

# TAXATION

## FORMATION 2 EXAMINATION - APRIL 2016

### 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.

**NB: PLEASE ENSURE TO ENCLOSE YOUR ANSWER SHEET TO QUESTION 3 IN THE ENVELOPE PROVIDED.**

# TAXATION

## FORMATION 2 EXAMINATION - APRIL 2016

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. EUFC Ltd runs a number of retail sports shops. It prepares its accounts to 31 December annually. The Company's Income Statement for the year ended 31 December 2015 is as follows:

Notes		€	€
Sales			2,141,700
Cost of sales			(1,485,020)
Gross profit			656,680
Other Income	1		24,600
			681,280
Less expenses:			
Wages & pension costs	2	134,340	
Directors remuneration		55,000	
Rent & rates		67,350	
Insurance	3	18,800	
Light & heat		17,325	
Telephone		6,230	
Repairs & maintenance	4	23,500	
Stationery		5,400	
Professional fees	5	13,150	
Loan interest	6	14,565	
Bad debts	7	6,500	
Sundry	8	7,570	
Depreciation		12,000	
Profit on disposal of fixed assets	9	(1,310)	(380,420)
Net profit before taxation			300,860

#### Notes:

- (1) Other income €
- |   |        |
|---|--------|
| Deposit interest received net of DIRT @ 41% | 1,600  |
| Irish rental income (Note 12)               | 18,200 |
| UK dividends (less than 5% shareholding)    | 4,800  |
|   | 24,600 |
- (2) Wages & pension costs €
- |   |         |
|---|---------|
| Staff wages 109,340                       |         |
| Statutory redundancy                      | 12,000  |
| Pensions (inc €5,000 accrual at year end) | 13,000  |
|   | 134,340 |
- (3) Insurance
- Insurance includes insurance for the rental property of €2,600
- (4) Repairs & maintenance €
- |                              |        |
|------------------------------|--------|
| Repairs to rental property   | 2,100  |
| Extension to rental property | 20,500 |
| Repairs to retail units      | 900    |
|                              | 23,500 |

(5)	Professional fees	€
	Accountancy fees	7,500
	Debt collection fees	3,150
	Legal fees for renewal of lease on rental property	<u>2,500</u>
		13,150
(6)	Loan interest	€
	Bank interest	5,575
	Loan on rental property	4,120
	Finance lease interest (Note 11)	1,375
	Revenue interest for late payment VAT	<u>3,495</u>
		14,565
7)	Bad debts	€
	Bad debts written off	6,150
	Bad debts recovered	(1,100)
	Increase in specific provision	3,700
	Decrease in general provision	<u>(2,250)</u>
		6,500
(8)	Sundry	€
	Staff Christmas party	2,150
	Christmas gifts for clients	2,740
	Private Residential Tenancies Board (PRTB) renewal	70
	Political donation	340
	Trade subscription	1,970
	Charitable donation (Unregistered Charity)	<u>300</u>
		7,570
(9)	Asset disposal	
	The fixed assets disposed of in the year were originally acquired in 2005 at a cost of €19,000. These assets were fully depreciated and were sold for €1,310.	
(10)	Capital expenditure	
	The company purchased a new motor car (category G) costing €40,000 on 5 January 2015 and equipment costing €4,000 on 15 April 2015.	
	The company also has wear & tear allowances of €6,765 in relation to equipment acquired prior to 2015.	
(11)	Finance Lease	
	The company purchased new computer equipment costing €37,000 under finance lease. The capital payments in 2015 were €13,000.	
(12)	Rental Property	
	The rental property is an apartment located over one of the retail units. This apartment is let as a residential unit.	
(13)	Corporation Tax	
	The company paid €30,000 in Corporation Tax for the year ended 31 December 2014.	

