Government & Taxation

Leaving Cert Business Studies

St. Francis College
ROCHESTOWN
make the difference

SHORT QUESTIONS

2012

3. Explain the difference between the terms tax rates and tax credits.

Tax rates:
Income is taxed at two different rates. The rate at which tax is paid depends on the level of taxable income. The current tax rates are the standard rate of 20% up to a certain income and the higher rate of 41%. The standard or lower rate of 20% applies to the tax band of €32,800 and the higher rate 41% applies to the balance of taxable income.

Tax credits:
Gross Tax less Tax Credits = Tax Payable.
Under the tax credit system a taxpayer is entitled to tax credits/range of allowances depending on each person's personal circumstances, which can change from year to year e.g. married person's tax credit or civil partner's tax credit , employee (PAYE) tax credit etc. These tax credits are used to reduce tax liability calculated on gross pay. Tax credits are non- refundable. However, any unused tax credits in a pay week or month are carried forward to subsequent pay period(s) within the tax year.

2011

6. Outline two ways the Government could encourage business activity in Ireland.

(i) A low corporation tax rate of 12.5% encourages foreign direct investment, thereby increasing businesses in Ireland.

Low personal taxation in the form of lower PAYE and DIRT gives employees and consumers more disposable income and increases the demand for the goods and services provided by business.

(ii) Improved infrastructure such as roads, airports, ports, telecommunications and broadband allow business to operate efficiently and encourages business activity and job creation.

(iii) More Education and Training provided by State agencies such as FÁS can ensure a steady supply of skilled workers to meet the needs of business.

(iv) Grant aid for business start-up and expansion e.g. County and city enterprise boards give up to €20,000 feasibility/innovation grants where entrepreneurs match at least 50% of the costs. Business expansion grants of up to €80,000 are available for sole traders, partnerships, community or limited companies. SEED and BES schemes for companies exporting or companies having export potential.

(v) Better regulatory environment encourages the growth and expansion of business.

2010

10 (a) From the following figures calculate the net pay of Hazel Dunne.
Gross Pay €50,000, Tax Credits €6,000
Standard Tax Rate 20%, Higher Tax Rate 41%
Cut-off Point €36,400

Gross Pay		50,000
36,400 Taxed at 20%	7280 (1)	
(1)13,600 Taxed at 41%	5576 (1)	
Gross Tax	12856 (1)	
Less Credits	6000 (1)	
Tax Payable		6,856 (1)
Net Pay		43,144 (1)

(b) Name two tax credits a person is entitled to:

- Personal Tax credit (single, married, widowed)
- PAYE Tax credit
- Age Tax credit
- Incapacitated Child
- Dependant Relative
- Blind Person etc.

2009

Distinguish between the following taxation forms: Form P45 and Form P60.

Form P45 is:
Issued by an employer to an employee on the cessation of employment. The form provides details of the amount of Gross Pay, Tax and PRSI paid by the employee up to the date of leaving employment. The Form P45 will be required by the employee when:
(i) Entering new employment – the new employer will require the form P45 to calculate the correct amount of tax payable
(ii) Claiming social welfare benefits or a tax refund.

Form P60 is:
Issued by an employer to an employee after the end of the financial /tax (calendar) year.The Form P60 shows Gross Pay, Income Tax and PRSI paid by the employee in the specified financial year. The Form P60 will be required by the employee when:
(i) Claiming refund on overpaid tax – employees should check their Form P60 against their Tax Credits to ensure they have not been overtaxed.
(ii) Claiming refund on PRSI contributions overpaid (in excess of pay ceiling).
(iii) Claiming refund on Health contribution where income was below the relevant threshold.

<u>2008</u>

10 (a) Name a state-owned enterprise in the 'production' category. ESB
(b) Explain Two reasons for state involvement in this sector
• Essential services must be provided
• Economic Infrastructure/development.

<u>2006</u>
5 (a) Explain the term 'privatisation':

Privatisation is when the government sells a state owned entreprise to private individuals or companies.

(b) Illustrate its impact on the development of the Irish economy:
• <u>Government Revenue</u>: Selling of a state enterprise provides the government with a large sum of money e.g. Aer Lingus.
• <u>Reduced Expenditure</u>: The sale of a loss making enterprise means it will no longer have to be subsidised on a yearly basis by the government/less borrowing required by government/money available for other services.
• <u>Access to Finance</u>: Privatised firms are able to take out loans and shares and generally have greater access to sources of finance than state enterprise. This makes it easier to fund expansion.
• <u>Industrial Relations</u>: With greater job security employees in state enterprises are more likely to take part in industrial action in pursuit of pay claims, better working conditions etc. than those in the private sector.
• <u>Competition:</u> The elimination of a state monopoly can lead to open market competition and can lead to greater choice and lower prices for consumers e.g. Eircom.
• <u>Increased Unemployment</u>: There may be a loss of jobs through rationalisation of services, leading to higher social welfare spending.
• <u>Loss of Control /Costs to state</u>: The shares of privatised firms may end up with foreign investors/There may be high costs involved in preparing a company for privatisation.
• <u>Profit Motive/increased prices</u>: Privatised companies must maximise returns to the shareholders and this could result in increased prices for consumers.

