

Fundamentals Level – Skills Module

Taxation (Cyprus)

Thursday 10 December 2015



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

Tax rates and allowances are on pages 2–4.

Do NOT open this question paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

The Institute of Certified Public Accountants of Cyprus

ACCA

ZEAK

Paper F6 (CYP)

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings should be made to the nearest € unless instructed otherwise.
2. All apportionments should be made to the nearest month.
3. All workings should be shown in Section B.

TAX RATES AND ALLOWANCES

The following tax rates and allowances for the year 2014 are to be used in answering the questions.

Income tax

€0 – €19,500	Nil
€19,501 – €28,000	20%
€28,001 – €36,300	25%
€36,301 – €60,000	30%
Over €60,000	35%

Capital allowances

Plant and machinery	
– acquired in the years 2012, 2013 and 2014	20%
– otherwise	10%
Motor vans	20%
Hotels, industrial and agricultural buildings	
– acquired in the years 2012, 2013 and 2014	7%
– otherwise	4%
Other buildings	3%
Computer hardware and operating software	20%
Application software	33·3%

Corporation tax

All companies	12·5%
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Interest and surcharge on unpaid tax

Interest on income and corporation tax assessments (Interest is calculated on the basis of completed months.) The same rate applies to overpayments of tax	4·5% p.a.
Additional tax	5% of tax due
PAYE assessments	4·5% p.a. plus a surcharge of 1% per month

Special defence contribution tax

On dividends received (where applicable):	17%
On interest received:	
– standard rate:	30%
– reduced rate (applicable under specific circumstances)	3%
On rental income (on 75% of the gross rental income)	3%

Value added tax (VAT)

Registration limit	€15,600
Deregistration limit	€13,669
Standard rate: until 12 January 2014	18%
from 13 January 2014	19%
Reduced rates: until 12 January 2014	5%, 8%
from 13 January 2014	5%, 9%

Social insurance contributions

Social insurance fund	7·8%
Redundancy fund	1·2%
Industrial training fund (also known as Human resource development fund)	0·5%
Social cohesion fund	2%
Central holiday fund (if not exempted) (also known as Vacation leave fund)	8%
Maximum annual insurable income of monthly paid employees	€54,396
Self-employed contributions	14·6%

Capital gains tax

Rate	20%
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Lifetime exemptions

General	€17,086
Agricultural	€25,629
Residential dwelling – restricted to land of 1·5 decares (1,500 square metres)	€85,430

