CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

# TAXATION

## FORMATION 2 EXAMINATION - AUGUST 2015

**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.**

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

# TAXATION

FORMATION 2 EXAMINATION - AUGUST 2015

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.** Riga Ltd. (Riga) is a company involved in the financial services sector. Riga's extract from the Income Statement for the year ended 31 December 2014 is as follows:

| | **Notes** | **€** | **€** |
|---|---|---|---|
| Gross Profit | | | 1,348,050 |
| | | | |
| **Expenses** | | | |
| Wages & Salaries | 1 | 395,000 | |
| Pension Costs | 1 | 35,000 | |
| Entertaining | 2 | 14,000 | |
| Cleaning | | 11,000 | |
| Rates | 3 | 22,000 | |
| Bank Charges | | 1,500 | |
| Donations | 4 | 2,000 | |
| Bad & Doubtful Debts | 5 | 19,000 | |
| Light & Heat | 3 | 17,000 | |
| Telephone & Postage | 6 | 22,100 | |
| Printing & Stationery | | 33,000 | |
| Repairs & Maintenance | 7 | 92,000 | |
| Motor Expenses | 8 | 87,000 | |
| Legal & Professional Fees | 9 | 19,300 | |
| Patent | 10 | 32,000 | |
| Depreciation | | 87,000 | |
| Loss on the disposal of fixed assets | 11 | 8,000 | |
| | | | (896,900) |
| Operating Profit | | | 451,150 |
| Other Income | 12 | | 76,000 |
| Interest Payable | 13 | | (88,100) |
| Net Profit | | | 439,050 |

**Notes:**

**(1)** Lee Evans is owner and managing director of Riga. He earns a €92,000 salary, which is included in the wages figure in the accounts. There is a €35,000 pension charge in the accounts for him, of which €27,000 was paid and €8,000 was accrued.

**(2)** Entertaining is made up as follows:

| | € | |
|---|---|---|
| Staff Christmas party | 5,600 | |
| Customer entertainment | 7,000 | |
| Christmas Gifts for Suppliers | 1,400 | – pens with company logo |
| | 14,000 | |

**(3)** Riga leases 10% of its building to Dynamics Limited. The let portion of the building has 10% of the expenses for rates, light and heat, and mortgage interest attributed to it.

**(4)** Donations are made up as follows:

| | € |
|---|---|
| Donation to Political Party | 600 |
| Donation to eligible charity | 1,400 |
| | 2,000 |

**(5)** The bad and doubtful debt charge is made up as follows:

| | € |
|---|---|
| Increase in specific bad debt provision | 21,000 |
| Reduction in general bad debt provision | (4,900) |
| Bad debt written off | 2,900 |
| | 19,000 |

**(6)** Included in the telephone charge is Lee's mobile phone bills, amounting to €1,500. 30% of his calls are private calls.

**(7)** Repairs and maintenance are made up as follows:

| | € |
|---|---|
| Extension to trading premises | 37,000 |
| General Repairs | 5,000 |
| General Provision | 50,000 |
| | 92,000 |

**(8)** Motor expenses include the following:

| | € |
|---|---|
| Motor running expenses | 66,000 |
| Lease costs of executive's car note **(a)** | 10,000 |
| Lease costs of Lee's car note **(b)** | 11,000 |
| | 87,000 |

**(a)** Riga leases a car for the marketing executive. During the period 31 December 2014, the company leased a car which cost €37,000 and was a class A CO2 emissions category. Lease payments of €10,000 were made for the car in the period.

**(b)** Lee has a company car. The car was leased in September 2010. It cost €50,000. It is a Class D emissions car. Lease payments of €11,000 were made in the period. Lee was not previously provided with a company car.

**(9)** Legal & professional fees are made up as follows:

| | € |
|---|---|
| Legal claim by staff for unfair dismissal | 7,300 |
| Legal claim by client | 6,100 |
| Legal fees re bad debt collection | 5,900 |
| | 19,300 |

**(10)** The company has a 20 year patent agreement (trading charge) for a product that it manufactures. The annual charge for the patent is €32,000. The company paid €30,000 (gross) in patent fees in December 2014.

