GX2655

OLLSCOIL NA hÉIREANN, GAILLIMH

National University of Ireland, Galway

SEMESTER II EXAMINATIONS 2000/2001

MASTER OF ACCOUNTING EXAMINATION

TAXATION – AY 509

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Professor J.F. Collins
Ms. E. Mulligan
Ms. D. Carey

Time allowed: THREE AND A HALF HOURS

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

This paper includes a table of rates of taxation and allowances

SECTION A

YOU ARE REQUIRED TO ANSWER ALL QUESTIONS IN THIS SECTION

Question 1

Mark O'Dwyer was working for Solar Ltd for almost 11 years up to 5 December 2000. He was a very successful production manager but at the age of 54 he decided to leave full-time employment. His employment was non-pensionable. He received an ex gratia payment of £50,000 from Solar Ltd when he retired on 5 December 2000. This is the first termination lump sum that Mark ever received. His annual salary for 2000/01 had been agreed at £75,000.

Details of Mark's remuneration for his last three years of service are as follows:

	£
Year ended 5.12.2000	68,000
Year ended 5.12.1999	64,000
Year ended 5.12.1998	58,000

While he was working for Solar Ltd he always had a company car. His most recent company car had been acquired new only 10 months prior to his retiring and had an original market value of £35,000. The company paid for all motor expenses. His annual business mileage never exceeded 8,000 miles.

Mark acquired a second-hand apartment in Manchester in 1999 and having stayed in it for two short breaks he decided to let it. His estate agent found a reliable tenant who rented the apartment for the first time in May 2000. The total rental income received by Mark in 2000/2001 amounted to £3,000. Mark financed the purchase of this apartment with a bank loan on which he paid £1,500 interest in 2000/01. In addition, prior to letting the property he painted and redecorated it and this cost him £1,400.
He paid UK tax of £600 on this rental income.

Mark also received £800 interest from a deposit held with a Credit Union.

Mark's wife Ann is a chartered surveyor and earns an annual salary of £48,000. She uses her own car on the job and is reimbursed by her employer in accordance with Civil Service rates. She was reimbursed £3,200 in 2000/01. Ann's only other source of income was deposit interest of £1,200 (gross) which arose on her AIB deposit account.

Mark and Ann have two children, William and Grace. William is 15 years of age and attending secondary school. Grace is attending classes for a postgraduate Diploma in Business. Mark paid fees of £2,000 in respect of this course in 2000/01.

During 1998/99 Mark entered into a deed of covenant in respect of his widowed mother who is aged 68. Under the terms of the Deed, Mark covenanted to pay his mother £200 per month for life.

(Question 1 continued over the page……….

............Question 1 continued)

Mark incurred the following expenses in 2000/01:

	£
VHI	840 (increase of 5% on 1999/00)
Mortgage interest	4,200 (loan originally taken out in 1990)
Medical expenses-all qualifying:	
-Mark	80
- Ann	650 (£400 reimbursed by VHI)
-William	60

In 2000/01 PAYE of £21,500 was deducted from Mark's remuneration and PAYE of £20,000 was deducted from Ann's remuneration.

Required:
Compute the balance of Income Tax payable/refundable for the year ended 5 April 2001 on the basis that Mark and Ann are jointly assessed. Ignore top slicing relief.
16 Marks

Question 2

Part (a)
A US multinational is currently considering setting up an Irish operation and needs some tax advice in this regard. They are particularly concerned with the Irish corporation tax residence rules.

Required:
Explain for this multinational the Irish corporation tax residence rules. You should include details on the Irish corporation tax implications of the multinational operating in Ireland through a company or a branch/agency structure. **(6 Marks)**

Part (b)
Mary and Joan are working directors of Celux Ltd, a non-manufacturing company. They each own 50% of the share capital in that company and they anticipate a tax adjusted profit of £200,000 for the year ended 31 December 2000.

They require an additional cash amount of £15,600 each to meet personal financial obligations in November 2000. They intend to get this cash from the company in November 2000.

They are considering obtaining a loan from the company or taking a bonus to satisfy their cash requirement. They are both paying income tax on their present income at the top rate of income tax. (Ignore PRSI and levies).

Required:
Write a memo to Mary and Joan advising them whether the additional cash required by each of them should be obtained by way of loan or bonus. In your memo you should include a computation of the net 'tax' cost associated with both options.
(6 Marks)

(Question 2 continued over the page......

Part (c)
Axis Ltd is a professional service company for corporation tax purposes. During the year ended 31 December 2000 it had the following sources of income:

	£
Tax adjusted trading profit	160,000
Interest income from Irish government securities	16,000
Dividend Income from Irish resident companies	28,000
Irish deposit interest (received gross)	20,000
Rental income	24,000
Chargeable gain (regrossed)	30,000

The following information is also available:

- In arriving at the tax adjusted profits the company disallowed an expense payment of £4,000 to a shareholder which was treated as a distribution.
- At 1 January 2000 the company had unused trading losses forward of £18,000 and unused rental capital allowances of £6,000.
- On 1 June 2000 the company declared and paid an interim cash dividend of £20,000 in respect of the year ended 31 December 2000. On 1 March 2001 it declared and paid a final cash dividend for the year amounting to £6,000.