Retail price index for capital gains purposes

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1.1.80	34.96											
1980	35.40	35.68	35.99	37.23	36.74	36.81	37.54	37.57	38.22	38.53	38.79	39.16
1981	39.62	39.95	40.32	40.61	40.62	41.01	41.50	41.76	41.98	42.33	42.95	43.20
1982	43.18	43.58	43.46	44.05	43.95	43.63	43.44	43.73	44.19	44.38	44.94	45.19
1983	45.59	45.66	46.08	46.66	46.31	45.69	45.70	46.08	46.17	46.64	46.80	47.06
1984	47.46	47.78	48.06	48.38	48.80	48.86	49.21	49.15	49.01	49.63	50.41	50.90
1985	50.85	50.89	51.31	51.44	51.31	50.84	50.60	51.42	52.11	52.65	51.92	51.85
1986	52.18	52.13	52.24	51.83	51.25	51.21	51.75	51.73	51.71	52.40	53.06	53.31
1987	52.76	52.63	53.23	53.04	53.41	53.88	53.10	53.82	53.91	53.71	54.16	54.53
1988	54.47	54.89	55.22	55.79	55.22	54.73	54.35	54.71	55.35	55.97	56.71	56.82
1989	57.46	57.17	57.28	57.47	56.87	56.66	56.88	57.02	57.39	58.43	58.44	58.42
1990	58.21	58.75	59.37	60.25	60.50	60.04	59.50	59.93	60.12	60.80	61.00	61.80
1991	62.18	61.69	62.18	62.65	63.08	62.44	62.63	61.71	62.87	64.54	64.77	65.83
1992	66.60	65.68	66.52	67.57	66.50	66.20	66.61	66.21	67.05	67.91	68.78	70.11
1993	70.43	68.69	69.08	70.57	69.80	69.64	70.17	69.54	70.48	71.95	72.49	72.32
1994	72.12	70.44	72.18	72.89	73.01	73.48	73.77	72.64	75.11	76.48	76.32	76.09
1995	75.34	73.46	74.92	75.47	75.49	75.49	75.83	74.62	75.49	76.82	77.38	77.33
1996	77.22	75.37	77.37	77.70	77.94	77.88	78.13	77.11	78.43	79.12	79.17	79.27
1997	79.27	78.05	80.21	80.94	80.33	80.28	81.21	79.89	81.15	82.09	82.61	82.37
1998	80.84	80.73	81.24	82.23	82.37	82.71	82.32	82.86	84.17	83.86	83.49	83.15
1999	82.80	81.66	82.96	83.19	83.42	83.54	83.78	82.99	84.72	85.42	85.65	85.99
2000	86.17	85.18	86.80	87.16	87.50	87.04	87.01	86.81	87.88	88.41	88.87	88.99
2001	87.41	87.23	88.05	88.68	88.98	89.65	87.89	88.38	89.68	90.81	90.64	91.10
2002	89.77	89.58	90.13	91.03	91.08	91.47	90.81	91.71	92.74	93.09	93.23	93.78
2003	93.45	93.55	95.51	96.11	95.73	95.15	93.84	94.41	96.11	96.89	97.01	96.12
2004	95.14	95.29	95.90	96.57	97.16	97.82	96.94	97.43	98.39	99.35	99.91	100.15
2005	98.29	98.03	98.62	99.70	99.62	99.85	98.36	99.00	100.84	102.38	102.96	102.33
2006	100.50	100.62	101.81	102.65	102.74	102.87	101.53	102.07	103.24	103.84	104.06	104.00
2007	102.15	102.08	103.33	104.47	105.00	104.78	104.00	104.59	105.96	106.95	107.73	108.07
2008	106.58	107.11	108.19	109.30	110.59	110.51	109.85	110.24	111.61	112.55	111.43	110.34
2009	107.76	107.82	109.36	110.07	110.89	110.74	108.97	109.15	110.24	111.65	112.95	112.60
2010	110.38	110.92	111.98	112.76	112.67	112.89	111.77	112.69	114.14	115.05	114.63	114.45
2011	113.51	114.00	115.12	116.46	117.04	117.62	115.89	115.95	116.86	118.55	118.93	118.95
2012	117.05	117.52	119.00	120.05	120.49	119.70	118.41	119.05	119.80	120.61	120.36	120.26
2013	119.19	119.45	120.27	119.69	119.66	119.79	118.04	117.92	118.57	118.68	117.83	117.49
2014	115.75	116.37	117.52	117.78	118.03	118.37	117.35	117.07	117.49	118.10	117.65	115.77

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.

Each question is worth 2 marks.

- 1 Big Incorporation Ltd incurred an accounting profit of €115,000 in the tax year 2012, and paid corporation tax of €15,000. On 30 March 2014, Big Incorporation Ltd declared a final dividend (from its profits of 2012) of €30,000 (gross).

The shareholders of Big Incorporation Ltd are:

- Mr Megalos, a Cyprus tax resident person with a holding of 50%
- Mrs Electra, a non-Cyprus tax resident person with a holding of 50%

What is the special defence contribution (SDC) liability on Big Incorporation Ltd's deemed dividend distribution for the tax year 2012?

- A €6,800
- B €11,900
- C €3,400
- D €5,950

- 2 Panicos is a Cyprus value added tax (VAT) registered person. In July 2014 he made a taxable supply of furniture to a customer in the UK, who is a VAT registered person in the UK.

What is the value added tax (VAT) rate which Panicos should charge on this sale?

- A 19%
- B 0%
- C 9%
- D 5%

- 3 Domus Ltd, a Cyprus tax resident company, received interest from a foreign deposit account of €12,500 on 31 December 2014. The interest was received net of foreign tax of 20%.

What is the special defence contribution (SDC) payable on the interest received by Domus Ltd?

- A €1,250
- B €4,688
- C €3,750
- D €1,563

- 4 In October 2014, Vasilía sold a chargeable asset and made a capital gain on the sale of €54,655. On 1 January 2014, Vasilía had a capital loss brought forward of €6,800 and she has never used her lifetime exemptions.

What is Vasilía's capital gains tax liability on the disposal of the chargeable asset?

- A €9,571
- B €7,514
- C €10,931
- D €6,154

- 5 On 20 October 2014, the board of directors of Delta Ltd decided to dispose of some of its business assets. The following information is available:

	Cost €	Depreciation €	Selling price €
Plant and machinery acquired on 1 January 2010	30,000	6,000	27,300
Plot of land acquired on 1 January 2005	100,000	0	150,000

What is the total balancing charge arising on Delta Ltd's disposals of business assets?