**REQUIREMENT:**

- (a) Calculate the corporation tax liability for EUFC Ltd for the year ended 31 December 2015. (18 marks)
- (b) Set out EUFC Ltd's preliminary tax requirements for the year ended 31 December 2015. (2 marks)

**[Total: 20 marks]**

- 2.** Kate Rush was employed in PT Travel for 18 years and nine months. She was made redundant on 31 July 2015. As part of her redundancy package, Kate received the following:

	€
Cash lump sum payment	160,000
Motor vehicle – market value	22,500
Pay-in-lieu of notice	7,000
Holiday pay	4,000
Statutory redundancy	22,600

Kate's contract of employment provides for the payment of pay in lieu of notice.

In the period to 31 July 2015, Kate's salary was €29,000. Kate's employer had provided her with a company car in 2014 with an open market value of €30,000. Kate's total mileage for the period was 14,000 km all of which was personal. PAYE of €5,000 was deducted in the period.

Kate's salary and benefit-in-kind for the three tax years prior to 2015 were as follows:

	<b>2014</b>	<b>2013</b>	<b>2012</b>
	€	€	€
Salary	92,000	102,000	117,000
Benefit-in-kind	7,000	4,000	9,000

Kate is entitled to a tax free lump sum from her pension on retirement. The actuarial value of the tax free lump sum is €6,500.

Kate, aged 46, is married and her husband Pete works part time in the local factory as a machine operator. Pete earned a salary of €23,000 in 2015. PAYE of €3,500 was deducted from Pete's 2015 salary. Kate put €40,000 into her pension in 2015.

On 1 August 2015, Kate commenced employment with Taistil Travel. Her annual salary has been agreed at €86,000. PAYE deducted in the period 1 August 2015 to 31 December 2015 was €8,952.

**REQUIREMENT:**

- (a) Calculate the taxable portion of the termination payment received by Kate. (10 marks)
- (b) Calculate Kate and Joe's income tax liability for 2015, assuming they are jointly assessed. You may ignore PRSI and USC. (10 marks)

**[Total: 20 marks]**

**3. The following multiple-choice question contains ten sections, each of which is followed by a choice of answers. Only one answer is correct in each case. Each question carries equal marks. On the answer sheet provided indicate for each question, which of the options you think is the correct answer. Marks will not be awarded where you select more than one answer for any question.**

1. John Stark commenced to trade on 1 August 2013. He prepares accounts to 31 July annually. The following are his tax adjusted trading profits:

	€
Y/E 31 July 2014	38,000
Y/E 31 July 2015	32,000
Y/E 31 July 2016	44,000

What is the amount of Case I income on which John will be assessed to tax for 2015?

- (i) €29,500
  - (ii) €38,000
  - (iii) €37,000
  - (iv) €32,000
2. Nonie is self-employed. In her accounts for the year ended 31 December 2015, she incurred a Case I adjusted loss of €20,000. Nonie has rental income of €9,000 for 2015.

Which of the following alternative loss reliefs are available to Nonie?

- (1) Carry the loss back against her Case I income in the previous year.
  - (2) Carry the loss back against all her income in the previous year.
  - (3) Carry the loss forward against her Case I income in future years.
  - (4) Offset the loss against all of her other income in the current year.
- (i) 3 and 4 only
  - (ii) 1 and 4
  - (iii) 2,3 and 4
  - (iv) 3 only
3. Maurice bought ten hectares of land in December 2004 for €40,000. In March 2007, Maurice sold five hectares of the land for €90,000, when the market value of the remaining land was €60,000. In August 2015, he sold the remaining five hectares of the land.

What is the cost of the land sold by Maurice in August 2015 for capital gains tax purposes?

- (i) €20,000
  - (ii) €45,000
  - (iii) €24,000
  - (iv) €16,000
4. Clarke and Louise were married on 15 November 2015. Details of their tax liabilities for 2015 are:

Clarke as a single person €15,000  
Louise as a single person €1,700  
Clarke & Louise, jointly assessed for the full year €15,100

What is the amount of the tax refund which Louise can expect to receive?

