



Institute of Incorporated Public Accountants

Professional 2 – Module 9

Advanced Taxation Exam

Wednesday 29th August 2012

10am – 1pm

Instructions to Candidates:

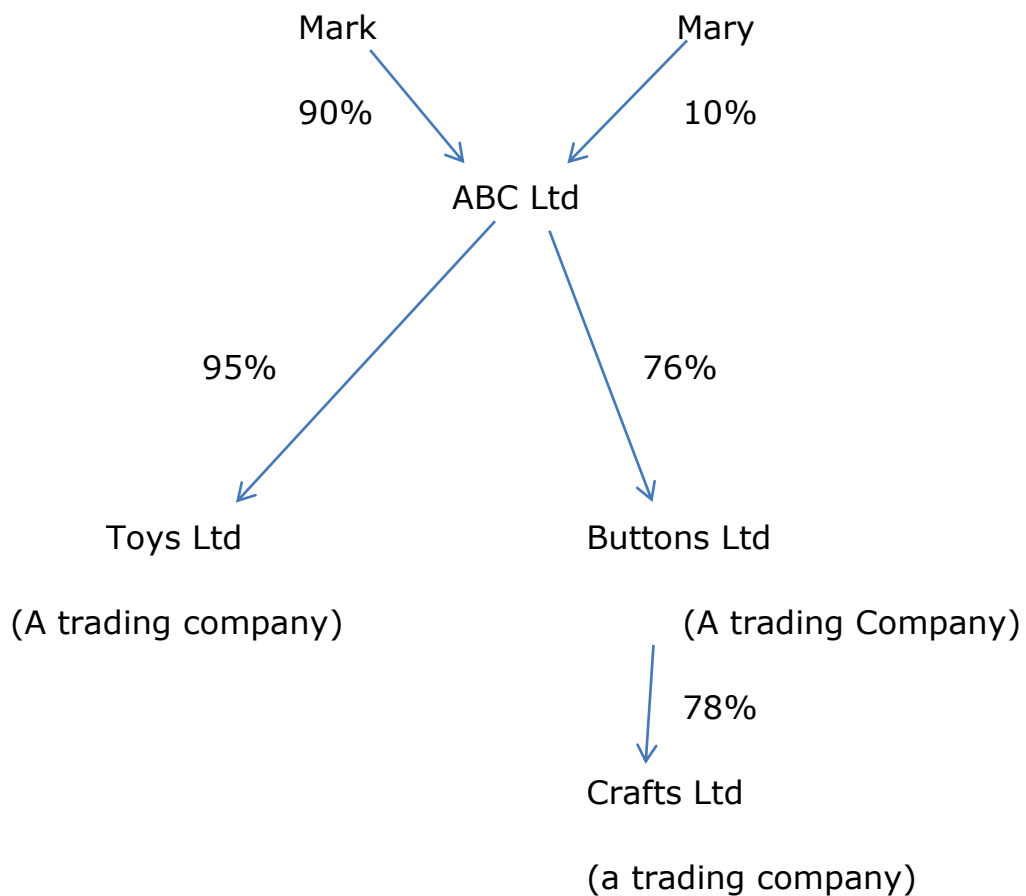
1. **Answer 5 out of 6 questions**
2. **All questions carry equal marks (20 marks each)**
- 3.
4. **Include all workings with your answer**

Time Allowed: 3 Hours

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Question 1

You are the tax adviser to Mart Stones who along with his wife Mary own the holding company ABC Limited and a number of subsidiaries. The group structure is as follows:



All companies have a year end at 31 December and ABC Limited has owned them for the last 5 years.

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The results for the companies for the year ended 31 December 2011 are as follows:

| | Toys Ltd | Buttons Ltd | Crafts Ltd |
|--------------|-----------------|--------------------|-------------------|
| Sch D Case 1 | €200,000 | €150,000 | (€300,000) |
| Sch D Case V | € 20,000 | € 10,000 | € 10,000 |

Buttons Limited has been approached by Fire Limited (a rival company) and they have offered €1,200,000 to acquire Crafts Limited, Buttons Limited are thrilled as they paid €500,000 in 2006.

Buttons Limited transferred a premises with a market value of €700,000 to Crafts Limited on 1 June 2007 at a no gain no loss. This property has cost Buttons Limited €430,000 on 1 June 2006.

Requirement:

- a) Calculate the corporation tax payable by each company for the year ended 31 December 2011 (trying to minimise tax).

