CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

TAXATION

FORMATION 2 EXAMINATION - AUGUST 2018

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.

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

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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. Andrew Reilly (aged 34) is Irish resident and domiciled. Andrew and his wife Katherine, formally separated in April 2016. Andrew and Katherine have two children, Ciara and Eoin, aged ten and fourteen respectively. Andrew and Katherine have agreed that the children should live with Katherine throughout the school year and with Andrew during school holidays. Andrew pays maintenance in accordance with the legal separation agreement of €4,000 per month, of which €1,000 is for the benefit of Katherine.

Andrew is employed as an ICT manager with Advanced Techno Ltd. The following are relevant to Andrew's remuneration from Advanced Techno Ltd. in 2017:

- Andrew's gross salary from Advanced Techno Ltd. for 2017 was €92,000 from which PAYE of €28,640 was deducted.

- Under the terms of Advanced Techno Ltd.'s Revenue approved occupational pension scheme, both the company and Andrew contribute 5% of his gross salary to the scheme. During 2017, €9,200 was paid into the scheme for the benefit of Andrew of which €4,600 was deducted from his salary.

- In May 2017, he exercised 3,000 share options in Advanced Techno Ltd. paying an exercise price of €2 per share. The market value of an Advanced Techno Ltd. share on 1 May 2017 was €5 per share.

Andrew also owns a number of rental properties. Details of the income and expenditure for these properties are as follows:

18 The View, Beach Avenue, Wexford.
Andrew purchased this house in 2011 as a holiday home for the family. In 2016, Andrew decided to let it to a family from the local area for €1,000 per month. The property is not PRTB (Private Rental Tenancies Board) registered. He paid insurance of €1,800 on the house for 2017. Andrew borrowed the funds to purchase the house and the annual interest paid on the loan for 2017 was €3,400. Prior to letting the house, he did some refurbishment work and replaced the furniture and fittings at a cost of €8,000.

Retail Unit, Waterfall Shopping Centre, Galway.
Andrew inherited this unit on the passing of his father in early 2016. His father had operated a supermarket from this unit until his death. Andrew has let the unit to a large grocery chain on a 10 year lease from 1 April 2017 for an annual rent of €120,000 and an up-front premium of €200,000. In January 2017 while the property was vacant, €14,400 was spent rectifying flood damage which had occurred during the winter months. The cost of the damage was not covered by insurance as the insurance policy had been allowed to lapse. On 1 March 2017, he paid annual insurance for the unit of €12,000.

Details of Andrew's other expenditure for 2017 are as follows:

	€
Private medical insurance (net) for the benefit of Andrew and the children	4,000
Permanent health insurance	12,600
Medical expenses (€2,000 of which was re-imbursed by the insurer)	2,800

REQUIREMENT:

(a) Calculate the income tax payable/repayable for 2017 by Andrew on the basis that Andrew and Katherine have not elected for Joint Assessment. You may exclude the liability for PRSI and Universal Social Charge (USC). You should assume that Andrew paid the relevant self-assessment taxes in respect of the exercise of the share options on the due date.

(16 marks)

(b) Katherine has recently mentioned to Andrew that since their separation she has been finding it very difficult to manage working full-time and looking after the children. Andrew would like some information in relation to an election for Joint Assessment should Katherine decide to give up work.

REQUIREMENT:
On the basis that Andrew and Katherine elect for Joint Assessment and that Katherine has no income other than the maintenance received from Andrew, state briefly the tax implications for Andrew in respect of the following:

(i) The treatment of maintenance payments.

(ii) The applicable standard rate band.

(iii) The personal tax credit applicable.

(iv) The availability of the single person child carer credit.

