TAXATION

FORMATION 2 EXAMINATION - AUGUST 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.

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. Brenda and Jack Durkan, aged 35 and 42 respectively, are Irish resident and domiciled and have two children, aged 5 and 7.

Brenda carries on a bakery trade. She commenced trading on 1 June 2016. Her tax adjusted profits for the accounting periods to 31 May are as follows:

Year ended 31 May 2017	€90,000
Year ended 31 May 2018	€60,000

The total cost of plant and machinery at the beginning of the year was €48,000. The following additions and disposals took place:

- Brenda disposed of some equipment which had cost €8,000 for €6,200. The tax written value of the equipment was €7,000.
- A new oven was purchased for €18,000 on 1 October 2017 and immediately put into use in the business.
- A van was purchased and paid for on 20 May 2018, costing €42,000. Due to a delay in the delivery of the van it was not available for use in the business until 12 June 2018.

<u>Brenda also received the following investment income in 2018:</u>

Dividends from Irish companies (net of dividend withholding tax)	€9,000
Irish deposit interest (net of DIRT)	€1,890

Jack is an engineer and has been in business providing professional engineering services for many years. Unfortunately, one of the major contracts he was engaged in has ceased due to lack of funding and as a result Jack has incurred a loss in the business. Jack's Case II income, after adjusting for tax purposes, is a loss of €15,000. Capital allowances for 2018 are €4,000.

Jack also owns a commercial rental property which was purchased on 1 April 2018. From 1 July 2018 he let the property on a 15 year lease for an annual rent of €32,000 and an up-front premium €60,000. Interest on the borrowings used to acquire the property was €10,800 for the period from 1 April 2018 to 31 December 2018.

<u>Brenda and Jack's Expenditure for 2018 was as follows:</u>

Contributions to retirement annuity contracts for Brenda	€8,000
Qualifying medical expenses	€3,800

REQUIREMENT:

(a) Calculate Brenda's Case I income for each of her first three tax years in business. (4 Marks)

(b) Calculate Brenda's total capital allowances for 2018. (4 Marks)

(c) Calculate the income tax payable or refundable for Brenda and Jack in respect of 2018, excluding the liability for PRSI and Universal Social Charge (USC). You should assume that Jack would like to avail of the maximum loss relief available for 2018.

(12 Marks)

[Total: 20 marks]

2.

(a) Chester Ltd. is an Irish resident manufacturing company. Extracts from the company's accounts for the year ended 31 December 2018 show the following:

	Notes	€	€
Gross profit from trading			1,500,000
Other income			
Rental profit	(i)	15,000	
Dividends received from Irish companies		22,000	
Irish deposit interest (gross)		6,000	
			43,000
			1,593,000
Less expenses			
Depreciation		25,000	
Repairs and maintenance	(ii)	52,000	
Loss on disposal of motor vehicle	(iii)	4,000	
Wages and salaries	(iv)	300,000	
Electricity		25,000	
Legal and professional fees	(v)	36,000	
Interest charges	(vi)	5,100	
Motor expenses	(vii)	19,200	
Finance lease interest	(viii)	4,000	
			470,300
Net profit before tax			1,072,700

Notes:

(i) Rental profit arises from letting surplus warehouse space and has been calculated as follows:

	€
Rental income	20,000
Insurance	(5,000)
	15,000

See also note (ii) below in relation to repairs.

(ii) Repairs and maintenance comprises the following:

	€
Repairs to factory	10,000
Repairs to warehouse (of which 10% relates to the surplus space which has been let)	28,000
General repairs provision	14,000
	52,000

(iii) The loss on disposal of the motor vehicle related to a category A car which originally cost €30,000 and was sold for €20,000. The tax written down value at the date of disposal was €18,000.

(iv) Wages and salaries includes an accrual at the end of the year for pension contributions of €10,000. There was no opening accrual or prepayment in respect of the pension.

