Answers

Marks

1 Ioulios and Mary Chalouma

(a) Ioulios

(i) Income tax and special defence contribution 2013

Income tax payable

	€	€	
Employment			
Salary income	55.000		½
Car benefit (€8.000 x 33%)	2.640		1
Living accommodation	9.000		½
Living accommodation running costs	2.000		½
		68.640	
Add: Other sources of income			
Deposit interest (exempt)		0	½
Net income		68.640	
Less: Personal allowances			
Social insurance contributions payable (maximum of €54.396 x 6·8%)	(3.699)		1
Provident fund contributions (€55.000 x 5%)	(2.750)		1
	(6.449)		
Restricted to 1/6th of net income (1/6 x €68.640 = €11.440)		(6.449)	1
Taxable income		62.191	
Tax liability			
€0–€19.500 at 0%		0	
€19.501–€28.000 at 20%		1.700	
€28.001–€36.300 at 25%		2.075	
€36.301–€60.000 at 30%		7.110	
€60.000–€62.191 at 35%		767	
Total tax liability		11.652	½
Less: PAYE paid		(11.000)	½
Income tax payable		652	
Special defence contribution liability			
Gross deposit interest (€2.000 x 100/70)		2.857	½
Special defence contribution liability (€2.857 x 30%)		857	½
			8

(ii) As an employee, Ioulios should submit his income tax return for 2013 no later than 30 April 2014 if he submits a paper return, or by 31 July 2014 if he files electronically. 2

(b) Cancellation of a life policy

On the cancellation of a life insurance policy:

– The premiums claimed as personal allowances on the cancelled policy will be recaptured as taxable income. 1
– The taxable amount is equal to 30% of the premiums claimed if cancellation is made within three years, and 20% if cancellation is made in the fourth, fifth or sixth year. 1

Mary should have postponed the cancellation of her life insurance policy until after 15 January 2014. 1

Then, the cancellation would have been made more than six years after the date of issue of the life insurance policy, which was 15 January 2008, thus no income would have been deemed to be taxable in the year 2013, in respect of the premiums allowed up to the date of cancellation. 1

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Marks

(c) Mary

(i) Income tax payable and special defence contribution 2013

Income tax payable

	€	€	
Business income			
Accounting profit		55.000	
Add: Expenses not allowed			
Depreciation	10.000		½
Saloon car expenses (Note 1)	8.000		½
Donation to a non-approved charity (Note 3)	1.000		½
Gifts to customers (Note 3)	0		½
		19.000	
Deduct: Allowed expenses not included in financial statements – capital allowances Shop (€100.000 x 3%) (Note 2)	(3.000)		1
		(3.000)	
Tax adjusted profit		71.000	
Add: Other sources of income			
Life insurance premiums taxable because of the cancellation 20% x (5 x €5.500)		5.500	1
Dividends (exempt)		0	½
Net income		76.500	
Less: Personal allowances			
Social insurance contributions paid	(2.800)		½
Life insurance premium (life insurance policy was cancelled)	0		½
	(2.800)		
Restricted to 1/6th of net income (1/6 x €76.500 = €12.750)		(2.800)	½
Taxable income		73.700	
Tax liability			
€0–€19.500 at 0%		0	
€19.501–€28.000 at 20%		1.700	
€28.001–€36.300 at 25%		2.075	
€36.301–€60.000 at 30%		7.110	
€60.000–€73.700 at 35%		4.795	
Total tax liability		15.680	½
Less: Temporary tax paid		(8.785)	½
		6.895	
Add: 10% Additional tax (temporary assessment is lower than 75% of net income)		690	1
Income tax payable		7.585	
Special defence contribution			
Gross dividend (€2.000 x 100/80)		2.500	½
Special defence contribution liability (€2.500 x 20%)		500	½
			9

(ii) The cost of gifts to customers are deductible as a promotional expense if they incorporate a conspicuous advertisement, i.e. bear the name of the business. 1

