Accounting Technicians Ireland

Advanced Taxation

Republic of Ireland (ROI)

Practise Questions and Suggested Solutions

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Table of Contents

NOTE TO USERS ABOUT THE CONTENT OF THIS DOCUMENT

Part A

2135

(a) State the rules for deciding an individual's residence in Ireland for a tax year.

(b) Outline the taxation implications of the following:
(i) Being Irish resident and Irish domiciled;
(ii) Being Irish resident and not Irish domiciled;
(iii) Being non-resident but ordinarily resident in Ireland.

2137 Greg, a US citizen works for a US multinational company. In 2019, Greg was asked to come to Ireland for a short assignment at the company's Irish operation.

The project that Greg was assigned became much larger and the period of the assignment was subsequently extended.

Greg spent the following days in Ireland:

(i) In 2019, a total of 32 days

(ii) In 2020, Greg moved to Ireland on 19 July and stayed for the remainder of the year;

(iii) In 2021, Greg lived in Ireland for the year. However, Greg spent 40 days on holidays outside of Ireland.

Prior to coming to Ireland in 2019, Greg had never been to Ireland before.

In 2021, Greg has the following income:

(i) Salary from US multinational - €312,000 paid from the US. Greg remits €165,400 of this.

(ii) Spanish dividend income - €4,341 lodged into his Spanish bank account.

(iii) US rental income - €19,100 lodged directly into his US bank account.

Requirements:

(a) Explain Greg's Irish income tax position in each of the three tax years.

(b) Identify the income that will be used to calculate Greg's Irish income tax liability in 2021.

2138 Explain how the withholding tax system for subcontractors operates. Your answer should refer to the following:

(a) Who the system applies to?

(b) What type of work it applies to?

(c) How it is possible to avoid the withholding tax?

2139 Maura, a solicitor, advised you that she has had Professional Services Withholding Tax (PSWT) deducted from a payment received by her business.

You are required to explain the PSWT system to Maura including the circumstances in which there is an obligation to deduct PSWT and the types of services it relates to.

Include examples to illustrate the explanation.

2141

(a) Explain the rules for calculating preliminary income tax.

(b) Explain the purpose of a Revenue Audit.

2142 Pat, a client of the accounting practice that you work for, has received notification from the Revenue Commissioners that he has been selected at random for a Revenue Audit.

Pat is anxious to know the process involved in the audit.

Requirement:

Advise Pat in relation to the conduct of a field audit. Outline Pat's rights in relation to the audit procedure.

Part B

2145 Jack owns two rental properties. He provides you with the following information in relation to these for the year ended 31 December 2021.

	Property 1	**Property 2**
	€	**€**
Income received	16,000	9,201
Expenses		
Mortgage interest paid	9,000	7,250
Insurance	1,170	1,648
Cleaning	360	1,942
Repairs	971	1,362
Light and heat	612	1,658

Both of these properties are residential lettings. Jack registered Property 1 with the RTB when the lease on the property commenced last year.

The tenants in Property 2 left at the end of May 2021. They had been paying rent of €595.04 per month but when they left the rent for April and May was unpaid.

Jack has not been able to recover this amount.

As the property was vacant, Jack took the opportunity to redecorate the entire property before re-letting it.

He got new tenants into the property from 1 September 2021 at a rent of €1,853.97 per month.

Whereas the tenancy to the end of May 2021 was registered with the Residential Tenancies Board (RTB), Jack forgot to register the new tenancy with the RTB.

On 1 May 2021, Jack purchased a new commercial property. He let the new property from 1 August 2021 on a 40 year lease.

He received a rent of €1,500 per month for the letting. He also received a premium when he let the property of €48,000.

Jack borrowed to purchase the commercial property and the interest paid from the date he purchased the property was €6,150.

He incurred estate agents fees of €540 finding the tenant and legal fees of €550 setting up the lease.

Requirement:
Calculate Jack's assessable Schedule D Case V income for 2021.

2260 Stan Hughes, who is single, is the Sales Director for Bird. Details of his remuneration package for 2021 are as follows:

(i) Salary €40,200 - PAYE deducted €10,620.

(ii) Stan received commission in addition to his salary. He earned commission of €11,850 for 2021, but €2,140 of this was not actually paid to Stan until February 2022.

(iii) Stan is provided with a company car. The original market value was €34,800. Stan pays for the insurance of the car, which was €610 for 2021.

Stan travels 8,700 business kilometres per annum.

The nature of Stan's job means that he spends 46% of his time working away from the office.

Details of Stan Hughes's other income and outgoings for 2021 were as follows:

	€
Income	
Irish bank deposit interest (net of DIRT)	530
Dividend received from Irish company (net of DWT)	660
Outgoings	
Covenant (note)	9,900
Private health insurance (tax relief given at source)	670
Third level tuition fee for an approved part-time course	2,810

Note

Stan's sister, Bernie, who is 25 years old and single, is permanently incapacitated since birth. Stan set up a ten year covenant of €9,900 per annum to help Bernie with her living expenses.

Bernie has a part-time job and earned a salary of €7,500 for 2021. Her only outgoings were qualifying medical expenses of €2,520.

Requirements:

(a) Calculate Stan Hughes's income tax for 2021 (ignore PRSI and USC).

(b) Calculate Bernie's income tax for 2021 (ignore PRSI and USC).

2146 Marty and Zelda are married and jointly assessed. Marty is employed as a sales and marketing director for a company.

His salary for 2021 was €138,000 and he paid €68,800 PAYE on this.

In addition, he has the use of a 2018 BMW 320 (cost €33,300, original market value €41,600).

Marty does 5,730 km business travel a year and spends approximately 60% of his time away from the office.

He also receives the following benefits from the company:

(i) A contribution of €14,600 to the approved pension scheme on his behalf;

(ii) Payment of family membership to the local leisure centre of €1,020.

Zelda stays at home full time and looks after their young children.

Marty and Zelda have invested in three residential properties over the years and are in joint receipt of the following rental income:

	Notes	**Irish Property 1**	**Irish Property 2**	**French Property**
		€	**€**	**€**
Gross rental Income	*1*	15,800	6,090	10,400
Interest paid	*2*	6,770	7,150	6,610
Repairs	*3*	1,260	2,410	2,500
Cleaning	*4*	570	600	750
Letting fees	*5*		1,060	1,040

Notes

1 **Gross rental Income**

The rent represents the full amount of rent received in 2021. Property 1 has been owned and rented by them for the past eight years. The house was vacant for the month of June.

Property 2 was purchased during 2021 and was first let on 1 July 2021.

2 **Interest paid**

The interest paid is for the full year with the exception of Property 2, which was purchased by Marty and Zelda on 1 March 2021. The mortgage interest was incurred from that date.

Property 2 should not be considered to be a 'vacant premises' with regard to expenses incurred before the first letting by Marty and Zelda on 1 July.

3 **Repairs**

The repairs are in relation to normal repair items and do not include any capital items. All of the repairs on Property 2 were carried out before it was first let on 1 July.

4 **Cleaning**

The cleaning costs were incurred as follows:

For Property 1, during the month of June when the house was vacant.

For Property 2, before the house was let on 1 July.

The French Property was let as a holiday home. The cleaning costs were incurred between each letting.

5 **Letting fees**

All letting fees are paid to an agent, who finds tenants and collects the rent.

The tenancies in the Irish properties were registered with the RTB.

Other income

Irish deposit interest - joint account - €898 net of DIRT.

Other payments

Medical expenses of €2,690 incurred. Their medical insurance company reimbursed €1,380 of this amount.

Requirement:
Prepare Marty and Zelda's income tax computation for 2021 (including PRSI and USC).

2148 Joseph Smith, a single man, aged 50 years, is employed as production director with a manufacturing company, which is based in Dublin.

During 2021, the company opened a second plant in Cork and, in order to induce Joseph Smith to move to Cork and take over responsibility for the new facility, they agreed to pay him the following:

(i) Joseph Smith's annual salary was increased from €48,870 to €62,825 with effect from 1 May 2021. His total salary for 2021 was €58,173 and total PAYE deducted amounted to €20,500;

(ii) From 1 May 2021, travel expenses of €380 per month to cover the cost of travelling to and from Dublin;

Joseph Smith received a dividend of €1,370 in February 2021, net of dividend withholding tax, being a final dividend in respect of the year ended 31 December 2020.

In February 2022, he received a dividend of €680, net of dividend withholding tax, being the final dividend for the year ended 31 December 2021.

You are also given the following information about Joseph Smith:

(i) In order to help offset the cost of the house in Cork, Joseph Smith rented out one of the rooms in the house and received rent of €11,100 in 2021.

(ii) Joseph Smith started a part-time degree while living in Cork and, in 2021, he paid €1,900 in fees (college and course are Revenue-approved).

Requirement:
Prepare Joseph Smith's income tax computation for 2021 (including PRSI and USC).

2149 Laura Powell is a single parent with one child who is three years old and fully maintained by Laura Powell.

She is employed as a marketing executive and her salary for 2021 was €50,024 with PAYE deducted of €16,200.

During 2021, Laura Powell had use of a company car which was supplied on 1 January 2021, original market value of which was €45,300.

The company paid all running costs and Laura Powell makes a contribution of €600 each year to the company towards the running costs of the car.

Laura Powell's annual travel is approximately 48,100 km, of which 10% is personal.

The other benefits provided to Laura Powell were:

(i) The payment of a professional subscription of €880. This relates to Laura Powell's work;

(ii) Provision of a preferential loan - the loan of €31,000 was granted on 1 January 2019 to fund the purchase of a holiday home.

The agreement was that Laura Powell would pay interest to her employer on the loan of 2.5% per annum.

The capital balance was still outstanding at 31 December 2021.

In addition to her employment income in 2021, Laura Powell received the following income:

(i) Net dividend of €640 paid by AIB Plc;

(ii) Gross credit union dividend €560 from Special Share Account. This was subject to tax at source and the net interest was credited to Laura Powell's account on 31 January 2021.

Laura Powell also purchased a residential property on 1 May 2021. She borrowed €245,000 to fund the purchase and paid interest on this loan of €9,800 from 1 May to 31 December 2021.

The property was first let on 1 July 2021 at a rent of €910 per month. The property should not be regarded as a 'vacant property' with regard to expenses incurred prior to the first letting.

The tenancy was not registered with the RTB.

Laura Powell also incurred the following expenses in relation to the property:

(i) Letting fees - €1,010;

(ii) Insurance costs (from 1 May to 31 December) - €510.

Requirement:
Prepare Laura Powell's income tax computation for 2021 (including USC and PRSI).

2150 Terry and Maria got married 1 April 2021. Terry is employed as a senior manager with Morrison plc.

Terry's date of birth is 18 April 1978. Maria's is 13 September 1986.

Terry was provided with the following income and benefits from his employment in 2021:

(i) Salary of €89,000 and commission of €15,000. PAYE of €50,510 was deducted from Terry's salary in 2021.

Terry received a bonus of €5,000 in April 2021 in respect of 2020 work. Similarly, a bonus of €5,000 in respect of 2021 work was paid to Terry on 15 January 2022.

(ii) Terry made contributions to a Revenue approved occupational pension scheme of €230 per month. His employer contributed a further €190 per month to the scheme.

(iii) A company car, which cost €45,640 when purchased on 1 April 2021. The original market value of the car was €49,600. The bank paid for all expenses except for diesel.

Terry travelled 23,850 km in the course of the bank's business between 1 April 2021 and 31 December 2021.

(iv) Accommodation owned by the bank. The house originally cost the bank €247,400 in 2006. The house had a market value at 31 December 2021 of €434,000.

The market value of rent for this house was €1,700 per month for 2021. All outgoings on the house were vouched and paid for by Terry. Terry had use of the house for the full year.

(v) The company paid for membership to the local golf club as they felt that Terry would be able to further the bank's business and meet clients at the club. This cost €556.

(vi) A loan of €17,700 on 1 April 2021 to purchase a car for Maria. Terry paid interest at 2.0% per annum on this loan. No capital repayments had been made in 2021.

Terry and Maria had the following other income for 2021:

Terry	**€**
Net dividends from Irish public companies	883
Credit union interest (net of DIRT)	464
Bank deposit interest (net of DIRT)	775
Rental income from a Dublin property (net of allowable expenses)	2,593
Maria	
Income from part-time employment	18,597
Net dividends from Irish public companies	3,220

Terry and Maria had their first child, Patrick, on 10 December 2021. Maria has decided to stay at home to look after Patrick.

Requirements:

(a) Prepare Terry and Maria's income tax computation for 2021 (ignore PRSI and USC).

(b) Calculate reliefs that they may be entitled to for 2021 (year of marriage).

2097 James and Annabel are married and singly assessed for income tax. The following is their income and expenses for 2021:

(i) James is self-employed and earned income of €96,800;

(ii) Annabel is employed and earned an income of €20,000. She paid PAYE of €770;

(iii) James had medical expenses of €3,720 for the year and received €1,570 back from his medical insurance company;

(iv) James paid €767 per month for permanent health insurance premiums.

Requirements:

(a) Prepare the income tax computations for James and Annabel for 2021 (ignore PRSI and USC).

(b) Outline the amount of income tax they could save by choosing joint assessment.

(c) State what they are required to do to change the basis of assessment to either joint or separate assessment.

2151 Kris and his wife Juliette have been married for a number of years and have two children. During that time they have been jointly assessed and Kris has been the assessable spouse.

Kris died on 1 September 2021.

Kris had been employed and his salary up to the date of death was €58,200. There was €9,470 PAYE deducted from this.

During the year to 1 September 2021, Kris made payments in respect of qualifying medical expenses of €510 for the family.

The entire amount relates to their two children and €250 was reimbursed by medical expense insurers.

Kris had additional income for 2021 as follows:

(i) Deposit interest from an Irish bank account of €423 (net of DIRT) up to the date of death;

(ii) Dividends received from two Irish companies, of €401 net of DWT and €305 net of DWT;

(iii) Kris had a rented residential property for a number of years. The property was let for a rent of €1,340 per month and the following expenses were incurred:

- the interest on the loan to acquire the property was €6,539. All of this interest was paid up to 1 September 2021 as the loan on the property was written off in full from the date of his death. The tenancy was registered with the RTB;

- the insurance costs were €650 for the full year.

Juliette inherited all of the assets from Kris and continued to let the property for the same rent. She also received Irish dividends of €275 net and deposit interest of €317 net of DIRT.

She works as a nurse and earned a salary of €33,540 gross during 2021. She paid PAYE of €5,710 on this.

Requirement:
Prepare Kris and Juliette's income tax computations for 2021 (ignore PRSI and USC).

2099 Marco and Aurelia were married on 1 April 2021. Their income and expenses for the year are as follows:

(i) Marco is self-employed and earned income of €72,200. He paid preliminary tax of €11,860 for 2021;

(ii) Aurelia is employed as a solicitor and earned a salary of €95,000. She paid PAYE of €6,110;

(iii) Aurelia is a member of the company pension scheme and paid a lump sum premium into the scheme of €22,330 during 2021. She did not claim tax relief through payroll in respect of this premium. She turned 45 in March 2021;

(iv) Marco has a personal pension and contributed premiums of €15,890. Marco turned 35 in March 2021;

(v) Aurelia employs a carer to look after her incapacitated mother and pays her a salary of €30,000 in 2021.

Requirements:

(a) Prepare Marco and Aurelia's income tax computations for 2021 (ignore PRSI and USC).

(b) Calculate any relief available to them.

Part C

2160 Arthur (54) is self-employed as an engineer. His financial statements for the year ended 31 July 2021 show that he earned tax adjusted profits of €315,000 before deducting capital allowances of €25,200.

Arthur's wife, Adele, does not work outside the home. She looks after the couple's young children full time.

Arthur made the following payments during 2021:

(i) Pension contributions of €36,230 to an approved retirement annuity contract;

(ii) Qualifying medical expenses of €950 for the family. The insurance company reimbursed Arthur €400 for medical expenses;

(iii) Permanent health insurance premium of €2,700;

Arthur and Adele have the following sources of income, all held jointly:

(i) Net deposit interest from an Irish bank deposit account of €150;

(ii) Net rental income of €6,990 from a property in Dublin. This is the amount after all allowable expenses;

(iii) Net rental income of €4,586 from an apartment in Manchester.

Arthur also received net Irish dividend income of €130 during 2021.

Arthur paid preliminary tax of €104,500 for the 2021 tax year on 28 October 2021. Arthur's total tax liability for the 2020 tax year was €109,800.

Requirements:

(a) Prepare Arthur and Adele's income tax computation for 2021 (including PRSI and USC). They are jointly assessed;

(b) Calculate whether Arthur has paid sufficient preliminary tax in respect of 2021 to avoid interest charges.

2161 Angelo and his wife Alison have been married for a number of years and have three children. During that time they have been jointly assessed and Angelo has been the assessable spouse.

The couple agreed on a formal separation on 1 June 2021.

It was agreed that, from that date, Angelo will pay Alison maintenance of €1,590 per month.

€1,090 of this amount relates to maintenance for the children with the balance being paid for Alison's benefit. Alison becomes the primary carer for the children.

They do not make an election for joint assessment after separation.

Angelo is self-employed as an accountant. His financial statements for the year ended 31 July 2021 show that he earned tax adjusted profits of €94,200 after deducting capital allowances.

Angelo made the following payments:

(i) Qualifying medical expenses of €950 for the family. Angelo has been reimbursed €660 of these expenses by the medical expense insurers.

The entire amount of the expenses relate to their youngest child;

(ii) Permanent health insurance premium of €736 per month

Angelo has additional income for 2021 as follows:

(i) Irish dividend received on 4 March 2021 of €230 net, which was the final dividend for the year ended 31 December 2020;

(ii) An interim dividend for the year ended 31 December 2021 on 4 July 2021 of €410 net.

Angelo had acquired a residential property for rental on 1 March 2020 for €444,490. The property was first let on 30 April 2020 for a rent of €1,090 per month.

The property was registered with the Residential Tenancies Board.

The lease on the property ran out on 1 April 2021 and, as Angelo and Alison split up soon after, it was never re-let. Angelo moved into the property to live.

Angelo paid insurance of €700 for 2021 and spent €2,800 having the property repainted after the tenants moved out.

Alison is employed as a bookkeeper. She earned a salary of €31,100 gross during 2021 and paid PAYE of €4,665.

Requirement:
Prepare Angelo and Alison 's income tax computations for the year ended 31 December 2021 (ignore PRSI and USC).

1840 Steve Pace is aged 71, single, no children and has rental income in 2021 of €25,400.
What is the amount of Steve Pace's income tax liability for 2021?

