

TAXATION

FORMATION 2 EXAMINATION - AUGUST 2017

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 - AUGUST 2017

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. John and Mary, a married couple, are jointly assessed for income tax purposes with John as the assessable person. They decided to separate from 1 September 2016.

John is employed by Donegal Adventure Sports and has a salary of €70,000. In 2016, PAYE deducted from his salary was €12,400. He has additional income in 2016 of:

- €1,500 (net) Irish deposit interest
- Irish dividends (net) €670.

Mary's salary is €3,000 per month, with PAYE deducted of €350 per month. On 1 December 2016, Mary was made redundant and received the following termination package:

| | € |
|---------------------------|--------|
| Statutory redundancy | 15,100 |
| Cash lump sum | 52,500 |
| Retain company car, value | 4,900 |

Mary worked for the same company for the last 12½ years.

Mary's salary for the previous three tax years are as follows:

| | € |
|------|--------|
| 2015 | 34,500 |
| 2014 | 36,750 |
| 2013 | 32,000 |

Mary is entitled to a future tax free lump sum from her pension, valued at €3,500.

Following the separation Mary was ill and provides you with details of medical expenses incurred.

Mary's Medical Expenses:

| | € |
|-----------------|-----|
| Consultant fees | 400 |
| Doctors' fees | 150 |
| Prescriptions | 220 |

The amount reimbursed by the medical insurance company was €315. Mary's annual medical insurance premium is €1,500.

REQUIREMENT:

- (a) Calculate the taxable portion of the termination package received by Mary. (8 marks)
- (b) Calculate both John's and Mary's income tax liability, (Excluding PRSI & USC) for 2016. (12 marks)

[Total: 20 marks]

2. CPE Limited runs an educational training business. The results for the year ended 31 December 2016 are as follows:

CPE Limited
Statement of Comprehensive Income

| | Notes | € | € |
|----------------------------|-------|---------------|--------------------|
| Sales | | | 2,166,100 |
| Cost of sales | | | <u>(1,574,925)</u> |
| Gross profit | | | 591,175 |
| Other income | 1 | | <u>56,370</u> |
| | | | 647,545 |
| Less expenses: | | | |
| Wages & pension costs | 2 | 172,175 | |
| Directors' remuneration | | 51,000 | |
| Rent, rates & insurance | 3 | 33,890 | |
| Light & heat | | 12,300 | |
| Telephone | | 7,910 | |
| Repairs & maintenance | 4 | 31,670 | |
| Motor expenses | | 4,890 | |
| Professional fees | 5 | 9,125 | |
| Loan interest | 6 | 15,400 | |
| Bad debts | 7 | 4,750 | |
| Sundry | 8 | 3,875 | |
| Depreciation | | <u>24,000</u> | |
| | | | 370,985 |
| Net profit before taxation | | | <u>276,560</u> |

Notes:

| | | |
|----|---|----------------|
| 1. | Other income | € |
| | Deposit interest received net of DIRT @ 41% | 9,470 |
| | Irish rental income | 42,500 |
| | UK Dividends (4% shareholding) | 4,400 |
| | | <u>56,370</u> |
| 2. | Wages & pension costs | € |
| | Staff wages | 143,675 |
| | Staff Bonus | 9,500 |
| | Pensions (inc €5,000 accrual at year end) | 19,000 |
| | | <u>172,175</u> |
| 3. | Rent, rates & insurance | € |
| | Rent & Rates of training centre | 23,060 |
| | Insurance on training centre | 8,880 |
| | Insurance on rental properties | 1,950 |
| | | <u>33,890</u> |
| 4. | Repairs & maintenance | € |
| | Repairs to rental properties | 4,550 |
| | Extension to training centre | 19,270 |
| | Repairs to training centre | 5,110 |
| | General provision for repairs | 2,740 |
| | | <u>31,670</u> |
| 5. | Professional fees | € |
| | Audit fees | 4,500 |
| | Debt collection fees | 1,200 |
| | Legal fees for purchase of rental property | 3,425 |
| | | <u>9,125</u> |

