



Advanced Taxation

Module 9

June 2010

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 2

Hot Tubs Limited was set up on 1 October 1982 by Ben 40%, Mary 30% and Tom 30% shareholders. The share capital was 100,000 €1 ordinary shares. For the year ended 31 December 2009 the company had the following results:

		€
Income		
Sales		700,000
Cost of sales		<u>(200,000)</u>
Gross profit		500,000
Rental income		70,000
Less:		
Depreciation	10,000	
Interest on loans	(1) 10,000	
Salaries	100,000	
Pension	(2) 20,000	
Donations	(3) 25,000	
Entertainment	(4) 22,000	
Sundry	30,000	
Repairs	(5) <u>5,000</u>	<u>(222,000)</u>
Net profit		348,000

Notes:

- 1) Interest on loans is made up on €4,000 on a bank overdraft and €6,000 interest paid to Ben on his loan of €50,000 that he made interest free to Hot Tubs Ltd in March 2007.
- 2) €10,000 of the pension amount was unpaid at the year end and was not paid until 15 May 2010.
- 3) Donations include €10,000 paid to Fine Fail and €5,000 paid to Conquer Cancer.
- 4) Entertainment is made up as follows:

	€
a. Client parties	5,000
b. Staff Xmas party	3,000
c. Suppliers meals	9,000
d. Business Trip to US for Ben	5,000
- 5) Repairs are made up as follows:

a. Painting	1,500
b. New Kitchen	500
c. Replacing broken windows	3,000

Ben is the only director and employee of the company.

Requirements

- a) Calculate the corporation tax liability for Hot Tubs Limited for 2009. **[12 Marks]**
- b) What dates must the corporation tax payments be made? **[3 Marks]**
- c) What is the minimum dividend that must be paid in order to avoid a surcharge. **[5 Marks]**

Total Marks 20

Question 3

Helen is married to Mark and they have one incapacitated child Sam. For the year ended 31 December 2009 they have the following results:

Helen

Salary from Happy Days Ltd €50,000 (PAYE €13,000)

Helen owns 20% of Happy Days Ltd.

Happy Days Ltd paid for Helen to attend First Aid training costing €500, she is the appointed first aid trainer in Happy Days Ltd.

They also paid her gym membership in 2009 of €1,200 and gave her a loan of €17,000 in order to buy a boat. They charged her 1% interest on the loan.

Mark

Mark works for himself as a jewellery designer. His tax adjusted profits for the year ended 31 October 2009 were €44,000. He is aged 32 years and he paid €3,000 into a pension during 2009 and €1,000 on 15 March 2010. He also paid €300 VHI in 2009, bin charges €450 in 2009 and permanent health insurance in 2009 of €1,400.

Mark sold 3,750 shares in Cement Ltd on 16 December 2009 for €35,000. He had bought 2,000 of the shares on 1 March 1984 for €3,000 and 1,000 of the shares on 1 July 1998 for €2,500. There was a 1 for 4 rights issue at a price of €2 per share acquired on 14 March 1999, to which Mark fully subscribed.

Requirements

a) Compute the income tax and capital gains tax liabilities for the above individuals assuming they are jointly assessed in 2009. (You can ignore PRSI and levies)

[18 Marks]

b) State what date the tax liabilities are due.

[2 Marks]

Total Marks 20

Question 4

Sean made the following disposals in 2009:

- 1) He gave his house in Meath to his sister Norah on 1 December 2009. Norah had lived in the house with Sean since 1 May 2001 when Sean bought the house for €100,000. The market value on 1 December 2009 is €300,000.
- 2) On 11 November 2009 he gave shares in Bank of Ireland that had cost him €20,000 1 February 1999 and were worth €54,000 on 11 November 2009 to Conquer Cancer.
- 3) He gave an antique painting to his friend Mark on 1 June 2009. The painting had a market value of €130,000. When Sean had inherited the painting on 1 March 1984 it had a market value of €13,000.

Requirements

Calculate and capital gains tax and capital acquisitions tax liabilities arising from the above transactions. If no tax is due from a particular transaction please state why.

You can ignore annual cgt exemption and small gift exemption in your calculations.

Total Marks 20

Question 5

ABC Ltd is owned 50% by Mary, 10% by Bill and 30% by Sam and 4% by Tony and 6% by Fred. It has an issued share capital of €10,000. Mary, Bill, Tony and Sam are full time directors and employees. Fred is neither a director or employee. None of the shareholders are related.

During the year ended 31 December 2010 the following transactions occurred:

- i) In March 2010 ABC Ltd paid for Fred to go on holidays to Barbados costing €15,000 and for Mary to go to Spain costing €6,000.
- ii) Fred and Tony were given loans of €20,000 and €11,000 respectively on 1 January 2009.
- iii) Bill lent ABC Ltd €25,000 on 1 March 2009 and they paid him interest of 10% per annum in 2009. Mary lent the company €13,500 on 1 June 2009 and they also paid her interest of 10% per annum.
- iv) ABC Ltd has the following results for the year ended 31 Dec 2009 (before taking account of any changes to be made as a result of i) to iii)

	€
Sch D Case I	120,000
Sch D Case III	12,000
Sch D Case V	14,000
Sch F	18,000

Requirements

Calculate the close company surcharge for the year ended 31 Dec 2009 assuming no dividends were paid.

Total Marks 20

Question 6

Explain what is meant by the following:

a) CGT Group

[4 Marks]

b) Loss Group

[4 Marks]

c) Using the diagram below :

- State who is in loss group?

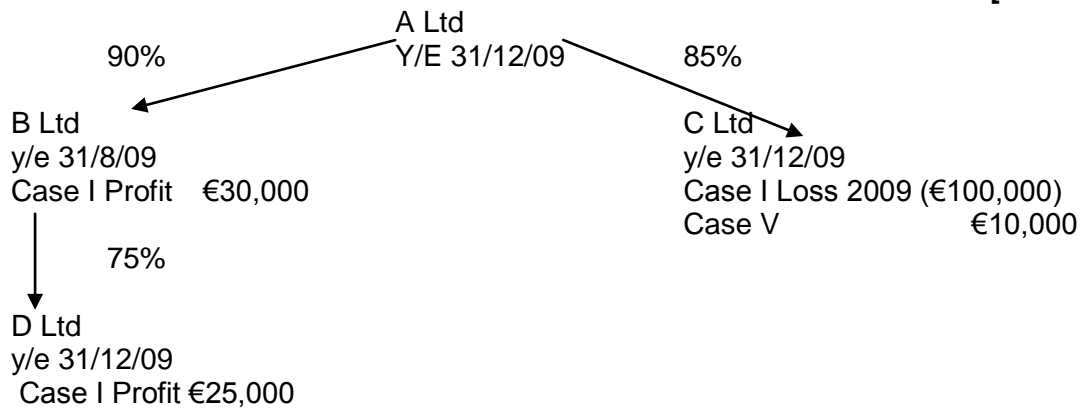
[2 Marks]

-Who is in CGT group?

[2 Marks]

- Please calculate the corporation tax for each company for 2009 making sure to use all available loss relief where possible.

[8 Marks]



Total Marks 20