2153 Liezel Forlin commenced trading on 1 February 2015 and ceased to trade on 31 March 2021. The following are the profit figures for each year:

	€
1 February 2015 – 31 August 2015	11,900
1 September 2015 – 30 April 2016	17,300
1 May 2016 – 30 April 2017	25,100
1 May 2017 – 30 April 2018	25,600
1 May 2018 - 30 April 2019	34,000
1 May 2019 – 30 April 2020	34,100
1 May 2020 – 31 March 2021	28,500

Requirement:

Calculate the assessable profit for each year of assessment, showing the year of assessment, basis period and original and revised assessments.

2155 The following are the details relating to Moira's business assets for the year ended 31 December 2021:

Assets at 1 Jan	**Acquired**	**Cost (€)**	**TWDV (€) 1 Jan 2021**
Plant and equipment	Apr 2018	141,000	88,125
Motor vehicle	Aug 2017	21,000	12,000
Trucks	Oct 2017	201,800	100,900

Moira also provides you with the following details:

(i) The motor vehicle (category C) was sold on 12 July for €8,700.

(ii) There were two new cars purchased. The first was category E and cost €22,000 and the second was category B and cost €27,000.

(iii) The business also leased a new car during the year ended 31 December 2021. The total lease costs for the year were €8,020. The cost of the car was €29,000.

(iv) Three trucks were sold during the accounting period for €43,100 (in total). They had originally cost €34,100, €33,200 and €28,300. They were all purchased in October 2017.

The business invested in a new truck costing €37,000 before the end of the year.

(v) The business also invested heavily in a new computer system during the year. The total cost of the equipment was €87,000.

Eight of the computers, costing €1,300 each, were not put into use until February 2022.

Requirement:

Calculate the capital allowances for 2021, showing the wear and tear allowances and the closing tax written down values.

2156 Gerard Laurelio runs a coffee shop. The following figures are available for the year ended 31 May 2021:

	€
Case I tax adjusted trading loss	3,780
Capital allowances	760

In addition, the following information is available:

	€
Gerard Laurelio's rental income	3,600
Spouse’s salary from employment	63,890
PAYE paid on salary	12,290
Spouse’s Irish dividends (net)	2,100

Gerard Laurelio paid pension contributions of €3,300 in 2021.

Gerard Laurelio's spouse is not a member of an occupational pension scheme but paid a contribution of €13,600 into a personal pension. Both are 38 years old.

They had allowable medical expenses of €2,400 in 2021.

Gerard Laurelio and spouse are jointly assessed.

Requirement:
Prepare Gerard Laurelio's income tax computation (including PRSI and USC) for 2021.

2157 Johnny runs a newsagents and the following are his financial statements for the year ended 30 April 2021:

	Notes	**€**	**€**
Gross profit		115,122	
Deposit interest received		4,640	
Dividends received		3,770	
			123,532
Expenses			
Wages and salaries	*1*	72,380	
Depreciation		7,200	
Legal fees	*2*	6,590	
Motor expenses	*3*	9,180	
Light, heat and telephone	*4*	6,990	
Bank interest	*5*	4,200	
Sundry expenses	*6*	2,490	
			(109,030)
Profit			**14,502**

Notes

1	**Wages and salaries**	**€**
	Johnny's drawings	20,900
	Preliminary tax paid for Johnny	3,980
	Salary paid to Johnny's wife	17,400
	Staff salaries	30,100
		72,380

2	**Legal fees**	**€**
	Legal fees relating to purchase of new shop	2,210
	Drafting of staff employment contracts	1,100
	General legal fees – all allowable	3,280
		6,590

3	**Motor expenses**	**€**
	Cost of running the car	3,900
	Cost of running the van	4,600
	Courier delivery costs	680
		9,180

The car is used by Johnny. He estimates that the business usage of the car is 50% of the total usage.

4	**Light, heat and telephone**	**€**
	Heating and lighting	4,800
	Telephone cost	2,190
		6,990

The electricity costs include personal electricity bills of €500 and €800 paid for repairs to the heating in the shop.

The telephone costs include personal mobile phone bills of €600. Johnny estimates that 20% of his home landline phone bills relate to the business and they are not included above.

His total home phone bills amount to €1,100.

5 **Bank interest**

		€
	Repayments of bank loan	3,900
	Bank charges on business current account	300
		4,200

The repayments on the bank loan relate to the purchase of equipment for the business. The total amount repaid includes interest of €1,140 and the balance relates to capital repayment.

6 **Sundry expenses**

		€
	Purchase of a new cash register	1,640
	Cost of cleaner for the shop	850
		2,490

Johnny has the following assets for use in the business:	**Cost (€)**
Car (acquired y/e 30 April 2019)	25,000
Fixtures and fittings (acquired y/e 30 April 2019)	30,000

The car is a category B car.

Johnny disposed of some of the fixtures and fittings during the year for €6,300 and replaced them with new fixtures and fittings costing €8,600.

The disposed of fixtures and fittings originally cost €9,000.

Requirement:

Calculate Johnny’s Schedule D Case I tax adjusted profit and capital allowances for 2021.

2159 Sorcha (34 and single) runs an accountancy practice and has the following results for the year ended 31 March 2021.

	Notes	€	€
Income:			
Fee income		230,912	
Dividends received from Irish company (net)		3,100	
			234,012
Expenses:			
Depreciation		14,660	
Premises costs	*1*	5,300	
Advertising	*2*	2,510	
Subscriptions and donations	*3*	5,270	
Salaries	*4*	71,510	
Telephone and postage	*5*	2,950	
Travel and entertainment	*6*	18,630	
Light and heat		14,690	
Professional fees		7,310	
Profit on disposal of non-current asset		(1,830)	
Miscellaneous	*7*	25,610	
			(166,610)
Profit			**67,402**

Notes

		€
1	Premises costs	
	Repaint premises	1,700
	New furniture for office	3,600
		5,300

		€
2	**Advertising**	
	Business listing in telephone directory	1,650
	Advertising for new staff	430
	Sponsor prizes for local competition	430
		2,510

Sorcha agreed to sponsor a local competition and in return for donating prizes her business name was included on all the posters.

		€
3	**Subscriptions and donations**	
	Subscription for accountancy body	760
	Annual accountancy body subscription for staff	3,800
	Donation to Amnesty International	710
		5,270

		€
4	**Salaries**	
	Staff salaries	40,370
	Employer's PRSI	3,640
	Drawings	27,500
		71,510

		€
5	**Telephone and postage**	
	Landlines for business premises	1,620
	Mobile phones for staff	450
	Broadband for business	430

Sorcha's home phone bill	450
	2,950

30% of the home phone bill relates to business matters.

6	**Travel and entertainment**	**€**
	Speeding tickets	150
	Motor lease expenses	11,600
	Business kilometre expenses	2,850
	Entertainment of customers	2,420
	Toll fees	410
	Staff Christmas party	1,200
		18,630

The motor lease costs relate to a car that Sorcha leased in August 2019. The cost of the car was €35,000 and the CO_2 emissions were 164g/km.

7	**Miscellaneous**	**€**
	Medical insurance for staff	1,710
	Pension contribution for Sorcha	21,850
	Public liability insurance	1,390
	Other miscellaneous - all allowable	660
		25,610

The assets of the business were as follows:

(i) Office furniture - cost €14,120 acquired during year ended 31 March 2017;

(ii) Computers and equipment – acquired in 2015, cost €14,560; acquired in 2019, cost €5,800.

Sorcha sold some of the computer equipment before the end of the year. The equipment cost €5,800 in January 2019 and she received €4,140 for it.

Sorcha purchased four new computers in March 2021 for €4,520 but, due to installation delays, they were not in use before April 2021.

Requirements:

(a) Calculate Sorcha's Schedule D Case II tax adjusted profit and capital allowances for 2021;

(b) Prepare Sorcha's income tax computation (including PRSI and USC) for 2021.

Part D

2162 Andrew and Lena are married and have the following transactions during 2021:

(i) Andrew disposed of a property in October 2021. He had purchased the property for €211,700 in late March 1995.

He incurred legal fees and auctioneer fees of €4,410 when he purchased the property. He sold it for €351,998 and incurred fees of €4,370.

(ii) Lena disposed of a house that she had purchased in August 1970 for €5,360. She rented the house out for the entire period of ownership. The value of the house at 6 April 1974 was €8,930.

She spent €46,800 on new windows and roof for the property in January 1996. She sold the property on 3 July 2021 for €186,389 and paid legal fees of €4,310.

(iii) Lena sold a diamond necklace that had been a gift from Andrew. Andrew purchased the necklace in February 1994 for €2,199.

Andrew gave the necklace to Lena for their 25th wedding anniversary in June 2006, when it was valued at €3,650.

Lena sold the necklace for €5,433 in April 2021.

Requirements:

(a) Calculate the capital gain tax liability for Andrew and Lena for 2021.

(b) Advise when the CGT must be paid.

2164 Patrick and Pamela are married and have the following transactions during 2021:

(i) Patrick purchased commercial premises as an investment property in May 1995 for €160,000.

During March 2000, he spent €32,000 on the following: general repairs - €7,040 and new roof and windows - €24,960.

The property was sold on 28 February 2021 for €374,327.

(ii) Pamela sold a number of items in July 2021:

1. She sold three televisions with DVD players for total proceeds of €756;
2. She sold an antique painting for €3,167. The painting originally cost €1,410 on 15 May 1995;
3. She sold her car for €10,570. She purchased the car for €15,310 in March 2018.

(iii) Patrick sold an apartment to his son on 15 October 2021 for €157,300. He purchased the apartment in August 1999 as an investment for €153,000.

The market value of the apartment at the date of sale was €262,129.

(iv) On 15 June 2021, Pamela sold an antique diamond ring for €9,340. She bought the ring for €4,270 in October 1994.

Requirements:

(a) Calculate the capital gains tax liability for Patrick and Pamela for 2021.

(b) Advise the relevant payment dates for any tax arising.

2165 Marcellus and Eva are married and jointly assessed. They have the following transactions for 2021:

(i) Marcellus inherited a property from his father during 2012. His father bought the property in 2001 for €48,000. The value of the property when Marcellus inherited it was €200,000.

He sold the property in November 2021 for €226,568.

(ii) Eva purchased shares in March 2000 for €19,440. She sold the shares in February 2021 for €19,639.

(iii) Marcellus sold ten acres of land for €31,000 in April 2021. The ten acres were part of a 30 acre site he had purchased in May 1994 for a total price of €34,500.

He incurred legal fees on the purchase of €5,000. The value of the remainder of the land at the date of sale was €94,900.

Requirements:

(a) Calculate the capital gains tax liability for Marcellus and Eva for 2021.

(b) Marcellus has also asked what capital gains tax his father should have paid.

(c) Advise Marcellus in relation to the date(s) that the CGT liability falls due.

2167 Victor and Susan had the following transactions in 2021:

(i) They sold their house for €745,340 on 1 May 2021. They had purchased the house on 1 June 1990 for €169,000. Over the next few years the following occurred:

1. On 1 July 1995, they moved to Galway as a result of Victor's work for his employer. They rented out the house during this time but returned to live in the house on 1 September 1998;
2. When they returned to live in the house, they spent €174,000 building an extension to the house consisting of a new kitchen and an additional bedroom during the tax year 98/99;
3. They remained in the house until 1 August 2003 at which time Victor retired and they moved to Spain. However, they missed family so returned to live in Ireland on 30 April 2007;
4. On their return in 2007, they spent €29,400 upgrading the windows in the house and putting in a new heating system;
5. They continued to live in the house until 1 May 2021.

(ii) Before selling the house, Susan sold the following:

1. An antique table for €3,108 in April 2021. She had purchased the table in June 1998 for €2,040;
2. Household items as follows: television and stereo €649, fridge, washing machine and cooker - €677.

After selling their house, they had intended to live in another house that they had owned for a number of years. They purchased the house in January 2011 for €292,900.

However, before moving in they decided it was too big for their requirements.

Instead, they agreed to swap the house in September 2021 for their son's apartment (now that he had children he required more space).

He had lived in the apartment all of the time that he owned it. The value of their son's apartment was €383,700 at the date of the swap. The house was valued at €521,840.

Requirements:

(a) Calculate the capital gains tax liability for Victor and Susan for 2021 giving details of the payment and return filing dates for any CGT arising.

(b) Explain what liability their son might have, if any.

2169 Jeremy and Sandy have the following transactions during 2021:

(i) They sold a house in Dublin that they had lived in as their principal private residence. They purchased the house in August 1965 for €3,000.

The value of the house at 6 April 1974 was €5,900.

They lived in the house from the date that they had purchased it until 30 June 1983. At that date, Ivor was required to move to Sligo with his job so they rented the house out.

They remained in Sligo until 31 July 1988 and returned to live in the house after that date.

Jeremy was required to move to London with his job from 1 April 1997 until 31 May 1999. When they returned, they lived in the house until 30 June 2004 when Jeremy retired.

At that date they purchased another house in Sligo and moved there to live. They sold their house in Dublin on 5 August 2021 for €295,000.

(ii) Sandy sold 7,800 shares in Blue for €85,800.

She had the following holdings of shares in the company - 6,000 shares purchased on 5 September 1997 for €55,377 and 3,000 shares purchased on 9 January 1999 for €22,423.

She sold the shares in December 2021.

Requirements:

(a) Calculate the capital gains tax liability for Jeremy and Sandy for 2021.

(b) State when they must pay capital gains tax.

Part E

831 Pluto Limited purchased an office building on 1 January 2021. The company let out the building on 1 June 2021 on a 15 year lease.

The annual rent was €39,771 and the company also charged a premium of €120,000.

The only expense was interest on borrowings drawn down to finance the purchase. The interest for the year ended 31 December 2021 amounted to €7,903.

What is the amount of Case V income that should be included in Pluto Limited's corporation tax computation for the year ended 31 December 2021?

2170 Smythe Limited manufactures and distributes pet food. The results for the company for the year ended 30 June 2021 are as follows:

	Notes	€	€
Sales revenue		494,514	
Cost of sales		(248,490)	
Gross profit			246,024
Expenses			
Wages		131,100	
Rent and rates paid		24,100	
Post and stationery		1,040	
Motor expenses	*1*	22,540	
Subscriptions and donations	*2*	9,050	
Professional fees	*3*	11,890	
Loss on disposal of non-current assets		3,000	
Irrecoverable debts	*4*	5,100	
Sundry	*5*	5,690	
Depreciation		96,700	
			(310,210)
Other income	*6*		4,300
Loss			**(59,886)**

Notes

1 **Motor expenses**

	€
Expenses for managing director's car	8,020
Staff business kilometre expenses	4,090
Running company vans	4,640
Parking fines and speeding tickets	5,790
	22,540

The managing director has a car that the company leased from 1 October 2019. The original market value of the car was €30,000 and CO2 emissions are 140g/km.

Included in the running expenses are lease payments of €6,180.

2 **Subscriptions and donations**

	€
Chamber of Commerce	2,940
Sponsorship of local rugby team	2,520
Charitable donation to eligible charity	700
Political donation	2,890
	9,050

As part of sponsoring the local rugby team, the company advertising banner was displayed at all the local rugby matches.

3 **Professional fees**

	€
Audit and accountancy Fees	7,540
Legal fees for collection of debts	3,710
Legal fees in relation to dispute with customer	640
	11,890

4 **Irrecoverable debts**

	€	**€**
Opening specific allowance	(6,790)	

Closing specific allowance	7,540	
		750
Irrecoverable debts written off		7,130
Irrecoverable debts recovered		(3,000)
Opening general allowance	(3,570)	
Closing general allowance	3,790	
		220
		5,100

5	**Sundry**	**€**
	Interest paid to Revenue for late payment of VAT	3,320
	Staff Christmas lunch	1,190
	Client Christmas presents	1,180
		5,690

6	**Other income**	**€**
	Dividend received from Irish resident company	4,300

The original cost and tax written down value of the assets at 1 July 2020 are as follows:

	Purchased (y/e)	**Original**
Van	30 June 2016	45,000
Van	30 June 2018	60,400
Fixtures and fittings	30 June 2019	45,400
Computer and office equipment	30 June 2019	26,400

During the year ended 30 June 2021, the company acquired and disposed of the following assets:

(i) *Disposal*

The van acquired on 30 June 2016 was disposed of for proceeds of €21,100.

(ii) *Acquisitions*	**Cost (€)**
Van	32,500
Computer system	29,400

The company invested heavily in a new computer system during the year but, due to some technical difficulties, the system was not in operation by the end of the year.

Requirements:

(a) Calculate the tax adjusted profits for the company for the year ended 30 June 2021.

(b) Calculate the capital allowances for the year ended 30 June 2021.

(c) Calculate the corporation tax for the year ended 30 June 2021.

2171 Bolton Limited is a company that had the following results for the year ended 30 November 2021:

	Notes	**€**	**€**
Sales revenue		646,573	
Cost of sales		(352,680)	
Gross profit			293,893
Other income	*1*		139,660
			433,553
Expenses			
Directors' remuneration		66,100	
Wages and salaries		178,600	
Pension contributions	*2*	38,460	
Insurance		47,900	
Light and heat		22,900	
Telephone		11,000	
Motor expenses	*3*	14,010	
Professional fees	*4*	13,600	
Bank interest and charges		13,700	
Irrecoverable debts	*5*	36,400	
Sundry expenses	*6*	12,770	
Depreciation		34,700	
			(490,140)
Loss			**(56,587)**

Notes

1 **Other income**

	€
Rental income	55,300
Deposit interest (received without deduction of DIRT)	7,480
Gain on disposal of property (note 7)	76,880
	139,660

2 **Pension contributions**

	€
Paid in respect of employees	21,440
Paid in respect of directors	8,600
Closing accrual	8,420
	38,460

3 **Motor expenses**

Motor expenses include parking fees of €1,030, parking fines of €1,400, speeding tickets of €1,380 and car tax of €860 paid for the directors' cars.

All the other motor expenses relate to the running costs for the company's fleet of vans and the sales staff company cars.

4 **Professional fees**

	€
Audit and accounting fees	2,980
Solicitor's fees relating to the disposal of property (see note 7)	6,130
Sundry allowable legal fees	4,490
	13,600

5 **Irrecoverable debts**

One of the major customers of the company went into liquidation during the year owing the company €28,600. This amount has been provided for in full.

In addition, there was an increase in the general allowance of €7,800.

6	**Sundry expenses**	**€**
	Donation to eligible charity	1,250
	Interest on late payment of PAYE and VAT	4,420
	Client entertainment	3,930
	Subscription to political party	1,810
	Staff Christmas party	1,360
		12,770

7 **Capital gain**

Bolton owned a property which has been let for a number of years. However, due to an economic downturn during the current financial year, it was decided to sell the property.