(v) Legal and professional fees comprise:

	€
Audit and accountancy fees	6,000
Legal fees in relation to settlement of claim by customer	26,000
Legal fees in relation to debt collection	4,000
	36,000

(vi) Interest charges comprises:

	€
Bank overdraft interest	1,600
Interest on late payment of VAT	3,500
	5,100

(vii) Motor expenses comprise:

	€
Running expenses of delivery vans	3,200
Lease rental of delivery vans	16,000
	19,200

(viii) The finance lease interest relates to the lease 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 €25,000. This figure comprised capital repayments of €21,000 and interest charges of €4,000.

(ix) Information relating to fixed assets:

Assets held at 1 January 2018	**Cost**	**Tax Written Down Value**
Plant & Machinery	€240,000	€150,000
Industrial Buildings	€500,000	€400,000

During the year an extension to the factory was constructed at a total cost of €120,000. This comprised construction costs of €40,000 and site cost of €80,000.

(x) In February 2018, Chester Ltd. decided that a retail unit which had previously been used for direct sales was no longer required as the company chose to focus on wholesale distribution. The retail unit was sold for €380,000 and disposal costs of €3,000 had been incurred (these costs have not been included in calculating profit). The retail unit had cost €55,000 in August 1998. Incidental costs of acquisition were € 6,000. Repairs costing €16,000 had been undertaken in 2010.

REQUIREMENT:
Compute the corporation tax liability of Chester Ltd. in respect of the accounting period ending 31 December 2018 and state the due date for filing of the return in respect of this period.

[Total: 20 marks]

3.

(a) Peter is employed as a sales representative and has received the following benefits from his employer:

1. Company car: The original market value of the car is €30,000. Peter has driven 34,000 kilometres during 2018 of which 90% are for business purposes. Peter paid €100 per month to his employer in respect of private use of the car.

2. Loan: Peter's employer provided a loan of €20,000 on 1 April 2018. The loan was used by Peter to build an extension to his home and he Peter paid interest on this loan of €200.

3. Mobile Phone: Peter is provided with a mobile phone for business use. Private use of the phone is incidental. The market value of the phone is €1,500.

4. Pension: Peter's employer pays 5% of his annual salary to a revenue approved occupational pension scheme for Peter's benefit. The total contribution for 2018 was €5,600.

REQUIREMENT:
For each of the items at 1 to 4, state the tax treatment of each benefit and the amount, if any, of the benefit which will be subject to income tax.

(4 marks)

(b) Monday Ltd. purchased 10% of the shares in Tuesday Ltd. for €120,000 in August 2015. Both companies are Irish resident. Monday Ltd. disposed of the shares in Tuesday Ltd. in October 2018 for €300,000. Tuesday Ltd. does not derive the greater part of its value from Irish land and buildings.

REQUIREMENT:
State four main conditions which need to be satisfied in order for Monday Ltd. to qualify for the participation exemption on the disposal of the shares in Tuesday Ltd.

(4 marks)

(c) Mary entered into a binding agreement to pay an annual covenant of €10,000 to her uncle Mathew, aged 67. Mathew is retired and his only source of income is the state pension. Mary's gross income is €61,740. Mary's brother Paddy has entered into a binding agreement to pay an annual covenant of €10,000 to his friend Teresa who is aged 34 and is permanently incapacitated. Paddy's gross income is €56,000.

REQUIREMENT:
State the tax treatment for Mary and Teresa, Paddy and Mathew in respect of the covenant payments. (4 marks)

(d) Paul is single and is 42 years of age. The following information is extracted from his Income Tax Computation for 2018:

	€	€
Schedule D Case II	57,000	
Less capital allowances	(5,000)	
Less retirement annuity contributions	(6,000)	
		46,000
Schedule D Case IV – Irish Deposit Interest		1,000
Schedule F – Irish Dividends		12,000
Taxable Income		59,000

REQUIREMENT:
Calculate Paul's PRSI and USC for 2018. (4 marks)

(e) Yellow Ltd. is an Irish business engaged in the sale of computer parts. The majority of Yellow Ltd.'s customers are EU VAT registered businesses. Yellow Ltd. are always in a VAT repayment situation and are registered for VAT in Ireland only.

