Strategic Professional – Options

Advanced Taxation – Irish (ATX – IRL)

Tuesday 2 June 2020

ATX IRL ACCA EN

ATX – IRL

Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted

Section B – BOTH questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 2–8

Do NOT open this question paper until instructed by the supervisor.

This question paper must not be removed from the examination hall.

Think Ahead ACCA

The Association of Chartered Certified Accountants

SUPPLEMENTARY INSTRUCTIONS

1. You should assume that the tax rates and credits shown below, for the Finance Act 2018, will continue to apply for the foreseeable future.
2. Calculations and workings need only be made to the nearest Euro.
3. All time apportionments should be made to the nearest month.
4. All workings should be shown.

TAX REFERENCE MATERIAL

The following rates, credits, formulae and allowances are based on the Finance Act 2018 and are to be used for all questions in this paper.

Income tax rates

	Tax €
Single/widow(er)/surviving civil partner without qualifying children	
€35,300 at 20%	7,060
Balance at 40%	
Married or in a civil partnership (one income)	
€44,300 at 20%	8,860
Balance at 40%	
Married or in a civil partnership (dual income)	
€44,300 at 20%	8,860
€26,300 at 20%	5,260
Balance at 40%	
Single/widow(er)/surviving civil partner qualifying for single person child carer credit	
€39,300 at 20%	7,860
Balance at 40%	

Tax credits

	€
Single person's credit	1,650
Married person's/civil partner's credit	3,300
Widowed person or surviving civil partner's credit (without dependent children)	2,190
Home carer credit (maximum)	1,500
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	1,350
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 A

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	10·95%

Universal social charge (USC) for all taxpayers

On the first €12,012	0·5%
On the next €7,862	2%
On the next €50,170	4·5%
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%

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

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	
From 6 December 2012 to date	33%
From 7 December 2011 to 5 December 2012	30%
From 8 April 2009 to 6 December 2011	25%
From 15 October 2008 to 7 April 2009	22%
From 1 December 1999 to 14 October 2008	20%
Annual exemption	€1,270
Entrepreneur relief	
Rate for disposals on or after 1 January 2017	10%
Lifetime limit on gains	€1,000,000

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

Capital acquisitions tax

Class thresholds (with effect from 10 October 2018)

		€
Class 1:	Child or minor child of deceased child (or inheritance taken by parent):	320,000
Class 2:	Lineal ancestor (other than inheritance taken by parent) Lineal descendant (other than a child or a minor child of a deceased child) Brother, sister, child of brother or sister	32,500
Class 3:	Any other person	16,250
Rate		33%

Life interest tables for capital acquisitions tax

Years of age	Joint factor	Value of an interest in a capital of €1 for a male life aged as in column 1	Value of an interest in a capital of €1 for a female life aged as in column 1
0	·99	·9519	·9624
1	·99	·9767	·9817
2	·99	·9767	·9819
3	·99	·9762	·9817
4	·99	·9753	·9811
5	·99	·9742	·9805
6	·99	·9730	·9797
7	·99	·9717	·9787
8	·99	·9703	·9777
9	·99	·9688	·9765
10	·99	·9671	·9753
11	·98	·9653	·9740
12	·98	·9634	·9726
13	·98	·9614	·9710
14	·98	·9592	·9693
15	·98	·9569	·9676
16	·98	·9546	·9657
17	·98	·9522	·9638
18	·98	·9497	·9617
19	·98	·9471	·9596
20	·97	·9444	·9572
21	·97	·9416	·9547
22	·97	·9387	·9521
23	·97	·9356	·9493
24	·97	·9323	·9464
25	·97	·9288	·9432
26	·97	·9250	·9399
27	·97	·9209	·9364
28	·97	·9165	·9328
29	·97	·9119	·9289
30	·96	·9068	·9248
31	·96	·9015	·9205