The proceeds for the disposal were €297,541. The property was originally purchased for €152,500 in March 1994.

In January 2001, the company incurred costs of €64,050 replacing the roof on the property.

8 **Capital allowances**

Costs and closing tax written down values respectively at 30 November 2020 were as follows:

	€	**€**
Motor vehicles (see additional information)	74,000	31,500
Plant and machinery (purchased 2017)	238,200	119,100
Company vans (purchased 2019)	79,200	59,400
Computer equipment (purchased 2020)	40,700	35,612

Additional information in relation to the cars:

Car	**Date of purchase**	**Cost (€)**	**CO2 emissions (g/km)**
1	1 January 2020	25,700	135
2	1 July 2020	28,700	170
3	1 January 2020	19,600	200

Requirements:

(a) Calculate the Schedule D Case I income for the year ended 30 November 2021;

(b) Calculate the corporation tax for the year ended 30 November 2021.

2173 BBB Limited is a small Irish resident company. The statement of profit or loss for the 18 months ended 31 December 2021 is set out below:

	Notes	€	€
Gross profit			152,917
Other income			
Discount received			2,900
Deposit interest (gross - without deduction of DIRT)	*1*		4,800
Profit on sale of land	*2*		27,600
			188,217
Expenses			
Wages	*3*	42,000	
Telephone expenses	*4*	15,000	
Motor expenses		11,400	
Leasing expense - car	*5*	4,660	
Depreciation		40,800	
Repairs	*6*	21,500	
Irrecoverable debts	*7*	5,260	
Legal and professional fees	*8*	6,780	
Entertainment	*9*	9,190	
Sundry expenses	*10*	6,430	
Other allowable expenses		18,690	
			(181,710)
Profit			**6,507**

Notes

1 Deposit interest of €4,800 was earned in the six month period to 31 December 2021.

2 The company sold land on 30 June 2021 for €71,600. Auctioneers fees payable on the sale were €4,790. It had bought the land in February 2010 for €44,000.

3 Wages include €12,600 in respect of directors' salaries.

4 Telephone includes personal telephone bills paid for the managing director of €900.

5 The leased car is used by the managing director. The original cost of the car was €34,800 and it is a Category E car.

6 Unexpected repair expenditure of €6,670 was incurred on the heating system during the year.

In light of the engineer's report, which highlighted the poor state of the main pump, the directors felt it was prudent to make a general provision of €6,670 for future repairs that might arise.

As this amount is not material in the financial statements, the auditors have agreed that it can be included

7 Irrecoverable debts include a new specific allowance of €1,110 and an increase in the general allowance of €1,110.

8 Included in legal fees are the following expenses:

	€
Solicitor's fee incurred in drawing up contracts of employment	2,020
Solicitor's fee relating to disposal of land	3,980

9 Entertainment includes €3,680 client entertaining and €1,840 for the staff Christmas party.

10 Sundry expenses include interest on late payment of VAT of €1,160, clamping fines of €1,740.

Details of assets are as follows (TWDVs are at 1 July 2020):

Asset	**Date of purchase**	**Cost (€)**	**TWDV (€)**

Plant and machinery	Jan 2018	20,300	12,687
Motor vehicle (Category A)	Jun 2018	26,600	15,000
Fixture and fittings	Jun 2020	29,000	25,375

Requirements:

(a) Prepare the corporation tax computations for the period ended 31 December 2021;

(b) Identify the relevant corporation tax pay and file dates for the company.

2174 Giblin Limited is a company that has the following shareholders:

	Number of ordinary shares
Mr Farmer	410
Mrs Farmer	540
Mr Trader	1,071
Mr Flynn	714
Mr Talbot	570
Mr Griffins	650
Mr Bush	1,190
Mr Farmer junior	370
Mr Clinton	1,297
The Farmer family trust	822

The remainder of the shares are held by small shareholders with less than 120 shares each. The total share capital is 11,900 ordinary shares.

You may assume that all Farmers mentioned are related. None of the individuals listed above are directors of the company.

Requirement:

Explain whether Giblin Limited is a close company.

2176 Pershing Limited is a close company. During the year, it paid the following expenses on behalf of the following individuals:

(i) Medical insurance premiums paid on behalf of Michael Torville, who is a director of the company and owns 10% of the share capital of the company;

(ii) Holiday expenses paid on behalf of Sonny Corleone, who is not a director of the company and owns 8% of the share capital;

(iii) Medical expenses on behalf of Fiona Shine, who is not an employee of the company but whose spouse owns 5% of the share capital.

Requirements:

(a) Explain the corporation tax treatment for each of the payments above.

(b) Explain the income tax implications for the individuals benefiting from the expenses.

2177 Pershing Limited has received loans from the following shareholders:

Director	**Shareholding**	**Loan advanced (€)**
Mr Henry	15%	3,800
Mr D'Arcy	13%	3,800
Mr McDonald	2%	3,200
Mr Smithers	10%	6,300

The company agreed to pay interest of 9% to each of the directors on the amounts advanced and all of the loans were outstanding for the full year.

The nominal value of the issued share capital of the company is €3,900.

Requirements:

(a) Calculate the amount of interest allowable in the corporation tax computation;

(b) Outline how the balance of the interest payment will be treated.

Show a breakdown of the figures for each shareholder.

2178 Tiger Limited is a company that presented the following results for the years ended 31 December 2020 and 2021:

	2020	2021
	€	**€**
Trade 1	28,200	(77,800)
Trade 2	15,800	19,200
Case V income	7,600	5,500
Case III interest income	6,500	6,600

Requirement:

Calculate the corporation tax for the years ended 31 December 2020 and 2021 making maximum use of the losses available.

2180 Diamond Limited is a company that presented the following results for the nine months ended 31 December 2019 and the years ended 31 December 2020 and 2021:

	2019	2020	2021
	€	€	€
Trade 1	40,900	(135,400)	27,600
Trade 2	44,300	36,600	45,000
Case IV (gross)	1,400	2,300	2,200
Case V	6,100	(3,300)	4,600

DIRT was deducted from the deposit interest. For the purpose of this question, assume that a 33% rate of DIRT applies in all years.

Requirement:

Calculate the corporation tax for all accounting periods making maximum use of the losses available.

Accounting Technicians Ireland

2182 Holloway Limited is a company that presented the following results for the years ended 31 October 2020 and 2021:

	2020	2021
	€	€
Case I	19,370	18,020
Case III	4,630	3,700
Case V	2,230	2,810
Chargeable gain (adjusted)	4,450	

The company paid non-trade charges of €13,000 during the year ended 31 October 2020 and €7,040 during the year ended 31 October 2021.

Requirement:

Calculate the corporation tax for both accounting periods.

2183 Stapleton Limited presented the following results for the years ended 30 April 2020 and 2021:

	2020	2021
	€	€
Case I	33,300	25,900
Case V	1,200	8,400

The company paid trade charges of €34,300 in both years.

Requirement:
Calculate the corporation tax for both accounting periods.

2172 Coco Limited is a company engaged in a manufacturing trade since 1 September 2001. It prepares financial statements to 31 December. Results for the year ended 31 December 2021 were as follows:

	Notes	**€**
Gross profit		412,480
Administration expenses	*1*	(382,420)
Depreciation		(65,500)
Motor expenses	*2*	(29,420)
Interest and charges	*3*	(9,080)
Dividend income from Irish resident company		7,100
Interest income from bank deposit account	*4*	6,300
Profit on disposal of retail unit	*5*	179,800
Profit		**119,260**

Notes

1 **Administration expenses**

	€
Wages and salaries	294,500
Entertainment of customers	9,000
Staff Christmas party and lunches	8,600
Profit on disposal of noncurrent asset (other than the retail unit)	(5,180)
Legal costs on disposal of retail unit	5,700
Other legal expenses	16,700
General repairs	18,100
General provision for repairs	14,200
Installation of new alarm system	20,800
	382,420

2 **Motor expenses**

	€
Staff business kilometre expenses	9,500
Running expenses for the van	9,000
Running costs of motor vehicles	9,600
Parking fines and speeding tickets	1,320
	29,420

3 **Interest and charges**

	€
Bank interest – current account	2,380
Lease interest	2,140
Interest on working capital loan	4,560
	9,080
Finance Lease:	
Opening lease payable (capital)	30,200
Closing lease payable (capital)	17,300

4 **Interest income from bank deposit account**

This is the gross amount. DIRT at 33% was deducted from this amount.

5 **Profit on disposal of retail unit**

The capital gain arose from the sale of a retail unit for €442,900. It was acquired on 1 September 2001 for €212,500. Costs of acquisition amounted to €6,100.

It was extended in 2002 at a cost of €129,700.

The tax written down values (TWDV) of assets at 1 January 2021 were as follows:

Asset	**Cost (€)**	**Date**	**TWDV (€)**
Van	24,000	Jun 2018	15,000
Fixtures and fittings	56,800	Apr 2018	35,500
General plant	67,800	Sep 2019	50,850

Acquisition:

Motor vehicle, cost €27,100, CO_2 emissions 170g/km.

Disposal:

A machine included in general plant above, that originally cost €8,900, was sold for €7,300.

Requirements:

(a) Calculate the Schedule D Case I income for the year ended 31 December 2021.

(b) Calculate the corporation tax for the year ended 31 December 2021.

2175 Exocet Limited is a close company. During the year ended 31 December 2021, it advanced loans to the shareholders as follows:

Shareholder	Date	Amount (€)
Mr Bealin	1 Apr	12,800
Mr Pinster	15 Jun	16,200
Mr McCluskey	12 Nov	24,400

Mr McCluskey repaid €12,500 to the company on 1 December 2021.

The company is owned equally by the three shareholders and all are directors of the company.

Requirement:

Calculate the tax due by the company in respect of shareholders' loans at the end of 2021.

2179 Ferndale Limited is a company that presented the following results for the year ended 31 December 2020 and the period ended 30 September 2021:

	2020	2021
	€	€
Case I income	13,800	(32,200)
Case V income	4,900	3,700
Case III interest income	1,000	2,400

Requirement:

Calculate the corporation tax for both accounting periods making maximum use of the losses available.

2181 Simba Limited is a company that presented the following results for the years ended 31 December 2019, 2020 and 2021:

	2019	2020	2021
	€	€	€
Case I	59,600	(130,900)	56,000
Case III	2,100	2,200	1,400
Case V	4,200	3,600	3,400
Chargeable gain (adjusted)	2,400	1,600	

Requirement:

Calculate the corporation tax for each accounting period making maximum use of the losses available.

2256 Heart Limited is an Irish resident company. The share capital of the company comprises 10,000 ordinary shares of €1 each owned as follows:

Ricardo Kelly	4,500
Dave Kelly	3,700
Jeanie Kelly	1,800
	10,000

Ricardo and Dave are directors of the company and work in the company full time. Jeanie is a full time mother, is not a director and is not employed by the company.

The year ended 31 May 2021 shows the following results:

	Notes	**€**	**€**
Sales revenue			349,475
Cost of sales			(176,470)
Gross profit			173,005
Other income	(i)		43,330
			216,335
Expenses:			
Depreciation		3,360	
Motor expenses	(ii)	15,290	
Directors' remuneration		90,600	
Rent and rates		38,800	
Legal fees	(iii)	3,380	
Insurance		1,630	
Sundries	(iv)	4,170	
Telephone		1,060	
			(158,290)
Profit for the year			58,045

Notes

(i) *Other income*

	€
Rental income	25,800
Dividend from Irish company	5,230
Dividend from a Spanish investment company	6,600
Deposit income received gross	5,700
	43,330

(ii) *Motor expenses*

	Van	**Car**
	€	**€**
Original cost	31,300	25,500
Running costs	3,840	2,330
Lease rental	4,350	4,770
	g/km	**g/km**
Emissions	156	159

Ricardo uses the car for both business (90%) and private use (10%).

(iii) *Legal fees* **€**

Pursuing breach of contract by a supplier	1,710
Fine for illegal dumping	880
Drafting conditions of sale of supplier contract	790
	3,380

(iv) *Sundries*

To celebrate ten years in business, the company paid for the three shareholders Ricardo, Dave and Jeanie to go on a cruise for a week.

The cost to the company was €1,390 per person and was paid by the company on 2 April 2021.

(v) On 1 March 2021, the company made an interest-free loan to Ricardo of €24,400 to enable him to discharge a personal debt.

(vi) The company had a trade loss of €14,590 carried forward from the previous accounting period.

(vii) The capital allowances for plant and machinery for Heart for the accounting period the year ended 31 May 2021 are €8,980.

Requirements:

(a) Compute Heart Limited's tax liabilities for the year ended 31 May 2021.

Note: You are not required to calculate any close company surcharge.

(b) When should Heart Limited file its corporation tax return for this accounting period?

(c) When should Heart Limited pay its corporation tax for this accounting period?

Note: You may assume that Heart is a small company.

(d) What are the tax consequences of late payment of corporation tax?

2263

(a) Missy Limited is an Irish company with four retail outlets. The company's results for the year ended 31 July 2021 are summarised as follows:

	Notes	€
Case I (as adjusted but before capital allowances)	(i)	160,200
Income from Irish properties	(ii)	28,300
Profit on the sale of a retail unit	(iii)	105,000

Notes:

(i) Plant and machinery

On 1 August 2020, the tax written down value of plant and machinery was as follows:

	€
Plant and machinery	75,300

The plant and machinery were all purchased new for €120,480 in June 2018.

The only transaction by the company in the current accounting period was the disposal of a van for €24,000 in May 2021.

The van had emissions of 162 g/km and was purchased for €44,600 in June 2018. This cost is included in the original cost of €120,480.

The year end of the company has always been July.

(ii) Since June 2018, Missy Limited rented out an office building surplus to requirements.

The annual yearly rental is €28,300.

(iii) The company disposed of a retail unit on the 10 June 2021 for €163,000. This unit had been purchased by the company in June 2001 for €48,900.

Legal fees on acquisition and disposal were €2,500 and €6,600 respectively.

At 1 August 2020, the company had a capital loss carried forward of €4,100.

Requirement:

Calculate the corporation tax payable by Missy Limited for the year ended 31 July 2021.

(b) Lowdown Limited is an Irish resident close company. The company has 238,000 €1 ordinary shares in issue.

The shareholders of the company are:

	%
Orla Cooper	30
Siobhan Byrne (Orla Cooper's sister)	20
David Cooper (Orla Cooper's husband)	10
Brian Jones (Orla Cooper's brother)	20
Max Ryan (unrelated)	10
Ben Cooper (Orla Cooper's son)	10
	100

With the exception of Ben Cooper, all the participators are directors of the company. Ben Cooper works for the company on a part-time basis.

During the year ended 31 December 2021, the company had the following transactions:

(i) The company loaned Ben Cooper an interest-free loan of €20,000 in November 2021 to allow him to pursue his studies.

(ii) The company paid €4,290 for a holiday for Brian Jones.

(iii) During 2019, the following directors loaned money to the company:

Orla Cooper loaned the company €144,000 at an 10% interest rate.

Siobhan Byrne loaned the company €125,000 at a 15% interest rate.

No repayments had been made to either of Orla Cooper and Siobhan Byrne by 31 December 2021. The interest was paid to the directors on 31 December 2021.

Requirement:

You are required to comment on the taxation implications for the company of the above transactions. Provide calculations where necessary.

Part F

2184 XYZ manufacture and supply fitted furniture. Sales for May/June 2021 amounted to €35,728 net of VAT, analysed as follows:

	€
Net sales of goods at standard rate (23%)	17,491
Net sales of services at reduced rate (13.5%)	18,237
	35,728

The company also sold a van for €6,583 and a car for €8,300. No input credit was available on purchase of the car. An input credit was claimed at time of purchase of the van.

The outgoings for May/June 2021 were:	€
Purchase of a van	10,400
Purchase of a motor car (note 1)	19,200
Motor expenses (note 2)	5,570
Computer equipment (note 4)	12,070
Wages	33,000
Telephone	4,500
Electricity (note 3)	3,220
Other allowable business expenses	4,690

Notes

1 The company purchased a new car. The emissions are 155g/km and it is used 70% of the time for business purposes.

2 Motor expenses include the following:

	€
General repairs	1,900
Petrol	1,780
Diesel	1,890
	5,570

The petrol and diesel expenses include VAT at 23%; the general repairs include VAT at 13.5%.

3 All of the other purchases include VAT at 23% except for the electricity which include VAT at 13.5%.

4 The computer equipment was purchased on 10 May 2021 for use in the business. However, it was found to be unsuitable and was sold on 20 June 2021 for €2,631.

Requirement:
Calculate the VAT payable by XYZ for May/June 2021.

2185 Fancorio provides you with the following details in relation to March/April 2021:

	€
Sales invoiced	471,790
Cash sales (from sales book - all lodged)	169,710
Lodgements	339,415

You are given the following details in relation to the above figures:

(i) The lodgements include the sale of zero-rated goods totalling €56,570. All of the remaining sales are at the standard rate;

(ii) The lodgements also include a VAT refund from the Revenue Commissioners in respect of an earlier period for €32,330;

(iii) There were cash payments of €18,860 made out of cash received before the lodgements were made.

Details from the purchases book for the period show the following:

	€
Purchases at standard rate	217,400
Purchases at reduced rate (13.5%)	80,440
Purchases at zero rate	45,660

The purchases figures above include the relevant VAT.

You are given the following details in relation to the purchases figures:

(i) The zero-rated purchases include a purchase from a French supplier for €17,000;

(ii) The standard rate purchases include inventory for the business. Inventory, which cost €15,700 (excluding VAT), was donated to a local charity.

Not included above was the sale of a van to a private individual. The proceeds received amounted to €8,830. The company claimed VAT on the van when it was purchased.

Requirement:

Assuming that Fancorio accounts for VAT on the cash receipts basis, calculate the VAT due for March/April 2021.

2187 Kevin Jones is in business and the following are the details of transactions for May/June 2021:

	€
Invoices issued to customers	85,816
Cash sales	33,468

Kevin Jones lodged a total of €137,510 into the bank account during the two months. This included proceeds from the sale of the spouse's car of €16,900 and a loan from the credit union to get some work done on the house of €23,700.

There was a further amount transferred directly into the account by customers totalling €11,000. This included payment from a customer who transferred the amount he owed twice. Kevin Jones agreed to return the second payment of €1,820.

Kevin Jones took drawings out of the business of €1,590 per month. This was all taken in cash before the lodgements were made.

The purchases for the period were €90,728, inclusive of standard rate VAT. This included the following:

(i) Total petrol cost was €1,160. 70% of the usage of the car is personal and this represents all of the petrol costs for the car;

(ii) Diesel costs amounted to €770. This relates to the business van. Kevin Jones uses the van 40% for personal usage.

