

TAXATION

FORMATION 2 EXAMINATION - APRIL 2019

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, you must draw a clearly distinguishable line through the answer not to be marked. Otherwise, only the first two answers to hand for these three questions 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 write notes on the examination paper but you may not commence writing in your answer book. **Please read each Question carefully.**

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

Start your answer to each question on a new page.

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.

List on the cover of each answer booklet, in the space provided, the number of each question attempted.

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Time Allowed: 3 hours, plus 10 minutes to read the paper.

SECTION A

Answer Question 1, 2 and 3 in this Section.

(ALL are Compulsory)

1. Sarah Hart aged 52, is Irish resident and domiciled. She has two children, Roisin (aged 19) and Jack (aged 16). Sarah's husband died in 2016 and she has not remarried nor is she co-habiting. Sarah is employed as a director in a large law firm and also has significant investments.

Relevant details of Sarah's income and other benefits from her employment for 2018 follow:

- Gross salary for the year is €120,000 from which PAYE of €35,000 was deducted.
- A company car purchased second hand for €36,000. The original market value of the car was €40,000. Sarah's business travel for 2018 was 30,000 kilometres.
- She is provided with a mobile phone worth €590. The monthly usage cost is billed directly to her employer. The total cost for 2018 was €2,500. Private use of the phone is incidental.
- Travel and subsistence expenses €8,000. Sarah does not submit receipts to her employer for this amount.
- Sarah's employer contributed €9,000 of her gross salary to an approved occupational pension scheme (see note below in relation to Sarah's own contributions to this scheme).

Details of Sarah's income from her investments for 2018 are as follows:

Rental Property - Residential:

Sarah purchased this house in 2014 and rents it to students for €18,000 per annum. The property is Private Residential Tenancies Board (PRTB) registered. Sarah paid insurance of €800 and maintenance costs of €1,120 on the house for 2018. Mortgage interest paid for 2018 was €1,600.

Rental Property – Commercial:

Sarah owns a hotel premises which she purchased in November 2017. Prior to letting the hotel, Sarah undertook some refurbishment between January 2018 and March 2018. The total cost of the refurbishment was €74,000 of which €40,000 comprised new plant and machinery. From 1st April 2018, she let the hotel on a 10 year lease to a company which carries on a hotel trade from the premises. The lease provided for an upfront premium of €200,000 and an annual rent of €90,000. The qualifying cost of the hotel for capital allowances purposes is €660,000 and the remaining tax life is 15 years. During December 2018, repair work was carried out, following adverse weather conditions, which cost €16,000.

Rent of room – Private Residence:

Sarah rents a room in her house to a family friend. She charges rent of €12,500 per annum as well as an additional amount of €3,500 to cover utilities.

Other Income:

- Irish deposit interest €1,008 (net).
- Dividends from Irish resident companies €4,000 (net).

Expenditure for 2018

Details of Sarah's expenditure for 2018 are as follows:

Contributions to the approved occupational pension scheme deducted by employer	€9,000
Additional voluntary contribution to the occupational pension scheme	€20,000
Qualifying investment in Employment and Investment Incentive Scheme	€64,000
College fees for Roisin in respect of a qualifying full-time course	€6,800
Qualifying medical expenses	€5,800
Nursing home expenses for Sarah's mother (her mother's income is €20,000 per annum)	€42,000

REQUIREMENT:

Calculate Sarah's income tax liability in 2018, excluding the liability for PRSI and Universal Social Charge (USC).

[Total: 20 marks]

2.

- (a) Home Limited is an Irish resident company engaged in the manufacture of home furnishings. The company's accounts for the year ended 31 December 2018 show the following:

	Notes	€	€
Gross profit from trading			740,000
Other income			
Profit on sale of machinery	(i)	14,400	
Investment income	(ii)	31,253	
			<u>45,653</u>
			694,347
Less expenses			
Depreciation		112,666	
Wages and salaries	(iii)	281,299	
Rates, light & heat		15,251	
Legal and professional fees	(iv)	50,263	
Interest charges	(v)	6,981	
Motor expenses	(vi)	17,424	
Finance lease interest	(vii)	4,507	
			<u>488,391</u>
Net profit before tax			<u>205,956</u>

Notes:

- (i) Home Limited sold machinery in November 2018 for €34,600. The machinery was purchased in March 2015 for €62,000. It was first used for the purpose of the trade in May 2015. The net book value of the machinery at the date of disposal was €49,000. See also note (viii).

