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*The CPA Ireland Skillnet provides excellent value CPE (continual Professional Education) in accountancy, law, tax and strategic personal development to accountants working both in practice and in industry. However our attendees are not limited to the accountancy field as we welcome all interested parties to our events.*



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## ***Trainee Accountant Workshop Series***

**17 FEBRUARY 2018**

## ***F2 – Taxation Presented By: Sandra Gleeson***

## *Syllabus Overview*

- The aim of F2 Taxation is to ensure that students develop a knowledge and understanding of the workings of the tax system under the specified tax heads, i.e. IT, CGT, CT, VAT
- This knowledge is applied in the ***calculation of tax liabilities*** and the ***identification of basic tax-saving measures***.

## *Exam Format*

### **Section A**

- Question 1 (Compulsory) **20 Marks**
- Question 2 (Compulsory) **20 Marks**
- Question 3 (Compulsory) **20 Marks**

### **Section B**

- Questions 4 to 6 (Choice of any 2 out of 3, 20 marks each) **40 Marks**

**Examinable Legislation for 2018**

***Finance Act 2016***

## *Question Format*

- Questions 1 and 2 each mainly, but not necessarily exclusively, address one of the main taxes or tax heads on the syllabus.
- Question 3 addresses several areas in a multiple choice or short question format.
- Questions 4,5 and 6 may each focus on two or more areas.
- All questions carry equal marks.

## *Key Skills Required to Pass*

- Proficiency in preparation of tax computations
- Study the entire syllabus – question spotting is dangerous
- Read examiner articles
- Be able to explain why....
- Answer all parts of each question
- Don't miss the easy marks
- Practice, practice, practice

## *Recent Examiner Article*

- Personal Tax Computation – The Five Step Plan
- Focuses on developing a comprehensive understanding of the components of the Income Tax Computation
- Sets out a five step plan to obtaining a working knowledge of the preparation of an income tax computation
- Sets out the Proforma to be used in an exam

## *Income Tax – 5 Step Plan*

1. Identify and correctly classify each source of income.
2. Determine and apply the correct basis of assessment for each source of income.
3. Identify and determine the amount of any exemptions, deductions or reliefs available and the manner in which these are given.
4. Calculate the total tax correctly applying the relevant rates and bands.
5. Determine the tax credits which may be used to reduce the tax liability.

## Proforma Personal Tax Computation

Pro-forma Personal Tax Computation for 2017	€	€
Schedule D		
Case I		
Adjusted Case I profit	X	
Less: Case I/II losses forward (S382)	(X)	
Less: Capital allowances	(X)	
Less: Allowable retirement annuity contributions	<u>(X)</u>	
		X
Case II		
Adjusted Case II profit	X	
Less: Case I/II losses forward (S382)	(X)	
Less: Capital allowances	(X)	
Less: Allowable retirement annuity contributions	<u>(X)</u>	
		X

## Proforma Personal Tax Computation

<i>Continued</i>		
Case III		X
Case IV		X
Case V		
Irish rent after deduction of allowable expenses	X	
Less: Case V capital allowances	(X)	
Less: Case V losses forward	<u>(X)</u>	
		X

## Proforma Personal Tax Computation

<i>Continued</i>		
Schedule E		
Wages, salaries, bonus, directors fees, pensions	X	
Benefits in Kind	X	
Taxable lump sum	X	
Less employee occupational pension contributions	(X)	
Less allowable retirement annuity contributions	<u>(X)</u>	X
Schedule F		<u>X</u>
Gross Income		X

## Proforma Personal Tax Computation

<i>Continued</i>		
Less 'Certain' Deductions		
Case I/II losses of the current period (S381)	(X)	
Charges paid	<u>(X)</u>	<u>(X)</u>
Total Income		X
Less Personal Allowances/Reliefs		
▪ Nursing home fees	(X)	
▪ Permanent health insurance	(X)	
▪ Employed person taking care of incapacitated individual	(X)	
▪ EII Scheme	<u>(X)</u>	<u>(X)</u>
Taxable Income		<u>X</u>

# Proforma Personal Tax Computation

Taxed as follows:		
Standard rate band @ 20%		X
Deposit Interest @ 39%		X
Balance @ 40%		<u>X</u>
		X
Less Non-refundable tax credits		<u>(X)</u>
		X
Add: Income tax deducted from payments made by the taxpayer		X
Add: PRSI		X
Add: USC		<u>X</u>
		X
Less Refundable tax credits		<u>(X)</u>
Net income tax due/(refundable)		<u>X/(X)</u>

## 5 Step Plan Into Action

Practice Question

Aug 2013 Q1 (As amended for Finance Act 2016)

Please see handout attached

## *Guidance on other exam topics*

### **Corporation tax**

- Computational proficiency is essential to pass the exam
- Use the proforma layout of the corporation tax computation
- Practice questions to develop proficiency
- Don't miss the easy marks

## *Guidance on other exam topics*

### **Capital Gains Tax**

- Know the basics
- Understand the reliefs and know how to apply them to basic scenarios



## *CGT Reliefs – Example 1*

Jennifer commenced a manufacturing business as a sole trader on 1 January 2016. On 1 August 2017, Jennifer transferred the business to a new company, X Ltd. All of the assets of the business (except cash) were transferred. The gross value of the assets transferred were €250,000 and the company took over the liabilities of the business of €40,000. In return for the assets transferred Jennifer received 1,000 shares worth €200,000 and cash of €10,000.

