



Institute of Incorporated Public Accountants

Professional 2 – Module 9

Advanced Taxation Exam

Wednesday 29th May 2013

10am – 1pm

Instructions to Candidates:

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

Time Allowed: 3 Hours

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Question 1

Mark Byrne has been operating as a sole trader since he started in business in 2004. His results for the last few years are as follows:

Year ended 31/10/09	Tax adjusted profits	€56,000
Year ended 31/10/10	Tax adjusted profits	€72,000
Year ended 31/10/11	Tax adjusted profits	€88,000
Period ended 30/9/12	Tax adjusted profits	€94,000

The business assets and liabilities are as follows:

	Market Value	
Premises	€650,000	Cost €120,000 1/1/04
Goodwill	€200,000	Nil base cost
Trade receivables	€50,000	
Bank	€35,000	
Trade payables	€18,000	
Loan	€26,000	

He intends to incorporate on 1 October 2012. The new company will take over all assets (except cash) and liabilities in exchange for giving Mark €10,000 and shares in the new company. Mark wants you to outline to him the

Requirement:

- a) Calculate the capital gains tax, income tax and valued added tax implications of Mark incorporating.

14 Marks

- b) Outline three benefits to Mark of incorporating his business.

6 Marks

Total 20 Marks

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Question 2

Mary and Simon set up Hurrah Ltd in 2005. They own 50% each of the share capital. Hurrah Ltd has three wholly owned subsidiaries Balloons Ltd, Presents Ltd and Toys Ltd. The results of the three companies for the last two years are outlined below.

	Hurrah	Balloons	Presents	Toys
Year ended 31/12/11				
Case I		€150,000	€200,000	€50,000
Case V		€10,000	€5,000	€0
Year ended 31/12/12				
Case I		€200,000	(€350,000)	€40,000
Case V		€10,000	€6,000	€0

Presents Ltd has a building with a market value of €150,000. It acquired this from Balloons Ltd on 1 March 2005 for €70,000 (its then market value). Balloons Ltd had originally bought this building on 11 May 1999 for €55,000.

Hurrah Ltd has received an offer of €1,000,000 for their shares in Presents Ltd (Hurrah bought the share capital for €15,000 on 1 June 2003). It is now 12 November 2012.

Requirement

- Calculate the corporation tax liabilities for all companies, using losses to maximise reliefs. **10 marks**
- Outline and calculate all tax implications of Hurrah Ltd selling its shares in Presents Ltd. **10 marks**

Total 20 marks

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Question 3

Part A

Many Irish companies are close family companies. Outline and explain 3 disadvantages of close companies from a taxation purpose. Use examples to illustrate your answers. **9 marks**

Part B

B Ltd, a close professional service companies has the following information for the year ended 31/12/12.

Case II	€72,000
Case V	€26,000
Dividends from Irish Resident Company	€23,000

Calculate the surcharge payable by B Ltd assuming they do not pay any dividend within the next 18 months. **11 marks**

Total 20 Marks

Question 4

Mary Walsh has run her own company Holidays are us Ltd for the past five years. She has been taking a salary of €100,000 out. Her husband Pat does some administration work in the company but has not been paid. Her son Mark also works weekends in the business and college holidays but Mary has not paid his and instead pays his college expenses from her after tax income. The company is quite profitable, tax adjusted profits for the year ended 31 December 2012 was €400,000. The company has cash reserves of €300,000. Mary has set up a small pension scheme through the company a few years ago but due to small annual contributions the pension is only worth about €15,000. Mary is 55 years old and would like to retire by sixty.

Requirement:

- Advise Mary on more tax efficient ways of paying her family. **4 marks**
- Advise Mary on four possible cash extraction methods she could use and the tax implications of each. **16 marks**

Total 20 Marks

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Question 5

Part A

ABC Ltd is VAT registered and is based in Dublin. The company manufactures car parts. During the VAT period Nov/Dec 2012 ABC Ltd had the following transactions.

Sales	
Republic of Ireland customers (VAT registered)	600,000
UK customers (VAT registered)	<u>150,000</u>
	750,000
Purchases	
Purchases of materials from Irish suppliers	200,000
Purchases of materials from UK suppliers	120,000
Wages	120,000
Insurance	6,000
Accountants fees	5,000
New car (passenger motor vehicle)	55,000
Machine	250,000
Diesel for car	8,000
Petrol for truck	1,000
Lease payment for machine	<u>4,000</u>
	769,000

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

Requirement:

a) Calculate the VAT liability for the period Nov/Dec 2012. Show clearly the VAT amount arising on each of the figures listed.

(8 marks)

In relation to VAT explain three of the following:

- A VAT group
- Self supplies
- Cash receipts basis for VAT
- Multiple supplies and composite supplies

12 marks

Total 20 marks

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Question 6

Sam Smith was born in England in 1954. His parents were born in Ireland and moved to live and work in England in the 1950's.

To date Sam 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 Cork where his mother was born. His parents have also maintained strong links with Ireland over the years.

Sam's uncle has recently died and Sam had inherited his uncle's 300 acre farm valued at €2 million. He is seriously considering moving permanently to Ireland to continue his family tradition in farming. Should Sam 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?

Sam's parents have always indicated that they would like to return to and retire in Ireland. They have decided that if Sam moves to Ireland, they will purchase a property close by with the intension of spending their remaining years near their son.

Sam has recently contacted you requesting clarification in the following areas:

a)

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

ii) Where, and for what reasons, would Sam be regarded as domiciled?

(6 marks)

b) What are the rules governing the determination of residence in the Irish/UK Double Tax Treaty?

(6 marks)

d) Calculate Sam's Irish Capital Acquisitions Tax on his recent inheritance and how might his liability be alleviated?

(8 marks)

Total 20 marks

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