



**Institute of Incorporated Public Accountants**

**Professional 2 –**

**Module 9**

**Advanced Taxation Exam**

**Wednesday 28<sup>th</sup> August 2013**

**10am – 1pm**

**Instructions to Candidates:**

- 1. Answer 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

- (a) Write a note on the time of disposal for Capital Gains Tax purposes.

Address the following in your answer

- unconditional contracts
- conditional contracts
- gifts
- compulsory purchase

**6 marks**

- (b) Vanessa is single and living in Cork. On 31<sup>st</sup> October 2012 Vanessa sold a house for €750,000 which had been occupied rent free by her single sister. Legal and advertising costs arising on the disposal amounted to €12,000. Vanessa had bought the house along with 5 acres on 6<sup>th</sup> April 2000 for €400,000. She had incurred stamp duty costs of €16,000 and solicitors fees of €2,000 on the purchase of the property. In July 2002 she borrowed €100,000 and renovated the house. The land which was valued at €300,000 on 21<sup>st</sup> October was retained by Vanessa when the house was sold.

On 1 November 2012 Vanessa sold 2,000 shares in CRH plc at €10 per share. She had acquired these shares as a gift from her mother on 1<sup>st</sup> January 2004 on turning 30 years of age, when their market value was €4 per share.

Vanessa gifted 1,000 shares in AIB on 1<sup>st</sup> June 2012 to her sister. The shares had a market value of €5 per share and she gave them to her sister at no cost. She had acquired these shares for €6 per share on 1<sup>st</sup> July 2009.

### Requirement

In respect of the disposals outlined above:

Compute Vanessa's capital gains tax liability for 2012.

**14 marks**

**Total 20 marks**

## Question 2

Sally and Ted set up Alfa Ltd in 2009. They own 50% each of the share capital. Alfa Ltd has three wholly owned subsidiaries Beta Ltd, Cape Ltd and Delta Ltd. The results of the three companies for the last two years are outlined below.

	<b>Beta</b>	<b>Cape</b>	<b>Delta</b>
Year ended 31/12/11			
Case I	€120,000	€100,000	€20,000
Case V	€10,000	€5,000	€0
Year ended 31/12/12			
Case I	€200,000	(€334,000)	€40,000
Case V	€5,000	€12,000	€0

Cape Ltd has a building with a market value of €120,000. It acquired this from Beta Ltd on 1 March 2006 for €70,000 (its then market value). Beta Ltd had originally bought this building on 11 May 1999 for €25,000.

Alfa Ltd has received an offer of €1,500,000 for their shares in Cape Ltd (Alfa Ltd bought the share capital for €25,000 on 1 June 2003). It is now 10 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 Alfa Ltd selling its shares in Cape Ltd. **10 marks**

**Total 20 marks**

### Question 3

Bobtail Limited is an Irish resident close company. The company has 1,000 €1 shares in issue and a share premium account of €5,000. The shareholders are as follows:

Mary Reilly	22%
Bob Reilly (Mary's husband)	18%
Sam Reilly (Mary and Bob's son)	6%
Tom Burke	11%
Peter Burke (Mary's brother)	7%
Sally Rafferty (Mary's sister in law)	16%
Ryan Kennedy	10%
Martha Vaughan	10%

They are all directors of the company except Sam and Peter. The following transactions took place in the year ended 31 December 2012:

- 1) Bobtails Limited paid €2,300 for Natasha Mary and Bob's daughter to go on holidays to Barbados after she passed her final accountancy exams. Natasha has no involvement with the company.
- 2) Bobtails Limited paid €4,500 for Mary and Bob to go on a cruise to celebrate their 40<sup>th</sup> wedding anniversary, both Bob and Mary work for Bobtails Ltd.
- 3) Ryan lent €15,000 to Bobtails Limited at an interest rate of 15% on 1 January 2012. None of the loan had been repaid by 31 December 2012.
- 4) Bobtails Limited lent €7,000 to Matthew Foley during 2012. Matthew works in the administration department but does not own any shares in Bobtails Limited.

