Suggested solution

Section A

Question 1

Kate

Memorandum for client file

To: Tax Partner
From: Tax Manager
Regarding: Kate: Client engagement, taxation and financial issues
Date: 3 December 2026

These notes are to be used in preparation for a meeting with Kate.

(a) Client engagement, personal retirement savings account (PRSA) and capital gains tax (CGT) on disposal of shares

New client engagement

The following is a summary of the essential new client engagement procedures:

Identity

We must obtain evidence of Kate's identity and her address.

Fundamental principles of ethics

We must have regard to the fundamental principles of professional ethics. This requires us to consider whether becoming tax advisers to Kate would create any threats to compliance with these principles.

- Integrity
  We must ascertain and consider the appropriateness of Kate's attitude to complying with the law and the disclosure of information to the tax authorities.

- Professional competence
  We must ensure that we have the skills and competence necessary to be able to deal with the taxation and other matters which may arise in connection with Kate's affairs.

If any such threats are identified and they cannot be reduced to an acceptable level via the implementation of safeguards, we should not accept the appointment.

© ACCA 2027-2028 All rights reserved.

Contact existing accountants

We should contact Kate's existing accountants in order to ensure that there has been no action by Kate which would preclude the acceptance of the appointment on ethical grounds.

Money laundering

We must carry out a review in order to satisfy ourselves that Kate is not carrying on any activities which may be regarded as money laundering.

Capacity to pay fees

Given that she and her company were in financial difficulties, there may be an unpaid fees issue with the previous accountant which would need to be resolved. We need to ensure that Kate has the capacity to pay our fees, prior to taking her on as a client.

Tax implications of PRSA contribution

Kate's opinion that she will be entitled to an income tax (IT) rebate in relation to her PRSA contribution in January 2026 is not correct.

Kate is aged 49 and her maximum tax allowable PRSA contribution would be €4,250 (€17,000 x 25%). The amount paid of €4,000 would therefore be fully allowable against IT paid.

The problem is that Kate will not have paid any IT in 2026 on her income of €17,000. The combination of the single person credit and the employee credit amounts to €3,750 (€1,875 + €1,875). This will fully shelter income of up to €18,750 (€3,750/20%) from IT resulting in no IT payable.

The PRSA contribution may be carried forward to future tax years and used to reduce her IT liability.

The amount of future tax relief receivable will depend on her marginal IT rate and the amount of IT actually paid in the relevant year.

CGT liability arising on the sale of the shares in Gabriel plc and recommended actions to minimise it.

Kate has made a capital gain of €118,485 (€190,000 – €45,000 - €25,000 - €1,515) on the disposal of the above shares in August 2026 and, in the absence of loss relief, CGT of €39,100 (€118,485 x 33%) would be payable.

Kate does not currently have any losses brought forward to offset against the above gain. However, there are latent losses on Kate's investments in Cloud Burst Ltd (CBL) and her apartment in Cork which is due to be sold on 8 January 2027.

© ACCA 2027-2028 All rights reserved.

Recommendations

1 Negligible value claim in respect of her CBL loss

Under the normal rules, the CBL loss of €40,000 (€0 – €40,000) would crystallise only when the liquidation of the company is complete, which will not be until 2027. As losses cannot be carried back for CGT purposes, this would be of no benefit to Kate in 2026.

However, a negligible value claim could be made in respect of this loss. Where an individual owns an asset which has dropped significantly in value such that the value of the asset has become small or negligible, they can make a claim to the Inspector of Taxes. The claim must be made within 12 months of the year of assessment for which relief is sought, provided the asset was of negligible value in that year of assessment.

Appropriate documentation such as the most recent set of accounts of the company should accompany the claim.

If the claim is accepted, Kate will be treated as having disposed of the asset at market value and immediately re-acquired it at the same date. The loss is then available in the year in which the claim is made.

It is, therefore, recommended that such a claim is made as soon as possible but before 31 December 2026 in respect of the CBL shares in order to set the capital loss of €40,000 against the gain on the shares in Gabriel plc.

