



Examiners' report

P6 Advanced Taxation (CYP)

December 2007

The examination consisted of TWO compulsory questions (Question 1 for 36 marks and Question 2 for 34 marks) and THREE elective questions of 15 marks each of which TWO should have been attempted.

General paper comments

Candidates produced good answers to Question 1, but seemed to have spent too long on this question trying to obtain all possible marks. This was evident as a large number of candidates did not attempt the last 2 questions of Part B of the exam, thus limiting their attempt to only 70% of the marks. Also, some candidates, although attempting Part B questions did not seem to have spent enough time in attempting them, as results to straight forward questions were poor. Where candidates did spend time on Part B questions, marks awarded were quite high.

If you are preparing to sit Paper P6 in 2008 you should pay particular attention to the following in order to maximise your chances of success.

Know your stuff

- Successful candidates are able to demonstrate sufficient, precise knowledge of the Cyprus tax system.
- Knowledge and understanding of the technical content of Paper F6 is vital if you are to be successful at paper P6.

Address the requirement

- Read the requirement carefully – then read it again; it's important.
- The requirement of each question is carefully worded in order to provide you with guidance as regards the style and content of your answers. You should note the command words within the requirement (calculate, explain etc), any matters which are not to be covered and the precise issues you have been asked to address.
- Pay attention to the number of marks available – this provides you with a clear indication of the amount of time you should spend.

Don't provide general explanations or long introductions.

- There is no need to explain what you are going to do before you do it; just get on with it.
- Think before you write. Then write whatever is necessary to satisfy the requirement.
- Apply your knowledge to the facts by reference to the requirement.

Be brave

- Don't be put off by a situation that you have not seen before.
- Follow the instructions in the question and the requirement and apply your knowledge of the tax system to the facts of the situation.

Manage your time

- Ensure that you allow the correct amount of time for each question.

Marks available in respect of professional skills

Marks were available for professional skills in questions 1 and 2. In order to earn these marks candidates first had to satisfy the requirement in relation to the format of the document requested. Further marks were then available for the clarity of the answer, including the ease with which it could be marked and the degree to which the conclusions reached followed logically from the explanations and calculations provided. These latter marks

were more likely to be earned by those candidates who thought about the manner in which they intended to satisfy the requirement such that there was a sense of purpose and a coherency to their answers.

My detailed comments per question are as follows:

Question 1

Part (a) of this question examined the income tax and capital gains tax issues relating to a group of companies involving dividend income/payment, profits/losses of a branch, loan interest tax deductibility where loans were used to finance the acquisition of group companies and the activities of group companies and gains on the disposal of shares of a group company.

Answers to this part of the question were overall satisfactory, although some minor problems were noted. A common error was to ignore that the management and control of Downhill (UK) Ltd was in Cyprus making it a Cyprus resident company. Many candidates incorrectly treated this company as a non-Cyprus resident company because it was incorporated in the UK.

Part (b) of the question examined the VAT implications of the transactions of each of the companies comprising the group with reference to the place of supply, applicable VAT rates and consideration to the possibility and advantages of VAT group registration.

With regards to determining the place of supply for VAT purposes, candidates did not appear to have a solid understanding of how this is determined. Very poor explanations were given in how the place of supply of the various services mentioned in the question is determined. Also, a noticeable number of candidates confused double tax relief (DTR) matters with VAT. DTR does not apply to VAT.

Question 2

This question examined various tax issues arising from participation of individuals in land development projects.

It also addressed issue of re-organisation of companies and land transfer fees (a new topic).

Candidates appeared not to be able to follow this question. Around 85% of scripts marked ignored part (c) of this question. Candidates seemed confused as to what was being asked. In addition they were unable to pick out the relevant information from the question resulting in many generalisations in the answers and in other cases answering scenarios that were not relevant to the requirements.

Candidates are clearly not aware of how to deal with land transfer fees. These were ignored by most in the answers even though clear reference is made to these in the question and the requirements. The large majority of candidates failed to mention in answering part (b) (i) the Pomos development.

Also some 'easy' marks were ignored, such as discussing Chris's overseas pension income in deciding his tax residency in (b)(i). Candidates have obviously displayed good knowledge in past exam papers of how overseas pensions may be taxed under a special mode of taxation in Cyprus.

Question 3

This question was a simple tax planning question, requiring candidates to comment as to whether a limited company should be used and as to whether the owners of this company should be resident or not in Cyprus. This was a very popular question which on the whole was well answered.

The only issue that was not picked up by the candidates was that Jack is taxed in the UK only on a remittance basis and so it would not be tax advantageous for him to move his tax residency to Cyprus.

Question 4

This question was a straightforward question describing the income and potential capital gains of an individual, requiring candidates to describe the tax treatment of such income, in the scenarios of this income being received by a limited company or by a trust.

A large number of candidates chose this to answer this question with satisfactory responses noted. The items that were not addressed satisfactorily were the description of the requirements of an International Trust and the fact that the income of this type of Trust is tax exempt in Cyprus.

Question 5

This was a VAT question on services, evolving around the determination of the place of supply of services for VAT purposes.

A large number of candidates chose to answer this question with satisfactory responses gained.

The problem some candidates seemed to face was putting forward the correct reasoning in deciding the place of supply of services. In many cases candidates' final answer as to the determination of the place of supply was correct, but this was construed based on incorrect reasoning. Candidates will have to familiarise themselves on how the place of supply is determined and be able to apply the relevant special rules.