The purchases, inclusive of VAT at reduced rate (13.5%), were €16,150. This included payment to a painter and plumber for work done on a holiday home amounting to €3,230.

Kevin Jones also obtained some legal advice from a French solicitor in relation to a dispute that arose with a French supplier.

An invoice for €610 was received but there was no VAT component on it. This is included in the standard rate purchases above.

Requirement:
Assuming that Kevin Jones accounts for VAT on a cash receipts basis, calculate the VAT liability for May/June 2021.

2188 Michael has approached you to ask your advice in relation to the VAT implications of the business he is setting up. He plans to sell goods through an internet website.

Having done some market research, he feels he will have a good market in both Ireland and Spain. All of his customers will be unregistered individuals.

At the moment, Michael lives in Barcelona but is contemplating returning to Ireland. He asks you to explain the Irish VAT implications of setting up business either in Ireland or in Spain.

Requirements:

(a) If Michael is based in Ireland, when does he have to register for VAT in Ireland?

(b) If Michael is based in Spain, when will he have to register for VAT in Ireland?

(c) If Michael is based in Ireland and sells goods to customers in Spain, when will he have to pay Spanish VAT?

2190 Kevin has provided the following details for his November/December 2021 VAT figures. He would like your advice on how to deal with the issues identified below.

Purchases

(i) Purchases for resale at standard rate were €109,100 (VAT inclusive). This includes goods to the value of €5,770 that Kevin took out of the business for personal use;

(ii) Purchases not for resale at standard rate were €27,520 (VAT inclusive);

(iii) Purchases not for resale at reduced rate (13.5%) were €18,490;

(iv) Exempt purchases not for resale were €21,200.

The following issues have been identified in relation to purchases not for resale:

(a) The standard rate purchases not for resale included an invoice that was entered as €4,580 plus VAT instead of €4,220 plus VAT;

(b) The cost of petrol and diesel totalling €2,149 is included in the standard rate purchases not for resale figure. The petrol accounts for €1,170 (plus VAT) of this;

(c) The exempt purchases include goods bought from the EU for €8,500 and there was no VAT charged on them.

Sales

Kevin commenced his business on 1 January 2021. He informs you that he has accounted for VAT on his sales on a cash receipts basis.

However, having checked his VAT registration, you notice that he has not applied for this basis. An adjustment is therefore required to rectify this in the November/December VAT return.

The total trade receivables outstanding at the end of the year are €9,500. Cash received in November/December amounted to €145,352.

All of the sales are at the standard rate.

Requirement:

Calculate the VAT liability for November/December 2021 including the adjustment required for the unauthorised use of the cash receipts basis from 1 January 2021.

2191 You are a Revenue auditor. You have been given the annual VAT return of Vicky Violina's company together with the annual financial statements.

Your supervisor is concerned that the returns are not correct and has asked you to prepare an estimated return based on the accounts.

VAT return year ended 31 December 2021	€
VAT on sales	229,656
VAT on purchases	113,244
Net payable	116,412
Total goods to other EU countries	nil
Total goods from other EU countries	227,656

The following are details of Vicky Violina's financial statements for the years ended 31 December 2021 and comparative 2020:

Statement of profit or loss

	Notes	**2021**	**2020**
		€	**€**
Sales revenue	*1*	804,900	706,000
Cost of sales	*2*	(450,800)	(480,100)
Gross profit		354,100	225,900
Other expenses	*3*	(178,690)	(168,580)
		175,410	57,320
Dividend received		7,110	5,350
Profit before tax		182,520	62,670
Taxation		(25,560)	(6,900)
Profit after tax		156,960	55,770
Dividend expense		(14,200)	(4,000)
Retained profit		**142,760**	**51,770**

Statement of financial position

	Notes	**2021**	**2020**
		€	**€**
Noncurrent assets	*4*	159,300	143,000
Current assets			
Inventories		76,640	72,100
Trade receivables		169,030	127,080
Bank and cash		46,600	29,200
		292,270	228,380
Current liabilities			
Trade payables		59,100	67,400
Other payables		17,750	72,020
		76,850	139,420
Net assets		**374,720**	**231,960**
Equity			
Share capital		36,700	36,700
Retained earnings		338,020	195,260
		374,720	**231,960**

Notes

1 The company is authorised to account for VAT on the cash receipts basis.

2 50% of purchases are from EU suppliers. The remainder are supplied by Irish suppliers.

3 Expenses include the following: **2021** **2020**

		€	€
	Wages	97,010	89,000
	Rent	30,690	34,100
	Light and heat	4,260	4,430
	Miscellaneous expenses	8,830	8,830
	Depreciation	37,900	32,220
		178,690	168,580
4	Tangible noncurrent assets	**Plant**	**Vehicles**
	Cost	**€**	**€**
	At 1 January 2021	197,400	21,600
	Additions	25,700	28,500
	At 31 December 2021	223,100	50,100
	Depreciation		
	At 1 January 2021	63,200	12,800
	Expense for the year	26,800	11,100
	At 31 December 2021	90,000	23,900
	Carrying amount		
	At 31 December 2021	133,100	26,200

The vehicles comprise of two cars used by company salesmen. They do not qualify for any VAT input credit.

5 The VAT rate applicable to supplies and acquisitions of goods and services is 23% where appropriate except for (a) light and heat where the 13.5% rate applies, and (b) rent where no VAT applied.

6 It can be assumed that all EU customers and suppliers are VAT-registered.

Requirements:

(a) Calculate the VAT liability of Vicky Violina for 2021.

(b) Compare your figures with the return made by the company. Outline your conclusions to your superior.

Part A

2135 Solution

(a) *Tax residence*

An individual is resident in Ireland for a tax year if he is present in Ireland for

183 days or more in a tax year; or

280 days or more in two consecutive tax years (known as the 280 day rule).

A person is regarded as being present in Ireland if he is present at any time during a day.

In connection with the 280 day rule, a person will not be regarded as resident for a tax year in which he has spent less than 30 days in total in the State.

(b) *Ordinarily resident*

A person is ordinarily resident in Ireland for a tax year if he has been resident for all of the three previous tax years.

A person will cease to be ordinarily resident only after he is non-resident for three consecutive tax years.

Domicile

Domicile is a legal concept and is not defined in tax legislation. A person cannot be without domicile.

A domicile of origin is where the person was born. A child will acquire the domicile of his father, or if the child's parents are not married, the child's domicile will be the same as the mother.

A person may acquire a new domicile of choice. The onus is on the person to prove that he has abandoned his domicile of origin and a new domicile has been acquired.

The person must show an intention to reside in the new country of domicile indefinitely.

Taxation implications:

(i) Being Irish resident and Irish domiciled

The individual will be taxed on worldwide income.

(ii) Being Irish resident and non Irish domiciled

The individual will be taxed on the remittance basis - all Irish sources of income, foreign income to the extent that it is remitted/brought into Ireland and employment income earned where the duties of employment are carried out in Ireland.

(iii) Being non resident but ordinarily resident in Ireland

The individual will be taxed on worldwide income, excluding:

(a) income earned from duties of employment and self-employment carried on outside the State; and

(b) foreign investment income if it is less than €3,810.

2137 Solution

In order to be considered resident in Ireland for income tax purposes, a person must be in Ireland for:

183 days or more in a tax year, or

280 days or more in two consecutive tax years (known as the 280 day rule).

A person is regarded as being present in Ireland if he is present at any time during a day.

In connection with the 280 day rule, a person will not be regarded as resident for a tax year in which he has spent less than 30 days in total in the State.

(a) The table below sets out the number of days that Greg has spent in Ireland since 2019.

Tax year	**Dates**	**Days**	**Resident**	**Ordinarily resident**
2019		32	NO	NO
2020	19 Jul 2020 to 31 Dec 2020	166	NO	NO
2021	1 Jan 2021 to 31 Dec 2021	325	YES	NO

As Greg is a US citizen, it is assumed that he is also domiciled in the US and does not intend to change this.

(b) The income tax implications of Greg's time in Ireland are as follows:

2019

Greg spent 32 days in Ireland in 2019. He was therefore not resident in Ireland in 2019.

He is taxed on Irish source income only, for example, income from an Irish rental property, an Irish bank account or a trade/profession/employment that is exercised in Ireland.

2020

Greg moved to Ireland on 19 July 2020. He therefore spent 166 days in Ireland in 2020. This is less than 183 days in one tax year.

Greg spent 32 days in Ireland in 2019 so therefore spent 198 days in Ireland in 2019 and 2020 combined.

Greg does not meet the 280 day rule. He is therefore not resident in Ireland for 2020.

He is taxed on Irish source income only for 2020.

2021

Greg spent 325 days in Ireland in 2021. He is therefore resident in Ireland in 2021.

As he is not ordinary resident or domiciled in Ireland, he is subject to income tax in Ireland on the remittance basis.

The remittance basis of assessment means that he is subject to income tax on the following:

(i) Irish source income;

(ii) Foreign income remitted into Ireland;

(iii) Employment income earned where the duties of employment are carried out in Ireland.

As the duties of Greg's employment are being carried out in Ireland, the salary of €312,000 is subject to income tax in Ireland in 2021.

As he has not remitted the Spanish dividend income or US rental income to Ireland (they have been lodged to his Spanish and US bank accounts respectively), he is not subject to Irish income tax on this income.

2138 Solution

(a) The system applies to subcontractors working in the construction industry, forestry operations and meat processing industries.

It places an obligation on the ‘principal contractor’ to deduct withholding tax of 0%, 20% or 35% from payments to subcontractors.

The withholding tax deducted is paid to the Revenue Commissioners by the principal contractor.

The subcontractor is then entitled to offset the withholding tax against tax liabilities owed to the Revenue Commissioners.

(b) Relevant Contracts Tax applies to relevant operations, which includes:

1. Construction, alteration, repairs, extension, demolition or dismantling of buildings or structures;
2. Installation in a building of a system of heating, lighting, air conditioning, sound proofing, ventilation, power supply, drainage, sanitation, water supply and burglar or fire protection;
3. Development of land;
4. Construction, alteration, repairs, extension or demolition of any works forming part of the land, including walls, road works, power lines, telecommunications systems, water mains;
5. External or internal cleaning of a building so far as carried out as part of the construction, alteration, repairs, extension of the building;
6. Forestry operations and meat processing operations.

(c) The principal contractor is required to notify the Revenue Commissioners through ROS when he enters into a relevant contract with a subcontractor (referred to as contract notification).

The principal contractor should establish the identity of the subcontractor engaged on a relevant contract.

The Revenue Commissioners will acknowledge the contract notification and advise the principal contractor of the rate of RCT applicable to the subcontractor.

In general, the rate advised will depend on the subcontractor’s tax compliance record. A subcontractor, who has a good compliance record and qualified for 0% rate prior to the introduction of the online system, will continue to receive payments with 0% RCT deducted.

2139 Solution

Professional Services Withholding Tax (PSWT) is required to be deducted by accountable persons making a payment to an individual or company for professional services.

Accountable persons are generally public / state bodies, including:

All Government departments;
HSE;
RTE;
ESB;
An Bord Bia;
Semi state bodies;
State sponsored bodies.
Professional services include:

Medical, dental, pharmaceutical, optical, veterinary;
Architectural, engineering and surveying;
Accountancy, auditing, financial services, marketing, advertising and consultancy;
Solicitors, barristers;
Training services on behalf of SOLAS.
Examples:

A solicitor providing legal services to a Government body;
Doctors receiving payments from the HSE for providing services to patients under the medical card scheme;

An engineer providing services to the ESB;
An advertising company receiving payment for services provided to RTE.
Maura should receive a certificate (Form F45) confirming the gross payment due to her business and the PSWT deducted from the payment (which would be based on the VAT-exclusive amount of the payment).

The gross payment should be included in Maura's income tax computation.

Maura is also entitled to include a refundable tax credit for the PSWT deducted from the payment. Maura will therefore receive a refundable tax credit for the PSWT in her income tax computation.

2141 Solution

(a) A taxpayer has three options available to calculate the preliminary income tax payment that is required to be paid for a tax year:

1. 90% of the current year's final income tax liability;
2. 100% of the preceding year's final income tax liability;
3. 105% of the pre-preceding year's income tax liability.

   The105% option is only available if the direct debit option is used and it cannot be used if the tax liability for the pre-preceding year was nil.

(b) The Revenue Audit is used by the Revenue Commissioners to examine and verify the amounts/returns being submitted by taxpayers.

It allows the Revenue Commissioners to carry out a detailed examination of the items included on a tax return to ensure that the income and claims for allowances and credits are correct.

The system is required because the self-assessment system is based on the taxpayer's calculations and declarations.

2142 Solution

Conduct of revenue audit

A field audit is an examination of the taxpayer's books and records together with any relevant documentation relating to the tax return including any allowances or credits claimed.

The Revenue auditor will commence the audit with an opening meeting. The auditor will discuss the business.

The opening meeting is also an opportunity for the taxpayer to make a qualifying voluntary disclosure. A qualifying voluntary disclosure provides the auditor with details of any errors identified by the taxpayer prior to the audit.

In order to be a qualifying disclosure, it must include details of all amounts involved and the tax due, together with interest and penalties arising as a result of the late payment of tax.

Disclosing errors/issues to the Revenue auditor at the opening meeting by way of a qualifying voluntary disclosure will help to reduce penalties arising on incorrect tax submissions and also avoid possible public disclosure.

It is important that all information is disclosed to the Revenue auditor in order to mitigate penalties.

Following the opening meeting, the Revenue auditor will then carry out the audit. The Revenue auditor will examine the books and records of the business and carry out a detailed analysis.

The Revenue auditor will raise queries during the audit and seek clarification on queries raised.

A closing meeting will take place. At this meeting, the Revenue auditor will advise the taxpayer of any issues identified during the conduct of the audit and advise of the tax, interest and penalties due, if any.

Taxpayer's charter of rights

The taxpayer has a number of rights that they are entitled to when dealing with the Revenue Commissioners. These include the following:

Courtesy and consideration;
Presumption of honesty;
Information;
Impartiality and integrity;
Privacy and confidentiality;
Review procedures;
Compliance costs;
Consistent administration.

Part B

2145 Solution

Jack	€
Property 1 (w2)	3,887
Property 2 (w2)	(430)
Commercial property (w4)	13,126
Assessable Schedule D Case V income	**16,583**

Workings

w1

Mortgage interest - residential property 2

In order to claim relief for interest paid on an Irish rental property, each tenancy must be registered with the Residential Tenancies Board (RTB).

As Jack has not registered the new tenancy with the RTB, he can only claim interest relief for interest paid on the tenants occupying the property from January to May 2021.

	€	€
€7,250 x 5/12		3,021

w2

Residential Case V income	Property 1	Property 2
	€	€
Rental income	16,000	9,201
Expenses:		
Mortgage interest	(9,000)	
Mortgage interest (w1)		(3,021)
Insurance	(1,170)	(1,648)
Cleaning	(360)	(1,942)
Repairs	(971)	(1,362)
Light and heat	(612)	(1,658)
Profit or loss	3,887	(430)

w3

Commercial property mortgage interest	€
Mortgage interest paid	6,150
Disallowed pre-letting expense (from May to August)	(2,306)
	3,844

w4

Commercial Case V income	€	€
Rental income (€1,500 x 5)	7,500	
Premium (€48,000 x (51 - 40)/50)	10,560	
		18,060
Allowable expenses:		
Mortgage interest (w3)	(3,844)	
Estate agent fees	(540)	
Legal fees	(550)	
		(4,934)
		13,126

2260 Solution

(a) *Stan Hughes*

Income tax computation for 2021

	€	€
Schedule D Case IV deposit interest (€530 / 67%)		791
Schedule E employment income (w1)		60,350
Schedule F dividend income (€660 / 75%)		880
		62,021
Charges:		
Covenant		(9,900)
		52,121
Taxation:		
€35,300 x 20%	7,060	
€791 x 33%	261	
€16,030 x 40%	6,412	
		13,733
Non-refundable tax credits:		
Personal tax credit	1,650	
PAYE tax credit	1,650	
DIRT deducted (€791 x 33%)	261	
Tuition fees ((€2,810 - €1,500) x 20%)	262	
		(3,823)
		9,910
Tax on covenant (€9,900 x 20%)		1,980
Refundable tax credits:		
PAYE paid	10,620	
Dividend withholding tax (€880 x 25%)	220	
		(10,840)
Tax liability outstanding		1,050

Tutorial notes:

The covenant is allowable in full because Bernie is a permanently incapacitated adult.

Relief for private health insurance is given at source. It is not required to be included in the income tax computation.

As Stan Hughes was not away from his employer's place of business for at least 70% of the time, he is not entitled to the 20% deduction in the BIK.

Workings

w1

Schedule E employment income - Stan Hughes	**€**
Salary	40,200

Commission (€11,850 - €2,140)	9,710
BIK - company car (€34,800 x 30%)	10,440
	60,350

Tutorial note:

The €2,140 commission earned in 2021 but paid only in 2022 is included in Stan's income tax computation for 2022 (receipts basis of assessment).

(b) *Bernie*

Income tax computation for 2021

	€	€
Schedule D Case IV covenant income		9,900
Schedule E employment income		7,500
		17,400
Taxation:		
€17,400 x 20%		3,480
Non-refundable tax credits:		
Personal tax credit	1,650	
PAYE tax credit (€7,500 x 20%)	1,500	
Medical expenses (€2,520 x 20%)	504	
		(3,654)
		nil
Refundable tax credits:		
Tax paid on covenant (€9,900 x 20%)		(1,980)
Tax refund receivable		1,980

2146 Solution

Marty and Zelda
Income tax computation for 2021

	Marty	Zelda	Joint
	€	€	€
Schedule D Case IV deposit interest (w1)	670	670	1,340
Schedule D Case V rental income (w3)	3,970	3,970	7,940
Schedule E salary	138,000		138,000
Schedule E benefit in kind (company car) (w4)	12,480		12,480
Schedule E benefit in kind (leisure centre)	1,020		1,020
	156,140	4,640	160,780
Taxation:			
€44,300 x 20%		8,860	
€1,340 x 33%		442	
€115,140 x 40%		46,056	
			55,358
Non-refundable tax credits:			
Married persons tax credit		3,300	
PAYE employee tax credit		1,650	
Medical expenses (w6)		262	
DIRT deducted (€1,340 x 33%)		442	
Home carer tax credit (w5)		1,600	
			(7,254)
			48,104
USC:			
Marty			
€12,012 x 0.5%		60	
€8,675 x 2%		174	
€49,357 x 4.5%		2,221	
€85,426 x 8% (exclude deposit interest from which DIRT deducted)		6,834	
			9,289
Zelda			
Income is below the €13,000 total income threshold for USC.			
PRSI:			
Marty			
€156,140 x 4%			6,246
Zelda			
Income below the €5,000 minimum income threshold for PRSI.			
			63,639
Refundable tax credits:			
PAYE paid in 2021			(68,800)
Amount repayable to Marty and Zelda			**5,161**

Workings

w1

Deposit interest	€	€
Net amount	898	
€898 / 67% (gross up)		1,340

Marty	670
Zelda	670

w2

Mortgage interest	**P1**	**P2**	**French**
	€	**€**	**€**
Interest paid	6,770	7,150	6,610
Disallow pre-letting mortgage interest (€7,150 x 4/10)		(2,860)	
	6,770	4,290	6,610

w3

Rental income	**P1 and P2**	**P1**	**P2**	**French**
	€	**€**	**€**	**€**
Rental income		15,800	6,090	10,400
Expenses:				
Mortgage interest (w2)		(6,770)	(4,290)	(6,610)
Repairs		(1,260)		(2,500)
Cleaning		(570)		(750)
Letting fees			(1,060)	(1,040)
	7,940	7,200	740	(500)
Marty	3,970			
Zelda	3,970			

Tutorial notes:

Repairs on property 2 are disallowed pre-letting expenses.