| | | |
|----|------------------------------------|---------------|
| 6. | Loan interest | € |
| | Bank interest | 3,670 |
| | Loan interest on rental properties | 4,700 |
| | Finance lease interest (Note 10) | 2,400 |
| | Revenue interest | <u>1,485</u> |
| | | <u>15,400</u> |

| | | |
|----|--------------------------------|----------------|
| 7. | Bad debts | € |
| | Bad debts written off | 4,600 |
| | Bad debts recovered | (1,400) |
| | Increase in specific provision | 2,900 |
| | Decrease in general provision | <u>(1,350)</u> |
| | | <u>4,750</u> |

| | | |
|----|-----------------------------|--------------|
| 8. | Sundry | € |
| | Trade subscription | 650 |
| | Charitable donation | 400 |
| | Staff Christmas party | 900 |
| | Christmas gifts for clients | 1,205 |
| | Political donation | <u>720</u> |
| | | <u>3,875</u> |

9. Capital allowances
For 2016 the company has an annual wear & tear allowance of:

- €6,150 in relation to office equipment in the training centre, and
- €2,120 in relation to furniture in its commercial rental properties.

10. Finance lease
The company purchased new vans costing €48,000 under finance lease. The capital payments in 2016 were €19,000.

REQUIREMENT:

Calculate the corporation tax liability for CPE Limited for the year ended 31 December 2016. Outline when the company has to pay and file its corporation tax.

[Total: 20 marks]

3.

- (a) Marty and Aoife were married on 1 October 2016. Marty's total income in the year 2016 was €32,000 upon which he paid income tax of €2,950. Aoife's total income in the year 2016 was €47,000 upon which she paid income tax of €8,400. If they had been married for the whole year, their joint income tax liability would have been €10,500. Calculate the income tax refund receivable by each of them due to the "year of marriage" tax relief. (4 marks)

- (b) Zoe has three children, all of whom are in college attending full-time courses which are approved for tax relief purposes. Zoe pays for all of their college fees as follows:
- Amanda's tuition fees €4,700
 - Mick's tuition fees for the year are €3,700
 - Mark's tuition fees for the year are €12,000.

Calculate the tax credits that Zoe may claim for the year 2016 with respect to the above. (4 marks)

- (c) In 2016, Donald Drum sold an antique watch for €5,000 which he had inherited from his brother in 2005, at which time the watch was valued at €150. He also sold shares for €8,100 which he had acquired in 2004 for €5,900. These were his only disposals in 2016.

Calculate Donald's liability to capital gains tax for 2016. (4 marks)

- (d) In 2016, Adam Brady disposed of a house which he had acquired in 1998 and which he had always occupied as his principal private residence, apart from a five year period from 1 July 2005 to 1 July 2010 when he worked on secondment for a subsidiary of his employer's in the UK. Adam has never owned another house.

Outline, giving reasons for your answer, whether Adam's gain arising on the disposal of his house will qualify in full for principal private residence relief. (4 marks)

- (e) Explain the difference between the 'intra-Community acquisition of goods' and the 'importation of goods' and outline the implications of both for a VAT-registered trader. (4 marks)

[Total: 20 marks]

SECTION B

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

- 4.** Bob Bushell has been trading as a sole trader since 1986, manufacturing fire sprinkler systems. His business has expanded rapidly over the last few years and he has decided to incorporate his business. As at 1 August 2016, the market value of the assets and liabilities of Bob's business are as follows:

| | Notes | € | € |
|---------------------|-------|----------------|----------------|
| Freehold property | 1 | | 295,000 |
| Plant and equipment | 2 | | 75,000 |
| Goodwill | | | 130,000 |
| Current assets | | | |
| Inventories | | 178,000 | |
| Receivables | | 87,000 | |
| Cash | | 40,000 | |
| | | <u>305,000</u> | |
| Trade payables | | (127,000) | |
| Net current assets | | | <u>178,000</u> |
| Net assets | | | <u>678,000</u> |

Note 1:

Bob purchased his factory in May 1998 for €101,000 and he has claimed industrial buildings allowances in respect of €96,000 of the cost of the property. The tax written-down value of the property at 1 January 2016 is €23,000. 5% of the value of the property is attributable to its site.