REQUIREMENT:
Outline the main conditions to be satisfied in order for Yellow Ltd. to avail of the cash flow mechanism referred to as the Section 56 Authorisation.

(4 marks)

[Total: 20 marks]

SECTION B

Answer ANY TWO of the three questions in this Section.

4.

(a) Justine (aged 57) owns 8% of the ordinary share capital of a trading company Dragon Ltd., an Irish resident food manufacturing company. She acquired her shares in the company on 1 April 2004 for €10,000. Justine is not related to any of the other shareholders. She has worked in Dragon Ltd. as the financial director since acquiring her shares. She has decided to retire and it has been agreed that she will sell her shares to one of the other shareholders for €340,000.

REQUIREMENT:

Explain, giving reasons for your answer, whether or not Justine can qualify for either Retirement Relief and/or Revised Entrepreneur Relief and calculate the capital gains tax liability, if any, on the disposal of her shares.

(5 marks)

(b) Kathy (aged 32) owns and operates a clothing boutique which has been trading for the last two years. Kathy has decided to incorporate her sole trade. The assets of the trade were transferred on 1 July 2018 into the ownership of Chic Ltd., a new company. The gross value of the assets transferred to Chic Ltd. was €600,000. The value of the shares in Chic Ltd. at the date of transfer was €500,000 and the total gains on disposal of the assets of the sole trade to Chic Ltd. was €420,000.

REQUIREMENT:

Calculate the capital gains tax liability for Kathy on the incorporation of her sole trade and calculate the base cost of the shares in Chic Ltd.

(5 marks)

(c) Craig made the following disposals of assets during 2018:

(i) In May 2018, he sold an antique painting for €2,150 having purchased it in July 1999 for €1,400. He paid €2,000 in March 2001 for professional restoration and refurbishment work on the painting.

(ii) In September 2018, he sold his home in Galway to his sister for €250,000. The market value of the house at the date of disposal was €320,000. Craig acquired the house by way of inheritance from his uncle in September 1991 when the market value was €118,000. He lived in the house until September 2011, at which time he was transferred to the Dublin office by his employer. Craig moved back into the house for two months during the summer in 2018 while on an extended holiday from work.

(iii) Craig's sister wanted to furnish the house to her own taste and Craig decided to sell the furniture online. He sold the sofa, dining set and garden furniture for €2,000. The total original cost of the items sold was €8,000. None of the items were antiques.

REQUIREMENT:

Calculate Craig's capital gains tax liability in respect of the above disposals. Provide a brief explanation in respect of exempt assets, if any.

(10 marks)

[Total: 20 Marks]

5.

(a) Darcy Collins incorporated DC Ltd. in Ireland on 1 January 2016. DC Ltd. imports garden furniture which it sells to retail stores throughout Ireland. This activity was not previously carried on by Darcy or another person.

Relevant information relating to DC Ltd. for 2016, 2017 and 2018:

Year ended	**Tax adjusted trading profits**	**Employers PRSI**
31 December 2016	€140,000	€16,000
31 December 2017	€190,000	€24,000
31 December 2018	€200,000	€42,000

DC Ltd. has warehouse space that is surplus to requirements which it has leased to a third party from 1 January 2016 under a 10-year lease agreement for €36,000 per annum.

REQUIREMENT:

(i) Calculate the total corporation tax liability of DC Ltd. for each of the years 2016, 2017 and 2018 after availing of the corporation tax start-up exemption. State the amount of any relief carried forward.

(8 Marks)

(ii) State whether or not DC Ltd. will be subject to close company surcharge. State what actions can be taken in order to avoid a close company surcharge.