The total gains on disposal of the assets to X Ltd was €180,000.

## *CGT Reliefs - Knowledge*

### **Incorporation Relief**

Conditions – Going concern, all assets except cash, share consideration, bona fides.

Relief – deferred gain (reduces base cost of shares)

Formula:

$$\frac{\text{Value of Shares}}{\text{Gross Value of Assets Transferred}}$$

## *CGT Reliefs - Solution*

		€
Total Gains		180,000
Deferred gain	$(180,000 \times 200,000 / 250,000)$	<u>(144,000)</u>
Taxable gain		36,000
Annual exemption		<u>(1,270)</u>
		<u>34,730</u>
CGT	@33%	39,181
Base cost of shares		
Value of shares		200,000
Deferred gain		<u>(144,000)</u>
Base cost		<u>56,000</u>

## *CGT Reliefs – Example 2*

- Colleen, aged 45, disposed of her shares in ABC Ltd for €1,200,000. ABC Ltd is a trading company. Colleen is a full-time working director in ABC Ltd since she acquired her shares in the company in March 2003 for €150,000.
- ABC Ltd does not hold any investments and all of the assets are used for the purpose of the manufacturing trade.

## CGT Reliefs - Knowledge

### Revised Entrepreneur Relief

Conditions – Chargeable business asset, not an excluded asset, owns at least 5% for 3 of last 5 years, full-time working employee/director for 3 of last 5 years.

Relief – reduced rate of CGT of 10% on first €1,000,000 of gain

## CGT Reliefs - Solution

		€
Consideration		1,200,000
Base Cost		<u>(150,000)</u>
Capital Gain		1,050,000
Annual Exemption		<u>(1,270)</u>
Taxable Gain		<u>1,048,730</u>
CGT		
Entrepreneur relief	€1,000,000 @ 10%	100,000
Balance	€48,730 @ 33%	<u>16,081</u>
		<u>116,081</u>

## *CGT Reliefs – Example 3*

*Assume the same facts as in Example 2, except that Colleen is aged 55 and not 45*

- Colleen, **aged 55**, disposed of her shares in ABC Ltd for €1,200,000. ABC Ltd is a trading company. Colleen is a full-time working director in ABC Ltd since she acquired her shares in the company in March 2003 for €150,000.
- ABC Ltd does not hold any investments and all of the assets are used for the purpose of the manufacturing trade.

## *CGT Reliefs - Knowledge*

### **Retirement Relief**

Conditions –, aged 55, Chargeable business asset, not an excluded asset, minimum ownership period 10 years, minimum % ownership requirement, director 10 years, full-time working director 5 years.

Relief – depends on who the asset is disposed to!

## *CGT Reliefs - Solution*

Disposal to child or favourite niece/nephew		€
Consideration		1,200,000
Base Cost		(150,000)
Capital Gain		1,050,000
Retirement Relief	$(1,050,000 \times \text{CBA/CA } 100\%)*$	(1,050,000)
Taxable gain		Nil

\*Note

CBA/CA refers to the chargeable business assets and chargeable assets of the company. It is necessary to look at the underlying assets of the company to determine this CBA/CA proportion. If the CBA/CA proportion is less than 100% then the relief is restricted to that proportion.

## *CGT Reliefs - Solution*

Disposal to third party		€
Consideration		1,200,000
Base Cost		<u>(150,000)</u>
Capital Gain		1,050,000
Retirement Relief	Full retirement relief not available	
Annual Exemption		(1,270)
Taxable Gain		1,048,730
CGT	$\text{€}1,048,730 \times 33\%$	346,080
Marginal relief		
Consideration	CBA Proportion $(1,200,000 \times 100\%)$	1,200,000
Marginal relief limit		(750,000)
Excess		450,000
Marginal Relief CGT	$\text{€}450,000 \times 50\%$	225,000

## CGT Reliefs - Solution

*On the basis that Colleen disposes of the shares to a third party and satisfies the conditions for both revised entrepreneur relief and retirement relief, which relief should she claim?*

- Revised Entrepreneur Relief

CGT Liability €195,281

- Retirement Relief (Marginal Relief)

CGT Liability €225,000

Q&A

Over to you

## *Conclusion*

Tax is one of the most interesting subjects you can study. It is worth taking the time to obtain a proper understanding of the rules.

Practice, practice, practice.

Best of luck