LONG QUESTIONS

2012 (ABQ)

(A) Identify and describe the most appropriate sources of finance to meet the needs of (i) RIM Ltd.

Long Term Finance:
Mortgage/Long Term Loan/Debenture: It is taken out for more than 5 years. If the bank lends the €400,000 to RIM Ltd it will hold the deeds of the factory warehouse as security against the repayment of the loan. It is paid in agreed instalments including interest which is tax deductible. If RIM Ltd defaults on the repayment then the bank can recover their money through the repossession and sale of the warehouse.

Equity/Share Capital/Owners Capital: RIM Ltd is a Private limited company and the €400,000 needed to purchase the warehouse could be raised by selling ordinary shares to new or existing shareholders. No security or repayments are required for RIM Ltd.

Government Grants: Government agencies such as Enterprise Ireland or County Enterprise Boards could be approached for grant aid assistance to help purchase the factory warehouse for €400,000. Normally they are interest free and do not have to be repaid if used for their intended purpose. Link: "It set about identifying the financing options available to purchase the factory warehouse for the agreed price of €400,000."

Medium Term Finance:
Medium Term Loan: RIM Ltd could get a medium term bank loan with a fixed rate of interest that would be repaid in equal monthly instalments up to a five year period, allowing the company to cash purchase and negotiate the best cash prices available for heating equipment, fixtures and fittings etc. The bank may require security or personal guarantees. Interest paid is tax deductible. RIM Ltd will know in advance the amount and number of repayments and can budget accordingly. Link: "An additional €50,000 was required to refurbish the warehouse into 50 stall units which could then be rented out to farmers and crafts people".

Identify and describe the most appropriate sources of finance to meet the needs of (ii) individual stallholders.

Medium Term Finance:
Hire Purchase: This is a method of finance that would allow the individual stallholders to purchase an asset such as a transport vehicle over a five year period or less. The stallholder will get immediate possession of the transport vehicle,

however, ownership doesn't transfer until the last instalment is made. HP is an expensive source of finance. No security is required but the HP Co. may repossess the asset if there is a default in repayments.

Leasing: This would involve the renting of an asset by the individual stallholder from a finance company. The stallholder will not have to come up with a lump sum and would have the full use and possession of an asset, provided s/he makes fixed and regular payments to the company. While leasing costs more than cash purchase it can help the cash flow of a business. Link: "The stallholders had to initially purchase a transport vehicle, equip their stall".

Short Term Finance:
Bank Overdraft: This is a facility offered by a bank that allows current account holders to withdraw more money from their account than they actually have in it. Interest is charged on the outstanding balance on a daily basis. It can be recalled by the bank at any time. The individual stallholders could use their overdraft facility to purchase stock or pay the wages of part time staff. It can be used as a form of working capital to aid in day-to-day business operations.

Accrued Expenses: This source of finance frees up money by delaying the payment of regular bills such as utilities, rent or insurance. This would free up cash to pay for supplies which in turn could be sold allowing these bills to be paid later.

Trade Credit: Stallholders may buy stock for resale on a "buy now and pay later" basis. The amount of credit available is influenced by the creditworthiness of the stallholder. There is no direct charge but cash discounts may be forgone. Link: "The stallholders would have to manage cash flow effectively and control essential costs such as raw materials, stock, transport operating costs, wages and insurance" OR Link: "The stallholders had to ....equip their stall and pay the agreed stall rent of €50 a day to RIM Ltd". (Candidate treating "equip stall" as a purchase of "stock")

2 (B) Outline how the Irish government's policy of increased taxation and decreased public expenditure is impacting on business. (20 Marks)

While the Government has maintained income tax rates at the standard rate of 20% and the higher rate of 41% and protected its corporation tax rate at 12.5%, none the less it has pursued a policy of increased taxation.

Increased Taxation
Value Added Tax (VAT): The 23% VAT rate applies to a wide range of goods and services. Among the items that are subject to the 2% increase are: motor vehicles, petrol, electrical supplies, furniture, adult footwear and clothing, alcoholic and soft

drinks, and tobacco. In terms of services, accountancy services, legal services, tax advisory services are all subject to the higher rate of tax.