Years of age	Joint factor	Value of an interest in a capital of €1 for a male life aged as in column 1	Value of an interest in a capital of €1 for a female life aged as in column 1
50	·92	·7287	·7791
51	·91	·7156	·7683
52	·90	·7024	·7572
53	·89	·6887	·7456
54	·89	·6745	·7335
55	·88	·6598	·7206
56	·88	·6445	·7069
57	·88	·6288	·6926
58	·87	·6129	·6778
59	·86	·5969	·6628
60	·86	·5809	·6475
61	·86	·5650	·6320
62	·86	·5492	·6162
63	·85	·5332	·6000
64	·85	·5171	·5830
65	·85	·5007	·5650
66	·85	·4841	·5462
67	·84	·4673	·5266
68	·84	·4506	·5070
69	·84	·4339	·4873
70	·83	·4173	·4679
71	·83	·4009	·4488
72	·82	·3846	·4301
73	·82	·3683	·4114
74	·81	·3519	·3928
75	·80	·3352	·3743
76	·79	·3181	·3559
77	·78	·3009	·3377
78	·76	·2838	·3198
79	·74	·2671	·3023
80	·72	·2509	·2855
81	·71	·2353	·2693

Years of age	Joint factor	Value of an interest in a capital of €1 for a male life aged as in column 1	Value of an interest in a capital of €1 for a female life aged as in column 1
32	·96	·8958	·9159
33	·96	·8899	·9111
34	·96	·8836	·9059
35	·96	·8770	·9005
36	·96	·8699	·8947
37	·96	·8626	·8886
38	·95	·8549	·8821
39	·95	·8469	·8753
40	·95	·8384	·8683
41	·95	·8296	·8610
42	·95	·8204	·8534
43	·95	·8107	·8454
44	·94	·8005	·8370
45	·94	·7897	·8283
46	·94	·7783	·8192
47	·94	·7663	·8096
48	·93	·7541	·7997
49	·93	·7415	·7896

Years of age	Joint factor	Value of an interest in a capital of €1 for a male life aged as in column 1	Value of an interest in a capital of €1 for a female life aged as in column 1
82	·70	·2203	·2538
83	·69	·2057	·2387
84	·68	·1916	·2242
85	·67	·1783	·2104
86	·66	·1657	·1973
87	·65	·1537	·1849
88	·64	·1423	·1730
89	·62	·1315	·1616
90	·60	·1212	·1509
91	·58	·1116	·1407
92	·56	·1025	·1310
93	·54	·0939	·1218
94	·52	·0858	·1132
95	·50	·0781	·1050
96	·49	·0710	·0972
97	·48	·0642	·0898
98	·47	·0578	·0828
99	·45	·0517	·0762
100 or over	·43	·0458	·0698

Interest for a period certain

This table is used to determine a figure on the value of an interest in property for a period certain.

Number of years	Value	Number of years	Value
1	·0654	26	·8263
2	·1265	27	·8375
3	·1836	28	·8480
4	·2370	29	·8578
5	·2869	30	·8669
6	·3335	31	·8754
7	·3770	32	·8834
8	·4177	33	·8908
9	·4557	34	·8978
10	·4913	35	·9043
11	·5245	36	·9100
12	·5555	37	·9165
13	·5845	38	·9230
14	·6116	39	·9295
15	·6369	40	·9360
16	·6605	41	·9425
17	·6826	42	·9490
18	·7032	43	·9555
19	·7225	44	·9620
20	·7405	45	·9685
21	·7574	46	·9750
22	·7731	47	·9815
23	·7878	48	·9880
24	·8015	49	·9945
25	·8144	50 and over	1·0000

Stamp duty

Non-residential property (regardless of value)	6%
Residential property: Owner occupiers and investors	
First €1,000,000	1%
Excess over €1,000,000	2%

NB: Where applicable, value added tax (VAT) should be excluded from the chargeable consideration.

Stocks and marketable securities	
Where the aggregate consideration is no more than €1,000	0%
Where the aggregate consideration exceeds €1,000	1%

Revenue audits

Schedule of tax geared penalties

		Net penalty after reduction where there is:		
Category of tax default	**Penalty as a % of tax underpaid**	**Cooperation only**	**Cooperation AND a prompted qualifying disclosure**	**Cooperation AND an unprompted qualifying disclosure**
Deliberate behaviour	100%	75%	50%	10%
Careless behaviour with significant consequences	40%	30%	20%	5%
Other careless behaviour	20%	15%	10%	3%

Note: The mitigation (reduction) of penalties in the above table is available to taxpayers on their first default. In the case of a second or third default, if a taxpayer deliberately or carelessly makes incorrect returns within a five-year period of the first default they may not avail of full mitigation.

