

TAXATION

FORMATION 2 EXAMINATION - AUGUST 2020

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 hours, plus 10 minutes to read the paper.

INSTRUCTIONS:

During the reading time you may highlight text and write notes on the examination paper, however, you may not commence writing on the answer field until your Supervisor tells you to do so. Please read each Question carefully.

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.

TAXATION

FORMATION 2 EXAMINATION - AUGUST 2019

SECTION A

Answer Question 1, 2 and 3 in this Section.

(ALL are Compulsory)

1. Catherine O'Shea (aged 39) and Thomas Barrett (aged 38) are both Irish resident and domiciled. The couple have three children, Sinead (aged 15), Siobhan (aged 5) and Peadar (aged 2). After many years together, the couple got married on 1 July 2019.

Catherine is employed as a non-proprietary director in a multinational company and has income from investments. Details of Catherine's income and other benefits from her employment for 2019:

- Gross salary for the year is € 170,000 from which PAYE of €48,000 was deducted
- A new company car purchased on 1 January 2019 for €80,000. The new car is an electric vehicle. Catherine's business travel for the year was 45,000 kilometres
- 5,000 short share options exercised on 1 October 2019 when the market value of the options was €5 per share. Catherine purchase the shares on 1 February 2017 at an option price of €2 per share
- Annual medical exam at a cost of €2,500
- Long service for 20 years of service to the company – painting valued at €1,000
- Catherine contributed €8,500 of her gross salary to an approved occupational pension scheme (see note below in relation to Catherine's own additional contribution to this scheme).

Other Income:

- Irish deposit interest €650 (net)
- Government securities interest €1,000
- Children's allowance €3,120

Details of Catherine's expenditure for 2019 are as follows:

- Additional voluntary contribution to the occupational pension scheme €20,000
- Medical expenses €5,800, including €400 for routine annual eye test and contact lenses for Sinead. €1,200 of these expenses were reimbursed by the medical insurance company
- Contribution of €18,000 towards the cost of employing a carer for Catherine's elderly aunt. The total cost is €60,000. Her aunt's income is €20,000 per annum.

Thomas ran a very successful business for several years but sold the business in 2017 so that he could stay at home to care full-time for the couple's two young children. Thomas has spent the last two years writing a children's novel. He signed with a publisher on 1 February 2019 and received an advance of €20,000 for his first novel. In addition, Thomas' income for 2019 was as follows:

- Rental income from a residential apartment of €24,000 per annum. The tenancy was registered with the Residential Tenancies Board (RTB). Thomas paid insurance of €1,800, general repairs and maintenance costs of €1,500 and local property tax of €225 on the house for 2019. In addition to general repairs and maintenance, Thomas had to replace some furniture during 2019 at a cost of €5,000. Mortgage interest paid for 2019 was €3,000.
- Rental income from a residential property in London of €15,000. Thomas had to spend €20,000 on repairs to the property during 2019 due to water damage.
- Dividend income from shares he owns in an Irish company of €1,040 on 15 April 2019 (final dividend for the financial year ended 31 December 2018) and €750 on 11 January 2020 (interim dividend for the financial year ended 31 December 2019).

Thomas pays a deed of covenant in favour of Thomas' incapacitated brother of €1,000 per annum.

REQUIREMENT:

- (a) Calculate Catherine and Thomas' income tax liabilities as single persons for the tax year 2019, excluding the liability for PRSI and Universal Social Charge (USC). (16 marks)
- (b) Calculate the relief that available to Catherine and Thomas as married persons for 2019. (4 marks)

[Total: 20 marks]

2.

- (a) HuG Ltd is an Irish resident company. Extracts from the company's accounts for the year ended 31 August 2019 show the following:

	Notes	€	€
Gross profit from trading			800,000
Other income	(i)		<u>45,000</u>
			845,000
Less expenses			
Depreciation		25,000	
Patent royalty	(iv)	40,000	
Wages and salaries		260,000	
Repairs and maintenance	(v)	52,000	
Rates and utilities	(vi)	30,000	
Legal and professional fees	(vii)	36,000	
Motor expenses	(viii)	10,200	
Insurance	(ix)	<u>14,600</u>	
			467,800
Less finance costs	(x)		<u>(13,000)</u>
Profit before tax			<u>364,200</u>

Notes:

- (i) Other income includes the following:

	€
Rental income (ii)	25,000
Dividends from Thomond Ltd, an Irish resident company	7,000
Dividends from Aungier SA, a French company (iii)	<u>13,000</u>
	<u>45,000</u>

- (ii) Rental income is received from letting an office building. The rental income includes a premium received during the year ended 31 August 2019 in the amount of €15,000 in respect of the signing of a new 5-year lease term.
- (iii) Dividends are received from a French trading company in which HuG Ltd holds 25% of the share capital. Dividends are paid out of the trading profits of the French company.
- (iv) HuG Limited has a patent royalty agreement with an unconnected third party. The amount paid by HuG Limited to the third party during the year ended 31 August 2019 was €30,000.
- (v) Wages and salaries include an accrual at the end of the year for pension contributions of €20,000. There was no opening accrual or prepayment in respect of the pension.

- (vi) Repairs and maintenance include the following:

	€
Equipment and machinery maintenance	35,200
Repairs to rental property	7,500
Improvements to factory premises	8,500
Loss on disposal of delivery van	<u>800</u>
	<u>52,000</u>

- (vii) Legal and professional fees include the following:

	€
Audit and accountancy fees	8,000
Legal fees re employee tribunal case	16,000
Legal fees re disposal of land	<u>12,000</u>
	<u>36,000</u>

- (viii) Motor expenses include the following:

	€
Servicing and repairs for company car and delivery van	5,200
Lease expenses for delivery van (cost €32,000, category D)	1,600
Lease charges for company car (cost €26,000, category C)	<u>3,800</u>
	<u>10,200</u>

(ix) Insurance costs include the following:

	€
For rented property	2,600
For trade premises	10,000
Keyman insurance (paid re managing director who owns 60% of HG Ltd)	2,000
	<u>14,600</u>

(x) Finance costs include the following:

	€
Overdraft interest	1,850
Finance lease interest (capital repayments of €16,300)	4,500
Loan interest	8,250
	<u>14,600</u>

Loan interest of €8,250 was paid in respect of borrowings that were used to purchase the shares in Thomond Ltd. HuG Ltd owns 10% of the shares in this company. A director of HuG Ltd also sits on the Board of Directors of Thomond Ltd.