- (i) €800
- (ii) €27
- (iii) €1,600
- (iv) €240

5. ERC Ltd is classified as a small company for corporation tax purposes. It prepares annual accounts to 31 July. On 1 October 2014, ERC Ltd disposed of a factory, giving rise to a chargeable gain of €70,000. The disposal does not relate to development land.

What is/are the due date(s) for payment of the tax arising on the disposal of the factory by ERC Ltd?

- (i) 31 October 2014
- (ii) 15 December 2014
- (iii) 23 June 2015 and 23 April 2016
- (iv) 31 January 2015 and 23 April 2016

6. Which of the following conditions must be met in order for an accountable person to use the cash receipts basis for value added tax (VAT) purposes?

- (1) At least 90% of all goods and services supplied are supplied to persons who are not registered for VAT.
- (2) Turnover must not exceed €2,000,000 in any continuous period of 12 months.

- (i) Both conditions 1 and 2.
- (ii) Condition 1 only.
- (iii) Condition 2 only.
- (iv) Either condition 1 or condition 2.

7. Andy, a self-employed tradesman, is registered for value added tax (VAT). Andy is called to Home Baking Ltd to fix a broken oven, and prepares an estimate for the work as follows:

	€
Cost of parts	900
Cost of labour	550
Total	1,450

How much VAT should Andy charge on the invoice to Home Baking Ltd?

- (i) €196
- (ii) €281
- (iii) Nil
- (iv) €334

8. In 2015, Adam made two disposals of chargeable assets, which resulted in him realising a development land gain of €35,000 and a non-development land loss of €30,000.

What is the amount of Adam's taxable gain in 2015?

- (i) €3,730
- (ii) €33,730
- (iii) €5,000
- (iv) €35,000

9. On 1 June 2002, Bert bought a house in Letterkenny, Co. Donegal, Ireland. He lived in the house from the date of purchase until 31 May 2009, when he moved to Sligo to work. Bert never lived in the house again. He sold the house on 31 May 2015. The gain on the disposal of the house was €9,400.

What is the amount of principal private residence relief available to Bert?

- (i) €9,400
- (ii) Nil
- (iii) €5,785
- (iv) €3,615

10. Which of the following statements relating to company start-up relief are TRUE?
- (1) Start-up companies relief is available to qualifying companies for the first five years of trading.
  - (2) Start-up companies relief only applies to companies whose profits do not exceed €40,000.
  - (3) A sole trader who incorporates her business into a limited company cannot avail of start-up relief.
  - (4) Start-up companies relief only applies to a company's trading profits and chargeable gains on trading assets.
- (i) 1 and 4
  - (ii) 3 and 4
  - (iii) 1 and 2
  - (iv) 2 and 3

[Total: 20 marks]

## SECTION B

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

4. Ton Ltd expects to have a corporation tax liability of €250,000 for the year ended 31 December 2015. Ton Ltd's corporation tax liability for the year ended 31 December 2014 was €150,000.

Kilo Ltd was incorporated on 18 March 2015 and commenced a new trade on 1 April 2015. It expects to have a tax adjusted trading profit for the period ended 31 December 2015 of €100,000. Kilo Ltd is not a service company.

Yard Ltd expects to have a corporation tax liability of €250,000 for the year ended 31 October 2015. Yard Ltd's corporation tax liability for the year ended 31 October 2014 was €300,000.

### REQUIREMENT:

- (a) For each of the companies above, which are not part of any group, you are required to:
- (i) Calculate the 2015 preliminary tax payable, if any, and set out the payment options available for each company where relevant. State the date by which each payment must be made. (10 marks)
  - (ii) Set out the revised preliminary tax payment Yard Ltd would need to make if it disposed of a capital asset resulting in a chargeable gain of €50,000 (as adjusted for corporation tax purposes) if the chargeable gain arose on:
    - (i) 14 June 2015, or
    - (ii) 30 September 2015. (4 marks)
- (b) Briefly outline the two tests used to determine if a company is Irish tax resident. (6 marks)

[Total: 20 marks]

**5.** Seamus is Irish resident and domiciled. He entered into the following transactions during 2015:

1. In February 2015, Seamus disposed of a five hectare parcel of land to his brother for €140,000. The market value of the five hectares of land at the date of disposal was €190,000. The land disposed of was part of a larger lot of land purchased by Seamus in May 1996. The lot originally purchased comprised ten hectares of land and Seamus paid €210,000 for the land and €22,000 in stamp duty and legal fees.

