CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

TAXATION

FORMATION 2 EXAMINATION - APRIL 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. Jillian and Frank O'Sullivan, aged 45 and 50, respectively, are married and are both Irish resident and domiciled. They have two children, James (aged 23) and Frances (aged 17). Jillian is a partner in Ryan & O'Sullivan, an accountancy practice. Frank is a director and 3% shareholder of a manufacturing company, ManCo Ltd. Details of Jillian and Frank's income for 2017 is set out below:

Jillian
Accountancy Practice:
Jillian commenced an accountancy practice in partnership with Brendan Ryan on 1 July 2013. Jillian and Brendan share profits and losses equally. Details of the profits of the partnership are as follows:

Year ended	Tax adjusted profits
30 June 2014	€80,000
30 June 2015	€90,000
30 June 2016	€120,000
30 June 2017	€180,000

Details of the assets owned and in use in the partnership at 30 June 2017 are as follows:

Asset	Cost	Tax Written Down Value
Computer equipment	€64,000	€24,000
Fixtures and fittings	€16,000	€6,000

Investment Property:
Jillian owns a commercial property which she purchased in 2015 for €350,000 from the proceeds of an inheritance. The property qualifies for industrial buildings allowance (IBA) and the original qualifying cost of the building for IBA purposes was €300,000. The remaining tax life of the building at the date of acquisition was 15 years. Jillian has leased the property to a tenant who uses the building for qualifying purposes at an annual rent of €45,000. Maintenance and repairs to the building during 2017 cost €5,000 and the annual insurance cost is €2,500.

Other Income:
During 2017 Jillian received Irish bank deposit interest (net of DIRT) of €488 and interest from Irish government securities of €500.

Frank
Employment:
Frank had suffered ill-health towards the end of 2016 and agreed with his employer that he would take 2017 off work to focus on his recovery. It was agreed that Frank would continue to attend director's meetings and in 2017 Frank received gross director's fees of €12,000 from which PAYE of €2,000 was deducted by his employer. None of these fees related to travel or subsistence.

Investment Property:
Frank owns some farmland in County Kerry which he purchased in 2015. He immediately entered into a written agreement to lease the land for a period of 16 years to a local farmer who uses the land for the purposes of his farming trade. Frank is not connected to the local farmer. The annual lease rental income is €36,000.

Other Income:
Frank received dividends (net of DWT) from ManCo Ltd of €800.

Expenditure for 2017
Details of Jillian and Frank's expenditure for 2017 are as follows:

Contributions to an approved retirement annuity scheme for Jillian	€18,000
Medical expenses (€3,200 of which was reimbursed by the insurer)	€9,000
Private school fees for Frances who is in 5th year in secondary school	€12,000
Course fees for James who is studying for a qualifying master's degree on a part-time basis in University	€8,000
Payment for carer (see note below)	€20,000

In 2016, Jillian's Mother suffered a stroke and as a result she is totally incapacitated. Jillian and each of her three siblings contribute towards the cost of employing a carer to look after their mother. The total payment for 2017 to the agency for the employment of the carer was €80,000. Jillian and each of her siblings paid €20,000 each.

REQUIREMENT:

Calculate the income tax payable or refundable for Jillian and Frank under joint assessment in respect of 2017 excluding the liability for PRSI and Universal Social Charge (USC). Ignore preliminary tax.

[Total: 20 marks]

2. Banjo Ltd. is an Irish resident company engaged in the manufacture of musical instruments. The company's accounts for the year ended 31 December 2017 show the following:

	Notes	€	€
Gross profit from trading			800,000
Other income			
Profit on sale of machinery	(i)	5,000	
Investment income	(ii)	15,000	
		20,000	
			820,000
Less expenses			
Depreciation		124,000	
Wages and salaries	(iii)	420,000	
Rates, light & heat		36,000	
Legal and professional fees	(iv)	25,000	
Interest charges	(v)	11,000	
Motor expenses	(vi)	25,000	
Finance lease charges	(vii)	4,000	645,000
Net profit before tax			175,000

Notes:

(i) Banjo Ltd. sold machinery in July 2017 for €16,000. The machinery was purchased for €32,000 and brought into use for the purpose of the trade in November 2012. The net book value of the machinery at the date of disposal was €11,000. See also note (viii).

