



## ADVANCED TAXATION

### PROFESSIONAL LEVEL EXAMINATION

**APRIL 2021**

**NOTES:**

**Section A** - You are required to answer Questions 1, 2 and 3.

**Section B** - You are required to answer any **two** out of Questions 4, 5 and 6.

Should you provide answers to all of Questions 4 to 6, only the answers to Questions 4 and 5 will be marked.

**TAXATION TABLES ARE PROVIDED**

**TIME ALLOWED:**

3.5 hours, plus 10 minutes to read the paper. This is a closed book examination.

**INSTRUCTIONS:**

During the reading time, candidates are encouraged to use this time to read each Question carefully. Please note, however, candidates will not be prevented from using this time to start typing notes and solutions.

Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

You are reminded to pay particular attention to your communication skills, and care must be taken regarding the format and literacy of your solutions. The marking system will take into account the content of your answers and the extent to which answers are supported with relevant legislation, case law or examples, where appropriate.

**N.B.** Please note that the right click function has been disabled during your examination. Should you wish to copy and paste, please use the following shortcuts: Copy (Ctrl + C) and Paste (Ctrl + V).

## SECTION A

Answer Questions 1, 2 and 3 in this Section.

(ALL are compulsory)

### Question 1

Maria (aged 45) and Jason (aged 51) are both Irish resident and domiciled and jointly assessed for Income Tax purposes. The couple have four children, Abby (aged 15), Kiera (aged 13), Jack (aged 10) and Emily (aged 5).

Maria is employed part-time as a HR manager in a multinational company. Details of her income and other benefits from this employment for 2020 are as follows:

- Gross salary for the year €65,000 from which PAYE of €24,000 was deducted.
- A new company car purchased on 1 January 2020 that cost the company €70,000. The new car is a category B vehicle. Maria's business travel for the year was 35,000 kilometres.
- On 2 January 2020, Maria was provided with a new mobile phone, that cost €1,200, and a laptop, that cost €2,200. Both are used solely for business purposes.
- Maria was paid a bonus of €25,000 on 15 November 2020. €20,000 of this bonus was paid for the successful completion of two large business projects during 2020. €5,000 was paid to Maria for achieving a First-Class Honours from her master's degree in human resources in October 2020.
- Maria received a Christmas voucher worth €300 on 20 December 2020.
- Maria contributed €5,200 of her gross salary to an approved occupational pension scheme during 2020 and decided to use all of her bonus to make an additional voluntary contribution on 25 December 2020.

#### Other Income:

- Irish deposit interest €650 (net)
- Children's allowance €3,120

Jason's taxable profits from his veterinary practice for the year ended 31 December 2020 were €350,000. Capital allowances for the business for 2020 are €25,000. Professional Services Withholding Tax in the amount of €35,000 was incurred on income received by Jason for services provided to the State during the year ended 31 December 2020.

In addition, Jason had the following sources of income during 2020:

- Rental income from a residential apartment of €18,000 per annum. The tenancy was registered with the Residential Tenancies Board (RTB). Jason paid insurance of €800, painting and maintenance costs of €1,500 and local property tax of €175 on the house for 2020. Mortgage interest paid for 2020 was €1,400. Jason carried forward a rental loss from 2019 of €3,000.
- Dividend income from an Irish company of €540 was received on 15 February 2020 (final dividend for the financial year ended 31 December 2019).

#### Details of other expenditure for 2020 are as follows:

- Medical expenses €4,200, including €400 for a routine annual eye test and glasses for Kiera, €800 for orthodontic treatment for Abby. The couple were reimbursed €700 by their medical insurance company, including €100 towards the cost of Kiera's eye test and glasses. No reimbursement was received for the orthodontic treatment.
- Jason maximised his retirement annuity contributions for tax relief purposes for 2020.

The couple's Income Tax liability for the tax year 2019 was €50,000.

**REQUIREMENT:**

- (a)** Advise Maria and Jason on the maximum pension contribution they may make in order to minimize their tax liability for the tax year 2020. Calculate the amount of tax they are likely to save as a result and state the latest date of payment for making the additional contribution.  
**(6 marks)**
- (b)** Calculate Maria and Jason's income tax liability for the tax year 2020, excluding the liability for PRSI and Universal Social Charge (USC).  
**(11 marks)**
- (c)** Advise Maria and Jason of their pay and file obligations for the tax year 2020 clearly outlining both the relevant dates and the amounts to be paid.  
**(3 marks)**

**[Total: 20 Marks]**

## Question 2

Windham Ltd is an Irish resident company. Extracts from the company's accounts for the year ended 30 June 2020 show the following:

	Notes	€	€
Gross profit from trading			1,935,200
Other income	(i)		<u>90,000</u>
			2,025,200
Less expenses			
Salaries and wages	(ii)	669,000	
Depreciation		143,550	
Patent Royalty	(iii)	200,000	
Repairs and maintenance	(iv)	75,300	
Rates and utilities	(v)	150,000	
Legal and professional fees	(vi)	35,000	
Motor expenses	(vii)	240,000	
Insurance	(viii)	36,000	
Miscellaneous allowable expenses		<u>14,600</u>	
			(1,563,450)
Less finance costs	(ix)		<u>(47,800)</u>
Net profit before tax			<u>413,950</u>

### Notes:

(i) Other income includes the following:

	€
Rental income	70,000
Dividends from James Ltd, an Irish resident company	5,000
Dividends from Bucket plc, a US company	<u>15,000</u>
	<u>90,000</u>

Rental income is received from a residential apartment complex that the company leases long-term through a letting agent.

Dividends are received from a US trading company in which Windham Ltd holds 15% of the share capital. Dividends are paid out of the trading profits of the US company.

(ii) Salaries and wages include pension contributions of €82,000. The expense includes an accrual at the end of the year for pension contributions of €13,500. There was no opening accrual or prepayment in respect of the pension scheme.

(iii) Windham Ltd has a patent royalty agreement with an affiliate company. The amount unpaid by Windham Ltd to the connected company during the year ended 30 June 2020 was €120,000.

(iv) Repairs and maintenance include the following:	
	€
Premises maintenance	8,000
Equipment and machinery maintenance	14,000
Repairs in relation to rented apartment complex	17,500
Replacement of entrance to rented apartment complex with upgraded security gates	30,000
Loss on disposal of computer equipment	5,800
	<u>75,300</u>
(v) Rates and utilities include the following:	
	€
Light, heat and telephone for trade premises	80,000
Replacement of mobile devices for sales employees	15,000
Installation of new security alarm system in rented apartment complex	30,000
Rates for trade premises	25,000
	<u>150,000</u>
(vi) Legal and professional fees include the following:	
	€
Audit and accountancy fees	18,000
Trade subscription to employer representative group	10,000
Letting agent fees for rental premises	7,000
	<u>35,000</u>
(vii) Motor and travel expenses include the following:	
	€
Mileage and subsistence for employee business travel	182,000
Annual servicing and repairs for company vehicles	40,000
Lease charge for delivery van (cost €42,000, category D)	7,400
Lease charges for company car (cost €46,000, category B)	8,600
	<u>238,000</u>
(viii) Insurance costs include the following:	
	€
For rented property	4,000
For trade premises	21,000
	<u>25,000</u>
(ix) Finance costs include the following:	
<ul style="list-style-type: none"> <li>• €10,000 interest was paid during the year ended 30 June 2020 in respect of a loan taken out to fund working capital requirements of the business.</li> <li>• €17,800 relates to finance lease interest. Total finance lease repayments for the year ended 30 June 2020 amounted to €71,200.</li> <li>• The remaining interest relates to long-term borrowings used for the purpose of the trade.</li> </ul>	

(x) Information relating to fixed assets:

<b>Assets held at 1 July 2019</b>	<b>Cost</b>	<b>Tax Written Down Value</b>
Computer Equipment	€48,000	€30,000
Industrial Buildings	€750,000	€300,000

During the year ended 30 June 2020 computer equipment that originally cost €10,000 during the year ended 30 June 2015 was scrapped.

**REQUIREMENT:**

(a) Compute the corporation tax liability of Windham Ltd in respect of the year ended 30 June 2020.  
(16 marks)

(b) Advise the company of its corporation tax compliance obligations for the year ended 30 June 2020.  
The company's corporation tax liability for the year ended 30 June 2019 was €350,000.

(4 marks)

[Total: 20 Marks]

### Question 3

- (a) Sylwia, aged 45, has been running her own business as a sole trader for several years. Her taxable profits for her accounting period ended 31 August 2020 are €150,000. Sylwia had her first child in May 2020 and received eight weeks maternity benefit from the Department of Social Protection. The total amount of maternity benefit received was €1,960.

She has provided the following additional information for the tax year 2020:

Capital allowances	€ 8,000
Retirement annuity premiums paid	€22,000
Case IV deposit interest taxable income (gross)	€ 2,200
Case V rental taxable income	€ 3,500

#### REQUIREMENT:

Calculate Sylwia's PRSI and USC liability for 2020. You are NOT required to calculate her Income Tax liability for 2020.