- (ii) Investment income comprised the following:

	€
Dividends from Abhaile Limited (Home Limited owns 100% of the share capital of Abhaile Limited)	30,000
Irish deposit interest, received gross	<u>1,253</u>
	<u>31,253</u>

- (iii) Wages and salaries include an accrual for pension contributions of €40,000. There was no opening accrual or prepayment in respect of the pension.

- (iv) Legal and professional fees comprised the following:

	€
Audit and accountancy fees	26,000
Legal fees in relation to employee injury claim	16,000
Legal fees in relation to debt collection	<u>8,263</u>
	<u>50,263</u>

- (v) Interest charges comprised the following:

	€
Bank overdraft interest	4,981
Interest on late payment of PAYE	<u>2,000</u>
	<u>6,981</u>

- (vi) Motor expenses comprised the following:

	€
Running expenses of delivery vans	2,024
Lease rental of delivery vans	<u>15,400</u>
	<u>17,424</u>

- (vii) The finance lease interest relates to leases of machinery, the cost of which is capitalised in the company's accounts. The lease agreement states that the burden of wear and tear is transferred to the lessee. Total repayments made during the year ended 31 December 2018 were €20,000. This figure comprised capital repayments of €15,493 and interest charges of €4,507.

(viii) Information relating to fixed assets:

Home Limited held the following items of plant and machinery at 1 January 2018:

	Cost	Tax Written Down Value
Assets held at 1 January 2018		
Computer equipment	€44,000	€33,000
Machinery	€320,000	€262,000

Additions and disposals in 2018 were as follows:

1. Disposal of machinery in November 2018 (see note (i) above). The tax written down value of this machine was €38,750
2. New machinery costing €174,800 was purchased. Home limited received a government grant of €36,000 towards the cost of this machine. The machinery has been capitalised in the accounts at the net cost of €138,800.

REQUIREMENT:

Compute the corporation tax liability of Home Limited in respect of the accounting period ending 31 December 2018 and state the due date for filing the return in respect of this period. This part should be answered without taking into account the information at (b) below.

(15 Marks)

- (b)** Home Limited purchased Abhaile Limited, an Irish resident home furnishing retail company, in March 2012. Abhaile Limited incurred losses from its retail trade in the year ended 31 December 2018 of €620,000. Abhaile Limited had Case I income of €125,000 for the year ended 31 December 2017.

REQUIREMENT:

Prepare a Loss Memorandum showing how Abhaile Limited losses for the year ended 31 December 2018 can be utilised by it and Home Limited on the basis that maximum loss relief is availed of at the earliest opportunity. You should provide a brief explanation of how the losses are being used and indicate any restrictions which may apply.

(5 Marks)

[Total: 20 marks]

3.

- (a) Jackson, an American actor, musician and author moved to Ireland in August 2017. He intends to stay in Ireland for three or four years. Jackson was born in the USA in 1975 and his parents are both American domiciled. He has always lived in New York, USA until he arrived in Ireland in 2017. His income and disposals for 2018 are as follows:

1.	Income from rental property in New York lodged to USA bank account	€84,000
2.	Irish rental income lodged to Bank of Ireland in Dublin	€27,000
3.	Proceeds of disposal of shares in Irish company, which had cost €50,000 in 2004. (Jackson lodged the proceeds to his USA bank account)	€73,500
4.	Proceeds of disposal of holiday apartment in California lodged to USA Bank account. (Jackson had purchased this apartment in April 2007 for €320,000. In November 2018, he transferred €400,000 of the proceeds to his Bank of Ireland account in Dublin)	€900,000

REQUIREMENT:

- (i) State Jackson's basis of assessment to Irish Income Tax and Irish Capital Gains tax for 2018. (2 marks)
- (ii) For each point (1 to 4 above) state the amount, if any, of the income or gain which will be subject to Irish tax. Provide a brief explanation in respect of any amount which is not subject to Irish tax. Ignore double taxation. (2 marks)

- (b) Peter was made redundant on 1 April 2018 after 32 years and 6 months service. Details of the termination payment received from his employer is as follows:

Statutory Redundancy	€32,500
Ex gratia payment	€174,000
Car – market value	€25,000

Peter's gross salary, including benefits in kind, for the three years up to date of termination of his employment was €105,000 per annum. The actuarial value of his tax-free lump sum entitlement from his occupational pension scheme is €124,000.

