



Advanced Taxation Module 9

June 2010

Suggested Solutions

Question 1

Paul:

Is Paul a Farmer?

€700,000
700,000 + €20,000 +€50,000

91% - Yes

[2 Marks]

Inheritance
Less: Agricultural relief 90%

€700,000
(€630,000)
€70,000

[2 Marks]

Less: Mortgage on Farm
€300,000 x 10%

(€30,000)
€40,000

[2 Marks]

Taxable Inheritance

[2 Marks]

No CAT as under threshold €434,000

[2 Marks]

Ann

Exempt as Ann lived in house for more than three years and has no interest in any other house.

[2 Marks]

She must hold on to house for six years in order to avoid clawback.

[2 Marks]

Fred

Exempt as group A €434,000 below threshold. Fred is a minor child of deceased. child of disponent.

[2 Marks]

Simon

Surviving spouse of deceased spouse. He steps into Ann's shoes, Group A threshold €434,000

[2 Marks]

No CAT

[2 Marks]

Question 2

Profit per accounts	€348,000 [1/2 Mark]
Add: Depreciation	€10,000 [1/2 Mark]
Pension	€10,000 [1/2 Mark]
Political Donations	€10,000 [1/2 Mark]
Client Parties	€5,000 [1/2 Mark]
Supplier Meals	€9,000 [1 Mark]
New Kitchen	€500 [1 Mark]
Distribution	0
Allowed 13% x €50,000 = €6,500	<u> </u> [1 Mark]
	€392,500 [1/2 Mark]
Less: Revised Income	<u>(€70,000)</u> [1 Mark]
	<u>€322,500</u> [1 Mark]

Corporation Tax Computation y/e 31/12/09

Schedule D – Case I	€322,500 [1 Mark]
Schedule D – Case V	<u>€70,000</u> [1 Mark]
	<u>€392,500</u>

Corporation Tax	
€322,500 x 12½%	€40,313 [1 Mark]
€70,000 x 25%	<u>€17,500</u> [1 Mark]
	<u>€57,813</u>

- b) 28th November 2009 – Preliminary CT [1.5 Marks]
28th September 2010 – Final CT [1.5 Marks]

c) $€70,000 - €17,500 (€70,000 \times 25\%) = €52,500 - (€52,500 \times 7.5\%) - €635 = €47,927$
[5 Marks]

Question 3

a)

Schedule D – Case I	€44,000 [1/2 Mark]
Less: Pension	<u>(€4,000) [1/2 Mark]</u>
	€40,000 [1/2 Mark]
Less: PHI	<u>(€1,400) [1/2 Mark]</u>
	€38,600 [1/2 Mark]
Schedule E Salary	€50,000 [1/2 Mark]
BIK – Gym	€1,200 [1/2 Mark]
Loan €17,000 x (12.5%-1%)	<u>€1,955 [1/2 Mark]</u>
	<u>€91,755 [1/2 Mark]</u>
Taxed as follows:	
€72,800 x 20%	€14,560 [1/2 Mark]
€18,955 x 41%	<u>€7,772 [1/2 Mark]</u>
	€22,332 [1/2 Mark]
Less: non refundable tax credits	
Married	(€3,660) [1 Mark]
Incapacitated Child	(€3,660) [1 Mark]
Employee (owns > 15%)	0 [1 Mark]
	<u>€15,012 [1 Mark]</u>
Less: Refundable Tax Credits	
PAYE	<u>(€13,000) [1 Mark]</u>
Tax Due	<u>€2,012 [1 Mark]</u>
Due 31/10/10 b)	[1 Mark]
Capital Gains Tax	
Sales Proceeds	€35,000
Cost	
(83/84) 2,000 for €3,000 x 2.003	(€6,009) [1 Mark]
(99/00) 500 for €1,000 x 1.193	(€1,193) [1 Mark]
(98/99) 1,000 for €2,000 x 1.212	(€2,424) [1 Mark]
(99/00) 250 for €500 x 1.193	<u>(€597) [1 Mark]</u>
	€24,777
Less: Annual Exemption	<u>(€1,270) [1 Mark]</u>
	€23,507 [1 Mark]
CGT x 25% €5,877 Due 31/01/10 b)	[1 Mark]

Question 4

Capital Gains Tax

1. House to Norah	
Sales Proceeds	€300,000 [1 Mark]
Cost (01)	
€100,000 x 1.087	<u>(€108,700) [1 Mark]</u>
Gain	<u>€191,300 [1 Mark]</u>
CGT x 25%	€47,825 [1 Mark]
2. Shares	
Sales Proceeds	€54,000 [1 Mark]
Cost 98/99	
€20,000 x 1.212	<u>(€24,240) [1 Mark]</u>
Gain	<u>€29,760 [1 Mark]</u>
CGT x 25%	€7,440 [1 Mark]
3. Antique Painting	
Sales Proceeds	€130,000 [1 Mark]
Cost 83/84	
€13,000 x 2.003	<u>(€26,039) [1 Mark]</u>
Gain	<u>€103,961 [1 Mark]</u>
CGT x 25%	€25,990 [1 Mark]