**(11)** The company sold some plant in March 2014 for €11,000.The plant was purchased in July 2012 for €25,000.The NBV at the date of sale was €19,000.

The TWDV at 1 January 2014 of plant & machinery was €85,000 (Original cost €140,000).

**(12)** Other Income is the rental income received by the company for sub-letting a portion of the property.

**(13)** Interest payable is made up of the following:

| | € | |
|---|---|---|
| Mortgage Interest on **business property** loan | 50,400 | **– Refer to note 3** |
| Bank Interest on company overdraft | 7,000 | |
| Interest on late payment of VAT | 3,700 | |
| Lease Interest - see (i) below | 27,000 | |
| | 88,100 | |

**(i)** Lease payments (capital & interest) paid by the company for the period ended 31 December 2014 were €72,000. These payments related to leases on Plant and Machinery.

**REQUIREMENT:**

Calculate the corporation tax liability of Riga Ltd. for the accounting period ended 31 December 2014.

**[Total: 20 marks]**

**2.** Kenneth commenced in business as a painter / decorator on the 1 March 2015.

He registered for VAT on the 1 March as he anticipates he will exceed the registration threshold within a few months. He did not receive his VAT number until the 20 March 2015. He issued his invoices once he received his VAT number. He is accounting for VAT on the "Cash Basis." He is aware that he must now complete a VAT return for March/April 2015, but he is unsure what details must be included. He gives you the following information:

Sales Invoices for the period:

| | € |
|---|---|
| March | 2,500 (including VAT @ 13.5%) |
| April | 3,300 (including VAT @ 13.5%) |

All the invoices issued in March have been paid by the end of April. €1,400 of the April invoices are still outstanding.

| Outgoings (VAT included): | | € |
|---|---|---|
| Paint | (i) | 1,200 |
| Equipment and overalls | | 332 |
| Purchase of a new van for use in the business | | 11,500 |
| Diesel for the van | | 521 |
| Service of Van (VAT @13.5%) | | 225 |
| Telephone | (ii) | 242 |
| Entertaining potential customers | (iii) | 600 |
| Computer equipment | | 1,400 |
| Newspaper advertising | | 350 |
| Business cards | (iv) | 625 |

(i) Kenneth purchased this paint on 5 March, before he received his VAT number. He is unsure whether or not he can claim the input VAT credit.

(ii) Kenneth uses his mobile telephone exclusively for all business calls.

(iii) These customers subsequently placed orders with Kenneth. One of these orders has since been completed and paid for.

(iv) The invoice issued by the supplier has no VAT number quoted on it.

The VAT rate applicable is 23% unless indicated otherwise.

**REQUIREMENT:**

**(a)** Calculate the VAT due/repayable for the period March/April 2015. (8 marks)

**(b)** State the latest date by which the return must be filed. (2 mark)

**(c)** Discuss the criteria used by Revenue in deciding if an individual is employed or self-employed. (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. Mary left Ireland on 28 January 2015 to work in France. The first year in which Mary will cease to be regarded as ordinarily resident in Ireland will be:

   (a) 2015
   (b) 2016
   (c) 2017
   (d) 2018.

2. What is the filing date for a limited company to file its form CT1?

   (a) 8 months and 21 days after the year end.
   (b) The 21st day of the eleventh month of it’s financial year.
   (c) 6 months after the year end.
   (d) 31st October after the financial year end.

3. Orla has a company car. Assuming her business mileage in 2014 was 35,000km, what percentage of the original market value will be used to calculate Orla’s BIK in 2014?

   (a) 24%
   (b) 6%
   (c) 30%
   (d) 18%.

4. John commenced to trade on 1 June 2014. His profits for his first 12 months of trading were €36,000. His assessable profits for 2014 were:

   (a) €36,000
   (b) €18,000
   (c) €21,000
   (d) None of the above.