REQUIREMENT:

Calculate the amount of Peter's taxable termination payment on the basis that Peter avails of the Standard Capital Superannuation Benefit (SCSB) exemption.

(4 marks)

- (c) Oliver is a self-employed photographer who purchased a category B motor car for €20,000 in 2016. The car was used 80% for business purposes. During the accounting year to 31 December 2018, Oliver disposed of the car for €16,200.

REQUIREMENT:

Calculate the annual wear and tear allowance Oliver may claim for 2016 and 2017 and the balancing adjustment on disposal in 2018.

(4 marks)

- (d) Janette is single and is 32 years of age. The following information is extracted from her Income Tax Computation for 2018:

	€	€
Schedule D Case I	62,000	
Less capital allowances	(8,000)	
Less retirement annuity contributions	<u>(12,000)</u>	
		42,000
Schedule D Case IV – Irish Deposit Interest		2,000
Schedule D case V		<u>32,000</u>
Taxable Income		<u>76,000</u>

REQUIREMENT:

Calculate Janette's PRSI and USC for 2018.

(4 marks)

- (e) Private Coll Limited is a private college in Ireland which has placed an order for €60,000 worth of new photocopiers from a supplier in France. It is a provider of exempt educational services and not registered for VAT.

REQUIREMENT:

Explain the VAT implications of the purchase of the new photocopiers for Private Coll Limited.

(4 marks)

[Total: 20 marks]

SECTION B

Answer ANY TWO of the three questions in this Section.

4.

- (a) Tommy purchased a commercial rental property in March 1998 for €230,000. Legal fees and stamp duty on acquisition amounted to €18,000. In May 2004, he built an extension to the property at a cost of €150,000 and in August 2017 he spent €57,000 on repair and refurbishment of the existing structure. In December 2018, Tommy disposed of the property for €440,000 and incurred legal and professional fees on disposal of €12,000.

REQUIREMENT:

Prepare the capital gains tax computation for the above disposal assuming that Tommy made no other disposals of assets in 2018.

(5 marks)

- (b) Louise (aged 50) has carried on a grocery trade, which she inherited from her father in September 2001. The market value of the chargeable assets at the date of inheritance was as follows:

	€
Shop premises	570,000
Goodwill	100,000
	<u>670,000</u>

In May 2018, Louise sold the business to an unconnected person for €2,280,000, of which, €1,780,000 was for the shop premises and €500,000 for the goodwill.

REQUIREMENT:

- (i) State, giving the reason for your answer, whether or not Louise qualifies for Revised Entrepreneur Relief under Section 597AA TCA 1997.

(2 marks)

- (ii) On the basis of your answer in (i) above, calculate Louise's Capital Gains Tax liability on the disposal of the grocery trade.

(5 marks)

- (c) John made the following disposals of personal assets during 2018:

- (i) In April 2018, he sold an antique vase to his sister for €5,000. The market value of the vase at the date of disposal was €6,800. John purchased the vase at auction in October 1984 for €906.
- (ii) In June 2018, he sold his car for €15,000. John had purchased the car for €22,000 in December 2015.
- (iii) In August 2018, he sold a painting for €2,620, which he had purchased for €1,800 in 2007.
- (iv) In November 2018, he sold 5,000 shares in an Irish plc for €1.50 each. John had purchased the shares in 2003 for €1.60 each.

REQUIREMENT:

Calculate John's Capital Gains Tax liability in respect of the above disposals. Provide a brief explanation in respect of any exempt assets.

(8 marks)

[Total: 20 Marks]

5.

