	at	11%	(8% + 3%)	7,304
166,400				
Total				12,314

Tutorial note: *Deposit interest is exempt from USC. USC is calculated before deduction of tax reliefs, i.e. pension.*

5 C

Income tax and USC are both progressive taxes, the more you earn the higher the rate of tax, while PRSI is essentially a flat tax and VAT is a regressive tax.

6 C

Company U Ltd, despite being incorporated in Ireland, can avail of the treaty exemption and as it is not controlled and centrally managed in Ireland, it is **not Irish tax resident**.

Company V Ltd, despite being UK incorporated, is **deemed Irish tax resident** as it is controlled and centrally managed in Ireland.

Company W Ltd being both UK incorporated and UK controlled and centrally managed is **not Irish tax resident**.

7 C

The capital gains tax (CGT) return should be filed by 31 October in the year after the date of disposal (i.e. by 31 October 2019 in this case). George's return was therefore filed on time, so he will not be subject to a late filing surcharge.

For disposals made between 1 January and 30 November, CGT must be paid by 15 December in the same year. Accordingly, George's tax liability has been paid late (it should have been paid by 15 December 2018), and therefore George will have to pay interest on the late payment of the tax.

8 C

The supply is a multiple supply and therefore separate VAT rates will apply to the supply, the second reduced VAT rate of 9% on the supply of the food and the standard rate of 23% on the soft drink.

180 x 9/109 = 15, plus 20 x 23/123 = 4, = 19.

9 A

	€	€
Proceeds		180,000
Base cost	6,000	
Indexation	7·528	(45,168)
Enhancement	25,000	
Indexation	1·212	(30,300)
Gain		104,532

10 B

The date of disposal of a conditional contract is the date the condition is satisfied, i.e. in this instance the date planning permission is granted.

11 D

Wear and tear allowances [€16,000 at 12·5%] €2,000

Tutorial note: *Wear and tear allowances on the 2008 plant and machinery have already been fully claimed. The plant and machinery acquired in 2018 was not yet in use at the end of 2018, so it does not qualify for wear and tear allowances in 2018.*

12 D

	€
Chargeable gain (as adjusted for CT)	35,000
Schedule D Case V	120,000
Total liable to corporation tax (i.e. taxable profits)	155,000
35,000 x 12·5%	4,375
120,000 x 25%	30,000
Total tax	34,375
Less – CT loss relief on a value basis (€220,000 x 12·5%)	(27,500)
Net tax	6,875

13 A

Marks

14 A

	€
Widowed person with dependent children	1,650
Widowed person second year after bereavement	3,150
Single person child carer	1,650
Employee/PAYE tax credit	1,650
Total	8,100

15 D

Grace will not have any capital gains tax liability as the disposal is exempt (i.e. the disposal is of a non-wasting chattel where the proceeds are less than €2,540).

2 marks each **30**

Section B *Marks*

1 Sarah

(a) Capital gains tax (CGT) liability 2018

		€	€	
(1)	**Rental property**			
	Sales proceeds	450,000		0·5
	Less incidental costs of disposal (€5,750 + €4,500)	(10,250)	439,750	1·0
	Base cost			
	Market value at date of inheritance (22 September 1999)	285,000		1·0
	Solicitor's fees	1,200		0·5
	Total base cost	286,200		
	Indexation (September 1999 to December 2003)	1·193	(341,437)	1·0
	Enhancement (2012)			
	Cost (no indexation)		(40,000)	0·5
	Chargeable gain		58,313	

(2) Shares

	€	
Sales proceeds (market value as connected parties)	3,600	1·0
Base cost (LIFO as bought in last four weeks, no indexation)	(3,250)	1·0
Chargeable gain	350	

(3) Government stock

	€	
Exempt	0	0·5

Total assessable gains

		€	
(1)	Rental property	58,313	
(2)	Shares	350	
(3)	Government stock	0	
	Total	58,663	
	Less annual exemption	(1,270)	0·5
		57,393	
	CGT at 33%	18,940	0·5
			8·0