CAT

1. House to Norah	
Taxable Gift	<u>€300,000 [1 Mark]</u>
Group Threshold B	
€43,400 @ Nil	
€256,600 @ 25%	€64,150 [1 Mark]
Less: CGT Credit	<u>(€47,825) [1 Mark]</u>
CAT Due	€16,325 [1 Mark]
2. Shares to Conquer Cancer exempt from CAT as Charity	[1 Mark]
3. Mark	
Taxable Gift	€130,000 [1 Mark]
Group C Threshold	
€21,700 @ Nil	
€108,300 @ 25%	€27,075 [1 Mark]
Less: CGT	<u>(€25,990) [1 Mark]</u>
CAT Due	€1,085

Question 5

Benefit to Participator

€15,000 – disallowed [1/2 Mark]
 (Added back for CT computation) [1/2 Mark]
 Company must deduct dividend withholding tax [1 Mark]
 20%, €3,000 and pay to Revenue [1 Mark]

Fred – Schedule F income €15,000 credit for DWT - €3,000 [1 Mark]

Holiday for Mary allowed in CT computation as Mary is employee and taxed on Mary as benefit in kind. [1/2 Mark]

ii) Loan to Fred:
 $\frac{€20,000}{0.8} = €25,000 \times 20\% = €5,000$ income tax paid to Revenue by ABC Ltd [1 Mark]

Loan to Tony is ignored as
 • Total loans to Tony < €19,050 [1/2 Mark]
 • Tony works full time for ABC Ltd. [1/2 Mark]
 • Tony owns less than 5% ABC Ltd. [1/2 Mark]

iii) Bill €25,000 x 10% = €2,500 x $\frac{10}{12}$ = €2,083 [1/2 Mark]
 Mary €13,500 x 10% = €1,350 x $\frac{7}{12}$ = €788 [1/2 Mark]

Allowed lower of:
 13% x €10,000 (issued share capital + premium) = €1,300 [1 Mark]
 or
 13% x (€38,500) = €5,005 [1 Mark]

€1,300 allowed and company must pay 20% Income Tax to Revenue, €260 [1 Mark]

Disallowed: €1,571 [1/2 Mark]
 (€2,083 + €788 - €1,300)

€1,571 distribution, disallowed in company CT computation [1 Mark]

Company must withhold 20% DWT and pay to Revenue [1 Mark]
 20% x €1,571 = €314

Bill and Mary have Schedule D – Case IV and Schedule F income

			<u>Allowed</u>	<u>Disallowed</u>
Bill	€2,083	$\frac{2,083}{2,871} \times 1,300 =$	€943	€1,140 [1 Mark]
Mary	<u>€788</u>	$\frac{788}{2,871} \times 1,300 =$	€357	€431 [1 Mark]
	€2,871			

iv)	Schedule D - Case III	€12,000	[1/2 Mark]
	Schedule D - Case V	€14,000	[1/2 Mark]
	Schedule F	<u>€18,000</u>	[1/2 Mark]
		€44,000	
	Less: CT		
	€26,000 X 25%	<u>(€6,500)</u>	[1/2 Mark]
		€37,500	
	Less: Discount 7.5%		
	7.5% x €37,500	<u>(€2,813)</u>	[1/2 Mark]
		€34,687	
	Less: Distributions		
	(i)	(€15,000)	[1/2 Mark]
	(ii)	(€1,140)	[1/2 Mark]
	(iii)	<u>(€431)</u>	[1/2 Mark]
		€18,116	
	x 20%	€3,623	[1/2 Mark]

Question 6

(a)

- 75% relationship, Group is principal, its 75% subsidiaries and any 75% subsidiaries of its subsidiaries. **[1 Mark]**
- The effect of group relief is to ensure that no chargeable gain arises on a transfer of assets between group members. **[1 Mark]**
- When an asset is transferred from one group member to another, it is deemed to be transferred at a price which ensures that no gain and no loss arises to the company making the disposal. **[1 Mark]**
- The group member acquiring the asset takes over the same base acquisition date as the member for which the asset was acquired. **[1 Mark]**

(b)

- Both claimant and surrendering company must be members of same group. **[1 Mark]**
- 75% relationship, ordinary share capital and profits. **[1 Mark]**
- Principal must satisfy directly or indirectly 75% test. **[1 Mark]**
- Companies must be resident in Ireland or an EU member state. •A surrendering company can surrender all or part only of its losses in an accounting period. However, it cannot surrender more losses to a claimant company than the claimant company is capable of absorbing. **[1 Mark]**
- Where surrendering company has other profits the losses must be firstly used to shelter the other profits. **[1 Mark]**

