

**OLLSCOIL NA hÉIREANN, GAILLIMH**

**National University of Ireland, Galway**

**SEMESTER 1 EXAMINATIONS 2001/2002**

**THIRD YEAR COMMERCE EXAMINATION**

**TAXATION I – AY 308**

**Professor N. Garrod  
Professor J.F. Collins  
Ms E. Mulligan**

**Time allowed: TWO HOURS**

**Candidates are required to answer the question in Section A  
and two questions in Section B**

**This paper includes a table of rates of taxation.**

## SECTION A COMPULSORY

### Question 1

Mazor Ltd is an Irish resident company and it prepares its accounts annually to 31 December. The company's profit and loss account for the year ended 31 December 2001 is as follows:

	€	€
Gross trading profit	300,000	
Dividend received from Irish resident companies	24,000	
Profit on sale of plant (Note 1)	2,150	
Irish Bank deposit interest gross (paid under deduction of DIRT)	<u>10,000</u>	336,150
<u>Less:</u>		
Salaries and wages (Note 2)	86,000	
Depreciation	24,000	
Motor expenses (Note 3)	32,000	
Bad debts (Note 4)	13,000	
Obsolete stock written off	3,000	
Repairs and renewals (Note 5)	24,000	
Bank interest and charges (Note 6)	26,000	
Interest paid on borrowings used to invest in shares in Irish Trading Ltd (paid gross) (Note 7)	3,000	
Miscellaneous	<u>20,000</u>	<u>231,000</u>
Net Profit before taxation and dividends		105,150

### Notes

1. Sale of plant  
Cost €6,000 in July 1999, net book value €5,500, tax written down value €4,200, sold for €7,650 in July 2001.
2. Salaries and Wages  
Includes a salary of €36,000 in respect of the managing director who is a major shareholder.
3. Motor expenses  
€22,000 relate to operating costs of the company's two lorries (each cost €36,000) and €10,000 running costs for the managing director's car. The car cost €40,000 on 1 May 1999. The managing director's total annual mileage is 24,000 miles, of which 8,000 miles are personal.
4. Bad Debts

	€
Increase in general provision	4,000
Increase in specific provision	9,000

*(Question 1 continued over the page.....)*

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

5. Repairs and renewals

	€
Storm damage to premises (net of insurance recovery)	5,200
New movable partitions for the administration office	8,800
Plumbing repairs	10,000

6. Bank interest and charges

	€
Business overdraft interest paid during year	8,000
Accrual re overdraft interest at 31/12/01	2,000
Term loan interest on loan to finance warehouse	16,000

7. The shareholding in Irish Trading Ltd is 10% of that company's issued share capital. Both companies have common directors.

8. The tax written down value of assets at 1.1.2001 were:

	€
Director's car	13,002
Lorries	24,000
Plant and equipment	19,600
(original cost €28,000)	

**You are required to:**

a) Calculate the corporation tax payable by Mazor Ltd for the year ended 31 December 2001.

**(30 Marks)**

b) Set out clearly the company's obligations under the self assessment system with regard to payment of this tax and the submission of its tax return for the year ended 31 December 2001.

**(4 Marks)**

**Total: 34 Marks**

**Section B over the page.....**

**SECTION B**  
**YOU ARE REQUIRED TO ATTEMPT ANY TWO**  
**QUESTIONS FROM THIS SECTION**

**Question 2**

James McIntyre commenced his employment with Toulex Ltd in January 1976 and was made redundant on 1 August 2001. He received the following redundancy package:

	€
Pay in lieu of notice	1,500
Company car worth	20,000 (original market value €28,000)
Loan to him written off	5,000
Statutory redundancy	6,000
Compensation payment	38,000

Mr McIntyre's salary and benefit in kind for the period from 6 April 2001 to 1 August 2001 amounted to €12,000. He took up a new employment on 1 September 2001 and his annual earnings from this employment was agreed at €45,000.