(b) **(i)** The CGT must be paid by 15 December 2018. 1·0

(ii) The return must be filed by 31 October 2019. 1·0

10

				Marks

2 Phillipa – Value added tax (VAT) computation for the VAT period March/April 2018

	Gross €	VAT rate	VAT €	
VAT on sales				
Cash received from VAT registered Irish customers	18,598	23%	3,478	1·0
Cash sales to non-VAT registered Irish customers	86,100	23%	16,100	0·5
Cash received from VAT registered UK (EU) customers	2,200	0%	0	0·5
Cash sales to non-VAT registered UK (EU) customers	5,535	23%	1,035	1·0
Cash sales to USA non-business customers	600	0%	0	0·5
Cash received from January/February credit sales	3,936	23%	736	0·5
Intra-community acquisition (French EU supplier)	6,396	23%	1,196	1·0
Self-supply (fabric for private chairs)	600	23%	112	1·0
Total VAT on sales			22,657	
VAT on purchases				
Irish suppliers	24,600	23%	4,600	0·5
French (EU) suppliers	6,396	23%	1,196	0·5
Light and heat	4,200	13·50%	500	1·0
Insurance	3,400	Exempt	0	0·5
New shelving units (Working)	3,973	13·50%	473	W
			6,769	
Net VAT payable			15,888	

Working

	€	
Shelving units – total sales price (excluding VAT)	3,500	
Shelving units – cost of shelving units (excluding VAT)	2,100	
Percentage of total price relating to goods [€2,100 x 100/€3,500]	60%	0·5
As the two-thirds rule is not broken, VAT rate of 13·5% applies.		
VAT calculation – €3,973 x 13·5/113·5	473	1·0
		10

3 Mark/David

(a) Schedule D Case V rental income for the tax year 2018

	€	€	
Property 1			
Gross rental income (€900 x 3) + (€1,100 x 8)		11,500	1·0
Less expenses			
Mortgage interest (€3,700 x 85%)	3,145		1·0
Insurance	1,000		0·5
Residential tenancies board (RTB) registration fee	90		0·5
Local property tax	0		0·5
Capital allowances (€7,500 x 12·5%)	938	(5,173)	1·0
Net rental income		6,327	
Property 2			
Gross rental income (€27,600 x 7/12)		16,100	0·5
Premium €50,000 – [€50,000 x (31 – 1)/50]		20,000	1·0
		36,100	
Less expenses			
Mortgage interest (€13,600 x 7/8)	11,900		1·0
Legal fees (pre-letting, but allowable)	2,900		0·5
Insurance (€1,950 x 7/12)	1,138	(15,938)	0·5
Net rental income		20,162	8·0
Total assessable rental income for 2018		26,489	

Marks

(b) Industrial buildings allowance

(i) Balancing charge (David)

	€	
Proceeds (capped at €350,000)	350,000	0·5
Less TWDV on 1 May 2018	(210,000)	0·5
Balancing charge	140,000	1·0

(ii) Industrial buildings allowance (Mark)

	€	
Qualifying cost (lower of original qualifying cost of €350,000 and purchase price of €450,000)	350,000	0·5
Remaining tax life (15 years, €350,000/15)	23,333	0·5
		1·0
		10

4 TT Holdings Group

(a) Qualifying group for capital gains tax purposes

A principal company and its effective 75% subsidiaries form a capital gains tax group. 1·0

Where those subsidiaries themselves have 75% subsidiaries, they also form part of the group. 0·5

The parent company must:

(a) Own not less than 75% of the ordinary share capital. 0·5
(b) Be entitled to at least 75% of the subsidiary's profits available for distribution. 0·5
(c) Be entitled to at least 75% of the subsidiary's assets on a winding up. 0·5

To form part of a group, a company must be either resident in Ireland or in a country with which Ireland has a double tax agreement. 1·0

4·0

(b) The consequences of being in a capital gains tax group

One group company can transfer a chargeable asset to another group company without crystallising a gain. 1·0

The transaction is treated as a no gain/no loss. 0·5

The company which receives the asset takes the original base cost and date of acquisition for future disposals. 0·5

2·0

(c) Chargeable gain of Tic Ltd

	€	€	
Disposal of property			
Sales proceeds	670,000		0·5
Less incidental costs of disposal	(5,200)	664,800	0·5
Base cost			
Original cost to TT Holdings Ltd (3 March 2012)	450,000		1·0
Stamp duty	27,000		0·5
Solicitor's fees	3,700		0·5
Total base cost		(480,700)	
Capital gain		184,100	
Less capital loss Tac Ltd		0	1·0
Chargeable gain		184,100	4·0
			10

Tutorial note: *It is not possible to use the capital loss in Tac Ltd against the gain in Tic Ltd. In order to use the loss, Tic Ltd could have transferred the property to Tac Ltd at no gain/no loss, letting Tac Ltd dispose of the property, which could have facilitated the claiming of the capital loss in Tac Ltd.*