	Marks
(d) PAYE system	
PAYE is a system for the collection of income tax arising on income from employment, offices and pensions.	1
For most employees, the tax deducted under PAYE will constitute their final liability without adjustment.	1
The employer is required to apply the PAYE regulations and make PAYE deductions of tax by reference to the Claim of Allowances form (IR59), which the employee must complete and hand over to their employer at the beginning of each year, or on the commencement of employment in the case of new employees.	2
The total amount of PAYE withheld from the employee's emoluments, calculated in each case in accordance with the calculation made on Form IR59 each month, should be remitted by the end of the following month to the District Collection Office, using Form IR61.	1
At the end of the year a Certificate of emoluments (IR63/63A) is completed by the employer for use by an employee in completing his income tax return. The employee should attach this certificate to his tax return.	1
	6
	30

2 (a) Clever Shoes Ltd

(i) Tax adjusted profit/(loss) for the year ended 31 December 2013

	€	€	
Net loss before tax		(136.950)	
Add: Expenses not deductible for tax purposes			
Depreciation (Note 1)	10.200	10.200	½
Add: Taxable income not included in the financial statements			
Balancing charge – plant and machinery (W1)	4.500		½
Balancing charge – factory (W2)	90.000		½
		94.500	
Less: Non-taxable income included in the financial statements			
Profit from the disposal of fixed assets (Note 2) (exempt)	(126.000)		½
Bank interest (Note 3) (exempt)	(5.300)		½
Loan interest (Note 4) (exempt)	(20.000)		½
Income from immovable property (Note 5)			
Lease premium (taxable in full in 2013)	0		1
Rental income (taxable)	0		½
Dividends (Note 6) (exempt)	(4.000)		½
Profit from the disposal of shares (Note 7) (exempt)	(2.000)		½
		(157.300)	
Less: Deductible expenses not included in the financial statements			
Capital allowances (Note 1)			
Plant and machinery (acquired before 2012) €41.500 x 10%	(4.150)		½
Expensive sports car (acquired before 2012) (not an eligible asset)	0		½
New plant and machinery (acquired in 2013) €12.000 x 20%	(2.400)		½
Property income (Note 5):			
Offices €130.000 x 3%	(3.900)		½
Tax adjusted loss		(200.000)	

Workings:

W1 Balancing adjustment – plant and machinery

	€	€	
Cost	18.000		
Less: Accumulated capital allowances			
(2007 to 2012 = 6 years)			
(€18.000 x 10%) x 6 years	(10.800)		1
Tax written down value (WDV)	7.200		
Disposal proceeds		11.700	½
Less: Tax WDV		(7.200)	½
Balancing charge		4.500	

Marks

W2 Balancing adjustment – factory

	€	€	Marks
Cost	250.000		
Less: Accumulated capital allowances			
(2004 to 2012 = 9 years)			
(€250.000 x 4%) x 9 years	(90.000)		1
Tax WDV	160.000		
Disposal proceeds		350.000	½
Less: Tax WDV		(160.000)	½
Balancing charge		190.000	
Restricted to accumulated capital allowances		90.000	½
			12

(ii) If submitted electronically, Clever Shoes Ltd's tax return (IR4) for the year ended 31 December 2013 must be submitted by 31 March 2015. 1

(iii) Clever Shoes Ltd's corporation tax self-assessment payment for the year ended 31 December 2013 must be submitted by 1 August 2014. 1

(iv) If Clever Shoes Ltd submits its tax return five months late, i.e. on 31 August 2015, and pays the tax due on the same date, there will be:

– an automatic fixed monetary charge of €100 for late filing; 1

– an automatic fixed monetary charge for late payment of 5% of its corporation tax payable; and 1

– an interest charge of 4,75% of its corporation tax payable amount, calculated on a completed months basis, i.e. for 12 months (being the number of months from the due date of payment of 1 August 2014 to the actual date of payment of 31 August 2015). 2

