Institute of Incorporated Public Accountants

Professional 2

Module 9

Advanced Taxation

Wednesday 27th. May 2015

10:00am – 1:00pm

Instructions to Candidates:

1. **Answer any 5 out of 6 questions**
2. **All questions carry equal marks (20 marks each)**
3. **Include all workings with your answer**

Time Allowed: 3 Hours

Question 1

You are a tax adviser employer by Brown and Co and have just been introduced to a new client Tom Smith and you have been told you will be taking over his personal tax returns and company tax returns.

Tom Smith has been in business for the last 20 years. He started off as a sole trader from his garage in 1985 selling computer parts. He made losses for the first few years but has since made considerable profits and incorporated in May 2014. He did not pay any tax on incorporation as he owns 100% of the shares in the new company and felt that really the ownership had not changed. At the time of incorporation the business had the following:

	Cost	**Market Value**
Assets	€	€
Property	160,000	560,000
(this property was bought on 1 June 2003)		
Goodwill	0	1,000,000
Trade Receivables	50,000	50,000
Bank	20,000	20,000
Liabilities		
Trade payables	35,000	35,000
Personal tax debt	10,000	10,000

The new company took over all of the assets except cash and all of the liabilities and consideration was in the form of shares and a €75,000 loan in Tom's favour.

Tom would like you to confirm that paying no tax on incorporation was correct.

Required:

Outline and calculate any tax implications on incorporation and advise Tom what he should do. **Total 20 marks**

Question 2

Mary Smith is a new client that has come into your Accountancy Firm White and Co as she wants to get planning advice for her will. Mary has been quite successful over the last number of years and has built up a considerable portfolio of assets:

Property in Spain	€500,000 (market value)
Shares in Irish Public Companies	€325,000 (market value)
Flowers Galore Ltd	€1,200,000 (market value)
Rental property in Dublin	€325,000 (market value)

She plans to leave her assets as follows:

Property in Spain to her daughter in law Anne. She feels Anne could do with a bit of good luck ever since her husband Richard (Mary's son) died in 2009 suddenly.

Shares in Irish Public Companies. She is going to leave them to her neighbour and best friend John as he has really helped her over the years.

Flowers Galore Limited. This is the company that Mary set up in March 2001 and she owns 100% of the shares. She plans to leave this to her niece Sally who works 37 hours a week with Mary in the business and has done so since she left college in 2006.

Rental property in Dublin. She is going to leave this to the Simon Community (a Charity).

You can assume none of the beneficiaries have received any prior gifts or inheritances.

Required:

Calculate the capital acquisitions tax implications of the above transactions. **Total 20 marks**

Question 3

You have been approached by Paul Duffy a long standing client of your firm and 100% owner of Blue Ltd a holding company that has three wholly owned subsidiaries Yellow Limited, Purple Limited and Green Limited. All three are trading companies operating in the Republic of Ireland. In 2012 Purple Limited transferred a property that had cost them €500,000 in June 2004 to Green Limited (when the market value was €1,000,000) and no tax was paid on the transfer. Paul tells you he has received an offer he cannot refuse of €1m for all the shares in Green Limited. Paul would like to know all tax implications of selling the shares in Green Limited and for you to suggest the best way he could extract cash after the sale.

Required:

a) Outline all tax implications on the sale of Green Limited

(15 marks)

b) Suggest 2 possible cash extraction methods for Paul after the sale and recommend on the most tax efficient one.

(5 marks)

Total 20 marks

Question 4

Vincent Hardy was born in England in 1952. His parents were born in Ireland and moved to live and work in England in the 1950's.

To date Vincent has only lived in England. However, each year he spends all of his summer holidays in Ireland usually assisting his uncle on the farm in Wexford where his mother was born. His parents have also maintained strong links with Ireland over the years.

Vincent's uncle has recently died in Nov 2014 and Vincent had inherited his uncle's 200 acre farm valued at €2 million. He is seriously considering moving permanently to Ireland to continue his family tradition in farming. Should Vincent decide to move to Ireland, his wife and children will continue to reside in England for another few years until the children's second level schooling has been completed.

Vincent's parents have always indicated that they would like to return to and retire in Ireland. They have decided that if Vincent moves to Ireland, they will purchase a property close by with the intention of spending their remaining years near their son. Vincent has recently contacted you requesting clarification in the following areas:

Required:

a) What is the position in Irish law, governing the determination of a person's residence and domicile? (**5 marks)**

b) Where, and for what reasons, would Vincent be regarded as domiciled?

(**5 marks)**

c) What are the rules governing the determination of residence in the Irish/UK Double Tax Treaty? (**5 Marks)**

d) What exposure does Vincent have to Irish Capital Acquisitions Tax on his recent inheritance and how might his liability be alleviated?

(5 marks)

Total 20 marks

Question 5

Part A

Hola Ltd is VAT registered and is based in Waterford. The company manufactures car parts. During the VAT period Nov/Dec 2014 Hola Ltd had the following transactions.

Sales	**€**
Republic of Ireland customers (VAT registered)	800,000
UK customers (VAT registered)	150,000
	950,000
Purchases	
Purchases of materials form Irish suppliers	300,000
Purchases of materials from UK suppliers	220,000
Wages	70,000
Insurance	8,000
Accountants fees	5,000
New car (passenger motor vehicle)	45,000
Machine	150,000
Diesel for car	6,000
Petrol for truck	1,000
Lease payment for machine	3,000
	808,000

All the above figures are net of VAT. Assume VAT rate on all goods and services mentioned is 23%.