(2 Marks)

(b) Longap Ltd. is an Irish resident trading company. The company had always prepared its accounts to 30 June each year. In 2018 it was decided to change the accounting period end date to 31 December. The tax adjusted trading profits, before capital allowances, for the 18 months to 31 December 2018 was €240,000.

The total qualifying cost of plant and machinery at 1 July 2017 was €80,000. Longap Ltd. purchased new plant and machinery on 1 September 2018 costing €16,000 which was immediately put into use.

Longap Ltd. had Case I losses forward of €61,400 at 1 July 2017.

REQUIREMENT:

Calculate the corporation tax liability for Longap Ltd. in respect of the accounting period ended 31 December 2018 and state the return filing due dates.

(6 Marks)

(c) Power Ltd. is purchasing some new equipment for its factory and would like to avail of the accelerated capital allowances incentive for energy efficient equipment.

REQUIREMENT:

Provide a brief outline of the accelerated capital allowances incentive for energy efficient equipment stating the main conditions to be satisfied, who can qualify and the relief available.

(4 Marks)

[Total: 20 marks]

6.

(a) Green Ltd. is an Irish company that manufactures sports accessories. Green Ltd. accounts for VAT on an invoice basis. The company had the following transactions during November/December 2018. It is not registered for VAT in any other EU member state. **All amounts are stated exclusive of value added tax (VAT) where applicable.**

Sales of standard rated goods	€
Irish Customers	740,000
VAT registered EU customers	320,000
Private individuals in the EU	25,000
Exports to Customers outside the EU	400,000
Material Purchases – all standard rated goods	
Irish registered suppliers	187,000
EU registered suppliers	266,000
Imports from Japan	129,000
Other Purchases/Expenditure	
Delivery van (excluding VAT at 23%)	42,000
Passenger motor vehicle (excluding VAT at 23%) (Note 1)	26,000
Diesel for delivery van (excluding VAT at 23%)	8,800
Petrol for passenger motor vehicle (excluding VAT at 23%)	3,600
Electricity (excluding VAT at 13.5%)	14,000
Telephone (excluding VAT at 23%)	9,500

Note 1 – the passenger motor vehicle is a Category B vehicle which is used 50% for private purposes.

REQUIREMENT:

Calculate the VAT payable or refundable for Green Ltd. for the November/December 2018 VAT period. (10 Marks)

(b) Jack Gleaming commenced his own business 'Gleaming Cleaning' in January 2018. Gleaming Cleaning provides domestic cleaning services in Kildare, Ireland. The projected turnover for the business, excluding VAT is as follows:

	€
2018	36,000
2019	60,000
2020	100,000

REQUIREMENT:

(i) State when Jack will be required to register for VAT and describe the registration process. (3 Marks)

(ii) Briefly outline how Jack should account for VAT. (1 Mark)

(iii) Briefly explain the cash receipts basis and whether or not Jack can avail of this basis. (2 Marks)

(iv) State EIGHT details which will need to be included on the sales invoices for VAT purposes. (4 Marks)

[Total: 20 marks]

END OF PAPER

SUGGESTED SOLUTIONS

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SOLUTION 1

(a)

Tax Year	Basis of Assessment		€	Marks
2016	Date of commencement to 31 December 2016			
	(90,000 x 7/12)		52,500	1
2017	Only one set of accounts ending in the tax year and that set is 12 months long			
	Year ended 31 May 2017		90,000	1
2018	Current year basis Year ended 31 May 2018		60,000	1
	Tax payer option 2017 Original Assessment	90,000		
	2017 Actual Basis (90,000 x 5/12) + (60,000 x 7/12)	72,500		
Excess			17,500	1
			42,500	
Total marks				**4**

(b)

Capital allowances		Marks
Opening cost	48,000	½
Disposal	(8,000)	½
Addition - Oven	18,000	½
Addition - Delivery Van (not in use on 31 May 2018)	0	½
	58,000	
Wear & tear (58,000 x 12.5%)	7,250	½
Balancing adjustment		
Proceeds	6,200	½
TWDV	7,000	½
Balancing allowance	800	½
Total capital allowances	8,050	
Total marks		**4**