(xi) Information relating to fixed assets:

Assets held at 1 September 2018	Cost	Tax Written Down Value
Plant & Machinery	€240,000	€90,000
Computer Equipment	€48,000	€30,000
Delivery van	€32,000	€8,000
Industrial Buildings	€500,000	€300,000

Additions and disposals during the year ended 31 August 2019 were as follows:

1. The delivery van was traded in on 1 June 2019 against the purchase of a new van costing €40,000. The trade in value allowed was €12,000.
2. The company disposed of a site of land on 1 April 2019 for €750,000. The land was purchased for €300,000 on 1 December 2002, when the current use value was €150,000. The current use value on 1 April 2019 was €400,000.

REQUIREMENT:

- (a) Compute the corporation tax liability of HuG Ltd in respect of the year ended 31 August 2019. (15 marks)
- (b) Compute the capital gains tax liability of HuG Ltd in respect of the year ended 31 August 2019. (3 marks)
- (c) State the due date for the payments required to be made in respect of the liabilities calculated in parts (a) and (b). The company's corporation tax liability for the year ended 31 August 2018 was €100,000. (2 marks)

[Total: 20 marks]

3.

- (a) Fergal has been employed in Ireland by a local company, FRG Ltd since September 2003. He was made redundant on 20 December 2019. Fergal will receive the following from his employer on being made redundant:

- Statutory redundancy of €9,600
- Ex-gratia payment of €89,600
- Holiday pay of €1,700
- Pay in lieu of notice of €6,400. The company is not contractually obliged to pay this pay in lieu of notice to Fergal.

Fergal's average annual salary for the last three years of this employment is €75,000. The actuarial value of Fergal's pension lump sum entitlement at 20 December 2019 is €9,000. This is Fergal's first time being made redundant.

REQUIREMENT:

Calculate the amount of Fergal's taxable termination payment, clearly showing all workings. (4 marks)

- (b) Jennifer, aged 41, has been running her own business as a sole trader for several years. She ceased trading on 31 October 2019. Her taxable profits for her last three accounting periods are as follows:

12 months to 30 April 2018	€ 72,000
12 months to 30 April 2019	€ 78,000
6 months to 31 October 2019	€ 48,000

Jennifer has provided the following additional information for 2019:

Capital allowances for her final year of trading	€6,000
Retirement annuity contributions	€8,000
Case IV deposit interest income (gross)	€ 680
Schedule F income	€1,300

REQUIREMENT:

Calculate Jennifer's assessable profits for 2019 only and calculate her PRSI and USC liability for 2019. You are not required to calculate her Income Tax liability for 2019.

(4 marks)

- (c) Jimmy Duggan bought 5,000 shares in Juniper Limited on 12 July 1974 at a cost of €1 per share, market value of the shares on that date. On 1 March 1985, Juniper Ltd offered its shareholders the right to purchase two shares for every five shares held for €1.75 per share. Market value of the shares on 1 March 1985 was €3.50 per share. Jimmy took up his full rights. On 30 September 2000, Jimmy sold half of his shares for €15,000. On 28 February 2002, Juniper Ltd decided to issue bonus shares to its shareholders in the ratio of 1:2. On 31 October 2019, Jimmy sold his remaining shareholding for €7 per share.

REQUIREMENT:

Calculate the Capital Gain arising on the disposal of the shares in 2019 and state the date of payment for any Capital Gains Tax liability arising.

(4 marks)

- (d) Explain the VAT treatment that applies to the sales of goods by mail order or distance sales to non-registered customers in EU member states.

(4 marks)

- (e) Briefly explain four desirable characteristics of taxation (also referred to as Smith's Canons of Taxation).

(4 marks)

[Total: 20 marks]

SECTION B

Answer ANY TWO of the three questions in this Section.

4.

- (a) Jenny (age 39) and Andrew (Age 42) were married on 1 July 2018 and are jointly assessed for 2019. The couple made the following disposals of assets during 2019:
- (i) In May 2018, Andrew gifted an antique vase to his sister-in-law. The vase had recently been valued at €2,600. Andrew purchased it in July 1999 for €1,200. He also sold his bicycle for €500. The bicycle was purchased in May 2017 for €1,500.
 - (ii) Jenny purchased a residential investment property for €270,000, including incidental costs of purchase. In May 2016, the property was reconfigured into 2 apartments at a cost of €150,000. In August 2019, Jenny disposed of one apartment for €325,000. The market value of the remaining apartments was €650,000.
 - (iii) Andrew disposed of a house in Galway on 1 November 2019 for €750,000. Andrew had purchased the house on 1 May 2001 for €254,000 and lived in the house from the date of purchase until 1 May 2006 when he moved to start a new job in Cork. The house was leased to tenants until he returned to live in his house in Galway on 1 November 2011. On 1 November 2013 he and Jenny moved into a new house together. The house has been leased to tenants from 1 November 2013 to the date of disposal.
 - (iv) On 1 December 2019 Jenny sold her business, a children's clothes and shoe shop, to an unconnected person for €1,500,000 (€1,200,000 related to the shop premises and €300,000 for goodwill). Jenny has purchased the shop premises on 1 January 2010 for €560,000, when she started the business.

REQUIREMENT:

Calculate Jenny and Andrew's capital gains tax liabilities in respect of the above disposals. Provide a brief explanation in respect of exemptions or reliefs available, if any.

