

OLLSCOIL NA hÉIREANN, GAILLIMH
National University of Ireland, Galway

SEMESTER II AUTUMN EXAMINATION 2001/2002

THIRD YEAR COMMERCE EXAMINATION

TAXATION II – AY 319

Professor N. Garrod
Professor J.F. Collins
Ms L. Langan
Mr C. Divilly

Candidates are required to answer TWO Questions from SECTION A and ALL Questions from SECTION B

Time allowed: **TWO HOURS**

The paper includes a table of allowances and rates of taxation

SECTION A
(Attempt any two questions from this section)

Question 1

On 4 September 2000, Josephine O'Farrell reached her 70th birthday and made the following disposals:

She sold, at market value, shares in Stut Plc as follows - 5,000 shares on 4th September and the following day, she sold a further 5,000 shares. Josephine had acquired the shares as follows:

1 July 1996	2,000 shares at €1.60 each
6 August 1998	4,000 shares at €1.90 each
2 April 2000	Rights issue of two shares for each share held. The Rights issue shares cost €3.40 each and she took up her full entitlement at that time.

On 1 January 2000, Josephine had sold 1,000 shares at €3.50.

On 4 September 2000 the market value per share was €4.54.

She sold a one-acre site to her daughter at market value. The site, valued at €195,000 did not have planning permission but her daughter hoped to build a house on it. Josephine had purchased the land for €100,000 plus legal fees of €8,250 on 10 November 1988. At that time, the current use value was €25,000.

She sold her private residence to her second daughter. She had acquired the house in September 1975 at a cost of €14,000 and associated costs of €1,250. At the date of transfer, the property was valued at €275,000. She had occupied the house personally for the entire period of ownership.

Requirement

1. Calculate the total capital gains tax arising in the tax year 2000/2001.
30 Marks
2. Advise on the due date of payment of the tax and the date of filing the return for capital gains tax purposes.
3 Marks
3. Under VAT Legislation, what details are required to be included on an invoice for goods which are liable for VAT and how long must VAT invoices records be retained.
3 Marks
4. What is the filing date for VAT returns?
2 Marks

Total Marks 38

Question 2

Part A.

Seamus Riordan sold a house owned by himself and his wife for €286,500 on 1 February 2001. He incurred legal fees and advertising fees relating to the sale of €5,350. The Riordan's had built the house in June 1972 at a cost of €15,250 and the value of the property on 5 April 1974 was €22,570. The house had been occupied during the entire period of ownership with the following exceptions:

Date	Reason
1. 1 April 1979 – 1 May 1981	The family moved to France as Seamus decided to take a job in France for a two year contract. He resigned from his job in Ireland in 1979 however on his return he recommenced his original employment.
2. 1 January 1985 – 1 July 1987	Seamus was required to move with his job for this period. He returned to live in the house in July 1987.
3. 30 May 1992 – 30 August 1992	The Riordan's purchased a holiday home in France in January 1992 for €45,000 plus costs of €7,000. The family went on holidays to the cottage in France in May 1992 for the summer. They returned to live in their home at the start of September 1992 and Seamus resumed his employment (having taken a 3 month leave-of-absence).
4. 1 April 2000 – 1 February 2001	The Riordan's purchased a new residence in March 2000 and immediately moved house, leaving their own property vacant. While the house was then placed on the market, it took until 1 February 2001 to actually sell the house.

In March 2001, the Riordans also sold their French holiday home for €62,350. During the time in which they owned the French property, they let the property as a holiday home when possible.

You are required to calculate the capital gains tax arising in the tax year 2000/2001 in respect of both properties.

18 Marks

Question 2 contd.

Part B.

ABC Limited carries on a manufacturing and wholesale business in Limerick. In the year ended 30th September 2001, ABC Limited had the following income:

	€
Trading profits	630,000
Gross Interest on Deposit accounts	1,000
Rental income	5,000
Dividend income on Bank of Ireland shares	3,000 (Net).

ABC Limited realised a capital gain on the sale of Bank of Ireland shares for €20,000 in August 2001. The shares had cost €15,000 in May 2001.

ABC Limited paid manufacturing charges of €8,000 in the year to 30th September 2001. Details of unused losses available as at 1 October 2000 were as follows:

	€
Case 1 trading losses	30,000
Capital losses	1,000

An analysis of ABC Limited sales of €900,000 for the year to 31 September 2001 is as follows:

	€
(1) Sale of Manufactured goods	500,000
(2) Sale of bought in goods	400,000

You are required to compute the corporation tax liability payable for the year ended 30th September 2001.

20 Marks

Total 38 Marks

Question 3

Sean Walsh is 39 years of age and is a qualified Accountant. Sean commenced practice as an Accountant on 1 October 1999. Sean prepares accounts to 30th September. The tax-adjusted profits for the first three years trading were as follows:

	€
Year ended 30 th September 2000	8,000
Year ended 30 th September 2001	27,027
Year ended 30 th September 2002	30,000

Question 3 Contd.

In addition to the above income Sean has the following sources of income:

	Year to 5th April 2001	Period to 31 December 2001
	€	€
Deposit income (gross)	300	200
Rental income	200	300
Interest on Govt. Gilts	500	600

Sean's wife Joan has the following sources of income:

	Year to 5th April 2001	Period to 31 December 2001.
	€	€
Salary – Gross	36,000	44,400
PAYE deducted	9,600	11,350
Dividend income - Net	0	1,094
Deposit interest (gross)	50	40

Her employer provides Joan with a car. The car cost Euro 20,000 when purchased new. The employer pays all costs associated with the car. Joan's total annual mileage is 20,000 miles of which 3,000 relate to the business of her employer and the balance to private use.

Sean and Joan had the following outgoings for the stated periods:

	Year to 5th April 2001	Period to December 2001
	€	€
Joint mortgage interest	3,800	3,679
Sean - BES qualifying investment	0	4,000
Sean- Retirement annuity premiums	6,000	6,000
Sean – Permanent health premiums	500	559
Preliminary tax 2001		3,000

Requirement

- (1) Compute Seans total income tax liability for 2001 on the basis that he is jointly assessed with his wife Joan. (Calculation of PRSI/Levy liability is not required.) **35 Marks**
- (2) Indicate by what date Sean should file his tax return for 2001. **3 Marks**

Total 38 Marks

SECTION B

(Answer ALL questions from this section)

Question 4

Outline, using examples, the rules relating to Indexation for Capital Gains Tax purposes.

6 Marks

Question 5

Tom Daly had acquired technology shares in January 2000 at a cost of €20,000. By June 2000, the value of his shareholding had increased to €45,000. However, the fall in the stock market resulted in his share value slipping and by the time he finally sold the shares in February 2001, the proceeds, net of costs, amounted to €2,780.

Tom also purchased a 3-acre development site in February 1987 for \$30,000, when the current use value was €15,000. He sold the site in November 2000 for €150,000 resulting in a substantial gain. You are required to advise Tom as to his capital gains tax position for the 2000/2001 tax year and outlining the use which can be made of the capital gains tax losses he has incurred.

Question 6

6 Marks

XYZ Limited prepares accounts to 31 December each year. Recent results are as follows:

	1999	2000	2001	2002
Trade income	1,000	1,100	1,200	1,300
Case 111 income	100	110	120	130
Case V income (loss)	200	(300)	50	200

You are required to compute the profits chargeable to corporation tax for each period claiming all possible reliefs.

6 Marks

Question 7

The Finance Act 2000 introduced the process of “individualisation” of the standard rate tax band. Using an example, explain what change individualisation has introduced to the tax system.

6 Marks