- (a) Suzanne is a chargeable person. Her income tax liability for 2017 was €42,000. She paid preliminary tax of €28,000 on 31 October 2017, filed her income tax return for the 2017 tax year and paid the balance of income tax on 15 February 2019. Her income tax liability for 2016 was €32,000 and for 2015 was €12,600. Suzanne does not have a direct debit arrangement in place for payment of income tax.

REQUIREMENT:

- (i) State Suzanne's return filing due date for the 2017 tax year and state the consequences of late filing of the return.

(2 Marks)

- (ii) Calculate the three alternative preliminary tax payment amounts which Suzanne could have made for the 2017 tax year in order to meet her preliminary tax payment obligations. Calculate also the total income tax, surcharge and interest liability to be paid on 15 February 2019.

(4 Marks)

- (b) Frank commenced trading on 1 September 2015. His results for his first 3 years in business were as follows:

31 August 2016	€36000
31 August 2017	€18000
31 August 2018	€40000

REQUIREMENT:

Calculate the Case I income assessable for each of Frank's first three tax years.

(5 Marks)

- (c) Brenda, who is single, is self-employed. She incurred a loss in her trade for 2018 of €20,000. Brenda has Case V income of €44,000 and is entitled to relief for nursing home expenses of €18,000.

REQUIREMENT:

- (i) Prepare Brenda's income tax computation for 2018 on the basis that she makes a claim for loss relief under Section 381 and state the date by which this claim must be made.

(6 Marks)

- (ii) On the basis that Brenda estimates Case I income of €50,000 for 2019, briefly explain whether it is more efficient for Brenda to carry the loss forward and state any restrictions which may apply. You may assume that Brenda's Case V income will remain the same (€44,000).

(3 Marks)

[Total: 20 marks]

6.

- (a) Chairz Limited is a small Irish company that manufactures high quality kitchen chairs and stools. Chairz Limited accounts for Value Added Tax (VAT) on an invoice basis. The company had the following transactions during November/December 2018. **All amounts are stated exclusive of VAT where applicable, unless stated otherwise.**

Sales of standard rated goods	€
Irish Customers	850,000
VAT registered EU customers	422,000
Private individuals in the EU	57,800
Exports to Customers outside the EU	350,000
 Material Purchases – all standard rated goods	
 Irish registered suppliers	198,000
EU registered suppliers	240,000
Imports from Brazil	320,000
 Other Purchases/Expenditure	
 Machinery from an EU registered supplier	260,000
Passenger motor vehicle, Category A, used 90% for business purposes purchased from an Irish registered supplier (excluding VAT at 23%)	21,000
Petrol (excluding VAT at 23%)	12,400
Electricity (excluding VAT at 13.5%)	58,200
Telephone (excluding VAT at 23%)	49,500

REQUIREMENT:

Calculate the VAT payable or refundable by Chairz Limited for the January/February 2018 VAT period. (10 Marks)

- (b) Chairz Limited has received a notification of a Revenue Audit. The newly promoted Financial Controller has no experience of dealing with Revenue Audits and has sought some clarification in relation to the meaning of the term 'Qualifying Disclosure'.

Explain the following:

- (i) The benefits of making a qualifying disclosure;
- (ii) The conditions to be satisfied in order for a disclosure to be a qualifying disclosure; and
- (iii) The distinction between a prompted and unprompted qualifying disclosure. (10 Marks)

[Total: 20 marks]

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

TAXATION

FORMATION 2 EXAMINATION - APRIL 2019

SOLUTION 1

Sarah Hart

Income Tax Computation for 2018

Schedule D

Case IV

Irish deposit interest (1,008 x 100/63)

Case V

Residential property

Commercial property

Private residence (12,500 + 3,500)

Less: Industrial building allowance

Schedule E

Salary

Car BIK

Mobile phone

Mobile phone bill

Travel & subsistence

Employer pension contribution

Relief for pension contributions

Schedule F

Irish dividends (4,000 x 100/80)

Gross Income

Less 'Certain' Deductions

Total Income

Less Personal Allowances/Reliefs

EIIS Investment (64,000 x 30/40)