His emoluments for the three years 1998/99 to 2000/01 were as follows:

	1998/99	1999/00	2000/01
	€	€	€
Salary	25,000	26,000	29,000
BIK	<u>3,600</u>	<u>4,000</u>	<u>4,600</u>
Total	28,600	30,000	33,600

At the date of his termination from Toulex Ltd the actuarial value of his tax free lump sum entitlement under the pension scheme was €4,600.

**You are required to:**

- a) Calculate Mr McIntyre's Schedule E income for 2001.
- b) Explain the tax implications for James on receiving the above redundancy package, if he had carried out some of his employment with Toulex Ltd abroad.

**(27 Marks)**

**(6 Marks)**

**Total: 33 Marks**

**P.T.O.**

### **Question 3**

#### **Part (a)**

As individuals' working arrangements are becoming more flexible and varied it continues at times to be difficult to determine whether an individual is providing services under a *contract of service* (employed) or under a *contract for services* (self-employed).

#### **You are required to:**

Discuss the main factors which are likely to determine whether an individual is providing services under a contract of service or under a contract for services **and** outline the tax implications of both forms of contract.

**(23 Marks)**

#### **Part (b)**

Mannix Ltd has just completed a new building which will be used for its trade. Details of the costs in relation to this building are as follows:

	€
Site cost	300,000
Cost of factory portion of building	450,000
Cost of administration office portion of building	35,000

The €450,000 expenditure on the factory portion of the building qualifies for a 10% government capital grant.

#### **You are required to:**

Compute the annual writing down allowance which Mannix Ltd will be entitled to claim in respect of this new building.

**(10 Marks)**

**Total:33 Marks**

### **Question 4**

#### **Part (a)**

Margaret has been running her own business for the last five years and prepares annual accounts to 30 June. Details relating to one particular item of plant used in her business is as follows:

	€
Tax written down value of plant at 31.12.2001	8,000
Sale proceeds in September 2001	12,000
Original cost	10,000
Cost of similar replacement asset bought on 1 November 2001	16,000
Sale proceeds of replacement asset, disposed 31.12.2003	16,600

#### **You are required to**

Compute Margaret's capital allowances/balancing charges in respect of this plant for 2002, 2003 and 2004 on the basis that she claims the replacement option.

**(20 Marks)**

#### **Part (b)**

Discuss the extent to which the Irish tax system (i) is equitable and (ii) successfully provides incentives to work and save.

**(13 Marks)**

**Total:33 Marks**

## RATES

**Income Tax:** Standard rate - 20%

Marginal rate - 42%

**Corporation Tax:** Standard rate - 20%

Higher rate - 25% (applies to passive income)

**Capital Gains Tax:** Standard rate - 20%

### Motor Vehicle Restricted Values

Restricted Cost of Car for Capital Allowances	Maximum Allowed
	€
Between 6 April 1986, and 27 January 1988	5,079
Between 28 January 1988 and 25 January 1989	7,618
Between 26 January 1989 and 29 January 1992	8,888
Between 30 January 1992 and 26 January 1994	12,697
After 27 January 1994 (new cars only - €12,697 limit continues for secondhand cars)	16,507
After 8 February 1995 ( " " " " " " " " " )	17,776
After 22 January 1997 ( " " " " " " " " " )	19,046
After 2 December 1997 ( " " " " " " " " " )	19,681
After 3 December 1998 ( " " " " " " " " " )	20,316
After 1 December 1999 ( " " " " " " " " " )	20,951
Bought in accounting/basis periods ending after 31 December 2000 for all cars	21,586

### Company Cars – Business Mileage Relief

Assessable Business Miles	Taxable % of Benefit-in-Kind
	2001
Exceeding	%
0	100
11,100	97.5
11,840	95
12,580	90
13,320	85
14,060	80
14,800	75
15,540	70
16,280	65
17,020	60
17,760	55
18,500	50
19,240	45
19,980	40
20,720	35
21,460	30
22,200	25
upwards	