Institute of Incorporated Public Accountants

Professional 2

Module 9

Advanced Taxation

Solutions – August 2014

Solution 1

a)

Sale to Smith Jones Limited

John 50% x €2m = €1m

Retirement relief ½ x (€1,000,000 - €750,000) = €125,000

CGT if no retirement relief

Sales proceeds	€1,000,000
Cost €50 x 1.713	(86)
Gain	€999,914
Less; Annual exemption	(€1,270)
Taxable gain	998,644

CGT x 33% = €329,553

Use marginal relief, retirement relief CGT €125,000

Mary

Sales proceeds	€600,000
Cost €30 x 1.713	(51)
Gain	€599,949
Less: Annual exemption	(€1,270)
Taxable gain	598,679
CGT x 33% =	€197,564

Bob

Clawback CGT John avoided by claiming retirement relief

Sales proceeds	€300,000 (€1.5m x 20%)
Cost €20 x 1.713	(34)
Gain	€299,966
Less: Annual exemption	(€1,270)
Taxable gain	298,696
CGT x 33% =	€98,570

Tax on current sale

Sales proceeds	€400,000
Cost	(€300,000)
Gain	€100,000
Less: Annual exemption	(€1,270)
Taxable gain	98,730
CGT x 33% =	€32,581
Total CGT Bob	€131,151

c)

Case I losses

Section 400 –losses disallowed if within a three year period there is both a change in ownership and

- Change in nature of business or
- Major revival of business

Then losses disallowed.

Capital loss – pre entry to group losses so use restricted

Pre-entry losses are losses which actually accrued to the company before it joined the group.

These losses can be set against gains —

- on assets disposed of by the company before it joined the group,
- on assets disposed of after entry but which were held by the company before entry, and
- on the disposal of assets, acquired by the company on or after entry from a 3rd party and which have been used continuously by the company for the purposes of a trade which the company has continued to engage in since before entry into the group.

Solution 2

Disposal of Apple no CGT participation exemption, outline conditions.

Disposal of Peach Ltd

CT for Peach Pear avoided.

Market value	€35,000
Cost €10,000 x 1.583	(€15,830)
Gain	€19,170
€19,170 x 33%/12.5% = 50,609 x 12.5% =	€6,326

Stamp duty clawback 2% x €35,000 = 700

CGT on sale of Peach

Sales proceeds	€1,500,000
Cost	(€500,000)
Gain	€1,000,000

€1,000,000 x 33%/12.5% = €2,640,000 x 12.5% = €330,000

Solution 3

a)

Fred – not a farmer as other assets

CAT

€225,000 - €100,000 =- €125,000

Farm

€2,500,000 - €125,000 = €2,375,000 x 33% = €783,750

John Farmer

€2,500,000 x 10% = €250,000 - €125,000 = €125,000 x 33% = €41,250

Sally

€360,000 + €45,000 = €405,000 - €125,000 = €280,000 x 33% = €92,400

Car no CAT and intra spousal no CAT.

b)

Will

Spouse entitled to 1/3 and children 2/3s and not being distributed fairly. Redistribute.

Solution 4

a)

Share options (name and explain)

Pensions – deduction for company and no benefit in kind individual

- no restriction based on age

Removal relocation expenses (name and explain)

b)

Transfer at undervalue, income tax and dwt

€340,000 x 20% = €64,000 DWT payable by High Tech Limited.

Niamh Sch F €340,000 at marginal rate of income tax and credit for €64,000 once she repays it.

Base cost of shares of Mary and Tome reduced for future disposals by €170,000 each.

Solution 5

a)

Basic exemption

€10,160 + (€765 x 15) =€21,635

Increased

€21,635 + €10,000 = €31,635

SCSB

€50,000 x 15/15 = €50,000

Statutory redundancy tax free

Ex gratia - €50,000 tax free and balance €150,000 x 41% = total tax €61,500 b)

Sole trader – losses against other income, save tax on rental income

Limited company – 12.5% tax rate, losses save you tax 12.5%

Need funding to get set up, seed capital. Employment investment incentive scheme, research and development tax credit

Set up as limited company.

Solution 6

a)

Year 1 from date of start to 31 Dec

Year 2 12 month set of accounts ending in period

Actual

If actual less than assessed difference comes off year 3

Year 3 12 month set of accounts ending in year 3

b)

Last year 1 January to date you cease

Penultimate year 12 month set of accounts ending in year and Revenue have right to revise to actual if more.

c)

If same event gives rise to CGT and CAT, CGT can be set off as credit against CGT. Must keep asset in question for 2 years or clawback.

d)

Section 381 loss, can be used against any income in year and can save you tax.