#### Requirement:

Outline the tax implications of the above and calculate the tax due in 2012. **20 marks**

**Total 20 marks**

#### Question 4

Mark Smith has decided to set up in business for himself. He has worked for the last ten years in Cakes are Great Limited as a baker and has decided he would now like to pursue his dream of making deserts to supply to Chinese and other takeaways. He has heard from Gerry in the pub that he can pay no tax for the first while if he is a limited company, this seems like a dream come true. He is realistic and knows he will make significant losses for the first two years while he builds up his brands. He does not mind as he has net rental income from Irish properties he owns of €45,000 and they have always lived comfortably on his wife's gross earnings for €220,000 (net €123,000). He has €100,000 in savings and feels he will need to raise an additional €300,000 for machinery and premises rent. He knows at 53 years he is not a spring chicken and is delighted that Delia (his adored goddaughter and niece of 22 years) has agreed to come in to the business from day one as a full time employee. Having no daughters of his own Delia is the apple of his eye and he secretly plans to give her the business in the future when he reached 65 years.

#### Requirement:

- a) Advise Mark on the tax implications of setting up as a sole trader or a limited company? **6 marks**
- b) Advise Mark on how he can fund his business tax efficiently (need at least two methods). **6 marks**
- c) Advise Mark on the tax implications of passing the business to Delia when he is 65 years both for Mark and for Delia (you can use current tax rates to demonstrate your answer). **8 marks**

**Total 20 Marks**

### Question 5

- a) Tom Jones has a business as a supplier and installer of electrical equipment. He is quoting for a job to supply and install a safe for €1,000 net. The price for the safe is €700 (net) and the installation is €300 (net) but he is doing it as one job so plans to charge €1,000 plus vat. Installation rates are 13.5% and safe is 23% what VAT should Tom charge? **4 marks**
- b) Mary Delaney plans to sell gift baskets made up of wine (€20 net), chocolates (€10 net), baby clothes (€30 net) and fruit cake (€5 net). She will sell for €65 plus VAT. What VAT should Mary charge? **6 marks**
- c) Tom Burke supplies and installs washing machines. His job tomorrow involves supplying a washing machine which he plans to charge €500 plus VAT and installation at €500 plus VAT. He does not want the customer to know how much he is charging for installation so he has agreed a job price of €1,000 plus VAT. What VAT should Tom charge? **4 marks**
- d) A Ltd and B Ltd and C Ltd are a VAT group. A Ltd is selling a property to B Ltd at €100,000 plus 23% VAT. Is it necessary that A Ltd charge VAT or can they avail of VAT Group provisions? **6 marks**

**Total 20 Marks**

### Question 6

Michael Smith died on 1 July 2012. Under his will he left the following assets.

- 1) To his grandson Sean (Sean is 15 years old and is the son of Michael's deceased son Richard) a house in Kildare with a market value of €150,000.
- 2) To Anne (Richard's widow) shares in AIB with a market value of €40,000 and a painting valued at €39,000.
- 3) €150,000 to Study to Live Ltd, a registered charity that was experiencing financial difficulties. The €150,000 is to be applied for charitable purposes. Michael has no connection with this charity.
- 4) To his daughter Sally his house valued at €650,000. They have lived in the house together for the last 10 years and Sally has no interest in any other house.
- 5) The residue of his estate which consisted on the following:
  - i) House in Portugal market value €35,000
  - ii) Shares in Sisk Ltd market value €10,000
  - iii) Cash in a bank account €10,000

The residue is to be split equally between Sally and Anne. Michael's funeral expenses were €4,700. This was to be paid out of the residue.

None of his beneficiaries were in receipt of any other gifts and inheritances.

#### Requirement:

Compute the capital acquisitions tax liability arising if any on each of the above gifts and inheritances. **20 marks**

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