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(b) Dancing Boots Ltd

(i) Group relief

Two companies are deemed to be members of a tax group if one is the 75% subsidiary of the other or both, each one separately, are 75% subsidiaries of a third company. 1

A tax group member company can surrender its trading tax loss to any other member of the group, provided that both the claimant company and the surrendering company have been members of the same tax group for the whole of the tax year. 1

In cases where a company has been incorporated by its parent company during the tax year, the company will be deemed to be a member of the group, for group relief purposes, for that tax year. 1

A loss of a non-resident company cannot be surrendered to a resident company. 1

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(ii) Maximum relief claimable

(1) Shoemaker Ltd:
Shoemaker Ltd, a Cyprus tax resident company has been a 100% subsidiary of Dancing Boots Ltd (DBL) for the whole of the year 2013.

The maximum group relief to be claimed is €140.000. 1

(2) Catchy Ltd:
Catchy Ltd, a Cyprus tax resident company, incorporated on 30 June 2013 as a 100% subsidiary of DBL, is deemed to have been a member of a group for the whole of 2013.

The maximum group relief to be claimed is €54.000. 1

(3) Sporty Ltd:
The 80% shareholding in Sporty Ltd was only acquired on 1 October 2013, so it has not been a member of a tax group with DBL for the whole of 2013.

No group relief can be claimed. 1

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25

	Marks

3 George and Petroula

(a) A gift made between husband and wife is exempt from capital gains tax . 1

(b) (i) Petroula will not be entitled to claim the principal dwelling house lifetime exemption on the sale of the house because she only became an owner of the house on 1 January 2010, which is less than five years before the date of sale of the house (10 February 2013). To be entitled to claim the principal dwelling house lifetime exemption, the house must be used by the owner for her own habitation for a total period of at least five years.

Marks: 1, 1 — total 2

(ii) Chargeable gain computation in respect of the sale of the house

	George (50%)		Petroula (50%)		Marks
	€	€	€	€	
Disposal proceeds – February 2013					
(€300.000 x 50% each)		150.000		150.000	1
Less: Acquisition cost – June 1990					
(€55.000 x 50% each)	(27.500)		(27.500)		1
Add: Indexation allowance					
(€27.500 x (119.19/60.04) – 27.500)	(27.092)		(27.092)		1
Less: Acquisition expenses					
Land transfer fees(€1.650 x 50% each)	(825)		(825)		1
Add: Indexation allowance (not eligible)	(0)		(0)		1
		(55.417)		(55.417)	
Less: Incidental expenses					
Commission paid to an approved					
estate agent (3% x €150.000 each)	(4.500)		(4.500)		1
Interest paid (€20.000 x 50% each)	(10.000)		(10.000)		1
		(14.500)		(14.500)	
Capital gain		80.083		80.083	
Less: Principal dwelling house lifetime					
exemption: George (85.430 x 50% –					
restricted to percentage of ownership)		(42.715)			1
General lifetime exemption				(17.086)	1
Chargeable gain		37.368		62.997	
					9

Marks

(c) **(i)** Relief for interest paid in respect of the loan relating to the studio flat could be claimed for income tax purposes and deducted as an allowable deduction from the rental income received. 1

Where relief for interest has been claimed for income tax purposes, it cannot also be claimed as a deduction for capital gains tax purposes. 1

2

(ii) **Chargeable gain in respect of the sale of the studio flat**

	George (50%)		Petroula (50%)		
	€	€	€	€	
Disposal proceeds – February 2013					
(€100.000 x 50% each)		50.000		50.000	½
Less: Acquisition cost – December 2005					
(€ 50.000 x 50% each)	(25.000)		(25.000)		½
Add: Indexation allowance					
(€25.000 x (119.19/102.33) – €25.000)	(4.119)		(4.119)		1
		(29.119)		(29.119)	
Less: Incidental expenses					
Commission paid to an approved estate					
agent (3% x €50.000 each)	(1.500)		(1.500)		½
Interest paid	(0)		(0)		½
		(1.500)		(1.500)	
		19.381		19.381	
Add: Capital allowances claimed					
(Only George – 2006 to 2009:					
€50.000 x 3% x 4 years)		6.000		0	1
(Both – 2010 to 2012: €50.000 x 3%					
x 3 years x ½ each)		2.250		2.250	1
Capital gain		27.631		21.631	
Less:					
General lifetime exemption		(17.086)		(0)	1
Chargeable gain		10.545		21.631	
					6
					20