Note 2:

The market value of all plant and equipment is less than their original cost of €170,000. The tax written-down value of plant and equipment at 1 January 2016 is nil.

Bob's Case I assessable profits before capital allowances for the last two years were as follows:

| | |
|-------------------------|----------|
| Year ended 31 July 2014 | €110,000 |
| Year ended 31 July 2015 | €149,000 |

Bob estimates that his Case I profits for the year ended 31 July 2016 will be €195,000.

Bob is not sure whether he should take shares in the new company or have a director's loan in the new company.

REQUIREMENT:

Assuming Bob transfers all of the assets of his business, apart from cash, to a newly incorporated company on 1 August 2016:

- (a) Outline the capital gains tax consequences for Bob if the consideration for the transfer is (i) cash which is left outstanding as a loan to him; or (ii) 100 shares in the new company in exchange for the transfer. (9 marks)
- (b) Calculate Bob's Case I assessable profits for 2016 and any adjustment which will be made to Bob's Case I assessable profits for prior years arising from the cessation of his sole trade. (4 marks)
- (c) Calculate the balancing charges/allowances which may arise on the transfer of assets to the new company and the options open to Bob to avoid any charges arising. (7 marks)

[Total: 20 marks]

- 5.** Mark Doyle bought 5,000 shares in AIP Limited (AIP) on 29 September 1974 for €2,500. His wife Louise had purchased the same amount of shares for herself on the same date.

Louise died unexpectedly on 1 March 1980 and on that date, Mark inherited all of Louise's 5,000 shares in AIP. The market value of Louise's shares at her date of death was €5,000.

On 31 January 1983, AIP offered its shareholders the right to purchase one share for every five shares held for €2.50 per share. Mark took up his full rights. Two months later, Mark gifted 2,000 shares to his son Sean. The market value of the shares on 31 March 1983 was €3 per share.

On 30 September 1989, Mark sold 4,000 of the shares for €16,000.

On 28 February 1997, AIP decided to issue bonus shares to its shareholders in the ratio of 1:4.

On 31 December 2016, Mark sold 4,000 shares for €40,000.

REQUIREMENT:

- (a)** Prepare a share history to reflect all of Mark's transactions with shares of AIP Limited. (10 marks)
- (b)** Assuming these were his only disposals calculate Mark's capital gains tax liability, if any, for 2016. (7 marks)
- (c)** Outline Mark's Pay & File requirements for 2016. (3 marks)

[Total: 20 marks]

6.

- (a) Fiona owns a small boutique. She accounts for VAT on the cash receipts basis. She gives you the following details in relation to July/August 2016:

| | | € | |
|----------------------------|------------------------------|--------|---------------|
| SALES: | Invoiced sales | 1,600 | |
| | Cash sales | 19,000 | |
| | Cash sales (0%) | 960 | |
| PURCHASES: | Credit purchases for re-sale | 10,200 | |
| | Cash purchases for re-sale | 2,430 | |
| PURCHASES NOT FOR RE-SALE: | | | |
| | Credit purchases: | | |
| | Diesel for van | 220 | |
| | Telephone | 650 | |
| | Insurance: | | Note 4 |
| | Motor | 1,440 | |
| | Shop Fixtures | 1,630 | |
| | Delivery van | 5,560 | |
| | Cash purchases: | | |
| | ESB (13.5%) | 440 | |
| | New shop sign | 2,600 | |
| | Petrol | 184 | Note 5 |
| | Diesel for van | 123 | |
| | Supplier entertainment | 517 | |
| | Mobile phone | 110 | Note 6 |
| | Stationery/printer ink | 195 | |
| | Staff entertainment | 363 | |

Note 1: Assume all figures are inclusive of VAT at 23% unless indicated otherwise.