(4 marks)

- (b) Sadie is a sole trader who commenced business in April 2018, designing and manufacturing footwear. The business has been successful, and Sadie has now been advised to incorporate the business. As part of this process, all the assets of the business, except cash, will be transferred to a new limited liability company, Hubs Ltd. The gross value of the assets that will be transferred are €750,000. In return for the assets transferred, Sadie will receive 1,000 shares worth €500,000 and cash of €300,000. In addition, the company will assume the liabilities of Sadie's business of €50,000. The total gains arising on the transfer of the business assets to Hubs Ltd will be €275,000.

#### REQUIREMENT:

Calculate the Capital Gains Tax (CGT) payable, if any, on the transfer of the assets to the new company and state the base cost of the shares in the new company.

(4 marks)

- (c) The Revenue Commissioners apply categories of behaviour when determining the liability to a penalty following determination of additional tax liabilities due during a Revenue Audit. You are required to explain **two** of these tax default categories applied by the Revenue Commissioners in the case of unprompted Qualifying Disclosures including an **example** of the type of conduct that applies in each category.

(4 marks)

- (d) Outline the territorial scope of Capital Gains Tax.

(4 marks)

- (e) Jacob is VAT registered supplier of organic beauty products, which are liable to the standard rate of VAT in Ireland. Jacob has recently signed a new contract to supply his products to a business customer in another EU Member State. Jacob is aware of the basic information that is required to be included on a VAT invoice. You are required to advise Jacob on the additional information that must be included on his invoices when supplying the EU business customer **and** the date by which he must issue his VAT invoices.

(4 marks)

[Total: 20 Marks]

## SECTION B

Answer **ANY TWO** of the three questions from this Section.

### Question 4

(a) Aoife (age 59) and Adam (Age 65) are jointly assessed for tax purposes. The couple made the following disposals of assets during 2020:

(i) In February 2020, Adam sold an antique watch for €4,000. He had inherited the watch from his father in January 1995 at which time it was valued at €300. Adam's father had purchased the watch at an auction in June 1990 for €30.

(ii) Adam sold his car for €5,000 in May 2020. The car was purchased in July 2015 for €35,500.

(iii) In July 2020, Adam sold an investment property for €350,000. He had purchased the property in January 2003 for €200,000 and spent another €100,000 on an extension to the property in January 2007.

(iv) In September 2020, Aoife sold 4,000 shares in HTM Plc for €28,000. She had invested in the shares of HTM Plc as follows:

1 February 1993	Purchased 2,000 shares for €4,000
10 May 1997	Received bonus shares, HTM Plc made a 1 for 1 bonus issue. The market value of the shares on 10 May 1997 was €2.50 per share
6 November 2003	Purchased 6,000 shares for €36,000
20 October 2010	Sold 2,000 shares for €20,000

(v) On 1 December 2020, Adam sold his shares in his optician business to an unconnected person for €950,000. €500,000 related to the shop premises, €25,000 related to equipment used for the purpose of the trade, €225,000 related to inventory and €200,000 for goodwill. Adam purchased the shares on 1 January 2007 for €500,000, when the business started. Adam has been a full-time working director in the company since acquiring the shares.

#### REQUIREMENT:

Calculate Aoife and Adam's Capital Gains Tax (CGT) liabilities in respect of the disposals (i) to (v). You are required to clearly explain the conditions of exemptions or reliefs available.

**(15 marks)**

(b) Elizabeth inherited investment shares from her sister on 14 June 2020. The shares were valued at €50,000 at the date of inheritance. Elizabeth had previously received a gift of €10,000 from her grandmother on 1 January 2005 and inherited €15,000 from her father on 7 December 2010. Stamp duty of €500 was payable by Elizabeth on the transfer of ownership of the shares to her name.

#### REQUIREMENT:

Calculate Elizabeth's Capital Acquisitions Tax (CAT) liability on the inheritance received on 14 June 2020.

**(5 marks)**

**[Total: 20 Marks]**

### Question 5

- (a) Brighter Future (BF) Ltd is an Irish resident company. The following information has been provided for the last three accounting periods:

	12-month accounting year ended 31 December 2018	9-month accounting period ended 30 September 2019	6-month accounting period ended 31 March 2020
	€		€
Case I	180,000	(360,000)	60,000
Case V	24,000	24,000	(10,000)
Capital gain (not adjusted for corporation tax purposes)			2,500

#### REQUIREMENT:

Prepare the Corporation Tax computation for each of the three accounting periods and detail the loss memorandum showing the use of the losses made by Brighter Future. You can assume the company maximises the use of its losses at the earliest opportunity.

(7 marks)

- (b) Sunrise Ltd, an Irish resident trading company, is considering selling its 50% shareholding in Glow Ltd to a US multinational company. The shareholding was purchased in February 2018.