10 marks

- b) Outline and calculate all tax implications for the group on the sale of Crafts Limited.

10 marks

Total 20 marks

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Question 2

Mark Boland has worked as a Post Office employee for the last five years. He has made some shrewd investments during the Celtic Tiger era and now has properties valued at €1,500,000 (mortgages €250,000). Rental income is €100,000 net per year. Mark would love to pursue his interest of manufacturing machines to make life easier for people with disabilities. He has worked out that his new business will make losses for the first 3 years and then will become profitable. He needs share capital of €400,000 to set up and wants to invest this in such a manner as to maximise his reliefs.

Requirement:

- a) Outline to Mark whether he should set up a limited company or a sole trader business and justify your reasons

10 marks

- b) Outline to Mark suitable methods to fund his new venture.

10 marks

Total 20 marks

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Question 3

Mary Smith has been in business many years as a hairdresser. Due to her brilliant networking skills and growing reputation Mary has built up her business to 5 staff and annual profits of €120,000. She had decided now is the time to incorporate her business (31st December 2011).

She plans to set up a Limited Company called Cuts 4 You Limited and transfer her business to the company. Her hairdressing business figures for the year ended 31 October 2011 are as follows:

| Assets | Cost | Market Value |
|---------------|-----------------|---------------------|
| Premises | €200,000 (2004) | €700,000 |
| Goodwill | €0 | €200,000 |
| Stock | € 50,000 | € 50,000 |
| Debtors | € 2,000 | € 2,000 |
| Cash | € 10,000 | € 10,000 |
| Creditors | (€30,000) | (€30,000) |
| Loan | (€15,000) | (€15,000) |

She plans to transfer all her assets (except cash) and liabilities to the new company in exchange for €5,000 cash and shares in the new company.

Requirement:

- a) Calculate Mary's capital gains tax liability on the business transfer and the base cost of the shares for a future disposal.

12 marks

- b) If Mary decided to hold onto the premises personally, would your capital gains tax liability be any different.

8 marks

Total 20 marks

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Question 4

Anne Burke has just won €1,000,000 on the lotto on 1 June 2011. She cannot believe her good fortune and has decided now is the time to make some changes in her life. She plans to do the following:

- 1) Transfer her principle private residence worth €320,000 to her daughter Maire for €1. Marie has lived with her in the house for the last two years and owns a rental apartment in Finglas.
- 2) Gift €70,000 to Dogs for the Blind.
- 3) Pay for her son Barry to attend medical school in Harvard University. She hopes it will be worth the €250,000 fees.
- 4) Gift her widowed sister-in-law Sally her cottage in Mayo. The cottage was a shrewd investment, it cost Anne €170,000 in 2004 and was recently valued at €400,000.
- 5) Gift €100,000 cash to each of her sons, Rory and Trevor.

Requirement:

Calculate any capital gains tax, capital acquisitions tax and stamp duty for the above transactions.

20 marks

Total 20 marks

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Question 5

Brake Limited manufacture and repair computers. Previously the company has conducted its business solely in the State. Recently, it has identified a number of business opportunities in Europe, the US and the UK. The sales manager Sam White is preparing a marketing presentation for the board of directors. He has little knowledge of VAT and is concerned that he needs to understand the full implications of importing and exporting goods and services to foreign countries.

Requirement:

Write a letter to Sam explaining the VAT aspects of overseas imports and exports of goods and services. In your letter you should deal with VAT arising on the following transactions:

- | | |
|---------------------------------------------------------------|----------------|
| a) Export of goods to non EU countries. | 4 marks |
| b) Export of goods to VAT registered traders in EU countries. | 4 marks |
| c) Repairs for VAT registered customers in the EU | 4 marks |
| d) EU imports of goods | 4 marks |
| e) Non EU imports of goods | 4 marks |

Total 20 marks

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Question 6

Holly Limited is owned by Mick Jones (25%) Paul Jones (45%) and Pat Burke (30%). Holly Limited manufactures and sells kitchens in Ireland.

During the year ended 31 December 2012 Holly Limited made the following transactions.

- a) Holly Limited transferred a property worth €200,000 to Pat Burke's son for €10,000 on 15 June 2012. It cost the company €50,000 on 16 January 2004.
- b) Holly Limited has rental income of €15,000 for the year ended 31 December 2012 and paid a dividend of €2,000 on 15 January 2013.

Requirement:

Calculate the taxation implications of the above transactions.

| | |
|--------------|-----------------|
| | 20 marks |
| Total | 20 marks |

End of Paper