(ii) Investment income comprised the following:

	€
Dividends from Tinoco Plc, a UK quoted trading company (Banjo Ltd. owns a 1% shareholding in this company and makes the relevant election in respect of the corporation tax rate)	10,000
Irish deposit interest, received gross.	5,000
	15,000

(iii) Wages and salaries include an accrual for pension contributions of €24,000. There was no opening accrual or prepayment in respect of the pension.

(iv) Legal and professional fees comprise:

	€
Audit and accountancy fees	16,000
Legal fees in relation to debt collection	5,000
Legal fees in relation to an application for planning permission for an extension to the companies premises which is planned for 2018.	4,000
	25,000

(v) Interest charges comprises:

	€
Bank overdraft interest	6,000
Interest on late payment of VAT	1,000
Interest on loan used to purchase the shares in Tinoco Plc (Banjo Ltd. owns a 1% shareholding in this company).	4,000
	11,000

(vi) Motor expenses comprise:

	€
Running expenses of delivery vans	15,800
Running expenses of managing director's car	3,000
Parking fines	200
Lease rental cost of the managing director's car*	6,000
	25,000

*The managing director's car was leased new on 1 May 2017. This is a category D car and the cash cost of this car would be €28,000. The car is used 40% for business purposes.

(vii) The finance lease charges relate to a 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 2017 were €12,000. This figure comprised capital repayments of €8,000 and finance charges of €4,000.

(viii) Information relating to fixed assets:

Banjo Ltd. moved to new factory premises towards the end of 2016. These premises were constructed by Banjo Ltd. and the following schedule sets out the details of the capital expenditure incurred by Banjo Ltd. in relation to this new factory.

	€
Site cost	50,000
Site preparation cost	10,000
Factory construction cost	200,000
Office construction cost	20,000
Heating and air conditioning system*	60,000
	340,000

*The heating and air conditioning system is not included on the approved list for accelerated capital allowances for energy efficient equipment.

Details in relation to plant and machinery is as follows:

	Cost	**Tax Written Down Value**
Assets held at 1 January 2017		
Computer equipment	€24,000	€8,000
Factory machinery	€200,000	€60,000
Disposal in 2017 (see note (i))	€32,000	€12,000

Additions in 2017:
In addition to the heating and air conditioning system, Banjo Ltd. purchased new machinery for the factory during the year which cost €41,820, inclusive of standard rate VAT. Banjo Ltd. is registered for VAT. All of this machinery was in use at 31 December 2017.

REQUIREMENT:
Compute the corporation tax liability of Banjo Ltd. in respect of the accounting period ending 31 December 2017 and state the due date for filing of the return in respect of this period.

[Total: 20 marks]

3.

(a) Michael commenced in business as a sole trader on 1 June 2015, manufacturing and distributing confectionery products. The business has been very successful and he has decided to transfer it to a new company: Yummy Sweets Ltd. On 1 December 2017, Michael transferred all of the assets of the business (except cash) to Yummy Sweets Ltd. The gross value of the assets transferred were €400,000. In return for the assets transferred, Michael received 1,000 shares worth €250,000 and cash of €50,000. In addition, the company assumed the liabilities of Michael's business of €100,000. The total gains arising on the transfer of the business assets to Yummy Sweets Ltd. was €320,000. Michael made no other disposals of assets for capital gains tax purposes in 2017.

REQUIREMENT:
Calculate the Capital Gains Tax payable by Michael on the transfer of the business assets to Yummy Sweets Ltd. and state the base cost of Michael's shares in Yummy Sweets Ltd.

(4 marks)

(b) Petunia is provided with a company car by her employer on 1 April 2017, which it had purchased second hand for €26,300. The original market value of the car was €49,000. Petunia's business travel for the period 1 April 2017 to 31 December 2017 was 28,650 kilometres. She insured the car herself and paid €1,200 to the insurance company for the period 1 April 2017 to 31 March 2018. Petunia also paid €600 to her employer towards the running costs of the car for the period 1 April 2017 to 31 December 2017.

She received a loan from her employer of €10,000 on 1 May 2017 at an interest rate of 1% per annum. Petunia used the loan towards the cost of the design and fitting of a new kitchen. Her employer agreed that loan repayments could be deferred until January 2018.

REQUIREMENT:
Calculate the amount of the total BIK charge in respect of the car and the loan provided to Petunia by her employer.

(4 marks)

(c) John and Martha were formally separated in October 2016. John paid maintenance to Martha under a legally enforceable maintenance agreement of €1,000 per month for 2017, of which €300 was for the benefit of their son Darren. Darren is 10 years old and lives with Martha. Martha's only other source of income for 2017 was employment income of €48,000, from which PAYE of €6,900 was deducted. John and Martha have not elected for joint assessment.

