

**OLLSCOIL NA hÉIREANN, GAILLIMH**  
**National University of Ireland, Galway**

**AUTUMN 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**

Martin Keane has been in business for many years and prepares his accounts to 30 September. His profit and loss account for the year ended 30 September 2001 is as follows:

	€
Sales	200,000
Deposit interest (net)	4,000
Dividends from Bank of Ireland (net)	300
Dividends from AIB (gross)	400
Loss of profits insurance policy receipt	8,000
Amortisation of grants re purchase of fixed assets	<u>400</u>
	213,100
Administrative salaries (Note 1)	20,000
Keane's salary	16,000
Manufacturing expenses	45,000
Advertising (Note 2)	6,500
Depreciation	8,000
Rent and Rates	5,000
Power, light and heat (Note 3)	8,000
Bad Debts (Note 4)	1,050
Patent royalties	5,000
Professional fees (Note 5)	4,900
Repairs and renewals (Note 6)	4,600
Bank interest and charges (Note 7)	7,800
Motor expenses-cars (Note 8)	10,400
-lorries	5,000
Miscellaneous (Note 9)	<u>2,500</u>
Total expenses	<u>149,750</u>
Net profit/(loss)	<u>63,350</u>

**Note 1**

This includes €2,000 paid to Keane's wife for secretarial work.

**Note 2**

€

This is made up as follows:

Advertising business products	3,000
Advertising for staff	1,000
Advertising fixed assets for sale	600
Advertising for tenant of a private property owned by Mr and Mrs Keane	700
New product promotion	1,200

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

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

**Note 3**

This includes €300 in respect of heat for Mr Keane's aunt's apartment, and provision of free fuel to staff amounting to €1,500.

**Note 4**

This is made up as follows:

	€
Bad debts written off	2,320
Reduction in general bad debts provision	(750)
Reduction in existing specific bad debts provision	(350)
Recovery of bad debt previously w/o	(300)
Write-off of small loan advanced to employee	<u>130</u>
	1,050

**Note 5**

This includes accountancy and taxation fees of €2,500, €500 of which specifically concerned consultancy work in respect of inheritance tax planning. The balance of

€2,400 was made up of legal fees as follows:

	€
Debt collection	800
Planning permission in respect of new toilets	500
Defence against legal proceedings taken by customers	900
Transfer of some interest in assets to his wife	200

**Note 6**

This is made up as follows:

	€
Storm damage to premises (net of insurance recovery)	3,500
Plumbing repairs	1,100

**Note 7**

This is made up as follows:

	€
Business overdraft interest	2,700
House mortgage interest	2,500
Interest on term loan (to re-equip shop)	2,100
Bank Charges	500

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

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

**Note 8**

Motor expenses – cars	Keane's car	Salesman's car
Cost of car or retail price if leased (both new)	€28,000	€25,000
Date acquired	Jan 2001	Feb 1999
<u>Running costs</u>	€	€
Petrol	3,000	2,650
Insurance	350	500
Tax	125	125
Repairs		50
Miscellaneous	200	5
Lease hire charges		1,200
Personal % of use of car as agreed with Revenue	60%	
% of business use agreed with Revenue for BIK purposes		80%

The balance of motor car running costs relate to staff cars costing less than €21,586.

**Note 9**

This includes trade magazines costing €400 and interest on underpaid VAT amounting to €500.

**Required:**

- Compute Mr Keane's Case I tax adjusted profit or loss for the year ended 30 September 2001.  
**(30 Marks)**
- Write an explanatory note on the 'expression of doubt' provision which applies in the context of any taxpayer filing his/her tax return.  
**(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**

**Part (a)**

John is operating a wholesale business for many years. He is VAT registered and prepares annual accounts to 31 October every year.

The tax written down values of the assets in the business at 5 April 2001 were as follows:

	€
Office furniture and equipment (cost €5,000)	4,250
John's car	8,126
Lorry and Delivery vans	11,944

During the year ended 31 October 2001 the following capital transactions took place:

1. John bought some new office furniture on 1 October 2001 for €3,000 exclusive of 20 % VAT. This furniture was delivered to the premises on 15 November 2001.
2. He replaced his car (a Carina) with a secondhand Audi. In exchange for the Audi he paid the garage €14,000 along with handing over his old car which had a trade-in value of €5,000. He originally bought the Carina for €13,000 on 1 November 1999. All figures are inclusive of 20% VAT. John had agreed to 50% private use of his cars with the Inspector of Taxes.
3. John leased printing equipment for the business, for three years, at a lease rental of €200 per month, exclusive of VAT, commencing on 1 February 2001.
4. He bought a new delivery van at a cost of €22,000 inclusive of 20% VAT on 1 July 2001.
5. On 1 October 2001 John sold a lorry for €8,000, exclusive of VAT, and replaced it with a new lorry which cost €32,000 inclusive of 20% VAT. The old lorry was originally purchased for €12,000 exclusive of VAT, on 1 October 1998.

**Required:**

Compute the total capital allowance claim for 2001 for John, claiming all reliefs available. You should avail of the 'replacement option' where possible.

**(27 Marks)**

**Part (b)**

Write a brief explanatory note on the meaning of 'plant' for the purposes of capital allowances.

**(6 Marks)**

**Total: 33 Marks**

**P.T.O**

### Question 3

#### Part (a)

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)

Three employees of Xup Ltd are in receipt of the following benefits in respect of their employments:

- Tom has a company car which cost €32,000. He pays for servicing and repairs and his annual business mileage is 5,000 miles.
- David has a low interest home loan of €60,000. He pays interest at the rate of 3% p.a. on the loan.
- Aoife has been given a company apartment to live in rent free. The market value of the apartment is €120,000.

#### Required:

Compute the taxable benefits assessable under Schedule E on Tom, David and Aoife for the tax year 2001.

(10 Marks)

**Total: 33 Marks**

### Question 4

#### Part (a)

Nelly Maguire commenced a retail trade on 1 October 2001. She continued in business until 31 July 2007. The tax adjusted profits for the various periods are as follows:

	€
Year ended 30 September 2002	27,000
Year ended 30 September 2003	33,000
Year ended 30 September 2004	42,000
Year ended 30 September 2005	57,000
Year ended 30 September 2006	66,000
Period ended 31 July 2007	60,000

#### Required:

Set out clearly the *original assessments* and the *final assessments* for each year of assessment, after Nelly Maguire and the Inspector of Taxes have claimed any adjustments available to them.

(20 Marks)

#### Part (b)

Discuss three criteria which may be used to judge a country's taxation system and highlight the extent to which the Irish tax system meets these criteria.

(13 Marks)

**Total: 33 Marks**