

**SEMESTER 2
2021-2022**

**AC207
Personal and Business Taxation**

Dr. Hilary Qualter

Time allowed: 3 hours

Instructions

	Yes	No	N/A
Formulae and Tables included			X
Formulae and Tables book required (<i>i.e. distributed prior to exam commencing</i>)			X
Statistics Tables and Formulae allowed (<i>i.e. available on request</i>)			X
Statistics Tables and Formulae required (<i>i.e. distributed prior to exam commencing</i>)			X
Dictionary allowed (<i>supplied by the student</i>)			X
Non-programmable calculator allowed	X		

1. Answer **ALL FOUR** questions in **SECTION A** and **ANY TWO** of the three questions in **SECTION B**.
2. SECTION A is worth 70% of the marks for the paper and SECTION B is worth 30%.
3. This exam is worth 80% of the AC207 module.
4. The tax reference material is attached to this exam paper.

SECTION A (70%)
Answer ALL FOUR questions in this section

Question 1:

Hannah and Stephen McMahon aged 42 and 45 respectively, are a married couple. They are jointly assessed for tax purposes with Hannah being the assessable spouse. Details relevant to their income tax position for the tax year 2021 are outlined below.

Hannah, a civil engineer, has been in partnership with her father, Tony for many years. The partnership agreement provides for the profits to be shared 60:40 between Tony and Hannah. The partnership prepares accounts to 31 March annually and the net profit for the year ended 31 March 2021 was €300,000 before adjustment for disallowed expenses for tax purposes of €5,000.

On 30 September 2021 due to illness Tony decided to retire and rather than continue as a sole trader Hannah decided to close the business. The accounts for the partnership for the period to 30 September 2021 showed a net profit of €60,000 before adjustment for disallowed expenses of €2,000 for tax purposes.

On 1 November 2021 Hannah joined a large construction company as a project manager. Details of her employment are as follows:

- In order to take up this employment Hannah was required to relocate from Galway to Cork. Her employer paid €1,200 in removal costs and storage costs. The company also paid Hannah €8,000 as an inducement to take this position.
- She has a gross annual salary of €60,000.
- She has the use of a company car that cost €40,000 when purchased. Hannah estimates that she travelled 5,000 kms for business purposes from 1 November to 31 December 2021.
- The company operates its own pension scheme and Hannah paid €4,000 in pension contributions in 2021.
- In November 2021 Hannah completed a part-time evening course run by Engineers Ireland in project management. The course cost €2,000 and the company reimbursed her for the cost.

Hannah had PAYE of €3,000 deducted from salary in 2021.

Stephen McMahon took early retirement from his job a number of years ago on medical grounds and has built up a large portfolio of investments. Stephen's income received in 2021 was as follows:

- | | |
|--|----------------|
| • Dividends from shares in Irish Plc | €4,000 (net) |
| • Interest on government securities | €3,000 (gross) |
| • Irish bank deposit interest | €5,000 (net) |
| • UK Dividends | €2,000 |
| • Interest from NTMA Saving Certificates | €1,000 |

Stephen had a permanent health benefit insurance policy and received €20,000 in 2021 from that policy. He also has an invalidity pension from the Department of Social Protection of €8,000. PAYE deducted in 2021 was €3,200.

Hannah and Stephen had a number of outgoings during 2021:

- Hannah paid €15,000 in nursing home fees where her mother is a long-term patient in need of full-time medical care.
- Stephen pays legally enforceable maintenance payments €500 per month to his first wife Fiona. €300 of this payment is for his son David, who lives with Fiona on a full-time basis.
- Hannah paid medical expenses of €2,500 during 2021, made up of contact lenses costs of €1,000 for herself and €1,500 for a stay in hospital for her mother.

Requirement:

Calculate Hannah and Stephen's income tax liability for 2021 assuming all beneficial claims are made, ignoring PRSI and USC, and giving reasons where you believe any income is not taxable.