(v) The availability of the home carer credit. (4 marks)

[Total: 20 marks]

2. Cloz Ltd., an Irish resident manufacturing company, commenced trading on 1 January 2015. The following information has been extracted from the accounts of Cloz Ltd. for the year ended 31 December 2017:

	Notes	€	€
Gross profit from trading			600,000
Other income			
Investment income	(i)	25,000	
			25,000
			625,000
Less expenses			
Depreciation		96,000	
Loss on disposal of machinery	(ii)	16,000	
Wages and salaries	(iii)	320,000	
Rates, light & heat & telephone		24,000	
Legal and professional fees	(iv)	5,000	
Interest charges	(v)	12,000	
Motor expenses	(vi)	6,000	
Finance lease interest	(vii)	3,000	482,000
Net profit before tax			143,000

Notes:

(i) Investment income comprised the following:

	€
Dividends from FXQ plc, a UK quoted trading company (Cloz Ltd. owns a 20% shareholding in this company)	10,000
Dividends received from Irish resident companies	15,000
	25,000

(ii) Cloz Ltd. sold machinery in July 2017 for €10,000. At the date of disposal, the net book value of the machine was €26,000 and the tax written down value was €30,000.

(iii) Wages and salaries include an accrual for pension contributions of €14,000. There was an opening accrual of €10,000.

(iv) Legal and professional fees comprise:

	€
Audit and accountancy fees	4,000
Legal fees in relation to debt collection	1,000
	5,000

(v) Interest charges comprises:

	€
Bank overdraft interest	2,000
Interest paid to Patrick Michigan*	10,000
	12,000

* Patrick Michigan provided a loan to Cloz Ltd. of €500,000 in late 2015. Patrick is a director of Cloz Ltd. and owns 70% of the shares. His wife Laura owns the remaining 30% of the shares. The total issued share capital including share premium of Cloz Ltd. is €1,000.

(vi) Motor expenses comprise:

	€
Motor vehicle running expenses	1,000
Lease rental cost of the sales director's car*	5,000
	6,000

* The sales director's car was leased new on 1 April 2017. This is a category B car and the cash cost of this car would be €20,000. The car is used 70% for business purposes.

(vii) The finance lease interest relate 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 2017 were €11,000. This figure comprised capital repayments of €8,000 and finance charges of €3,000.

(viii) Details in relation to plant and machinery is as follows:

	Cost	Tax Written Down Value
Assets held at 1 January 2017	€312,000	€238,000
Disposal in 2017 (see note (ii))	€40,000	€30,000

Additions in 2017
Cloz Ltd. purchased new machinery during the year which cost €64,000. All of this machinery was in use at 31 December 2017.

(ix) Cloz Ltd. paid employer PRSI during the year of €35,000. No employee had employer PRSI exceeding €5,000.

REQUIREMENT:

(a) Compute the corporation tax liability of Cloz Ltd. in respect of the accounting period ending 31 December 2017 before availing of the relief from corporation tax for start-up companies.

(14 Marks)

(b) Calculate the corporation tax liability for Cloz Ltd. after availing of the relief from corporation tax for start-up companies.

(2 Marks)

(c) Nisur Limited is an Irish resident trading company engaged in the manufacture of medical devices. During the year ended 31 December 2017, the company incurred €280,000 qualifying research and development expenditure. The total payroll taxes for Nisur Limited for 2016 and 2017 were €115,000 and €140,000. The company has the following corporation tax liabilities:

Year ended 31 December	€
2016	10,000
2017	15,000
2018 (estimated)	8,000
2019 (estimated)	12,000

REQUIREMENT:

Calculate the estimated payable credits available in respect of the R&D expenditure for 2017. (4 marks)

[Total: 20 marks]

3.

(a) Briefly explain the distinction between 'the export of goods' and the 'intra-community supply of goods', outlining the implications of these activities for VAT registered traders.

(4 marks)

(b) Janet (aged 56), is Irish resident and domiciled. During 2017, she gifted all of the shares in her family trading company to her daughter when the market value of the shares was €1,200,000. Janet had acquired the shares in 2004 by way of inheritance from her father and has worked as a full time director of the company since 2006. The market value of the shares at the date of inheritance was €250,000. The market value of the chargeable assets at the date of disposal to her daughter was as follows:

	€
Buildings used for the purpose of the trade	500,000
Plant and machinery	300,000
Investments	200,000

Janet satisfies all of the conditions for retirement relief and all of the conditions for revised entrepreneur relief.

