



Advanced Taxation Module 9 November 2009

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

Tom Burke died on 23 August 2009 and left the following under his will:

- Cash legacy of €44,000 to his partner Maria (they are not married) and his house worth €400,000 which Maria and himself had lived in for the past 24 years.
- A house in France with a market value of €110,000 to his widowed daughter in law Mary. Mary was married to Tom (Bill's son).
- €100,000 to his grandson Bill (Bill is 8 years old and is Tom's son).
- €55,000 to be paid for his nephew Sam's medical expenses. Sam has been permanently incapacitated since birth.
- Agricultural land in Meath with a value of €750,000 to his son Ben. Ben only other assets consist of his house in Blackrock worth €200,000 (with no mortgage).
- The residue of his estate is to be divided equally between his two children Ben and Ava. The residue comprises of the following:
 - Shares in AIB that he bought on 4 April 2004 for €30,000 and are worth €26,000 on the date of his death.
 - A house in Spain worth €230,000 on the date of his death. His executors sold it and realised €210,000 after incurring expenses of €12,000.
 - Funeral expenses of €14,000 are to be paid out of the residue.

You can assume that none of the above individuals received any other gifts or inheritances other than those under the terms of the will.

Calculate the liabilities to capital acquisitions tax in 2009.

[20 Marks]

Total Marks 20

Question 2

Beans Limited was set up on 1 October 1987 by Ben 60%, Sarah 30% and Tom 10% shareholders. The share capital was 100,000 €1 ordinary shares. For the year ended 31 December 2009 the company had the following results:

		€
Income		
Sales		1,000,000
Cost of sales		<u>(300,000)</u>
Gross profit		700,000
Rental income		100,000
Less:		
Depreciation	20,000	
Interest on loans	(1) 10,000	
Salaries	150,000	
Pension	(2) 25,000	
Donations	(3) 54,000	
Entertainment	(4) 26,000	
Sundry	60,000	
Repairs	(5) <u>10,000</u>	<u>(355,000)</u>
Net profit		445,000

Notes:

- 1) Interest on loans is made up on €6,000 on a bank overdraft and €4,000 interest paid to Ben on his loan of €50,000 that he made interest free to Beans Ltd in March 2007.
- 2) €10,000 of the pension amount was unpaid at the year end and was not paid until 15 March 2010.
- 3) Donations include €12,000 paid to Fine Gael in aiding the yes campaign for the Lisbon Treaty.
- 4) Entertainment is made up as follows:
 - a. Client parties 10,000
 - b. Staff Xmas party 5,000
 - c. Suppliers meals 4,000
 - d. Trip to US for Mary 7,000
(Mary is Sarah's sister)
- 5) Repairs are made up as follows:
 - a. Painting 2,000
 - b. New Kitchen extension 5,000
 - c. Replacing broken windows 3,000

Ben is the only director and employee of the company.

Calculate the corporation tax liability for Beans Limited for 2009. **[12 Marks]**

What dates must the corporation tax payments be made? **[3 Marks]**

What is the minimum dividend that must be paid in order to avoid a surcharge. **[5 Marks]**

Total Marks 20

Question 3

Helen, aged 32 years set up in business as a florist on 1 May 2007. Her tax adjusted profits to date have been as follows:

1 May 2007 to 30 April 2008	€12,000
1 May 2008 to 30 April 2009	€34,000

Helen paid €2,000 into a pension on 1 October 2009 and a further €3,000 on 15 December 2009.

Helen received dividends from Bank of Ireland of €500 on 15 September 2009.

Helen's husband Bert works for Toys Limited. He received a salary of €75,000 gross in 2009 and paid PAYE of €23,000. He also paid €200 a month VHI contribution. His employers feel it is important Bert maintain a healthy lifestyle so they pay for his gym membership costing them €350 per year and they also gave Bert a loan of €12,000 at an interest rate of 2% to enable his to set up a home gym.

Bert and his sister Sally paid for a carer for their mother. They pay €20,000 each in the year.

Bert received deposit interest from AIB of €1,200 net on 14 September 2009.

Requirement:

Compute the income tax liability for the above individuals assuming they are jointly assessed in 2009. (You can ignore PRSI and levies)

Marks will be awarded for showing taxable profits for Helen for 2007, 2008 and 2009..

Total 20 marks

Question 4

Louis made the following disposals in 2009:

- 1) He sold his home in Stillorgan on 1 May 2009 for €600,000. He had bought this house on 1 January 2002 for €200,000 and have lived in it until 31 March 2004 when he was sent to Cork to work for a year by his employers. He moved back into the house until 31 March 2005 when he decided to take some time out and go travelling. He came back to Ireland on 1 May 2007 and he moved back into the house on 1 June 2007 and he remained living there until he sold it on 1 May 2009.
- 2) He gave his sister Ann shares in Bank of Ireland that had cost him €1,000 on 1 May 1992, they now had a value of €12,000 on 1 June 2009. He gave them to Ann as a gift.
- 3) Louis owns 75% of Buskers Ltd, which he has been a full time working director in since 1987. He had decided at 54 years of age he wants to play more golf so he sold his shares on 1 October 2009 for €800,000 to an unconnected party.

He owned 7,500 of the 10,000 €1 shares of Buskers since incorporation on 1 March 1987, when the shares were paid for at a premium of 50%.

Requirement:

Compute the Capital Gains Tax payable by Louis for 2009 and the Capital Acquisitions Tax payable by Ann for 2009. If no capital gains tax is due from a particular transaction please state why.

Total Marks 20

Question 5

You have recently started in Swan and Duck 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.

Please write a letter outlining the following:

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

Total Marks 20

Question 6

You have been approached by a client who has set up in business and they would like you to explain the following terms to them:

- Calculation of tax adjusted profits
- Income tax payments dates and calculation of amounts due
- Basis of assessment for commencement

Total Marks 20