Nursing home expenses

Taxable Income

Taxed as follows:

Single person with SPCCC

Deposit interest

Balance

Total tax

Less Non-refundable tax credits

Personal tax credit – single person

Widowed parent – 2nd year

Single person child carer

Dependent relative

PAYE tax credit

DIRT paid (1,600 x 37%)

Medical expenses (5,800 x 20%)

3rd level fees

Work-ings	€	€	Marks
		1,600	½
1	14,720		2
2	210,500		2½
	16,000		½
3	(44,000)		½
		197,220	
	120,000		½
4	9,600		½
	0		½
	0		½
	8,000		½
	0		½
	137,600		
5	(28,750)		1
		108,850	
		5,000	½
		312,670	
		0	
		312,670	
		(48,000)	1
		(42,000)	½
		222,670	
	€38,550 @20%	7,710	½
	€1,600 @37%	592	½
	€182,520 @40%	73,008	½
		81,310	
	1,650		½
	3,150		½
	1,650		½
	0		½
	1,650		½
	592		½
	1,160		½
6	760		1
	(10,612)		

Less Refundable tax credits	€	€	Marks
DWT paid (5,000 x 20%)	1,000		½
PAYE paid	35,000		½
	(36,000)		
Net income tax due/(refundable)		34,698	

Pro forma layout			1
Total marks			20

Workings/Notes

DO NOT DOUBLE COUNT MARKS

Workings			Marks
1	Case V – Residential Property		
	Gross Rent	€18,000	½
	Less allowable deductions		
	Insurance	(€800)	½
	Maintenance	(€1,120)	½
	Interest (€1,600 x 85%)	(€1,360)	½
	Case V	€14,720	2
2	Case V – Commercial Property		
	Gross Rent (€90,000 x 9/12)	€67,500	½
	Premium (€200,000 x [51-10]/50)	€164,000	½
	Less allowable deductions		
	Repairs – Jan to March (Pre-letting)	0	½
	Repairs – Dec	(€16,000)	½
	Wear & tear (€40,000 x 12.5%)	(€5,000)	½
	Case V	€210,500	2½
3	Case V IBA		
	Qualifying cost (lower of original qualifying cost and price paid)	€660,000	
	Remaining tax life	15 years	
	IBA (€660,000/15 years)	€44,000	½
4	Car BIK		
	OMV €40,000 x 24%	€9,600	½
5	Retirement annuity contributions		
	Net relevant earnings (120,000 + 9,600 + 8,000)	€137,600	
	Earnings Cap	€115,000	
	Age related %	30%	
	% of Earnings Cap	€28,750	
	Contributions paid	€29,000	½
	Relief is limited to:	€28,750	½
6	The qualifying fee for each course is restricted to €7,000		
	Fees paid	€6,800	
	Less disregard amount – full-time course	(€3,000)	
	Qualifying for relief	€3,800	½
	Tax credit at 20%	€760	½

SOLUTION 2**(a)**

	€	€	Marks
Case I Computation			
Net profit before tax		205,956	½
Add Back			
Depreciation	112,666		½
Pension accrual	40,000		½
Audit & accountancy	0		½
Legal fees - employee injury claim	0		½
Legal fees - debt collection	0		½
Interest on late PAYE	2,000		½
Motor running expenses	0		½
Lease rental of delivery vans	0		½
Finance lease interest	<u>4,507</u>		½
		159,173	
Deduct			
Profit on sale of machinery	14,400		½
Investment income	31,253		½
Finance lease payments	<u>20,000</u>		½
		(65,653)	
Tax adjusted profit		<u>299,476</u>	
Capital allowances			
Opening cost (44,000 + 320,000)	364,000		1
Disposal (62,000)	(62,000)		1
Addition	138,800		1
	440,800		
Wear & tear (440,800 x 12.5%)		-	½
		(55,100)	
Balancing adjustment			
Proceeds	34,600		½
TWDV (62,000 x 5/8)	38,750		½
Balancing allowance		(4,150)	1
Case I		240,226	
Corporation Tax Computation			
Case I		240,266	
Case III – Deposit Interest		1,253	
Total Income		241,519	
Corporation Tax			
240,266 x 12.5%		30,033	1
1,253 x 12.5%		313	1
		30,346	
Due date for filing of return		23/9/2019	1
Total Marks			15

