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OLLSCOIL NA hÉIREANN, GAILLIMH

National University of Ireland, Galway

SEMESTER II EXAMINATIONS 1999/2000

THIRD YEAR COMMERCE EXAMINATION

TAXATION II – AY 304

Professor R.W. Scapens
Professor J.F. Collins
Ms E. Mulligan
Ms L. Langan

Time allowed: THREE HOURS

Candidates are required to answer TWO questions from Section A *and* TWO questions from Section B

This paper includes a table of rates of taxation.

SECTION A

YOU ARE RQUIRED TO ATTEMPT ANY TWO QUESTIONS FROM THIS SECTION

Question 1

Part (a)

Marble Ltd is engaged in the engineering business. Its issued ordinary share capital of 10,000 £1 ordinary shares is held as follows:

	£1 ordinary shares
	£
John Smith	7,000
Mary Smith (John's wife)	2,000
Joseph Black (not related to the Smiths)	500
Declan Grey (not related to the Smiths)	500
	10,000

All of the shareholders are directors and work full-time for Marble Ltd.

The share premium account of Marble Ltd was £50,000 at 1 April 1998 and at 31 March 1999.

A second company, Granite Ltd has an issued share capital of £1,000 (1,000 ordinary shares) owned 80% by John Smith and 20% by Declan Grey.

The following transactions took place during the year ended 31 March 1999:

(i) On 1 April 1998 John and Mary Smith each made loans to Marble Ltd of £80,000 and £20,000 respectively. The loans were applied by Marble Ltd for business purposes. Interest is charged at 12% per annum in respect of the loan from John and 15% per annum in respect of the loan from Mary. The interest was paid to John and Mary on 31 March 1999.

(ii) On 1 July 1998, Marble Ltd made loans to Joseph Black and Declan Grey of £5,000 and £10,000 respectively. The loan to Joseph Black is interest free and the loan to Declan Grey carries interest at 5% per annum. Joseph, Declan or their spouses have never had other loans from any source.

(iii) A loan of £20,000 had been made to Mary Smith by Marble Ltd in 1994. At 30 September 1998, this loan was written-off in full.

(iv) On 1 October 1998 Marble Ltd paid for the cost of a holiday for Declan Grey amounting to £10,000.

(Question 1 continued over the page...

.....*Question 1 continued from previous page)*

Requirement

Set out the taxation implications for Marble Ltd of each of the transactions set out above. This should include setting out the due dates for any tax liabilities arising for Marble Ltd out of these transactions.

(18 Marks)

Part (b)

Outline the uses which a company can make of its Case I losses, distinguishing as appropriate, between Case I losses arising from a non-manufacturing trade and those arising from a manufacturing trade.

(7 Marks)

Total: 25 Marks

Question 2

Part (a)

(i) Explain the term 'self-supply' for VAT purposes.

(4 Marks)

(ii) Explain the "Two-Thirds Rule" *and* apply it (as appropriate) in the following scenario.

Velux Ltd installed a fitted kitchen for a customer for £6,000. The cost of materials was £3,200, and the balance of the price represents the installation fee. The VAT rate applicable to materials is normally 21% and the VAT rate applicable to the installation of fixtures is 12.5%. What is the VAT inclusive amount payable by the customer?

(6 Marks)

Part (b)

A client of yours has just recently returned home from Australia to live in Ireland. He has heard that there are various tax incentives available for expenditure on properties in certain urban and rural areas. Write a letter to him outlining the main tax incentives available under the existing Irish urban and rural renewal schemes. Your letter should include examples of how some of these tax incentives work.

(15 Marks)

Total: 25 Marks

P.T.O

Question 3

Part (a)

Burke and Collins have been in partnership for many years sharing profits in the ratio of 60% to Burke and 40% to Collins. Accounts for the partnership are made up to 30 September each year. On 1 July 1998 Hegarty is admitted to the partnership and is entitled to a 15% share of the profits. It is agreed Burke and Collin's share of profits are to be 45% and 40% respectively from the date of Hegarty's admission.

The capital allowances for the partnership for the years 1997/98 to 1999/00 are as follows:

	£
1997/98 (basis period to 30/9/97)	8,000
1998/99 (basis period to 30/9/98)	10,000
1999/00 (basis period to 30/9/99)	6,000

Requirement

Show the allocation of capital allowances between the partners for each of the years 1997/98 to 1999/00 inclusive.

(15 Marks)

Part (b)

Mary, Joan and Aoife are in partnership for many years sharing profits and losses equally. The partnership makes up accounts each year to the 31 December. In the year to 31 December 1999 the partnership shows an adjusted loss of £10,000 after adding back salaries for Mary and Joan of £15,000 and £5,000 respectively.

Requirement

Show the assessment for each partner for 1999/00 and how the partnership loss is shared between the partners.