(see Tutorial note 1)

2 Bring forward the sale of the Cork apartment to 2026

The disposal of the apartment will generate a loss of €70,000 (€380,000 – €450,000) arising in 2026.

This loss will not be available to offset against the gains on disposal of the shares in Gabriel plc unless the disposal takes place prior to 31 December 2026. It is recommended that the signing of the contract be brought forward to December 2026 to enable this offset. This can be achieved by signing the contract just nine days earlier than the current planned date.

No provision has been made in the above analysis for auctioneer and legal fees on disposal, which will reduce the net proceeds available.

Effect of the above

If the steps outlined above are taken, the chargeable gain on the Irish quoted shares of €118,485 will be reduced by losses of €40,000 and €70,000 arising in 2026 and the taxable amount will be reduced to €8,485. This will result in a CGT liability of €2,800 (€8,485 x 33%).

 © ACCA 2027-2028 All rights reserved.

(b) Proposal from Peter

In relation to Options 1-3, please note that no provision has been made in the analysis below for auctioneer and legal fees on disposal, which will further reduce the net proceeds available.

The detailed calculations in relations to Options 1 and 3 are included in Appendix 1.

Option 1: Peter gifts the building to Kate for her to sell and use the proceeds to repay her borrowings.

Value added tax (VAT)

The disposal of the office building is not subject to VAT because:

- The building is not new as it was built more than 20 years ago, and the most recent development (the extension) took place more than five years ago. **(see Tutorial note 2)**

No capital goods scheme (CGS) adjustment will arise:

- regarding the building because it is more than 20 years old; and
- regarding the extension because it was built more than 10 years ago.

The nil VAT payable position outlined above applies to all three options.

Capital gains tax (CGT)

A gift of property is chargeable to CGT on Peter as if it were a sale at full market value. Entrepreneur relief (ER) will not be available on the disposal of the office because ER does not apply to assets personally owned outside a qualifying company, even when the assets are used by that company.

Retirement relief will not be available on the disposal of the office because it was not used as a business asset for the entire ten-year period ending on the date of disposal. The CGT payable on the disposal at 33% will amount to €26,004 (see Appendix 1). This amount is deductible in the calculation of the capital acquisitions tax (CAT) payable on the gift, as it will be deemed consideration paid by Kate for the gift.

No additional CGT liability is expected to arise on the sale of the building by Kate to a third party assuming it is sold in the short to medium term, as the base cost and the proceeds are expected to be identical.

Stamp duty (SD)

The SD rate applicable to all non-residential property is 7.5% and the liability is €18,750 (€250,000 x 7.5%). This amount is deductible in the calculation of the capital acquisitions tax (CAT) payable on the gift.

 © ACCA 2027-2028 All rights reserved.

CAT

CAT (gift tax) will be levied at the rate of 33% on the benefit received less the normal (class 3) exempt threshold between unrelated persons of €16,250.

A credit cannot be claimed against the CAT for any CGT payable on the same event, unless the relevant asset is held for two years, and in this case an immediate sale is required. The CAT liability amounts to €61,379 (see Appendix 1).

Total tax liability and after-tax proceeds

The total taxes payable under Option 1 will amount to €106,133 (see appendix 1), therefore the proceeds available to reduce Kate's loan will be €143,867 (€250,000 - €106,133).

Option 2: Same as option 1 except Peter would firstly gift the building to Kate's aunt Mary and within a week Mary would then gift the building to Kate

CGT

There would be no CGT on the disposal from Peter to Mary (husband to wife).
Mary would be deemed to take Peter's base cost and period of ownership of the asset.
The CGT payable by Mary would be the same as that payable by Peter under Option 1.

SD

There would be no additional SD liability in relation to the transfer to Mary because there is no SD between husband and wife.
The same amount of stamp duty (€18,750) as with Option 1 will be payable on the transfer from Mary to Kate.

CAT

There would be no additional CAT charge on the transfer to Mary because it is from husband to wife.