Required:

a) Calculate the VAT liability for the period Nov/Dec 2014. Show clearly the VAT amount arising on each of the figures listed. **(8 marks)**

b) State the due date for submission of the Nov/Dec 2014 Vat return. **(2 marks)**

Question 5 (Cont'd)

Part B

Tina Burke has been in business many years and his business consists solely of the supply of VAT exempt goods and services.

Required:

Write a note on what is meant by VAT exempt and its effect on the company's VAT liability. (**10 marks)**

Total 20 marks

Question 6

Boats 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 2014 showed:

	Notes	€	€
Gross profit from trading			650,000
UK Dividend			2,000
Irish dividend received (Aug 2013)			4,000
Profit on sale of premises			15,000
			671,000
Wages and salaries		102,000	
Rent, rates and insurance		27,000	
Light and heat		5,650	
Motor expenses	1	8,500	
Repairs and renewals	2	8,760	
Legal expenses	3	5,500	
Directors remuneration		37,000	
Directors pension scheme	4	10,000	
Audit and accountancy		2,500	
Miscellaneous expenses	5	12,000	
Depreciation		12,000	230,910
Net Profit for the year			440,090

Question 6 (Cont'd)

Notes

(1)

Motor expenses

These include the following leasing charges:

Car 14D 54145 Cost €30,000	Lease charges	2,000
Car 14C 65489 Cost €15,000	Lease charge	1,500
Van 12D 48963 Cost €34,000	Lease charges	2,500

All CO2 emissions of 130g/km

(2)

Repairs and renewals	€
Building extension to factory	5,500
Repairs to toilet in factory	2,260
Other allowable repairs	1,000
	8,760

(3)

Legal expenses	€
Fees re acquiring new building	500
Fees for defending claim from former employee	2,200
Collection of bad debts	2,800
	5,500

(4)€4,000 remains unpaid at the end of April 2014.

(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
Purchase of machine	7,310
Staff Christmas party	990
	12,000

Additional information

i) On 1st June 2013, the company sold a warehouse which was no longer needed on which it made a chargeable gain of €32,000.
ii) Capital allowances on plant amounted to €31,000.

Required :
In respect of Corporation tax for Boats Ltd for the year ended 30 April 2014

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 20 marks

END OF PAPER

TAXATION REFERENCE MATERIAL FOR THE 2014 TAX YEAR

(To be used by candidates in answering the Taxation papers)

INCOME TAX - RATES

Single/Widow(er) Rate	*Married Couple Rate*
	One Income
First €32,800 20%	First €41,800 20%
Balance 41%	Balance 41%
One Parent Family	*Married Couple*
	Two Incomes
First €36,800 20%	First €65,600 20%
Balance 41%	Balance 41%

CAPITAL GAINS TAX - RATES

33%

CAPITAL GAINS TAX - ALLOWANCES

Tax year 2014

€1,270 annual exemption per individual

CAPITAL GAINS TAX - INDEXATION TABLES

Year of Assessment in Which Expenditure Multiplier for Disposal in Year Ended

Was Incurred

	31 Dec 2001	*31 Dec 2002*	*31 Dec 2003*	*2004 et seq*
1974/75	6.930	7.180	7.528	7.528
1975/76	5.597	5.799	6.080	6.080
1976/77	4.822	4.996	5.238	5.238

1977/78	4.133	4.283	4.490	4.490
1978/79	3.819	3.956	4.148	4.148
1979/80	3.445	3.570	3.742	3.742
1980/81	2.983	3.091	3.240	3.240
1981/82	2.465	2.554	2.678	2.678
1982/83	2.074	2.149	2.253	2.253
1983/84	1.844	1.911	2.003	2.003
1984/85	1.674	1.735	1.819	1.819
1985/86	1.577	1.633	1.713	1.713
1986/87	1.507	1.562	1.637	1.637
1987/88	1.457	1.510	1.583	1.583
1988/89	1.430	1.481	1.553	1.553
1989/90	1.384	1.434	1.503	1.503
1990/91	1.328	1.376	1.442	1.442
1991/92	1.294	1.341	1.406	1.406
1992/93	1.249	1.294	1.356	1.356
1993/94	1.226	1.270	1.331	1.331
1994/95	1.205	1.248	1.309	1.309
1995/96	1.175	1.218	1.277	1.277
1996/97	1.152	1.194	1.251	1.251
1997/98	1.134	1.175	1.232	1.232
1998/99	1.115	1.156	1.212	1.212
1999/00	1.098	1.138	1.193	1.193
2000/01	1.053	1.091	1.144	1.144
2001	-	1.037	1.087	1.087
2002	-	-	1.049	1.049
2003 et seq	-	-	-	1.000

CORPORATION TAX

TAX CREDITS

From 6th April 1999, withholding tax is at the standard rate of Income Tax

RATES OF TAX

From

1st January 2003

Standard rate 12½%

Special rate – non-trade income and certain trading activities ... 25%

Capital Acquisitions Tax Thresholds

	2014
Group A	€225,000
Group B	€30,150
Group C	€15,075

CAT Rate 33%