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Question 1 begins on page 10.

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Section A – BOTH questions are compulsory and MUST be attempted

1 You should assume that today's date is 1 June 2020.

Your client, Albert Kelly (single, aged 44), is resident and domiciled in Ireland. Albert had been a successful property developer but having recently experienced a very significant downturn in his economic fortunes, has approached you for advice.

Albert currently owes a total of €600,000 in respect of bank loans and is in arrears with his repayments. His bank debt has recently been purchased by a hedge fund which is taking a more aggressive approach than the original lender. He is not in a position to make any significant loan repayments as his only income is from part-time work, from which he earns €25,000 gross per annum. Albert lives in rented accommodation in Dublin, Ireland. The hedge fund representatives have recently advised him that he must reduce his borrowings before the end of the year.

Albert is the sole shareholder in Kelly Developments Ltd (KDL) and had invested €75,000 in the form of ordinary shares in the company when it was incorporated in 2008. KDL is insolvent and ceased trading in April 2018, following a period of heavy losses. The company is now being liquidated and this process is expected to be completed in March 2021. The latest statement of assets and liabilities prepared by the liquidator shows that the company has net liabilities and therefore no capital distribution will be made to Albert on completion of the liquidation.

In April 2020, Albert sold his portfolio of Irish quoted shares for €350,000. The shares cost €100,000 in 2006. The sales proceeds were used, in full, to pay off some of his bank borrowings but still left him owing the €600,000 total referred to above. The bank has advised Albert that they are not in a position to lend him any funds to assist with the payment of possible tax liabilities associated with this disposal. Albert has no other liabilities apart from his bank borrowings and possible tax liabilities.

Albert invested in a holiday home in Wexford, Ireland in 2008. The property, which was not in a designated area, cost €500,000 and Albert borrowed the full amount, secured on the property, on an interest only basis. The outstanding balance of €500,000 is included in the €600,000 referred to above. The property was affected by pyrite damage and has a market value of €390,000. It is expected that legal and auctioneering fees associated with a sale would amount to €7,000. Albert accepts that he must sell the property and use the net proceeds to repay his borrowings. He has also advised you that he has not filed any local property tax (LPT) returns for the holiday home.

Albert has no losses brought forward for capital gains tax (CGT) purposes as at 1 January 2020.

Albert has recently met with his aunt Sheila, a retired solicitor, who also lives in Dublin and she is willing to help him with his financial difficulties. Sheila is aged 75 and is in good health. She owns a small office building which she bought in March 1989 for €80,000 for use in her practice. The building was extended in June 2005 at a cost of €55,000. This property has been vacant since she retired in June 2018 and is currently worth €250,000. The value of this office building is not expected to change in the short to medium term.

Sheila is prepared to give her office building to Albert to assist him in repaying his debts, provided Albert suffers the cost of all Sheila's taxes associated with the transaction. Albert has asked you to recommend the best of the following three options:

1 Sheila would gift the office building to Albert for him to sell and use the proceeds to repay a portion of his borrowings.

2 Sheila would sell the office building and gift the proceeds to Albert.

3 Sheila would leave the office building to Albert in her will.

There are no capital allowances consequences associated with the transfer or sale of the office building.

Albert considers himself to be Sheila's 'favourite' nephew and would like you to advise if this could make a significant difference to his tax bill in relation to the property to be received from Sheila. He has always had a good relationship with his aunt and he had worked in her solicitor's practice on a full-time basis for five years between 1994 and 1999 (but not thereafter).

In addition to the above, Sheila has provided in her will that Albert will inherit her principal private residence. Albert is concerned about the amount of tax which he would be liable to pay on this inheritance and has also sought your advice on minimising this tax.