Gift-splitting rule

Where property is gifted on or within three years before or after the original disposition, then the two gifts are deemed to have been made by the original disponer.
In this case, the gifts from Peter to Mary and then Mary to Kate would be within a week of each other (definitely less than three years).

For tax purposes, Kate would be deemed to have taken a gift from Peter (class 3 threshold) rather than from Kate's aunt Mary (class 2).

© ACCA 2027-2028 All rights reserved.

Accordingly, the CAT liability will be the same as with Option 1.

The professional (legal) fees associated with this option may be higher than the fees for other options because the property is being transferred twice.

Total tax liability and after-tax proceeds

Both of the above will be the same as with Option 1.

Option 3: Peter leaves the property to Kate in his will

In the case of a transfer by way of inheritance, the only tax which arises is CAT. There is no charge to CGT or to stamp duty.

Total tax liability and after-tax proceeds

The total tax cost of this option, therefore, amounts to €77,138 (see Appendix 1) and Kate would have €172,862 (€250,000 - €77,138) available but only when Peter dies.

Choice of option with comments

Option 2 is more complicated than Option 1 with the same after tax outcome.

Option 1 is recommended, even though it involves paying an additional €28,995 (€106,133 - €77,138) in taxation compared with Option 3.

The obvious advantage of Option 1 is that it allows for the immediate transfer of the property to Kate, which is essential in view of her financial situation.

The disadvantage of Option 3 is that Kate would not receive the property until sometime in the future when Peter dies and there is also the possibility that he may change his mind in the meantime.

Recommendation of a more suitable option

A more tax-efficient option would be for Peter to sell the property and then gift the after-tax proceeds to Kate.

The detailed calculations in relations to this option are included in Appendix 2.

VAT

No VAT is chargeable on the sale, for the same reasons as are outlined in Option 1 above.

CGT

The CGT implications under this option will be the same as in Option 1.

 © ACCA 2027-2028 All rights reserved.

Again, the sale of the building to a third party and the gift of the net proceeds to Kate are clearly two separate events and it is, therefore, not possible to claim a credit for the CGT against the gift tax liability.

SD

No SD is payable on the cash gift to Kate and SD on the property will be paid by the buyer.

CAT

The gift tax will be calculated as under option 1, but excluding the adjustment for SD, as covered above.

Total tax liability and after-tax proceeds

The total tax cost of this option is €93,570 (see appendix 2), leaving proceeds available to Kate of €156,430 (€250,000 - €93,570).

With this option, there is a tax- saving of €12,563 (€106,133 - €93,570) compared with Option 1 above.

(c) Kate's borrowings

The effect of implementing the recommendations on Kate's level of outstanding liabilities

	€
Borrowings prior to repayments	580,000
Add: CGT liability re sale of shares in Gabriel plc	2,800
Less: Proceeds from the sale of Cork apartment	(380,000)
Less: Net proceeds from sale of Peter's office (as per the suggestion above)	(156,430)
Remaining borrowings	**46,370**

The sale of the Cork apartment and Peter's office building will reduce Kate's liabilities to approximately €46,370 and hopefully a suitable arrangement can be reached with the lender in relation to this.

It should be noted, however, that the above calculation has not taken loan interest into account for the period between now and the date of sale of the properties. Obviously, the sooner the properties are disposed of, the less interest will be payable.

The tax implications of receiving a debt write-off

If Kate were to receive a debt write-off of €40,000 in 2026, which is the same tax year in which she has been advised to sell the Cork apartment, then the base cost of the apartment would be reduced by €40,000 and the loss relief arising on its sale would be

 © ACCA 2027-2028 All rights reserved.

reduced by €40,000. This would result in additional CGT payable of €13,200 (€40,000 x 33%).

However, her borrowings would be reduced to €19,570 (€46,370 – €40,000 + €13,200) and the repayment of this amount may be more manageable on her current income.

Kate would not be able to avoid this additional tax charge by arranging for the debt write-off to occur in the year after the sale of the apartment. In that case, a gain of €40,000 (the amount of the debt released) would be deemed to arise in 2027.