(13 marks)

- (b) Ranger Limited is an Irish resident trading company. During the year ended 31 December 2019 the following disposals were made:
- (i) In March 1981, Ranger Limited had purchased a 4% shareholding in Young Limited for €44,000. The shares in Young Limited were sold in April 2019 for €120,000.
 - (ii) In March 2004 Ranger Limited purchased a painting for €100,000. This painting was gifted to George Hobbs in August 2019, when the market value of the painting was €125,000. George holds a 15% shareholding in Ranger Ltd.
 - (iii) In February 2016 Ranger Limited purchased a 15% shareholding in Forest Limited, a UK limited company, for €150,000. Ranger Limited initially disposed of 10% of its shareholding in January 2018 for €600,000 and disposed of the remaining shares in Forest Limited in September 2019 for €260,000. Forest Limited does not derive the greater part of its value from Irish land and buildings.

REQUIREMENT:

Calculate the net chargeable gain to be included in the corporation tax computation of Ranger Limited for the year ended 31 December 2019. Provide a brief explanation in respect of exemptions or reliefs available, if any.

(7 marks)

[Total: 20 Marks]

5.

- (a) Jumble Ltd, an Irish resident company, purchased the following assets during the year ended 31 December 2019:
- (i) Patent rights at a cost of €700,000. The company purchased the rights to a registered design that is being used for the purpose of the company's trade. In accordance with accounting practice, the cost of the asset is not being amortised in the financial statements. Qualifying trade profits for the year ended 31 December 2019 are €60,000.
 - (ii) A new energy efficient air conditioning system at a cost of €25,000.

REQUIREMENT:

Explain the capital allowances that may be claimed by Jumble Ltd in respect of the assets above for the year ended 31 December 2019, including any criteria attached to the claims.

(5 Marks)

- (b) Pierre is French domiciled and has lived in France all his life until he moved to Ireland on 1 January 2018 to study for 4 months. He returned to France on 30 April 2018 when he took up employment. The opportunity arose to return to Ireland and in July 2019 he left his employment in France and moved to Ireland on 15 July 2019 take up a new employment. Pierre earned €30,000 from his French employment in 2019 and €45,000 from his Irish employment. He also leased his home in France from 1 July 2019 for €2,000 per month and received €100 interest on his French deposit account. Pierre deposited €6,000 from his French employment income into an Irish bank account when he arrived and transferred another €5,000 from his rental income into the account in September 2019.

REQUIREMENT:

Establish whether Pierre is tax resident in Ireland in 2019 and determine the scope of his income tax liability in Ireland for 2019. You are not required to prepare a calculation of the income tax liability.

(5 Marks)

- (c) The decision as to whether an activity constitutes a trade, or a capital transaction is not defined by legislation but is guided by case law and the Badges of Trade as set down by the UK Royal Commission in 1954.

REQUIREMENT:

Briefly explain the factors commonly known as the '*Badges of Trade*'.

(5 Marks)

- (d) Brene Limited is an Irish resident company with two subsidiary company. It owns 80% of Chris Limited and 60% of Marc Limited. The following are the current year tax adjusted income, gains, and losses for each company:

	Brene Limited Year ended 31 December 2019 €	Chris Limited Year ended 30 June 2019	Marc Limited Year ended 30 June 2019 €
Case I income / (loss)	200,000	(150,000)	60,000
Case V income / loss	30,000	0	0
Chargeable gain / (loss)	0	35,000	0

REQUIREMENT:

Calculate the corporation tax liability of each company for 2019 on the basis that the companies maximise the use of its losses at the earliest opportunity.

(5 marks)

[Total: 20 marks]

6.

- (a) Cruiz Limited is an Irish company supplying IT equipment to private and business customers in Ireland and abroad. The company had the following transactions for the two-month VAT period September/October 2019. All amounts are exclusive of VAT where applicable, unless stated otherwise.

Sales	€
Goods sold to Irish business customers	13,000
Goods sold to private customers in Spain (note 2)	5,000
Goods sold to a business customer in France (note 3)	10,000
Goods sold to a business customer in Canada	7,000
Contract for supply and servicing of equipment to Irish business customer (note 4)	10,000
Purchases of goods for resale	
Purchases from Irish supplier	8,000
Purchases from EU supplier	19,000
Imports from China	6,000
Other Expenditure	
Wages	6,000
Electricity (inclusive of 13.5% VAT)	1,100
Telephone (inclusive of 23% VAT)	900
Equipment purchased from Poland	5,000
Diesel for company car (note 5)	400
Repairs for company car (excluding VAT of 13.5%) (note 5)	600
Hotel accommodation (excluding VAT of 13.5%)	1,200

Notes:

1. All goods sold by the company are subject to the standard VAT rate.
2. Cruiz Limited had previously supplied goods worth €150,000 to private customers in Spain in the 12 months to the end of August 2019.
3. All EU business customers are VAT registered in their respective member states.
4. The value of the goods sold as part of this contract was €5,000. Servicing provided by Cruiz Limited is liable to VAT at the reduced rate of 13.5%.
5. The company car is used 75% of the time for business purposes.
6. Cruiz Limited accounts for VAT on an invoice basis.

REQUIREMENT:

Calculate the net VAT payable/(repayable) for Cruiz Limited for the VAT period September/October 2019. (10 Marks)

- (b) Chatterly Limited is an Irish established and VAT registered that sells mobile devices in its retail stores around Ireland. All mobile devices are supplied with instruction manuals and headphones. Chatterly Limited has partnered with a music streaming service provider to offer three months of music streaming to customers who buy certain mobile devices in their retail stores.

REQUIREMENT:

Briefly explain the terms “composite” and “multiple” supplies for VAT purposes and advise, giving reasons for your answer, on whether the supplies of mobile devices with free music streaming should be considered “composite” or “multiple” supplies for VAT purposes.

(6 marks)

- (c) Fiona O’Looney’s business, a fitness centre trading as ‘FitGym’, is registered for VAT. To encourage new customers to join the fitness centre, Fiona plans to give each new member that joins in January a free gym bag. Fiona has found a supplier who has agreed to charge her a VAT exclusive amount of €15 per bag. The supplier has agreed to include the ‘FitGym’ logo on each bag.

REQUIREMENTS:

Explain how the gym bags discussed above should be treated for VAT purposes.