(Total for Question 1 = 25 Marks)

Question 2:

Baby Blue Limited is an Irish resident company that manufactures children's indoor play equipment. The company had the following results for the year ended 30 September 2021:

	Notes	€	€
Sales			6,000,000
Cost of sales			<u>(4,000,000)</u>
Gross profit			2,000,000
Expenses			
Wages and salaries	(i)	500,000	
Patent royalties	(ii)	50,000	
Repairs and maintenance		60,000	
Office expenses		26,000	
Telephone and internet expenses		20,000	
Legal and professional fees	(iii)	14,000	
Sundry expenses	(iv)	10,000	
Finance charges	(v)	6,000	
Depreciation		<u>30,000</u>	(716,000)
Other operating income	(vi)		62,000
Interest payable	(vii)		<u>(26,000)</u>
Profit on ordinary activities before taxation			<u><u>1,320,000</u></u>

Notes:

(i) Included in wages and salaries is a €5,000 accrual for ordinary pension contributions. This was paid in November 2021.

(ii) Patent royalties includes an end of year accrual of €10,000.

(iii) Legal and professional fees:	€
Legal fees re debt collection	2,000
Legal fees for advice on a new supplier contract	5,000
Legal fees re potential purchase of an investment property	3,000
Audit and accountancy fees	<u>4,000</u>
	14,000

(iv) Sundry expenses:	€
Donation to local registered charity	1,000
Sponsorship of local football club	3,000
Interest penalties on late payment of PAYE	1,000
Staff training courses	<u>5,000</u>
	10,000

(v) Finance charges:	€
Lease payments for managing director's car	6,000

The managing director's car was first leased in September 2018. It is category B car, with a retail price of €36,000.

(vi) Other operating income:	€
Irish deposit interest received (gross)	5,000
Net rental income from an unused warehouse	20,000
Profit on the disposal of unused warehouse	30,000
Dividends from Irish plc	<u>7,000</u>
	62,000

The company had been renting out an unused warehouse to a third party. In June 2021 the company sold the warehouse for €300,000. It had been acquired in October 2010 for €270,000.

(vii) Interest Payable:	€
Interest on working capital loan	26,000

(viii) Capital Allowances:

Bay Blue Limited owns plant and machinery that cost €120,000 in April 2017. In May 2021, the company sold a machine for €30,000. This machine had cost €50,000 when purchased in April 2017. The machine was immediately replaced with an updated model costing €60,000.

(ix) Tax Payments

Baby Blue Limited paid preliminary tax of €220,000 on 23 August 2021 for the year ended 30 September 2021. The final tax liability for the year ended 30 September 2020 was €180,000.

(x) Possible patent acquisition

The managing director was on a business trip to the USA recently and saw a new style of indoor play equipment specifically designed for schools. The company is thinking about acquiring the patent to manufacture this equipment in Ireland and expand into the schools' market.

Requirement:

- (a) Calculate the corporation tax liability, if any, of Baby Blue Limited for the year ended 30 September 2021. **(13 Marks)**
- (b) Calculate the balance of corporation tax due for the year ended 30 September 2021 and outline the date by which this tax should be paid. **(2 Marks)**
- (c) Outline the capital allowances that may be available for expenditure on the US patent. In your answer you should explain the type of expenditure that qualifies and how the capital allowances are calculated. **(5 Marks)**

(Total for Question 2 = 20 Marks)

Question 3:

You have been asked by your tax manager to look at some VAT issues for two clients in advance of a meeting.

Issue 1:

Joe Delaney is a sole trader who manufactures high quality dining tables and chairs. He accounts for Value Added Tax (VAT) on an invoice basis. He had the following sales and purchases in May and June 2021:

	Notes	€
Sales of standard rated products		
Sales to VAT registered Irish customers	(i)	30,000
Sales to non-VAT registered customers		14,000
Purchases and expenses		
Purchases of raw materials from Irish suppliers		12,000
Delivery van	(ii)	30,000
Light and heat		800
Hotel accommodation costs in Cork to source new supplier		500
Petrol costs for delivery van		300
Laptop computer	(iii)	600

Notes:

- (i) All amounts are stated exclusive of VAT where applicable.
- (ii) The van was purchased under a five-year finance agreement. Joe paid 30% of the cost of the delivery van upfront with the balance being paid for in equal monthly instalments.
- (iii) The laptop computer bought by Joe is used for private purposes only.