The tax would be payable then, possibly without the facility to borrow the funds to pay it.

Tax Manager

© ACCA 2027-2028 All rights reserved.

Appendix 1

Option 1: Gift of property to Kate and subsequent sale of the property by Kate

CGT computation

	€	€
Sales proceeds (market value)		250,000
Cost	100,000	
Indexation factor 1998/99	1.212	
	(121,200)	
Enhancement expenditure (not indexed)	(50,000)	(171,200)
Chargeable gain		**78,800**
CGT at 33%		26,004

Stamp duty computation

	€
€250,000 x 7.5%	18,750

CAT (Gift tax) computation

	€
Market value	250,000
Less: Liabilities, costs and expenses	
CGT payable	(26,004)
SD payable (working)	(18,750)
	205,246
Less: Small gifts exemption	(3,000)
	202,246
Class 3 threshold	(16,250)
	185,996
Gift tax at 33%	61,379

Summary of taxes payable under option 1

	€
CGT	26,004
Gift tax	61,379
Stamp duty	18,750
Total taxes payable	**106,133**

© ACCA 2027-2028 All rights reserved.

Option 3: Kate inherits the property

CAT (inheritance tax) computation

	€
Market value	250,000
Group threshold	(16,250)
	233,750
Inheritance tax at 33%	77,138
Total tax payable	77,138

© ACCA 2027-2028 All rights reserved.

Appendix 2

More suitable option: Sale of property by Peter and gift of net proceeds to Kate

	€
CGT (as above)	26,004

CAT (Gift tax) computation

	€
Sales proceeds	250,000
Less: Liabilities, costs and expenses	
CGT payable	(26,004)
Net proceeds	**223,996**
Less: Small gifts exemption	(3,000)
	220,996
Class 3 threshold	(16,250)
	204,746
Gift tax at 33%	67,566

Summary of taxes payable under more suitable option

	€
CGT	26,004
Gift tax	67,566
Stamp duty	0
Total taxes payable	**93,570**

Tutorial notes:

1. *The Revenue Tax and Duty Manual (19 January 2009) states that on a strict interpretation a loss arising on a deemed disposal under section 538(2) TCA 1997 is allowable only in the year of claim. However, in practice, a claim made within twelve months of the end of the year of assessment or accounting period for which relief is sought will be admitted, provided that the asset was of negligible value in the year of assessment or account period concerned.*
2. *The fact that the building is a "non-new" building (more than 20 years old) and most recent development took place more than five years ago is sufficient to conclude that the sale of the building is not subject to VAT. It is not necessary to determine whether or not the cost of the extension was more or less than 25% of the sales price, nor is it necessary to ascertain whether or not this adapted the building for a materially altered use.*

© ACCA 2027-2028 All rights reserved.

Section B

Question 2

(a) (i) Tax relief in relation to specified intangible assets capital allowances

Companies carrying on relevant trades which incur costs on certain specified intangible assets are entitled to claim capital allowances on that expenditure.

Relevant trades:

The allowances must be claimed against income from a relevant trade, for example:

- Activities related to managing, developing or exploiting specified intangible assets; and
- Sales deriving their greater value from the use of specified intangible assets.

This income must be separately identified. **(see Tutorial note 1)**

Application to Marlay Ltd

Marlay Ltd has €500,000 of separately identified income from the trade of managing patents which in accordance with the above is a qualifying trade.

Specified intangible assets (SIAs):

Marlay Ltd's intangible assets are patents which are listed as a SIA in the legislation.

(see Tutorial note 2)

Based on the criteria specified above, Marley Ltd's expenditure qualifies for SIA relief.

Options

The capital allowances can be calculated using either of the two available options:

1. Writing off in line with the depreciation or amortisation for accounting purposes.

   Annual amortisation of patents: €400,000 (€4,000,000/10).

2. Writing off over a 15-year period, being 7% for years 1 to 14 and 2% for year 15.

   Annual amortisation of patents: €280,000 (and €80,000 final year).