(4 marks)

[Total: 20 marks]

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

TAXATION

FORMATION 2 EXAMINATION - AUGUST 2020

SOLUTION 1 - INCOME TAX

(a) Income Tax Liability Computations for Catherine and Thomas as single persons

INCOME TAX COMPUTATION 2019	Catherine	Thomas	Marks
	€	€	
Schedule E (working 1)	188,600		3.50
Case III			
Government securities interest	1,000		0.50
Foreign rental income (working 2)		0	0.50
Case IV (working 3)	1,000		0.50
Case V (working 4)		17,075	1.50
Schedule F (working 5)		1,300	1.00
Children's allowance (working 6)	0		0.50
Artists income (working 6)		0	0.50
	190,600	18,375	
Allowances			
Pension contributions (working 7)	(23,000)		1.50
Carer allowance (working 8)	(18,000)		0.50
Deed of covenant		(1,000)	0.50
	149,600	17,375	
Tax calculation			
Standard Rate Tax Band as Single Persons			
€35,300 @ 20%	7,060	3,475	0.50
Case IV @ 35%	350	0	0.50
Balance @ 40%	45,320	0	0.50
	52,730	3,475	
Non-Refundable Tax Credits			
Personal credits	(1,650)	(1,650)	0.50
PAYE credit	(1,650)	0	0.50
Medical expenses [(5,800 - 400 - 1,200) @ 25%]	(840)	0	0.50
	48,590	1,825	
Refundable Tax Credits			
DIRT	(350)	0	0.50
DWT		(1,300)	0.50
PAYE paid	(48,000)	0	0.50
	240	525	
Income Tax due on covenant	0	200	0.50
Tax payable	240	725	
			16.00

WORKINGS (marks are included in the Income Tax computation above, the marks included in workings should be the marks available for workings in the event of incorrect answers. Full explanations are provided here for learning purposes, this level of detail was not expected or required in workings provided during examinations. Workings were required to be presented where marks have been indicated below.)

(1) Schedule E Income

Calculation of taxable emoluments from Catherine's employment including benefits-in-kind.

	€	€	Marks
Salary		170,000	
Company Car Benefit-in-Kind			
OMV for BIK (see note i)	30,000		0.50
BIK rate (business mileage 35,000)	12%		0.50
BIK 2019		3,600	0.50
Share Options Benefit			
Taxable value [(5.00 - 2.00) x 5,000 shares] (note ii)		15,000	1.00
Medical exam (note iii)		0	0.50
Long service award (note iv)	0	0.50	
		<u>188,600</u>	3.50

Note (i): Catherine was provided with an electric vehicle provided on 1 January 2019. An exemption from BIK is available for electric vehicles. From 1 January 2019, a full exemption is available for vehicles that cost €50,000 or less. Where the vehicle costs more than €50,000, an exemption is available for €50,000 but the balance of the vehicle cost is liable to BIK based on the normal calculation rules.

Note (ii): Share options are taxable as a benefit based on the difference between the market value at the date of exercise less the market value at the option date

Note (iii): An employer may pay for one medical check-up each year for an employee which does not give rise to a taxable benefit-in-kind. This exemption applies to the medical exam provided for Catherine.

Note (iv): Long service awards are not taxable as a BIK provided that the award is to mark long service of 20 years or more, the award is not made in the form of cash/voucher/bonds, the award costs €50 per year of service or less, and no similar award was given to the employee within the past five years. Catherine received a painting for 20 years of service – this meets the criteria for the exemption.

(2) Case III Income

Foreign rental income is taxable as Case III income. Expenses are deductible in the same manner as Irish rental income. However, the loss arising from the foreign property is not available for use against Irish rental income.

	€	Marks
Income	15,000	
Repairs	(20,000)	
Loss	<u>(5,000)</u>	0.50

(3) Case IV Income

Irish deposit interest income – include the gross interest received.

	€	Marks
Case IV Deposit interest	Net 650	
DIRT	35%	
	<u>350</u>	
	Gross <u>1,000</u>	0.50

(4) Case V Income

Irish rental income – note allowable costs and those that are disallowed.

	€	€	Marks
Rental income		24,000	
Expenses;			
Insurance	1,800		
Repairs and maintenance	1,500		
Local Property Tax – not deductible	0		0.50
Interest – 100% allowed for 2019	3,000		0.50
Capital allowances – furniture (5,000 x 12.5%)	<u>625</u>	<u>(6,925)</u>	0.50
		<u>17,075</u>	1.50

(5) Schedule F Income

Irish dividend income – include the gross income received during the year ended 31 December 2019 only. The dividend paid on 11 January 2020 should not be included in the 2019 Income Tax computation. Financial Statement information should also be ignored.

		€	Marks
Dividend paid on 15/4/2019	Net	1,040	
DWT	20%	260	
Gross		<u>1,300</u>	0.50
11/1/20 - not included in 2019 Income Tax computation			0.50
			1.00

(6) Income Tax Exemptions

Certain sources of income are exempt from Income Tax.

Children's allowance is not liable to Income Tax.

Artist Exemption is available, subject to Revenue approval, for artistic works including books. A maximum limit of €50,000 per annum applies to the exemption. Thomas' income for his first novel is below this limit, and therefore would qualify for full exemption from Income Tax.

(7) Pension Contribution Relief

Relief for pension contributions in respect of the tax year 2020 is calculated based on Catherine's earned income (subject to the limit of €115,000) and the percentage available based on her age.

	€	€	Marks
Age 39, therefore maximum relief, €115,000 x 20%	23,000		0.50
Contributions made (€8,500 + €20,000)	28,500		0.50
Relief for pension contributions		23,000	0.50
			1.50

(8) Carers Allowance

Tax relief is available for the cost of employing a carer to take care of a family member or relative. The maximum relief available is the lower of the actual cost of employing the carer, or €75,000. If the cost is shared among two or more people, the relief must be apportioned amongst those paying the cost.

The total cost that Catherine is contributing towards is €60,000. This is less than the maximum allowed and therefore full relief is available for Catherine's contribution.