(10 Marks)

Total: 25 Marks

P.T.O

SECTION B

YOU ARE RQUIRED TO ATTEMPT ANY TWO QUESTIONS FROM THIS SECTION

Question 4

Part (a)

Michael is domiciled in Germany and resident in Ireland for 1999/2000. During 1999/2000 he entered into a number of capital transactions resulting in the following capital gains and losses:

	Gain/(Loss)	Sale Proceeds
	£	£
Disposal of a house in England (Note 1)	100,000	180,000
Sale of a Spanish apartment (Note 2)	(10,000)	85,000
Sale of Irish holiday home	25,000	74,000
Sale of Irish Government Securities	(6,000)	10,000
Sale of Northern Ireland farm	50,000	180,000
Sale of shares in Irish public company	(8,000)	15,000
Sale of shop in Munick (Note 3)	80,000	175,000

Notes:

1. Michael remitted £25,000 from the proceeds of sale of the UK house to the Republic of Ireland.
2. Michael remitted £18,000 of the proceeds to the Republic of Ireland.
3. Michael remitted £90,000 to the Republic of Ireland and £30,000 to Northern Ireland
4. Michael remitted £10,000 to the UK and £8,000 to the Republic of Ireland from the sale proceeds (£110,000) of a Dutch property sold in 1997/98 for a gain of £22,000.

Requirement:

(i) Write a note on the impact of residence and domicile on an individual's liability to Irish Capital Gains Tax.

(3 Marks)

(ii) Advise Michael as to whether the above gains are liable to Irish Capital Gains Tax and whether the above losses are allowable for Irish Capital Gains Tax purposes. You are required to give reasons for your advice in each case.

(9 Marks)

(Question 4 continued over the page....

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Part (b)

On 1 July 1996, David Clarke, aged 45 years covenanted to pay his widowed mother, Stella Clarke, aged 83 years, an annuity of £12,000 per year for the joint continuance of both their lives.

Stella also received a gift of £25,000 from her friend who died on 31 January 1998.

Stella had inherited a house and lands valued at £200,000 on the death of her husband in September 1997.

The latest issued government stock is 9% Exchequer stock quoted at £102 per £100.

Requirement:

Calculate the inheritance tax payable by Stella on each benefit.

(13 Marks)

Total: 25 Marks

Question 5

Part (a)

Ann Johnson purchased a house and three acres of land on 15 August 1984 for £80,000 (includes all costs). This price represented its current use value. Throughout May/June in 1990 she converted the attic into a games room at a cost of £8,000. Also she converted the garage into a study in May 1999 at a cost of £7,000. However shortly after completing this work she sold the house and one acre for £200,000. This sale took place on 15 August 1999. She sold the remaining two acres for £280,000 to a developer (residential) in December 1999.

Additional information:

1. Ann is married to Jack and in 1998 Jack incurred a loss of £3,000 on the sale of some antique furniture. He has not utilised this loss to date. Also Ann herself has an unutilised loss forward of £15,000.
2. Between 21/01/89 and 20/10/95 Ann worked for an Irish company in France. Throughout this period the property was occupied rent-free by a very close friend. Ann lived in the house following her return from France.
3. The house was let for 18 months in 1996/97 and 1997/98.
4. For all other periods the house had been used by Ann as her main residence.
5. The remaining two acres in August 1999 had a value of £265,000.

Requirement:

Calculate Ann's Capital Gains Tax liability for 1999/2000, assuming she had no other disposals.

(15 Marks)

(Question 5 continued over the page....

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Part (b)

During 1999/2000 Jim disposed of his total shareholding in Sink Ltd. This amounted to 10,000 shares which he sold for £5,000.

He had acquired these shares as follows:
In June 1990 he purchased 1,000 shares for £1,500.
In September 1991 he purchased 1,500 shares for £750.
In May 1995 he received a bonus issue of 2,500 shares.
In March 1998 he availed of a 1 for 1 rights issue at a cost of £1,000.

Requirement:

(i) Calculate Jim's liability to Capital Gains Tax in 1999/2000, assuming he had no other disposals.

(8 Marks)

(ii) Advise him of his obligations under the self assessment system in this regard.

(2 Marks)

Total: 25 Marks

Question 6

Dermot Doran died on 10 September 1998 and left all his property to his niece, Amy, absolutely. Amy had worked with Dermot on his farm full time since 1987.

Dermot charged the lands with the right of residence, support and maintenance of his brother, John for his life. John is aged 67 years. The annual value of the rights charged on the lands was £7,000 and the annual income was £30,000. On the valuation date, the estate was comprised as follows:

	IR£
Farm lands and buildings	750,000
Farm machinery and livestock	100,000
Investments	110,000
Cash	40,000

Funeral expenses were outstanding on the valuation date and amounted to £20,000.

Amy had inherited lands from her father who died on 10 January 1994. The lands were valued at £60,000 at this date and did not qualify for agricultural relief at that time. Their market value on 10 September 1998 was £145,000. Amy also has a deposit account of £13,000.
John also has cash in the bank of £40,000 on 10 September 1998 and has no other assets.

(Question 6 continued over the page….

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Requirement:

Calculate the inheritance tax payable on the death of Dermot Doran by:

(i) Amy **(10 Marks)**

(ii) John **(15 Marks)**

Total: 25 Marks