(see Tutorial note 3)

© ACCA 2027-2028 All rights reserved.

Recommendation

Option 1 should be chosen because it offers the quickest tax relief, thereby benefitting company cash flow.

(a) (ii) Taxable income for the year ended 31 December 2025

The total taxable income is €220,000 and this is calculated below.

Notes to the tax computation regarding interest and capital allowances

Interest on borrowings incurred in relation to the acquisition of specified intangible assets is also tax deductible, against relevant trade income.

The relief for capital allowances and certain interest costs is restricted to 80% of the gross income (i.e. income excluding such allowances and interest) from the deemed separate activity.

The interest deduction must be claimed in priority to the capital allowances.

Unused capital allowances and interest may be carried forward to future periods.

(see Tutorial note 4)

Taxable income

	€
Relevant trade income (excluding allowances and interest)	500,000
Interest and capital allowances restricted to 80% of trade income	(400,000)
	100,000
Add: Non-relevant trade income	120,000
Total taxable income	**220,000**

Maximum relief available

	€
Interest	60,000
Capital allowances - balance	340,000
80% of relevant trade income	**400,000**

Tutorial notes:

1. *The mere holding of an intangible asset by a company for which a license fee/royalty is derived would not be regarded as a trade.*
2. *The specified intangible assets are intellectual property assets, as listed in the tax legislation and also as recognised under generally accepted accounting principles. Examples of these assets are patents, registered designs, inventions, trademarks, brands, domain names and copyrights.*

© ACCA 2027-2028 All rights reserved.

3. *The second option (15-year period) will always apply where the intangible asset is considered to have an infinite life. When the second option is chosen, the company is required to make a claim in its tax return.*
4. *Clawback*
   Where a specified intangible asset is disposed of, the normal rules in relation to balancing allowances and charges will apply, which means that there will be a claw back of the capital allowances granted.
   Where the acquirer is connected with the seller, the acquirer will be entitled to the allowances on the capital expenditure incurred in acquiring the intangible asset, subject to the arms-length rule applying. Where the capital expenditure incurred by the acquirer exceeds the amount of the seller's unclaimed allowances, the allowances of the acquirer will be restricted to the unclaimed allowances of the seller.

(b) Overseas sales – VAT implications

Sale to private individual in Belgium

This first Belgian order from a private individual exceeds the €10,000 EU-wide distance selling threshold which means that Marlay Ltd will be obliged to either:

- register for VAT in Belgium and account for VAT at the 21% rate applicable there **(see Tutorial Note 1)**; or
- account for the 21% Belgian VAT using the EU VAT One Stop Shop (OSS) scheme. This optional scheme is designed to simplify VAT compliance for B2C cross-border sales. This would allow Marlay Ltd to report and pay Belgian (and any other EU country) VAT in Ireland rather than registering in each member state **(see Tutorial Note 2)**.

It is recommended that Marlay Ltd registers for the OSS scheme as this will result in less bureaucracy and compliance costs compared to registration in Belgium and appointment of an agent there to deal with VAT.

The customer will be charged €14,520 (€12,000 + €2,520). Marlay Ltd will include this amount in its quarterly Union scheme VAT return which will be submitted electronically. This VAT will be remitted to the Revenue Commissioners for onward transmission to the relevant Member States of consumption (in this case Belgium).

(see Tutorial Note 3)

Circumstances in which a charge to French corporation tax could arise

Under the OECD tax treaty, the business profits of an enterprise can only be taxed in a country where the enterprise is either resident or has a permanent establishment (PE). On the basis that Marlay Ltd is an Irish company which is managed and controlled in Ireland, it would be Irish resident and not French resident.

 © ACCA 2027-2028 All rights reserved.

Only if Marlay Ltd is considered to have a PE in France will it be subject to French corporation tax.

