Institute of Incorporated Public Accountants

Professional 2

Module 9

Advanced Taxation

Wednesday 26h. August 2015

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

Tina set up her sole trader business in 1999. She has now decided the time has come to incorporate her business on 31 October 2014.

The market value of her assets and liabilities are as follows:

Premises	€2,500,000 (cost €300,000 1/6/98)
Goodwill	€ 450,000 (nil cost)
Stock	€ 65,000
Debtors	€ 26,000
Creditors	€ 22,000
Loan	€ 17,000

Benz Ltd is going to take over all of the assets and liabilities of Tina business in exchange for paying Tina €102,000 and giving her shares in Benz Ltd.

Required:

a) Calculate Tina's liability to capital gains tax now and the the tax due. (**12 marks)**

b) Calculate the base cost of Tina's shares in Benz Ltd for future disposals. (**5 marks)**

c) Discuss with Tina any advantages and disadvantages of not transferring the premises to Benz Ltd. (**3 marks)**

Total 20 marks

Question 2

Part A

Mark Jones has just inherited a farm in Co. Sligo from his friend Billy.
The farm is made up as follows:

Agricultural Land	€900,000
Farm House	€230,000
Timber	€120,000

Mark already owns a house in Dundrum with a market value of €320,000 and a mortgage of €250,000 and a house in Cavan with a market value of €120,000 and a mortgage of €70,000.

Required:

Calculate Mark's liability to capital acquisitions tax assuming the only other benefits he received were

€10,000 cash from his neighbour on 10 December 1990.
€45,000 Bank of Ireland shares inherited from his best friend Richie on 19 May 2006. **(7 Marks)**

Part B

Amy gave shares with a market value of €102,000 (cost 1/4/99 €43,800) to her sister Noelle on 10 November 2013. Noelle claimed CGT / CAT credit. Noelle sold the shares on 15 December 2014 for €140,000.

Required:

Calculate the capital gains tax liabilities for year ended 31 December 2014. **(7 Marks)**

Part C

Martin Forde died on 15 November 2014 and left the following assets under his Will:

- House in Sligo worth €500,000 (cost €32,000 1 June 1986) to his daughter-on-law Sally (Sally is widowed having lost her husband Damien (Martin's son in a farm accident on 10 June 1999).

- Shares in Bank of Ireland worth €150,000 to his granddaughter June, aged 10 years (June is Damien's and Sally's daughter).

- €120,000 to be lodged in a trust fund to pay for medical expenses for his incapacitated child Bob.

- None of the above individuals have previously received any gifts or maintenances.

Required:

Calculate the tax liabilities. (**6 Marks)**

Total 20 marks

Question 3

Sally Smith has been running her flower shop for the last 14 years. Sally is 53 years old and plans to retire by 56 years of age as she wants to move to her holiday home in Spain permanently then. She has built up a great business with profits rising steadily over the last few years. As she is now making a lot more than she needs to live on she has decided to incorporate her business. Her taxable profits for the year ended 30 November 2015 were €125,000. She has been told by her accountant that she has built up €350,000 goodwill in the business too.

Required:

a) Outline all tax implications for Sally if she decided to incorporate and any reliefs that might be available.

(15 marks)

b) Based on Sally's future plans recommend to her whether she should incorporate now of now and justify your answer.

(5 marks)

Total 20 marks

Question 4

Mark Jones was born in France in 1962. His parents were born in Ireland and moved to live and work in France in the 1970's.

To date Mark has only lived in France. However, each year he spends all of his summer holidays in Ireland usually assisting his uncle on the farm in Mayo where his mother was born. His parents have also maintained strong links with Ireland over the years.

Mark's uncle has recently died in July 2014 and Mark had inherited his uncle's 300 acre farm valued at €3 million. He is seriously considering moving permanently to Ireland to continue his family tradition in farming. Should Mark decide to move to Ireland, his wife and children will continue to reside in France for another few years until the children's second level schooling has been completed.

Mark's parents have always indicated that they would like to return to and retire in Ireland. They have decided that if Mark moves to Ireland, they will purchase a property close by with the intension of spending their remaining years near their son. Mark has recently contacted you requesting clarification in the following areas:

Required:

a) What is the position in Irish law, governing the determination of a person's residence and domicile? (**7 marks)**

b) Where, and for what reasons, would Mark be regarded as domiciled?

(**7 marks)**

c) What exposure does Mark have to Irish Capital Acquisitions Tax on his recent inheritance and how might his liability be alleviated?

(6 marks)

Total 20 marks

Question 5

Soft Wood Limited manufactures and repair furniture. Previously the company has conducted its business solely in the State. Recently, it has identified a number of business opportunities in Europe, the US and the UK.

The Sales Manager Bronagh Jones is preparing a marketing presentation for the Board of Directors. She has little knowledge of VAT and is concerned that she needs to understand the full implications of importing and exporting goods and services to foreign countries.

Requirement

Write a letter to Bronagh, explaining the VAT aspects of overseas imports and exports of goods and services. **(4 marks)**

In your letter you should deal with VAT arising on the following transactions:

a) Export of goods to non EU countries. **(3 marks)**

b) Export of goods to VAT registered traders in EU countries. **(3 marks)**

c) Repairs for VAT registered customers in the EU. **(2 marks)**

d) EU imports of goods **(4 marks)**

e) Non EU imports of goods **(4 marks)**

Total 20 marks

Question 6

Anne and Joe set up Party Place Ltd in 2006. They own 50% each of the share capital. Party Place Ltd has three wholly owned subsidiaries Balloons Ltd, Presents Ltd and Toys Ltd. The results of the three companies for the last two years are outlined below.

	Balloons	**Presents**	**Toys**
Year ended 31/12/13			
Case I	€150,000	€200,000	€50,000
Case V	€10,000	€5,000	€0
Year ended 31/12/14			
Case I	€200,000	(€350,000)	€40,000
Case V	€10,000	€6,000	€0

Presents Ltd has a building with a market value of €250,000. It acquired this from Balloons Ltd on 1 March 2006 for €100,000 (its then market value). Balloons Ltd had originally bought this building on 11 May 1999 for €61,000.

Party Place Ltd has received an offer of €2,000,000 for their shares in Presents Ltd (Party Place Ltd bought the share capital for €15,000 on 1 June 2004). It is now 12 November 2014.

Required:

a) Calculate the corporation tax liabilities for all companies, using losses to maximise reliefs. **(10 marks)**

b) Outline and calculate all tax implications of Party Place Ltd selling its shares in Presents Ltd. **(10 marks)**

Total 20 marks