(c)

Brenda and Jack	Workings	€	€	Marks
Income Tax Computation for 2018				
Schedule D				
Case I – Brenda (from part (i))		42,500		
Less capital allowances (from part (ii))		(8,050)		
			34,450	
Less retirement annuity contributions	1		(6,910)	2
Case II – Jack			nil	1
Case IV – Brenda				
Irish deposit interest (1,890 x 100/63)			3,000	½
Case V – Jack			52,000	1½
Schedule F				
Irish dividends (9,000 x 100/80)			11,250	½
Gross Income			93,790	
Less 'Certain' Deductions			0	

Total Income				
Less Section 381 loss relief			(19,000)	1
Taxable Income			74,790	
Taxed as follows:				
Married person	€43,550 @20%		8,710	½
Married person increase	€25,550 @ 20%		5,110	½
Deposit interest	€3,000 @37%		1,110	½
Balance	€2,690 @40%		1,076	½
Total tax			16,006	
Less Non-refundable tax credits				
Personal tax credit – married person		3,300		½
Earned income credit - Brenda		1,150		½
Earned income credit - Jack		1,150		½
DIRT paid (3,000 x 37%)		1,110		½
Medical expenses (3,800 x 20%)		760		½
			(7,470)	
Less Refundable tax credits				
DWT paid (11,250 x 20%)		2,250		1
			(2,250)	
Net income tax due/(refundable)			6,286	

[Total: 12 marks]

Workings/Notes
DO NOT DOUBLE COUNT MARKS

Workings			**Marks**
1	Retirement annuity contributions		
	Net relevant earnings (120,000 + 9,600 + 8,000)	€34,550	
	Earnings Cap	N/A	
	Age related %	20%	
	% of Net relevant earnings	€6,910	1
	Contributions paid	€8,000	½
	Relief is limited to:	€6,910	½
			2
2	Case V – Commercial Property		
	Gross Rent (€32,000 x 6/12)	€16,000	½
	Premium (€60,000 x [51-10]/50)	€43,200	½
	Less allowable deductions		
	Interest (10,800 x 6/9)	(€7,200)	½
	Case V	€52,000	**1½**
3	Section 381 loss relief		
	Case II Loss	€15,000	½
	Capital allowances	€4,000	½
	Total available loss relief for 2018	€19,000	**1**

SOLUTION 2

Case I Computation				
Profit per the accounts			1,072,700	½
Add back				
Depreciation		25,000		½
Repairs and maintenance	Rental portion (28,000 x 10%)	2,800		½
Repairs and maintenance	General provision	14,000		½
Loss on disposal of car		4,000		½
Wages and salaries	Pension accrual	10,000		½
Legal and professional fees		0		½
Interest charges	Interest on late VAT	3,500		½
Motor expenses		0		½
Finance lease interest		4,000		½
			63,300	
Deduct				
Rental profit		15,000		½
Irish dividends		22,000		½
Irish deposit interest (gross)		6,000		½
Finance lease payment	(21,000 + 4,000)	25,000		½
			(68,000)	
			1,068,000	
Capital Allowances				
Plant & Machinery				
Opening cost		240,000		½
Addition		0		
Disposal	Qualifying cost €24,000	(24,000)		½
Closing cost		216,000		
Wear & Tear	(216,000 x 12.5%)		27,000	½
Balancing adjustment				
Proceeds	(20,000 x 24/30)	16,000		1
TWDV		18,000		½
Balancing allowance			2,000	
Industrial Building				
Opening cost		500,000		½
Addition		40,000		½
Disposal		0		
Closing cost		540,000		
Industrial buildings allowance	(540,000 x 4%)		21,600	½
			1,017,400	
Case V Computation				
Rental income			20,000	½
Insurance			(5,000)	½
Repairs	(28,000 x 10%)		(2,800)	½
			12,200	
Chargeable Gain Computation				
Consideration			380,000	½
Less disposal costs			(6,000)	½
			374,000	
Base cost		55,000		½
Incidental acquisition costs		6,000		½
		61,000		
Indexation 1998/1999		1.212		½
			73,932	
Repairs			0	½
			300,068	
CT Adjusted	(300,068 x 33/12.5)		792,180	½