The following points are relevant to the establishment of a PE:

- A PE is 'a fixed place of business in which the business of the enterprise is wholly or partly carried out', for example, a branch or office. Facilities used for the storage, display or delivery of the goods belonging to the enterprise, such as a warehouse, are not considered to be a PE.
- An agent or employee based in the foreign country but not working from a fixed place of business of the enterprise will be considered a PE if he/she has and habitually exercises the authority to conclude sales contracts for the enterprise.

Based on the above, the rent of a warehouse in this case will not be considered to be a PE. Therefore, whether Marlay Ltd will be deemed to have a French PE will depend on the authority allowed to the France-based salesperson.

If that individual can follow up queries and pass over orders but cannot conclude a sales contract, then there would be no French PE. However, if they can conclude sales contracts, there would be a French PE and the profits earned in France would be subject to French corporation tax.

However, there may (or may not) be valid commercial reasons why authority to conclude contracts should be given to the salesperson based in France.

Implications of coming within the charge to French CT

(i) If a French PE were to exist, then French CT would apply and the profits of the French branch would incur French CT of €5,000 per annum (25% x €20,000).
Irish CT of €2,500 (12.5% x €20,000) would also apply but double taxation relief will reduce the Irish CT. The amount of tax credit given will be restricted to the Irish CT of €2,500 which will result in an Irish CT liability of nil.
The total CT payable would be €5,000.
(ii) If French CT did not apply, the profits of the French branch would be subject to Irish CT of €2,500 (€20,000 x 12.5%).

Based on the projections for the next two years, the effect of coming within the charge to French CT is an additional tax cost to the company of €2,500 (€5,000 - €2,500) i.e. the CT charge is double the Irish rate.

When calculating the profits attributable to the French branch the transfer pricing rules must be applied appropriately.

The analysis is limited because the projected figures only cover the next two years.
If the profits were to increase from year 3 onwards, the additional cost to the company of being within the charge to French CT would increase proportionately.

© ACCA 2027-2028 All rights reserved.

There would also be the additional cost of professional fees in France in relation to accounting and tax compliance.

Recommendation to avoid French CT charge

Unless there are good commercial reasons for doing so, Marlay Ltd should NOT give authority to conclude contracts to its France-based salesperson as this will avoid the setting up of a French PE and enable the company to stay outside of the charge to French CT.

Tutorial notes:

1. *An Irish supplier who makes distance sales to customers in other EU member states who are not registered for VAT is liable to charge Irish VAT on such sales until the value of such sales reaches the €10,000 EU wide distance selling threshold.*

2. *The Union One Stop Shop scheme (OSS) OSS simplifies VAT obligations for businesses selling goods and services cross border to final consumers in the EU.*

3. *Depending on the location of their business, a taxable person will be permitted to:*

    - *Register for VAT electronically in a Member State for intra-Community distance sales of goods and supplies of services to non-taxable persons. This Member State then becomes the Member State of identification. For example, an Irish company will register in Ireland.*

    - *Declare and pay EU VAT due on these supplies in a single electronic quarterly return submitted to the Member State of identification. The Member State in which the sales take place is the Member State of consumption.*

    - *Communicate with the Revenue Commissioners in relation to these returns, even where the sales are taxable in another Member State.*

 © ACCA 2027-2028 All rights reserved.

Question 3

(a) Joni's severance package

Chargeable lump sum

Statutory redundancy and the future pension lump sum are exempt from income tax.
As the pay in lieu of notice of €4,000 was not provided for in Joni's contract of employment, for the purposes of tax reliefs available, it is included with the *ex-gratia* payment (€51,000) and the company car (€25,000) and treated as a deemed lump sum payment.

This chargeable lump sum payment amounts to €80,000. This is partially subject to income tax.