Note 2: Cash received from receivables during the period was €413.

Note 3: No entry has been made for the shop rent. The annual rent of €6,300 is paid by monthly standing order. The landlord is VAT registered.

Note 4: Motor insurance premiums are for both Fiona's car (€670) & van (€770). Fiona has signed a 10 month direct debit for these premiums. The direct debit commenced 2 August 2016. It has been agreed with the Inspector of Taxes that Fiona's business use of the car is 10%.

Note 5: Fiona's total petrol consumption for the two month period.

Note 6: Approximately 50% of the calls are business related.

The following was discovered during the month end reconciliations:

- (i) A cheque was returned unpaid for €235 on the 14 August. This cheque was in respect of a cash sale made on the 29 July.
- (ii) The entry for a cash lodgement which was made on the 31 August 2016 for €1,750, was inadvertently omitted from the cashbook.

REQUIREMENT:

Calculate the VAT liability for July/August 2016. (10 marks)

- (b) What details must appear on a valid VAT invoice? (4 marks)
- (c) What is the VAT position for imports of goods from Northern Ireland? (4 marks)
- (d) State the due date for filing the return. (2 marks)

[Total: 20 marks]

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

TAXATION

FORMATION 2 EXAMINATION - AUGUST 2017

SOLUTION 1

| | | | |
|---|-------|-----------|---------|
| (a) Termination payment | | | |
| Basic exemption = €10,160 × (€765 × 12) = €19,340 | | | 1 mark |
| Increased exemption = €19,340 + €6,500 = €25,840 | | | 1 mark |
| SCSB | | | |
| Last 36 emoluments | | | |
| 2016 - 11 months | | €33,000 | |
| 2015 | | €34,500 | |
| 2014 | | €36,750 | |
| 2013 - 1 month | | €2,667 | |
| 106917/3 = | | €35,639 | |
| (€35,639 × 12/15) – €3,500 = €25,011 | | | 3 marks |
| HIGHEST OPTION – Increased exemption €25,840 | | | |
| Termination package | | | |
| Statutory redundancy | | exempt | 1 mark |
| Cash lump sum | | €52,500 | 1 mark |
| Company Car | | €4,900 | 1 mark |
| | | €57,400 | |
| Tax free amount | | (€25,840) | |
| Taxable portion | | €31,560 | |
| (b) John | | | |
| | € | € | |
| Schedule D Case IV €1,500 × 100/59 | | 2,542 | ½ mark |
| Schedule E | | | |
| Salary – John | | 70,000 | ½ mark |
| Salary – Pat 8 months | | 24,000 | ½ mark |
| Schedule F €670 × 100/80 | | 838 | ½ mark |
| Gross Income | | 97,380 | |
| Taxable Income | | 97,380 | |
| €42,800 + €24,000 × 20% | | 13,360 | 1 mark |
| €2,542 × 41% | | 1,042 | ½ mark |
| €28,038 × 40% | | 11,215 | ½ mark |
| | | 25,617 | |
| Tax credits | | | |
| Married persons | 3,300 | | ½ mark |
| PAYE tax credit | 3,300 | | ½ mark |
| DIRT | 1,042 | | ½ mark |
| PAYE - John 1 | 2,400 | | ½ mark |
| DWT | 168 | | ½ mark |
| PAYE – Pat 8 months | 2,800 | (23,010) | 1 mark |
| Tax Due | | 2,607 | |