Issue 2:

Alison Flynn is considering setting up a ladies' dress hire business. The business will involve the rental of designer dresses for special occasions to private individuals. Initially Alison expects that her annual turnover will be approximately €30,000 and she has been informed that the VAT rate applicable to her sales would be the standard rate of VAT

Requirement:

- (a) Calculate the VAT liability, if any, of Joe Delaney for the two-month period ended 30 June 2021, giving reasons where you believe that VAT is not deductible. **(6 Marks)**
- (b) State the latest date by which the VAT liability, if any, must be paid. **(1 Mark)**
- (c) Explain what VAT is chargeable on. **(2 Marks)**
- (d) Advise Alison Flynn on whether she is obliged to register for VAT giving reasons for your answer. **(1 Mark)**

(Total for Question 3 = 10 Marks)

Question 4:

Fiona Ryan had the following disposals in 2021:

- In April Fiona sold a holiday home in Wexford for €200,000. She bought the property from her sister for €70,000 in 2008 when the market value was €100,000. Legal fees associated with the acquisition and disposal were €2,000 and €1,500 respectively.
- In May Fiona gifted shares in Irish Insurance Plc to her spouse. She acquired the shares in 2004 for €10,000 and the market value of the shares at the date of the gift was €5,000.
- On 1 June she sold a residential property in Galway for €350,000. She bought the house for €200,000 on 1 September 2010 and lived in it as her main residence until the 1 September 2015, when she moved into a larger rented house.
- She sold an antique painting on 15 July 2021 to an art dealer for €6,000. She inherited the painting in 2012 on the death of her mother when it was valued at €2,500.
- In December Fiona sold a site to a property developer for €200,000. She had bought the site in June 1998 for €50,000 when the site had a current use value of €20,000. Incidental costs on acquisition were €1,000.

Fiona had a loss (not from development land) from 2020 of €2,000.

Requirement:

- (a) Calculate Fiona's capital gains tax liability for 2021. **(12 Marks)**
- (b) State the date when Fiona has to pay any Capital Gains Tax due and the date she must file her tax return for 2021. **(3 Marks)**

(Total for Question 4 = 15 Marks)

SECTION B (30%)
Answer ANY TWO of three questions in this section
All questions carry equal marks

Question 5:

April Smith (age 42) is a self-employed solicitor and is a new client of your accounting firm. She returned to Ireland a few years ago having spent a number of years working in London. Following a telephone conversation with one of the tax managers you have been asked to prepare notes in advance of the meeting with April who has asked for clarification on some tax issues.

- April commenced her business on 1 May 2018. Her taxable profits are as follows:

	€
Year ended 30 April 2019	75,000
Year ended 30 April 2020	66,000
Year ended 30 April 2021	50,000

- On 1 November 2021 she purchased a residential property in Kildare for €400,000. She has sought advice on the Local Property Tax on this property. She intends to rent the property for 2022.
- She has noticed some coverage in the print media about tax evasion and tax avoidance and is keen to understand these issues further.

Requirement:

- (a) Calculate April's assessable profits for each of the tax years 2018 to 2021 inclusive, clearly showing all workings and stating the basis of assessment.

(6 Marks)
- (b) Explain April's obligations for the tax year 2021 with respect to the payment of her own income tax and the filing of her tax returns under the self-assessment system.

(4 Marks)
- (c) Calculate the LPT payable by April on the property for 2022 and state what payment options are available and the relevant payment date(s) in accordance with those options for the payment of any liability. Assume no local adjustment factor for Kildare for 2022.

(2 Marks)
- (d) Explain the difference between tax evasion and tax avoidance.

(3 Marks)

(Total for Question 5 = 15 Marks)

Question 6:

David Dalton has a small property portfolio of residential and commercial units. Details of the properties held during 2021 are given below.

Property 1

This property is a retail shop in David's local town. David has owned this property for many years, and it has been leased to a florist on a 16-year lease. In January 2021, due to difficult trading conditions David reduced the rent from €2,000 to €1,800, paid monthly in advance. Annual insurance is due on 1 July. The insurance premium paid on 1 July 2020 was €4,000 and 1 July 2021 was €5,000. Interest on money borrowed to part fund the property purchase amounted to €20,000 for 2021.