Three exemption options

The tax-free element of the package is calculated as follows:

Option 1: Basic exemption

	€
(€10,160 + €765 x 23)	27,755

Option 2: Increased basic exemption

	€
Maximum increase allowable	10,000
Less: Pension lump sum	(10,500)
Increase possible	Nil

Option 3: Standard capital superannuation benefit (SCSB)

Period	**Emoluments**	
	€	
December 2023	4,000	((€42,000 + €6,000) x 1/12)
Year ended 31/12/2024	51,000	(€45,000 + €6,000)
Year ended 31/12/2025	54,500	(€48,000 + €6,500)
11 months ended 30/11/2026	50,000	(€44,500 + €5,500)
Total emoluments for three years	**159,500**	
Average annual emoluments	53,167	

Average annual emoluments x complete years of service/15 - pension lump sum

€53,167 x 23/15 - €10,500 = €71,022

© ACCA 2027-2028 All rights reserved.

The SCSB calculation gives the highest figure and therefore €71,022 is tax free. The taxable portion of the lump sum is therefore €8,978 (€80,000 – €71,022).

Income tax (IT), universal social charge (USC) and PRSI implications

IT of €3,591 (€8,978 x 40%), calculated at Joni's marginal rate of 40%, together with USC of €359 (€8,978 x 4%), will be deducted at source by Canyon Ltd.

There will be no PRSI liability**.**

(b) Neil's income tax relief for foreign travel

Foreign earnings deduction (FED) relief applies to individuals on assignment in qualifying countries.

Qualifying countries

In relation to Neil's proposed itinerary, these countries include China and India, but not Australia or New Zealand.

(see Tutorial note 1)

Minimum three consecutive days

The individual must be physically present in the relevant state (e.g. China, India) for at least three consecutive qualifying days for the performance of the duties of the office or employment. Weekends and/or public holidays will be counted towards qualifying days.

Minimum 30 qualifying days

In any year or 12-month period, the individual must have spent at least 30 qualifying days in the qualifying countries.

Application

It appears that Neil satisfies these conditions. Neil will have 40 qualifying days (15 + 25) in China and India.

Application of restrictions

Where FED is claimed, the employee may not claim other reliefs relating to employment income in the same year, such as split year residence relief, cross-border workers relief, remittance basis on employment income, special assignee relief programme (SARP) or the surrender of research and development (R&D) credit relief for key employees.

The relief is also restricted by the higher earners' restriction.

 © ACCA 2027-2028 All rights reserved.

Application

There is no mention of any of the above reliefs in the scenario and it is therefore assumed that they will not apply to Neil in 2027.

Calculation of the FED refund

How the relief is determined

The amount of the deduction is the lesser of:

- €35,000; and
- the proportion of employment income relating to the number of qualifying days worked in a relevant state in the tax year (the specified amount).

For this purpose, income from employment includes any taxable share options derived from the employment, less any qualifying pension premium but excludes any tax-deductible expense payments, benefits in kind, termination payments and payments under restrictive covenants.

The relief will be:

- granted from income tax but not from PRSI or USC; and
- reduced by any double taxation credits.

2026 IT refund

Therefore, Neil will be entitled to relief amounting to the lower of €35,000 and the specified amount, of €13,150 (€120,000 x 40/365). Neil's marginal income tax rate is clearly 40% because he is single and his income exceeds €42,000. This will result in a refund of income tax amounting to €5,260 (€13,150 x 40%).

(see Tutorial note 2)

(c) Linda

Asset transfer to Linda

The various tax consequences of the asset transfer are as follows:

Canyon Ltd

Value added tax (VAT)

This is a transfer to non-business use (self-supply), which is a deemed supply. VAT is chargeable on the cost of the goods, and €2,300 (€12,300 x 23/123) should be

 © ACCA 2027-2028 All rights reserved.

included as output VAT in Canyon Ltd's next VAT return.

Corporation tax (CT)

As Canyon Ltd is a close company, Linda is a shareholder and therefore a participator. The transfer of the audio-visual (AV) equipment to her is treated as a distribution of €12,300 from Canyon Ltd to Linda.
Canyon Ltd will not be entitled to claim capital allowances on this AV equipment.

Dividend withholding tax (DWT)

DWT of €3,075 (25% x €12,300) will apply to the distribution. This is payable by the 14th day of the month following the distribution. The company is entitled to seek recovery of this DWT from Linda. If Linda does not repay the DWT to Canyon Ltd, the DWT suffered may be treated as a further distribution.