REQUIREMENT:
Calculate Martha's income tax liability for 2017 (ignore PRSI and USC). (4 marks)

(d) Brian is single and is 52 years of age. The following information is extracted from his Income tax Computation for 2017:

	€	€
Schedule D Case I	50,000	
Less capital allowances	(5,000)	
Less retirement annuity contributions	(4,000)	
		41,000
Schedule D Case IV – Deposit Interest		1,000
Schedule F		2,000
Taxable Income		44,000

REQUIREMENT:
Calculate Brian's PRSI and USC for 2017. (4 marks)

(e) Explain the meaning of the term 'Exempt' for VAT purposes and outline the distinction between exempt and zero-rated supplies. Your answer should include an example of the circumstances where VAT recovery may apply.

(4 marks)

[Total: 20 marks]

SECTION B

Answer ANY TWO of the three questions in this Section.

4.

(a) Katie Bandon owns 10,000 shares in NextbestCo Plc. On 25 August 2017, Katie sold 5,000 of these shares for €4.20 each. She acquired her shares in NextbestCo Plc as follows:

15 February 1998	Purchased 5,000 shares for €3.20 each
18 May 2001	Bonus issue on a 1 for 5 basis
24 December 2002	Rights issue on a 2 for 3 basis for €1.90 each

REQUIREMENT:
Calculate Katie's Capital Gains Tax liability on the above disposal assuming Katie made no other disposals of assets in 2017.

(5 marks)

(b) Clonmell Software Ltd. has carried on a software manufacturing trade since incorporation in January 2012. Jack Casey (aged 53) is a 10% shareholder and non-executive director in the company, having acquired his ordinary shares on 1 January 2013 for €130,000. Jack has other business interests and spends approximately 20% of his working time serving as a board member of Clonmell Software Ltd. Lisa Byrne (aged 32) is a full-time working director in the company and owns a 20% shareholding. Lisa acquired her ordinary shares for €210,000 in June 2013.

In December 2017, Clonmell Software Ltd. is acquired by a large multi-national Plc. Jack received €750,000 for his shares and Lisa received €1,500,000 for her shares.

REQUIREMENT:

(i) State, giving reasons, whether or not Jack Casey and Lisa Byrne, respectively, qualify for "Revised" Entrepreneur Relief under Section 597AA TCA 1997.

(5 marks)

(ii) On the basis of your answer in (i) above, calculate the Capital Gains Tax liability of Jack Casey and Lisa Byrne, respectively, on the disposal of their shares in Clonmell Software Ltd.

(5 marks)

(c) In December 2017, Claire sold the remaining ten acres of a fifteen acre farm that she had originally purchased in June 2000. She sold the ten acres for €280,000. In May 2004, Claire had sold five acres to a neighbouring farmer for €260,000. The market value of the remaining ten acres at that time was €240,000. The entire fifteen acre farm had cost Sarah €400,000 in August 2000. All of the land is agricultural land and at no time had any development value.

REQUIREMENT:
Calculate the capital gains tax liability for Sarah in respect of the above disposal and state the due date for payment of the tax.

(5 marks)

[Total: 20 Marks]

5.

(a) Yolah Ltd. was incorporated and commenced trading on 1 January 2015 by Yolanda Harper who owns 100% of the company. The company manufactures yoga equipment which it sells throughout Ireland and the UK. This activity was not previously carried on by Yolanda or another person. The following information has been provided in relation to Yolah Ltd. for 2015, 2016 and 2017:

Year ended 31 December:	**2015**	**2016**	**2017**
	€	€	€
Schedule D Case I	200,000	240,000	260,000
Schedule D Case V	10,000	16,000	28,000
Total Income	210,000	256,000	288,000
Chargeable Gain*		24,000	
Taxable Profits	210,000	280,000	288,000
Employer's PRSI paid	32,000	32,000	42,000

*the chargeable gain arose on the disposal of an asset which was used for the purpose of the trade.

REQUIREMENT:

(i) Outline the relief from corporation tax for start-up companies and the conditions to be satisfied in order for a company to avail of the relief.

(3 marks)

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

(7 Marks)

(b) TwoTrades Ltd. carries on two separate trades and had the following results for the years ended 31 December 2016 and 31 December 2017:

Year ended 31 December	**2016**	**2017**
	€	€
Case I- Retail trade	(200,000)	36,000
Case I- Wholesale trade	90,000	160,000
Case V	26,000	(14,000)

The retail trade incurred losses in 2015. TwoTrades Ltd. maximised the use of these losses in 2015. The balance of unutilised losses of the retail trade carried forward at 1 January 2016 was €10,000.

