



Advanced Taxation Module 9 June 2009

Suggested Solutions

Updated with tax rates 2009

Question 1

- a) As his turnover is greater than €37,500 from the supply of services he will have to register for VAT. This means that he will charge VAT at 21% and he will be able to reclaim VAT on his business purchases. He will have to complete a VAT return every two months and he will pay his VAT liability to the Revenue by the 19th day of the month following the bimonthly period. For example Jan/Feb VAT return 2009 due to be paid and submitted by 19th March 2009.

Need all points 5 marks.

- b) The cash receipts basis can be used where your estimated sales are less than €1,000,000 or at least 90% of your sales are to unregistered persons. This means you do not pay VAT to the Revenue on your sales until you are paid and you reclaim VAT on your purchases on the receipt of invoices.

The alternative is the invoice basis, which means you pay VAT on your sales when you make the sale regardless of whether you have been paid or not. You claim back VAT on your purchases using invoices.

Need all points 5 marks.

- c) The main adverse tax consequence is that when he goes to sell his house a portion will be used as his office and disallowed in claiming principle private residence relief for capital gains tax.

Need all points 5 marks.

- d) His first year will be 2009 and he will be taxed on profits from the date he starts until the following 31 December 2009. Assuming he starts on the 1 January 2009 and make €40,000 tax adjusted case I profits, his tax liability is as follows:

Sch D – Case 1	40,000	
Taxed		
€36,400 x 20%	7,280	[1/2 Mark]
€3,600 x 41%	1,476	[1/2 Mark]
	<u>8,756</u>	[1/2 Mark]
<u>Less:</u>		
Single person	<u>(1,830)</u>	[1/2 Mark]
Tax	6,926	[1/2 Mark]
<u>PRSI & Levies</u>		
1.67% x 40,000	668	
7% x 40,000	2,800	[1/2 Mark]
Total Tax Due	<u>10,394</u>	[1/2 Mark]

Preliminary tax for 2009, due 31 October 2009, nil as 100% of 2008. [1/2 Mark]

Balance tax due 2009, 31 October 2010 and tax return must be filed then. [1 Mark]

Total Marks 20

Question 2

1). Maximum interest allowed as annual payment is lower of

$$13\% \times \text{€}50,000 = 6,500 \quad \text{[1 Mark]}$$

of
 $13\% \times \text{€}1,500 = 195 \quad \text{[1 Mark]}$

€195 allowed as annual interest payment and company pays income tax 20% = €39.
[1 Mark]

Balance €4,805 (€5,000 - €195) is treated as a distribution and disallowed in company's corporation tax computation and company must pay dividend withholding tax on 20% €961.
[2 Marks]

Peter treated as having received Sch d Case II income €195 with a credit of €39 and Sch F income of €4,805 with a credit for €961. He pays income tax at his marginal rate on this income.
[2 Marks]

2). These are expenses paid to an associate of a participator. As Mark is a director and employee of A Ltd they he will be taxed as having benefit in kind of €15,000.
[7Marks]

3).

Case V	50,000	[1/2 Mark]
Tax 25%	<u>12,500</u>	[1/2 Mark]
	37,500	
7.5% discount (assume trading income)	<u>(2,813)</u>	[1/2 Mark]
	34,687	[1/2 Mark]
Less: Distributions		
Peters interest	<u>(4,805)</u>	[1/2 Mark]
	29,882	[1/2 Mark]
Less: Minimum	<u>(635)</u>	[1/2 Mark]
	29,247	[1/2 Mark]

The company would have to pay a dividend of €29,247 within 18 months of the year end in order to avoid a surcharge.
[2 Marks]

Total Marks 20

Question 3

Jim

Is he a farmer

€340,000 / €490,000 x 100 = 69% = No [1 Mark]

Taxable benefit 340,000 [1 Mark]

€43,400 @ nil 0

€296,600 x 25% 74,150 [1 Mark]

Jane

Taxable benefit 18,000 [1 Mark]

Under threshold so no CAT [2 Mark]