Property 2

David purchased this commercial property on 1 March 2021, part funded through a bank loan. Major structural repairs were carried out at a cost of €20,000 before it was let to tenants on 1 June 2021 on a 16-year lease with an initial premium payable of €36,000. The tenants carry on a trade from the property. Advertising costs on a local website in May were €500. The annual rent of €24,000 is paid quarterly and is due on 1 June, 1 September, 1 December and 1 March. Interest paid in 2021 on the loan to purchase the property amounted to €8,000. Annual insurance amounted to €3,000. David had purchased this commercial building from a sole trader for €300,000. The vendor had constructed the property in 2012 when the original construction costs were €200,000 and it had been used as a manufacturing facility.

Property 3

This residential property was let at an annual rent of €2,500, payable monthly on the first day of the month. Insurance paid for 12 months on 1 November 2020 amounted to €900. David sold the property on 15 November 2021. David asked the tenants to leave the property on 15 October to facilitate the sale. They did not pay any rent in October and as a goodwill gesture for the tenants moving out quickly and leaving the property in good condition David did not pursue the payment of October's rent. David spent €2,000 on painting the exterior of the property in November to prepare it for the market. Legal fees related to the sale amounted to €1,000.

Property 4

This residential property is rented to tenants €1,000 per month payable on the first of the month. The last rent they paid was 1 August 2021. Neighbours have constantly complained to David about the tenants' noisy behaviour. The tenants moved out on 1 September 2021 but to date have not paid the outstanding amount. David has hired a solicitor who has been unable to contact them. The legal fees were €400. In September 2021 he spent €5,000 repairing and redecorating the property. He relet it on 1 October 2021 for €1,200 per month payable in advance on the first of the month. Annual insurance on the property was €500 and interest for 2021 on money borrowed to purchase the property was €4,000. David spent €6,000 on furniture for the property in September 2021.

David has registered all his tenancies with the Residential Tenancies Board.

Requirement:

Calculate David's taxable income for 2021.

(Total for Question 6 = 15 Marks)

Question 7:

Anna Kenny is a sole trader operating as a florist. She has decided to hire her first employee. Aideen Flynn has accepted Anna's offer of full-time employment, with an agreed annual salary of €30,000. She will commence employment on 1 September 2021. Aideen ceased her previous employment on 31 July 2021. Details of her earnings up to the date of leaving according to her RPN were €24,000 (PAYE paid of €3,000 and USC paid of €650). Aideen's standard rate cut-off is €35,300 per annum and her annual tax credits are €3,300.

Requirement:

- (a) Outline how Anna should register as an employer for PAYE and what are her obligations as an employer throughout the year. **(5 Marks)**
- (b) Set out clearly FOUR types of income that the PAYE system must be applied to. **(4 Marks)**
- (c) Calculate Aideen's net monthly income for September 2021 after the deduction of PAYE and USC. **(6 Marks)**

(Total for Question 7 = 15 Marks)

AC207
EXAM REFERENCE MATERIAL
TAX YEAR 2021

INCOME TAX – RATES AND BANDS

Single, widowed or surviving civil partner without qualifying children	€35,300 @ 20%, Balance @ 40%
Single, widowed or surviving civil partner with qualifying children	€39,300 @ 20%, Balance @ 40%
Married couple or civil partners (one spouse or civil partner with income)	€44,300 @ 20%, Balance @ 40%
Married couple or civil partners (both spouses or civil partners with income)	€44,300 @ 20% (with increase of €26,300 max.), Balance @ 40%

TAX CREDITS

Single person tax credit	€1,650
Married couple or civil partners tax credit	€3,300
Widowed person or surviving civil partner in year of bereavement tax credit	€3,300
Widowed person or surviving civil partner with dependent children tax credit	€1,650
Widowed person or surviving civil partner without dependent children tax credit	€2,190
Single person child carer credit	€1,650
Widowed person or surviving civil partner with dependent children tax credit	
• Year 1 after the year of bereavement	€3,600
• Year 2 after the year of bereavement	€3,150
• Year 3 after the year of bereavement	€2,700
• Year 4 after the year of bereavement	€2,250
• Year 5 after the year of bereavement	€1,800
Employee tax credit	€1,650
Earned income tax credit	€1,650
Blind person tax credit	
• Single, one spouse or civil partner blind	€1,650
• Both spouses or civil partners blind	€3,300
Age tax credit	
• Single, widowed person or surviving civil partner	€245
• Married couple or civil partners	€490
Incapacitated child tax credit	€3,300
Dependent relative tax credit (Income limit - €15,740)	€70
Home carer tax credit	€1,600
• Lower income limit €7,200	
• Upper income limit €10,400	