REQUIREMENT:
Calculate the Capital Gains Tax payable by Janet on the disposal of her shares. (4 marks)

(c) Gretta was made redundant from Magnum Systems Ltd. in 2017. She had worked for the company for 18 years and 10 months. Her termination payment comprised the following:

	€
Statutory redundancy	5,400
Pay in lieu of notice (not provided under contract of employment)	2,000
Ex gratia compensation payment	60,000
Company car worth	20,000

Gretta's total salary and benefits for the 36 months to the date of termination of her employment were €240,000. At the date of termination the actuarial value of her tax-free lump sum entitlements under the company's pension scheme amounted to €30,000.

REQUIREMENT:
Calculate Gretta's taxable termination payment on the basis that she claims the Standard Capital Superannuation Benefit. (You are not required to calculate the basic or increased basic exemption).

(4 marks)

(d) Brendan is single and is 43 years of age. The following information is extracted from his Income tax Computation for 2017:

	€	€
Schedule D Case I	125,000	
Less capital allowances	(5,000)	
Less retirement annuity contributions	(12,000)	
		108,000
Schedule D Case IV – Deposit Interest		1,400
Taxable Income		109,400

REQUIREMENT:
Calculate Brendan's USC for 2017. (4 marks)

(e) Sofia disposed of her house on 1 May 2017 for €450,000. Sofia had purchased the house on 1 November 2003 for €387,000 and lived in the house from the date of purchase until 1 November 2008. Sofia had been made redundant at the end of the summer in 2008 and she decided to move abroad to work from 1 November 2008. She leased the house to tenants under a 5 year lease agreement. Sofia returned to Ireland on 1 January 2012 and rented an apartment until the lease on the house expired. She moved back into her house and on 1 July 2013 and lived there until the date of sale.

REQUIREMENT:
Calculate the capital gains tax liability for Sofia on the disposal of her house. (4 marks)

[Total: 20 marks]

SECTION B

Answer ANY TWO of the three questions in this Section.

4.

(a) Johnathon is a sole trader who commenced in business in April 2016 (manufacturing designer kitchens). His designs have been an instant success and Johnathon would like to incorporate the business. As part of this process, all of the assets of the business (except cash) will be transferred to a new limited liability company, JDK Limited. The gross value of the assets that will be transferred are €300,000. In return for the assets transferred Johnathon will receive 1,000 shares worth €200,000 and cash of €60,000. In addition, the company will assume the liabilities of Johnathon's business of €40,000. The total gains arising on the transfer of the business assets to JDK Limited will be €180,000.

REQUIREMENT:
Calculate the Capital Gains Tax payable by Johnathon on the transfer of the business assets to JDK Limited and state the base cost of Johnathon's shares in JDK Limited.

(4 marks)

(b) Breda commenced in business as an interior designer on 1 October 2015. She prepared accounts to 30 September each year and the tax adjusted profits of the business for each accounting period to date are as follows:

Year ended	**€**
30 September 2016	60,000
30 September 2017	84,000

REQUIREMENT:
Calculate the Case I assessable income for Breda for each of the years 2015, 2016 and 2017. (5 marks)

(c) Justin carries on a business as a sole trader and prepares his accounts to 31 December each year.

Details of the passenger motor vehicles used in the business are as follows:

	Emissions Category	**Date of acquisition**	**Cost**
Volkswagen Golf	C	1 July 2015	€28,000
Ford Mondeo	D	1 July 2015	€32,000
BMW	E	1 July 2016	€40,000
Nissan Micra	A	1 Aug 2017	€21,000

All of the vehicles were put into use for the purposes of the trade on their respective dates of acquisition and all were in use at 31 December 2017 except for the Volkswagen Golf which was disposed of in November 2017 for €16,200. The private use of the BMW is 40%. All of the other cars are used 100% for business purposes.