(b)

	€	Marks
Loss Memo		
Case I Loss	620,000	
Offset against Case I income of Abhaile Limited for year ended 31 December 2017 (immediately preceding period of the same length) under section 396A	(125,000)	1
	<u>495,000</u>	
Group relief against Home Limited Case I income for year ended 31 December 2018 under section 420A	(240,266)	1
Group relief against Home Limited corporation tax for year ended 31 December 2018 under section 420B (313 / .125)	(2,506)	1
Losses carried forward are ring-fenced under section 396(1) and can only be used against income of the same trade of Abhaile Limited	<u>252,288</u>	2
Total Marks		5

SOLUTION 3

(a) Jackson

		Marks
Income Tax		
Jackson is subject to Irish income tax on Irish source income and foreign income remitted to Ireland.		1
Capital Gains Tax		
Jackson is subject to Irish CGT on Irish source gains and the amount of any gain on disposal of a foreign asset which is remitted to Ireland.		1
	€	
1. USA rental income	nil	½
Foreign income is only subject to income tax if remitted to Ireland		
2. Irish rental income	27,000	½
Irish source income subject to tax in Ireland		
3. Gain on disposal of Irish shares (73,500 – 50,000)	23,500	½
Irish source gains are subject to Irish CGT.		
Remittance basis does not apply to Irish source gains.		
4. Gain on disposal of USA apartment remitted to Ireland		
Only that part of the gain remitted to Ireland, is subject to CGT.	400,000	½
Total Marks		4

(b) Peter

	€	€	Marks
Statutory redundancy - exempt		nil	½
Ex gratia payment		174,000	½
Car		25,000	½
Average annual emoluments	105,000		
Number of complete year's service/15	32/15		1
	224,000		
Tax free lump sum entitlement	(124,000)		1
SCSB Exemption		(100,000)	½
Taxable termination payment		99,000	
Total Marks			4

(c) Oliver

	€	Restrict to business use 80%€	Marks
Wear & Tear Allowance 2016 and 2017			
Qualifying cost	24,000		
Wear & tear 2016	(3,000)	€2,400	½
Wear & tear 2017	(3,000)	€2,400	½
Tax written down value	18,000		
Balancing Adjustment 2018			
Proceeds (as adjusted) (16,200 x 24/20)	19,200		1
Tax written down value	18,000		1
Balancing charge	1,200	€960	1
Total Marks			4

(d) Janette

PRSI		€	Marks
Schedule D Case I		62,000	
Less capital allowances		-8,000	½
Less retirement annuity contributions	Not deductible for PRSI	0	½
Schedule D Case IV – Deposit Interest		2,000	
Schedule D Case V		32,000	
Income subject to PRSI		88,000	
PRSI	€88,000 @ 4%	3,520	½
USC			
		€	Marks
Schedule D Case I		62,000	
Less capital allowances		-8,000	½
Less retirement annuity contributions	Not deductible for USC	0	½
Schedule D Case IV – Deposit Interest	Not subject to USC	0	½
Schedule D Case V		32,000	
Income subject to USC		86,000	
USC	€12,012	0.50%	60.06
	€7,360	2%	147.20
	€50,672	4.75%	2,406.92
	€15,956	8%	1,276.48
		3,890.66	1
Total Marks			4

(e) VAT

	Marks
Edco Limited is required to register for VAT on the basis that it is making intra community acquisitions of more than €41,000.	1
Edco Limited must supply its VAT registration number to the French supplier.	½
The French supplier will charge French VAT at 0% quoting Edco Limited's VAT registration number on the invoice.	½
Edco Limited must account for VAT on the intra-community acquisition on a reverse charge basis @ 23% which is to be included at T1 on their VAT 3	1
Edco Limited will not be entitled to recover this VAT as it is using the photocopiers for exempt activities. Therefore, T2 on their VAT 3 will be zero.	1
Total Marks (maximum)	4

