

TAXATION

FORMATION 2 EXAMINATION - AUGUST 2016

Time Allowed: 3 hours, plus 10 minutes to read the paper.

SECTION A

Answer Question 1, 2 and 3 in this Section.

(ALL are Compulsory)

1. Mick O'Driscoll runs a sports shop, specialising in rugby apparel. He prepares his financial statements to 31 December each year. The following is Mick's Statement of Comprehensive Income for the year ended 31 December 2015:

	Notes	€	€
Gross profit			351,050
Other income			
Deposit interest (net)			1,700
Irish rental income	11		26,000
UK Dividends			3,000
			<u>381,750</u>
Less: Expenses			
Salaries and wages	1	110,500	
Pension contributions	2	8,700	
Motor expenses	3	5,500	
Rent, rates and insurance	4	22,200	
Light and heat	5	5,810	
Telephone	5	5,960	
Postage and stationery		900	
Bank interest and charges	6	6,780	
Interest on late payment of VAT		1,900	
Bad debts	7	2,400	
Professional fees	8	6,300	
Depreciation		5,100	
Loss on disposal of shop fixtures		800	
Miscellaneous expenses	9	<u>6,955</u>	(189,805)
Net profit			<u>191,945</u>

Notes:

(1) Salaries and wages	€
Shop staff	90,500
Office staff – Roz (Mick's wife)	14,000
Employer's PRSI	<u>6,000</u>
	110,500

Wages for shop staff include €55,000 paid to Mick. PAYE of €1,400 was deducted from Roz's salary.

(2) Pension contributions	€
Pension contributions for self	8,700
Pension contributions were paid during the year except for €4,000 which was paid on 1 October 2016.	

(3) Motor expenses	€
Petrol/tax/insurance	5,000
Parking fines	<u>500</u>
	5,500

It is estimated that 25% of the petrol/tax/insurance expenses are personal.

(4) Rent, rates and insurance	€
Rent and rates – shop	5,600
Property tax – investment property – Dublin	700
Public liability insurance	5,900
Insurance – investment property – Cork	2,650
Home insurance	800
Shop/stock insurance	4,900
Permanent health insurance – Mick	1,650
	<u>22,200</u>

- (5) Light and heat/telephone**
30% of these costs relate to Mick's home bills.

(6) Bank interest and charges	€
Interest on loan to purchase investment property – Cork	3,750
Finance lease interest	1,750
Bank overdraft charges	1,280
	<u>6,980</u>

In 2015, Mick acquired new shop fittings under finance lease. In the year ended 31 December 2015, the total capital repayments amounted to €16,000.

(7) Bad debts	€
Increase in general bad debt provision	800
Bad debts written off	1,600
	<u>2,400</u>

(8) Professional fees	€
Accountancy fees	2,500
Legal fees in connection with obtaining planning permission for investment property – Dublin	2,700
Legal fees in connection with debt recovery	1,100
	<u>6,300</u>

(9) Miscellaneous expenses	€
Advertising costs in local publications	490
Donation to registered sporting body	800
Political donation	400
Trade magazines	165
Customer entertainment	950
Staff Christmas party	510
New Roof on Shop	3,400
Other allowable expenses	240
	<u>6,955</u>

- (10) Capital allowances for trade**
Mick's capital allowance claim for 2015 is €2,500.

- (11) Investment properties**
Mick owns residential properties in Cork and Dublin. During 2015 rental income received from Cork amounted to €20,000 and €6,000 from Dublin. There is a rental loss of €1,000 carried forward from previous tax years from the Dublin property. Both properties are registered with the Private Residential Tenancies Board (PRTB).

REQUIREMENT:

Calculate Mick and Roz's income tax liability for 2015 assuming they are jointly assessed. (You may ignore PRSI and USC).

[Total: 20 marks]