Details of plant and machinery held at 1 January 2018 is as follows:

	Cost inclusive of VAT @ 23%	**Tax Written Down Value**
Machinery	€393,600	€184,000

All of the machinery had been acquired in the last five years. In August 2017, Justin traded in one of the machines and received a trade-in allowance of €54,000. This machine had originally been purchased on 1 April 2014 at a cost of €98,400 inclusive of VAT. The cost of the new machine excluding VAT was €108,000.

Justin is VAT registered and does not carry on any exempt activities.

REQUIREMENT:
Calculate the total capital allowances claim for Justin for 2017 on the basis that Justin will avail of the replacement option in respect of a balancing charge, if any.

(11 marks)

[Total: 20 Marks]

5.

(a) Briefly explain the conditions to be satisfied in order for companies to be members of a group for corporation tax loss relief and the manner in which trading losses of a company may be surrendered to other group member companies. *Note: You are to specifically address the issues of the surrender of trading losses.*

(4 Marks)

(b) Lime Limited incurred Case I losses of €500,000 for the year ended 30 September 2017. Lime Limited owns 100% of Orange Limited and 60% of Pear Limited. All of the companies are Irish resident trading companies. None of them have any investments and the income of each comprises trading income only.

The following information is available in respect of the three companies.

	Lime Limited	**Orange Limited**	**Pear Limited**
Case I income for year ended 30 September 2017	Nil	€100,000	€80,000
Case I income for the year ended 30 September 2016	€50,000	€40,000	Nil

REQUIREMENT:

(i) State, giving relevant reasons whether each of the companies are members of a corporation tax loss group.

(2 Marks)

(ii) Prepare a loss memorandum showing the utilisation of the Case I loss of Lime Limited on the basis that maximum relief is claimed at the earliest opportunity. *Note: You are not required to prepare corporation tax computations for any of the companies.*

(3 Marks)

(iii) Explain how the loss carried forward at 30 September 2017 is utilised and outline any restrictions on its use.

(2 Marks)

(c) Green Limited is an Irish resident trading company and over many years it used any surplus cash to make investments. The directors have decided that some investments are now to be sold in order to generate cash for expansion of the trade. During the year ended 31 December 2017, the following disposals were made:

(i) In March 2001,Green Limited had purchased a 3% shareholding in Yellow Limited for €44,000. The shares in Yellow Limited were sold in November 2017 for €45,000.

(ii) An investment property was sold in December 2017 for €750,000. Green Limited had purchased the investment property for €250,000 in February 2002. Stamp duty and legal fees on acquisition were €15,000. An extension was added to the property at a cost of €110,000 in April 2004.

(iii) Green Limited purchased a neighbouring property for €550,000 in August 2007. This property was sold to James Brown for €400,000. James is a shareholder of Green Limited and owns 60% of the shares. The market value of the property at the date of disposal was €500,000.

REQUIREMENT:

Calculate the net chargeable gain to be included in the corporation tax computation of Green Limited for the year ended 31 December 2017.

(9 Marks)

[Total: 20 marks]

6.

(a) Free Limited is a small Irish company that manufactures electrical appliances and accounts for VAT on an invoice basis. The company had the following transactions during May/June 2017. All amounts are stated exclusive of value added tax (VAT) where applicable, unless stated otherwise.

Sales	€
Irish Customers	150,000
VAT registered EU customers	22,500
Private individuals in the UK	7,500
Exports to Customers outside the EU	150,000
Material Purchases	
Irish registered suppliers	60,000
EU registered suppliers	37,500
Imports from Australia	30,000
Other Purchases/Expenditure	
Machinery from an EU registered supplier	45,000
Passenger motor vehicle, Category D, used 50% for business purposes purchased from an Irish registered supplier	16,500
Advance payment for purchases of equipment	18,750
Petrol	2,625
Wages and salaries	116,000

REQUIREMENT:

Calculate the VAT payable or refundable by Free Limited for the May/June 2017 VAT period. (10 Marks)

(b) Free Limited has received a notification of a Revenue Audit. The newly promoted financial controller has little experience of a Revenue Audit and she has sought some clarification in relation to the meaning of the term 'qualifying disclosure'.