Cleaning cost for property 2 are disallowed pre-letting expenses.

In order for the property 2 pre-letting expenses to be allowable, the property must be vacant for at least 12 months prior to the date of the first letting.

The loss arising on the French property is a Case III loss. This loss is only available against Case III income and cannot be used against Case V income.

w4

Benefit in kind (company car)		**€**
Original market value		41,600
Business travel (kms)	5,730	
BIK percentage	30%	
		12,480

Tutorial note:

No BIK for company pension contributions.

w5

	Home carer tax credit or increased standard rate tax band	**€**
(i)	Home carer tax credit (maximum)	1,600
(ii)	Increased standard rate tax band (€3,970 x 20%) (exclude deposit interest)	794

In this case, option (i) is the more valuable option.

Tutorial note:

They must choose between the home carer tax credit and the increased standard rate tax band. They cannot choose both.

w6

Medical expenses	**€**
Expenses incurred	2,690
Reimbursed	(1,380)
Qualifying for relief	1,310
Tax relief at 20%	262

2148 Solution

Joseph Smith
Income tax computation for 2021

	€	€
Schedule E salary		58,173
Round sum expenses (€380 x 8 months)		3,040
Schedule F Irish dividend grossed up (€1,370 / 75%)		1,827
		63,040
Taxation:		
€35,300 x 20%	7,060	
€27,740 x 40%	11,096	
		18,156
Non-refundable tax credits:		
Personal tax credit	1,650	
Employee PAYE tax credit	1,650	
Tuition fees ((€1,900 - €1,500) x 20%)	80	
		(3,380)
		14,776
USC:		
€12,012 x 0.5%	60	
€8,675 x 2%	174	
€42,353 x 4.5%	1,906	
		2,140
PRSI:		
€63,040 x 4%		2,522
		19,438
Refundable tax credits:		
PAYE paid in 2021	20,500	
Dividend withholding tax (€1,827 x 25%)	457	
		(20,957)
Amount repayable to Joseph Smith		**1,519**

Tutorial note:
Rental income - tax free under rent a room scheme (up to €14,000).

2149 Solution

Laura Powell
Income tax computation for 2021

	€	€
Schedule D Case IV credit union dividend		560
Schedule D Case V rental income (w1)		4,067
Schedule E salary		50,024
Schedule E benefits in kind (w2)		8,246
Schedule F Irish dividend grossed up (€640 / 75%)		853
		63,750
Taxation:		
€39,300 x 20%	7,860	
€560 x 33%	185	
€23,890 x 40%	9,556	
		17,601
Non-refundable tax credits:		
Personal tax credit	1,650	
Single person child carer credit	1,650	
Employee PAYE tax credit	1,650	
DIRT deducted (€560 x 33%)	185	
		(5,135)
		12,466
USC:		
€12,012 x 0.5%	60	
€8,675 x 2%	174	
€42,503 x 4.5% (exclude interest from which DIRT deducted)	1,913	
		2,147
PRSI:		
€63,750 x 4%		2,550
		17,163
Refundable tax credits:		
PAYE paid in 2021	16,200	
Dividend withholding tax (€853 x 25%)	213	
		(16,413)
Amount payable by Laura Powell		**750**

Workings

w1

Rental income	€
Gross rent received (€910 x 6 months)	5,460
Expenses:	
Letting fees	(1,010)
Insurance (€510 x 6/8)	(383)
	4,067

Tutorial notes:

Property not registered with RTB so mortgage interest not allowable.

Insurance cost prior to letting is a disallowed pre-letting expense. The property was not vacant for at least 12 months prior to the first letting.

w2

	Benefits in kind		**€**	**€**
(i)	Company car			
	Original market value		45,300	
	Business travel (48,100 kms x 90%)	43,290		
	BIK percentage	12%		
			5,436	
	Reimbursed to company		(600)	
				4,836
(ii)	Preferential loan			
	€31,000 x (13.5% - 2.5%)			3,410
				8,246

Tutorial note:
Professional subscription relates to work => no BIK.

2150 Solution

Terry and Maria
Income tax computations for 2021

	Terry	Maria	Joint
	€	€	€
Schedule E salary	89,000	18,597	107,597
Schedule E commission	15,000		15,000
Schedule E bonus (received in 2021)	5,000		5,000
Schedule E benefits in kind (w1)	31,411		31,411
Schedule D Case IV income (w2)	1,849		1,849
Schedule D Case V income	2,593		2,593
Schedule F income (€883 / 75%)	1,177		1,177
Schedule F income (€3,220 / 75%)		4,293	4,293
	146,030	22,890	168,920
Pension contributions (€230 x 12)	(2,760)		(2,760)
	143,270	22,890	166,160
Taxation:			
€35,300 x 20%	7,060		
€22,890 x 20%		4,578	
€1,849 x 33%	610		
€106,121 x 40%	42,448		
€44,300 x 20%			8,860
€22,890 x 20%			4,578
€1,849 x 33%			610
€97,121 x 40%			38,848
	50,118	4,578	52,896
Non-refundable tax credits:			
Personal tax credit	(1,650)	(1,650)	(3,300)
PAYE employee tax credit	(1,650)	(1,650)	(3,300)
DIRT deducted (w2)	(610)		(610)
Tax burden	46,208	1,278	45,686
Refundable tax credits:			
PAYE paid in 2021	(50,510)		(50,510)
Dividend withholding tax	(294)	(1,073)	(1,367)
Tax payable		**205**	
Tax repayable	**4,596**		**6,191**

Year of marriage relief:	Terry	Maria	Total
	€	€	€
Tax burden as single persons	46,208	1,278	47,486
Tax burden under joint assessment			45,686
Additional liability when assessed as single persons			1,800
Date of marriage is 1 April 2021 => relief for 9 months (€1,800 x 9/12)			1,350
Terry's portion (€1,350 x €46,208 / €47,486)	1,314		
Maria's portion (€1,350 x €1,278 / €47,486)		36	

Tutorial note:

Terry and Maria are not entitled to claim the home carer tax credit in 2021 because Maria's 2021 income exceeds the maximum permitted, for home carer tax credit purposes, of €10,400.

Workings

w1

Benefits in kind

(i)	*Company car*		**€**	**€**
	Original market value		49,600	
	Business travel (April to December) (kms)	23,850		
	Annual equivalent business kms	31,800		
	Annual BIK percentage	24%		
	Annual BIK (€49,600 x 24%)		11,904	
	BIK in respect of April to December (€11,904 x 9/12)			8,928
(ii)	*Accommodation*			
	Open market value (€)	434,000		
	BIK (€434,000 x 5%)		21,700	
	Market rent (€1,700 x 12)		20,400	
	BIK in respect of accommodation (lower of two calculated figures)			20,400
(iii)	*Golf club membership*			556
(iv)	*Preferential loan*			
	Annual BIK (€17,700 x (13.5% - 2.0%))		2,036	
	BIK for period from April to December (€2,036 x 9/12)			1,527
				31,411

w2

Schedule D Case IV income	**€**
Credit union income	464
Bank deposit interest	775
	1,239
DIRT at 33% of the gross	610
Gross interest	1,849

2097 Solution

(a)

James and Annabel

Income tax computations for 2021

	James	James	Annabel	Annabel	Joint	Joint
	€	€	€	€	€	€
Schedule D Case I income		96,800				96,800
Schedule E income				20,000		20,000
		96,800		20,000		116,800
Allowances:						
Permanent health insurance (w1)		(9,204)				(9,204)
		87,596		20,000		107,596
Taxation:						
€35,300 x 20%		7,060				
€52,296 x 40%		20,918				
€20,000 x 20%				4,000		
€44,300 x 20%						8,860
€20,000 x 20%						4,000
€43,296 x 40%						17,318
		27,978		4,000		30,178
Non-refundable tax credits:						
Personal tax credit	1,650		1,650		3,300	
PAYE employee tax credit			1,650		1,650	
Earned income tax credit	1,650				1,650	
Medical expenses (w2)	430				430	
		(3,730)		(3,300)		(7,030)
Tax burden		24,248		700		23,148
Refundable tax credits:						
PAYE paid in 2021				(770)		(770)
Tax payable		**24,248**				**22,378**
Tax refund				**70**		

(b)

	€
Tax burden under single assessment (€24,248 + €700)	24,948
Tax burden under joint assessment	23,148
Tax saving by electing for joint assessment	1,800

(c) If the couple want to be jointly or separately assessed in a given tax year, they must inform the Revenue Commisioners by 1 April of that tax year.

Workings

w1

Permanent health insurance	€
Income	96,800
Maximum qualifying for tax relief is 10%	
Maximum relief that can be claimed in 2021	9,680
Premium paid in 2021 (€767 x 12)	9,204
Amount on which tax relief can be claimed in 2021	9,204

w2

Medical expenses	**€**
Expenses incurred	3,720
Reimbursed by medical expenses insurer	(1,570)
Qualifying expenditure	2,150
Tax relief at 20%	430

2151 Solution

Kris
Income tax computation for 2021

	Kris	Juliette	Joint
	€	€	€
Schedule D Case IV deposit interest (gross) (€423 / 67%)	631		631
Schedule D Case V rental income (w1)	3,748		3,748
Schedule E salary	58,200		58,200
Schedule E salary (€33,540 x 8/12)		22,360	22,360
Schedule F dividend income ((€401 + €305) / 75%)	941		941
	63,520	22,360	85,880
Taxation:			
€44,300 x 20%			8,860
€22,360 x 20%			4,472
€631 x 33%			208
€18,589 x 40%			7,436
			20,976
Non-refundable tax credits:			
Married persons' tax credit		3,300	
PAYE tax credits		3,300	
DIRT deducted (€631 x 33%)		208	
Medical expenses (w2)		52	
			(6,860)
			14,116
Refundable tax credits:			
Dividend withholding tax (€941 x 25%)		235	
PAYE paid in 2021 - Kris		9,470	
PAYE paid in 2021 - Juliette (€5,710 x 8/12)		3,807	
			(13,512)
Tax payable by Kris and Juliette			**604**

Juliette
Income tax computation for 2021

		€
Schedule D Case IV deposit interest (gross) (€317 / 67%)		473
Schedule D Case V rental income (w1)		5,143
Schedule E salary (€33,540 x 4/12)		11,180
Schedule F dividend income (€275 / 75%)		367
		17,163
Taxation:		
€16,690 x 20%	3,338	
€473 x 33%	156	
		3,494
Non-refundable tax credits:		
Married person tax credit - year of bereavement	3,300	
PAYE employee tax credit	1,650	
DIRT deducted (€473 x 33%)	156	
		(5,106)

Refundable tax credits:

PAYE paid in 2021 - Juliette (€5,710 x 4/12)	(1,903)
Tax repayable to Juliette	**1,903**

Workings

w1

Rental income	**Kris**	**Juliette**
	8 mnths	**4 mnths**
	€	**€**
Gross rentals	10,720	5,360
Expenses:		
Insurance	(433)	(217)
Mortgage interest	(6,539)	
	3,748	5,143

w2

Medical expenses	**€**
Expenses incurred	510
Reimbursed	(250)
Qualifying for relief	260
Tax relief at 20%	52

2099 Solution

(a)

Marco and Aurelia
Income tax computations for 2021

	Marco	Marco	Aurelia	Aurelia	Joint	Joint
	€	€	€	€	€	€
Schedule D Case I income		72,200				72,200
Schedule E salary				95,000		95,000
		72,200		95,000		167,200
Pension contributions - Marco		(14,440)				(14,440)
Pension contributions - Aurelia				(22,330)		(22,330)
Allowances:						
Carer employed for incapacitated individual				(30,000)		(30,000)
		57,760		42,670		100,430
Taxation:						
€35,300 x 20%		7,060				
€22,460 x 40%		8,984				
€35,300 x 20%				7,060		
€7,370 x 40%				2,948		
€70,600 x 20%						14,120
€29,830 x 40%						11,932
		16,044		10,008		26,052
Non-refundable tax credits:						
Personal tax credit	1,650		1,650		3,300	
Earned income tax credit	1,650				1,650	
PAYE employee tax credit			1,650		1,650	
		(3,300)		(3,300)		(6,600)
Tax burden		12,744		6,708		19,452
Refundable tax credits:						
PAYE paid in 2021				(6,110)		
		12,744		598		
Preliminary tax paid		(11,860)				
Tax payable		**884**		**598**		

(b)

Year of marriage relief	Marco	Aurelia	Total
	€	€	€
Tax burden as single persons	12,744	6,708	19,452
Tax burden under joint assessment			19,452
Additional liability as single persons			nil

No marriage relief available.

Workings

w1

Pension contributions - Marco	**€**
Net relevant earnings	72,200
At age 35, the relevant percentage of net relevant earnings is 20%.	
Maximum relief that can be claimed in 2021	14,440
Premiums paid in 2021	15,890

Amount on which tax relief can be claimed in 2021	14,440

w2

Pension contributions - Aurelia	**€**
Net relevant earnings	95,000
At age 45, the relevant percentage of net relevant earnings is 25%.	
Maximum relief that can be claimed in 2021	23,750
Premiums paid in 2021	22,330
Amount on which tax relief can be claimed in 2021	22,330

Part C

2160 Solution

Arthur and Adele
Income tax computation for 2021

	Arthur	Adele	Joint
	€	€	€
Tax adjusted profit	315,000		
Capital allowances	(25,200)		
	289,800		
Pension contributions (w1)	(34,500)		
Schedule D Case II income	255,300		255,300
Schedule D Case III income from foreign rental property	2,293	2,293	4,586
Schedule D Case IV deposit interest (€150 / 67%)	112	112	224
Schedule D Case V income	3,495	3,495	6,990
Schedule F dividend income (gross) (€130 / 75%)	173		173
	261,373	5,900	267,273
Allowances:			
Permanent Health Insurance premium (is within permitted limit)			(2,700)
			264,573
Taxation:			
€44,300 x 20%		8,860	
€224 x 33%		74	
€220,049 x 40%		88,020	
			96,954
Non-refundable tax credits:			
Married persons' tax credit		3,300	
Earned income tax credit		1,650	
DIRT deducted (€224 x 33%)		74	
Medical expenses (w3)		110	
Home carer tax credit (w2)		1,600	
			(6,734)
			90,220
USC:			
Arthur			
€12,012 x 0.5%		60	
€8,675 x 2%		174	
€49,357 x 4.5%		2,221	
€29,956 x 8%		2,396	
€195,761 x 11%		21,534	
Adele			
No USC - income is below minimum total income (€13,000).			
			26,385
PRSI:			
Arthur			
€295,873 (income before deduction of pension) x 4%		11,835	
Adele			
Higher of (i) €5,900 x 4% and (ii) minimum contribution of €500.		500	
			12,335
			128,940
Refundable tax credits:			

	Dividend withholding tax (€173 x 25%)		(43)
	Tax payable by Arthur and Adele		**128,897**
	Preliminary tax paid		(104,500)
	Amount outstanding		**24,397**
	Sufficiency of preliminary tax payment - lower of:	**€**	**€**
(i)	100% of 2020 liability	109,800	
(ii)	90% of 2021 liability (€128,897 x 90%)	116,007	
			109,800

=> preliminary tax payment of €104,500 was insufficient.

Tutorial note:

Arthur's USC is calculated based on income before deduction of pension and excluding income from which DIRT deducted.

Workings

w1

Pension contributions	**€**
Net relevant earnings (maximum)	115,000
At age 54, the relevant percentage of net relevant earnings is 30%.	
Maximum relief that can be claimed in 2021	34,500
Premiums paid in 2021	36,230
Amount on which tax relief can be claimed in 2021	34,500

w2

	Home carer tax credit or increased standard rate tax band	**€**
(i)	Home carer tax credit (maximum)	1,600
(ii)	Increased standard rate tax band (€5,788 x 20%) (exclude deposit interest)	1,158

In this case, option (i) is the more valuable option.