Mike

No CAT as disclaimed inheritance [3 Marks]

Kevin

Cash 55,000 [1 Mark]

€21,700 @ nil 0 [1 Mark]

€33,300 @ 25% 8,325 [2 Marks]

€8,325 @ 25% 2,081 *

*(payable of estate) [2 Mark]

Paul

Residue €400,000 - €55,000 - €8,325 - €2,081 - €12,000 + €230,000

= 552,594 [3 Marks]

€43,400 @ nil 0 [1 Mark]

€509,194 x 20% 127,299 [1 Mark]

Total Marks 20

Question 4

- 1) Wasting chattel, exempt no CGT. **[3 Marks]**
- 2) Loss on sale of shares €13,000 **[3 Marks]**
- 3) Paul
Retirement relief, gave to daughter no CGT **[2 Marks]**

Amy			
Business relief		2,680,000	
<u>Non qualifying</u>		<u>Qualifying</u>	
Investments 70,000 x 80% = 56,000		2,664,000	[2 Marks]
Business relief		2,398,000	[2 Marks]
Taxable	56,000	266,000	[2 Marks]
Total	322,000		[2 Marks]
Under threshold so no CAT			[4 Marks]

Total Marks 20

Question 5

a) Both claimant and surrendering company must be members of same group.

- 75% relationship, ordinary share capital and profits.
- Principal must satisfy directly or indirectly 75% test.
- Companies must be resident in Ireland or an EU member state.
- While EU resident companies may be members of loss groups, it is important to note that it is only profits or losses associated with an Irish branch of such non resident companies that may be taken into account.

Need any 2 points, 2.5 marks each.

b) A, B and C

[5 Marks]

c)	<u>Company A</u>		
Case III	10,000		
Case V	0	(15k – 15k)	[1 Mark]
Capital allowances	(10,000)		[1 Mark]
Taxable	Nil		[1 Mark]

	<u>Company B</u>		
Case I	20,000		
Loss from A	(20,000)		[1 Mark]
Case III	4,000	(5k – 1k capital all)	[1 Mark]
Case V	Nil		
Taxable	4,000		[1 Mark]
Tax	1,000		[1 Mark]
Loss from A value basis	(1,000)		
Tax	Nil	(used 8k Case I loss)	

	<u>Company C</u>		
Case I	25,000		
Loss Case I A	(25,000)		[1 Mark]
Case V	55,000		
Capital allowances A	(55,000)		[1 Mark]
Taxable	Nil		

	<u>Company D</u>		
Case I	30,000		
Case I A	(30,000)		[1 Mark]
	Nil		
Case I Loss	100,000		
Used : B	8,000		
C	25,000		
D	30,000		
Available to carry forward	37,000		

Excess Case v Capital Allowances	
A	84,000
Used : A	25,000
C	55,000
Available to carry forward	

Total Marks 20

Question 6

a) Corporation Tax Computation for year ended 30 April 2009

Profits per accounts	€		€	576,050	[1 Mark]
Add: leasing charges					
2,800 x (30k – 24) / 30k	560	[1 Mark]			
Extension	6,500	[1/2 Mark]			
Depreciation	22,000	[1/2 Mark]			
Legal Fees	1,000	[1 Mark]			
Pension accrual	6,000	[1 Mark]			
Customer gifts	800	[1 Mark]			
Entertaining suppliers	500	[1 Mark]			
Interest on late payment of tax	700	[1 Mark]			
Entertaining clients	2,810	[1 Mark]			
Fax	4,500	[1 Mark]		45,370	
				<u>621,420</u>	[1 Mark]
Less:					
Other Income			(20,000)		[1 Mark]
				<u>601,420</u>	[1 Mark]
Chargeable gain			28,000		[1 Mark]
				<u>629,420</u>	[1 Mark]
Less:					
Capital allowances			(25,000)		[1 Mark]
				<u>604,420</u>	[1 Mark]
Corporation Tax					
€604,420 x 12.5%				<u>75,553</u>	[1 Mark]

b) By 21 March 2009.

[2 Marks]

Total Marks 20