Albert has also told you that if he can reduce his liabilities sufficiently, he thinks the lender may be willing to grant a debt write-off of €50,000 in relation to the €500,000 debt secured on his holiday home.

Required:

Write a letter to Albert Kelly which contains:

(a) **A calculation of Albert's capital gains tax (CGT) liability on the disposal of his portfolio of Irish quoted shares in April 2020 and recommendations on how this liability may be minimised.** (7 marks)

(b) **An evaluation (on the basis that Albert will bear the cost of all Sheila's taxes) of the various tax implications of the three options proposed regarding Sheila's office building and your recommendation as to which option should be chosen. In making your recommendation, you should also take account of any relevant non-tax issues.** (15 marks)

(c) **An approximate calculation of the effect of the actions you have recommended in (a) and (b) above on the level of Albert's liabilities and your comments thereon.** (2 marks)

(d) **An explanation of the taxation implications, if any, of the lender granting a debt write-off of €50,000 (i.e. reduce the amount of the loan liability by €50,000) in relation to the borrowings secured on the holiday home. You should consider the effect of Albert receiving a debt write-off either:**

- **in the tax year of sale of the holiday home; or**
- **in the tax year after the holiday home is sold.** (3 marks)

(e) **Advice on Albert's potential liability to local property tax (LPT) in relation to the holiday home.**

Note: Computations are not required. (1 mark)

(f) **Advice to Albert in relation to minimising his tax liability on the proposed inheritance of Sheila's principal private residence.** (3 marks)

Note: Candidates may ignore the CGT annual exemption. The payment and filing dates for the various taxes are not required.

Professional marks will be awarded for the appropriateness of the format and presentation of the letter and the effectiveness with which the information is communicated. (4 marks)

(35 marks)

2 Lou Chang is single and resident and domiciled in the United States of America (the US). He has been seconded by his employer, Greenflower plc, to work in its Irish subsidiary company from 1 May 2019 to 31 December 2022, with an option to extend for another year.

Lou has worked for Greenflower plc since October 2016.

Lou's remuneration for the period 1 May to 31 December 2019 in relation to his duties performed in Ireland comprised the following:

Salary	€600,000
Bonus	€60,000

In addition, he received a company car with an original market value of €65,000. Lou drove 18,000 business kilometres during 2019.

Lou's nephew, Charlie, is resident and domiciled in the US and has worked for Greenflower plc from 1 January 2018. Charlie was also offered a job with the Irish subsidiary company with effect from 1 January 2019 for a two-year period on a salary of €70,000 per annum.

Lou had accumulated considerable savings while working in the US for Greenflower plc. On 15 December 2018, he invested €300,000 in Irish government securities and €100,000 in a portfolio of shares in Irish resident companies.

During 2019 he received:

– €8,000 interest income from the government securities.
– A gross dividend of €5,000 from the shares.

Lou's only other source of income amounts to €15,000 per annum from investments in shares in the US. This investment income is currently lodged in a US bank account. From 2021 onwards Lou intends to use this money to pay for his Irish private medical insurance (VHI). Lou would like to know if this will have any Irish tax implications and he has also asked you to advise him on how to obtain the tax rebate on his medical insurance premium.

Lou is considering gifting the portfolio of shares in the Irish resident companies to his friend, Katy, in November 2021 (on the occasion of her 40th birthday), at their value on that date. Katy is resident and domiciled in the US.

Required:

(a) **Identify, with reasons, Lou's tax status in terms of residence and domicile for the years 2019 to 2022 inclusive, and briefly explain the general rule(s) regarding the Irish tax implications of this status.** (3 marks)

(b) (i) **Identify and explain the conditions of two relevant reliefs for individuals moving to Ireland to take up employment duties.** (5 marks)

(ii) **State, giving reasons, whether the reliefs referred to in (i) above will apply to Lou and Charlie.** (2 marks)

(c) **Calculate the amount of Lou's taxable income in the tax year 2019 in relation to:**

– **Irish income tax;**
– **PRSI;**
– **Universal social charge (USC).**

Note: You are not required to calculate the tax, PRSI or USC. (6 marks)

