



Institute of Incorporated Public Accountants

Professional 2

Module 9

Advanced Taxation

Wednesday 27th. August 2014

10:00am – 1:00pm

Instructions to Candidates:

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

Time Allowed: 3 Hours

Question 1

Haulage Limited is a family transport company set up by John and his wife Mary on 1 October 1985 with 100 €1 shares, John then owning 70 and Mary owning 30. It is now 1 August 2014 and John is aged 58 years and Mary is 53 years old. The current shareholding is John 50%, Mary 30% and their son Bob 20% (he received these shares as a gift from John on his 25th birthday 6 months ago when the entire market value of the company was €1.5m). They have been approached by a large freight company in Ireland Smith Jones Limited with an offer for €2m to buy 100% of the shares in Haulage Limited. Haulage Limited has Case I losses forward of €100,000 and capital losses forward of €20,000 which Smith Jones Limited are keen to acquire.

Required:

- a) What are the tax consequences for John, Mary and Bob if they sell their shareholdings in Haulage Limited to Smith Jones Limited
10 marks

- b) Will Smith Jones Limited be able to use all the losses in Haulage Limited after the purchase? Explain and justify your answer.
10 marks

Total 20 marks

Question 2

ABC Limited is a holding company that owns 100% Apple Limited (bought for €1m in June 1990), 95% of Peach Limited (bought for €500,000 18 months ago) and 100% Pear Limited (bought for €2m in May 2001). Peach has a property worth €50,000 it acquired from Pear 16 months ago for nil cost. At the time of transfer the property had a market value of €35,000 and had cost Pear limited €10,000 on 1 June 1987. ABC Limited have been offered €1.5m for Peach Limited and €5m for Apple Limited. They are considering accepting the offer as they are happy to reduce the number of companies in their group.

-

Required:

Calculate all tax consequences for ABC Limited, Peach Limited and Apple Limited on the proposed sale of Peach limited and Apple Limited.

20 marks

Total 20 marks

Question 3

Jim Brown is making a will and wants to know the tax consequences of the transactions he proposes. He has been married to Peggy for 45 years and they have three children Fred, John and Sally. Jim's assets are as follows:

-Investment properties in Wexford, cost €150,000 for three apartments in March 1997 and market value of €360,000 in total now on 1 August 2014.

-Shares in Roadstone Limited, cost €12,000 on 1 May 2006 and now market value €45,000 1 August 2014.

-Farm in Sligo, market value €5m on 1 August 2014, bought by Jim on 1 August 1982 for €350,000.

-Porche car, cost €120,000 in June 2013 and now market value €100,000 1 August 2014.

He plans to leave the farm to Fred and John jointly as they have been helping him. He is currently 70 years old and wants to ensure he knows who will get the farm as it has been such a large part of his life. He feels in reality John will have more of an interest in the farm as ever since Fred set up his new Technology company (valued at €3m in 2013 and increasing ever since), all Fred wants to do is take over the world. John will be thrilled as he spends a lot and has never acquired any assets. He plans to leave the investment properties to Sally and the shares in Roadstone and the car to his wife Peggy. He is doing this as Peggy has a lot of assets in her own right and he feels she has enough. So far the only gifts the children have received have been €100,000 each from their mother Peggy when she sold off shares she had in the Banks before the crash. They each received these gifts in May 2012.

Required:

a) Using the current tax rates outlined in the reference material please calculate the tax consequences for Peggy, Sally, Fred and John for the proposed inheritances. **15 marks**

b) Advise Jim if there are any alterations you would make to the will and explain why. **5 marks**

Total 20 marks

Question 4

Mary and Tom set up High Tech Limited, a technology company in June 1999 and have since grown it from strength to strength. They set it up by each investing €50,000 and a share capital of 100 ordinary shares for €1 each, they own 50% each. It has recently been valued at €5m by an external valuer. They want to continue to grow the business as they do not feel that now is the time to sell yet. However, due to the very specific skills needed they are having a hard time recruiting employees and would like advice on at least three tax efficient methods of remunerating potential employees.

Mary would also like advice on a property owned by High Tech Limited that she was proposing to give to her friend Niamh at no cost. This property cost High Tech Limited €100,000 on 1 June 2004 and has been valued at €340,000 on 1 August 2014. Tom knows Niamh and would like to help her as she has had some unlucky breaks in life.

Required:

- a) Outline and explain at least three tax efficient ways of remunerating employees in High Tech limited. **9 marks**
- b) Calculate and explain all tax consequences of the proposed property to Niamh. **11 marks**

Total 20 marks

Question 5

Pat Brown is working in Halos Limited and has had a average salary of €50,000 for the last three years. He has paid tax at a marginal rate of 41%. He has been offered a termination package as follows:

Statutory redundancy €15,000

Ex gratia payment €200,000

He feels after 15 years' service and never having received a termination payment he would like to take this opportunity. Also it will give him time to set up his bot manufacturing business he has always wanted to set up. He needs €500,000 to get this started and feels the lump sum would go a long way. He knows the boat business will make losses for the first three years, probably in the region of €50,000 a year but he is not worried as he can live on his after tax rental profit of €34,000 per year.

Required:

- a) Advice Pat on the tax implications of his termination payment and calculate the tax due on it.
- b) Evaluate whether Pat should set up as a sole trader or limited company at the start and explain and support your answer.

10 marks

10 marks

Total 20 marks

Question 6

You have recently started in Brown White as a tax consultant and you have been given the job of writing a letter to a new client explaining some important terms they will need to be familiar with for their business.

Required:

Please write a letter outlining the following (please include a numeric example for each answer):

- | | |
|---------------------------------------|----------------|
| a) Commencement rules for sole trader | 5 marks |
| b) Cessation rules for a sole trader | 5 marks |
| c) CGT/CAT credit | 5 marks |
| d) Section 381 Loss | 5 marks |

Total 20 marks

END OF PAPER