Household charge: The new €100 charge is payable from 2013 for 1.6 million homeowners.

Motor tax: Motor tax has risen by an average of about 7.5 per cent from the beginning of 2012.

Excise Duties: Tobacco products tax. Excise duty on a packet of 20 cigarettes was increased by 25 cent (including VAT).

Banking: Rate of Dirt has increased from 27 per cent to 33 per cent.

Tax increases have a negative impact on business:

- VAT increases lead to more expensive goods and services for the consumer which in turncauses demand to fall, thereby affecting business. For example the volume of sales in department stores fell by 18.4%, electrical goods by 12.0% and bars by 3.5% as a consequence of the negative impact of the VAT rise to 23%.
- Taxes such as the household charge lead to a fall in the disposable income of consumers. As consumers spending power is reduced the demand for the goods and services that businesses sell will fall.
- Increases in excises duties on tobacco products have led to an increase in tobacco smuggling. Excise duties on cigarettes continue to rise, increasing the incentive for customers to choose cut price illegal products sold on the black market. In 2010, Ireland's retailers lost €896 million in turnover to the Black market.

<u>Decreased Public Expenditure</u>
The following are illustrations of cuts in government expenditure;

Social Welfare Savings of €475m e.g. The Government standardised the rates of payments of child benefit for all children, scrapping premiums for third and subsequent children to save nearly €45m.

Healthcare Savings of €543m e.g. The Government is to reduce staff numbers and contain pay costs, to save €145m.

Education Savings of €132m e.g. The Government raised the pupil-teacher ratio, saving €19.4m

Public Sector Employment e.g. The Government Public service pay bill fell by €400m in 2012. At the end of 2012, the numbers employed in the public service were below 300,000.

Public sector to be cut by another 6,000 in 2013.

Capital Expenditure. The capital budget for 2012 has been cut by €755m to €3.9bn
Among the major projects which have been cancelled are:
 Metro North and Metro West
 The underground Dart
 Thornton Hall Prison
 The new DIT campus at Grangegorman in Dublin
 The Western Rail Corridor LC Business 2012 (HL) 27

The Public Expenditure cuts have a negative impact on business:

- Cuts in current expenditure have meant lower wages for workers, lower social welfare payments for the unemployed, higher unemployment (Standardised Unemployment Rate 14.3% in March 2013) etc. affecting spending in the economy. As consumer spending power is reduced the demand for the goods and services that businesses sell will fall.
- Under-investment in infrastructure can undermine economic growth and competitiveness. It is argued that Metro North would have created 4,000 direct construction jobs and thousands more indirect jobs in retail and in the construction supply sector.
- Lack of investment in infrastructure will impact on FDI (Foreign direct investment) and on start-ups.
- The Government embargo on recruitment in the Public Service has reduced opportunities for employment.
- Decreased public expenditure has resulted in less goods/services being purchased by Government agencies e.g. health services.
- Cut-backs in Budget allocations to various state bodies/services have reduced the availability of various services/grants to businesses.

2011

5 (B) Pay As You Earn (PAYE), Value Added Tax (VAT) and Corporation Tax are examples of taxes that are relevant to business.
(i) Explain each tax underlined above.
(ii) Evaluate the implications of each tax for a business.
(25 Marks – 3x5marks plus 2x5 marks for implications)

Pay As You Earn
- PAYE is a direct tax on income earned from employment.

- PAYE is remitted by the business every month to the revenue commissioners.
- It is deducted at source by the employer and passed onto the Revenue Commissioners.
- Taxpayers receive a certificate of tax credits which is forwarded to employers and which will reduce the amount of tax they have to pay.

Implication for business (evaluation)
- The collection of PAYE is an administrative cost for business/ It is a bureaucratic system requiring the completion of many different taxation forms e.g. P12A, P60, P45, P12 and P21.
- It is a progressive tax because the more income you earn the more tax you pay. High rates of PAYE are a disincentive for people to do overtime, which affects a business's ability to meet sales orders.

Value Added Tax
- VAT is an indirect tax charged on the sale of goods and services.
- Businesses register for VAT and receive a VAT number.
- VAT is remitted by the business every two months to the revenue commissioners.
- The VAT paid is the difference between the VAT paid on purchases and collected from sales
- VAT is charged at different rates, depending on the type of goods or services involved. 33

Implication for business (evaluation)
- The collection of VAT is a significant administrative cost for business.
- High rates of VAT on raw materials and components increase the costs of production for business affecting margins and cash flows.
- High rates of VAT increase the purchase price for consumers. This reduces the demand for goods and services of business.
- The government's planned reduction in VAT rates in the tourism sector from 13.5% to 9% should encourage growth in the tourism sector.