(d) **Advise Lou on the tax effect of his proposal to pay his Irish health insurance premium using his US investment income, and answer his query in relation to obtaining a tax rebate.** (2 marks)

(e) (i) **Advise both Lou and Katy on the tax implications of Lou's proposal to gift Katy the portfolio of Irish shares.**

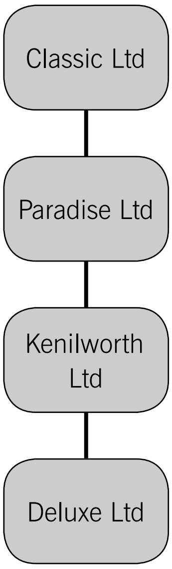
Note: You are not required to provide calculations of the tax payable. (3 marks)

(ii) **Identify and explain one possible alternative structure for the gift to Katy which would be more tax-efficient.** (4 marks)

(25 marks)

Section B – BOTH questions are compulsory and MUST be attempted

3 (a) The Classic group is based in Ireland and is structured as follows:



Classic Ltd owns 80% of the share capital of Paradise Ltd.
Paradise Ltd owns 80% of the share capital of Kenilworth Ltd.
Kenilworth Ltd owns 100% of the share capital of Deluxe Ltd.

All companies are trading companies except for Deluxe Ltd which is a property rental company which invests exclusively in Irish properties. All companies are resident in Ireland and prepare their accounts to 31 December each year. The shareholding relationships have been in existence since 1990.

The following transactions occurred during the year ended 31 December 2019:

(i) Paradise Ltd disposed of a building to a third party for €1,250,000 on 1 March 2019. This was acquired from Classic Ltd on 10 May 1998. Its market value at that date was €675,000. Classic Ltd acquired the building on 1 May 1991 for €380,000.

(ii) Kenilworth Ltd bought a building from Deluxe Ltd on 1 October 2019 for its market value of €2,000,000. The building was acquired by Deluxe Ltd on 1 June 2008 from an unconnected third party for €1,600,000.

(iii) Paradise Ltd transferred a building to Deluxe Limited on 20 November 2019 for its market value of €540,000. The building originally cost Paradise Ltd €390,000 in September 2005.

(iv) On 31 December 2019, Kenilworth Ltd disposed of its shareholding in Deluxe Ltd to a third party for €500,000. Kenilworth Ltd acquired its shareholding in Deluxe Ltd on 1 January 1991 for €950,000.

Required:

(i) State the main conditions for membership of a capital gains group for corporation tax purposes and list the members of the capital gains group comprised within the Classic group of companies. (3 marks)

(ii) Compute the corporation tax payable for the year ended 31 December 2019 on the chargeable gains, if any, and state which company is liable to pay. (6 marks)

(b) Describe the tax treatment of the transfer of a commercial building from one capital gains group company to another capital gains group company where the asset was held as a non-current asset by the first company but forms part of the trading inventory of the second company.

Note: Ignore the VAT and capital allowances implications of the transfer. (4 marks)

(c) Nighthawks Ltd and Automat Ltd are both Irish companies trading as cinemas.

Nighthawks Ltd is consistently profitable whereas Automat Ltd has incurred significant losses over the last five years but has continued to trade and retained all of its employees.

Nighthawks Ltd is interested in acquiring Automat Ltd (a share purchase) and is interested in the possibility of getting the benefit of Automat Ltd's tax losses brought forward in order to reduce the future taxable profits of both Automat Ltd and Nighthawks Ltd.

Required:

Explain whether, following its purchase by Nighthawks Ltd, the tax losses brought forward of Automat Ltd may be used to reduce the future taxable profits of Automat Ltd and/or Nighthawks Ltd. (3 marks)

(d) Ruby was the sole shareholder and managing director of Gofast Marketing Ltd (GML) which ceased trading in 2018. Ruby is now considering starting up her own small marketing consulting business, Ruby Marketing Consulting (RMC), as a sole trader, commencing on 1 September 2020. She projects that she will generate sales of €70,000 per annum and earn a net profit before drawings of €60,000 per annum for each of the first two years of trading (the years ended 31 August 2021 and 31 August 2022 respectively). In order to give the business a chance to grow, she plans to take drawings of only €300 per week.