(b) Year of Marriage Relief

Prepare computation for joint income tax. This can be presented together with the calculation in part (a). The entire computation was not required to be presented again in part (b).

INCOME TAX COMPUTATION	(b) Joint	Marks
Joint Income (149,600 + 17,375)	166,975	
Standard rate band available - €44,300 + lower income [€44,300 + €17,375] @ 20%	12,335	1.00
Case IV @ 35%	350	
Balance @ 40%	<u>41,720</u>	1.00
	54,405	
Tax Credits		
Personal credits	(3,300)	
PAYE credit	(1,650)	
Medical expenses (5,800 - 400 - 1,200) @ 25%	(840)	
DIRT	<u>(350)</u>	
	48,265	

Joint assessment results in lower combined Income Tax liability for the couple for the tax year 2019, therefore the calculation of the Income Tax Refund available is as follows;

Year of Marriage Relief Calculation

Single persons total liability – before deduction of refundable tax credits (48,240 = 1,825)	50,065	0.50
Joint assessment liability	48,265	0.50
Difference	1,800	0.50
Refund due (Married 1/7/2019 => 6/12ths)	900	0.50
		4.00

SOLUTION 2 – CORPORATION TAX

(a) Corporation Tax Liability Computations for HuG Ltd

Case I Income for the year ended 31 August 2019	€	€	Marks
Profit before tax		364,200	0.5
<u>Deductions</u>			
Other income	45,000		0.5
Finance lease - total payments	20,800		0.5
Capital allowances (working 1)	<u>48,000</u>		
		(113,800)	
<u>Addbacks</u>			
Depreciation	25,000		0.5
Patent royalty	40,000		0.5
Wages and salaries - pension accrual	20,000		0.5
Repairs and maintenance			
Case V rental property repairs	7,500		0.5
Building improvements - capital	8,500		0.5
Loss on disposal of van	800		0.5
Legal and professional fees			
re disposal of land	12,000		0.5
Motor expenses			
Lease charges MV (3,800 x 26,000 – 24,000/ 26,000)	292		1
Insurance			
Case V rental property insurance	2,600		0.5
Keyman (proprietary interest, therefore not allowed)	2,000		0.5
Finance costs			
Finance lease interest	4,500		0.5
Loan interest - allowed as a charge, addback expense	<u>8,250</u>		0.5
		<u>131,442</u>	
Case I income		<u><u>381,842</u></u>	
WORKING 1	Cost		
Plant and equipment	188,000		
Delivery van (see note i)	<u>36,000</u>		
	224,000		
Wear & tear 2019	12.5%	28,000	0.5
Industrial Building	500,000		
Industrial buildings annual allowance	4.0%	<u>20,000</u>	0.5
Total capital allowances for year ended 31 August 2019		<u><u>48,000</u></u>	
Note (i): Balancing allowance/charge for Delivery Van			
TWDV @ 1 Sept 2018	8,000		0.5
Proceeds	12,000		0.5
Balancing charge (BC)	4,000		0.5
Use replacement option by offsetting BC against cost of replacement			
Replacement cost for new delivery van	40,000		
Revised cost	36,000		0.5
WORKING 2			
Income;			
Premium 15,000 x (51-5/50)		13,800	1
Annual rent (25,000 – 15,000)		<u>10,000</u>	0.5
		23,800	
Expenses;			
Repairs	7,500		
Insurance	<u>2,600</u>		
		(10,100)	0.5
Case V taxable income		<u><u>13,700</u></u>	

CORPORATION TAX COMPUTATION

Case I		381,842	
Trade charge: patent royalty paid		(30,000)	0.5
		<u>351,842</u>	
Case V (see working 2 above)		13,700	
FII - Irish dividend income - exempt		0	0.5
Case III - foreign dividend income		<u>13,000</u>	
		<u>378,542</u>	
Non-trade charge		(8,750)	
		<u><u>369,792</u></u>	
Case I	12.5%	43,980	0.5
Case III (s21B dividends)	12.5%	1,625	0.5
Case V (net of non-trade charge)	25.0%	<u>1,238</u>	0.5
		<u>46,843</u>	
Income Tax on patent royalty payment		<u>6,000</u>	
Total Corporation Tax Liability		<u><u>52,843</u></u>	

(15 marks)

(b) Capital Gains Tax Liability Computations for HuG Ltd

Disposal of development land required capital gains tax calculation subject to restrictions related to development land.

			Marks
Proceeds		750,000	0.5
Incidental costs of disposal		(12,000)	0.5
		<u>738,000</u>	
Purchase costs			
Current use value	150,000		0.5
Indexation factor (2002)	<u>1.049</u>		0.5
Indexed cost allowed		(157,350)	
Development value - no indexation granted		<u>(150,000)</u>	0.5
		<u>430,650</u>	
Capital Gains Tax	33%	142,115	0.5

(3 marks)

(c) Pay and File / Compliance rules for HuG Ltd

(the detail here is provided for student learning purposes, not all was required for the purposes of examination answers)

The company is required to pay Corporation Tax and Capital Gains Tax for the year ended 31 August 2019. To determine what dates the company is required to make preliminary tax payments, students are required to consider whether HuG Ltd is a 'small' or 'large' company for preliminary corporation tax purposes. This is based on the company's corporation tax liability for the year ended 31 August 2018. (0.5 marks)

As the company's corporation tax liability for the year ended 31 August 2018 is less than €200,000, it is a 'small' company for preliminary corporation tax purposes for the year ended 31 August 2019. The company is therefore required to make one preliminary corporation tax payment, one month prior to year-end by the 23rd day of that month, that is by the 23 July 2019. (0.5 marks)

The balancing payment of the corporation tax liability is required to be submitted along with the filing of the corporation tax return by the 23rd day of the ninth month after the year-end, that is by 23 May 2020. (0.5 marks)

The company also has a capital gains tax liability in respect of the disposal of development land. The payment date is determined by capital gains tax rules. As the disposal took place in the 'initial period' the payment is due by 15th December 2019. (0.5 marks)