AGE EXEMPTION LIMITS

Single, widowed or surviving civil partner - 65 years of age or over	€18,000
Married couple or civil partners - 65 years of age or over	€36,000
Additional for 1 st and 2 nd qualifying child	€575
Additional for each subsequent qualifying child	€830

TAX ALLOWANCES AND RELIEFS

Deduction for employing a carer of incapacitated individual (max)	€75,000
Rent-a-room relief (max)	€14,000
Provision of childcare services	€15,000

BENEFITS-IN-KIND

Preferential loan

- Qualifying home loan 4%
- Other loans 13.5%

Motor Cars

Annual Business Kilometres

- 24,000 or less 30%
- 24,001 to 32,000 24%
- 32,001 to 40,000 18%
- 40,001 to 48,000 12%
- 48,001 or over 6%

Cash Equivalent

(% of OMV)

PENSION CONTRIBUTIONS

Age	Net Relevant Earnings %
• Under 30 years of age	15%
• 30 to 39 years of age	20%
• 40 to 49 years of age	25%
• 50 to 54 years of age	30%
• 55 to 59 years of age	35%
• 60 years and over	40%

RESTRICTED COST OF MOTOR VEHICLES IN RESPECT OF LEASE EXPENSES & CAPITAL ALLOWANCES

Purchased BEFORE 01.01.2021		Purchased ON or AFTER 01. 01. 2021		Limit
Vehicle Category	CO2 Emissions	Vehicle Category	CO2 Emissions	
A, B and C	0–155g/km	A and B	0–140g/km	€24,000
D and E	156–190g/km	C	141–155g/km	Lower of 50% of cost or 50% of €24,000
F and G	191+g/km	D, E and F	155+g/km	No allowance available

CAPITAL ALLOWANCES

Plant and machinery	12.5% straight line
Motor vehicles	12.5% straight line
Industrial buildings	4% straight line

PRSI

Employers/Employees

Employer	11.05%
Employee	4%

Notes:

- Employer's PRSI on salaries of €398 per week or less is 8.8%.
- Employees earning €352 or less per week in 2021 are exempt from Employee's PRSI.
- An employee PRSI credit of a maximum of €12 per week is available to Class A employees with gross earnings between €352 and €424 per week. This credit is reduced by one-sixth of gross earnings in excess of €352 per week.

Self Employed Individuals

Cumulative Earnings	Rate
On all income	4%

Note: Self-employed persons with annual self-employed income of over €5,000 per annum are liable to PRSI at 4%, subject to a minimum contribution of €500 per annum. For those with self-employed income in excess of €5,000 but have no net liability to tax, the minimum contribution is €300.

UNIVERSAL SOCIAL CHARGE

Employment Income

- **Individuals aged 70 years or over whose income for the year is €60,000 or less**
- **Individuals who hold a full medical card whose income for the year is €60,000 or less**

Rate	Per Year	Per Month	Per Week
0.5%	First €12,012	First €1,001	First €231
2.0%	In excess of €12,012	In excess of €1,001	In excess of €231

- **All others**

Rate	Per Year	Per Month	Per Week
0.5%	First €12,012	First €1,001	First €231
2.0%	From €12,012 to €20,687	From €1,001 to €1,724	From €231 to €398
4.5%	From €20,688 to €70,044	From €1,725 to €5,837	From €399 to €1,347
8.0%	In excess of €70,444	In excess of €5,837	In excess of €1,347

Self Employed Individuals

- **Self-employed individuals aged 70 years or over whose income for the year is €60,000 or less**
- **Self-employed individuals who hold a full medical card whose income for the year is €60,000 or less**

Rate	Per Year
0.5%	First €12,012
2.0%	Next €47,988

- **All others**

Rate	Per Year
0.5%	First €12,012
2.0%	Next €8,675
4.5%	Next €49,357
8.0%	Next €29,956
11%	Balance

Note: Where an individual's total income for the year does not exceed €13,000 it is exempt from USC.