- A €59,300
B €9,300
C €71,300
D €21,300
- 6 In addition to his salary of €27,000, Petros received the following income in 2014:

Interest received from a deposit in a local bank	€600
Income tax repayment interest	€35

What is Petros' taxable income for the year 2014?

- A €27,635
B €27,035
C €27,000
D €24,894
- 7 On 1 January 2014, Spectra Ltd owned 100% of the shares in E Ltd and 80% of the shares in G Ltd. On 1 January 2014, G Ltd owned 75% of the shares in D Ltd. On 30 April 2014, Spectra Ltd acquired 100% of the shares in F Ltd. All the companies are tax resident in Cyprus except for E Ltd which is tax resident outside Cyprus.

To which companies could G Ltd surrender a trading loss which it incurred in 2014?

- A Spectra Ltd only
B Spectra Ltd and D Ltd only
C Spectra Ltd, D Ltd and E Ltd
D Spectra Ltd, D Ltd and F Ltd
- 8 **Which of the following actions by Arestis, a sole trader, is not an example of tax evasion?**
- A Deliberately postponing the sale of his personal home from 31 December 2014 until 28 February 2015 so that he can use the principal dwelling house exemption
B Omitting to record €15,000 of cash sales
C Claiming €1,190 of personal legal expenses through his business
D Overestimating the value of his donations to approved charities by €500

9 Q Ltd has the following results for the year ended 31 December 2014:

	€
Trading loss	(18,600)
Interest income	2,100
Taxable rents from the leasing of a plot of land	10,000
Donations to approved charities	(500)
Capital loss on the sale of shares in X Ltd, a trading company	(15,000)

What is the maximum amount of the trading loss which Q Ltd can carry forward for corporation tax purposes?

- A €8,600
- B €8,100
- C €6,500
- D €3,100

10 Marina is a physical person who does not have any business activities. She earns €30,000 per annum as an employee of Alpha Ltd. In addition, she holds shares in various Cyprus companies.

In addition to income tax, which of the following Cyprus taxes could or does Marina suffer personally?

- (1) Special defence contribution
- (2) Corporation tax
- (3) Social insurance contributions
- (4) Value added tax

- A 1, 2, 3 and 4
- B 1 and 3 only
- C 1, 3 and 4 only
- D 2 and 4 only

11 Christopher purchased goods from Giannis, who is a trader registered for Cyprus value added tax (VAT). Christopher paid for the goods when he ordered them on 3 July 2014. Giannis made the goods available to Christopher on 7 July 2014, but Christopher did not collect them until 11 July 2014. Giannis issued the invoice for the goods purchased on 20 July 2014.

What is the actual tax point for this supply for the purposes of value added tax (VAT)?

- A 7 July 2014
- B 11 July 2014
- C 3 July 2014
- D 20 July 2014

12 Which of the following statements indicates that a trade is being carried on?

- (1) Pericles sold some paintings which he has owned for ten years for substantially more than their original cost
- (2) Andria sold a house which she bought three months ago and has never lived in. Andria spent €36,450 to make the house more attractive to potential purchasers
- (3) Kyriacos has an interest in vintage cars. He has just sold a car which he has been renovating for the last six months. This is the fifteenth renovated car which Kyriacos has sold in the last three years
- (4) Katia, a student, is experiencing cash flow problems and has had to sell the motorcycle which she bought three months ago

- A 3 only
- B 2 and 3
- C 2 and 4
- D 1, 3 and 4

13 An employer who is not exempt from the central holiday fund contributions employs Georgia for €1,500 per month.

What is the total monthly amount of social insurance contributions payable by both Georgia and her employer in respect of Georgia's employment?

- A** €432
- B** €410
- C** €400
- D** €380

14 Pantelis works for Olive Ltd earning a salary of €22,000 per annum. On 1 June 2014, Olive Ltd purchased a new saloon car at a cost of €15,000 which was provided to Pantelis. Pantelis uses the vehicle for both business and private purposes. The business use of the car, as agreed with the Tax Office, is 60%. The annual running expenses of the car are all payable by Olive Ltd and comprise:

Road tax	€60
Insurance	€322
Repairs	€1,227
Fuel	€4,111

What is Pantelis' taxable employment income for 2014?

- A** €24,288
- B** €25,432
- C** €30,288
- D** €34,432

15 Which of the following disposals could result in a charge to capital gains tax?

- A** The sale of shares in a Cyprus company which invests in property in London and New York
- B** The sale of new apartments in Limassol by a Cyprus based property developer
- C** The sale of a house which has been used as a principal dwelling for at least five years
- D** The sale of shares in a company listed on a recognised stock exchange

(30 marks)

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1** Christos, Petros and Androula agreed to create a common business providing consultancy and other related services to other businesses from 1 April 2014.

