



Advanced Taxation Module 9

November 2010

Suggested Solutions

Question 1

a) Loss Group A, B Ltd

	A Ltd €	B Ltd €	B Ltd €
Sch D Case 1			25,000
Sch D Case V	15,000	10,000	
Less: Capital Allowances	_____	<u>(2,000)</u>	<u>8,000</u>
	15,000		33,000
	=====		=====
Corporation tax			
€15,000 x 25% =	3,750		
			[2 Marks]
€25,000 x 12½ % =			3,125
			[1 Mark]
€8,000 x 25% =			<u>2,000</u>
			[1 Mark]
			5,125
Loss relief			
Value			
$\frac{3750}{.125} = (\text{€}30,000) =$	<u>(3,750)</u>		
$\times 12\frac{1}{2} \%$			[2 Marks]
Loss relief from A			
€25,000 x 12½ % =			(3,125)
			[1 Mark]
Value basis			
<u>€2,000</u> = 16,000 x 12½ %			<u>(2,000)</u>
			[1 Mark]
€			
A Ltd Loss			100,000
Used in A Ltd			(30,000)
Used in B Ltd			<u>(41,000)</u>

Balance to carry forward against future profits of the same trade €29,000

C Ltd

Sch D Case I €51,000

Sch D Case V €2,000

Less: Capital allowances (€3,000) (€1,000)

€50,000

CT €50,000 x 12.5% =

€6,250

[2 Marks]

b) A Ltd and B Ltd as indirectly A Ltd owns 88% B Ltd (70% + 18%) **[5 Marks]**

c) None as there is no subsidiary which is itself a subsidiary of a qualifying member of the group. **[5 Marks]**

Solution 2

- a) Favourite niece / nephew
- May be deemed to be child of disponent and qualify for €414,799 rather than €41,481 tax free threshold.
 - Where niece or nephew worked substantially on a full time basis for the relevant period in carrying on trade, business or profession of disponent and
 - Gift / inheritance consists of property which was used in connection with that trade business or profession or
 - The niece / nephew worked substantially on a full time basis for a company controlled by disponent for relevant period in carrying on trade and
 - The gift / inheritance consists of shares in that company.
 - Worked substantially on a full time basis:
 - Business:
 - Works more than 24 hours a week at place of business or
 - If business carried on exclusively by disponent, his spouse and niece / nephew he works more than 15 hours a week at place where business is carried on.
 - Relevant period
 - 5 years ending on date of disposition or
 - In the case where at the date of disposition an interest in possession is limited to disponent under that disposition, the period of 5 years ending on the coming to an end of that interest.

[5 Marks]

b) Surviving spouse of deceased spouse

- Where
 - at the date of the gift/ inheritance
 - The surviving spouse of a deceased person who
 - At the time of his/her death was a closer blood relationship to the disponent than the donee / successor.
 - Donee / successor is deemed to take up some relationship to disponent as deceased spouse had at the time of his death.

[5 Marks]

c) Minor child of deceased child

- Group A threshold
- Gifts / inheritances taken from a grandparent by the minor child of a deceased child
- Example: Ben leaves €60,000 to his grandson Mark who is 13 years old. Mark is Brian's son. Brian is Ben's son and Brian is now deceased. Mark will fall into Group A threshold as he is the minor child of a deceased child of the disponent.

[5 Marks]

d) CGT/CAT Credit

- CGT paid by disponent is creditable against CAT payable by donee on same event.
- Credit is limited to lower of CAT and CGT on same event. If CAT relates to more than one benefit it must be allocated between the benefits.
- Credit for CGT will be clawed back if the beneficiary disposes of the property transferred within 2 years of the date of the gift or inheritance.

[5 Marks]

Question 3

A

a) Sales proceeds	€420,000	€
Cost	<u>€130,000</u>	290,000 [3 Marks]
b) Sales proceeds	280,000	
Cost	<u>(50,000)</u>	230,000 [3 Marks]
c) No cgt		
d) No cgt		-----
Total gains		520,000
Less: annual exemption		<u>(1,270)</u> [1 Mark]
		<u>518,730</u>
CGT @ 25%		€129,683 [3 Marks]

B

a) Exempt disposal, no CAT [2 Marks]

b) Is John a farmer? No [2 Marks]

$$\frac{€300,000}{€300,000 + €50,000 + €50,000} \times \frac{100}{1} = 75\%$$

	€
Gift	280,000
Less: Exemption	<u>(3,000)</u>
	<u>277,000</u>

€41,481 @ Nil -

€235,519 @ 25% 58,880

Less: Cgt Credit

Same event

€230,000 x 25% (57,500) [2 Marks]