In May 2005, Seamus carried out extensive drainage and flood defence work on the land at a cost of €45,000.

In 2009, Seamus sold five hectares of the land to a neighbour for €170,000. At that date the market value of the remaining five hectares of land was €150,000.

2. In April 2015, Seamus gifted a separate site of a 0.5 hectares to his daughter, Anne. The market value of the 0.5 hectare site at the date of the gift was €38,000. The site had been purchased by Seamus in October 1995 for €19,000 including costs. The site was gifted to Anne so that she could build a home.

Anne currently lives at home with her parents (pending the construction of a house on the gifted land) and does not own any residential property.

3. Seamus bought a greyhound dog in June 2009. He paid €5,000 for the dog. The dog has been very successful on the race track over the past year. He sold the dog in August 2015 for €55,000.
4. In July 2015, Seamus gifted an antique ring, valued at €6,500, to his daughter, Sarah, on the occasion of her 21st birthday. The market value of the ring at 6 April 1974 was €2,000. Seamus had been left the ring in his mother's will when she died in August 1999. The market value of the ring at that date was €6,000.
5. In September 2015, Seamus sold 200 shares in a UK quoted company for €2 per share. He bought 200 shares in 1972 for €3 each and the shares had a market value at 6 April 1974 of €4 each. Seamus lodged the sales proceeds into a UK bank account.

Seamus has development land capital losses brought forward from 2014 of €9,000.

**REQUIREMENT:**

- (a)** Compute the capital gains tax (CGT) payable by Seamus for the tax year 2015, in respect of the above transactions.

*Note: Provide a relevant explanation for any transaction which you treat as not giving rise to a capital gain in the tax year 2015.*

(15 marks)

- (b)** For the purposes of value added tax (VAT):

- (i) Define a taxable supply of goods and give examples of two different types of transaction which are deemed to be a taxable supply of goods. (3 marks)
- (ii) Provide two examples of circumstances which affect where the place of supply of goods is deemed to be.

(2 marks)

**[Total: 20 marks]**



**6.**

- (a) Outline the various categories of expenditure on which no deduction is allowable for VAT purposes. (5 marks)
- (b) Brady Ltd is a company supplying professional services in Ireland. The following transactions were recorded for the two month VAT period ended 30 June 2015.

	<b>Vat Exclusive Amount €</b>	<b>VAT €</b>	<b>Vat Inclusive Amount €</b>
Sales to Irish Customers	300,000	69,000	369,000
Sales of exempt services	100,000		100,000
Expenditure incurred			
Purchase of services used specifically in the supplies of the 'Vatable' sales	120,000	27,600	147,600
Purchase of computer equipment	6,000	1,380	7,380
Lease of motor car	1,800	414	2,214
Business entertainment	1,200	276	1,476
Light and Heat	1,000	135	1,135

In addition, the company imported goods for resale costing €50,000 (excluding VAT) from a UK based supplier who was registered for UK VAT.

**REQUIREMENT:**

- (i) Calculate the amount of VAT payable by (or repayable) to Brady Ltd for the two month VAT period ended 30 June 2015. (8 marks)
- (ii) State the return date for the VAT 3 form. (2 marks)
- (c) Each of the following examples are supplies for a single consideration. Categorise each of the supplies into one of the following:
1. A multiple supply; or
  2. A composite supply.
- (i) A container supplied with honey which can later be used as a glass.
  - (ii) A detergent and a fabric softener are sold as a single package.
  - (iii) A hamper of goods.
  - (iv) A music CD (worth €25) is supplied together with a newspaper.
  - (v) Collision damage waiver insurance is supplied together with car hire. (5 marks)