LOCAL PROPERTY TAX

Valuation band number	Valuation band €	Mid-point of valuation band €	LPT 2022 @ standard rate €
01	0 to 200,000	N/A	90
02	200,001 to 262,500	N/A	225
03	262,501 to 350,000	306,250	315
04	350,001 to 437,500	393,750	405
05	437,501 to 525,000	481,251	495
06	525,001 to 612,500	568,751	585
07	612,501 to 700,000	656,251	675
08	700,001 to 787,500	743,751	765
09	787,501 to 875,000	831,251	855
10	875,001 to 962,500	918,751	945
11	962,501 to 1,050,000	1,006,251	1,035
12	1,050,001 to 1,137,500	1,093,750	1,190
13	1,137,501 to 1,225,000	1,181,251	1,409
14	1,225,001 to 1,312,500	1,268,751	1,627
15	1,312,501 to 1,400,000	1,356,251	1,846
16	1,400,001 to 1,487,500	1,443,751	2,065
17	1,487,501 to 1,575,000	1,531,251	2,284
18	1,575,001 to 1,662,500	1,618,751	2,502
19	1,662,501 to 1,750,000	1,706,251	2,721
20	+1,750,001	N/A	2,830+

CORPORATION TAX RATES

Corporation tax rates	<i>Trading Rate</i> 12.5%	<i>Passive Rate</i> 25%
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CAPITAL GAINS TAX

Rate of CGT - from 6 December 2012	33%
Annual Exemption	€1,270

CAPITAL GAINS TAX INDEXATION TABLE

Year of Assessment in which Expenditure was incurred	<i>Multiplier for Disposal in Period Ended</i>							
	5 April 1997	5 April 1998	5 April 1999	5 April 2000	5 April 2001	31 December 2001	31 December 2002	31 December 2003 et al
1974/75	6.017	6.112	6.215	6.313	6.582	6.930	7.180	7.528
1975/76	4.860	4.936	5.020	5.099	5.316	5.597	5.799	6.080
1976/77	4.187	4.253	4.325	4.393	4.580	4.822	4.996	5.328
1977/78	3.589	3.646	3.707	3.766	3.926	4.133	4.283	4.490
1978/79	3.316	3.368	3.425	3.479	3.627	3.819	3.956	4.148
1979/80	2.992	3.039	3.090	3.139	3.272	3.445	3.570	3.742
1980/81	2.590	2.631	2.675	2.718	2.833	2.983	3.091	3.240
1981/82	2.141	2.174	2.211	2.246	2.342	2.465	2.554	2.678
1982/83	1.801	1.829	1.860	1.890	1.970	2.074	2.149	2.253
1983/84	1.601	1.627	1.654	1.680	1.752	1.844	1.911	2.003
1984/85	1.454	1.477	1.502	1.525	1.590	1.674	1.735	1.819
1985/86	1.369	1.390	1.414	1.436	1.497	1.577	1.633	1.713
1986/87	1.309	1.330	1.352	1.373	1.432	1.507	1.562	1.637
1987/88	1.266	1.285	1.307	1.328	1.384	1.457	1.510	1.583
1988/89	1.242	1.261	1.282	1.303	1.358	1.430	1.481	1.553
1989/90	1.202	1.221	1.241	1.261	1.314	1.384	1.434	1.503
1990/91	1.153	1.171	1.191	1.210	1.261	1.328	1.376	1.442
1991/92	1.124	1.142	1.161	1.179	1.229	1.294	1.341	1.406
1992/93	1.084	1.101	1.120	1.138	1.186	1.249	1.294	1.356
1993/94	1.064	1.081	1.099	1.117	1.164	1.226	1.270	1.331
1994/95	1.046	1.063	1.081	1.098	1.144	1.205	1.248	1.309
1995/96	1.021	1.037	1.054	1.071	1.116	1.175	1.218	1.277
1996/97	-	1.016	1.033	1.050	1.094	1.152	1.194	1.251
1997/98	-	-	1.017	1.033	1.077	1.134	1.175	1.232
1998/99	-	-	-	1.016	1.059	1.115	1.156	1.212
1999/00	-	-	-	-	1.043	1.098	1.138	1.193
2000/01	-	-	-	-	-	1.053	1.091	1.144
2001	-	-	-	-	-	-	1.037	1.087
2002	-	-	-	-	-	-	-	1.049
2003 et seq	-	-	-	-	-	-	-	1.000