Tutorial note:

They must choose between the home carer tax credit and the increased standard rate tax band. They cannot choose both.

w3

Medical expenses	**€**
Expenses incurred	950
Insurance reimbursement	(400)
Qualifying for tax relief	550
Tax relief at 20%	110

2161 Solution

Angelo and Alison
Income tax computation for 2021

	€	€
Schedule D Case II income		94,200
Schedule D Case V income (w1)		3,095
Schedule F dividend income (gross) (w2)		853
		98,148
Alison's schedule E salary (€31,100 x 5/12)		12,958
		111,106
Charges:		
Maintenance payments (w3)		(3,500)
Allowances:		
Permanent health insurance premiums (w4)		(8,832)
		98,774
Taxation:		
€44,300 x 20%	8,860	
€12,958 x 20%	2,592	
€41,516 x 40%	16,606	
		28,058
Non-refundable tax credits:		
Married personal tax credit	3,300	
Earned income tax credit (Angelo)	1,650	
PAYE employee tax credit (Alison)	1,650	
Medical expenses (w5)	58	
		(6,658)
		21,400
Refundable tax credits:		
PAYE paid by Alison (€4,665 x 5/12)	1,944	
Dividend withholding tax (€853 x 25%)	213	
		(2,157)
Tax payable by Angelo		**19,243**

Alison
Income tax computation for 2021

	€	€
Schedule D Case IV (maintenance payments) (w3)		3,500
Schedule E salary (€31,100 x 7/12)		18,142
		21,642
Taxation:		
€21,642 x 20%		4,328
Non-refundable tax credits:		
Single person tax credit	1,650	
Single person child carer credit	1,650	
PAYE employee tax credit	1,650	
		(4,950)
		nil
Refundable tax credits:		
PAYE paid by Alison (€4,665 x 7/12)		(2,721)

Tax payable by Alison	**2,721**

Workings

w1

Schedule D Case V income	**€**
Rental income (€1,090 x 3)	3,270
Expenses:	
Insurance (€700 x 3/12)	(175)
	3,095

Tutorial note:

The €2,800 cost of having the property repainted is not deductible because (i) Angelo occupied the property and (ii) the property was not subsequently leased out.

w2

Schedule F dividend income	**€**
4 March	230
4 July	410
Net dividend received	640
Grossed up (€640 / 75%)	853

w3

Maintenance payments	**€**
Payments (€1,590 x 7 months)	11,130
Attributable to children	(7,630)
Attributable to Alison	3,500

w4

Permanent health insurance premiums	**€**
Premiums paid (€736 x 12)	8,832
€98,148 x 10% (maximum allowable for Angelo)	9,815
Allowed in 2021	8,832

Tutorial note:

The 10% restriction on PHI is considered on an individual basis, i.e., with reference to each individual party's total income.

w5

Medical expenses	**€**
Expenses incurred	950
Reimbursed by insurer	(660)
Qualifying for tax relief	290
Tax relief at 20%	58

1840 Solution

Steve Pace's income tax computation 2021

	€	€
Schedule D Case V income	25,400	
Taxed at 20%		5,080
Single person tax credit		(1,650)
Age tax credit		(245)
		3,185
Check for marginal relief:		
(€25,400 - €18,000) x 40%		2,960
Income tax liability (lower of the two calculated amounts)		**2,960**

2153 Solution

Liezel Forlin

Year of assessment	Year	Basis of assessment	€	€	€
2015	1	From 1 February to 31 December 2015			
	(i)	1 Feb to 31 Aug 2015		11,900	
	(ii)	1 Sep to 31 Dec 2015 (€17,300 x 4/8)		8,650	
					20,550
2016	2	Twelve months ended 30 April 2016			
	(i)	1 May 2015 to 31 Aug 2015 (€11,900 x 4/7)		6,800	
	(ii)	1 Sep 2015 to 30 Apr 2016		17,300	
					24,100
2017	3	Twelve months ended 30 April 2017			25,100
	Year 2 revision		€	€	
	Assessed profit			24,100	
	Actual year from 1 Jan 2016 to 31 Dec 2016:				
	1 Jan to 30 Apr 2016 (€17,300 x 4/8)		8,650		
	1 May to 31 Dec 2016 (€25,100 x 8/12)		16,733		
				25,383	
	Actual year 2 profit is greater than assessed year 2 profit. No adjustment required.				
					25,100
2018	4	Twelve months ended 30 April 2018			25,600
2019	5	Twelve months ended 30 April 2019			34,000
2020	Penultimate	Twelve months ended 30 April 2020			34,100
	Penultimate year revision				
	Actual from 1 January 2020 to 31 December 2020:				
	1 Jan to 30 Apr 2020 (€34,100 x 4/12)			11,367	
	1 May to 31 Dec 2020 (€28,500 x 8/11)			20,727	
				32,094	
	Actual penultimate year profit is less than original assessment. No adjustment to original assessment.				
					34,100
2021	Final	Actual basis (1 Jan 2021 to 31 Mar 2021)			
		€28,500 x 3/11			7,773

2155 Solution

Moira

Capital allowances 2021	€
Plant and equipment (w2)	45,100
Motor vehicles (w3)	4,375
Balancing allowance - trucks (w4)	4,700
Balancing allowance - motor vehicles (w5)	2,057
	56,232

Workings

w1

Additions to plant and equipment	**€**
Computer equipment	87,000
Not in use at year end (€1,300 x 8)	(10,400)
	76,600
Truck	37,000
	113,600

Tutorial note:

Computers must be in use in order to claim capital allowances.

w2

Capital allowances - plant, equipment and trucks	**2018**	**2017**	**2021**	**Total**
	€	**€**	**€**	**€**
Cost	141,000	201,800		
Additions (w1)			113,600	
Disposals - trucks		(95,600)		
	141,000	106,200	113,600	
Tax written down value at 1 January 2021	88,125	100,900		
Additions (w1)			113,600	
Disposals		(47,800)		
Wear and tear at 12.5% for 2021	(17,625)	(13,275)	(14,200)	(45,100)
Tax written down value at 31 December 2021	70,500	39,825	99,400	

w3

Capital allowances - motor vehicles	**2017**	**2021**	**2021**	**Total**
	€	**€**	**€**	**€**
Qualifying cost (based on emissions)	24,000			
Additions (qualifying costs)		11,000	24,000	
Disposals	(24,000)			
		11,000	24,000	
Tax written down value at 1 January 2021	12,000			
Additions (qualifying costs)		11,000	24,000	
Disposals	(12,000)			
Wear and tear at 12.5% for 2021		(1,375)	(3,000)	(4,375)
Tax written down value at 31 December 2021		9,625	21,000	

Tutorial note:

No capital allowances available in respect of leased vehicle.

w4

Balancing allowance - trucks	**€**
Proceeds	43,100
Tax written down value (w2)	47,800
	4,700

w5

Balancing allowance - motor vehicles	**€**
Proceeds (€8,700 x €24,000/€21,000)	9,943
Tax written down value (w3)	12,000
	2,057

2156 Solution

Gerard Laurelio
Income tax computation for 2021

	Gerard	Spouse	Joint
	€	€	€
Schedule D Case V rental income	3,600		
Schedule E salary		63,890	
Schedule F dividend income (€2,100/75%)		2,800	
	3,600	66,690	70,290
S381 loss (€3,780 + €760)	(3,600)	(940)	(4,540)
		65,750	65,750
Pension contributions (w1)		(12,778)	(12,778)
		52,972	52,972
Taxation:			
€44,300 x 20%		8,860	
€8,672 x 40%		3,469	
		12,329	
Non-refundable tax credits:			
Married person tax credit	3,300		
PAYE employee tax credit	1,650		
Medical expenses (€2,400 x 20%)	480		
		(5,430)	
		6,899	
USC:			
Spouse			
€12,012 x 0.5%	60		
€8,675 x 2%	174		
€46,003 x 4.5%	2,070		
		2,304	
Gerard Laurelio			
Total income is below the €13,000 threshold for USC.			
PRSI:			
Spouse (€66,690 x 4%)		2,668	
Gerard Laurelio's income is below the €5,000 threshold for PRSI.			
		11,871	
Refundable tax credits:			
PAYE paid by spouse in 2021	12,290		
Dividend withholding tax (€2,800 x 25%)	700		
		(12,990)	
Tax repayable to Gerard Laurelio and spouse		**1,119**	

Workings

w1

Pension contribution	**Spouse**
	€
Net relevant earnings	63,890
At age 38, the relevant percentage of net relevant earnings is 20%.	
Maximum relief that can be claimed in 2021	12,778

Premiums paid in 2021	13,600
Amount on which tax relief can be claimed in 2021	12,778

Tutorial notes:

Gerard Laurelio has no taxable income in 2021 so cannot claim any relief for pension contributions in 2021.

There is no increase in the standard rate tax band because Gerard Laurelio's income is reduced to nil by losses.

2157 Solution

Johnny

Schedule D Case I tax adjusted profit for 2021

	€	€
Profit per financial statements		14,502
Adjust:		
Deposit interest received	(4,640)	
Dividends received	(3,770)	
Depreciation	7,200	
Drawings	20,900	
Preliminary tax paid	3,980	
Legal fees relating to purchase of shop	2,210	
Motor expenses - personal use (€3,900 x 50%)	1,950	
Electricity - personal	500	
Telephone - personal mobile	600	
Telephone - home business paid personally (€1,100 x 20%)	(220)	
Capital repayment of bank loan (€3,900 - €1,140)	2,760	
Purchase of cash register (capital expenditure)	1,640	
		33,110
Tax adjusted profit		**47,612**

Capital allowances	€	€
Fixtures and fittings (w1)		3,905
Motor vehicles (w1)	3,000	
Restrict for personal use of car (€3,000 x 50%)	(1,500)	
		1,500
Fixtures and fittings balancing allowance (w2)		450
		5,855

Workings

w1

Capital allowances	**F&F 2019**	**MV 2019**	**F&F 2021**	**Total**
	€	€	€	€
Original cost	30,000	25,000		
Qualifying cost (motor vehicle based on emissions)	30,000	24,000		
Additions (€8,600 + €1,640)			10,240	
Disposal	(9,000)			
	21,000	24,000	10,240	
Tax written down value at 1 January 2021	22,500	18,000		40,500
Additions			10,240	10,240
Disposal at tax written down value	(6,750)			(6,750)
Wear and tear at 12.5%	(2,625)	(3,000)	(1,280)	(6,905)
Tax written down value at 31 December 2021	13,125	15,000	8,960	37,085

w2

Fixtures and fittings balancing allowance	€
Proceeds	6,300
Tax written down value at disposal (w1)	6,750

450

2159 Solution

(a)

Sorcha

Schedule D Case II tax adjusted profit for 2021

	€	€
Profit per financial statements		67,402
Adjust:		
Dividends received from Irish company (net)	(3,100)	
Depreciation	14,660	
New furniture for office	3,600	
Donation to Amnesty International	710	
Drawings	27,500	
Sorcha's home phone bill (personal element is €450 x 70%)	315	
Speeding tickets	150	
Motor lease expenses (€11,600 x ((€35,000 - €12,000)/€35,000)	7,623	
Entertainment of customers	2,420	
Profit on disposal of non-current asset	(1,830)	
Pension contribution for Sorcha	21,850	
		73,898
Tax adjusted profit		**141,300**

Tutorial note:

Motor lease expense are restricted on the basis of CO2 emissions.

Capital allowances	€
Furniture and equipment capital allowances (w1)	4,035
Furniture and equipment balancing allowance (w2)	210
	4,245

Workings

w1

Capital allowances - furniture and equipment	**2015**	**2017**	**2019**	**2021**	**Total**
	€	**€**	**€**	**€**	**€**
Cost	14,560	14,120	5,800		
Additions				3,600	
Disposals			(5,800)		
	14,560	14,120		3,600	
TWDV at 1 January 2021	3,640	7,060	4,350		15,050
Additions (new furniture for office)				3,600	3,600
Disposal at tax written down value			(4,350)		(4,350)
Wear and tear at 12.5% for 2021	(1,820)	(1,765)		(450)	(4,035)
TWDV at 31 December 2021	1,820	5,295		3,150	10,265

w2

Balancing allowance	**€**
Proceeds	4,140
TWDV at disposal (w1)	4,350
	210

Tutorial note:

Computers bought in March 2021 not in use at year end so no capital allowances can be claimed in 2021.

(b) **Sorcha**

Income tax computation for 2021

	€	€
Tax adjusted profit		141,300
Capital allowances		(4,245)
Schedule F dividend income (€3,100 / 75%)		4,133
		141,188
Pension contributions (w3)		(21,850)
		119,338
Taxation:		
€35,300 x 20%	7,060	
€84,038 x 40%	33,615	
		40,675
Non-refundable tax credits:		
Single person tax credit	1,650	
Earned income tax credit	1,650	
		(3,300)
		37,375
USC:		
€12,012 x 0.5%	60	
€8,675 x 2%	174	
€49,357 x 4.5%	2,221	
€29,956 x 8%	2,396	
€41,188 x 11%	4,531	
		9,382
PRSI:		
€141,188 x 4%		5,648
		52,405
Refundable tax credits:		
Dividend withholding tax (€4,133 x 25%)		(1,033)
Tax payable by Sorcha		**51,372**

Workings

w3

Pension contributions	**€**
Net relevant earnings (maximum)	115,000
At age 34, the relevant percentage of net relevant earnings is 20%.	
Maximum relief that can be claimed in 2021	23,000
Premiums paid in 2021	21,850
Amount on which tax relief can be claimed in 2021	21,850

Part D

2162 Solution

(a) *Andrew and Lena*

Capital Gains Tax liability	**Andrew**	**Lena**	**Total**
	€	**€**	€
Property (w1)	64,740		
House (w2)		55,090	
Necklace (w3)		2,506	
	64,740	57,596	
Annual exemption	(1,270)	(1,270)	
	63,470	56,326	
CGT at 33%	20,945	18,588	39,533

Workings

w1

Property - Andrew	**€**		**€**
Proceeds			351,998
Legal fees			(4,370)
			347,628
Cost	211,700		
Legal fees	4,410		
	216,110		
Indexation factor (94/95)		1.309	
			(282,888)
Chargeable gain			64,740

w2

House - Lena	**€**		**€**	**€**
Proceeds				186,389
Legal fees				(4,310)
				182,079
Cost	8,930			
Indexation factor (74/75)		7.528		
			67,225	
Enhancement expenditure	46,800			
Indexation factor (95/96)		1.277		
			59,764	
				(126,989)
Chargeable gain				55,090

w3

Necklace - Lena	**€**		**€**
Proceeds			5,433
Cost	2,199		
Indexation factor (93/94)		1.331	
			(2,927)
Chargeable gain			2,506

(b) CGT payment dates for disposals are as follows:

If the disposal is made in the period 1 January to 30 November (the initial period) the tax is due on or before 15 December in that tax year.

If the disposal is made in the period 1 December to 31 December (the later period) the tax is due on or before 31 January in the following year.

2164 Solution

(a) *Patrick and Pamela*

Capital Gains Tax liability	**Patrick**	**Pamela**	**Total**
	€	**€**	**€**
Commercial premises (w1)	140,230		
Apartment (w3)	79,600		
Diamond ring (w4)		3,751	
	219,830	3,751	
Annual exemption	(1,270)	(1,270)	
	218,560	2,481	
CGT at 33%	72,125	819	
Painting (w2)		314	
	72,125	1,133	73,258

Workings

w1

Commercial premises - Patrick	**€**		€	**€**
Proceeds				374,327
Cost	160,000			
Indexation factor (95/96)		1.277		
			204,320	
Enhancement expenditure	24,960			
Indexation factor (99/00)		1.193		
			29,777	
				(234,097)
Chargeable gain				140,230

Tutorial note:
General repairs are not deductible for CGT purposes.

w2

Painting - Pamela	**€**		**€**
Proceeds			3,167
Cost	1,410		
Indexation factor (95/96)		1.277	
			(1,800)
Chargeable gain			1,367
Capital gains tax at 33%			451
Check for marginal relief:			
(€3,167 - €2,540)/2			314
Claim marginal relief.			

Tutorial note:
Televisions, DVD players and cars are wasting chattels - exempt from CGT.

w3

Apartment - Patrick	**€**		**€**
Proceeds (deemed)			262,129
Cost	153,000		
Indexation factor (99/00)		1.193	

		(182,529)
Chargeable gain		79,600

w4

Diamond ring - Pamela	**€**		**€**
Proceeds			9,340
Cost	4,270		
Indexation factor (94/95)		1.309	
			(5,589)
Chargeable gain			3,751

(b) CGT payment dates for disposals are as follows:

If the disposal is made in the period 1 January to 30 November (the initial period) the tax is due on or before 15 December of that tax year.

If the disposal is made in the period 1 December to 31 December (the later period) the tax is due on or before 31 January of the following year.

2165 Solution

(a) *Marcellus and Eva*

Capital Gains Tax Liability	Marcellus	Eva	Total
	€	€	€
Property (w1)	26,568		
Shares (w2)			
Land (w3)	18,269		
Chargeable gain	44,837		
Annual exemption	(1,270)		
	43,567		
Capital gains tax at 33%	14,377		14,377

Workings

w1

Property - Marcellus	€
Proceeds	226,568
Cost (no indexation)	(200,000)
Chargeable gain	26,568

w2

Shares - Eva	€		€
Proceeds			19,639
Cost	19,440		
Indexation factor (99/00)		1.193	
			(23,192)
Chargeable gain			(3,553)
Actual			
Proceeds			19,639
Cost			(19,440)
Gain			199
Indexation cannot turn a gain into a loss or a loss into a gain.			No gain/no loss

w3

Land - Marcellus	€		€
Proceeds			31,000
Cost (€34,500 x (€31,000 / (€31,000 + €94,900)))	8,495		
Incidental costs (€5,000 x (€31,000 / (€31,000 + €94,900)))	1,231		
	9,726		
Indexation factor (94/95)		1.309	
			(12,731)

Chargeable gain	18,269

(b) Michael inherited the property from his father, therefore it passed to Michael on his father's death. No CGT is payable on the transfer of assets at death.

(c) CGT payment dates for disposals are as follows:

If the disposal is made in the period 1 January to 30 November (the initial period) the tax is due on or before 15 December in that tax year.

If the disposal is made in the period 1 December to 31 December (the later period) the tax is due on or before 31 January in the following year.

2167 Solution

Victor and Susan

(a) Capital Gains Tax liability

	Victor	Susan	Total
	€	€	€
Principal private residence (w1)	15,851	15,851	
Antique table - Susan (w2)		636	
House swap (w4)	114,470	114,470	
	130,321	130,957	
Annual exemption	(1,270)	(1,270)	
	129,051	129,687	
CGT at 33%	42,587	42,797	
	42,587	42,797	85,384

Tutorial note:
Household items are wasting chattels and are exempt from CGT.

CGT payment dates for disposals are as follows:

If the disposal is made in the period 1 January to 30 November (the initial period) the tax is due on or before 15 December in that tax year.

If the disposal is made in the period 1 December to 31 December (the later period) the tax is due on or before 31 January in the following year.

CGT filing date is 31 October 2022

(b) *Son's CGT liability*

He had lived in the apartment all of the time he owned it, therefore full PPR relief will be available on the disposal and no capital gains tax liability will arise.