4 **(a)** **'Exports' and 'Imports'**

The terms 'imports' and 'exports' refer to purchases and sales of goods with countries outside the European Union (EU) (third countries). 1

Imports from outside the EU are subject to value added tax (VAT) as follows:

– an importer of goods from outside the EU must account for VAT at the point of import into Cyprus, and can claim an input tax deduction on his VAT return; 1
– it is necessary to make an import declaration, and pay VAT at the rate applicable as if the supply of goods had been made in Cyprus. 1

Exports of goods to countries outside the EU are subject to VAT at the zero rate. 1

The exporter must provide evidence of the export in terms of either copies of invoices or copies of consignment notes. 1

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(b) Alpha Ltd

(i) **Value added tax (VAT) for the three months to 31 December 2013**

	€	€	Marks
Output VAT			
Sales (€20.000 x 18%)		3.600	1
Exports to Russia (€100.000 x 0%)		0	1
Less: Sales returns (€2.000 x 18%)		(360)	1
		3.240	
Input VAT			
Imports from China (€80.000 x 18%)	14.400		1
Consultancy services from a Cypriot consultant (€8.000 x 18%)	1.440		1
Customer entertaining (not recoverable)	0		1
Acquisition of a new saloon car (not recoverable)	0		1
		(15.840)	
VAT credit		(12.600)	
Due date for submission of the VAT return: 9 February 2014			1
			8

(ii) Input VAT is not deductible on the cost of a private saloon passenger motor car, unless it is a taxi, self-drive car (Z car) or driving school car. 1 1

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5 Smart Ltd

(a) **Benefits of revising a temporary tax assessment**

If the temporary income declared is lower than the income finally determined by more than 25%, the final tax payable is increased by an additional amount of tax equal to 10%. 1

An upwards revision of a company's temporary tax return can avoid the payment of the additional tax of 10% charged following a low temporary tax assessment. 1

2

(b) **Tax payable if no revision of the temporary assessment**

	€	€	Marks
Taxable profit		1.000.000	
Corporation tax at 12,5%		125.000	½
Less: Temporary tax paid (600.000 × 12,5%)		(75.000)	½
		50.000	
Add: 10% Additional tax due to low temporary assessment (600.000/1.000.000 = 60% < 75%)		5.000	1
Tax payable		55.000	
			2

Marks

(c) Revision of temporary assessment on 20 December 2013

To avoid the additional tax, the temporary tax assessment needs to be revised upwards, to an amount equal to 75% of its chargeable income, i.e. 75% x 1.000.000 = €750.000.		1

This will result in additional temporary tax payable of:

	€	Marks
Initial temporary tax liability (as in (b))	75.000	½
Revised temporary tax liability: (12,5% x €750.000)	93.750	½
Additional temporary tax to be paid	18.750	

	Initial temporary tax return	Revised temporary tax return	Difference	
	€	€	€	
First instalment (due 31 July 2013)	37.500	46.875	9.375	1
Second instalment (due 31 December 2013)	37.500	46.875	9.375	1
	75.000	93.750	18.750	

The interest to be paid as a result of the revision is:

	€	
First instalment (due date: 31 July 2013/revision date: 20 December 2013) $4{,}75\% \times €9.375 \times {}^{4}/_{12}$	148	1
Second instalment (no delay as the due date is 31 December 2013)	0	½
	148	

The tax saving is thus:

10% additional tax avoided (as in (b))	5.000	
Interest to be paid on additional temporary tax instalments	(148)	
	4.852	½
		6
		10