REQUIREMENT:

Outline the meaning of a qualifying disclosure referring specifically to 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.

(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

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SOLUTION 1

(a)
Andrew

Income Tax Computation for 2017	**Working**	**€**	**€**	**Marks**
Schedule D				
Case V	1	255,800		5
Less capital allowances	1	(1,000)		½
			254,200	
Schedule E				
Salary		92,000		½
Share option gain	2	9,000		1
Employer pension contributions - exempt		0		½
Pension contributions - Andrew		(4,600)		1
			96,400	
Gross Income			350,600	
Less charges				
Maintenance for the benefit of Katherine (€1,000 x 12)			(12,000)	1
Total Income			338,600	
Less Personal Allowances/Reliefs				
Permanent health insurance			(12,600)	½
Taxable Income			326,000	
Taxed as follows:				
Single person standard rate band	€33,800 @20%		6,760	1
Balance	€292,200 @40%		116,880	½
Total tax			123,640	
Less Non-refundable tax credits				
Personal tax credit – single person		1,650		½
PAYE tax credit		1,650		½
Private medical insurance - TRS		0		½
Medical expenses	(€2,800 - €800) x 20%	160		1
			3,460	
Less Refundable tax credits				
PAYE paid		28,640		½
RTSO paid		3,600		½
			32,240	
Net income tax due/(refundable)			87,940	
Pro forma layout				1
Total marks				**16**

Workings:

DO NOT DOUBLE COUNT MARKS

		€	€	Marks
1.	**Case V Income**			
	Wexford House			
	Gross rent (1,000 x 12)	12,000		½
	Interest (not allowable as the property is not PRTB registered)	0		1
	Insurance	(1,800)	10,200	½
	Galway Retail Unit			
	Gross rent (120,000 x 9/12)	90,000		½
	Premium (200,000 x [(51-10)/50])	164,000		1
	Insurance (12,000 x 9/12)	(9,000)		½
	Repairs (not allowable as pre-letting)	0	245,000	1
			255,200	
	Capital allowances (8,000 x 12.5%)		1,000	½
2.	**Share option gain**			
	Market value of shares (3,000 x 5)		15,000	½
	Exercise price (3,000 x 2)		(6,000)	½
	Share option gain		9,000	
	Income tax paid via RTSO (9,000 x 40%)		3,600	½

(b)		**Marks**
(i)	Maintenance payments are ignored. Andrew would not be entitled to a deduction for maintenance paid for the benefit of Katherine and Katherine would not be taxed on the receipt of the maintenance.	1
(ii)	Andrew will be entitled to the married person's standard rate band of €42,800. As Katherine has no income other than the maintenance, the increase of €24,800 is not available.	1
(iii)	Andrew would be entitled to the married person's personal tax credit of €1,650.	½
(iv)	The single person child carer credit is not available where joint assessment applies.	½
(v)	Andrew will qualify for the home carer credit of €1,100 on the basis that Katherine stays at home to care for qualifying dependents (the children) and her income does not exceed €7,200.	1
	Total Marks	**4**

SOLUTION 2

(a)

Case I Computation for year ended 31 December 2017	**Working**			**Marks**
Net profit before tax			143,000	½
Add back				
Depreciation		96,000		½
Loss on disposal		16,000		½
Pension closing accrual		14,000		½
Rates, light & heat & telephone		0		½
Legal fees		0		½
Bank overdraft interest		0		½
Interest on loan from Patrick	1	9,870		2
Motor running expenses		0		½
Finance lease interest		3,000		½
			138,870	
Deduct				
Pension opening accrual		10,000		½
Motor lease – additional deduction	2	1,000		1
Finance lease payments		11,000		½
Investment income		25,000		½
			(47,000)	
Capital Allowances				
Plant & machinery W&T	3		(42,000)	2
Balancing allowance	4		(20,000)	2
Case I			172,870	

