ADVANCED TAXATION SOLUTIONS SEPTEMBER 2012

Solution 1

a)

ABC Limited, Toys Limited, Buttons Limited and Crafts Limited are all part of a capital gains tax group. Only ABC Limited, Toys Limited and Buttons Limited are part of a loss group.

	Toys Limited	**Buttons Limited**	**Crafts Limited**	
Sch Case 1	€200,000	€150,000	-	
Loss Crafts	-	(2) (€150,000)	-	**2 marks**
	€200,000	-		
Sch D Case V	€ 20,000	€ 10,000	€10,000	
	€220,000	€ 10,000		
Corporation Tax				
€200,000 x 12½ % =	€25,000			
€ 20,000 x 25% =	€ 5,000			
€ 10,000 x 25%		2,500		
Loss relief €2500 /.125 (3)		(2,500)		**2 marks**
€10,000 x 25%			€2,500	
Loss relief				**2 marks**
€2,500 / .125 = €20,000 (1) x 12½%			(2,500)	
Ct due	€30,000	0	0	-
				2 marks

Loss Schedule	€300,000
Used: Crafts (1)	20,000
Buttons Case I (2)	150,000
Buttons Case V (3)	20,000
Carry forward against future profits of Crafts Limited	110,000

2 marks

B

	€
Buttons Limited	1,200,000
Cost	(500,000)
Gain	700,000

€700,000 x 25% / 12½% = €1,400,000 **5 marks**

Corporation tax

€1,400,000 x 12½% = €175,000

CGT clawback on Crafts Limited

Sales Proceeds	€700,000
Cost	(€430,000)
	€270,000

CGT €270,000 x 20% = €54,000 **5 marks**

Solution 2

A)

You have enough annual income to survive personally and if you stay initially as a sole trader you can use your losses against your rental income, saving you tax of 41% instead of 12½% in a Limited company. **5 marks**

However if you stay as a limited company you cannot claim research and development credits for your manufacturing and also would be unable to avail of seed capital relief or BEI funding based on your circumstances. I would suggest a limited company. **5 marks**

B

Seed Capital

Business Expansion Scheme

Research and Development Credit

Any 2 named, 1 mark, explanation 4 marks each

Solution 3

A)

CGT

Premises

Sales Proceeds	€700,000	
Cost	(€200,000)	
Gain	€500,000	
Goodwill Gain	€200,000	
Total Gains	€700,000	**4 marks**

Transfer of business to company

Value of assets transferred – value of liabilities taken over = shares and cash consideration

€962,000 - €45,000 = Shares + €5,000

€917,000 = Shares + €5,000

€912,000 = shares **2 marks**

Gain deferred

$$€700,000 \times \frac{€912,000}{€962,000} = €663,617$$

2 marks

Taxable gain now

€7000,000 - €663,617 = €36,383 - €1270 = €35,113

CGT due

€35,113 x 25% = €8,778 **2 marks**

Base cost of shares for future disposal

€912,000

(€663,617) Deferred gain

€248,383 **2 marks**

b) Yes as Mary could not then defer gain **3 marks**

Then CGT on goodwill

€200,000 - €1270	= €198,730 x 25%	
	= € 49,683	**5 marks**

Solution 4

1) No CGT as ppr **1 mark**

   No CAT as Marie under threshold **2 marks**

   Stamp duty half the normal rate **1 mark**

2) No tax implications as for charity **2 marks**

3) No tax implications as for education **2 marks**

4) CGT for Anne

Sales proceeds	€ 450,000	
Cost	(€170,000)	
Gain	€ 280,000	
Less annual exempt	(1270)	
	€278,730	
	X 25%	
=	€69,683	**2 marks**

CAT Sally

- Steps into husbands shoes, group B threshold

Gift €450,000 - €3000=	€447,000	
Group B threshold	€ 33,208	
	€413,782	
	x 25%	
	€103,448	**3 marks**
Less: CGT credit	(€69,683)	**2 marks**
	€ 33,765)	**2 marks**

5) No CGT as cash and no CAT as under group A thresholds **3 marks**

Solution 5

Presentation 4 marks

Mr. Sam White
Brake Limited
Address

Date

Dear Sam,

I refer to our recent meeting and the queries raised regarding the export of goods and services. I now set out the VAT treatment in respect of the transactions discussed:

<u>EU "Exports" of goods</u>

EU exports are known as "intra EU transactions". If the EU customer quotes their VAT number to the Irish supplier, they will then zero rate the supply. The net of VAT amount for such transactions is also included in box E1 "value of goods sent to other EU countries."

4 marks

<u>Exports of goods to non EU countries</u>

These sales are zero rated for VAT purposes. Documentary evidence that the goods have been exported should be kept. **4 marks**

<u>Repairs for customers in the EU</u>

These services are normally deemed to be supplied where the service is actually carried out. However, services on moveable goods in cases where the goods involved leave the Member State in which the service is physically carried out and the customer is a VAT registered person are deemed to be supplied in the State in which the customer is registered. The recipient of the service is liable to account for VAT (this is known as the reverse charge basis). If the customer provides the company with its VAT number the company can zero rate the supply.

4 marks

<u>EU imports of goods</u>

EU imports also, are known as "intra EU transactions". "Deferred accounting" applies to such transactions. The company quotes its VAT number to the EU suppler who should then zero rate the supply. The company self-accounts for the VAT by calculating the VAT on the transaction, using the appropriate VAT rate and including the amount as a supply on the VAT return. This increases the VAT liability. If the company is entitled to a deduction for the VAT (which is usually the case) it claims a deduction for the VAT as calculated. The net effect is that the transaction is VAT liability neutral.

The net of VAT amount for such transactions is also included in box E2 "value of goods received from other EU countries."

Any 2 points, 2 marks each

<u>Non EU imports of goods</u>

This is an import from a non EU State. On arrival in the State, VAT is paid to Irish customs (VAT at point of entry). This VAT is reclaimable in the normal fashion on the VAT return for the period in which the payment is made or deemed to have been made if using the deferred payment system.

Depending on the circumstances and turnover level you may also be required to complete additional VAT returns such as a VIES return (quarterly return of EU exports) or an intrastate return (monthly return showing a detailed make up of EU imports or EU exports).

Any 2 points, 2 marks each

Total 20 marks

Solution 6

a) Close Company, transfer of asset at undervalue company sell asset.

Sales proceeds	€200,000
Cost	€ 50,000
Gain	€150,000

€150,000 x 25% /12½% = €300,000

€300,000 x 12½% = €37,500 Ct for Co. **4 marks**

Distribution by company €190,000 Dividend withholding tax 20%, €38,000

4 marks

Sch F Pat's son €190,000 credit dividend withholding tax

Reduce base cost of shareholders by undervalue

Mick	€190,000 x 25%	= €47,500
Paul	€190,000 x 45%	= €85,500
Pat	€190,000 x 30%	= €57,000

4 marks

b)

No surcharge on undisturbed income as a) treated as a distribution. **8 marks**