Corporation Tax.
- Corporation tax is a tax on the profits made by companies.
- The current rate of corporation tax is 12.5% for manufacturing businesses.
- Expenses of the business are allowable when calculating the taxable profits of the business.
- Companies must prepare annual final accounts to show their taxable profit.

Implication for business (evaluation)
- Corporation tax in Ireland is relatively low by international standards. This encourages Irish entrepreneurs and foreign investors to set up business here. If corporation tax was to increase it could act as a disincentive to FDI.

- Corporation tax reduces the size of profits and consequently the amount available as retained earnings. This could put pressure on the business to borrow money, leading to high gearing.

2010

(C) Discuss the different ways in which the Irish Government affects the labour force in Ireland.

As an Employer:
The Irish government is the single largest employer, employing 250,000 public servant workers (Civil Service, State Bodies). Pay cuts of 5%-15% introduced in budget 2010 have led to industrial unrest/disputes.

Current embargo on recruitment.
Taxation policies/Fiscal Policies: low rates of income tax will result in consumers having more disposable income therefore spending more money on goods and services. This creates a demand for these goods and services leading to increased production and job creation.

VAT & Corporation tax:
As a result of the government reducing the standard rate of VAT on goods to 21% in December 2010 and corporation tax remaining at 12.5%, more foreign companies may locate/remain in Ireland and offer employment. It also encourages Irish entrepreneurs to set up in Ireland and create jobs.
Infrastructure:
Government investment in the country's infrastructure (building of new motorways, schools, hospitals etc.) leads to an increase in the number of workers employed in the construction industry. It encourages other businesses to operate here in Ireland and thereby increases employment.

National agreements:
Brings stability to business planning as business costs such as wages can be accurately forecasted/predicted.

Increased spending on education/ training:
Government investments in education of the Irish labour force through training schemes, short term courses, and upskilling programmes with FÁS, will result in a more skilled, educated and employable work force.

Grants and incentives to foreign companies to locate in Ireland will result in foreign industry providing employment to the Irish labour force.

Supports to redundant workers in eligible companies under the European Globalisation Adjustment Fund (Dell). Employment Subsidy Scheme designed to encourage companies to retain staff during the downturn in the economy. Firms that received the subsidy were required to commit to retaining as many as 10 staff for every subsidised job.

Information Technology: Investment in I.T. especially in second and third level institutions has resulted in the Irish labour force having greater skills which may be required in the high tech firms (‘smart economy’).

Utility charges: Electricity costs are the second highest in Europe/local authority charges increased/new carbon tax adding to energy costs. These all affect business costs and therefore may result in reduction of the labour force.

Legislation/Regulation:
Industrial Relations legislation provides acceptable procedures for resolving industrial disputes.

Minimum wage/labour costs:
Minimum wage rates have gone up 55% since introduced (€8.65). This may discourage firms from employing additional workers. Other legislation which impacts on the labour force includes Unfair Dismissals Act, Employment Equality Act etc.

Entrepreneurship:
The Irish Government encourages the development of enterprise though supports provided by CEBs, Business Innovation Centres etc.

2009

(C) Discuss how the Irish Government could use the tax system to create a positive climate for business in Ireland. Use examples to illustrate your answer.

The Irish economy is currently in recession. The collapse of the construction sector and the consequent demise of the Irish banking system has had major ramifications for the Irish economy domestically and internationally.

Recent changes in the Irish Economy
- Rising Unemployment – Unemployment now at 14.4%
- Collapse of the construction sector
- Collapse of the banking system – government guarantee, nationalisation of banks etc
- Decline in credit rating for Ireland and the associated higher interest rate charged on borrowings
- Worsening government finances – government need to reduce public spending by 300m in 2013

- Decline in consumer spending and confidence – VAT, PAYE, Stamp Duty, Capital Gains taxes
- 38% of income earners pay no tax while half of all income tax paid is by top 6.5% of earners
- Difficulty in accessing credit for both personal and business customers
- VAT differential between UK, Northern Ireland and Republic has resulted in more imports – HB Dennis Motor Company and Sterling BMW now selling imported UK cars in Ireland
- Relocation of Dell and other multi-nationals to low cost economies etc

The Irish Government needs to stimulate growth in the economy to reverse the current decline. Use of tax system to create a positive climate for business

- PAYE – Reduction in PAYE rates should increase spending power and stimulate demand for goods and services.
- PAYE - An increase in PAYE rates could provide opportunities to reduce rates/water charges and fund business supports e.g. grants or reduction in PRSI (cost of employment)
- Corporation Tax – A reduction in Corporation Tax may improve company profits, and the ability to fund future growth of the business
- Stamp Duty – Changes may re-stimulate demand in the construction sector
- Tax Credits – An increase in tax credits may stimulate demand for goods and services
- VAT/Excise Duties – Reduction in VAT, reduces cost of goods and services, stimulates demand – makes Irish economy more competitive
- Tax Incentive Schemes – Promote the establishment and expansion of business

2008

2 (C) Evaluate, using examples, the arguments in favour OR against the privatisation of commercial state enterprises in Ireland.