Corporation Tax Computation

Case I		1,017,400	
Case III		6,000	
Case V		12,200	
Total Income		1,035,600	
Chargeable gain		792,180	
		1,827,780	1
Irish Dividends - Exempt			½
Corporation Tax			
@12.5%	((1,017,400 + 792,180) x 12.5%)	226,197	½
@25%	((6,000 + 12,200) x 25%)	2,275	½
		228,472	
Return filing due date	23rd September 2019		1

[Total: 20 marks]

SOLUTION 3

(a) Peter

			Marks
1	The benefit of the car is subject to income tax as follows:		
	Original Market Value	30,000	
	Business kms (34,000 x 90%)	30,600	
	BIK Percentage	24%	½
	Assessable Benefit in Kind (30,000 x 24%)	7,200	½
	Less contribution by Peter	(1,200)	½
		6,000	
2	The benefit of the loan at preferential interest rate is subject to income tax as follows:		
	Loan amount	20,000	
	Specified rate – Improvement of PPR	4%	½
	Interest (20,000 x 4% x 9/12)	600	½
	Less interest paid by Peter	(200)	½
		400	
3	Mobile phone use provided for the purpose of individuals carrying out employment duties is exempt provided the private use is incidental.	nil	½
4	Contributions by an employer to an approved occupational pension scheme are exempt.	nil	½

(4 marks)

(b) Participation Exemption

Marks

Monday Limited is required to be 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 of Tuesday Limited. 1

Monday Limited must have the minimum holding in Tuesday Limited for a continuous period of 12 months in the 2 years prior to disposal. 1

Tuesday Limited must be a trading company or the business of Monday Limited and Tuesday Limited, taken together must consist of wholly or mainly of carrying on trades. 1

At the time of disposal, Tuesday Limited must be resident in a member state of the EU or a country with which Ireland has a tax treaty. 1

(4 marks)

(c) Mary

Marks

Mary is entitled to an income tax deduction of 5% of gross income after deducting the covenant for the amount payable to Mathew i.e. (61,740 x 5/105) = €2,940 ½

Mary must withhold income tax at 20% on the amount which has been paid to Mathew for which she has received a deduction. €2,940 x 20% = €588 ½

The amount deducted by Mary €2,940 will be treated as taxable income in Mathew's hands. ½

Mathew will be entitled to credit for the income tax withheld. ½

Paddy is entitled to deduct the full amount of the gross covenant payable to Teresa of €10,000 ½

Paddy must withhold income tax at 20% i.e. €2,000 ½

The gross covenant of €10,000 will be treated as taxable income in Teresa's hands. ½

Teresa will be entitled to credit for the amount of the income tax withheld. ½

(4 marks)

(d) Paul

PRSI

			€	Marks
Schedule D Case II			57,000	
Less capital allowances			(5,000)	½
Less retirement annuity contributions	Not deductible for PRSI		0	½
Schedule D Case IV – Deposit Interest			1,000	
Schedule F - Irish Dividends			12,000	
Income subject to PRSI			65,000	
PRSI	€65,000	@ 4%	€2,600	½

USC

			€	
Schedule D Case II			57,000	
Less capital allowances			(5,000)	½
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			12,000	
Income subject to USC			64,000	
USC				
	€12,012	0.50%	60.06	
	€7,360	2%	147.20	
	€44,628	4.75%	2,119.83	
			2,327.09	1

(4 marks)

(e) VAT

Marks

Qualifying person: where 75% or more of the turnover of a person who is registered for VAT in Ireland derives from exports of goods to non-EU countries or intra EU supplies. 1

The "qualifying person" may apply to Revenue Commissions for authorisation under Section 56 ½