REQUIREMENT:

Calculate the corporation tax liability of TwoTrades Ltd. for the years 2016 and 2017 on the basis that the company maximises the use of its losses at the earliest opportunity. Provide a loss memo showing the utilisation of each loss and the amount of losses carried forward at 1 January 2018.

(8 marks)

(c) State the implications, for loss relief purposes, of late filing of corporation tax returns. (2 marks)

[Total: 20 Marks]

6. Imuid Ltd. is a small Irish company that manufactures household furniture and accounts for VAT on an invoice basis. The company had the following transactions during November/December 2017. All amounts are stated exclusive of value added tax (VAT) where applicable, unless stated otherwise.

Sales of furniture	€
Irish Customers	200,000
EU Customers-VAT registered	30,000
EU Customers-non-VAT registered	10,000
Exports to Customers outside the EU	200,000
Material Purchases	
Irish registered suppliers	80,000
EU registered suppliers	50,000
Imports from Japan	40,000
Other Purchases/Expenditure	
Machinery from an EU registered supplier	60,000
A motor car, Category A, for 100% use in the business (amount stated inclusive of VAT and excluding VRT) purchased from an Irish registered supplier	22,000
Equipment from an Irish Supplier (no invoice has been received)	25,000
Petrol for sales director's car	3,500
Wages and salaries	116,000

REQUIREMENT:

(a) Calculate the VAT payable or refundable by Imuid Ltd. for the November/December 2017 VAT period.

(10 marks)

(b) Briefly explain the obligations on principal contractors in respect of the operation of Relevant Contracts Tax (RCT).

(5 marks)

(c) Briefly explain the distinction between a "contract for services" and a "contract of service" and provide examples of four factors which should be considered in order to determine which type of contract exists.

(5 marks)

[Total: 20 marks]

END OF PAPER

SUGGESTED SOLUTIONS

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SOLUTION 1

Jillian & Frank O'Sullivan					
Income Tax Computation for 2017		**Working**	**€**	**€**	**Marks**
Schedule D					
Case II – Jillian					
Adjusted Case II profit		1	90,000		1 mark
Less Capital allowances		2	(5,000)		1 mark
Less Retirement annuity contributions		3	(18,000)		1 mark
				67,000	
Case III – Jillian					
Interest from Irish government securities				500	½ mark
Case IV – Jillian					
Irish deposit interest (488 x 100/61)				800	½ mark
Case V					
Income from leasing of farmland - Frank		4	0		1 mark
Industrial building - Jillian		5	37,500		2 marks
Less: Industrial building allowance		6	(20,000)		1 mark
				17,500	
Schedule E					
Directors fees - Frank				12,000	½ mark
Schedule F					
Irish dividends - Frank (800 x 100/80)				1,000	½ mark
Gross Income				98,800	
Less 'Certain' Deductions				0	
Total Income			98,800		
Less Personal Allowances/Reliefs					
Employed carer of incapacitated individual		7		(18,750)	2 marks
Taxable Income				80,050	
Taxed as follows:					
Married person standard rate band	€42,800 @20%			8,560	½ mark
Increase for dual income	€13,000 @20%			2,600	1 mark
Deposit interest	€800 @39%			312	1 mark
Balance	€23,450 @40%			9,380	½ mark
Total tax				20,852	
Less Non-refundable tax credits					
Personal tax credit – married persons			3,300		½ mark
PAYE tax credit - Frank			1,650		½ mark
Earned income credit - Jillian			950		½ mark
DIRT paid			312		½ mark
Medical expenses (9,000 – 3,200) x 20%			1,160		½ mark
Private school fees			0		½ mark
3rd level fees		8	1,100		1 mark
				(8,472)	

Less Refundable tax credits			
DWT paid	€200		½ mark
PAYE paid	€2,000		½ mark
		€(2,200)	
Net income tax due/(refundable)		€10,180	
Pro forma layout			1 mark

[Total: 20 marks]

Workings/Notes

DO NOT DOUBLE COUNT MARKS

Working			**Marks**
1	Jillian's share of partnership profit		
	€180,000 x 50%	€90,000	1 mark
2	Jillian's share of capital allowances		
	Computer equipment and fixtures & fittings		
	€80,000 x 12.5% x 50%	€5,000	1 mark
3	Retirement annuity contributions		
	Net relevant earnings (90,000 – 5,000)	€85,000	
	Age related %	25%	
	% of Net relevant earnings	€21,250	½ mark
	Contributions paid	€18,000	
	Relief is limited to the contributions paid	€18,000	½ mark

4 Income from leasing the farmland qualifies for the exemption on the basis that the lease is evidenced in writing, Frank is not connected to the lessee and the lessee uses the land for the purposes of a farming trade.