#### REQUIREMENT:

State the exemption from Capital Gains Tax that Sunrise Ltd can claim on the disposal of its shareholding in Glow Ltd and outline the four main conditions that must be satisfied to claim this exemption.

(4 marks)

- (c) Outline the two tests that apply in determining if a company is a close company for Irish tax purposes.

(4 marks)

- (d) Jasmine was made redundant on 15 June 2020. She had joined the company on 1 September 2005. Her redundancy payment comprised the following:

	€
Statutory redundancy	7,500
Ex-gratia payment	90,000
Holiday pay	3,000
Pay in lieu of notice (not provided for in Jasmine's contract)	6,000
Company car (value on 15 June 2020)	15,000

Jasmine's gross salary, including benefits-in-kind, for the three years up to 15 June 2020 was €110,000 per annum. The actuarial value of her tax-free lump sum entitlement from her occupational pension scheme is €40,000.

#### REQUIREMENT:

Calculate Jasmine's taxable termination payment on the basis that she claims the maximum relief available to her.

(5 marks)

[Total: 20 Marks]

## Question 6

Ted Ltd is an Irish company supplying sports goods to private and business customers in Ireland and abroad. The company had the following transactions for the two-month VAT period July/August 2020. All amounts are exclusive of VAT at the standard rate of 23%, unless stated otherwise.

<b>Sales</b>	<b>€</b>
Goods leased to Irish business customers	3,000
Goods sold to private customers in Ireland	19,000
Goods sold to private customers in Spain (note 1)	2,500
Goods leased to business customer in Spain (note 2)	2,000
Goods sold to a business customer in the US	6,000
 <b>Purchases of goods for resale</b>	
Purchases from Irish supplier	18,000
Purchases from EU supplier	29,000
Imports from China	56,000
 <b>Other Expenditure</b>	
Wages	16,000
Electricity (inclusive of 13.5% VAT)	1,600
Telephone (inclusive of 23% VAT)	650
Accountancy fees	6,000
New computer equipment purchased (note 3)	15,000
Lease payment on van (note 4)	800
Diesel for company car (note 4)	300
Repairs for company car (excluding VAT of 13.5%) (note 4)	2,000
Petrol for van (note 4)	700

### Notes:

1. Ted Ltd had previously supplied goods worth €50,000 to private customers in Spain in the 12 months to the end of 31 August 2020.
2. All EU business customers are VAT registered in their respective member states.
3. The computer equipment was purchased from a VAT registered business in Germany. The equipment was purchased in November 2020 but was not paid for until January 2021.
4. The van is used 90% for business purposes and the company car is used 50% of the time for business purposes.
5. Ted Ltd currently accounts for VAT on an invoice basis.

### REQUIREMENT:

- (a) Discuss, using examples, the meaning of supply of goods and supply of services for VAT purposes. (5 marks)
- (b) Calculate the net VAT payable/(repayable) for Ted Ltd for the VAT period July/August 2020. You should clearly indicate the appropriate treatment for VAT purposes of all items listed in the question. (10 marks)
- (c) Advise, giving reasons, whether Ted Ltd is eligible to use the cash receipts basis of accounting for VAT and outline two transactions that are excluded from the cash receipts basis. (5 marks)

**[Total: 20 Marks]**

## SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

# ADVANCED TAXATION

PROFESSIONAL LEVEL - APRIL 2021

## SOLUTION 1

### Part (a) Pension Contribution Relief

#### Maria - relief related to Schedule E income

		Salary	65,000		Marks
		BIK - company car (€70,000 x 18%)	12,600		1.00
		Taxable bonus	20,000		0.50
		Exam award bonus	0		0.50
		Mobile phone/Laptop	0		0.50
		Christmas voucher (not cash, < €500)	0		0.50
			97,600		
Age 45 => max. relief, €92,600 x 25%			24,400		0.50
Contributions made (€5,200 + €25,000)			30,200		0.50
Max. relief for pension contributions				24,400	1.00
 <u>Jason - relief related to Case I income</u>					
Age 51 => max. relief, €115,000 x 30%				34,500	1.00
					6.00