1,380 payable by John

c) No CAT exempt		[2 Marks]
d) Gift	€28,000	
Less: Exemption	<u>(3,000)</u>	
	<u>25,000</u>	
€20,740 @ Nil	-	
€4,266 @ 25%	<u>1,065</u>	
Tax due by Fred	1,065	[2 Marks]

Question 4

CGT for Susan (no retirement relief as under 55 years)

Sales proceeds	€500,000	
Less: Annual exemption	<u>(1,270)</u>	
	<u>€498,730</u>	
CGT at 25@	€124,683 due by Susan	[3 Marks]

CAT for Sarah

Sarah will not be a favourite niece as cannot claim benefit relief as she has not worked in the shop for 5 years. So Group B threshold. **[1 Mark]**

Gift	€500,000	
Less: Annual exemption	<u>(1,270)</u>	
	€498,730	[2 Marks]

CAT

€41,481 @ Nil	-	
€457,249 @ 25%	114,312	[3 Marks]
Less: same event credit	<u>(114,310)</u>	[1 Mark]
Tax due	-	

b) If Susan is 55 years old she can claim retirement relief on the shop. **[1 Mark]**

Shop	€400,000	
Less: retirement relief ⇒ no cgt on shop as proceeds < €750,000		[1 Mark]
Investments	€100,000	
Less: annual exemption	- (as claiming retirement relief)	
	<u>€100,000</u>	
CGT x 25% =	€ 25,000	[1 Mark]

Sarah is a favourite niece as regards the shop. **[2 Marks]**

Shop	€400,000	
Business relief (90%)	<u>(360,000)</u>	
	40,000	[1 Mark]

CAT Nil as under threshold

Investment	€100,000	
Less: Gift exemption	<u>(3,000)</u>	[1 Mark]
	97,000	
€41,481 @ Nil		
€55,540 @ 25%	€13,880	[2 Marks]
Less: same event credit	<u>(13,880)</u>	[1 Mark]
Tax due	-	

Question 5

1/6/2010 Benefit to participator

- disallowed in corporation tax computation
- distribution
- company must pay dividend withholding tax of 20% €2,000 to Revenue by 15/7/2010.
- Susan treated as Sch F income €10,000 **[5 Marks]**
-

15/8/2010 Interest to Directors €50,000 x 15% = €7,500 allowed lower of

$$13\% \times €50,000 = €6,500$$

as

$$13\% \times €100,000 = €13,000 \quad \mathbf{[5 Marks]}$$

⇒ €6,500 allowed and company must pay income tax 20% to Revenue as part of CT payment

- €1,000 treated as distribution, disallowed in company CT computation.
- Company must pay dividend withholding tax 20% x €1,000 = €200 to Revenue by 14/9/2010.
- Michael

Sch D Case IV €6,500

Sch F €1,000 **[5 Marks]**

5/11/2010 Loans to Directors

- Company must regross amount by 0.8 and pay income tax to Revenue

$$\frac{€100,000}{.8} = €125,000$$

⇒ income tax €25,000 **[5 Marks]**

Question 6

Roger – cessation

2010 1/12/10 – 31/12/10

$(€30,000 \times 3/12) + €3,000 = €10,500$

[1 Mark]

2009 was €25,000

Actual

$€25,000 \times 3/12) + (€30,000 \times 9/12) =$

$€6,250 + €22,500 = €28,750$ revised

[2 Marks]

a)

Mary

Basic exemption €10,160 + (€765 x 9) = €17,045 [2 Marks]

Increased exemption €10,160 + €6,885 – €10,500 = €6,545 [2 Marks]

SCSB

$€28,000 \times \frac{9}{15} - €10,500 = €6,300$ [2 Marks]

Exempt €17,045 [1 Mark]

Lump sum €56,000 [1 Mark]

⇒ taxable €38,985 [2 Marks]

Tax computation 2010.

Sch D Case 1 – Roger €10,500 [1 Mark]

Sch E Salary €28,000 x 11/12

Termination payment €38,985 [1 Mark]

€49,485

€49,485 x 20% = € 9,897 [1 Mark]

Less: married credit (3,660) [1 Mark]

PAYE paid

€5,000 x 11/12 (4,583) [1 Mark]

Tax due 1,654 [2 Marks]