Workings

w1

Principal Private Residence	**€**		**€**	**€**
Proceeds				745,340
Cost	169,000			
Indexation factor (90/91)		1.442		
			243,698	
Enhancement expenditure	174,000			
Indexation factor (98/99)		1.212		
			210,888	
Enhancement expenditure	29,400			
No indexation		1		
			29,400	
				(483,986)
				261,354
Principal Private Residence Relief (w2)				(229,653)
Chargeable gain				31,701

w2

Principal Private Residence Relief	**Months**
Period of ownership (1 June 1990 to 1 May 2021)	371

Periods of occupation:

1 June 1990 to 1 July 1995	61
1 July 1995 to 1 September 1998	38
1 September 1998 to 1 August 2003	59
30 April 2007 to 1 May 2021	168
	326
Relief (€261,354 x 326/371)	229,653

Tutorial note:
The period of absence in Spain does not qualify for principal private residence relief.

w3

Antique table	**€**		**€**
Proceeds			3,108
Cost	2,040		
Indexation factor (98/99)		1.212	
			(2,472)
Chargeable gain			636
Capital gains tax at 33%			210
Check for marginal relief:			
(€3,108 - €2,540) / 2			284

w4

House swap	**€**		**€**
Proceeds			521,840
Cost	292,900		
No indexation		1	
			(292,900)
Chargeable gain			228,940

2169 Solution

(a) *Jeremy and Sandy*

	Jeremy	Sandy	Total
	€	€	€
Principal private residence (w1)	45,441	45,441	
Shares in Blue - acquired September 1997 (w3)			
Shares in Blue - acquired January 1999 (w4)		3,494	
	45,441	48,935	
Annual exemption	(1,270)	(1,270)	
	44,171	47,665	91,836
CGT at 33%	14,576	15,729	30,305

(b) CGT payment dates for disposals are as follows:

If the disposal is made in the period 1 January to 30 November (the initial period) the tax is due on or before 15 December in that tax year.

If the disposal is made in the period 1 December to 31 December (the later period) the tax is due on or before 31 January in the following year.

Workings

w1

Principal private residence	€		€
Proceeds			295,000
Cost	5,900		
Indexation (74/75)		7.528	
			(44,415)
			250,585
Principal Private Residence Relief (w2)			(159,704)
Chargeable gain			90,881

w2

Principal Private Residence Relief	**Months**
Period of ownership (6 April 1974 to 5 August 2021)	568
Periods of occupation:	
6 April 1974 to 30 June 1983	111
30 June 1983 to 31 July 1988 (maximum of 48 months) (note (i))	48
31 July 1988 to 1 April 1997	104
1 April 1997 to 31 May 1999	26
31 May 1999 to 30 June 2004	61
30 June 2004 to 5 August 2021 (only last 12 months) (ii)	12
	362
Relief (€250,585 x 362/568)	159,704

Tutorial notes:

(i) Absent because of work in Ireland - maximum of 48 months allowed.

(ii) Absence not due to work - only last 12 months allowed.

w3

Shares in Blue - acquired September 1997	€	€
Proceeds (6,000 x €11 per share)		66,000
Cost	55,377	

Indexation factor (97/98)		1.232	
			(68,225)
			(2,225)
Actual			
Proceeds			66,000
Cost			(55,377)
			10,623

Indexation cannot turn an actual gain into a loss.
No gain/no loss.

w4

Shares in Blue - acquired January 1999	**€**		**€**
Proceeds (1,800 shares x €11 per share)			19,800
Cost (€22,423 x 1,800 / 3,000)	13,454		
Indexation factor (98/99)		1.212	
			(16,306)
Chargeable gain			3,494

Part E

831	**Solution**	**€**	**€**
	Rental income (seven months)		23,200
	Premium on short lease	120,000	
	Premium included as rental income:		
	(€120,000 x (51-15)/50)		86,400
			109,600
	Less interest on borrowings (seven months)		(4,610)
			104,990

2170 Solution

(a) *Smythe Limited*

Tax adjusted profits for the year ended 30 June 2021

	€	€
Loss per accounts		(59,886)
Adjust:		
Other income (franked investment income not taxable)	(4,300)	
Depreciation	96,700	
Loss on disposal of non-current assets	3,000	
Parking fines and speeding tickets	5,790	
Lease charges (€6,180 x ((€30,000 - €24,000) / €30,000))	1,236	
Political donation	2,890	
Increase in general allowance for irrecoverable debts	220	
Interest on late payment of VAT	3,320	
Client Christmas presents	1,180	
		110,036
Tax adjusted profit		**50,150**

(b) **Capital allowances for the year ended 30 June 2021**

	2016	2018	2019	2021	Total
	€	€	€	€	€
Cost	45,000	60,400	71,800		
Wear and tear at 12.5% to 1 July 2020	(28,125)	(22,650)	(17,950)		
	16,875	37,750	53,850		108,475
Addition 2021 (w2)				28,275	28,275
Disposal 2021	(16,875)				(16,875)
Wear and tear 2021		(7,550)	(8,975)	(3,534)	(20,059)
		30,200	44,875	24,741	99,816

Workings

w1

Balancing charge	€
Proceeds of disposal	21,100
Tax written down value at disposal	(16,875)
Balancing charge	4,225

w2

Cost of addition for capital allowances	€
Cost	32,500
Balancing charge (w1) (replacement option)	(4,225)
	28,275

Tutorial note:

New computer system not in use at financial year end => not eligible for capital allowances.

(c) **Corporation tax computation for the year ended 30 June 2021**

	€	€
Tax adjusted profit	50,150	
Capital allowances	(20,059)	
	30,091	
Corporation tax at 12.5%		3,761

2171 Solution

(a) *Bolton Limited*

Schedule D Case I income for the year ended 30 November 2021

	€	€
Loss per accounts		(56,587)
Adjust:		
Other income	(139,660)	
Depreciation	34,700	
Pension contributions accrual (only amounts paid allowable)	8,420	
Motor expenses - parking fines	1,400	
Motor expenses - speeding tickets	1,380	
Professional fees - disposal of property	6,130	
Increase in general allowance for irrecoverable debts	7,800	
Sundry expenses - interest on late payments of PAYE and VAT	4,420	
Sundry expenses - client entertainment	3,930	
Sundry expenses - subscription to political party	1,810	
		(69,670)
Tax adjusted loss		**(126,257)**

Tutorial note:
Car tax paid for directors' personal cars is a BIK for the director. The expense is deductible for the company.

(b) **Corporation tax computation for the year ended 30 November 2021**

	€	Rate	€
Schedule D Case III income (deposit interest)	7,480		
Schedule D Case V income (rental income)	55,300		
	62,780	25%	15,695
Chargeable gain (w1)	40,022	12.50%	5,003
			20,698
Loss relief (w5)			(20,698)
Corporation tax			Nil

Working

w1

Chargeable gain	€		€	€
Proceeds			297,541	
Solicitor costs			(6,130)	
				291,411
Cost	152,500			
Indexation factor (93/94)		1.331		
			202,978	
Enhancement expenditure	64,050			
Indexation factor (00/01)		1.144		
			73,273	
				(276,251)
Capital gain				15,160
Chargeable gain (€15,160 / 12.5% x 33%)				40,022

w2

Capital allowances - motor vehicles	Car 1	Car 2	Car 3	Total
	€	€	€	€
Qualifying cost (based on emissions)	24,000	12,000		
Wear and tear at 12.5% to 1 December 2020	(3,000)	(1,500)		
	21,000	10,500		31,500
Wear and tear 2021	(3,000)	(1,500)		(4,500)
	18,000	9,000		27,000

Tutorial note:
No capital allowances available for car 3 due to level of emissions.

w3

Capital allowances - other than motor vehicles	2017	2019	2020	Total
	€	€	€	€
Cost	238,200	79,200	40,700	
Wear and tear at 12.5% to 1 December 2020	(119,100)	(19,800)	(5,088)	
	119,100	59,400	35,612	214,112
Wear and tear 2021	(29,775)	(9,900)	(5,088)	(44,763)
	89,325	49,500	30,524	169,349

w4

Capital allowances	€
Motor vehicles (w2)	4,500
Plant and machinery, vans and computer equipment (w3)	44,763
	49,263

w5

Loss relief	€	€
Tax adjusted losses		126,257
Capital allowances (w4)		49,263
		175,520
Tax on non-trading income	20,698	
Losses required to offset tax on non-trading income (€20,698 / 12.5%)		165,584
Remaining losses available to carry forward		9,936

2173 Solution

(a)

Corporation tax computations 2021

	12 mnths 30 Jun €	Rate	12 mnths 30 Jun €	6 mnths 31 Dec €	Rate	6 mnths 31 Dec €
Tax adjusted profit (w1)	24,200			12,100		
Capital allowances (w4)	(9,163)			(4,582)		
Schedule D Case I income	15,037	12.50%	1,880	7,518	12.50%	940
Schedule D Case III income		25%		4,800	25%	1,200
Chargeable gain (w5)	49,711	12.50%	6,214		12.50%	
Corporation tax			**8,094**			**2,140**

Workings

w1

Tax adjusted profit	**€**	**€**
Profit per accounts		6,507
Adjust:		
Profit on sale of land	(27,600)	
Deposit interest (gross - without deduction of DIRT)	(4,800)	
Depreciation	40,800	
Leasing charge (€4,660 x ((€34,800 - €12,000) / €34,800))	3,053	
General provision for repairs	6,670	
Increase in general allowance for irrecoverable debts	1,110	
Legal fees relating to disposal of land	3,980	
Client entertainment	3,680	
Interest on late payment of VAT	1,160	
Clamping fines	1,740	
		29,793
		36,300
Apportionment:		
12 months ended 30 June 2021		24,200
6 months ended 31 December 2021		12,100
		36,300

Tutorial note:
No adjustment in respect of payment of personal telephone bills - will be a BIK for the managing director.

w2

Capital allowances - motor vehicles	**2018 €**
Qualifying cost (based on emissions)	24,000
Wear and tear at 12.5% to 1 July 2020	(9,000)
	15,000
Wear and tear at 12.5% for year ended 30 June 2021	(3,000)
	12,000
Wear and tear at 12.5% for six months ended 31 December 2021	(1,500)
	10,500

w3

Capital allowances - fixtures, fittings, plant and machinery	**2018**	**2020**	**Total**
	€	**€**	**€**
Cost	20,300	29,000	
Wear and tear at 12.5% to 1 July 2020	(7,613)	(3,625)	
	12,687	25,375	
Wear and tear at 12.5% for year ended 30 June 2021	(2,538)	(3,625)	(6,163)
	10,149	21,750	
Wear and tear at 12.5% for six months ended 31 December 2021	(1,269)	(1,813)	(3,082)
	8,880	19,937	

w4

Capital allowances	**12 mnths**	**6 mnths**
	30 Jun	**31 Dec**
	€	**€**
Motor vehicles (w2)	3,000	1,500
Fixtures, fittings, plant and machinery (w3)	6,163	3,082
	9,163	4,582

w5

Chargeable gain	**€**	**€**
Proceeds	71,600	
Auctioneer fees	(4,790)	
Legal fees	(3,980)	
		62,830
Cost (no indexation)		(44,000)
Capital gain		18,830
Chargeable gain (€18,830 x 33% / 12.5%)		49,711

(b) Small Irish resident company

(i) *For year ended 30 June 2021:*

Preliminary corporation tax payment	23 May 2021
Pay final corporation tax and file return	23 March 2022

(ii) *For period ended 31 December 2021:*

Preliminary corporation tax payment	23 November 2021
Pay final corporation tax and file return	23 September 2022

2174 **Solution**

A close company is a company controlled by:

(i) five or fewer participators; or

(ii) any number of participators who are also directors of the company.

Control is deemed to be an interest of over 50%.

A participator is someone who has an interest in the share capital of the company, i.e. the shareholders.

In this question, the shareholders are not directors. Therefore it is necessary to determine if condition (i) above is met.

When calculating the number of shares that an individual owns, it is necessary to take into account the shares owned by the individual and associates of the individual.

Associates include the following:

(i) family members;
(ii) any other company controlled by the individual;
(iii) shares held by a trust in which the individual has an interest.

Mr Farmer, Mrs Farmer, Mr Farmer Junior and the Farmer family trust are treated as one shareholder for the purpose of this question:

	Shares	**%**
Mr Farmer	410	
Mrs Farmer	540	
Mr Farmer Junior	370	
Farmer family trust	822	
	2,142	18.0%
Mr Trader	1,071	9.0%
Mr Flynn	714	6.0%
Mr Bush	1,190	10.0%
Mr Clinton	1,297	10.9%
	6,414	53.9%

Giblin is a close company.

2176 Solution

The payment of expenses for participators or their associates, who are not directors/employees of the company, are treated as distributions.

The company is required to account for dividend withholding tax on the payment and cannot claim a deduction for corporation tax purposes.

(i) *Michael Torville - medical insurance premiums*

Michael Torville is a participator of the close company and owns 10% of the share capital. However, Michael Torville is also a director of the company, therefore the close company rules do not apply.

The company will be entitled to a deduction of the expense for corporation tax purposes. The premium will be treated as a benefit-in-kind for Michael Torville and the company will account for income tax through payroll.

(ii) *Sonny Corleone - holiday expenses*

Sonny Corleone is a participator and owns 8% of the share capital. Sonny Corleone is not a director, therefore the close company rules apply.

The company is not entitled to deduct the expense paid for corporation tax purposes. The expense is treated as a distribution.

The company must pay dividend withholding tax (DWT) on the expense.

Sonny Corleone will be subject to income tax on the amount of the expense and will be entitled to a credit for DWT.

(iii) *Fiona Shine - medical expenses*

Fiona Shine's spouse is a participator of the company and owns 5% of the share capital. Fiona Shine is an associate of the company, is not an employee. Close company rules therefore apply.

The expense is treated as a distribution. The company must pay dividend withholding tax (DWT) on the expense.

Fiona Shine will be subject to income tax on the amount of the expense and will be entitled to a credit for DWT.

2177 Solution

(a)	Maximum interest that is allowed as an expense is lower of:		**€**
(i)	13% of nominal value of issued share capital		507
(ii)	13% of loans from directors:	**Loan (€)**	
	Mr Henry	3,800	
	Mr D'Arcy	3,800	
	Mr Smithers	6,300	
		13,900	
	€13,900 x 13%		1,807
	Restricted allowable interest is therefore:		507
	Allowable in respect of Mr McDonald (€3,200 x 9%)		288
	Interest allowable in the corporation tax computation		795

Tutorial note:

Restriction on allowable interest applies to directors owning more than 5% share capital.

As Mr McDonald owns 2%, the restriction does not apply to his loan.

(b)	Amount of interest treated as distribution	**Loan**	**Interest**	
		€	**€**	
	Mr Henry	3,800	342	
	Allowed as interest - €507 x 3,800 / 13,900		(139)	
	Treated as distribution			203
	Mr D'Arcy	3,800	342	
	Allowed as interest - €507 x 3,800 / 13,900		(139)	
	Treated as distribution			203
	Mr Smithers	6,300	567	
	Allowed as interest - €507 x 6,300 / 13,900		(230)	
	Treated as distribution			337
	Total distribution			743

The company is required to pay dividend withholding tax on €743.

The directors are required to pay income tax on the same amount. They receive credit in respect of the dividend withholding tax paid by the company in their income tax computations.

2178 Solution

	2020	Rate	2020	2021	Rate	2021
	€		€	€		€
Trade 1	28,200					
Trade 2	15,800			19,200		
Current year loss relief (w1)				(19,200)		
Prior year loss relief (w1)	(44,000)					
		12.50%	nil		12.50%	nil
Case III income	6,500	25%	1,625	6,600	25%	1,650
Case V income	7,600	25%	1,900	5,500	25%	1,375
			3,525			3,025
Current year loss relief (value basis) (€14,600 x 12.5%) (w1)						(1,825)
Corporation tax			3,525			1,200

Working

w1

Utilisation of losses	€
Trade 1 loss 2021	77,800
Current year loss relief against trade 2	(19,200)
	58,600
Prior year loss relief against trade income	(44,000)
	14,600
Current year loss relief against non-trade income (value basis)	(14,600)
	nil

2180 Solution

	2019	Rate	2019
	€		**€**
Trade 1	40,900		
Trade 2	44,300		
	85,200		
2020 loss relief (w3)	(85,200)		
Case IV income	1,400	25%	350
Case V income	6,100		
2020 loss relief (w1)	(3,300)		
	2,800	25%	700
			1,050
2020 loss relief (w3) (€8,400 x 12.5%)			(1,050)
Corporation tax			**nil**
DIRT deducted (€1,400 x 33%)			462
Corporation tax receivable			**462**

	2020	Rate	2020
	€		**€**
Trade 1			
Trade 2	36,600		
	36,600		
2020 loss relief (w3)	(36,600)		
Case IV income	2,300	25%	575
Case V income		25%	
			575
2020 loss relief (w3) (€4,600 x 12.5%)			(575)
Corporation tax			**nil**
DIRT deducted (€2,300 x 33%)			759
Corporation tax receivable			**759**

	2021	Rate	2021
	€		**€**
Trade 1	27,600		
2020 loss relief (w3)	(600)		
	27,000		
Trade 2	45,000		
	72,000	12.50%	9,000
Case IV income	2,200	25%	550
Case V income	4,600	25%	1,150
Corporation tax			**10,700**
DIRT deducted (€2,200 X 33%)			(726)
Corporation tax			**9,974**

Workings

w1

Utilisation of 2020 Case V losses	**€**
Case V losses - 2020	3,300

Prior year loss relief against Case V income	(3,300)

w2

Non-trade income - 2019	**€**
Case IV income	1,400
Case V income	6,100
Case V losses (w1)	(3,300)
	4,200

w3

Utilisation of 2020 trading losses	**€**
Case I losses - 2020	135,400
Current year loss relief against trade 2	(36,600)
	98,800
Prior year loss relief against trades 1 and 2	(85,200)
	13,600
Current year loss relief against non-trade income (value basis) (€2,300 x 25%/12.5%)	(4,600)
	9,000
Prior year loss relief against non-trade income (value basis) (€4,200 (w2) x 25%/12.5%)	(8,400)
	600
Losses available for subsequent year relief against income from Trade 1	(600)

2182 Solution

Holloway Limited	2020	Rate	2020	2021	Rate	2021
	€		**€**	**€**		**€**
Case III	4,630			3,700		
Case V	2,230			2,810		
	6,860			6,510		
Non-trade charges	(6,860)			(6,510)		
		0%			0%	
Case I	19,370			18,020		
Chargeable gain	4,450					
Excess non-trade charges	(6,140)			(530)		
	17,680	12.50%	2,210	17,490	12.50%	2,186
Corporation tax			2,210			2,186

Tutorial notes:

Non-trade charges can be used to reduce income taxed at higher rate first.

The non-trade charges are therefore offset against Case III and Case V income first.

2183 Solution

Stapleton Limited	**2020**	**Rate**	**2020**	**2021**	**Rate**	**2021**
	€		**€**	**€**		**€**
Case I	33,300			25,900		
Trade charges	(33,300)			(25,900)		
Case V	1,200	25%	300	8,400	25%	2,100
Excess trade charges	(1,000)	12.50%	(125)	(8,400)	12.50%	(1,050)
Corporation tax			**175**			**1,050**

Tutorial notes:

Trade charges are used against trading income first.