Mary

| | € | € | |
|-------------------------------------|--------------|----------------|--------|
| Schedule E | | | |
| Taxable portion termination payment | | 31,560 | ½ mark |
| Salary – 3 months | | <u>9,000</u> | ½ mark |
| Gross Income | | 40,560 | |
| Less: Allowances and Relief | | 0 | |
| Taxable Income | | <u>40,560</u> | |
| €33,800 × 20% | | <u>6,760</u> | ½ mark |
| €6,760 × 40% | | <u>2,704</u> | ½ mark |
| | | 9,464 | |
| Tax credits | | | |
| Personal tax credit | 1,650 | | ½ mark |
| PAYE tax credit | 1,650 | | ½ mark |
| Med Exp | 91 | | 1 mark |
| PAYE – 3 months | <u>1,050</u> | <u>(4,441)</u> | ½ mark |
| Liability | | <u>5,023</u> | |

[Total: 20 Marks]

SOLUTION 2

CPE Ltd Corporation tax computation for the year ended 31 December 2016

| | € | € | |
|----------------------------------|---------------|-----------------|---------|
| Net profit per accounts | | 276,560 | ½ mark |
| Add back: | | | |
| Pension accrual | 5,000 | | ½ mark |
| Insurance – rental properties | 1,950 | | ½ mark |
| R&M- rental property | 4,550 | | ½ mark |
| R&M extension | 19,270 | | ½ mark |
| General provision | 2,740 | | ½ mark |
| Legal fees – on purchase | 3,425 | | ½ mark |
| Loan interest – rental interest | 4,700 | | ½ mark |
| Loan interest – Revenue interest | 1,485 | | ½ mark |
| Loan interest – finance interest | 2,400 | | ½ mark |
| Charitable donation | 400 | | ½ mark |
| Client entertainment | 1,205 | | ½ mark |
| Political donation | 720 | | ½ mark |
| Depreciation | <u>24,000</u> | 71,845 | ½ mark |
| Less | | | |
| Bad debts | 1,350 | | ½ mark |
| Other income | 56,370 | | ½ mark |
| Finance lease payments | <u>21,400</u> | <u>(79,120)</u> | 2 marks |
| | | 269,285 | |
| Less: capital allowances | | <u>(6,150)</u> | ½ mark |
| | | 263,135 | |
| Sch D Case III | | 4,400 | ½ mark |
| Sch D Case IV | | 16,051 | 1 mark |
| Sch D Case V | | <u>29,180</u> | ½ mark |
| | | 312,766 | |
| Corporation tax | | | |
| @ 12.5% | | 33,442 | 1 mark |
| @ 25% | | 11,308 | 1 mark |
| DIRT | | <u>6,581</u> | ½ mark |
| Net liability | | <u>38,169</u> | |
| Rental income | | 42,500 | |
| Less: | | | |
| Insurance | 1,950 | | ½ mark |
| Repairs | 4,550 | | ½ mark |
| Loan interest | 4,700 | | ½ mark |
| Capital allowances | <u>2,120</u> | <u>13,320</u> | ½ mark |
| | | <u>29,180</u> | |

As CPE is a small company, it will pay its preliminary tax by 23 November 2016 and file its CT1 by 23 September 2017.

3 marks

[Total: 20 Marks]

SOLUTION 3

| | | | |
|-----|--------------------------|------------------------------|--------|
| (a) | Year of marriage credit: | €2,950 | |
| | | €8,400 | |
| | | €11,350 | ½ mark |
| | | (€10,500) | ½ mark |
| | | €850 | |
| | | × 3/12 | |
| | | €213 | 1 mark |
| | Mary's refund = | €213 × €2,950/€11,350 = €55 | 1 mark |
| | Aoife's refund = | €213 × €8,400/€11,350 = €158 | 1 mark |

| | | | |
|-----|-----------------------------------|-----------|---------|
| (b) | Amanda: (€4,700 – €3,000) × 20% = | €340 | 1 mark |
| | Mick: €3,700 × 20% = | €740 * | 1 mark |
| | Mark: €7,000 × 20% = | €1,400 ** | 2 marks |
| | Total: | €2,480 | |

