Institute of Incorporated Public Accountants

Professional 2 – Module 9

Advanced Taxation Exam

Wednesday 30th May 2012

10am – 1pm

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

Institute of Incorporated Public Accountants

Question 1

Samuel Jones has been in business as a sole trader since January 1999. He has become very profitable and has decided it is time to incorporate his business on 15 December 2011. The business has the following assets:

Premises	€300,000	(cost €100,000 1/11/99)
Goodwill	€400,000	(no cost)
Creditors	(€50,000)	
Debtors	€55,000	
Current Liabilities	(€20,000)	
	€685,000	
	=======	

The new company will give him €60,000 cash and will pay the balance of the consideration in the form of shares to Samuel.

Requirement:

a) Calculate the capital gains tax payable if he incorporates his business and transfers all assets and liabilities except premises to his new company. **6 Marks**

b) Calculate the capital gains tax liability if he transfers all assets and liabilities to his new company. **9 Marks**

c) Calculate the new base cost of the shares for future disposals. **2 Marks**

d) Outline the income tax implications of incorporation (no calculations necessary). **3 marks**

Total 20 Marks

Question 2

Snip 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 2011 showed:

	Notes	€	€
Gross profit from trading			750,000
UK Dividend			2,000
Irish dividend received (August 2010)			4,000
Profit on sale of premises			10,000
			766,000
Wages and salaries		102,000	
Rent, rates and insurance		22,000	
Light and heat		5,150	
Motor expenses		8,500	
Repairs and renewals	1	7,760	
Legal expenses	2	4,500	
Directors remuneration		52,000	
Directors pension scheme	3	10,000	
Audit and accountancy		1,500	
Miscellaneous expenses	4	9,400	
Depreciation		22,000	244,810
Net profit for the year			521,190

Notes

1) Repairs and renewals	€
Building extension to factory	4,500
Repairs to toilet in factory	2,260
Other allowable repairs	1,000
	7,760

2) Legal expenses	€
Fees re acquiring new building	500
Fees for defending claim from former employee	2,200
Collection of bad debts	1,800
	4,500

3) €3,000 remains unpaid at the end of April 2011.

4) Miscellaneous expenses	€
Cleaning	400
Charitable donations to Goal	300
Gym subscription Managing Director	1,000
Gifts to customers at Christmas	600
Entertaining suppliers	500
Interest on late payment of tax	500
Purchase of machine	5,310
Staff Christmas party	790
	9,400

Additional information

i) On 1st June 2010, the company sold a warehouse which was no longer needed on which it made a chargeable gain (not adjusted) of €10,000. (Included in above accounts).

ii) Capital allowances on plant amounted to €5,000.

iii) Snip Ltd are an 80% subsidiary of Hair Ltd and Hair Ltd has unused Schedule D Case 1 losses of €45,000 for the year ended 31 December 2010.

Requirement

Calculate the Corporation tax for Snip Ltd for the year ended 30 April 2011 using all available reliefs. **20 marks**

Total 20 marks

Question 3

A Ltd (Y/E 31/12/11)

78% 76%

B Ltd (Y/E 31/12/11)

76%

D Ltd (Y/E 31/12/11)

C Ltd (Y/E 31/10/11)

Trading results are as follows:

	A LTD	B LTD	C LTD	D LTD
Case I	€120,000	€130,000	(€300,000)	€120,000
Case V	€25,000	€10,000	€22,000	€0

A) Which companies are in the loss group? **2 Marks**

B) Which companies are in the capital gains group? **2 Marks**

C) Calculate each companies liability to corporation tax **10 Marks**

D) D Ltd transferred premises to B Ltd on 1 June 2008 at no cost. The market value of the premises was €300,000 (cost D Ltd €120,000 1 May 1992). D Ltd has been offered €650,000 to sell the premises on 1 January 2012. What are the tax implications? **6 marks**

Total 20 Marks

Question 4

Mark Smith has been in employment with Halos Ltd for the last 15 years earning an average salary of €120,000 each year and paying PAYE of €54,000. Halos ltd has told him that the 31 December 2011 will be his last day as he is being made redundant. They will pay him €140,000 lump sum on termination of his employment. He is entitled to €12,000 tax free lump sum under his pension scheme. He is thinking of setting up a manufacturing company making farm machinery as he has always had a passion in this area. He would need €500,000 to set up the business. He estimates it will make losses in 2012 and 2013 and will become profitable in 2014. He does not mind as he had rental income of €50,000 per year he can live on. He asks you the following:

A) What is his tax free termination payment (ignore top slicing).

6 marks

B) Should he set up a limited company or a sole trader business and justify your choice. **6 marks**

C) Any tax efficient suggestions to fund his business.

8 Marks

Total 20 Marks

Question 5

Flowers Limited manufacture and repair furniture. Previously the company has conducted its business solely in the State. Recently, it has identified a number of business opportunities in Europe, the US and the UK.

The sales manager Helen Burke is preparing a marketing presentation for the Board of Directors. She has little knowledge of VAT and is concerned that she needs to understand the full implications of importing and exporting goods and services to foreign countries.

Requirement

Write a letter to Helen, explaining the VAT aspects of overseas imports and exports of goods and services. **(4 marks)**

In your letter you should deal with VAT arising on the following transactions:

a) Export of goods to non EU countries. **(3 marks)**

b) Export of goods to VAT registered traders in EU countries. **(3 marks)**

c) Repairs for VAT registered customers in the EU. **(2 marks)**

d) EU imports of goods **(4 marks)**

e) Non EU imports of goods **(4 marks)**

Total 20 marks

Question 6

Michael Hilda died on 1 July 2011. Under his will he left the following assets.

1) To his grandson Rob (Rob is 12 years old and is the son of Michael's deceased son Richard) a house in Kildare with a market value of €100,000 and a trust set up for his education with funds of €75,000.

2) To Anne (Richard's widow) shares in AIB with a market value of €10,000 and cash of €120,000.

3) €150,000 to Help the World Ltd, a registered charity that was experiencing financial difficulties. The €150,000 is to be applied for charitable purposes. Michael has no connection with Help the World Ltd.

4) To his daughter Patricia his house valued at €550,000. They have lived in the house together for the last 10 years and Patricia has no interest in any other house.

5) The residue of his estate which consisted on the following:
    i) House in France market value €55,000
    ii) Shares in Bank of Ireland market value €2,000
    iii) Cash in a bank account €150,000

The residue is to be split equally between Patricia and Anne. Michael's funeral expenses were €6,700. This was to be paid out of the residue.

None of his beneficiaries were in receipt of any other gifts and inheritances.

Requirement:
Compute the capital acquisitions tax liability arising if any on each of the above gifts and inheritances. **(20 marks)**

End of paper