SOLUTION 3

(a) Termination Payment

		€	Marks
Termination payment	Statutory payment	exempt	0.5
	Ex-gratia payment	89,600	
	Holiday pay – taxable as normal salary/wages	0	0.5
	PILON	6,400	
	Termination payment for Income Tax purposes	<u>96,000</u>	
Exemptions	Years of service: 9/2003 - 12/2019 = 16 complete years		
Basic	10,160 + (765 x 16)	22,400	1
Increased	22,400 + 10,000 - 9,000	23,400	0.5
SCSB	75,000 x 16/15 - 9,000	71,000	1
Termination payment		96,000	
Exemption		(71,000)	
Taxable termination payment		<u>25,000</u>	0.5

(4 marks)

(b) Income Tax Basis of Assessment, PRSI and USC calculations

		€	€	Marks
Final year assessable profits				
	Actual profits from 1 Jan 2019 to 31 Oct 2019 (10 months)			
	6 months to 31 October 2019		48,000	0.5
	4 months 1 January to 30 April 2019 (€78,000 x 4/12)		<u>26,000</u>	1
	Assessable Profits		<u>74,000</u>	
PRSI	Case I	74,000		
	Capital allowances	(6,000)		0.5
	Pension Contributions - not deductible	0		0.5
	Other income (€680 + €1,300)	<u>1,980</u>		
		69,980		
	4%		<u>2,799</u>	0.5
USC	Case I	74,000		
	Capital allowances	(6,000)		
	Pension Contributions - not deductible	0		
	Other income excluding case IV	<u>1,300</u>		0.5
		69,300		
	€			
	12,012 @ 0.5%	60.06		
	7,862 @ 2%	157.24		
	49,426 @ 4.5%	<u>2,224.17</u>		0.5
			<u>2,441</u>	

(4 marks)

(c) **Capital Gains Tax Computation for Share Disposal**

	74/75	84/85	Total	Marks
Purchase (€1)	5,000		5,000	
Rights (€1.75)		2,000	2,000	
Sale	-2500	(1,000)	(3,500)	
Balance	2,500	1,000	3,500	
Bonus (€0)	1250	500	1,750	
Balance	3,750	1,500	5,250	0.5
Capital Gain Computation 1 – 74/75 shares		€	€	
Proceeds (3,750 shares x €7 per share)			26,250	0.5
Cost				
Original purchase (2,500 shares)		2,500		
Indexation factor (74/75)		7.528		0.5
Indexed cost			(18,820)	
Bonus issue (1,250 shares)			0	0.5
Capital Gain / (Loss)			7,430	
Capital Gain Computation 2 – 84/85 shares		€	€	
Proceeds (1,500 shares x €7 per share)			10,500	0.5
Cost				
Rights issue (1,000 shares)		1,750		
Indexation factor (84/85)		1.819		0.5
Indexed cost			(3,183)	
Bonus issue (500 shares)			0	0.5
Capital Gain / (Loss)			7,317	
Date of disposal - 31 October 2019 = 'initial' capital gains tax period				
Therefore, payment of liability due by 15 December 2019				0.5

(4 marks)

(d) **Value Added Tax – Cross Border Transactions – Distance Selling Rules**

(indicative marks provided in solution. Marks were awarded for reasonable explanations of the VAT rules applying to distance selling)

The turnover threshold for businesses distance selling into Ireland from another EU member state is €35,000 in a calendar year. If the threshold is exceeded the supplier must register for VAT in Ireland and charge Irish VAT to Irish customers (1 mark)

An Irish business selling to non-registered customers in other EU member states must register in each member state where the relevant threshold for that member state is exceeded. The Irish business will then charge local VAT to the customers in that member state. (2 marks)

The relevant threshold for the UK is stg£70,000, Germany, France, Luxembourg, Netherlands and Austria are €100,000 and other member states is €35,000.

The supplier can elect to register in other member states if the threshold has not been exceeded. If the supplier does not elect/have to register in other member states, he will continue to charge Irish VAT on supplies to customers in each member states (1 mark).

(e) **Theory – desirable characteristics of taxation / Smiths Canons of Taxation**

(indicative marks provided in solution)

1. Equity – tax should be fair
2. Certainty – it should be possible to determine the tax liability with reasonable exactitude and minimal subjectivity
3. Convenience – it should be possible to collect the tax with minimal effort on the part of the administrator and with minimal disruption to the taxpayer
4. Efficiency – tax should minimise distortionary effects on consumer behaviour and the revenue collected from the tax should justify the costs of collection.

(1 mark per characteristic including brief explanation)

SOLUTION 4 – CAPITAL TAX COMPUTATIONS

(a) Personal Capital Gains Tax Computation

The calculations required consideration of various reliefs and restrictions associated with capital gains tax calculations.

	€ Jenny	€ Andrew	Marks
Summary of Capital Gains			
Chattels (note i)		0	
Investment property (note ii)	164,120		
PPR (note iii)		166,506	
Trade (note iv)	0		
	<u>164,120</u>	<u>166,506</u>	
Annual exemption	(1,270)	(1,270)	1
Taxable gain	<u>162,850</u>	<u>165,236</u>	
Capital Gains Tax @ 33%	53,741	54,528	0.5
Entrepreneur relief @ 10% (note iv)	94,000		0.5
Marginal relief (note i)		24	0.5
Total liability	<u>147,741</u>	<u>54,552</u>	
Notes			
(i) Antique Vase	€	€	
Proceeds / mv		2,600	0.5
Cost (99/00)	1,200		
Indexation factor	<u>1.193</u>		0.5
Indexed cost		(1,432)	
Capital gain		<u>1,168</u>	
CGT @ 33%		<u>386</u>	
Marginal relief; (2,600 - 2,540) * 40%		24	1
Marginal relief more favourable (annual exemption used against other gain)			0.5
Bicycle - wasting chattel, exempt			0.5
(ii) Investment Property			
Proceeds		325,000	
Cost (97/98)*	90,000		1
Indexation factor	<u>1.232</u>		0.5
Indexed cost		(110,880)	
Enhancement exp (no indexation)		(50,000)	1
Capital Gain		<u>164,120</u>	
<i>*Part disposal => allowable cost = C x A/(A+B)</i>			
270,000 x 325,000 / (325,000 + 650,000)			
150,000 x 325,000 / (325,000 + 650,000)			
(iii) Principal Private Residence Relief			
Proceeds		750,000	
Cost (2001)	254,000		
Indexation factor	<u>1.087</u>		0.5
Indexed cost		(276,098)	
Capital gain		473,902	
PPR relief (€473,902 x 12/18.5)*		(307,396)	1.5
Taxable gain		<u>166,506</u>	
<i>*Calculation of Principal Private Residence Relief</i>			
Period of ownership			
1 May 2001 - 1 November 2019		18.5 years	
Periods of occupation		Allow	
1/5/2001 - 1/5/2006 (house)	5	5	
1/5/2006 - 1/11/2011 (Cork)	5.5	4	0.5
1/11/2011 - 1/11/2013 (house)	2	2	
1/11/2013 - 1/11/2019 (away)	6	1	0.5
	<u>18.5</u>	<u>12</u>	