Corporation Tax Computation for year ended 31 December 2017		**€**	**Marks**
Case I		172,870	
Case III			
UK Dividends	10,000		½
Irish deposit interest	5,000		½
		15,000	
Total Income/Taxable Income		187,870	
Corporation tax			
€172,870 @ 12.5%		21,609	½
€10,000 @ 25%		2,500	1
€5,000 @ 25%		1,250	½
		25,359	
Total Marks (maximum)			**14**

Workings

DO NOT DOUBLE COUNT MARKS

Working			**Marks**
1	**Interest restriction**		
	Lower of		
	13% of Share Capital (1,000 x 13%)	€130	
	13% of Loans (500,000 x 13%)	€65,000	
	Allowable interest	€130	1
	Add back (10,000 – 130)	€9,870	1
2	**Motor lease additional deduction**		
	(€5,000 x 24/20) - €5,000	€1,000	1

3 Plant & machinery W&T

Opening cost at 1 January 2017	312,000	½
Disposal	(40,000)	½
Additions	64,000	½
Closing cost at 31 December 2017	336,000	
W&T at 12.5% (336,000 x 12.5%)	€42,000	½

4 Balancing allowance

Proceeds	10,000	
TWDV	30,000	
	20,000	2

(b)

Start-up Exemption for year ended 31 December 2017		**€**	**Marks**
Total CT liability (from (a))		25,359	
Exemption = lower of			
CT on Case I	21,609		½
Employer PRSI	35,000		½
		(21,609)	1
Total Income/Taxable Income		3,750	
Total Marks (maximum)			**2**

(c)

Nisur Limited			**Marks**
Total R&D Tax Credit for 2017	(€280,000 x 25%)	70,000	½
Offset against 2017 CT		(15,000)	½
Offset against 2016 CT		(10,000)	½
Balance		45,000	
Refund	(45,000 x 33%)	(14,850)	½
Carried forward		30,150	
Offset against 2018 CT		(8,000)	½
Balance		22,150	
Refund	(22,150 x 50%)	(11,075)	½
Balance		11,075	
Offset against 2019 CT		(11,075)	½
Balance		0	
Refund		(0)	
Total Marks			**4**

[Total: 20 Marks]

SOLUTION 3

(a) VAT | **Marks**

Exports

Exports for VAT purposes are sales of goods by a VAT registered trader to customers outside the EU.	½
Exports are zero rated if dispatched to a destination outside the EU. Documentary evidence as to export should be maintained.	½

Intra-Community supplies of goods

Intra-Community supplies of goods refers to the movement of goods from a VAT registered supplier in one EU Member State to a VAT registered customer in another EU Member State.	1
Goods need to move across a border as a result of a supply to qualify as an intra-community acquisition. Documentary evidence as to movement should be retained	1
The supplier must quote the VAT number of the customer on the invoice	½
The supplier will charge the zero rate of VAT, subject to the above conditions being satisfied	½
Total Marks (maximum)	**4**

(b)

Janet		**€**	**Marks**
Consideration		1,200,000	
Base cost		(250,000)	
Capital Gain		950,000	1
Retirement relief	(950,000 x 800,000/1,000,000)	(760,000)	2
Taxable gain		190,000	
Annual exemption		(0)	½
		190,000	
CGT @10%		19,000	½
Total Marks			**4**

(c)

