

## **Solutions to Advanced Taxation Exam September 2013**

### **Solution 1**

a) Time of disposal  
Unconditional contract

The date of disposal is the date of contract regardless of the date of conveyance or date of transfer. In the case of property frequently the date of transfer (the closing date) is sometime later. **1.5 marks**

Conditional contract

Date of disposal is the date on which the contract is satisfied.

**1.5 marks**

Gifts

Date of disposal is the date the gift is made (ie the asset transferred). Gifts involving property need to be evidenced in writing. In the case of a chattal (tangible moveable property) the date the asset is transferred is usually the delivery date.

**1.5 marks**

Compulsory purchase

Date of disposal is the earlier of the date upon which the amount of the compensation is agreed or the date when the acquiring authority enters the land.

**1.5 marks**

b)

a) Vanessa  
House

€

Sales Proceeds 31/10/2012 750,000 **1 mark**

Disposal costs (12,000) **1 mark**

738,000

Costs

Purchased 6/4/2000 400,000 **1/2 mark**

Acquisition costs

Stamp duty 16,000 **1/2 mark**

Solicitors fees 2,000 **1/2 mark**

418,000

Part disposal allocation

$418,000 \times 750,000 / (750,000 + 300,000)$  298,571 **1 mark**

Indexation 1.144 341,565 **1/2 mark**

Enhancement costs 2002 100,000 **1/2 mark**

Indexation 1.049 104,900 **1/2 mark**  
(446,465)

Gain 291,535

Shares in CRH

Sales Proceeds November 2012 2,000 @ €10 20,000 **1 mark**

Costs

Acquired Jan 2004 2,000 @ €4 8,000 **1 mark**

Gain 12,000

Shares in AIB

Sales Proceeds June 2012 1,000 @ €5 5,000 **½ mark**

Costs

Acquired July 2009 1,000 @ €6 (6,000) **½ mark**

Loss (1,000)

Connected party loss, sticks to future gains on disposal to sister. **2 marks**

Summary

House 291,535

CRH Shares 12,000

Gain 303,535

Personal exemption (1,270) **1 mark**

Chargeable Gain 302,265 **1 mark**

Tax at 30% €90,680 **1 mark**

## Solution 2

a)

### Cape Ltd

2012

No CT use €12,000 case 1 loss to wipe out €12,000 Case V income.

2011

Case I		€100,000
Loss back		<u>(€100,000)</u>
Case I	0	
Case V		€5,000
Ct €5,000 x 25%		€1,250
Less: Loss value basis		
€1,250/.125 = €10,000 x .125		<u>(€1,250)</u>
Ct		<b>0 3 marks</b>

Loss		€334,000
Used 2012 Value		(€24,000)
Used Case I 2011		(€100,000)
Used Case I 2012		<u>(€10,000)</u>
Left to group		€200,000 <b>2 marks</b>

2012

	Beta	Delta
Case I	€200,000	€40,000
Loss from Cape	<u>(€200,000)</u>	<u>0</u>
Case I	€0	€40,000
Case V	<u>€5,000</u>	
Total	€5,000	

Ct

€40,000 x .125 =		€5,000
€5,000 x .25 =	<u>€1,250</u>	
Total Ct	€1,250	€5,000 <b>3 marks</b>

2011

	Beta	Delta
Case I	€120,000	€20,000
Case v	<u>€10,000</u>	
Total	€130,000	
Ct		
€120,000 x 12.5%	€15,000	
€20,000 x 12.5%		€2,500
€10,000 x 25%	<u>€2,500</u>	
	€17,500	€2,500 <b>2 marks</b>

**b)**

If Alfa Ltd sells Cape Ltd, Alfa Ltd will have no CGT on the sale of its shares due to S626B TCA 1997 participation exemption. **5 marks.**

Cape Ltd will be leaving the group within 10 years of having acquired a premises from Beta Ltd. Presents will have to pay the tax Beta Ltd avoided on the transfer. **2 marks**

Deemed sales proceeds	€70,000
€25,000 x 1.193	<u>(€29,825)</u>
Gain	€40,175

Chargeable gain  $€40,175 \times 30\% / 12.56\% = €96,420$

Ct  $€96,420 \times 12.5\% = €12,053$  **3 marks**

### **Solution 3**

1. Payment to Natasha, distribution, disallowed for company, add back. Dividend withholding tax payable by company of 20% within 14 days of end of month distribution is made. Natasha taxed at income tax rates on gross amount with a credit for dividend withholding tax. **4 marks**

2. Mary and Bobs holiday Schedule E income and income tax withheld. **4 marks**

3. Interest paid to Ryan  $15\% \times €15,000 = €2,250$  **3 marks**

$13\% \times €15,000 = €1,950$  or  $13\% \times (€5,000 + €1,000) = €780$  **3 marks**

€780 allowed, income tax withheld on annual payment.

$€2,250 - €780 = €1,470$  disallowed, distribution add back for company and dividend withholding tax. Individual Schedule F income tax on gross payment and credit for dividend withholding tax.

4. Loan to Matthew, no tax implications as loan less than €19,050 and Matthew full time employee and owns less than 5% share capital. **6 marks**

## **Solution 4**

a)

Sole trader

- Lower tax
- Losses against other income

Limited company

- No tax first few years
- Research and development credit may be available
- Protection

**Need 3 points, 2 marks per relevant point named and explained.**

b)

- Could avail of Employment investment incentive scheme finance
- Possible seed capital relief

**Need 3 points, 2 marks per relevant point named and explained.**

c)

CGT retirement relief explain

CAT Business relief

Stamp duty

**Need 4 points, 2 marks per relevant point named and explained.**

## **Solution 5**

a)

2/3 rules, €700 > 2/3 €1,000 so all taxed at 23%, VAT €230 **4 marks**

b)

Multiple supply rule, split VAT rates

€20 x 23% = €4.60

€10 x 23% = €2.30  
 €30 x 0% = €0  
 €5 x 13.5% = €0.68  
**Total VAT €7.58 6 marks**

**c)**

2/3 rule not breached as €500 < 2/3 €1,000, all charged at 13.5%, VAT €135

**4 marks**

**d)**

A Ltd must charge VAT as property transactions outside VAT Group rules. VAT €23,000. **6 marks**

**Solution 6**

Sean

No capital acquisitions tax as Sean is minor child of deceased child of disponent and Group A class threshold. **5 marks**

Anne

	€
Shares	50,000
Painting	39,000
Residue	
(35,000 + 10,000 + 10,000 - 4,700)/2	<u>25,150</u>
	114,150

No capital acquisitions tax as Anne is widow of Richard (deceased child of disponent) so she steps into his shoes, Group A class threshold. **5 marks**

Charity

Exempt from Capital Acquisitions Tax **5 marks**

Sally

No capital acquisitions tax on house as she lived in it for last 10 years and only house. **3 marks**

Residue 25,150 (under Group A threshold no capital acquisitions tax. **2 marks**