Capital gains tax (CGT)

Linda has received an asset from Canyon Ltd at an undervalue of €12,300 (€12,300 - 0). The base cost of Canyon Ltd's shares will be reduced by €12,300.

Linda

Income tax (IT)

Linda will be taxed under Schedule F on the distribution at her marginal tax rate. She will receive a deduction for the DWT deducted.

Capital acquisitions tax (CAT)

Linda will also be liable to CAT in relation to the transfer at undervalue, but it is Revenue's practice not to collect this tax where IT is payable on the same benefit.

Tutorial notes:

1. *Qualifying countries originally included Brazil, Russia, India, China and South Africa (known as the 'BRICS' countries). The list of countries was extended to include 22 more countries including, Egypt, Japan, UAE, Kuwait and Singapore.*
2. *Claiming the relief*
   The tax relief is claimed at the end of the tax year and a statement from the employer confirming the qualifying days must be submitted to Revenue.

© ACCA 2027-2028 All rights reserved.

Mark scheme

Question 1

(a) Kate

New client engagement	5
Tax rebate re PRSA	3
Gabriel plc shares	9

Maximum 15 marks

(b) Proposal from Peter

Option 1	12
Option 2	5
Option 3	2
Recommendation of more suitable option	3

Maximum 19 marks

(c) Kate's borrowings

Effect on level of borrowings	2
Tax implications of debt write-off	5

Maximum 6 marks

Professional skills marks:

Communication

General report format and structure (use of headings, sub-headings and an introduction)

Style, language and clarity (tone of memorandum response, presentation of calculations, appropriate use of the tools, easy to follow and substantive amount of content)

Analysis and Evaluation

Structured and logical approach taken to the advice provided to Kate comprehensively addressing all matters

© ACCA 2027-2028 All rights reserved.

Clear, logical and systematic approach to evaluating the tax implications of the three options

Commercial Acumen

Evaluation of the potential debt write-off is focused and raises valid commercial issues.

Scepticism

Advice clearly explores and justifies the new client engagement procedures in relation to Kate and challenges her opinion regarding the tax rebate

Maximum 10 marks

Total 50 marks

© ACCA 2027-2028 All rights reserved.

Question 2

(a) Specified intangible assets relief

Availability of relief	2
Capital allowances calculations and recommendation	3

Maximum 4 marks

(b) Marlay Ltd's Schedule D Case I income

Computation	2
Interest priority and 80% restriction rules	3

Maximum 5 marks

(c) Overseas trading by Marley Ltd

VAT implications of sale to individual	4
Circumstances in which charge to French CT could arise	4
Tax implications and recommendation	5

Maximum 11 marks

Professional skills marks:

Analysis and Evaluation

Clear analysis of the options in relation to calculating capital allowances is provided

Clear and logical approach taken to the calculation of taxable income for Marlay Ltd

Commercial Acumen

Advice on the VAT implications of the sale in Belgium and issues relating to corporate tax in France is focused and raises valid commercial points

Maximum 5 marks

Total 25 marks

© ACCA 2027-2028 All rights reserved.

Question 3

(a) Joni's severance package

Chargeable lump sum and three exemption options	7
Payroll tax implications	2

Maximum 7 marks

(b) Neil – foreign earnings deduction (FED)

Application of FED conditions and restrictions to Neil	5
Calculation of FED refund	3

Maximum 7 marks

(c) Transfer of AV equipment to Linda

Tax consequences for Canyon Ltd	5
Tax consequences for Linda	2

Maximum 6 marks

Professional skills marks:

Analysis and Evaluation

Clear and logical approach taken to the advice provided on payroll taxes

Clear analysis of FED relief and tax refund is provided

Commercial Acumen

Assessment of the tax consequences of the transfer of the AV equipment is focused and raises valid commercial points

Maximum 5 marks

Total 25 marks

© ACCA 2027-2028 All rights reserved.