	Lease rental	€36,000	
	Deduction for qualifying lease exemption	(€36,000)	
	Profit rent	0	1 mark
5	Case V Income from Industrial Building		
	Gross Rent	€45,000	½ mark
	Less allowable deductions		
	Repairs and maintenance	(€5,000)	
	Insurance	(€2,500)	
	Case V	€37,500	½ mark
6	Case V capital allowances		
	Qualifying cost (lower of original qualifying cost and price paid)	€300,000	
	Remaining tax life	15 years	
	IBA (€300,000/15 years)	€20,000	1 mark

7 Employed carer

The maximum relief available for 2017 is €75,000 and this must be apportioned between Jillian and her siblings on the basis of the amount each has paid.

	Relief for Jillian (€75,000 x €20,000/€80,000)	€18,750	2 marks
8	The qualifying fee for each course is restricted to €7,000		
	Fees paid	€8,000	
	Maximum qualifying	€7,000	
	Less disregard amount	(€1,500)	
	Qualifying for relief	€5,500	½ mark
	Tax credit at 20%	€1,100	½ mark

SOLUTION 2

Case I Computation for year ended 31 December 2017	**Working**	**€**	**€**	**Marks**
Net profit before tax			175,000	½ mark
Add back				
Depreciation		124,000		½ mark
Pension accrual		24,000		½ mark
Legal fees re planning permission		4,000		½ mark
Interest on late VAT		1,000		½ mark
Interest on loan to acquire shares in Tinoco plc		4,000		½ mark
Parking fines		200		½ mark
Lease rental cost	1	3,429		1 mark
Finance lease charges		4,000		½ mark
			164,629	
Deduct				
Profit on sale of machinery		5,000		½ mark
Investment income		15,000		½ mark
Finance lease payments		12,000		½ mark
			(32,000)	
Capital Allowances				
Industrial buildings allowance	2		(9,200)	4 marks
Plant & machinery	3		(31,750)	4 marks
Case I			266,679	
Marks for not adjusting for allowable amounts				1 mark

Corporation Tax Computation for year ended 31 December 2017		**€**	**Marks**
Case I		266,679	
Case III			
UK Dividends	10,000		½ mark
Irish deposit interest	5,000		½ mark
		15,000	
Total Income/Taxable Income		281,679	
No relief for interest on loan to acquire shares in Tinoco plc			½ mark
Corporation tax			
€266,679 @ 12.5%		33,335	½ mark
€10,000 @ 12.5%		1,250	1 mark
€5,000 @ 25%		1,250	½ mark
		35,835	

Return filing date for accounting period ending 31 December 2017 is 23rd September 2018. 1 mark

[Total: 20 Marks] (Maximum)

Workings/Notes

DO NOT DOUBLE COUNT MARKS

Working		**€**	**Marks**
1	Disallowed lease rental cost		
	(6,000 x 28-12/28)	3,429	1 mark
2	Industrial buildings allowance		
	Qualifying cost		
	Site cost - disallowed	0	1 mark
	Site preparation	10,000	½ mark
	Factory construction	200,000	½ mark
	Office construction (less than 10% of total cost)	20,000	½ mark
	Heating & air conditioning – plant not building	0	1 mark
		230,000	
	€230,000 x 4%	9,200	½ mark
			4 marks

3	Plant & machinery capital allowances	€	
	Opening cost at 1 January 2017	224,000	½ mark
	Disposal	(32,000)	½ mark
	Addition – Heating & air conditioning system	60,000	½ mark
	Addition – New machinery (41,280 x 100/123)	34,000	½ mark
		226,000	1 mark
	Wear & tear 12.5%	28,250	½ mark
	Balancing allowance		
	Proceeds	16,000	½ mark
	TWDV	(12,000)	½ mark
		4,000	
	Total capital allowances (28,250 + 4,000)	32,250	4 marks