*€3,000 is deducted only once from the aggregate fees paid for all full-time courses

**€7,000 is upper limit per person per course for relief

| | | | | |
|-----|--|-------|---------|---------|
| (c) | Donald's CGT liability for 2016 is as follows: | | | |
| | | € | € | € |
| | Proceeds | 5,000 | 8,100 | |
| | Cost | 150 | 5,900 | |
| | Gain | 4,850 | 2,200 | 1 mark |
| | | | (1,270) | |
| | Taxable | 4,850 | 930 | |
| | CGT @ 33% | 1,601 | 307 | 1 mark |
| | Restrict to (Proceeds – €2,540)@50% | 1,230 | 2,780 | 2 marks |
| | CGT Liability | 1,230 | 307 | 1,537 |

(d) Adam Brady's gain will qualify in full for principal private residence relief as the 5 year period in which he did not occupy the house will be deemed to be a period of occupation as:

- It was a period of absence throughout which Adam worked in an employment all of the duties of which were performed outside the State and
- Adam occupied the house as his principal private residence before and after the period of absence
- Adam had no other residence eligible for relief during this period

4 marks

- (e) Import/Intra-Community Acquisition
- "Importation" of goods refers to goods coming from outside of the EU to Ireland.
 - Irish VAT is payable on imports at the point of entry into Ireland.
 - Where VAT is correctly paid, the purchaser obtains a Single Administrative Document ("SAD") from the Revenue. When the purchaser of imported goods puts these goods to use for his taxable business, he can reclaim the VAT paid in his VAT return. SAD documentation supports the VAT deduction.
 - Intra-Community Acquisition ("ICA") of goods refers to the acquisition of goods by an Irish trader from a supplier in another EU Member State.
 - Where the Irish customer is registered for VAT, he must quote his VAT number to the supplier.
 - The foreign supplier will zero rate the supplies
 - The Irish VAT registered customer will self-account for Irish VAT at the appropriate rate of VAT in its return. If the goods are used for a taxable use, the customer can reclaim the VAT.

4 marks

[Total: 20 Marks]

SOLUTION 4

- (a) If Bob transfers the assets and liabilities of the business valued at their market value to a newly incorporated company and the consideration for the transfer is left outstanding as a loan due to him he will be deemed to have disposed of the assets of his business at market value. A CGT liability of €98,768 will arise calculated as follows: 2 marks

| | | | |
|--------------------------------|----------------|----------------|--------|
| Property | € | € | |
| Deemed proceeds (market value) | | 295,000 | ½ mark |
| Cost March 1998 | <u>101,000</u> | | |
| Indexed at 1.232 | | (124,432) | ½ mark |
| Chargeable Gain | | <u>170,568</u> | |
| Goodwill (Gain = Market value) | | <u>130,000</u> | 1 mark |
| Total Gains | | <u>300,568</u> | |
| Less annual exemption | | <u>(1,270)</u> | 1 mark |
| Liable to CGT | | <u>299,298</u> | |
| CGT @ 10% | | <u>29,230</u> | |

Notes:

- (1) No allowable loss arises on the disposal of plant and equipment. Relief for the loss arising has already been given by way of capital allowances 1 mark

- (2) Inventories and receivables are not chargeable assets so their disposal is not an event for capital gains tax purposes.
If however Bob transfers the business to a newly incorporated company in exchange for 100 shares the transfer will qualify for relief under Incorporation Relief. 1 mark

Because full relief is available Bob will not have any CGT liability on the transfer of the assets to the new company. Bob will be deemed to acquire the shares in the new company for their market value of €678,000 less the chargeable gains of €300,568 arising on the transfer of the assets i.e. €377,432. 1 mark

- (b) Bob's Case I assessable profits for 2016 will be his actual profits for 2016 i.e. €195,000 * 7/12 = €113,750. 2 marks

If Bob's actual Case I profits for 2015 exceed the amount on which he was originally assessed for 2015 the original amount assessed will be revised to the actual amount. For 2015 Bob would have been assessed on his profits of €149,000 for the year ended 31 July 2015.