**[Total: 20 marks]**

**END OF PAPER**

# SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

## TAXATION

FORMATION 2 EXAMINATION - APRIL 2016

### Solution 1

EUFC Limited Corporation tax computation for the year ended 31 December 2015

	€	€	
(a) Net profit per accounts		300,860	½ mark
Add back:			
Pension accrual	5,000		½ mark
Insurance	2,600		½ mark
R&M- rental property	2,100		½ mark
R&M extension	20,500		½ mark
Legal fees	2,500		½ mark
Loan interest – rental interest	4,120		½ mark
Loan interest – Revenue interest	3,495		½ mark
Loan interest – finance interest	1,375		½ mark
Client entertainment	2,740		½ mark
PRTB	70		½ mark
Political donation	340		½ mark
Charitable donation	300		½ mark
Depreciation	12,000	51,905	½ mark
Less			
Bad debts	2,250		½ mark
Other income	24,600		½ mark
Profit on disposal	1,310		½ mark
Finance lease payments	14,375	(42,535)	1 mark
		310,230	
Less: capital allowances		(7,265)	
		302,965	
Sch D Case 111		4,800	½ mark
Sch D Case IV		2,712	½ mark
Sch D Case V		7,840	
Corporation tax		318,317	
@ 12.5%		38,470	½ mark
@ 25%		2,638	½ mark
DIRT		( 1,112)	½ mark
Net liability		39,996	
Rental income		18,200	½ mark
Less:			
Insurance	2,600		½ mark
Repairs	2,100		½ mark
Legal	2,500		½ mark
Loan interest restricted by 25%	3,090		½ mark
PRTB	70	10,360	½ mark
		7,840	

	€	
Capital allowances	2015	
Asset	Equip	
Additions	4,000	
W&T 2015	500	1 mark
TWDV 31/12/2015	3,500	
Capital allowances year ended 31 December 2015:		
Assets acquired pre 2015	€6,765	
Assets acquired in 2015	€ 500	
	€7,265	

Motor car category G does not qualify for capital allowances. 1 mark

2005 equipment sold. As assets fully written off the proceeds give rise to a balancing charge. However where the proceeds are less than €2,000 no balancing charge arises.

1 mark

**(b)** Preliminary Tax: as the company is a small company it has a choice of the following:

- pay 100% of the 2014 liability €30,000
- or
- pay 90% of the actual liability €35,996.

Payment must be made by 23 November 2015 2 marks

## SOLUTION 2

(a)

	€	
Cash lump sum payment	160,000	½ mark
Motor vehicle – market value	22,500	½ mark
Pay in lieu of notice	n/a	½ mark
Holiday pay	n/a	½ mark
Statutory redundancy	n/a	½ mark
	<u>182,500</u>	
SCSB	(110,200)	
Taxable portion of lump sum	<u>72,300</u>	
Basic Exemption	€10,160	½ mark
€765 * 18	€13,770	1 mark
Increased Exemption		
€10,000 – €6,500)	€3,500	1 mark
	<u>€27,430</u>	
SCSB		
Last 36 month		
1/1/15 to 31/07/15 Salary €29,000 + (€30,000 * 30% * 7/12) = €34,250		1 mark
2014 5 €99,000		½ mark
2013 5 €106,000		½ mark
2012 €126,000 * 5/12 = €52,500		1 mark
Average last 36 months €291,750/3 = 97,250		
€97,250 * 18/15 €116,700 – €6,500 = €110,200		2 marks

(b)