SOLUTION 3

			€	Marks
(a)	Michael		€	**Marks**
	Total Gains		320,000	
	Deferred gain	(320,000 x 250,000/400,000)	(200,000)	2 marks
	Taxable gain		120,000	
	Annual exemption		(1,270)	½ mark
			118,730	
	CGT @33%		39,181	½ mark
	Base cost of shares			
	Value of shares		250,000	
	Deferred gain		(200,000)	
	Base cost		50,000	1 mark
	Total Marks			(4 Marks)

(b)	Petunia	€	**Marks**
	Original Market Value	49,000	½ mark
	Business kms for 9 months	28,650	
	Annualised Business kms (28,650 x 12/9)	38,200	
	BIK Percentage Based on Annualised Business kms	18%	1 mark
	Assessable Benefit in Kind (49,000 x 18% x 9/12)	6,615	½ mark
	Contribution to employer	(600)	½ mark
	Insurance	-	½ mark
		5,715	
	Loan (10,000 x 4% x 8/12)	267	1 mark
		5,982	
			(4 Marks)

(c)	Martha		€	**Marks**
	Income Tax Computation 2017			
	Schedule D Case IV – Maintenance (€700 x 12)		8,400	½ mark
	Schedule E		48,000	½ mark
	Taxable Income		56,400	
	Taxed as follows:			
	Standard rate band	€37,800 @ 20%	7,560	½ mark
	Balance	€18,600 @ 40%	7,440	½ mark
			15,000	
	Tax credits			
	Personal tax credit		1,650	½ mark
	Single person child carer credit		1,650	½ mark
	PAYE credit 1,650			½ mark
	PAYE paid 6,900			½ mark
			(11,850)	
			3,150	
				(4 Marks)

(d) Brian

PRSI		€	**Marks**
Schedule D Case I		50,000	
Less capital allowances		-5,000	½ mark
Less retirement annuity contributions	Not deductible for PRSI		½ mark
Schedule D Case IV – Deposit Interest		1,000	
Schedule F		2,000	
Income subject to PRSI		48,000	
PRSI	€48,000 @ 4%	1,920	½ mark

USC			
Schedule D Case I		50,000	
Less capital allowances		-5,000	½ mark
Less retirement annuity contributions	Not deductible for USC	0	½ mark
		0	
Schedule D Case IV – Deposit Interest	Not subject to USC	0	½ mark
Schedule F		2,000	
Income subject to USC		47,000	
USC			
€12,012 @ 0.5%		60.06	
€6,760 @ 2.5%		169.00	
€28,228 @ 5%		1,411.40	
		1,640.46	1 mark

(4 Marks)

(e) VAT — Marks

Exempt goods and services are listed in Schedule 1 of the VAT legislation. ½ mark

No VAT is charged on exempt supplies of goods and services. ½ mark

There is no VAT recovery entitlement in respect of exempt supplies and a person making only exempt supplies is not entitled to register for VAT. 1 mark

Where a VAT registered person makes both taxable supplies and exempt supplies, the entitlement to recover VAT on the input costs applies only to the taxable supplies. For costs that relate to both, it will be necessary to apportion the cost to ensure that only the amount that relates to taxable activities is recovered. 1 mark

Exempt vs Zero-rated

An important distinction between the two is that a supplier of exempt activities cannot recover VAT incurred in respect of those supplies as the supply is not taxable. A supplier of zero-rated goods and services is entitled to deduct VAT incurred on the related input costs. This is because the supply of zero-rated goods and services is chargeable to VAT i.e. a taxable supply, even though the amount of VAT charged is €0. 2 marks

(Maximum 4 marks)

[Total: 20 Marks]

SOLUTION 4

(a) Katie Bandon

NextbestCo plc

Date	**Transaction**	**# Shares**	**Price**	**Cost**	**Enhancement**	**Marks**
				€	**€**	
15th Feb 1998	Purchase	5,000	€3.20	16,000		½ mark
18th May 2001	Bonus Issue 1 for 5 basis	1,000				½ mark
		6,000		16,000		
24th Dec 2002	Rights Issue 2 for 3 basis	4,000	€1.90		7,600	½ mark
		10,000		16,000	7,600	

CGT Computation		**€**	**Marks**
Consideration	(5,000 x €4.20)	21,000	½ mark
Base Cost			
97/98	(16,0000 x 5,000/10,000) x 1.232	(9,856)	1 mark
Enhancement			
2002	(7,600 x 5,000/10,000) x 1.049	(3,986)	1 mark
Capital gain		7,158	
Annual exemption		(1,270)	½ mark
Taxable gain		5,888	
CGT @ 33%		1,943	½ mark

