

# Advanced Taxation Module 9

Wednesday  
22nd June 2011  
2pm – 5pm

**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

Joe set up his sole trader business in 1998. He has now decided the time has come to incorporate his business on 31 October 2010.

The market value of his assets and liabilities are as follows:

|           |                                   |
|-----------|-----------------------------------|
| Premises  | €1,500,000 (cost €300,000 1/6/98) |
| Goodwill  | € 350,000 (nil cost)              |
| Stock     | € 75,000                          |
| Debtors   | € 21,000                          |
| Creditors | € 17,000                          |
| Loan      | € 15,000                          |

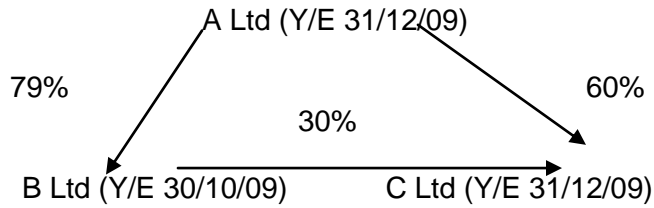
ABC Ltd is going to take over all of the assets and liabilities of Joe's business in exchange for paying Joe €62,000 and giving him shares in ABC Ltd.

#### Requirement:

- a) Calculate Joe's liability to capital gains tax now and the tax due **10 Marks**
- b) Calculate the base cost of Joe's shares in ABC Ltd for future disposals **7 Marks**
- c) Discuss with Joe any advantages and disadvantages of not transferring the premises to ABC Ltd. **3 Marks**

**Total 20 Marks**

**Question 2**



Results are as follows:

|              | Y/E 31/12/09 |              | Y/E 31/10/09 |
|--------------|--------------|--------------|--------------|
| <u>A Ltd</u> |              | <u>B Ltd</u> |              |
| Case 1       | €100,000     | Case 1       | (€272,000)   |
| Case V       | € 22,000     | Case V       | € 14,000     |
| <u>C Ltd</u> |              |              |              |
| Case 1       | € 78,000     |              |              |
| Case IV      | € 15,000     |              |              |

**Requirement:**

- a) Calculate the corporation tax liabilities of the companies in most tax efficient way possible
- b) B Ltd received a premises from A Ltd on 1 May 2007 for €120,000 (when the market value was €170,000). A Ltd had purchased the premises on 1 April 2001 for €55,000.

**10 Marks**

A Ltd have been approached by a third party to purchase B Ltd in November 2011. A Ltd have been offered €500,000 for their shares in B Ltd. A Ltd bought the shares in B Ltd on 5 May 2005 for €220.000

What are the capital gains tax implications if A Ltd sells its shares in B Ltd

**10 Marks**

**Total 20 Marks**

**Question 3**

Explain 3 disadvantages of close companies using examples to support your explanations

**20 Marks**

**Total 20 Marks**

#### Question 4

Joe Murphy entered into the following transaction in the year Ended 31 December 2010

- 10 January 2010 he gifted shares in AIB with a market value of €18,000 to his daughter Lola. Joe had originally purchased these shares for €5,000 on 5 June 2001.
- 15 March 2010 Joe gifted his holiday home in Kilkenny, market value €120,000 that he paid €60,000 for on 11 November 2007 to his cousin Bob on the occasion of Bob's wedding.
- 27 May 2010 Joe gifted €170,000 cash to his best friend Tim.
- 29 November 2010 Joe gifted his shares in CRH with a market value of €120,000 to his wife Sally.
- 15 December 2010 Joe gifted his 90% shares in Cement and Friends Ltd to his son Sam. Cement and Friends Ltd is a trading company established in Dublin. Sam has worked full time with Joe in the business since 1 May 1999. Joe established the trading company on 15 January 1992 paying €90 for his shares, and his brother Mick paid €20, for remaining 10%. The business is now valued at €1,200,000. Joe is 57 years old. (Ignore small gift exemption)

#### Requirement

Calculate the capital gains tax and capital acquisition tax implications of each of the above shareholders

**20 Marks**

Ignore €1270 Capital gains tax exemption. You can assume none of the above individuals received any gifts or inheritance prior to 2010

**Total 20 Marks**

### Question 5

John Joe died on 15 November 2010. Under the terms of his will he had the following left to:

|                       |            |                              |
|-----------------------|------------|------------------------------|
| House in Dublin       | €1,200,000 | Son Bob (Bob lived in Meath) |
| Shares in AIB         | € 120,000  | Sister Sally                 |
| Cash                  | € 75,000   | Friend Niamh                 |
| Government Securities | € 150,000  | Wife Maeve                   |
| S.60 Policy           | € 82,000   |                              |
| Farm in Sligo         | € 762,000  | Son Mick                     |
| Funeral expenses      | € 10,000   |                              |

Niamh was entitled to the cash after the funeral expenses were paid from it.

The Section 60 policy was to be apportioned between all beneficiaries. None of the beneficiaries had previously received any gifts or inheritances.

Mick's only asset was his principal private residence in Terenure. Market value €500,000, mortgage €380,000.

#### **Requirement:**

Calculate each beneficiary's liability to capital acquisition tax.

**20 Marks**

**Total 20 Marks**

### Question 6

Bob Marley has taken a five year career break from his job in the Civil Service. Bob is planning on setting up a business manufacturing machinery. He is aware he will have losses of approximately €100,000 for each of the first 2 years and then he estimates he will start to make profits of about €50,000 per year. He plans to own most of the business. His wife Ellen earns €150,000 a year in her job as a high profile PR Executive. Their only other source of income is rental income of €75,000 a year from several properties they own in Wexford. Bob will be able to leave all money in the business for the first five years. Bob needs to raise funds of €600,000 for his new business. He knows they will manage well financially although he does joke that he will miss his €180,000 a year Civil Service job money.

#### **Requirement:**

Advise Bob whether he should set up a limited company or sole trader and the advantages and disadvantages that apply to each as are relevant to his current position.

**20 Marks**

Tip: Make sure to think of all potential reliefs that could be availed of

**Total 20 Marks**