				Marks
5	**Robert**			

(a) Cessation

		€	
Year of cessation – 2018			
Taxed on actual basis			
1 January 2018–28 February 2018	€32,000 x 2/5	12,800	1·0
Penultimate year – 2017			
Original taxable profits			
(year ended 30 June 2017)		69,600	0·5
Prior year review (to actual profits)	€69,600 x 9/12	52,200	0·5
1 January 2017–31 December 2017	€32,000 x 3/5	19,200	0·5
Total		71,400	
As the actual profits of €71,400 are higher, 2017 taxable profits are revised to €71,400.			0·5
			3·0

(b) Income tax computation for Robert for 2018

	€	€	
Schedule D Case II – IT consultant		12,800	0·5
Schedule D Case III – UK dividends		700	0·5
Schedule D Case IV – deposit interest		800	W1
Schedule D Case V – Irish rental income		0	W2
Schedule E – salary	66,500		0·5
Schedule E – benefit in kind: company car	6,400	72,900	W3
Schedule F – Irish dividends		4,000	W4
Gross income		91,200	
Less reliefs			
Employment and investment scheme [€20,000 x ¾]		(15,000)	1·0
Taxable income		76,200	
Taxed as follows:			
€34,550 at 20%	6,910		0·5
€800 at 37% (see working 1)	296		1·0
€40,850 at 40%	16,340		0·5
€76,200			
Gross tax		23,546	
Less non-refundable tax credits			
Single	1,650		0·5
Employee/PAYE	1,650		0·5
DIRT (see working 1)	296		0·5
Earned	0		0·5
Medical expenses [€960 x 20%]	192	(3,788)	0·5
Less refundable tax credits			
Paid PAYE	12,200		0·5
DWT	800	(13,000)	0·5
Net tax		6,758	

Workings

W1 Irish deposit interest

	€	
Deposit interest (net of DIRT at 37%)	504	0·5
DIRT credit (non-refundable unless over 65/incapacitated) x 37/63	296	0·5
Taxable on gross	800	

Tax separately at 37%.

		Marks

W2 Schedule D Case V

As Robert has let the farm on a qualifying lease, i.e. a lease of five years or more and the rental income is less than €18,000, it is exempt from income tax. 0·5

W3 Schedule E – Benefit in kind (BIK) on company car

	€	
10 months' business kilometres	22,000	
Annualised business kilometres [22,000 x 12/10]	26,400	0·5
BIK = original market value (list price) x business related %		
24,001 – 32,000 kilometres = 24%		
€32,000 x 24%	€7,680	0·5
Pro rata (10 months) [€7,680 x 10/12]	€6,400	0·5

W4 Irish dividend income

	€	
Dividend income (net of DWT at 20%)	3,200	0·5
Dividend withholding tax (DWT) x 20/80	800	0·5
Taxable on gross	4,000	12
		15

6 Cool Ltd

(a) Corporation tax computation for the year ended 30 September 2018

	€	€	
Net profit per accounts		214,450	
Add backs			
Legal fees – customer lawsuit	0		0·5
Legal fees – lease of new warehouse	5,000		0·5
Trade debt collection fees	0		0·5
Statutory redundancy	0		0·5
Ex-gratia payment (business is continuing)	0		0·5
Public liability insurance	0		0·5
Keyman insurance (proprietary director)	15,200		0·5
Subscription to Retail Ireland	0		0·5
Donation to Concern	200		0·5
Donation to political party	600		0·5
Depreciation	39,800		0·5
Lease interest	2,450	63,250	1·0
Deductions			
Irish bank deposit interest	3,600		0·5
Dividend income	12,600		0·5
Allowable lease payment (working)	5,727		W
Capital allowances	5,200		0·5
		(27,127)	
Schedule D Case I income		250,573	
Less schedule D Case I losses brought forward		(12,000)	0·5
		238,573	
Schedule D Case III income – deposit interest		3,600	0·5
Schedule D Case III income – UK dividends		9,200	0·5
Irish dividend income (franked investment income), (exempt)		0	0·5
Taxable profits		251,373	
Taxed as follows:			
(€251,373 – €3,600) = €247,773 at 12·5%		30,972	1·0
€3,600 at 25%		900	0·5
Total tax		31,872	

Marks

Working:

	€	
Total lease payments	5,250	0·5
(Disallow)/additional allowance		
€5,250 x €22,000 – €24,000/€22,000	477	1·0
Total allowable	5,727	
		13

(b) Consequences of late filing of tax return

5% late filing surcharge (if filed within two months of deadline 23 June 2019).	1·0
25% restriction on the availability of the trading losses forward from 2017 (if filed within two months of deadline 23 June 2019).	1·0
	2·0
	15

Tutorial note: *The UK dividend income is taxed at 12·5% (not 25%), as Cool Ltd is a portfolio investor. A portfolio investor is an investor with a holding of not more than 5% of the share capital of the dividend paying company.*