

Fundamentals Level – Skills Module

Taxation (Cyprus)

Tuesday 3 June 2014



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–4.

Do NOT open this 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.

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

IFAC

Paper F6 (CYP)

SUPPLEMENTARY INSTRUCTIONS

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

TAX RATES AND ALLOWANCES

The following tax rates and allowances for the year 2013 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%
Hotel, 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)	4,75% p.a.
Additional tax	5% of tax due
PAYE assessments	4,75% p.a. plus surcharge of 1% per month

Special defence contribution tax

On dividends received (where applicable):	
– until 31 December 2013	20%
– from 1 January 2014	17%
On interest received:	
Standard rate: until 28 April 2013	15%
from 29 April 2013	30%
Reduced rate (applicable under specific circumstances)	3%
On rental income (on 75% of the gross rental income)	3%

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

ALL FIVE questions are compulsory and MUST be attempted

- 1** Mr Andreas Koutsodaxylos, aged 60, is a lawyer working for Successful Legal Services Ltd (SLSL). He receives a gross salary of €40.000. His wife Koulla, aged 57, retired early from her career as a teacher. She receives a teachers' pension of €26.000 per year.

Details of their other income and expenses for the year ended 31 December 2013 follow:

- (1) SLSL has an approved provident fund for all of its employees. Both SLSL and Andreas contribute 10% each of his gross salary to this provident fund.
- (2) SLSL provided Andreas with a new 3,500 cc diesel engine car costing €85.600. SLSL paid all the running costs of the car in 2013 costing €12.750. The business use of the car as agreed with the Inland Revenue is 30%.
- (3) Andreas paid €350 per year to various registered charities.
- (4) Andreas paid a subscription to his favourite football club of €200.
- (5) Andreas paid €180 to the professional body of which he is a member. Andreas also attended a seminar related to his job in 2013, and paid the cost of this seminar of €400 personally.
- (6) Andreas received gross dividends of €500 from SLSL on 20 December 2013.
- (7) On 31 December 2013, Andreas received gross interest of €235 from a deposit held with Bank of Cyprus.
- (8) On 30 December 2013, Koulla received gross dividends of €100 from shares held in a family company.
- (9) Andreas and Koulla have a joint account with the OELMEK Coop (Cyprus Cooperative Bank) on which net interest of €2.520 was received on 31 December 2013.
- (10) Andreas and Koulla own an investment in immovable property in Nordia in their joint names. Rents of €16.040, net of Nordian tax of €1.460, were received from this property in 2013.

Required:

- (a) Calculate Andreas Koutsodaxylos' special defence contribution (SDC) tax payable for the year 2013, clearly identifying when SDC is and is not deducted at source.** (7 marks)

- (b) Calculate Andreas Koutsodaxylos' income tax liability for the year 2013.**

Note: You should ignore temporary tax and double tax relief. (13 marks)

- (c) Calculate Koulla Koutsodaxylos' income chargeable to income tax for the year 2013.** (3 marks)

- (d) Mr Theodoros Megalos, an individual resident in Cyprus, is the sole director of Successful Legal Services Ltd (SLSL). He receives a gross salary of €70.000 per annum. Moreover, he has a fixed debit balance in his current account of €300.000 during the year 2013. SLSL charges him interest, at a rate of 3% per annum, on his debit balance. He has not declared any other income to SLSL through form IR59.**

Required:

- (i) Explain the income tax treatment of the director's current account debit balance.** (4 marks)

- (ii) Describe the role of form IR59.** (1 mark)

- (iii) Calculate the total taxable income of Mr Theodoros Megalos for the year 2013.** (2 marks)

(30 marks)

- 2 (a) Unpleasant Ltd, a Cyprus tax resident company, started to trade on 1 January 2011. The company's results for the three years ended 31 December 2011, 2012 and 2013 are as follows:

Year ended 31 December	2011 €	2012 €	2013 €
Tax adjusted profit/(loss)	(30.000)	(5.000)	25.000
Profit of Outopia branch (Note)	–	–	15.000
Rental income from land property	10.000	–	–
Capital gain	–	–	30.000
Interest	500	–	–
Dividends	–	–	200
Donations to approved charities	1.000	–	–

Note:

Unpleasant Ltd opened a branch in Outopia in Asia on 1 January 2013. Outopia imposes no taxes. The branch did not have any investing activities during 2013.

Required:

- (i) Explain the rules governing the relief for corporate losses.

Note: You are not expected to consider group relief. (6 marks)

- (ii) Explain the income tax treatment of the foreign branch profits (2 marks)

- (iii) Assuming that Unpleasant Ltd claims relief for its losses as early as possible, calculate the company's taxable trading profits for each of the years ended 31 December 2011, 2012 and 2013. (8 marks)

- (b) Electra Ltd, a Cyprus tax resident company, is owned by two shareholders:

Mr Agamemnon (60% ownership) who is non-resident for tax purposes; and
Mrs Clytemnestra (40% ownership) who is a Cyprus tax resident.

For the year ended 31 December 2011, Electra Ltd recorded an accounting profit before tax of €325.000 and paid corporation tax for the tax year 2011 of €45.000.