The three partners agreed the following:

- (1) Christos will work on a full-time basis for the business at an annual remuneration of €39,000, whereas Petros will work on a part-time basis for the business at an annual remuneration of €10,000. Androula will not be directly involved in the business's operations so she will not receive any remuneration.
- (2) The initial working capital requirement will be €90,000 and the partners will contribute this equally (€30,000 each). Christos does not have any money and will have to borrow the €30,000 needed from a local bank. Petros and Androula can both contribute their share out of their own funds. Interest paid by the business on the partners' contributed capital will be 5% per annum.
- (3) The business will operate from offices in Larnaka, which have been purchased by Androula for €150,000, including €50,000 for the land element. Androula will charge the business a monthly rental of €500 for these premises.
- (4) Any remaining net profit will be divided among the partners as follows: Christos 25%, Petros 25%, and Androula 50%.

The partnership prepared its first financial statements for the nine-month period ended on 31 December 2014. The annual tax adjusted profit of the business for the tax year 2014 is €150,000.

Required:

- (a) **Explain the difference between the tax treatment of the interest paid on a partner's contributed capital and the tax treatment of the interest paid on a business bank overdraft.** (3 marks)
- (b) **Calculate the amount of each of Christos, Petros and Androula's share of the tax adjusted profit of the business for the period ended 31 December 2014.** (7 marks)

(10 marks)

2 Dedalus Ltd, a Cyprus tax resident company, received the following income in the tax year 2014:

	€
(1) Dividends received from companies with purely trading activities:	
– A gross dividend received from A Ltd, a Cyprus company. The profit used by A Ltd for this dividend payment consisted of A Ltd's trading profits from the tax year ended 31 December 2013.	2,000
– A net dividend received from X Inc, a non-Cyprus company (foreign tax withheld at source €1,500)	8,500
(2) Dividends received from companies with purely investment activities:	
– A net dividend received from Y Inc, a non-Cyprus company (foreign tax withheld at source €1,000)	19,000
(3) Interest received	
– Net interest received from a bank deposit account (30% special defence contribution (SDC) tax deducted at source)	1,000
– Gross interest received from trade debtors	2,000

Required:

- (a) Explain the special defence contribution (SDC) tax treatment of the dividends paid by a Cyprus tax resident company to another Cyprus tax resident company. (2 marks)
- (b) Explain the special defence contribution (SDC) tax treatment of the dividends paid by a non-Cyprus tax resident company to a Cyprus tax resident company. (2 marks)
- (c) Calculate Dedalus Ltd's special defence contribution (SDC) payable for the year ended 31 December 2014. (6 marks)

(10 marks)

3 Paris, a Cyprus tax resident, sold a plot of land on 31 March 2014 for €180,000. The following information relates to the plot of land:

	€
Acquired and registered in September 1988	35,000
Land registry transfer fees	1,050
Levelling of land paid for during September 1988	1,000
Legal fees related to the acquisition	1,600
Loan interest paid	8,900
Immovable property taxes	3,554
Sewerage board fees	980
Accounting fees related to the calculation of the capital gains tax	600
Agency fees of 2% of sale proceeds, paid to a non-approved estate agent	3,600

Paris has not claimed any lifetime exemptions in previous years.

Required:

- (a) Calculate the chargeable gain made by Paris in respect of the sale of the plot of land. (9 marks)
- (b) State the due date for payment of the tax due. (1 mark)

Note: You are not required to calculate the tax due.

(10 marks)

- 4 Armadillos Ltd, a company registered for value added tax (VAT) in Cyprus, had the following transactions during the quarter ended 30 June 2014:

	€
Standard rated sales in Cyprus (including VAT)	10,800
Sales to a person in the UK, who is registered for VAT in the UK	12,000
Sales to a person in Israel made directly from Cyprus	11,000
Standard rated purchases imported from China	20,000
Accounting services received from an accountant based in Cyprus (including VAT)	500
Entertaining of customers (including VAT)	988
Other expenses (including VAT)	300

Required:

- (a) Explain the value added tax (VAT) treatment of the intra-community supplies of goods made from Cyprus to a taxable person registered in another EU member state. (3 marks)
- (b) Calculate the VAT payable/(refundable) by Armadillos Ltd for the quarter ended 30 June 2014. (7 marks)

(10 marks)

- 5 Armageddon Ltd is a Cyprus tax resident company. The company's audited income statement for the year ended 31 December 2014 is as follows:

