



Advanced Taxation Module 9 June 2009

Updated with tax rates 2009

Instructions to Candidates:

1. Answer 5 out of 6 questions
2. All questions carry equal marks
3. Include all workings with your answer

Time Allowed: 3 Hours

Question 1

You are a tax senior in an Accountancy Practice and you have a new client Mr Boyle who would like to understand more about setting up in business.

Mr Boyle plans to open a Solicitors Practice and he has asked you the following questions:

- a) Should he register for VAT, he estimates his sales in the first year will be about €40,000. If he registers what are the implications. **[5 Marks]**
- b) What is the difference between the cash receipts basis and the invoice basis of accounting for VAT, and which would you recommend. **[5 Marks]**
- c) He is planning to work from his home does this have any adverse tax implications? **[5 Marks]**
- d) If his sales total €40,000 and he is single, with no other sources of income what income tax will he pay and when will it fall due. **[5 Marks]**

Total Marks 20

Question 2

A Ltd was set up on 1st June 2005 by Mark and Peter Smith (two brothers). Mark paid for 800 €1 ordinary shares and Peter paid for 200 €1 ordinary shares. These were issued at a premium of 50%. Mark is a full time working director in A Ltd.

During 2009 the company undertook the following transactions:

- 1) Peter lent the company €50,000 at an interest rate of 10% which the company paid.
- 2) A Ltd paid for Mark's daughter to have plastic surgery costing €15,000.

Outline the tax treatment for transaction 1 and 2 for the company and the individuals.

[14 Marks]

- 3) The company has Case V income of €50,000 and Case V capital allowances of €10,000. Calculate the minimum dividend the company would have to pay in order to avoid a surcharge. **[6 Marks]**

Total Marks 20

Question 3

Sarah Jones died on 1 August 2009 and under her will left her assets as follows:

	€
Farm land	200,000
Farm House	80,000
Farm machinery	60,000

All to her brother Jim. Jim's only other assets consisted of his house valued at €100,000 and €50,000 cash in the bank.

Bank shares that had cost Sarah €15,000 on 1 January 2006 and had a market value at the date of her death of €18,000. She left these to her niece Jane.

Sarah left her holiday home in Wexford with a market value at the date of her death of €230,000 to her brother Mike. Mike did not want the house and disclaimed it.

Sarah also had €400,000 in her Bank of Ireland account. She had funeral expenses of €12,000. Sarah directed under her will that cash of €55,000 be given to her best friend Kevin tax free. She left the residue of her estate to her brother in law Paul (he is now a widow but was married to Sarah's sister Amy).

None of the above individuals had previously received any gifts or inheritances.

Requirement:

Compute the capital acquisitions tax liability arising if any on each of the above inheritances.

Total Marks 20

Question 4

Paul made the following disposals in 2009:

- 1) He sold his Renault Megane on 1 March 2009 car for €12,000. The car had cost him €25,000 in June 2007.
- 2) He gave his sister Mary shares in AIB that had cost him €15,000 on 1 May 2005, they now had a value of €2,000 on 1 June 2009.
- 3) Paul owns 80% of ABC Ltd, which he has been a full time working director in since 1985. He had decided at 60 years of age he wants to play more golf so he gave his shares to his daughter Amy on 1 October 2009 for €1,000,000.

He owned 8,000 of the 10,000 shares of ABC since incorporation on 1 March 1985, when the shares were paid for at a premium of 50%.

The balance sheet of the company for the year ended 30 September 2009 showed the following:

	Book Value	Market Value
Buildings	2,000,000	3,000,000
Investments	50,000	70,000
Goodwill	100,000	300,000
Debtors	20,000	20,000
Stock	<u>10,000</u>	<u>10,000</u>
	2,180,000	3,400,000
Creditors	<u>50,000</u>	<u>50,000</u>
	2,130,000	3,350,000

Paul has been advised that his 80% share in the company is valued at €2,680,000.

Requirement

Compute the Capital Gains Tax payable by Paul for 2009 and the Capital Acquisitions Tax payable by Amy for 2009.. If no capital gains tax is due from a particular transaction please state why.

Total Marks 20

Question 5

a) Explain the conditions that must be in place to have a losses group. **[5 Marks]**

b) The following information is available to you:

Company A Ltd owns 76% of company B and Company B owns 100% of Company C and 80% of company D. The trading results for the companies for the year ended 31 December 2008 are as follows:

	A	B	C	D
Case 1	(€100,000)	€20,000	€25,000	€30,000
Case III	10,000	5,000	0	0
Case V	15,000	25,000	55,000	0
Case V				
Capital Allowances	84,000	26,000	0	0

(i). Which companies are members of a loss relief group? **[5 Marks]**

(ii). Calculate the corporation tax liabilities for each for the above companies assuming that each company wishes to pay the minimum amount of tax before it surrenders its loss.

[10 Marks]

Total Marks 20

Question 6

Sailor Ltd, an Irish registered trading company has been trading for many years as a retailer of boats.

The company's profit and loss account for the year to 30 April 2009 showed:

	Notes	€	€
Gross profit from trading			900,000
Irish dividend received (August 2008)			5,000
Profit on sale of premises			<u>15,000</u>
			920,000
Wages and salaries		162,000	
Rent, rates and insurance		32,000	
Light and heat		5,950	
Motor expenses	1	10,000	
Repairs and renewals	2	9,000	
Legal expenses	3	7,500	
Directors remuneration		59,000	
Directors pension scheme	4	18,000	
Audit and accountancy		3,500	
Miscellaneous expenses	5	15,000	
Depreciation		<u>22,000</u>	<u>343,950</u>
Net profit for the year			576,050

Notes

1) Motor expenses

These include the following leasing charges:

Car 01D 54145 Cost €30,000	Lease charges	2,800
Car 02C 65489 Cost €15,000	Lease charge	1,500
Van 02D 48963 Cost €34,000	Lease charges	2,800

All CO2 emissions of 130g/km

Car)1D was used by one employee 10% of the time for private use.

2) Repairs and renewals

	€
Building extension to factory	6,500
Repairs to toilet in factory	<u>2,500</u>
	9,000

3) Legal expenses

	€
Fees re acquiring new building	1,000
Fees for defending claim from former employee	3,200
Collection of bad debts	<u>2,800</u>
	7,500

4) €6,000 remains unpaid at the end of April 2009.

5) Miscellaneous expenses

	€
Cleaning	500
Charitable donations to Goal	200
Gym subscription Managing Director	1,000
Gifts to customers at Christmas	800
Entertaining suppliers	500
Interest on late payment of tax	700
Entertaining clients	2,810
Purchase of fax	4,500
Staff Christmas party	<u>990</u>
	12,000

Additional information

- i) On 1st June 2007, the company sold a warehouse which was no longer needed on which it made a tax adjusted chargeable gain of €28,000.
- ii) Capital allowances on plant amounted to €25,000.

Requirement

In respect of Corporation tax for Sailor Ltd for the year ended 30 April 2009

a) Prepare the corporation tax computations and show the tax payable after making all claims to minimise the tax liability.

[18 Marks]

b) By what date should the first preliminary tax payment be made.

[2 Marks]

Total Marks 20