### Part (b) Income Tax Computation

	Maria €	Jason €	Marks
Schedule E (from part a)	97,600		
Case I (€350,000 - €25,000)		325,000	0.50
Case IV (650/0.67)	970		0.50
Case V (w1)		11,300	1.50
Schedule F (€540 / 0.75)		720	0.50
Children's allowance - exempt	0		0.50
	98,570	337,020	
Allowance: Pension contributions (part a)	(24,400)	(34,500)	1.00
	74,170	302,520	
Total income		376,690	
 <u>Tax calculation</u>			
€70,600 @ 20%		14,120	0.50
Case IV @ 33%		320	0.50
Balance @ 40%		122,048	0.50
		136,488	
 <u>Tax Credits</u>			
Personal credits		(3,300)	0.50
PAYE credit - Maria		(1,650)	0.50
Earned income credit - Jason - note 1,650 retrospect., 1,500 also accep		(1,650)	0.50
Medical expenses (w2)		(640)	1.50
DIRT		(320)	0.50
DWT		(180)	0.50
PSWT		(35,000)	0.50
PAYE paid		(24,000)	0.50
Tax payable		69,748	
			11.00

**WORKINGS****Breakdown of Marks for Workings (totals incorporated in Income Tax Computation)****Working 1: Case V Income**

	€	€	Marks
Case V Rental Income			
Rental income		18,000	
Expenses			
Insurance	800		
Painting	1,500		
LPT	0		0.50
Interest - 100% allowed	1,400		
		(3,700)	
		14,300	
Loss carried forward		(3,000)	0.50
Taxable income		11,300	0.50
			1.50

**Working 2: Medical Expenses**

	€	€	Marks
Total expenses		4,200	
Exclude			
Routine optical expenses		(400)	0.50
Reimbursed costs (for eligible expenses) (700 - 100)		(600)	0.50
Allowable expenses		3,200	
Tax relief at 20%		640	0.50
			1.50

**Part (c) Pay and File Obligations for 2020**

			Marks
1) Preliminary Income Tax payment			
Date	31/10/2020	(10/12/2020 for ROS filers)	0.50
Amount; 90% of current year or 100% of prior year			
	90% of 2020	62,773	0.50
	100% of 2019	50,000	0.50
Pay at least the lower of these two amounts		50,000	0.50
2) Balance of liability to be paid	31/10/2021	(or ROS extension granted)	0.50
3) File Income Tax Return	31/10/2021	(or ROS extension granted)	0.50
			3.00

## SOLUTION 2

### Statement of Profit or Loss - for information

	Notes	€	€
Gross profit from trading			1,935,200
Other income	(i)		90,000
			<u>2,025,200</u>
Less administration costs			
Wages and salaries	(ii)	669,000	
Depreciation		143,550	
Patent royalty	(ii)	200,000	
Repairs and maintenance	(iv)	75,300	
Rates and utilities	(v)	150,000	
Legal and professional fees	(vii)	35,000	
Motor and travel expenses	(viii)	240,000	
Insurance		36,000	
Miscellaneous	(ix)	<u>14,600</u>	
			(1,563,450)
Less finance costs	(x)		<u>(47,800)</u>
Profit before tax			<u><u>413,950</u></u>

### (a) Corporation Tax Computation

#### Case I Income for the year ended 31 August 2020

	€	€	Marks
Profit before tax		413,950	0.5
<u>Deductions</u>			
Other income	90,000		0.5
Finance lease - total payments	71,200		0.5
Capital allowances (w1)	<u>40,375</u>		
		(201,575)	
<u>Addbacks</u>			
Depreciation	143,550		0.5
Patent royalty	200,000		0.5
Wages and salaries - pension accrual	13,500		0.5
Repairs and maintenance			
Case V rental property maintenance	17,500		0.5
Case V building improvements	30,000		0.5
Loss on disposal of computer equipment	5,800		0.5
Rates and Utilities			
New mobile devices	15,000		0.5
Case V building improvements	30,000		0.5
Legal and professional fees - letting agent fees	7,000		0.5
Motor and travel expenses			
Delivery van lease - allowable	0		0.5
Lease charges MV (8,600 x 46k-24k/46k)	4,113		1
Insurance - Case V rental property insurance	4,000		0.5
Finance costs			
Finance lease interest	17,800		0.5
All other interest allowable - for trade purposes	<u>0</u>		0.5
		488,263	
Case I income		<u><u>700,638</u></u>	
<b>WORKINGS</b>			
<u>Working 1 - capital allowances</u>			
Computer Equipment	Cost		
	48,000		
Disposal	(10,000)		
Additions (rate and utilities notes)	<u>15,000</u>		
	53,000		
Wear & tear 2020	12.5%	6,625	0.5
Industrial Building	750,000		
Industrial buildings annual allowance	4.0%	30,000	0.5
Note: Balancing allowance/charge - re Delivery Van			
Cost 2015	10,000		
Wear & tear 2015 - 2019	<u>(6,250)</u>		
TWDV @ 1 July 2019	3,750		
Proceeds	0		
Balancing Allowance		3,750	0.5
Total capital allowances for 2020		<u><u>40,375</u></u>	