	€	
Schedule E		
Kate – Old employment		
Salary to 31 July 2015	29,000	½ mark
BIK to 31 July 2015 (€30,000 * 30% * 7/12)	5,250	1 mark
Pay in lieu of notice	7,000	1 mark
Holiday pay	4,000	1 mark
Taxable portion of lump sum	72,300	½ mark
Kate – new employment	<u>35,833</u>	½ mark
	<u>153,383</u>	
Pension contribution (€115,000 * 25% €28,750)	(28,750)	1 mark
	<u>124,633</u>	
Pete salary	23,000	½ mark
Taxable income	<u>147,633</u>	
€42,800 * 20%		
€23,000 * 20%	13,160	1 mark
81,833 * 40%	<u>32,733</u>	½ mark
	<u>45,893</u>	
Less tax credits		
Married persons	(3,300)	½ mark
PAYE * 2	(3,300)	½ mark
PAYE – old employment	(€5,000)	½ mark
PAYE – new employment	(€8,952)	½ mark
PAYE – Joe	<u>(€3,500)</u>	½ mark
Tax liability	<u>21,841</u>	

### **SOLUTION 3**

1. (i)
2. (i)
3. (iv)
4. (ii)
5. (iii)
6. (iv)
7. (i)
8. (ii)
9. (iii)
10. (ii)

2 marks each

## SOLUTION 4

(a)

- (i) As Ton Ltd's corporation tax liability in the preceding year was less than €200,000 it is a "small company" for preliminary tax purposes. As a result, its preliminary tax obligations are as follows:

Pay by 23 November 2015 either: 1 mark

- 90% of the actual liability €225,000 or 1 mark
- 100% of the prior years liability €150,000 1 mark

As Kilo Ltd is a newly incorporated company and it has commenced a new trade, it can qualify for the start up company exemption for corporation tax. As a result, it can avail of the exemption so that it will have no preliminary tax to pay.

2 marks

Yard Ltd is not a "small company" for preliminary tax purposes. As a result, Yard Ltd will have two preliminary tax payment dates as follows:

- The first payment is due by the 23rd day of the sixth month i.e. 23 April 2015, during the accounting period. 1 mark

The preliminary tax payment must be made equal to the lower of

45% of the expected CT liability for the period €112,500 1 mark  
50% of the final CT liability for the prior period €150,000 1 mark

- The second payment is due by the 23rd day of the month preceding the end of the accounting period i.e. 23 September 2015. 1 mark

The second preliminary tax payment must be sufficient to bring the company's total preliminary tax payments up to 90% of the expected Corporation Tax Liability for the period €225,000.

1 mark

- (ii) Where Yard Ltd has underpaid its preliminary tax as a result of the chargeable gain then:

- Where an underpayment arises as a result of a chargeable gain arising after the 1st preliminary tax payment date 23 April 2015 but before the second date 23 September 2015 then the company can increase the payment at the second payment date to ensure that it has met the 90% payment. Yard Ltd will need to have paid €230,625 by 23 September 2015.

2 marks

- If the underpayment arises after the second preliminary tax payment date 23 September 2015 as a result of a chargeable gain which occurred after that date and before the year end then it can make a top up payment within one month of its accounting year end in order to bring the total corporation tax payment to 90% of the final corporation tax liability for the period. Thus where the company has paid €225,000 by 23 September 2015 it will need to make a top up payment of €5,625 by 30 November 2015.

2 marks

**(b) Place of incorporation test**

- Companies incorporated in the State after 11 February 1999 are tax resident in Ireland except where either:
  - The company or a related company carries on a trade in the state and it is controlled by persons resident in an EU member state or a country which Ireland has a DTA or it is quoted on a recognised stock exchange in an EU member state or a country which Ireland has a DTA, or
  - The company is deemed tax resident in another country under the provisions of a DTA.

3 marks

**Central management and control test**

- A company can be tax resident in the state if its central management and control is exercised in the state. Factors which are examined to determine the location of central management and control include:
  - Where are questions of important policy determined?
  - Where are directors meetings held?
  - Where are the majority of the director's tax resident?
  - Where are shareholders meetings held?
  - Where does the negotiation of major contracts take place?
  - Where are the company accounts prepared, examined and audited?
  - From where are dividends declared?
  - Where are the company's bank accounts kept?
  - Where is the company's head office?
  - Where are the company statutory books kept?