Any amount unused against trading income can be used on a value basis against the corporation tax that relates to non-trading income in the same year.

2172 Solution

(a) *Coco*

Schedule D Case I income for the year ended 31 December 2021

	€	€
Profit per accounts		119,260
Adjust:		
Profit on disposal of retail unit	(179,800)	
Dividend from Irish resident company	(7,100)	
Interest from bank deposit account	(6,300)	
Depreciation	65,500	
Entertainment of customers	9,000	
Profit on disposal of noncurrent asset (other than the retail unit)	(5,180)	
Legal costs on disposal of retail unit	5,700	
General provision for repairs	14,200	
Installation of new alarm system (capital expenditure)	20,800	
Parking fines and speeding tickets	1,320	
Finance lease capital repayments (€30,200 - €17,300)	(12,900)	
		(94,760)
Tax adjusted profit		**24,500**

(b) **Corporation tax computation for the year ended 31 December 2021**

	€	Rate	€
Schedule D Case I income	24,500		
Capital allowances (w4)	(20,938)		
	3,562	12.50%	445
Bank deposit interest	6,300	25%	1,575
Chargeable gain (w5)	167,711	12.50%	20,964
Corporation tax for the year			22,984
DIRT deducted (€6,300 x 33%)			(2,079)
Liability outstanding			**20,905**

Workings

w1

Capital allowance - motor vehicle	€
Qualifying cost (based on emissions)	12,000
Wear and tear 2021 at 12.5%	(1,500)
	10,500

w2

Capital allowances - plant and machinery	**2018**	**2019**	**2021**	**Total**
	€	€	€	€
Cost	80,800	67,800		
Addition - new alarm system			20,800	
Disposal - machine		(8,900)		
	80,800	58,900	20,800	160,500
Wear and tear at 12.5% to 31 December 2020	(30,300)	(16,950)		
Disposal - machine		2,225		
	(30,300)	(14,725)		(45,025)
Wear and tear 2021	(10,100)	(7,363)	(2,600)	(20,063)
	(40,400)	(22,088)	(2,600)	(65,088)
Tax written down value at 31 December 2021	40,400	36,812	18,200	95,412

w3

Balancing charge	**€**	**€**
Proceeds		7,300
Cost	8,900	
Capital allowances claimed	(2,225)	
Tax written down value at disposal		6,675
		625

w4

Capital allowances	**€**
Motor vehicles (w1)	1,500
Plant and machinery (w2)	20,063
Balancing charge (w3)	(625)
	20,938

w5

Chargeable gain	**€**		**€**	**€**
Proceeds			442,900	
Legal costs			(5,700)	
				437,200
Cost	212,500			
Costs of acquisition	6,100			
	218,600			
Indexation factor (2001)		1.087		
			237,618	
Enhancement expenditure	129,700			
Indexation factor (2002)		1.049		
			136,055	
				(373,673)
Capital gain				63,527
Chargeable gain (€63,527 x 33%/12.5%)				167,711

2175 Solution

Director	Amount (€)	Tax (€)
Mr Bealin	12,800	3,200
Mr McCluskey	16,200	4,050
Mr Pinster	11,900	2,975
		10,225

2179 Solution

	2020	Rate	2020	2021	Rate	2021
	€		€	€		€
Case I income	13,800					
Prior year loss relief	(10,350)					
	3,450	12.50%	431		12.50%	nil
Case III income	1,000	25%	250	2,400	25%	600
Case V income	4,900	25%	1,225	3,700	25%	925
			1,906			1,525
Current year loss relief (value basis) (€12,200 x 12.5%) (w1)						(1,525)
Prior year loss relief against non-trade income (w1)						
€8,850 x 12.5% x 9/12			(1,106)			
Corporation tax			800			

Working

w1

Utilisation of losses	**€**	**€**
Case I losses - 2021		32,200
Case I income - 2020	13,800	
Loss relief against 2020 trade income (€13,800 x 9/12)		(10,350)
		21,850
Current year loss relief against non-trade income (value basis)		(12,200)
		9,650
Non-trade income - 2020	1,475	
Prior year loss relief against non-trade income (value basis) (€1,475/12.5% x 9/12)		(8,850)
Losses available to carry forward	.	800

2181 **Solution**

	2019	Rate	2019
	€		€
Case I income	59,600		
2020 loss relief (w1)	(59,600)		
		12.50%	
Case III income	2,100	25%	525
Case V income	4,200	25%	1,050
Chargeable gain	2,400	12.50%	300
			1,875
2020 loss relief (value basis) (w1) (€15,000 x 12.5%)			(1,875)
Corporation tax			**nil**

	2020	Rate	2020
	€		€
Case I income		12.50%	
Case III income	2,200	25%	550
Case V income	3,600	25%	900
Chargeable gain	1,600	12.50%	200
			1,650
2020 loss relief (value basis) (w1) (€13,200 x 12.5%)			(1,650)
Corporation tax			**nil**

	2021	Rate	2021
	€		€
Case I income	56,000		
2020 loss relief (w1)	(43,100)		
	12,900	12.50%	1,613
Case III income	1,400	25%	350
Case V income	3,400	25%	850
Corporation tax			2,813

Workings

w1

Utilisation of 2020 losses	**€**
Case I losses - 2020	130,900
Prior year loss relief against Case I income	(59,600)
	71,300
Current year loss relief against non-trade income (value basis) (€1,650/12.5%)	(13,200)
	58,100
Prior year loss relief against non-trade income (value basis) (€1,875/12.5%)	(15,000)
	43,100
Subsequent year loss relief against income from same trade	(43,100)

2256 Solution

(a) *Heart Limited*

Tax liabilities for year ended 31 May 2021	**€**
Corporation tax (w1)	9,525
Dividend withholding tax (w4)	348
Income tax (w5)	6,100
	15,973

Workings

w1

Corporation tax computation for year ended 31 May 2021	**€**
Schedule D Case I income (w3)	zero
Schedule D Case III dividend income from Spanish investment company	6,600
Schedule D Case III deposit interest income	5,700
Schedule D Case V income	25,800
	38,100
Corporation tax (€38,100 x 25%)	9,525

Tutorial notes:

The dividend from the Irish company is franked investment income and therefore exempt from corporation tax.

The dividend from the Spanish investment company is liable to tax at 25%. It does not qualify for the 12.5% rate because it is not a trading company.

w2

Motor lease rental expense	**€**	€
Limit is lower of:		
€25,500 x 50%	12,750	
and		
€24,000 x 50%	12,000	
€4,770 x (€25,500 - €12,000)/€25,500		2,525

Tutorial notes:

Van - no adjustment, expenses allowed in full.

Motor vehicle - no adjustment for private use. Ricardo will be assessed for the BIK.

w3

Schedule D Case I income	**€**	**€**
Profit per accounts		58,045
Adjust:		

Other income	(43,330)	
Depreciation	3,360	
Motor expenses (w2)	2,525	
Legal fees - fine for illegal dumping	880	
Sundries (w4)	1,390	
		(35,175)
Capital allowances		(8,980)
		13,890
Trade loss carried forward		(14,590)
		zero

Tutorial notes:

(i) *Sundries*

As Ricardo and Dave are directors, the company is entitled to tax relief for this expense. Ricardo and Dave are assessed to tax on this benefit under the BIK rules.

As Jeanie is not a director/employee of the company this payment is treated as a distribution. The company must operate DWT on this amount.

The expense is not allowed in the company accounts and must be added back.

(ii) *Losses forward*

The loss available to carry forward to next accounting period is €700. It can only reduce profits from the same trade.

w4

Dividend withholding tax (DWT)

The holiday paid by the company for Jeanie is treated as a distribution because Jeanie is not a director or employee of the company.

The company must account for DWT as it is deemed to have made a distribution.

The expense paid of €1,390 is treated as the distribution amount. This amount is not allowable for corporation tax calculation purposes.

DWT of €348 (€1,390 x 25%) is payable.

The amount is payable to the collector general on or before the fourteenth day after the month the benefit was paid, in this case 14 May 2021.

w5

Income tax	**€**
Interest-free loan to Ricardo	24,400
Income tax (€24,400 x 20%/80%)	6,100

The €6,100 is payable by Heart Limited with its corporation tax and dividend withholding tax.

No deduction is allowed in the company's accounts for the loan or the tax paid.

(b) 23 February 2022

(c) Heart Limited is a small company.

The payment dates are therefore:

Preliminary tax payment - 23 April 2021

Final tax payment - 23 February 2022

(d) Interest charges apply at the rate of 0.0219% per day on late payment of corporation tax.

2263 Solution

(a)

Missy Limited

Corporation tax computation for year ended 31 July 2021

	€
Schedule D Case I income (w2)	146,840
Schedule D Case V rental income	28,300
	175,140
Chargeable gain (adjusted) (w3)	254,570
	429,710
Corporation tax:	
€146,840 x 12.5%	18,355
€28,300 x 25%	7,075
€254,570 x 12.5%	31,821
	57,251

Workings

w1

Capital allowances	**€**	**€**	**€**
Original cost		120,480	
Disposal		(44,600)	
		75,880	
Wear and tear at 12.5%			9,485
Proceeds from disposal of van		24,000	
Original cost	44,600		
Wear and tear:			
2018	(5,575)		
2019	(5,575)		
2020	(5,575)		
Tax written down value at disposal		27,875	
Balancing allowance			3,875
			13,360

w2

Schedule D Case I income	**€**
Income before capital allowances	160,200
Capital allowances (w1)	(13,360)
	146,840

w3

Chargeable gain	**€**	**€**
Proceeds		163,000
Disposal costs - legal fees		(6,600)

			156,400
Cost	48,900		
Acquisition costs - legal fees	2,500		
	51,400		
Indexation (2001)		1.087	
			(55,872)
			100,528
Capital loss carried forward			(4,100)
Capital gain			96,428
Chargeable gain - adjusted (€96,428 x 33%/12.5%)			254,570

(b) *Lowdown Limited*

(i) As Lowdown Limited has loaned money to a participator, the company must account for the following additional tax to the Revenue Commissioners:

	€
€20,000 x 20/80	5,000

This amount forms part of the corporation tax expense for the accounting period ended 31 December 2021.

The tax is held by the Revenue Commissioners until the loan is repaid by the shareholder.

Ben Cooper will be subject to the normal benefit-in-kind rules and will have an income tax charge on the receipt of a loan at a preferential interest rate.

(ii) As Brian Jones is a director/employee of the company the normal benefit-in-kind rules apply. The close company provisions can be ignored.

(iii) The interest in the company's financial statements for the year ended 31 December 2021:

	€
Orla Cooper (€144,000 x 10%)	14,400
Siobhan Byrne (€125,000 x 15%)	18,750
	33,150

As Orla Cooper and Siobhan Byrne are both directors who own more than 5% of the company's share capital, the maximum amount of interest allowed as a business expense is the lower of:

13% of the nominal amount of the issued share capital of the company;	€
(€238,000 x 13%)	30,940
and	
13% of the loans from the directors.	
(€269,000 x 13%)	34,970

The amount paid to the directors comprises interest of €30,940 and a distribution of €2,210.
The interest element is deductible as an expense for corporation tax purposes.

In relation to the interest allowed, the company must withhold income tax at the standard rate from these payments to the directors and pay the tax withheld to the Revenue Commissioners with its corporation tax liability.

The distribution is subject to dividend withholding tax. It is added back in the company's tax adjusted profit computation.

Part F

2184 Solution

May/June 2021		**Rate**	**VAT**	**VAT**
Output VAT:	**€**		**€**	**€**
Sales (VAT exclusive)	17,491	23.0%	4,023	
Sales (VAT exclusive)	18,237	13.5%	2,462	
Disposal of van (VAT inclusive)	6,583	23.0%	1,231	
Disposal of computer equipment (VAT inclusive)	2,631	23.0%	492	
				8,208
Input VAT:				
Purchase of van (VAT inclusive)	10,400	23.0%	1,945	
Purchase of car (VAT inclusive) (20% partial input credit)	19,200	23.0%	718	
Motor expenses - diesel (VAT inclusive)	1,890	23.0%	353	
Motor expenses - repairs (VAT inclusive)	1,900	13.5%	226	
Computer equipment (VAT inclusive)	12,070	23.0%	2,257	
Telephone (VAT inclusive)	4,500	23.0%	841	
Electricity (VAT inclusive)	3,220	13.5%	383	
Other expenses (VAT inclusive)	4,690	23.0%	877	
				(7,600)
VAT payable				**608**

Tutorial notes:

Disposal of car - no input credit at time of purchase so no output VAT at time of disposal.

Purchase of car - 20% of VAT allowed for vehicle categories A, B or C that are used at least 60% for business.

No input VAT for petrol expenses.

Wages - not relevant for VAT purposes.

2185 **Solution**

March/April 2021			**VAT**	**VAT**
Output VAT:	**€**	**Rate**	**€**	**€**
Lodgements	339,415			
Zero-rated sales	(56,570)			
VAT refund	(32,330)			
Cash received not lodged	18,860			
Cash receipts (VAT inclusive)	269,375	23.0%	50,371	
Purchases from France	17,000	23.0%	3,910	
Self-supply (donation) (excluding VAT)	15,700	23.0%	3,611	
Disposal of van (VAT inclusive)	8,830	23.0%	1,651	
				59,543
Input VAT:				
Purchases (VAT inclusive)	217,400	23.0%	40,652	
Purchases (VAT inclusive)	80,440	13.5%	9,568	
Purchases from France	17,000	23.0%	3,910	
				(54,130)
VAT payable				**5,413**

2187 Solution

May/June			**VAT**	**VAT**
Output VAT:	**€**	**Rate**	**€**	**€**
Lodgements	137,510			
Proceeds from disposal of car	(16,900)			
Credit Union loan	(23,700)			
Direct lodgements by customers	11,000			
Refund duplicate payment to customer	(1,820)			
Drawings out of receipts from customers	3,180			
Cash receipts (VAT inclusive)	109,270	23.0%	20,433	
French purchases (VAT exclusive)	610	23.0%	140	
				20,573
Input VAT:				
Purchases inclusive of standard rate VAT per question	90,728			
Petrol expenses (no input credit allowed)	(1,160)			
Diesel expenses - reverse personal element (40%)	(308)			
French purchases	(610)			
Purchases inclusive of standard rate VAT	88,650	23.0%	16,577	
Purchases at reduced rate per question	16,150			
Holiday home expenses	(3,230)			
Purchases at reduced rate (VAT inclusive)	12,920	13.5%	1,537	
French purchases (VAT exclusive)	610	23.0%	140	
				(18,254)
VAT payable				**2,319**

2188 Solution

Michael

A charge to VAT arises where the following occurs:

A supply of goods or services;

Within the state;

For consideration;

Made by a taxable person.

Persons obliged to register for Irish VAT include:

(i) Persons whose supplies of taxable goods are likely to exceed €75,000 in any 12 month period;

(ii) Persons making mail order/distance sales into the state, the value of which exceeds €35,000 in any 12 month period.

Distance sales are goods that are sold to an unregistered (private) customer in Ireland from another EU member state or sold to private customers in another EU member state from Ireland.

Where distance sales are made to Ireland by a non-established trader who has exceeded the registration threshold (€35,000), or who has elected to register for VAT in Ireland, the place of supply for these goods is Ireland.

This means that the non-established trader will be required to charge Irish VAT on sales to Irish customers.

Where the non-established trader has not exceeded the registration threshold and has not elected to register for Irish VAT, the place of supply will be determined by where the transportation begins (i.e. in the other EU member state).

Where distance sales are made from Ireland to another EU member state, the place of supply will be where the transportation ends if the trader has exceeded the registration threshold in that EU member state or has opted to register for VAT in that other member state.

Otherwise, the place of supply will be where the transportation begins, i.e. Ireland.

The VAT implications of the various options are therefore;

(a) If based in Ireland, registration in Ireland for VAT is required if turnover from the supply of taxable goods is likely to exceed €75,000 in a twelve month period.

(b) If based in Spain, registration in Ireland for VAT is required if the value of distance sales to Ireland exceeds €35,000 in a twelve month period.

(c) If based in Ireland and making distance sales to Spain, registration in Spain for VAT is required if the relevant threshold for distance sales to Spain, currently €35,000, is exceeded

2190 Solution

Kevin

November/December 2021	**€**	**Rate**	**VAT €**	**VAT €**
Output VAT:				
Cash receipts (November/December)	145,352			
Receivables outstanding at end December	9,500			
November/December sales (VAT inclusive)	154,852	23%	28,956	
Self-supply (goods for personal use)	5,770	23%	1,079	
EU purchases	8,500	23%	1,955	
				31,990
Input VAT:				
Purchases for resale at standard rate	109,100	23%	20,401	
Purchases not for resale at standard rate	27,520			
Reverse incorrect invoice amount (VAT inclusive)	(5,633)			
Include invoice at correct amount (VAT inclusive)	5,191			
Exclude petrol (VAT inclusive)	(1,439)			
	25,639	23%	4,794	
Purchases not for resale at reduced rate (VAT inclusive)	18,490	13.50%	2,199	
EU purchases	8,500	23%	1,955	
				(29,349)
VAT payable				**2,641**

2191 Solution

(a) *Vicky Violina*

	€	Rate	VAT €	VAT €
Output VAT:				
Opening receivables	127,080			
Sales revenue (€804,900 x (1 + 23%))	990,027			
Closing receivables	(169,030)			
Cash receipts (VAT inclusive)	948,077	23.0%	177,283	
EU purchases (VAT exclusive) (w1)	227,670	23.0%	52,364	
				229,647
Input VAT:				
Purchases from Irish suppliers (VAT exclusive) (w1)	227,670	23.0%	52,364	
EU purchases (VAT exclusive) (w1)	227,670	23.0%	52,364	
Light and heat (VAT exclusive)	4,260	13.5%	575	
Miscellaneous expenses (VAT exclusive)	8,830	23.0%	2,031	
Plant and equipment additions (VAT exclusive)	25,700	23.0%	5,911	
				(113,245)
VAT payable				**116,402**

(b)

	Accounts €	Audit €	Difference €
VAT on sales	229,656	229,647	9
VAT on purchases	113,244	113,245	1
VAT payable	116,421	116,402	19
From other EU countries	227,656	227,670	14

There are differences in the calculation of VAT, however the differences are minor. Therefore, overall the company appears to be accounting for VAT correctly.

Working

w1

Purchases	**€**
Cost of sales	450,800
Closing inventories	76,640
Opening inventories	(72,100)
Total purchases (VAT exclusive)	455,340
Purchases from Irish suppliers (€455,340 x 50%)	227,670
EU purchases (50%)	227,670