The following additional information relates to Electra Ltd for the year ended 31 December 2011:

- (1) Electra Ltd revalued its buildings during 2011. The original cost of the buildings was €300.000 whereas the revalued amount is €1.000.000. Electra Ltd depreciates its buildings at 3% per annum using the straight line method.
- (2) Electra Ltd disposed of a plot of land in 2011 for €320.000, realising a taxable capital gain of €120.000. The resulting capital gains tax was paid in full on the due date, but the tax was not deducted from the 2011 profit.
- (3) An unrealised loss of €11.200 was recognised in Electra Ltd's 2011 financial statements. The loss related to the valuation of shares held by Electra Ltd as an investment.
- (4) Electra Ltd transferred €20.000 out of its 2011 profits to a general reserve. The amount transferred was deducted in error from the accounting profit.

The only dividend paid by Electra Ltd out of the profits of the 2011 year was of €40.000 (gross) on 20 June 2013.

Required:

- Calculate the special defence contribution (SDC) liability of Electra Ltd on 31 December 2013. (9 marks)

(25 marks)

- 3 (a)** Zeus Ltd is a company resident in Cyprus. On 1 January 2013, Zeus Ltd sold half of its 100% shareholding in Era Ltd, also a company resident in Cyprus, for €700.000, realising a profit of €370.000.

At the time of the sale Era Ltd had an immovable property in Cyprus with a market value of €450.000, as well as an immovable property situated in the UK with a market value of €250.000. The immovable property in Cyprus was bought on 25 June 2008 for €150.000 and had a 1 January 1980 value of €30.000. The immovable property in the UK was purchased on 1 March 1998 for €120.000.

Required:

- (i) Briefly explain the tax treatment of the disposal of the shares in Era Ltd by Zeus Ltd.** (3 marks)
- (ii) Calculate the capital gains tax payable by Zeus Ltd in respect of the sale of the shares in Era Ltd, and state the due date for payment of the tax.** (5 marks)
- (b)** Aphrodite, an individual resident in Cyprus, acquired an apartment in Cyprus in May 2005 for €60.000 and immediately moved into the apartment. On 29 January 2013, Aphrodite sold the apartment for €183.000, paying €500 for advertising the property and €3.000 to an approved estate agent. This is Aphrodite's first sale of property.

Required:

- (i) State, giving reasons, whether or not Aphrodite will be entitled to the resident dwelling exemption on the sale of the apartment.** (2 marks)
- (ii) Calculate the capital gains tax payable by Aphrodite in respect of the sale of the apartment.** (5 marks)
- (c)** Hermes, an individual resident in Cyprus, is a retailer of office furniture. On 1 June 2004, Hermes purchased a shop property for €50.000, which included €20.000 for the land, and immediately rented the shop to a non-associated company.

In 2012 the non-associated company made an offer to buy the shop property, which Hermes accepted. The sale was finalised in December 2012 and the selling price of the property was €210.000, which included €85.000 for the land.

As it has been let out since its purchase, Hermes has claimed capital allowances on the shop at the rate of 3% throughout the years 2004 to 2011. Hermes had used his general lifetime exemption in the past.

Required:

Calculate the chargeable gain of Hermes in respect of the sale of the shop. (5 marks)

(20 marks)

4 Odysseas, Penelope and Athena have been in partnership as architects since 1 January 2003, trading as OPA Designs. The partnership has always prepared its annual accounts to 31 December.

The partners' profit-sharing arrangements were changed on 1 April 2013. Details of the arrangements before and after the change are as follows:

	To 31 March 2013	From 1 April 2013
Interest on fixed capital	5%	10%
Partner's annual salary		
Odysseas	€10.000	€15.000
Penelope	None	€15.000
Athena	€3.000	€15.000
Profit-sharing ratio		
Odysseas	1/5	1/3
Penelope	2/5	1/3
Athena	2/5	1/3

The partners' fixed capital accounts, which have remained unchanged since 2003, are:

	€
Odysseas	10.000
Penelope	15.000
Athena	25.000

In the year ended 31 December 2013, the partnership realised a trading profit, as adjusted for income tax purposes, of €100.000.

Required:

- (a) **State how the allocation of partnership profits or losses should be made between the partners.** (3 marks)
- (b) **Calculate the amount of each partner's share of the trading profit realised in the year ended 31 December 2013.** (10 marks)
- (c) **State the latest date by which a taxpayer with a turnover below €70.000 should submit their 2013 income tax return if:**
 - (i) **they wish to submit a paper return; and** (1 mark)
 - (ii) **they wish to submit an electronic return.** (1 mark)

(15 marks)

5 Beautiful Ltd, a Cyprus tax resident company, is voluntarily registered for value added tax (VAT). The following information relates to Beautiful Ltd's transactions for the quarter ended 30 September 2013.

- (1) Issued credit sales invoices of €30.000 for standard rated supplies, and €3.000 for 5% rated supplies. Both figures are VAT exclusive. Beautiful Ltd always gives a 5% discount for prompt payment.
- (2) Incurred expenses (all including VAT at the standard rate) as follows:

	€
Repairs to business machinery	500
Entertaining a major customer	200
Staff party (for staff only)	300
Other expenses (all VAT recoverable)	12.400

Required:

- (a) Calculate the amount of value added tax (VAT) payable by Beautiful Ltd for the quarter ended 30 September 2013 and state by when the return must be submitted. (7 marks)
- (b) Give a brief explanation of your treatment of the discount for prompt payment. (1 mark)
- (c) Explain why Beautiful Ltd may have chosen to voluntarily register for VAT. (2 marks)

(10 marks)

End of Question Paper