(5 Marks)

(b) Revised Entrepreneur Relief

Jack — **Marks**

Jack does not qualify for the relief as he did not spend at least 50% or more of his working week as an employee/director of the company in a managerial/ technical capacity. 1 mark

Lisa

Lisa qualifies for the relief on the basis that:

- The shares in Clonmell Software Ltd are a chargeable business asset i.e. ordinary shares in a company carrying on a qualifying business. 1 mark
- Clonmell Software is neither an investment business nor a business of holding development land or developing or letting land. 1 mark
- Lisa owns at least 5% of the ordinary shares (20% in her case) for a continuous period of at least 3 of the 5 years immediately prior to the date of the disposal, 1 mark
- Lisa spends at least 50% (100% in her case) of her working week as an employee/director of the company in a managerial/ technical capacity for at least 3 of the 5 years immediately prior to disposal. 1 mark

(5 Marks)

Jack – CGT Computation	**€**	**Marks**
Consideration	750,000	
Base Cost	(130,000)	
Capital Gain	620,000	½ mark
Annual Exemption	(1,270)	½ mark
Taxable Gain	618,730	
CGT @ 33%	204,181	1 mark

Lisa – CGT Computation		**€**	**Marks**
Consideration		1,500,000	
Base Cost		(210,000)	
Capital Gain		1,290,000	½ mark
Annual Exemption		(1,270)	½ mark
Taxable Gain		1,288,730	
CGT			
Entrepreneur relief	€1,000,000 @ 10%	100,000	1 mark
Balance	€288,730 @ 33%	95,281	1 mark
		195,281	

(5 Marks)

(c) Claire – Part disposal

			Marks
Consideration		280,000	½ mark
Base Cost			
Cost of 15 Acres	400,000		½ mark
Cost of 5 acres disposed of in 2004 (400,000 x 260,000/500,000)	208,000		1 mark
Cost of 10 Acres	192,000		
Indexation 00/01	1.144		1 mark
		219,648	
Capital Gain		60,352	
Annual Exemption		(1,270)	½ mark
Taxable Gain		59,082	
CGT @ 33%		19,497	½ mark
Payment due date 31st January 2018			1 mark

(5 Marks)

SOLUTION 5

(a) Start-up Relief

Conditions to be satisfied — Marks

- the company must be a new company incorporated within the EEA on or after 14 October 2008; ½ mark
- the company must carry on a qualifying trade which commenced on/after 1 January 2009; ½ mark
- the company's total corporation tax must be equal to or lower than €40,000, including the tax on any passive income; ½ mark
- Marginal relief is available where the total corporation tax liability is between €40,000 and €60,000 ½ mark

Nature of relief

- The legislation provides for exemption from corporation tax in respect of trading profits and corporation tax on chargeable gains of assets used for the trade subject to maximum relief of €40,000. ½ mark
- The relief will apply for 3 years from commencement subject to conditions being satisfied. ½ mark
- Marginal relief is available where the total corporation tax liability is between €40,000 and €60,000 ½ mark
- The relief does not apply to corporation tax on passive income ½ mark
- The available relief is restricted to the amount of the company's employer PRSI liability subject to a maximum of €5,000 per employee ½ mark

(3 Marks)

(b) **Yolah Ltd**
Corporation Tax Computation

Corporation Tax	**€**	**€**	**€**	**Marks**
Case I @ 12.5%	25,000	30,000	32,500	1½ marks
Chargeable Gain @ 12.5%		3,000		1 mark
Relevant CT	25,000	33,000	32,500	
Case V @ 25%	2,500	4,000	7,000	1½ marks
Total CT	27,500	37,000	39,500	
Total CT liability is less than €40,000 therefore the relief applies				
Start-up relief (see working)	(25,000)	(32,000)	(32,500)	3 marks
CT Liability	2,500	5,000	7,000	

Working

Lower of			
Relevant CT	25,000	33,000	32,500
Employer's PRSI			
(subject to maximum of €40,000)	32,000	32,000	40,000

(7 Marks)