His actual profits for 2015 are €168,167 (i.e. €149,000 × 7/12 + €195,000 × 5/12). As this is higher than the original amount assessed the amount on which she is assessable for 2015 will be increased by €19,167. 2 marks

- (c) The disposal of the industrial building will give rise to a balancing charge of €64,300 calculated as follows:

| | | |
|---|----------------|--------|
| | € | |
| Market value of building | 295,000 | |
| Portion attributable to site (5%) | (14,750) | |
| | <u>280,250</u> | 1 mark |
| Less tax written down value | (23,000) | ½ mark |
| Balancing charge | <u>257,250</u> | ½ mark |
| Restricted to allowances granted: | | |
| Qualifying cost | 96,000 | ½ mark |
| Tax written down value | (23,000) | ½ mark |
| Allowances granted | <u>73,000</u> | 1 mark |
| A balancing charge of €75,000 will arise on the disposal of plant and equipment (market value less tax written down value of nil) | | 1 mark |

An election may be made by Bob to transfer the assets to the new company at tax written down value. If this election is made no balancing charges will arise and the company will be deemed to acquire the assets for capital allowance purposes at their tax written down value. 2 marks

[Total: 20 Marks]

SOLUTION 5

| | | | € | € | | |
|-----|--------------------------|---------------------|-------|-------|-------|--------|
| (a) | AIP Ltd | Purchase | 74/75 | 5,000 | 2,500 | 50c |
| | | Inherit | 79/80 | 5,000 | 5,000 | €1 |
| | 31st January 1983 | Rights Issue | | | | |
| | Purchase | 74/75 | 5,000 | 2,500 | 50c | |
| | Rights | 82/83 | 1,000 | 2,500 | €2.5 | 1 mark |
| | Inherit | 79/80 | 5,000 | 5000 | €1 | |
| | Rights | 82/83 | 1,000 | 2,500 | €2.5 | 1 mark |

31st March 1983

Gift to Son

Comes out of the 74/75 shareholding and the attached rights issue
1667 is taken out of the 74/75 and 333 is taken out of 82/83

| | | | | | |
|-----------|-------|---------|-------|------|--------|
| Purchase | 74/75 | 5,000 | 2,500 | 50c | 1 mark |
| Gift | 82/83 | (1,667) | (834) | 50c | |
| Remaining | 74/75 | 3,333 | 1,666 | 50c | |
| Rights | 82/83 | 1,000 | 2,500 | €2.5 | 1 mark |
| Gift | 82/83 | (333) | (833) | €2.5 | |
| Remaining | 82/83 | 667 | 1,667 | €2.5 | |

30th September 1989 Sale of 4,000 shares. These will all come from the remaining shares in 74/75 (3333) and the attached rights issue (667).

Therefore the only shares remaining are the 79/80 and the rights issue attaching to them ie

| | | | | | |
|---------|-------|-------|-------|------|---------|
| Inherit | 79/80 | 5,000 | 5,000 | €1 | |
| Rights | 82/83 | 1,000 | 2,500 | €2.5 | 2 marks |

28th February 1997 Bonus issue

| | | | | | |
|----------|-------|-------|-------|------|--------|
| Inherit | 79/80 | 5,000 | 5,000 | €1 | 1 mark |
| Bonus | 96/97 | 1,250 | nil | nil | |
| Restated | 79/80 | 6,250 | 5,000 | 80c | |
| Rights | 82/83 | 1,000 | 2,500 | €2.5 | 1 mark |
| Bonus | 96/97 | 250 | nil | nil | |
| Restated | 82/83 | 1,250 | 2,500 | €2 | |