Required:

Compute the liability to close company surcharge for the year ended 31 December 2000 and indicate the date by which this surcharge liability will become payable.

(10 Marks)
Total: 22 Marks

Question 3

Peter Smith who lives in Dublin and is 60 years old, set up an Irish resident family company Frame Time Ltd, in June 1980, subscribing £10,000 in cash for 10,000 £1 shares. Peter has worked full-time as managing director in the company since that date.

In March 1992 he transferred 3,000 shares to his wife Margaret. The market value of the shares at that date was £30 each. Prior to the transfer of the shares Margaret took no interest in the running of the company, but since then she is a full time working director. Margaret is younger than Peter, she was born on 22/4/1948.

(Question 3 continued over the page………

.... Question 3 continued)

Peter and Margaret are considering disposing of the shares and retiring. They have put the following plan together for share disposal:

- Peter will sell 2,500 of his shares to his friend John Wall for their market value of £150,000.
- Peter will gift the remainder of the shares ie 4,500 shares to his daughter Kate
- Margaret will give her 3,000 shares to her son John, who currently lives in Germany.

The cost and market value of the assets in Frame Time Ltd at 30th April 2000 were as follows:

	Market value at 30th April 2000
Land and Buildings	220,000
Plant and Machinery	70,000
Debtors	26,000
Investments in listed shares	50,000
Investment Property	150,000
Goodwill	100,000
Trade Creditors	(16,000)
Net Book Value	IR£ 600,000

Required:

(a) Set out the requirements which must be satisfied before an individual can qualify for capital gains tax retirement relief in respect of a disposal of shares in a company;

(3 Marks)

(b) State, giving reasons, if both Mr and Mrs Smith will qualify for retirement relief in respect of the proposed disposal of their shares in Frame Time Ltd;

(3 Marks)

(c) Compute the chargeable gains, if any, arising on the proposed disposals;

(7 Marks)

(d) If Kate decides to sell her shares in March 2001, for £65 per share, what will be the capital gains tax implications.

(3 Marks)
Total: 16 Marks

Question 4

Jack Doyle died on 1st December 2000, and his will provides for the following bequests:

		Value at 1st December 2000.
To his son Donal		
		IR£
(1)	Residence	450,000
(2)	20 acres of development land in Northern Ireland	260,000
To his daughter Michelle:		
(3)	100% shareholding in Sportswear Ltd., an Irish resident company engaged in the distribution trade in the State	500,000
	Jack had owned the shares in Sportswear Ltd., since June 1995:	
	The shares derived their value as follows:	
	Net value of assets used in business	400,000
	Non-business assets	100,000
(4)	Business premises from which Sportswear Ltd., operates its business, but held privately in Jack Doyles name	300,000
(5)	Quoted shares	210,000
(6)	£50,000 of 6% Exchequer Stock purchased by Jack on 1st May 1999	£55,000

The residue of Jack's estate was divided equally between Donal and Michelle:

The residue comprised of:

(7)	Cash on deposit	80,000

Jack had taken out a qualifying insurance policy in 1989 for the sole purpose of paying Inheritance Tax on dispositions made by him. The proceeds of the policy were £50,000 and Jack's will provided that all Inheritance Tax payable on his death was to be paid pro-rata from this policy.

(Question 4 continued over the page……

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The Doyle family are Irish Domiciled, Resident and ordinarily resident. Neither Michelle nor Donal are dependent children on 1st December 2000. Donal has lived in the residence referred to above with Jack for 10 years. Donal has no interest in any other residence. Donal and Michelle both previously inherited a cash amount of £100,000 on the death of their Mother in January 1996. Apart from this there are no previous gifts or inheritances.

Required:

(a) Identify conditions which must be met by a beneficiary wishing to avail of Exemption from CAT for certain dwelling houses as introduced by Section 151 FA2000. **(3 Marks)**

(b) Identify the conditions which must be met in order for an individual to qualify for "Business Relief". **(5 Marks)**

(c) Compute the CAT liabilities, if any, in respect of:
  (i) Inheritance taken by Donal **(2 Marks)**
  (ii) Inheritance taken by Michelle **(5 Marks)**

(d) State the latest date of payment of inheritance in order to avoid interest penalties. **(1 Mark)**

Total: 16 Marks

Section B starts on the next page

SECTION B

YOU ARE REQUIRED TO ANSWER ANY TWO QUESTIONS FROM THIS SECTION

Question 5

Part (a)
The income tax legislation provides specific rules for the valuation of certain benefits in kind. Outline the valuation rules which apply to each of the following benefits:

-the transfer of ownership of property
-the provision of living accommodation
-the provision of preferential loans

(7 Marks)

Part (b)
A client of yours, John Madden is getting married in the tax year 2000/01. He is also moving from Dublin to Cork to take up a new employment. His new employer has offered to cover any removal expenses incurred by John when moving to Cork.