	Notes	€
Gross profit		195,000
Profit from a foreign branch (permanent establishment)	1	50,000
Gross rents received	2	10,000
Dividends received	3	28,500
Interest received	4	10,500
		<u>294,000</u>
Less:		
Depreciation	5	9,000
Employees' salaries		51,400
Directors' salaries		12,000
Money stolen by a director		5,000
Cohesion fund contributions		1,268
Provisional tax paid for the year		8,500
Special defence contribution paid		11,500
Immovable property taxes paid		6,665
Insurances		4,150
Repairs and maintenance		2,700
Interest on the late payment of taxes		2,100
		<u>(114,283)</u>
Net profit for the year		<u>179,717</u>

Notes:

1. Armageddon Ltd opened a branch in Bithania (a country in South America) in 2013. During the year ended 31 December 2014, the branch's activities resulted in a tax adjusted profit of €50,000. Bithania considers the branch to be a permanent establishment and imposes corporation tax at the rate of 10% on its profits. The branch did not have any investing activities during 2014.
2. The rents received relate to an office building which Armageddon Ltd has leased out since 1 January 2013. Armageddon Ltd acquired the building in 2008 at a cost of €150,000, including €40,000 for the value of the land.
3. The dividends received during the year comprise:

	€
Gross dividend received from a Cyprus company	20,000
Net dividend received from a non-Cyprus company (foreign tax withheld at source €1,500)	8,500
	<u>28,500</u>

4. Interest received during the year comprises:

	€
Gross interest received from a bank deposit account	2,000
Net interest received from a non-Cyprus company (foreign tax withheld at source €500)	8,500
	<u>10,500</u>

5. Depreciation was calculated on the following assets held by the company at 31 December 2014:

- A factory acquired on 1 January 2005 for €320,000, including €120,000 for the value of the land.
- Computer hardware acquired on 1 January 2012 for €10,000.
- Office equipment acquired on 1 January 2012 for €15,000.

Required:

(a) Explain the corporate income tax treatment of the Bithania branch's profits. (2 marks)

(b) Calculate Armageddon Ltd's corporation tax payable for the year ended 31 December 2014.

Note: Your computation should include all of the items referred to in the question, indicating by the use of '0' any items for which no adjustment is required. (13 marks)

(15 marks)

6 The following information relates to Christopher and his wife Elena for the year ended 31 December 2014:

Elena lost her job in 2013 and, as a consequence, she received only investment income during 2014, as follows:

- Gross interest from her bank deposit account held with Bank of Cyprus of €1,000.
- Gross rents of €15,000 from the rental of a shop acquired in 2006 for €130,000, including €25,000 for the value of the land. She paid €3,250 interest on the loan taken out to acquire the shop.
- Gross dividend from a listed Cyprus company of €500.

Christopher is self-employed and his summarised profit and loss account for the year ended 31 December 2014 is as follows:

	Note	€	€
Gross profit	1		89,250
Less: expenses			
Temporary tax paid		1,700	
Saloon car expenses	2	3,558	
Depreciation	3	2,600	
Employee salaries	4	8,500	
Irrecoverable trade receivables	5	1,070	
Interest on bank overdraft	6	1,800	
Machinery repairs		866	
Entertaining expenses		3,554	
Donation to a political party		150	
Electricity and water		1,665	
			(25,463)
Net profit			63,787

Notes:

1. The turnover of the business for the year ended 31 December 2014 was €156,455.
2. The saloon car expenses relate to the saloon car used by Christopher for both business and private purposes. The car was acquired in 2011 at a cost of €35,600. The business use of the car relates to the journeys made to meet clients and sign contracts and the business use percentage is estimated at 40%.
3. The capital allowances available for the year ended 31 December 2014 are €1,060.
4. The amount of salaries and relevant contributions not paid on time included within the 2014 expense is €400.
5. Irrecoverable trade receivables comprise:

	€
Trade debts written off	856
Loan to a customer written off	214
	<u>1,070</u>

6. Christopher pays interest at the rate of 6% per annum on his business overdraft.

Required:

- (a) Calculate Christopher's income tax payable for the year ended 31 December 2014, ignoring the effect of personal allowances.

Note: Your computation should include all of the items referred to in notes (2) to (5), indicating by the use of zero (0) any items which do not require an adjustment. (9 marks)

- (b) Calculate Elena's taxable income for the tax year 2014, ignoring the effect of personal allowances.

Note: You are not required to calculate the tax payable. (3 marks)

- (c) Explain how and when Christopher's income tax liability would have been paid. (3 marks)

(15 marks)

End of Question Paper