3 marks

## SOLUTION 5

(a) 1.	Market value on disposal	€	190,000	½ mark
	Less cost:			
	Original cost (€232,000 – €123,250 (W))		108,750	1½ marks
	Index factor 1996/97 1.251		(136,046)	½ mark
	Enhancement expenditure (€45,000 – €23,906(W))		(21,094)	1½ marks
	Gain		<u>32,860</u>	

Working:

Part-disposal in 2009:

Original cost: €232,000 x €170,000/(€170,000 + €150,000) = €123,250

Enhancement expenditure €45,000 x €170,000/(€170,000 + €150,000) = €23,906

2. The transfer of the site will be exempt from capital gains tax. ½ mark

The site is transferred to Anne, a child of Seamus's, for the purpose of enabling her to construct on the site a dwelling house, to be occupied as her only or main residence. The house, when built, must be occupied by Anne for a period of at least three years.

2 marks

A child may avail themselves of this relief only once; the value of the site must be less than €500,000 and the area of the site must be less than one acre.

1 mark

3. The sale of the greyhound is exempt from capital gains tax, as the horse is a wasting asset, used for private purposes only.

1 mark

- |    |                                     |        |                |        |
|----|-------------------------------------|--------|----------------|--------|
| 4. | Market value at gift                |        | €6,500         | ½ mark |
|    | Market value at date of inheritance | €6,000 |                | 1 mark |
|    | Indexation factor 1999/2000 1.193   |        | <u>(7,158)</u> | ½ mark |
|    | Indexed loss                        |        | (658)          |        |

As indexation can only be used to reduce a gain and cannot create a loss, there is no gain/no loss.

1 mark

- |    |                                   |   |              |        |
|----|-----------------------------------|---|--------------|--------|
| 5. | Sale proceeds                     | € | 400          |        |
|    | Original cost at purchase in 1972 |   | <u>(600)</u> |        |
|    | Loss                              |   | (200)        | 1 mark |

Summary:

	€	
Gain 1	32,860	
Gain 5	(200)	
Loss c/f	(9,000)	1 mark
Personal exemption	<u>(1,270)</u>	1 mark
	22,390 @33%	7,389 ½ mark



**(b)**

- (i)** A taxable supply of goods means the normal transfer of ownership of goods from one person to another and includes the supply of goods liable to value added tax (VAT) at the zero rate.

1 mark

It includes:

1. The sale of goods by agreement.
2. The handing over of goods under a hire purchase agreement.
3. Gifts of taxable goods made in the course of business, where the gift excluding VAT is €20 or more.
4. The seizure of goods by a sheriff or other person acting under statutory authority.
5. The appropriation by an accountable person of goods other than for the purposes of his/her business.

ONLY TWO examples required, 1 mark each

- (ii)** The basic rule is that supplies of goods in the State are subject to VAT.

A supply of goods is deemed to take place:

1. In the case of goods which are not dispatched or transported, the place where the goods are at the time of their supply.
2. In the case of goods which are installed or assembled, the place where the goods are installed or assembled.
3. In the case of goods which are supplied on board vessels, aircraft and trains during intra-EU transport, the place where the transport begins.

ONLY TWO examples required, 1 mark each

## SOLUTION 6

- (a)
1. Food And Drink
  2. Petrol
  3. Motor Passenger Cars
  4. Non Business Items
  5. Accomodation

1 Mark Each

(b)		€	
(i)	Sales Vat	69,000	1 Mark
	Notional Vat	11,500	1 Mark
		80,500	
	Purchases Vat		
	Purchases For Resale	27,600	1 Mark
	Notional Vat	11,500	1 Mark
	Computer (1380 * 3/4)	1,035	1 Mark
	L&H (135 * 3/4)	101	1 Mark
		40,236	1 Mark
	Vat Due	40,264	1 Mark

- (ii) 19th / 23rd July

2 Marks

(c)

- (i) Composite
- (ii) Multiple
- (iii) Multiple
- (iv) Multiple
- (v) Composite

1 mark each