5. What is the filing date for the 2014 Income Tax Return?

   (a) 31 October 2014
   (b) 19 October 2015
   (c) 31 October 2015
   (d) 31 January 2015.

6. A company can obtain relief for a loss under Section 396(1) by*:*

   (a) Offsetting it against all Case I Income in the year it occurred.
   (b) Offsetting it on a value basis against all profits.
   (c) Carry it back to the previous accounting period.
   (d) Carry it forward and offset it against Case I Income profits in the future.

7. A company pays corporation tax on:

   (a) Development gains
   (b) All Capital Gains
   (c) Adjusted Capital Gains
   (d) None of the above.

8. Which of the expenses is not a deduction in calculating Case V Income?

   (a) Rent payable
   (b) Repairs
   (c) Insurance
   (d) Interest pre the first letting.

9. An Irish company receives a dividend from a company based in France. The rate of Corporation Tax applicable to this dividend is

   (a) 12.5%
   (b) 25%
   (c) Exempt
   (d) 20%.

10. Which of the following statements is true?

   (a) Client entertainment is an allowable Case I expense.
   (b) A balancing charge is deducted from the adjusted profit.
   (c) A husband and wife cannot be assessed jointly for income tax purposes.
   (d) An individual resident and domiciled in Ireland pays tax on his/her worldwide income.

**[Total: 20 marks]**

## SECTION B

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

**4.** Daithí Rennick is a single 44 year old professional lawyer who has been employed by Brennan Ltd. for 21 years and 3 months. He was made redundant on 1 September 2014. You are given the following information:

Daithí received as part of his redundancy package:

- Pay in lieu of notice of €5,900
- Company car – market value €12,000
- Ex gratia payment €70,000
- Statutory redundancy €10,000

The company had provided him with a €25,000 loan and it was written off as part of his termination package.

Daithí's salary for the period 1 January 2014 to 31 August 2014 was €60,000 and he also had benefits in kind to the value of €8,000.The PAYE paid on this income amounted to €18,000.

On the 1 November 2014, Daithí obtained new employment and received a salary of €14,000 for November and December 2014, with PAYE deducted of €4,900.

Daithí's salary was pensionable under a Revenue approved pension scheme. He contributed €10,000 to the pension fund in 2014. The actuarial value of this lump sum entitlement on the 1 September 2014 was €15,000.

Daithí's salary and benefit in kind (BIK) for the tax years 2011 to 2013 was as follows:

| | Salary | BIK | Tax payable |
|---|---|---|---|
| | € | € | € |
| **2013** | 58,000 | 6,000 | 13,000 |
| **2012** | 54,000 | 6,600 | 12,000 |
| **2011** | 42,000 | 5,400 | 11,200 |

On 1 May 2014, Daithí bought an apartment for rental purposes. The interest rate on the mortgage for the apartment was 5%. The interest from 1 May to 31 December 2014 was €6,000. The apartment needed some decorating which was completed in June 2014 at a cost of €1,250. On the 1 July 2014, he advertised for a tenant, which cost €125. The apartment was rented out from 1 August 2014 at a monthly rent of €1,000.

*(continued on page 6)*

**REQUIREMENT:**

**(a)** Compute the tax free element of the termination payment paid to Daithí. (7 marks)

**(b)** Compute Daithí's Case V Income (if any) for 2014. (2 marks)

**(c)** Calculate the maximum amount of pension contribution that Daithí can invest and get tax relief on for 2014. What is the latest date that the pension contribution must be paid in order for Daithí to qualify for the income tax relief? (3 marks)

**(d)** Compute Daithí's final income tax liability for the tax year 2014. (8 marks)

**[Total: 20 marks]**

**5.** John and Dermot Cox are two brothers who have been in partnership as pharmacists for the past 16 years. They share profits and losses equally. They trade from a retail outlet in Kildare. They are conscious that they pay income tax at the marginal rate of 41%, plus PRSI and USC, and are now quite interested in incorporating their business with effect from 1 November 2014 to avail of the 12.5% corporate tax rate.