Once granted, the authorisation will allow the holder to:

- Acquire goods and services from Irish traders and only be charged 0% Irish VAT on the purchase;
- Self-account for intra-Community acquisitions of goods and taxable reverse charge services at the 0% rate of Irish VAT; 1

The purchase of non-qualifying goods/services, such as food, drink, petrol, hotel accommodation attracts the usual rate of Irish VAT. ½

The Section 56 authorisation holder must give its authorisation number to all Irish suppliers in order for them to be able to quote this on the "zero-rated" invoices. 1

(4 marks)

[Total: 20 marks]

SOLUTION 4

(a) Justine

Marks

Justine does not qualify for Retirement Relief as she does not satisfy the minimum ownership percentage of shares i.e. 10% where the individual had worked in the company for the 5 years prior to disposal. 1

Justine qualifies for the Revised Entrepreneur Relief on the basis that:

- Dragon Limited is a qualifying business i.e. is not a development land trade. ½
- 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 of at least 5% of the shares is satisfied. ½
- Justine satisfies the requirement to have worked at least 50% of her time in a managerial or technical capacity for a continuous period of 3 years out of the last 5 years up to the date of disposal. ½

CGT Computation

			€	
Consideration		340,000		½
Base Cost		(10,000)		½
Capital Gain			330,000	
Annual Exemption			(1,270)	½
Taxable gain			328,730	
Entrepreneur relief	€328,730 @ 10%		€32,873	1

(5 marks)

(b) Kathy

			Marks
Total Gains		420,000	
Deferred gain	(420,000 x 500,000/600,000)	350,000	2
Taxable gain		70,000	
Annual exemption		(1,270)	½
		68,730	
CGT @33%		22,681	½
Base cost of shares			
Value of shares		500,000	
Deferred gain		(350,000)	
Base cost		150,000	2

(5 marks)

(c) Jeremy - Disposals

(i) Antique painting

			Marks
Consideration (Deemed)		2,540	1
Base Cost	1,400		½
Refurbishment	2,000		½
Indexation – cannot increase a loss			½
		(3,400)	
Capital Loss		(860)	

(ii) House

Consideration (Market value)		320,000	1
Base cost	(185,000)		½
Indexation 1991/1992	1.406		½
		(260,110)	
		59,890	
PPR relief (59,890 x 24/27)		(53,236)	½
		6,654	

Period of Ownership September 1991 to September 2018	27 years		½
September 1991 to September 2011 – actual occupied			½
September 2011 to September 2014 – deemed occupied			½
September 2014 to September 2017 – not occupied	3 years		½
September 2017 to September 2018 – deemed occupied			½
Total period of occupation as PPR	24 years		

(iii) Furniture

The disposal of the furniture is exempt i.e. wasting chattels 1

Summary	€	
Gain on disposal of house	5,654	
Loss on disposal of antique painting	(860)	½
Annual Exemption	(1,270)	½
Taxable Gain	3,524	
CGT @ 33%	1,163	½

(10 marks)

SOLUTION 5

(a)

(i) DC Limited

	2016	2017	2018	Marks
Case I	140,000	190,000	200,000	
Case V	36,000	36,000	36,000	
Total Income	176,000	226,000	236,000	
CT Liabilities				
@ 12.5%	17,500	23,750	25,000	1½
@ 25%	9,000	9,000	9,000	1½
Total	26,500	32,750	34,000	
CT on relevant income	17,500	23,750	25,000	
Employers PRSI*	16,000	24,000	40,000	
Relief available	16,000	23,750	25,000	3
Carried forward unutilised relief	0	250	15,000	2

(8 marks)

(ii) Close Company Surcharge

Yes, DC Limited is a close company on the basis that it is controlled by 5 or few participators. 1

In order to avoid incurring a surcharge, DC Limited must make a distribution (less €2,000 deminimus amount) within 18 months of the end of the account period i.e. for 2018, distribution by 30 June 2020. 1