Ruby also mentioned to you that she does not expect to have to pay any taxes on her income in the initial tax years for two reasons. First, because of the low level of drawings which she will be taking out of the business, and second, because of the large unutilised tax losses which were incurred by GML before it ceased trading in 2018.

Ruby has been advised to transfer the trade of RMC to a limited company, RMC Ltd, at the start of 2023 in order to qualify for start-up company relief.

Required:

Advise Ruby on:

(i) the actions she needs to take to register her proposed sole trade (RMC) for taxes;
(ii) how her profits as a sole trader will be assessed to the various taxes for 2020 and 2021;
(iii) whether her expectation regarding the absence of any tax liability in those early years is correct; and
(iv) whether she can expect RMC Ltd to qualify for start-up company relief from 2023 onwards.

Note: Calculations of Ruby's expected tax liabilities are NOT required. (4 marks)

(20 marks)

4 You should assume that today's date is 3 June 2020.

Maxine Smith (single, aged 35) is a value added tax (VAT) registered retailer of computer hardware and software who operates as a sole trader. The 23% rate of VAT applies to all of her products. She requires your advice on the following issues:

(a) Maxine currently rents her premises but has decided that next month she will buy a local shop premises at a price of €600,000 (excluding VAT). The property was built in 2005. The current owner acquired it in March 2017 for €400,000, as a derelict building. In July 2017, the current owner then carried out the work needed to make the property into a shop.

Maxine intends to occupy 70% of the premises for the purposes of her retail trade and to convert the remaining 30% of the shop premises into an apartment where she will live. Maxine has agreed a price of €80,000 (including VAT) with a local building contractor for the conversion of the apartment.

Maxine requires you to explain the VAT and stamp duty tax implications of the purchase and conversion of the premises. (6 marks)

(b) The following is an extract from the statement of profit or loss for Maxine's business for the year ended 31 December 2017, which was the basis of her income tax return for the 2017 year:

	€
Sales	310,000
Less: Cost of goods sold	(250,000)
Gross profit	60,000

The tax-adjusted profit for the year was €20,000.

Maxine has advised you that during 2017 there were some gaps in her sales receipts records and that there were some occasions when she did not lodge all her cash takings to the business bank account. All costs of goods sold, however, have been correctly recorded.

A family member, Lester, worked in the shop and was paid €300 in cash per week throughout the year, directly out of the takings, prior to the recording of sales in the books and records. Lester is single and earned a gross salary of €37,000 in his main employment in 2017.

You have noted that the gross margin percentage for Maxine's business (gross profit/sales) is less than the average gross margin of 30% for the industry sector.

A review of Maxine's personal expenditure indicates that her declared drawings from the business of €26,000 per annum (as per the 2017 accounts) are insufficient to fund her lifestyle costs. Maxine's personal expenditure (household, mortgage, car, etc) cost an average of €5,700 per month. Maxine is up to date in the payment of her household bills and she has no other source of income apart from her business. Maxine did not incur any additional borrowings in the year 2017.

You have verified that the above issues relate to 2017 only and Maxine has confirmed that she has not had any previous tax defaults. You have already advised Maxine of the benefits of making an unprompted voluntary disclosure to the Revenue at the first available opportunity and she agrees with that strategy.

Maxine has asked you to calculate the tax and penalties (but not the interest) due on each of the matters noted above and briefly advise her on the action to be taken. (11 marks)

(c) Maxine recently engaged the services of a UK firm of solicitors for advice in relation to a potential claim for damages by a client who was unhappy with the software supplied by her. The UK solicitor's invoice amounted to €6,000 and no UK VAT was charged. She has asked you if this is the correct VAT treatment of this item. (2 marks)

(d) Maxine is about to tender for a contract to sell an 'off the shelf' accounting software package to a number of government departments and needs to know whether the professional services withholding tax (PSWT) will apply to this contract. (1 mark)

Required:

Advise Maxine in relation to issues (a) to (d) above.

Note: The split of the mark allocation is shown against each of the issues above.

(20 marks)

End of Question Paper