They have called to you for advice and at the meeting you ascertain the following:

The Partnership's goodwill has been valued at €800,000 with no base cost.

All plant and machinery is leased.

The intention is to transfer all assets to the company with the exception of cash on hand. The company in turn will issue shares and assume all liabilities of the partnership.

**Extract from the Statement of Financial Position of the partnership at 31 October 2014 is as follows:**

| | € | |
|---|---|---|
| Premises | 1,000,000 | (cost €320,000 in 1998/99) |
| Inventory | 200,000 | |
| Cash | 45,000 | |
| Receivables | 20,000 | |
| Total Assets | 1,265,000 | |
| Current liabilities | | |
| Trade Payables | (50,000) | |
| Net assets | 1,215,000 | |

The folowing information is also relevant:

(i) All assets in the extracts from the Statement of Financial Position reflect current market values.

(ii) The company will take over all liabilities and assets (excluding cash on hand).

(iii) Each partner will have a loan account of €150,000.

(iv) Each partner withdrew €75,000 cash.

**REQUIREMENT:**

**(a)** Outline the advantages and disadvantages of trading through a limited company. (8 marks)

**(b)** Calculate the Capital gains tax liability that will arise from the transfer of assets from the partnership to the new limited company. (10 marks)

**(c)** What will be the base cost of shares for future years? (2 marks)

**[Total: 20 marks]**

## 6.

**(a)** Assume that it is now 30 November 2018. Joe Short commenced to trade on 1 July 2010. He prepares his financial statements to 30 June each year and his results for the first 4 years of trading are as follows:

| | |
|---|---|
| 30 June 2011 | €18,000 |
| 30 June 2012 | €13,000 |
| 30 June 2013 | €19,000 |
| 30 June 2014 | €25,000 |

Due to the seasonality of his business, he decided to change his accounting year-end to 31 October. His results from 2014 to 2017 follow:

| | |
|---|---|
| 1 July 2014 to 31 October 2014 | €19,000 |
| 3 October 2015 | €27,000 |
| 3 October 2016 | €39,000 |
| 3 October 2017 | €43,000 |

Due to ill health Joe had to retire in 2018. His last set of financial statements were prepared to 31 March 2018 and his profits for the period were €27,000.

**REQUIREMENT:**

Show clearly the final assessed profits for all tax years from 2010 to 2018.Where the assessed profits have been revised please provide an explanation. (14 marks)

**(b)** What are the criteria used for judging whether a company is resident in the State? (6 marks)

**[Total: 20 marks]**

**END OF PAPER**

**SUGGESTED SOLUTIONS**

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FORMATION 2 EXAMINATION - AUGUST 2015

**SOLUTION 1**

| **Adjusted Profit Computation** | **€** | | **€** | |
|---|---|---|---|---|
| Net profit per Accounts | | | 439,050 | ½ mark |
| *Add-backs* | | | | |
| Pension accrual | 8,000 | | | ½ mark |
| Entertaining | 7,000 | | | ½ mark |
| Rates | 2,200 | | | ½ mark |
| Donations | 600 | | | ½ mark |
| Reduction in bad debts | (4,900) | | | ½ mark |
| Light & Heat | 1,700 | | | ½ mark |
| Repairs & Maintenance | 87,000 | | | ½ mark |
| Motor Expenses | 11,874 | (note 1) | | 2 marks |
| Patent | 32,000 | | | ½ mark |
| Depreciation | 87,000 | | | ½ mark |
| Interest on late VAT | 3,700 | | | ½ mark |
| Interest on loan 10% | 5,040 | | | ½ mark |
| Lease Interest | 27,000 | | | ½ mark |
| Loss on disposal | 8,000 | ½ mark | 276,214 | |
| | | | 715,264 | |
| Deductions | | | | |
| Other income | 76,000 | ½ mark | | |
| Lease Payments | 72,000 | 1 mark | (148,000) | |
| Adjusted Profit | | | **567,264** | |