**Working 2 - Case V Rental Income**

Income				
Annual rent			70,000	
Expenses				
Repairs	17,500			
Insurance	4,000			
Letting agent fees	7,000			
Capital allowances for building improvements (30,000 + 30,000) x 12.5%	7,500			1
			(36,000)	1
Case V			34,000	

**CORPORATION TAX COMPUTATION**

Case I			700,638	
Trade charge: patent royalty paid (200,000 - 120,000)			(80,000)	0.5
			620,638	
Case V (w2)			34,000	0.5
FII - Irish dividend income - exempt			0	0.5
Case III - foreign dividend income			15,000	
			669,638	
Case I	620,638	12.5%	77,580	0.5
Case III (s21B dividends - out of trading profits)	15,000	12.5%	1,875	0.5
Case V	34,000	25.0%	8,500	0.5
			87,955	
Income Tax on patent royalty payment			16,000	0.5
Total Corporation Tax Liability			103,955	
				16

**(b) Pay and File Rules**

More than €200,000 for prior year, therefore 'large' company for 2020				0.5
Two Preliminary Tax payments are required, the first 6 months before the year end and the second one month before year end				
1) Preliminary Tax Payment 1				
	Date	23 Dec 2019		0.5
	Amount	45% of current year, or 50% of prior year	46,780 175,000	0.5
2) Preliminary Tax Payment 2				
	Date	23 May 2020		0.5
	Amount	bring total to 90% of cy	46,780	0.5
3) Balancing payment and return				0.5
	Date	23 Mar 2021		0.5
	Amount	Balance	10,395	0.5
				4

## SOLUTION 3

### (a) Sylwia - PRSI and USC

			Marks
PRSI	Gross Income	150,000	
	Capital allowances	(8,000)	0.5
	No deduction for pension premiums	0	0.5
	Maternity benefit	0	0.5
	Case IV income	2,200	
	Case V income	3,500	
		<u>147,700</u>	
	PRSI	4% 5,908	0.5
USC	Gross Income per PRSI	147,700	
	Exclude Case IV income	(2,200)	0.5
		<u>145,500</u>	
	€		
	12,012 @ 0.5%	60.06	
	8,472 @ 2%	169.44	
	49,560 @ 4.5%	2,230.20	0.5
	29,956 @ 8%	2,396.48	0.5
	45,500 @ 11%	5,005.00	0.5
		<u>9,861</u>	
			4

### (b) Sadie - Capital Gains Tax transfer of business relief

			Marks
Total gains		275,000	
Deferred gain	(275,000 x 500,000/750,000)	(183,333)	1.5
Taxable gain		91,667	
Annual exemption		(1,270)	0.5
		90,397	
CGT @ 33%		<b>29,831</b>	0.5
<b>Base cost of shares</b>			
Value of shares		500,000	0.5
Deferred gain		(183,333)	0.5
Base cost		<u><b>316,667</b></u>	0.5
			4

### (c) Revenue Audits

**Marks**

2 x 2 marks

0.5 mark for identifying category correctly  
0.5 for example of behaviour in each category  
1 mark for explanation of each category

#### 1) Deliberate behaviour

deliberate behaviour involves a breach of a tax obligation where there is intent on the part of the taxpayer and so does not qualify as careless behaviour.

Examples of deliberate behaviour include failure to maintain books and records, omission of

#### 2) Careless behaviour with significant consequences

failure to take reasonable care

'Significant consequences' applies where the tax underpaid is greater than 15% of the correct tax payable for the relevant period

Examples of careless behaviour include failure to take advice, neglecting to categorise expenditure into allowable and disallowable categories for tax purposes, insufficient standard of record keeping in the business.

#### 3) Careless behaviour without significant consequences

defaults of a minor nature that are discovered during a Revenue audit

This category arises where the tax underpaid is less than 15% of the tax liability ultimately due.

for example, computational errors and inadequate adjustments for personal expenditure in the profit and loss account.