(c) TwoTrades Ltd
Corporation Tax Computation

Year ended 31 December	**2016**	**2017**	**Marks**
Case I- Retail trade	Nil	36,000	
S396(1)		(36,000)	1 mark
S396(1)			
Case I- Wholesale trade	90,000	160,000	
S396A	(90,000)	Nil	2 marks
Case V	26,000	Nil	
S399	(14,000)		1 mark
Taxable Income	12,000	160,000	
Corporation tax	3,000	20,000	1 mark
S396B Value Basis	(3,000)		1 mark
Corporation Tax Liability	Nil	20,000	
Loss Memo			
Case I Loss for year ended 31 December 2016	200,000		
S396A Against Case I in 2016	(90,000)		
S396B value basis in 2016 (3,000/.125)	(24,000)		
Carried forward	86,000		
Case I Loss Carried forward at 1 January 2016	10,000		
Case I Loss Carried forward at 1 January 2017	96,000		
S396(1) Against Case I retail trade in 2017	(36,000)		
Case I Loss Carried forward at 1 January 2018	60,000		1 mark
Case V Loss for year ended 31 December 2017	14,000		
S399 Utilised against Case V income in 2016	(14,000)		
Case V Loss carried forward	Nil		1 mark

(8 Marks)

(d) Late filing restriction	**Marks**
A company submitting its return after the filing date for a chargeable period, will restricted in the amount of loss relief that it may claim.	1 mark
Less than two months late: the loss relief will be restricted by 25% of the loss available subject to a maximum restriction of €31,750.	½ mark
More than two months late: the loss relief will be restricted by 50% of the loss available subject to a maximum restriction of €158,715.	½ mark

(2 Marks)

SOLUTION 6

(a) Imuid Ltd

VAT Computation

Output VAT	Ex VAT	Rate	VAT	**Marks**
Irish Customers	200,000	23%	46,000	½ mark
EU Customers-VAT registered	30,000	0%	0	½ mark
EU Customers-non-VAT registered	10,000	23%	2,300	1 mark
Exports to Customers outside the EU	200,000	0%	0	1 mark
Reverse charge - Intra EU acquisition of materials	50,000	23%	11,500	½ mark
Reverse charge - Intra EU acquisition of machinery	60,000	23%	13,800	½ mark
			73,600	
Input VAT				
Irish registered suppliers	80,000	23%	18,400	½ mark
Reverse charge - Intra EU acquisition of materials	50,000	23%	11,500	½ mark
VAT at POE on Imports from Japan	40,000	23%	9,200	1 mark
Reverse charge - Intra EU acquisition of machinery	60,000	23%	13,800	½ mark
A motor car, Category A, for use in a business car pool (1)	3,577	23%	823	1 mark
Equipment from an Irish Supplier (2)	0		0	1 mark
Petrol (3)	0		0	½ mark
Wages & salaries – outside the scope of VAT (4)				½ mark
			53723	
Net VAT Due			19877	½ mark

(10 Marks)

Notes/Workings

1. (22,000 x 100/123 x 20%) = 3,577
2. No VAT recovery allowable in the absence of a valid VAT invoice
3. Petrol is a blocked input – no VAT recovery allowed
4. Wages and salaries are outside the scope of VAT

(b) RCT Obligations **Marks**

The legislation obliges the principal contractor to retain tax from the amounts payable to contractors/sub-contractors engaged to carry out relevant operations in the absence of specific Revenue authorisations. 1 mark

A Principal must notify Revenue online via the eRCT system each and every time a new relevant contract is entered into with a contractor. Specific details regarding the contractor engaged and the contract itself are required. 1 mark

The RCT system has three deduction rates. The rate applicable to each subcontractor is determined by Revenue by reference to the subcontractor's own tax compliance history. 1 mark

Prior to making each payment a principal must obtain a Deduction Authorisation by inputting a Payment Notification on the eRCT system. The Payment Notification is to provide Revenue with details of the full amount of the payment due to be made to the contractor. 1 mark

A Deduction Authorisation will issue via ROS showing the applicable RCT deduction rate and the amount of RCT to be deducted. The principal must withhold RCT and remit to Revenue in accordance with this deduction. 1 mark

(5 Marks)

(c)	**Employed vs Self Employed**	**Marks**
	A self-employed person operates under a contract for services whereas an employee operates under a contract of service	1 mark
	Control test - To what extent does an employer have control over the work to be carried out, persons engaged to carry out the work, work practices etc?	1 mark
	Integration test - Is the position integrated with the company's business, or is it a stand-alone position?	1 mark
	Economic reality test - What is the economic reality of the situation? What is the reality of the contract that is being entered into? What were the intentions of the parties?	1 mark
	Entrepreneurial test - Is there an element of financial risk involved? Does the worker have control over the profit he or she can make?	1 mark
		(5 Marks)