31st December 2016 Sale of 4000 shares. 3333 will come out of the 79/80 holding and 667 out of the rights issue

| | | | | | |
|---------|-------|---------|---------|-----|--------|
| Inherit | 79/80 | 6,250 | 5,000 | 80c | |
| Sale | 2016 | (3,333) | (2,667) | 80c | |
| | 79/80 | 2,917 | 2,333 | 80c | 1 mark |
| Rights | 82/83 | 1,250 | 2,500 | €2 | |
| Sale | 2016 | (667) | (1,334) | €2 | |
| | 82/83 | 583 | 1,166 | €2 | 1 mark |

| | | | |
|-----|----------------------------|--------------|---------|
| | | € | |
| (b) | Sale of 4000 shares | 40,000 | 1 mark |
| | 3,333*.80 = | 2667 * 3.742 | |
| | | (9,980) | 2 marks |
| | 667 * 2 = | 1334 * 2.253 | |
| | | (3,006) | 2 marks |
| | Gain | 27,014 | |
| | | (1,270) | 1 mark |
| | Taxable Gain | 25,744 | |
| | At 33% | 8,496 | 1 mark |

(c) Pay his CGT on 31st January 2017 and file his return on 31st October 2017 3 marks

[Total: 20 Marks]

SOLUTION 6

(a) VAT return for period July/August 2016.

| | € | € | |
|--|---------------|-----------|--------|
| SALES: Cash sales | 19,000 | | |
| Unpaid cheque | (235) | | ½ mark |
| Unrecorded lodgement | 1,750 | | ½ mark |
| | <u>20,515</u> | | |
| 20,515 x 23/123 | | 3,836 | ½ mark |
| Cash received from debtors €413 * 23/123 | | <u>77</u> | ½ mark |
| | | 3,913 | |
| PURCHASES: | | | |
| Credit purchases for re-sale €10,200 | | | |
| Cash purchases for re-sale € 2,430 | | | |
| €12,630 * 23/123 | | (2,362) | ½ mark |
| PURCHASES NOT FOR RE-SALE: | | | |
| Credit purchases: | | | |
| Diesel €220 x 23/123 | | (41) | ½ mark |
| Telephone €650 x 23/123 | | (122) | ½ mark |
| Shop Fixtures €1630*23/123 | | (305) | ½ mark |
| Shop rent €6,300 x 2/12 = €1,050 x 23/123 | | (196) | ½ mark |
| Insurance Exempt Note 1 | | | ½ mark |
| Delivery van €5,560 x 23/123 | | (1040) | ½ mark |
| Cash purchases: | | | |
| ESB (13.5%)€440 x 13.5/113.5 | | (52) | ½ mark |
| New shop sign €2,600 x 23/123 | | (486) | ½ mark |
| Petrol Non deductible | | | ½ mark |
| Diesel €123 x 23/123 | | (23) | ½ mark |
| Supplier entertainment Non deductible | | | ½ mark |
| Mobile phone €110 x 23/123 x 50% | | (10) | ½ mark |
| Postage/Stationery/printer ink €195 x 23/123 | | (36) | ½ mark |
| Staff entertainment Non deductible | | | ½ mark |
| Refund due | | (760) | ½ mark |

Note 1: Insurance premiums are exempt therefore no VAT is charged and no VAT input credit is available.

(b) A valid VAT invoice must include:

- Suppliers name and address
 - Supplier's VAT registered number.
 - Invoice date
 - Name and address of customer
 - The date on which the goods were supplied
 - Description and quantity of the goods supplied
 - The price excluding VAT
 - The VAT rate(s) and amount of VAT charged at each rate
- 1 mark each to a maximum of 4 marks

(c) EU Imports:

No VAT is chargeable between the two businesses. The ROI business supplies his VAT number to the NI business. The ROI business accounts for the VAT on a reverse charge basis.

4 marks

(d) The return must be filed 19th September 2016.

2 marks

[Total: 20 Marks]