(iv) Entrepreneur Relief

Jenny qualifies for the relief on the basis that:

- | | | |
|----|--|-----|
| 1) | The trade is a qualifying business i.e. is not a development land trade | 0.5 |
| 2) | The assets and goodwill have been used by the purposes of the qualifying business | 0.5 |
| 3) | Assets beneficially owned for a continuous period of at least 3 years out of the last 5 years up to the date of disposal | 0.5 |

	€	€	
Proceeds - shop premises		1,200,000	
Cost (2010) - no indexation		<u>(560,000)</u>	
Capital gain		640,000	
Proceeds - goodwill		<u>300,000</u>	
Total Capital Gain		<u>940,000</u>	0.5

(13 marks)

(b) Company Chargeable Gain Computation

Summary of capital gains

	€	Marks
Young Ltd (note i)	0	
Site (note ii)	25,000	
Forest Ltd (note iii)	0	
No annual exemption		0.5
Chargeable gain	<u>66,000</u>	0.5

Notes

(i)	4% shareholding in Young Limited	€	€	
	Proceeds		120,000	
	Cost	44,000		
	Indexation factor (80/81)	3.240		
	0.5			
	Indexed cost		<u>(142,560)</u>	
	Capital gain / (loss)		<u>(22,560)</u>	
	Indexation cannot create a loss		No Gain/No Loss	1
(ii)	Painting gifted to shareholder	€		
	Proceeds/market value		125,000	0.5
	Cost - no indexation		<u>(100,000)</u>	
	Capital gain / (loss)		<u>25,000</u>	

(iii) 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 |

(5 marks)

SOLUTION 5 – VARIOUS TAX ISSUES

(a) Allowances for Certain Assets

The calculations required consideration of reliefs available to businesses for the purchase of intangible assets and energy efficient assets.

1. Patent Right – intangible assets purchased for use in the trade may qualify for relief under section 291A Specified Intangible Assets. Allowances may be claimed based on the accounting treatment of these assets or over 15 years (i.e. 7% allowances in years 1 to 14 and 2% allowances in year 15). The maximum allowances that may be claimed in a year is currently restricted to 80% of qualifying trade profits, that is profits from the trade in which the intangible asset is used (2 marks)

	€	Marks
Cost (2019)	720,000	
S291A allowance (7%)	50,400	0.5
Qualifying trade profits	60,000	
Maximum S291A relief 2019	48,000	1

2. Energy Efficient Assets – 100% capital allowances are available for energy efficient equipment specified Sch4A TCA 1997

Energy efficient air conditioning system	€	Marks
Cost (2019) - exceeds minimum spend requirement	25,000	0.5
Capital allowances (100%)	25,000	1.0

(5 marks)

(b) Income Tax Residency

Determine the basis on which Pierre is tax resident in Ireland for 2019.

Pierre spends the following days in Ireland in 2018 and 2019 tax years;

2018	1 January to 30 April	119 days
2019	15 July to 31 December	169 days
Total over tax year 2018 and 2019		288 days

Test 1: Did Pierre spend 183 days or more in Ireland in the tax year 2019? No

Test 2: Did Pierre spend 280 days or more in Ireland over 2018 and 2019 with at least 30 days in each year? Yes

Based on test 2, Pierre is resident in Ireland for 2019.

(Decision including explanation – 2 marks)

Scope of tax liability in Ireland for 2019 as a non-domiciled, resident individual;

- (1) Irish source income
- (2) Remittances into Ireland (other than foreign employment income remittances)

Therefore, Pierre is liable to Income Tax in Ireland on the following income for 2019;

Irish Employment Income	€45,000
Foreign rental income remitted to Ireland	€ 5,000
Income for Irish Income Tax purposes	€50,000

(Explanation regarding income liable to tax in Ireland – 3 marks)

Students were advised that an Income Tax computation was not required to be completed.

(c) Theory – Badges of Trade

- (1) The subject matter - The item that is the subject of the transaction will sometimes be more likely to be the subject of trading activity, e.g. manufactured products. Others such as works of art may be held for personal enjoyment / intrinsic value, and their disposal is often more likely to be capital in nature. However, most forms of property can be traded.
- (2) The length of period of ownership - The shorter the time period that the asset is held before the transaction, the more likely it is to be a trading transaction
- (3) The frequency or number of transactions by the same person - Frequently engaged in the same transactions would be an indication of trading. *Pickford v Quirke* (1927)
- (4) Supplementary work on, or in connection with, the property realised - work to convert/create/add value to an item to make it more marketable or efforts to attract purchasers for example through large scale advertising, are suggestions of an organised effort to obtain profit are evidence of trading activity. *Cape Brandy Syndicate v CIR* [1921]
- (5) Circumstances of sale - Sale of an asset for example to meet a sudden emergency or opportunity calling for ready money, rather than an organised effort to obtain profit, would indicate capital transaction and not trading activity
- (6) Motive – The presence of a motive to make a profit is a strong indication of trading. *Rutledge v CIR* (1929).