Gretta		**€**	**Marks**
Average annual emoluments (€240,000/3 years)	80,000		½
Complete years' service	18 years		
(80,000 x 18/15)		96,000	½
Less actuarial value of tax free lump sum		(30,000)	½
		66,000	
Statutory redundancy – exempt		0	½
Pay in lieu of notice (not provided under contract of employment)		2,000	½
Ex gratia compensation payment		60,000	½
Company car worth		20,000	½
		82,000	
Less SCSB exemption		(66,000)	½
Taxable termination payment		16,000	
Total Marks			**4**

(d)

Brendan USC			**€**	**Marks**
Schedule D Case I			125,000	
Less capital allowances			-5,000	½
Less retirement annuity contributions		Not deductible for USC	0	½
Schedule D Case IV		Not subject to USC	0	½
Income subject to USC			120,000	
USC	€12,012	@ 0.5%	60.06	
	€6,760	@ 2.5%	169.00	
	€51,272	@ 5%	2,563.60	½
	€49,956	@ 8%	3,996.48	1
	€120,000			
Excess on non-PAYE income over €100,000: €20,000 @3%			600.00	1
			7389.14	
Total Marks				**4**

(e) Sofia Disposal of House

		€	Marks
Consideration		450,000	½
Base cost		(387,000)	½
Gain		63,000	
PPR Relief (63,000 x 12/13.5)		(56,000)	1
		7,000	
Annual exemption		(1,270)	½
		5,730	
CGT @33%		1,891	½
Total period of ownership		13 years 6 months	½
Absence – working abroad	= deemed occupied	(0)	½
Absence – in rented apartment	= not occupied	(1 year 6 months)	½
Occupied		12 years	
Total Marks (maximum)			**4**

[Total: 20 Marks]

SOLUTION 4

(a) Johnathon

		€	Marks
Total Gains		180,000	
Deferred gain	(180,000 x 200,000/300,000)	(120,000)	2
Taxable gain		60,000	
Annual exemption		(1,270)	½
		58,730	
CGT @33%		19,381	½
Base cost of shares			
Value of shares		200,000	
Deferred gain		(120,000)	
Base cost		80,000	1
Total Marks			**4**

(b) Breda

Tax year	**Basis of Assessment**	**€**	**€**	**Marks**
2015	Date of commencement to 31st December 2015			
	(€60,000 x 3/12)		15,000	1
2016	Only one set of accounts ending in 2016 which are of			
	12 months long y/e 30th September 2016		60,000	1
2017	Current year basis, 12 months accounts ending in the			
	tax year y/e 30th September 2017		84,000	1
	Tax payer option to reduce year 3 assessment by excess			
	of year 2 original assessment over year 2 actual basis			
	2016 Original assessment	60,000		½
	2016 Actual basis (€60,000 x 9/12) + (€84,000 x 3/12)	66,000		½
	Excess of original assessment over actual basis	nil		
	No adjustment			1
	Total Marks			**5**

(c) Justin

Volkswagen Golf – Balancing Allowance			**€**	**Marks**
Qualifying Cost		24,000		
W&T 2015		(3,000)		½
W&T 2016		(3,000)		½
Tax Written Down Value		18,000		
Adjusted disposal proceeds	(€16,200 x 24/28)		13,886	1
Balancing Allowance			4,114	½
Ford Mondeo				
Qualifying Cost	Category D	12,000		½
W&T @ 12.5%	(12,000 x 12.5%)		1,500	½
BMW				
Qualifying Cost	Category E	12,000		½
W&T @ 12.5%	(12,000 x 12.5%)	1,500		½
Disallow private use	(1,500 x 40%)	(600)		½
			900	
Nissan Micra				
Qualifying Cost	Category A	24,000		½
W&T @ 12.5%	(24,000 x 12.5%)		3,000	½
			7,500	

Machinery

Qualifying Cost	(98,400 x 100/123)	80,000		
W&T 2014 – 2016 (3 years)	(80,000 x 12.5% x 3 yrs)	(30,000)		
Tax Written Down Value		50,000		
Disposal proceeds		54,000		
Balancing Charge		4,000		3
Wear & Tear				
Opening Cost	(393,600 x 100/123)	320,000		½
Disposal (98,400 x 100/123)		(80,000)		½
Addition (108,000-4,000)		104,000		1
Closing cost		344,000		
W&T @ 12.5%	(344,000 x 12.5%)		43,000	½
Total capital allowances			50,500	
Total Marks (Maximum)				**11**