Required:
Write a brief letter to John outlining for him

(i) the income tax implications (if any) of John getting married. You should include details on the differences between single, separate and joint assessment.
and
(ii) the tax treatment of removal expenses being paid by John's new employer.

(8 Marks)
Total:15 Marks

Question 6

Part (a)
Outline the main provisions of the Taxes Consolidation Act under which tax relief may be claimed by companies for trading losses. You should indicate any time limits involved.

(5 Marks)

Part (b)
Anxiety Ltd ceased trading on 31.12.00 and had the following results up to that date:

	Y/e 30 June 1996	1997	1998	1999	p/e 31.12.00
	£	£	£	£	£
Trading profits	8,000	6,000	12,000	(8,000)	(30,000)
Rental Income	6,000	6,000	12,000	16,000	12,000

Required:
Calculate the terminal loss relief available to Anxiety Ltd and show the final taxable profits for each of the above accounting periods.

(10 Marks)
Total:15 Marks

Question 7

Calculate the capital acquisitions tax payable in respect of the gift/inheritance taken in 2000 in each of the following cases AND outline the rules for determining whether a gift/inheritance taken is taxable.

(a) Thomas who is domiciled and resident in the UK, gave to his nephew David, on 1/6/2000, shares in a UK trading company valued at £50,000. David is Irish domiciled and resident. Thomas had previously given David £10,000 worth of UK shares in June 1998. David had also inherited £15,000 on the death of a cousin, who was Irish domiciled and resident, in September 1993.

(3 Marks)

(b) Joan who is Irish domiciled but UK resident and ordinarily resident, executed a deed of covenant on 1/7/2000 for £12,000 in favour of her father, Michael, who is Irish domiciled and resident. Joan's father is a widower aged 60. The latest government stock issued before 1/7/2000 that is not redeemable within 10 years was 6% Government Bonds quoted at £92 for £100 of stock.

Joan's father had previously received the following benefits:

(i) Assets valued at £250,000 on the death of his wife, also Irish domiciled and resident , in 1992.

(ii) £30,000 in cash on the death of his mother-in-law, Joan's grandmother, also Irish domiciled and resident, in 1993.

(iii) A painting valued at £20,000 from his sister, on her death in 1995.

(6 Marks)

(c) Dolores, a UK domiciled and UK resident person died in January 1989. Under the terms of her will she left a life interest in a UK property and an Irish property to her brother Brendan, Irish resident and domiciled, and on his death absolutely to his son Oisin, also Irish resident and domiciled. Brendan died on 6/7/2000 at which date the absolute ownership of the UK and Irish property reverted to Oisin, then aged 42. The market value of the UK property at the date of Brendan's death was £350,000, and of the Irish property £150,000.

Apart from the above the only previous benefit received by Oisin was £20,000 worth of savings certificates from his father, which were gifted to him on the occasion of Oisin's marriage to Ciara.

(4 Marks)

(d) Perrine, an individual domiciled in France but resident in Ireland, gives her daughter Patrice, also French domiciled but Irish resident, shares in an Irish trading company(cost £20,000 with a current market value of £28,000) and shares in a French Trading company (cost £10,000 and current market value of £19,000) on 30/9/2000.

(2 Marks)
Total: 15 Marks

Question 8

Anthony bought a house (his principal private residence) in Galway on 1 January 1972 for £20,000 plus legal costs of £2,000. This represented the normal residence value of the house at that time.

The open market value of the house on 6 April 1974 was £45,000. At that date this value included a development value premium of £ 10,000, due to rezoning of land in the area in which the house was built.

Anthony sold the house to a developer on 6 June 2000 for £400,000. Its value for residential use at the time was £280,000. Costs of disposal amounted to £15,000.

In June 1980 Anthony spent £20,000 on improvements (capital) to the house.
Anthony's occupation of the house during his period of ownership was as follows:

Period 1 January 1972 to 31 December 1973:	In occupation.
Period 1 January 1974 to 31 December 1976:	Lived in rented accommodation in Dublin in order to take an employment opportunity there.
Period 1 January 1977 to 31 December 1979:	In occupation.
Period 1 January 1980 to 31 December 1983:	Lived in rented accommodation in Cork to take up an employment opportunity.
Period 1 January 1984 to 31 December 1984:	In occupation.
Period 1 January 1985 to 31 December 1992:	Lived in Paris, in rented accommodation in order to take up an employment opportunity.
Period 1 January 1993 to 31 December 1995:	In occupation.
On 1st January 1996	Moved to Cork to set up his own business.

Anthony is single. His only other capital gains transaction during the year ended 5.4.2001 was the sale of shares in a private company which realised a capital loss of £10,000. This transaction took place on 1 August 2000.

Required:
Compute Anthony's capital gains tax liability for 2000/01 and indicate when the liability is payable. (*Note any apportionments are to be calculated to nearest month)*

15 Marks