[Total: 20 Marks]

SOLUTION 4

(a) Tommy CGT Computation

	€	Marks
Consideration	440,000	½
Less disposal costs	(12,000)	½
	428,000	
Base Cost		
97/98	(230,000 + 18,000) x 1.232	(305,536) 1
Enhancement		
2004	(150,000)	½
Repairs – not deductible	0	½
Indexed loss	(27,536)	
Monetary position		
(440,000 – 12,000 – 230,000 – 18,000)	180,000	1
Taxable gain	No Gain No Loss	1
Total Marks		5

(b) Louise Revised Entrepreneur Relief

	Marks
Louise qualifies for the relief on the basis that:	
• The grocery trade is a qualifying business i.e. is not a development land trade.	½
• The assets, premises and goodwill, have been used by Louise for the purposes of the qualifying business.	½
• The assets have been beneficially owned by Louise since 2001 and therefore the required beneficial ownership for a continuous period of at least 3 years out of the last 5 years up to the date of disposal is satisfied.	1

CGT Computation

	€	€	Marks
Shop Premises			
Consideration	1,780,000		½
Base Cost	(570,000 x 1.087)	(619,590)	1
Capital Gain		1,160,410	
Goodwill			
Consideration	500,000		½
Base Cost	(100,000 x 1.087)	(108,700)	1
		391,300	
Total gains		1,551,710	
Annual Exemption		(1,270)	½
Taxable gain		1,550,440	
Entrepreneur relief	€1,000,000 @ 10%	€100,000	1
Balance	€550,440 @ 33%	€181,645	½

(c) John - Disposals

(i) Antique Vase

		€	Marks
Consideration		6,800	1
Base Cost	906		
Indexation 84/85	1.819		1
		(1,648)	
Capital Gain		5,152	

(ii) Car

The car is a wasting chattel i.e. tangible movable property with an expected life of less than 50 years. Therefore, a gain is exempt and a loss is not allowable.	1
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(iii) Painting		€	Marks
Consideration		2,620	½
Base Cost		(1,800)	½
		<u>820</u>	
Consider marginal relief			
CGT at 33%		270.60	½
Marginal relief $(2,620 - 2,540) \times 50\%$		80.00	½
Marginal relief is lower, therefore claim marginal relief.			½
(iv) Shares			
Consideration $(5,000 \times 1.50)$		7,500	
Base cost $(5,000 \times 1.60)$		(8,000)	
		<u>(500)</u>	½
Gain on disposal of antique vase		5,152	
Loss on disposal of shares		(500)	½
Annual Exemption		(1,270)	½
Taxable Gain		<u>3,382</u>	
CGT @ 33%		1,116	½
Marginal relief		80	½
Total marks			8

SOLUTION 5

(a)

(i) Suzanne return filing date

Marks

Suzanne should have filed her 2017 income tax return by 31 October 2018.

1/2

Suzanne filed her income tax return more than 2 months late i.e. after 31 December 2018, therefore a surcharge penalty of 10% of the income tax liability, subject to a maximum of €63,485 will be payable.

1

Surcharge = €42,000 x 10% = €4,200

1/2

Total Marks

2

(ii) Suzanne preliminary tax

90% of tax payable for 2017 - €42,000 x 90% = €37,800

1/2

100% of tax payable for 2016 - €32,000 x 100% = €32,000

1/2

105% of the tax payable for the pre-preceding tax year 2015 provided direct debit arrangement is in place.

As Suzanne does not have a direct debit arrangement in place, this option is not available.

1/2

Calculation of interest:

Suzanne should have paid preliminary tax of at least €32,000 in respect of the 2017 tax year, and has therefore not met her preliminary tax obligations. Suzanne will be liable to interest on the underpayment from 31 October 2017 to 15 February 2019.