SOLUTION 5

(a) Group Relief — Marks

Two companies are considered to be group members if either a company is a 75% subsidiary of another company or both companies are 75% subsidiaries of a third company — 1

The parent company must:

- own at least 75% of the subsidiary's ordinary share capital, — ½
- be beneficially entitled to at least 75% of any profits available for distribution — ½
- be beneficially entitled to at least 75% of any of the subsidiary's assets available in a winding up. — ½

Group Relief is generally available between Irish resident companies and branches of foreign companies within the charge to Irish tax. In certain limited circumstances, an Irish resident parent company may claim Group Relief on losses incurred by a subsidiary resident in another EU/EEA country. — 1

Under Group Relief, trading losses of one member company can be surrendered to another group member company:

- as an offset against relevant trading income in the same accounting period — ½
- on a value basis against relevant corporation tax for the same accounting period — ½

(b)

(i) Group Members — Marks

Apple Limited and Orange Limited are members of a CT loss group, Apple Limited being the parent and Orange Limited is a 75% subsidiary — 1

Pear Limited is not a member of the CT loss group as it does not qualify as a 75% subsidiary. — 1

(ii) Loss memorandum

			Marks
Case I Loss		500,000	
S396A	Offset against relevant trading income y/e 30 September 2017	(50,000)	1
S420A	Surrender to Orange Limited	(100,000)	1
Carried forward		350,000	1

(iii) Loss Carried Forward — Marks

The loss carried forward is offset in the next available accounting period against income of the same trade — 1
The loss cannot be used against any other income of Apple Limited — ½
The loss cannot be surrendered to another group company — ½

(c) Green Limited

(i)

3% shareholding in Yellow Limited	**€**	**€**	**Marks**
Consideration		45,000	½
Base cost	44,000		½
Indexation 00/01	1.144		½
		(50,336)	
Loss		(5,336)	
Indexation cannot create a loss		No Gain/No Loss	1

(ii)

Investment property			
Consideration		750,000	½
Base cost	250,000		½
Stamp duty and legal fees	15,000		½
	265,000		
Indexation 2002	1.049		½
		(277,985)	
Extension		(110,000)	½
		362,015	

(iii) Neighbouring property

Consideration (Market value imposed)	500,000	1
Base cost	(550,000)	½
Loss	(50,000)	
This loss is ring-fenced and can only be used against gains on disposal of assets to James Brown		1
Net chargeable gains (362,015 x 33/12.5)	955,720	1
No annual exemption given		½

SOLUTION 6

(a) Free Ltd

VAT Computation

Output VAT	**Ex VAT**	**Rate**	**VAT**	**Marks**
Irish Customers	150,000	23%	34,500	½
EU Customers-VAT registered	22,500	0%	0	½
EU Customers-non-VAT registered	7,500	23%	1,725	1
Exports to Customers outside the EU	150,000	0%	0	1
Reverse charge - Intra EU acquisition of materials	37,500	23%	8,625	½
Reverse charge - Intra EU acquisition of machinery	45,000	23%	10,350	½
	0		55,200	
Input VAT	0			
Irish registered suppliers	60,000	23%	13,800	½
Reverse charge - Intra EU acquisition of materials	37,500	23%	8,625	½
VAT at POE on Imports from Australia	30,000	23%	6,900	1
Reverse charge - Intra EU acquisition of machinery	45,000	23%	10,350	½
Passenger car, Category D - disallowed	0		0	1
Equipment advance payment	18,750	23%	4,313	1
Petrol - disallowed	0		0	½
Wages & salaries – outside the scope of VAT	0			½
			44,605	
Net VAT Due			10,595	½
Total marks				**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