(8 marks)

(b) Longap Limited

	Year ended 30 June 2018	6 months ended 31 December 2018	Marks
Tax adjusted trading profits (before capital allowances)			
First 12 months (240,000 x 12/18)	160,000		½
Next 6 months (240,000 x 6/18)		80,000	1
Capital allowances (80,000 x 12.5%)	(10,000)		½
(80,000 + 16,000) x 12.5% x 6/12		(6,000)	1
Case I	150,000	74,000	
S396(1) Loss relief	(61,400)		1
Taxable profits	88,600	74,000	
Corporation tax @ 12.5%	11,075	9,250	1
Filing date	23rd March 2019	23rd September 2019	1

(6 marks)

(c) Accelerated Capital Allowances for Energy Efficient Equipment

	Marks
The scheme of accelerated capital allowances is available to **companies and unincorporated businesses** that incur expenditure on eligible energy-efficient equipment for use in their trade.	1
The equipment must be **owned by the business.** Equipment that is leased, let or hired will not qualify for the allowance.	½
The energy-efficient equipment must be **new.** It must meet certain energy-efficient criteria and must fall within one of the 10 classes of **technology specified in Schedule 4A of the TCA, 1997.**	½
A minimum amount of expenditure must be incurred on providing the equipment and this **varies** with the particular category to which the product belongs.	1
Accelerated c**apital allowances of 100% of the capital expenditure incurred** on such equipment can be claimed for **the year in which the equipment is first provided and used.**	1

(4 marks)

SOLUTION 6

(a) **Green Ltd**

VAT Computation

				Marks
Output VAT				
Irish Customers	740,000	23%	170,200	½
EU Customers-VAT registered	320,000	0%	0	½
EU Customers-non-VAT registered	125,000	23%	28,750	1
Exports to Customers outside the EU	400,000	0%	0	1
Reverse charge - Intra EU acquisition of materials	266,000	23%	61,180	½
Reverse charge - Intra EU acquisition of equipment	97,000	23%	22,310	½
			282,440	
Input VAT				
Irish registered suppliers	187,000	23%	43,010	½
Reverse charge - Intra EU acquisition of materials	266,000	23%	61,180	½
VAT at POE on Imports from Japan	129,000	23%	29,670	1
Reverse charge - Intra EU acquisition of equipment	97,000	23%	22,310	½
Passenger car, Category C - €22,00 x 20% VAT recovery	4400	23%	1,012	1
Petrol - disallowed	0	0	0	1
Electricity	14,000	13.50%	1,890	½
Telephone	9,500	23%	2,185	½
			161,257	
Vat Due 23rd January			121,183	½

(10 marks)

(b) Marks

(i) Jack will be liable to register for VAT from 2019 onwards, as the relevant threshold €37,500. 2

Jack will be required to complete a TR2 registration form, the VAT registration will become active from a date agreed to by his local tax district and himself, and after the completed application has been received by Revenue. 1

(ii) Jack should account for VAT on an invoice basis which should be filed on a bi-monthly basis. The returns are due to be filed by the 19th day of the month following the period. The deadline for ROS filing is 23rd of the following month. 1

(iii) The cash receipts basis is a method of accounting for VAT whereby output VAT is accounted for when the cash is received instead of by reference to the invoice date. It is available to a trader where they satisfy one of the following conditions:

- The turnover of the business does not exceed or is not likely to exceed €2 million in a 12 month period
- The trader derives 90% or more of his turnover from sales to unregistered persons

Based on the details provided, Jack would be able to avail of the cash receipts basis as his turnover does not exceed €2 million. 2

(iv) Details that need to be included on the sales invoices for VAT purposes

- The date of issue ½
- The supplier's full name ½
- The supplier's address ½
- The supplier's registration number ½
- The quantity of the goods supplied ½
- The VAT exclusive unit price ½
- The total VAT payable in respect of the supply ½
- The discount or price reductions ½

(10 marks)