A “whole” picture approach should be taken in determining whether the activity is to be considered a trade.

5 badges (0.5 marks) + explanation (0.5 marks)

(d) Corporation Tax – Group Loss Relief Computation

Determine which companies form part of the group based on a 75% relationship.

Brene Ltd and Chris Ltd form a group for loss relief purposes. Case I losses can therefore be transferred between the group companies in respect of corresponding accounting periods note that these companies have different accounting period ends and as a result the corresponding accounting period for group purposes is 6 months. Losses can only be transferred for 6/12ths of the accounting periods.

Non-trading losses cannot be transferred between group companies.

Marc Ltd is not part of the group and losses cannot be transferred from Brene Ltd or Chris Ltd to Marc Ltd.

	Brene Ltd 31 Dec GROUP	Chris Ltd 30 Jun	Marc Ltd 30 Jun	Marks
CT Computation				
Case I profit/(loss)	200,000	0	60,000	
Group loss relief	(100,000)	0		1
	<u>100,000</u>	<u>0</u>	<u>60,000</u>	
Case V	30,000	0	0	
Total Income	<u>130,000</u>	<u>0</u>	<u>60,000</u>	
Chargeable gains	0	35,000	0	0.5
Total Profits	<u>130,000</u>	<u>35,000</u>	<u>60,000</u>	
 CT Payable:				
Case I @ 12.5%	12,500	0	7,500	1
Case V @ 25%	7,500	0	0	
CG @ 12.5%	0	4,375	0	0.5
S396B value basis relief	0	(4,375)		1
Group relief value basis (€ 15,000 x 12.5%)	(1,875)	0		1
Total Corporation Tax Due	<u>18,125</u>	<u>0</u>	<u>7,500</u>	
 Chris Ltd - Loss Memo				
Case I loss 30 June 2019	150,000			
Loss relief value basis - 2019				
€4,375 ÷ 12.5%	(35,000)			
Balance available for group relief	<u>115,000</u>			
Transfer to Brene Ltd				
Case I - corresponding 6-month period	(100,000)			
	<u>15,000</u>			
Loss relief value basis	(15,000)			
Balance available to carry forward in Chris Limited	<u>0</u>			

(5 marks)

SOLUTION 6 – VALUE ADDED TAX

(a) VAT Liability calculation

Explanations required to be included regarding VAT treatment of income and expenses.

Output VAT	€	€	Marks
Irish customers	13,000 x 23%	2,990	0.5
Spanish customer - Irish VAT, (distance selling exceeded)	5,000 n/a	-	0.5
French customer - ICS (VAT no., invoice + proof of delivery)	10,000 x 0%	-	0.5
Canadian customer - export	7,000 x 0%	-	0.5
Contract - two thirds rule (goods < 2/3rds, therefore service)	10,000 x 13.5%	1,350	1
EU purchases	19,000 x 23%	4,370	0.5
Intra-Community Acquisition from Poland - self-account for Irish VAT	5,000 x 23%	1,150	0.5
		<u>9,860</u>	
Input credits			
Irish purchases (€8,000 x 23%)	1,840		0.5
EU purchases (€19,000 x 23%)	4,370		0.5
Imports from China - VAT paid at point of entry (€6,000 x 23%)	1,380		0.5
Wages - no VAT applies	-		0.5
Electricity (€1,100 / 113.5 x 13.5)	131		1
Telephone (€900 / 123 x 23)	168		1
Intra-Community Acquisition from Poland (€5,000 x 23%)	1,150		0.5
Diesel (€400 x 23%)	92		0.5
Car repairs - personal use irrelevant (€600 x 13.5%)	81		0.5
Hotel accommodation - no input credit allowed	-	(9,212)	0.5
VAT payable		<u>648</u>	

(10 marks)

(b) Theory – Composite/Multiple Supplies

Not all information provided was required for examination answers. Marks awarded for reasonable explanations / examples. VAT treatment required to be included in explanations

A “**composite supply**” is defined as one that has a “principal” supply with an “ancillary” element. “principal supply” constitutes the predominant element of a composite supply, where any other supply forming part of the composite supply is ancillary to that supply, it is not physically or economically dissociable from a principal supply and is capable of being supplied only in the context of the better enjoyment of the principal supply. Main feature of ancillary supply is that it would not make sense from an economic or practical point of view to supply it other than in the context of that principal supply. Rate of VAT applicable to composite supply – single rate to entire supply, rate applicable to principal supply (2.5 marks)

A “**multiple supply**” is one which is made for a single consideration and which contains a number of “individual” supplies, with no one principal supply. The constituent parts are physically and economically dissociable from the other goods or services forming part of that multiple supply and are capable of being supplied as goods or services in its own right. The fact that one single price is charged for the supplies does not prevent the transaction from being treated as a multiple supply. The price should be apportioned between the individual supplies and the VAT rate applicable to each individual supply applied. An individual supply is as follows:

Each element is treated as individual supply and taxable/exempt in own right. (2.5 marks)

The supply of the free streaming service with the phone should be treated as a “multiple” supply for VAT purposes. The price charged for the mobile device during the promotion period should be apportioned between the device and the music streaming. (1 mark)

(c) Theory – Composite/Multiple Supplies

Not all information provided was required for examination answers. Marks awarded for reasonable explanations / examples. VAT treatment required to be included in explanations

S.19(1)(g) and S.21 VATCA 2010 and Regulation 5, 2010. Gifts – supplied on a promotional basis / free of charge, i.e. no consideration received for it by the supplier. Supplier/donor must self-account for VAT on the VAT exclusive cost of the gift made, i.e. a claw-back arises in respect of the VAT claimed on the purchase of the gift by the supplier.

Small gift relief – where the VAT exclusive cost of the gift to the supplier is less than €20 (and the gift does not form part of a series or succession of gifts), the supplier is not required to self-account for the VAT on the gift made. As the gym bags cost less than €15, the small gift relief can apply, and no clawback of VAT arises. (4 marks)