**Note 1**

Motor Leases (€)

$10{,}000 * \frac{37-24}{37} = 3{,}514$

$11{,}000 * \frac{50-12}{50} = 8{,}360$

**Capital Allowances** (€)

Year ended 31st December 2014

140,000 - 25,000 = 115,000 * 12.5% =14,375 — 1 mark

**Balancing Charge** (€)

31/12/2012 25,000 * 12.5% = 3,125

31/12/2013 = 3,125

TWDV (€) 01/1/2014 =25,000 – (3,125*2) = 18,750

| | € | |
|---|---|---|
| Sale Proceeds | (11,000) | |
| Balancing Allowance | 7,750 | 2 marks |

Capital Allowances (€) y/e 31/12/14 =14,375 + 7,750 = 22,125

| **Rental Income** | € | |
|---|---|---|
| Rent received | 76,000 | ½ mark |
| Rates | (2,200) | ½ mark |
| Light & Heat | (1,700) | ½ mark |
| Interest | (5,040) | ½ mark |
| Case V | 67,060 | |

**Corporation Tax Computation for the year ended 31st December 2014**

| | € | |
|---|---|---|
| Adjusted Profit | 567,264 | |
| Capital Allowances | (22,125) | |
| Case I | 545,139 | 1 mark |
| Case V | 67,060 | ½ mark |
| Total Income | 612,199 | |
| Less charges (trade) | (30,000) | 2 marks |
| Taxable income | 582,199 | |
| | | |
| Tax at 12.5% 545,139 -30,000 @ 12.5% | 64,392 | ½ mark |
| Tax at 25% 67,060 @ 25% | 16,765 | ½ mark |
| | 81,157 | |

**SOLUTION 2**

**(i)**

| | | | € | € | |
|---|---|---|---|---|---|
| Cash receipts March & April | 4,400 * 13.5/113.5 | = | | 523 | 2 marks |
| Paint | 1,200 * 23/123 | = | 224 | | ½ mark |
| Equipment | 332 * 23/123 | = | 62 | | ½ mark |
| Van | 11,500 * 23/123 | = | 2,150 | | ½ mark |
| Diesel | 521 * 23/123 | = | 97 | | 1 mark |
| Service | 225 * 13.5/113.5 | = | 27 | | ½ mark |
| Telephone | 242 * 23/123 | = | 45 | | 1 mark |
| Computer | 1,400 * 23/123 | = | 262 | | 1mark |
| Advert | 350 * 23/123 | = | 65 | | ½ mark |
| | | | | 2,932 | |
| | VAT REFUND | | | 2,409 | ½ mark |

**(ii)** 19th / 23rd May 2014 2 marks

**(iii)** Employed v. Self employed

Revenue normally applies the following tests in determining if an individual is an employee.

1. Master servant relationship - Is a person told what to do and how to do it? Is the person's work and performance supervised closely. If so this points towards an employment.
2. Power of Delegation - If this exists it point towards an individual being regarded as self-employed
3. Use of own office or tools - This points towards self employment
4. Capital at Risk - Points towards self employment
5. Ability to benefit from sound practice - Can the individual vary his/her charge out rate or take on other work when he/she requires. If so, it points towards self-employment.
6. Integration - Close identity with one firm indicates an employment
7. Sundry: Holiday pay/sick pay/ member of a union or pension scheme

Marks will be awarded for any relevant points made. 10 marks

**SOLUTION 3**

1. (d)
2. (a)
3. (d)
4. (c)
5. (c)
6. (d)
7. (c)
8. (d)
9. (a)
10. (d)

**SOLUTION 4**

**(a)** Tax-free termination payment

**(i)** Basic exemption -

€10,160 + (765 x 21) €26,225 ½ mark

**(ii)** Increased basic exemption

€10,160 + (765 x 21) + [(10,000 – 15,000)*] €26,225 ½ mark
* No increase due to pension lump sum exceeding €10,000