4

### (d) CGT - Territorial Scope

#### Individual circumstances

Irish resident, ordinarily resident and domiciled

Domiciled and ordinarily resident or resident

Non-domiciled and resident/or ord resident

Others

#### Liability to CGT

Worldwide gains

Worldwide gains

Irish source gain and remittances

Specified assets

**Marks**

1

1

1

1

4

### (e) VAT Invoices

Additional details required on cross border invoices

assuming business customer is registered for VAT in other EU m/s

1. customers VAT registration number

3. 0% Irish VAT applies

4. statement re customer self-accounting for VAT in other EU m/s

A VAT invoice must be issued within 15 days of the end of the month in which the goods / services are supplied

**Marks**

1

1

1

1

4

## SOLUTION 4

### Part (a) Capital Gains Tax

		€	€	Marks
(i)	Antique Watch			
	Proceeds		4,000	
	Cost => MV (94/95)	300		0.5
	Indexation factor	1.309		0.5
	Indexed cost		(393)	
	Capital gain		3,607	
	CGT @ 33%		1,190	
	<u>Compare CGT liability to Marginal relief:</u>			
	(4,000 - 2,540) * 50%		730	1
	Marginal relief more favourable (annual exemption n/a to Adam for 2020, see disposal v)			
(ii)	Car - wasting chattel, exempt			1
(iii)	Investment Property	€	€	
	Proceeds		350,000	
	Cost (2003)		(200,000)	
	Enhancement (2007)		(100,000)	
	Capital gain		50,000	0.5
(iv)	Investment Share Disposal			
		1992/93	1997/98	
	Purchase (€2)	2,000		
	Bonus (€0)	2,000		0.5
	Purchase (€9)		6,000	
	Balance	4,000	6,000	
	Sold	(2,000)	0	0.5
	Balance	2,000	6,000	
	Proceeds - 1992/93 shares		14,000	0.5
	Cost (92/93) - half of original purchase, no cost re bonus shares	2,000		1
	Indexation factor	1.356		0.5
	Indexed cost		(2,712)	
	Capital gain		11,288	
	Proceeds - 1997/98 shares		14,000	
	Cost (96/97)	18,000		0.5
	Indexation factor - indexation cannot increase loss	n/a		1
	Indexed cost		(18,000)	
	Actual loss on disposal		(4,000)	0.5
	Net gain on disposal of of HTM plc shares		7,288	
(v)	Retirement Relief			
	Proceeds		950,000	
	Cost (2007)		(500,000)	
	Capital gain		450,000	
	Retirement relief conditions;			
	At least 55 years of age			0.5
	Shares owned for at least 10 years			0.5
	Working director for at least 10 years			0.5
	Full time director for at least 5 years			0.5
	Full exemption is proceeds < €750,000 (<66 years)			0.5
	Chargeable business assets sold by Adam			
	Shop premises		500,000	
	Equipment		25,000	
	Inventory not CBA		0	
	Goodwill		200,000	
			725,000	1
	Less than €750,000 therefore full exemption for disposal of business,			0.5

**Summary of Capital Gains**

	Aoife €	Adam €	
(i) Watch		0	
(ii) Car		0	
(iii) Investment property		50,000	
(iv) Investment shares	7,288		
(v) Business shares		0	
	<u>7,288</u>	<u>50,000</u>	
Annual exemption	(1,270)		0.5
Annual exemption - none in year of retirement relief		0	1
Taxable gain	<u>6,018</u>	<u>50,000</u>	
Capital Gains Tax @ 33%	1,986	16,500	0.5
Marginal relief (i)		730	0.5
Total liability	<u>1,986</u>	<u>17,230</u>	
			<u>15</u>

**Part (b) Capital Acquisitions Tax**

	€	€	Marks
Market value of inheritance		50,000	0.5
Less costs: stamp duty		<u>(500)</u>	1
		49,500	
Group threshold B	32,500		1
Previous group B gifts/inheritances			
Grandmother	<u>(10,000)</u>		0.5
Father - group A - not included in aggregation			0.5
Unused group B threshold		(22,500)	0.5
Small gift exemption n/a in case of inheritance		0	0.5
Taxable Value		<u>27,000</u>	
CAT (33%)		8,910	0.5
			<u>5</u>