Privatisation is the selling off of state owned enterprises to the private sector. The arguments in favour of privatisation of commercial state enterprises:

• Government Revenue: Selling of a state enterprise provides the government with a large sum of money e.g. Aer Lingus.

• Reduced Expenditure: The sale of a loss making enterprise means it will no longer have to be subsidised on a yearly basis by the government/less borrowing required by government/money available for other services.

• Efficiency: State owned enterprises are often perceived as being inefficient because they can rely on government funding and have little competition. Private firms are driven by a profit motive and should therefore be more efficiently run.

• Access to Finance: Privatised firms are able to take out loans and shares and generally have greater access to sources of finance than state enterprise. This makes it easier to fund expansion.
• Industrial Relations: With greater job security employees in state enterprises are more likely to take part in industrial action in pursuit of pay claims, better working conditions etc. than those in the private sector.
• Competition: The elimination of a state monopoly can lead to open market competition and can lead to greater choice and lower prices for consumers e.g. Eircom.

OR

The arguments against privatisation of commercial state enterprises:
• Loss of state assets: The state protects industries of strategic interest to the country e.g. transport network, the country's energy supplies for industry and domestic purposes, water supply, communications systems, the economic infrastructure of the country etc
• Increased Unemployment: There may be a loss of jobs through rationalisation of services, leading to higher social welfare spending.
• Social Commitments: Non-profit making essential services may be discontinued by the private business in an effort to reduce costs e.g. the postal and telecommunications service, electricity, gas and water services to remote areas, etc.
• Loss of Control /Costs to state: The shares of privatised firms may end up with foreign investors/There may be high costs involved in preparing a company for privatisation.
• Profit Motive/increased prices: Privatised companies must maximise returns to the shareholders and this could result in increased prices for consumers.

6 (A) Managing a business is similar to managing a household in the areas of finance and taxation. Discuss and give examples:

Finance

The household needs money for the purchase of a house, car and other expenses such as the children's education, family holidays, etc. The business needs working capital to finance operational expenses, and long term finance for capital items etc. Both must raise

- Suitable sources of finance.
- Short term: Bank Overdraft, creditors, accrued expenses
- Medium term: Medium Term Loan / Hire Purchase
- Long Term: Mortgages/share capital.
- Keeping Records of when they receive and spend money i.e. their cash flow/ Budgetary Planning etc.

Taxation

Households and businesses must pay taxes to the State. Income tax/PRSI and VAT is common to both. Businesses must pay VAT on purchases, capital gains tax on capital gains and corporation tax on the profits earned if the business is a company. Both must:

- Fill in forms, claim Tax Credits and register with the Revenue.
- Pay Value Added Tax. VAT is a tax on consumer spending. It is chargeable when a business sells goods or services to a customer.

• Pay Income tax is direct tax levied on all income earners in the state who earn income above a certain amount. PAYE applies where wage payments are made to employees by an employer.
• Pay PRSI is the name given to a system of collecting social insurance contributions from employees and employers. The money goes into a fund which pays for social insurance benefits and pensions.

2007

5 (A) Distinguish between the following taxation forms: Form P21 and Form P60.(20 Marks – 2 forms x 10 marks each)

Form P21

A P21 is a statement issued by government of total income, tax credit and tax paid for a particular tax year. It shows the difference between the tax paid in that year and the tax actually owed. If tax has been overpaid, a refund will be issued by Government. However, if there is an underpayment, revenue will demand payment for the amount owing. The P21 is called a balancing statement for this reason.

Form P60

Issued by an employer to an employee after the end of the financial /tax (calendar) year.The Form P60 shows Gross Pay, Income Tax and PRSI paid by the employee in the specified financial year. The Form P60 will be required by the employee when:
(i) Claiming refund on overpaid tax – employees should check their Form P60 against their Tax Credits to ensure they have not been overtaxed.
(ii) Claiming refund on PRSI contributions overpaid (in excess of pay ceiling).
(iii) Claiming refund on Health contribution where income was below the relevant Threshold.