**OR**

**(iii)** Standard Capital Superannuation Benefit

$$\frac{68{,}000 + 64{,}000 + 60{,}600 + (47{,}400 \times 4/12)}{3} = €69{,}467$$ 2 marks

$$\frac{€69{,}467 \times 21}{15} - €15{,}000 = €82{,}254$$ 1 mark

Maximum tax free payment is €82,254

**The taxable element of the lump sum is as follows:**

| | € | |
|---|---|---|
| Pay in lieu of notice* | 5,900 | ½ mark |
| Company car – market value | 12,000 | ½ mark |
| Ex gratia payment | 70,000 | ½ mark |
| Loan written off | 25,000 | ½ mark |
| | 112,900 | |
| Exempt | (82,254) | |
| Taxable | 30,646 | 1 mark |

**(b)**

| Rental income | € | |
|---|---|---|
| Rental income €1,000 x 5 | 5,000 | ½ mark |
| Less: Interest relief €6,000 x 5/8 x 75% | (2,813) | 1 mark |
| Advertising for tenant | (125) | ½ mark |
| Decorating-not allowed pre-letting | | |
| Case V | 2,062 | |

**(c)** Pension allowed = Relevant earnings = Schedule E €112,646 * 25% = €28,161 2 marks

Must be paid by 31st October 2015 1 mark

**(d)** Income Tax Computation – Tax Year 2014

| | | | |
|---|---|---|---|
| | | € | |
| Schedule E – | | | |
| Wages Income (Note 1) | | 112,646 | 2 mark |
| Less: Pension contribution | | (10,000) | 1 mark |
| Schedule E | | 102,646 | |
| Case V | | 2,062 | 1 mark |
| Taxable income | | 104,708 | |
| | | | |
| Income tax | € | | |
| 32,800 x 20% 6,560 | | | ½ mark |
| 71,908 x 41% 29,482 | 36,043 | | ½ mark |
| | | | |
| Tax credits | | | |
| Single 1,650 | | | ½ mark |
| PAYE 1,650 | (3,300) | | ½ mark |
| PAYE | | | |
| - Brennan Ltd. 18,000 | | | 1 mark |
| - new employment 4,900 | (22,900) | | 1 mark |
| | | | |
| Tax payable | 9,843 | | |

**Note 1**

| | |
|---|---|
| Schedule E | |
| salary – Brennan Ltd. | 60,000 |
| - BIK - Brennan Ltd. | 8,000 |
| - salary – new employment | 14,000 |
| - termination payment | 30,646 |
| Total WAGES income | 112,646 |

## SOLUTION 5

**(a)** At a time when personal income tax rates are in excess of 50% now is an opportune time for sole traders to consider incorporating their businesses. We will look at the tax implications of doing so but apart from tax there are other reasons to incorporate a business, namely:

- Limited liability – the shareholders liability is limited to the amount of share capital contributed by them
- Separate legal entity – a company is a distinct legal entity, separate to its shareholders
- Continuity – a company continues to trade irrespective of director or management changes until the company is wound up and dissolved
- Pension Planning – It is often more advantageous to have a company pension plan than a personal one
- The registered Business Name of a sole trader is not protected against duplication, the name of a limited liability company is protected
- Finance - Greater ability to raise finance by the issue of shares and debentures.

There are disadvantages to trading as a company, which includes:

- The filing of sometimes sensitive commercial financial information with the Companies Registration Office which is openly available
- Business losses may not be set against personal income
- The possibility of further taxation on capital gains if appreciating assets are withdrawn from the business at a later date.
- The need for accounts to comply with Companies Acts together with auditing and accounting standards

From a taxation point of view there are several advantages from trading through a limited company;

- Profits are taxed at 12.5%
- Shareholders taxed on what they take from the company. Sole traders are taxed on their profits regardless of whether they take them as drawings or not
- Passive income is taxed at only 25%
- Sale of subsidiary companies can often avail of an exemption from CGT.