## SOLUTION 5

				Marks
<b>(a) Corporation Tax Loss Relief</b>				
<b>CT Computation</b>				
Case I profit/(loss)	Dec-18	Sep-19	Mar-20	
Loss Relief	180,000	0	60,000	
	(135,000)	0	(60,000)	1
	45,000	0	0	
Case V	24,000	17,333	0	1
Total Income	69,000	17,333	0	
Chargeable gains	0	0	6,600	1
Total Profits	69,000	17,333	6,600	
CT Payable:				
Case I and CG @ 12.5%	5,625	0	825	0.5
Case V @ 25%	6,000	4,333	0	1.5
CG @ 12.5%	0	0	0	
S396B value basis relief	(4,500)	(4,333)	0	1.5
Total CT Due	7,125	0	825	
<b>Sunrise Limited - Loss Memo</b>				0.5
Case I loss 30 September 2019		360,000		
Loss relief 'gross basis' - 2018 - corresponding a/c period	(180,000 x 9/12)	(135,000)		
		225,000		
Loss relief value basis - 2019	14,000 x 25% / 12.5%	(34,667)		
		190,333		
Loss relief value basis - 2018 - corresponding a/c period	(6,000 x 9/12 / 12.5%)	(36,000)		
		154,333		
Carry forward against Case I profit - 2020		(60,000)		
Balance		94,333		
Case V Loss 31 March 2020		10,000		
Carry back Case V loss corresponding a/c period	(10,000*6/9)	(6,667)		
Case V loss carried forward to 31 March 2021		3,333		7
<b>(b) CT/CGT Participation Exemption</b>				Marks
Participation Exemption				
1) Investor beneficially entitled to a minimum holding 5% of the ordinary share capital, 5% of the profits available for distribution and 5% of the assets available for distribution on a winding up				1
2) Investor company must have the minimum holding in the investee for a continuous period of 12 months in the 2 years prior to disposal				1
3) Investee must be a trading company or the business of two companies taken together must consist of wholly or mainly of carrying on trades				1
4) At the time of disposal, the investee company must be resident in a member state of the EU or a country with which Ireland has a tax treaty				1
				4
<b>(c) CT Close Company Tests</b>				Marks
Company controlled by five or few participators, or their associates				2
OR				
Company controlled by participators who are also directors (regardless of the number)				2
				4
<b>(d) Income Tax termination payment</b>				Marks
Statutory payment	€	exempt	0.5	
Ex-gratia payment		90,000		
Holiday pay		sch E	0.5	
Pay in lieu of notice		6,000	0.5	
Company car		15,000	0.5	
		111,000		
<u>Exemptions</u>				
Years of service: 9/2005 - 6/2020 = 14 complete years				
Basic	10,160 + (765 x 14)	20,870	0.5	
Increased	20,870 + 10,000 - 40,000	n/a	0.5	
SCSB	110,000 x 14/15 - 40,000	62,667	1.5	
Termination payment		111,000		
Exemption		(62,667)		
Taxable termination payment		48,333	0.5	
				5

## SOLUTION 6

### (a) Explain Terms

Supply of goods includes

- transfer of ownership of goods by agreement
- sales of moveable goods through an undisclosed agent
- handing over of goods that are subject to HP agreement
- compulsory purchase or legal seizure of goods
- transfer of goods from taxable to exempt activity
- self-supplies

Supply of Service includes;

- supply of food and drink for consumption without further preparation required
- operation of a canteen by a business
- supply of service by an undisclosed agent
- leasing and hiring of goods
- electronically supply services - digitised goods and customised software

Marks
<i>not all examples required</i>
3
2
5

### (b) VAT calculation - explanations required to be included

#### Output VAT

	€		€	Marks
Irish business customers	3,000	x 23%	690	0.5
Irish private customers	19,000	x 23%	4,370	0.5
Spanish private customers (below distance selling threshold)	2,500	x 23%	575	0.5
Spanish business customer (B2B - no Irish VAT)	2,000	x 0%	-	0.5
US business customer (Export, zero rated)	6,000	x 0%	-	0.5
EU purchases	29,000	x 23%	6,670	0.5
ICA from Germany - self-account for Irish VAT	15,000	x 23%	3,450	0.5
			15,755	

#### Input credits

Irish purchases (€18,000 x 23%)	4,140	0.5
EU purchases (€29,000 x 23%)	6,670	0.5
Imports from China - VAT paid at POE (€56,000 x 23%)	12,880	0.5
Wages - no VAT	-	0.5
Electricity (€1,600 / 113.5 x 13.5)	190	1
Telephone (€650 / 123 x 23)	122	0.5
Accountancy fees (€6,000 x 23%)	1,380	0.5
Intra community acquisitions from Germany (€15,000 x 23%)	3,450	0.5
Lease payment on van - personal use irrelevant (€800 x 23%)	184	0.5
Diesel (€300 x 23%)	69	0.5
Car repairs - personal use irrelevant (€2,000 x 13.5%)	270	0.5
Petrol for van (no input credit allowed)	-	( 29,355) 0.5
VAT payable		- 13,600
		10

### (c) Cash Receipts Basis

May be used by traders if;

- 1) at least 90% of the supplies are to unregistered persons
- or
- 2) the turnover is not likely to exceed €2m in a continuous 12 month period

Apply to Ted Ltd;

Turnover for two month period November/December 2020 €32,500

Estimated turnover for continuous 12 month period €390,000

If November/December represents an average sales period, turnover will be less than €2m

The business can therefore apply for approval to use the cash receipts basis of accounting for VAT

Two transactions that will be excluded from cash receipts basis;

- 1) transactions with connected parties
- 2) property transactions

Marks
0.5
0.5
2
1
1
5