



Institute of Incorporated Public Accountants

Professional 2

Module 9

Advanced Taxation

Wednesday 28th. May 2014

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

Mary Brown has been operating as a sole trader for the last number of years and has decided as she is now making profits in excess of €500,000 per year and she really only needs €100,000 a year to live on it is time to incorporate her business. It is now December 2013. The assets include goodwill €250,000 and premises market value €550,000, cost 2004 €400,000 and cash €31,000. The business also has inventory €42,000 and trade receivables of €32,000. The liabilities are made up of trade payables €13,000 and loan €23,000. The new company will take over all the assets and liabilities of the business except cash and in return will issues shares to Mary and cash of €20,000.

Required:

- a) Calculate the capital gains tax on the incorporation (12 marks)
- b) What is the base cost of the shares for future disposals?
(3 marks)
- c) Calculate the stamp duty on the transfer and suggest how it might be reduced.
(5 marks)

Total 20 marks

Question 2

Tom Jones has died while skiing in the Alps in November 2013. It has come as a great shock to everyone particularly his family. The will leaves the following assets:

- To daughter Mary, the house in Lucan valued at €420,000 that you have lived in for the last 7 years. As you have no other interest in any house I thought this would be super for you
- To Dogs for the Blind €150,000 cash
- To son Billy, the farm in Cork, market value €1,000,000. I know Billy that you will be pleased since you have no other assets and you can continue to run the farm and make me proud
- To my wife Sally, our family home valued at €470,000 and my shares in Safe Bank Limited now worth €45,000 (be your usual optimistic self as they may eventually rise)
- To my friend James, my dog Jess, she always loved you more than me.
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Required:

Calculate the capital acquisitions tax implications of the above transactions.

20 marks

Total 20 marks

Question 3

Mary and Bob are both in their late fifties and have been married for many years. They both own Colours Limited, a holding company with three wholly owned trading subsidiaries, White Limited, Black Limited and Red Limited. Each company has a year end at 31 December. They have recently been approached by Smith Brown Limited a company interested in purchasing Red limited for €3,000,000. Mary and Bob are thrilled as they set this company up in 1980 with €100 share capital. Red Limited has a premises it acquired from Black Limited in May 2004 for €550,000 (the then market value was €1,200,000). Black Limited had originally bought these premises in December 1998 for €250,000. It is now 20 December 2013.

Required:

Outline all tax implications on the sale of Red Limited for the sellers and explain any tax reliefs that can be availed of. **20 marks**

Total 20 marks

Question 4

Tom and Brian and Joey (three brothers) have owned ABC Limited since 2002. Tom is suffering ill health for the last few years and can no longer take care of the day to day running of the business and would like to sell his shares. It is December 2013. The brothers do not want outsiders coming and interfering in the family business so they have decided the best option would be for the company to buy back the shares.

Tom is keen to get as much money as he can out of the business as at 52 years of age he is still a young man. His share has been valued at €500,000, which he is very pleased about as he only invested €100 in 2003 for these shares. ABC Limited have an investment property valued at €150,000, that they bought in 2003 for €75,000. Brian would like to sell that to their friend Billy for €100,000 as Billy's marriage has broken up and he has had a tough time of late and the brothers agree helping him would be the right thing to do.

Required:

- a) Calculate the capital gains tax payable by Tom. **(10 marks)**

- b) Outline any tax implications for the company and the shareholders and Billy. **(10 marks)**

Total 20 marks

Question 5

Tom is married to Mary and they are jointly assessed. Tom has negotiated a five year career break from his job in the Garda, where he was earning €100,000 per year and has decided to fulfil his long held dream of working for himself. He has decided to set up a business manufacturing farm machinery, now in November 2013. He needs to raise €800,000 and plans that the shares of the business will only be held by Mary and him. Mary is a primary school teacher and has an annual salary of €55,000 per year. The couple have €150,000 in savings which they plan to use in the business. Tom predicts the business will make losses initially but will be profitable after three years.

Required:

- a) Outline whether Tom should set up as a sole trader or a limited company and justify your answer and make a recommendations regarding the best course of action. **(10 marks)**

- b) Outline the most tax efficient way of funding the business. **(10 marks)**

Total 20 marks

Question 6

You have recently started in Bjorn White as a tax consultant and you have been given the job of writing a letter to a new client explaining some important terms they will need to be familiar with for their business.

Required:

Please write a letter outlining the following:

- a) VAT charges on which input credit is not allowed **(5 marks)**
- b) Who must register for VAT? **(5 marks)**
- c) Cash receipts basis of accounting **(5 marks)**
- d) Requirements for a valid VAT invoice **(5 marks)**

Total 20 marks