Maximum of 8 marks for relevant points made

**(b)** Capital Gain Tax Liability for each partner will be as follows:

Gain on chargeable assets

| | € | |
|---|---|---|
| Premises | 1,000,000 | |
| Cost 320,000 x 1.212 = | 387,840 | |
| | 612,160 | 1 mark |
| Goodwill | 800,000 | 1 mark |
| Total gains | 1,412,160 | |

**Values of shares = Gross value of assets – (cash consideration +creditors) =**

Value of assets transferred €2,020,000 = assets €1,265,000 + goodwill €800,000 – cash €45,000 = €2,020,000

2 marks

Cash consideration = loan account of €150,000 + cash €75,000 = €225,000 * 2 = €450,000
Creditors = €50,000

2 marks

€2,020,000 – (€450,000 +€50,000) = €1,520,000 = value of shares 1 mark

Deferred Gain = €1,412,160 x €1,520 = €1,026,615 2 marks
€2,020

Assessed Gain = €1,412,160 - €1,026,615 = €349,545* 50% = €174,773
€174,773 - €1,270 = €173,503 * 33% = €57,256 1 mark

**(c)** The future cost base of the shares = €1,520,000 - €1,026,615 = €493,385/2=€246,693 each 2 marks

**SOLUTION 6**

**(a)** **Year 1** **2010**

Basis of Assess - Actual form date of Commencement to 31st December 2010
€18,000 * 6/12 = **€9,000** 1 mark

**Year 2** **2011**
Basis of Assess – First 12 months of trading **€18,000** 1 mark

If the actual profits are less than the assessed profits in year 2 the difference is taken of the profits for year 3

Actual profits for 2011- 6/12*(€18,000) + 6/12*(€13,000) = **€15,500** 2 marks

The difference of €2,500 will be deducted in year 3.

**Year 3** **2012**

Basis of Assess – Current Year Basis (CYB)
30/06/2012 €13,000
Year 2 relief (€2,500) **€10,500** 2 marks

**Year 4** **2013**

Basis of Assess – Current Year Basis (CYB)
30/06/2013 **€19,000** ½ mark

Because Joe changed his accounting date in 2014 the previous year, ie 2013 has o be reviewed on a similar basis. If the profits are higher then these become the assessable profits. If lower then ignore.

8/12*(€19,000)+4/12(€25,000) **€21,000** 2 marks

**Year 5** **2014**

Basis of Assess – Because there are 2 accounting periods ending in the year of assess you take the 12 months to latest period ie 12 months to 31st October 2014

8/12 * (€25,000) + €19,000 **€35,667** 1 mark

**Year 6** **2015**
Basis of Assess – Current Year Basis (CYB)

30/06/2015 **€27,000** ½ mark

**Year 7** **2016**
Basis of Assess – Current Year Basis (CYB)

30/06/2016 **€39,000** ½ mark

**Year 8** **2017**
Basis of Assess – Current Year Basis (CYB)

30/06/2017 **€43,000** ½ mark

Because Joe ceased to trade in 2018 the penultimate year must be reviewed on an actual basis. If the actual is higher than the original then the actual figure must be used.

10/12*(€43,000) + 2/5*(€27,000) **€46,633** 2 marks

**Year** **2018**
Basis of Assessment – Actual from 1st January to date of cessation
3/5 * €27,000 **16,200** 1 mark

**(b)** Students should refer to the following in their solution;

Since 1999, any company incorporated in Ireland is automatically resident in Ireland. There are two exemptions to this rule;

1. Trading Exemption – this applies when the company has a trade in the state and is controlled in an EU state or tax treaty country.

   2 marks

2. Treaty Exemption – this applies when the company is resident in another state under the terms of a double taxation treaty.

   2 marks

Prior to 1999 residency was established using the "central management and control" test. The case pf De Beers Consolidated Mines ruled that a company is resident "where the central management and control actually resides". To decide this question mattes such as the location of directors meetings, head office, decision making etc should be considered.

2 marks