	€	Marks
2017 income tax liability	42,000	1/2
Surcharge	4,200	1/2
Less preliminary tax	(28,000)	1/2
Amount due	18,200	
Interest 18,200 x 0.0219% x 472 days	1,881	1
Total payment outstanding on 15 February	20,081	
Total marks		4

(b) Frank Commencement

Tax Year	Basis of Assessment	€	Marks
2015	Date of commencement to 31 December 2015 (36,000 x 4/12)	12,000	1
2016	Only one set of accounts ending in the tax year and that set is 12 months long Year ended 31 August 2016	36,000	1
2017	Current year basis Year ended 31 August 2017	18,000	1
	Tax payer option		
	2016 Original Assessment	36,000	1
	2016 Actual Basis		
	(36,000 x 8/12) + (18,000 x 4/12)	30,000	1
	Excess	6,000	1
		12,000	

(c) Brenda Income Tax Losses
(i) Income Tax Computation 2018

	€	Marks
Case I	Nil	½
Case V	43,000	½
Gross Income	43,000	
Less S381 Loss Relief	(20,000)	1
Less Nursing Home Expenses	(21,000)	½
Taxable Income	2,000	
Income Tax @ 20%	400	½
Less non-refundable tax credits		
Personal tax credit	(1,650)	½
Earned income credit	(1,150)	½
	(2,400)	
Liability / Refund due	Nil	1
Claim by 31 December 2020		1
Total Marks		6

(ii) Carry forward of losses

Marks

If Brenda did not make a section 381 claim, there would be €20,000 losses to carry forward to 2019.
Under Section 382 these losses can only be offset against income of the same trade.

½

As Brenda expects that there will be sufficient profits from the trade to absorb all of the losses in 2019 against her case I income, relief under section 382 will mean that the losses will be fully utilised in 2019.

½

Brenda had nursing home expenses and non-refundable credits for 2018 and in the absence of a claim under section 381 for 2018 Brenda's tax liability would have been minimal, i.e. €1,600.
Therefore, the benefit of these reliefs has been diluted.

1

By carrying the losses forward Brenda will yield an expected tax saving of 40% of €20,000 i.e. €8,000 in 2019 and preserve the benefit of the nursing home expenses and non-refundable credits in 2018

1

Total Marks

4

SOLUTION 6

(a) Chairz Ltd.

VAT Computation

	€		€	Marks
Output VAT				
Irish Customers	850,000	23%	195,500	½
EU Customers-VAT registered	422,000	0%	0	½
EU Customers-non-VAT registered	57,800	23%	13,294	1
Exports to Customers outside the EU	350,000	0%	0	1
Reverse charge - Intra EU acquisition of materials	240,000	23%	55,200	½
Reverse charge - Intra EU acquisition of machinery	260,000	23%	59,800	½
			<u>323,794</u>	
Input VAT				
Irish registered suppliers	198,000	23%	45,540	½
Reverse charge - Intra EU acquisition of materials	240,000	23%	55,200	½
VAT at POE on Imports from Brazil	320,000	23%	73,600	1
Reverse charge - Intra EU acquisition of machinery	260,000	23%	59,800	½
Passenger car, Category A - 20% VAT recovery	4200	23%	966	1
Petrol - disallowed	0	0	0	1
Electricity	58,200	13.5%	7,857	½
Telephone	49,500	23%	11,385	½
			<u>254,348</u>	
Vat Due 23rd January			69,446	½
Output VAT				10

(b) Revenue Audit

Benefits of a qualifying disclosure	Marks
Publication – the taxpayer's settlement will not be published in the Revenue tax defaulters list	1
Prosecution – the taxpayer will not be prosecuted	1
Penalties – the penalties due in respect of the default will be mitigated	1
Qualifying Disclosure	1
In order for a disclosure to be a 'qualifying disclosure' the following conditions must be satisfied:	
• The disclosure must be made in writing and by signed by or on behalf of the taxpayer	1
• Include all relevant information in relation to the issues which have resulted in tax liabilities	1
• Include a declaration by the taxpayer that all information contained in the disclosure is correct and complete	1
• Include a payment of the tax liability and interest on late payment	1
Prompted and Unprompted Disclosure	
• An unprompted disclosure is one that is made before the taxpayer is notified of a Revenue audit and before contact by Revenue regarding an enquiry or investigation.	1
• A prompted disclosure is a disclosure made after a notification of a Revenue audit has been issued but before commencement of the audit	1