

Fundamentals Level – Skills Module

Taxation (Cyprus)

Tuesday 2 June 2015



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This 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 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 exam 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



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%
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%
---------------	-------

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 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	0.5%
Social cohesion fund	2%
Central holiday fund	8%
Maximum annual insurable income of monthly paid employees	€54,396
Self-employed contributions	14.6%

Capital gains tax

Rate	20%
------	-----

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 Which of the following disposals are chargeable disposals for capital gains tax purposes?

- (1) The gift to an adult child of a house in Limassol
- (2) The gift to an approved charity of a plot of land situated in Larnaka
- (3) The disposal to a friend of a painting worth €200,000
- (4) The disposal to a friend of a plot of land in Limassol

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

2 With reference to Cyprus tax, which of the following items do NOT have the force of law?

- (1) Internal tax manuals used by Department of Taxation staff
- (2) Interpretation by the courts (case law)
- (3) Tax circulars issued by the Department of Taxation
- (4) The laws enacted by the House of Representatives

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

3 On 10 December 2014, Designers Ltd received a gross dividend of €3,000 from Painters Ltd. Both companies are Cyprus companies and the dividend was paid out of Painters Ltd's trading profits.

Which of the following correctly describes Designers Ltd's special defence contribution (SDC) liability in respect of the dividend received?

- A** The liability is €0 (the dividend income is exempt from SDC)
- B** SDC of €510 should have been deducted at source
- C** SDC of €510 is payable under self-assessment
- D** SDC of €600 is payable under self-assessment

4 In addition to his salary of €29,000, Andreas received the following income in 2014:

	€
Tips from customers	250
Interest received on a deposit with a Cyprus bank	100
Income tax repayment interest	30

What is Andreas's taxable income before the deduction of personal allowances for the year 2014?

- A** €29,250
- B** €29,000
- C** €29,350
- D** €29,280

5 When deciding whether a transaction should be assessed to income tax or as a capital transaction, which of the following are relevant 'badges of trade' to consider?

- (1) The frequency of similar transactions
- (2) Provision of own equipment
- (3) Profit-seeking motive
- (4) Changes to the asset/supplementary work

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

6 Alikarnasos Ltd is a Cyprus tax resident company with a financial year ending 31 December. On 10 December 2014, it sold a shop for €350,000, including €90,000 relating to the value of land. The shop had been purchased on 1 September 2003 for €200,000, including €50,000 relating to the cost of land.

What is Alikarnasos Ltd's balancing charge in respect of the shop disposal?

- A** €49,500
- B** €159,500
- C** €66,000
- D** €115,500

7 Virginia Ltd, a manufacturing company, deducted €45,000 relating to donations to various approved charities in arriving at its trade profits for the year ended 31 December 2014. The €45,000 included an unpaid donation of €15,000, which was only paid in January 2015. The €45,000 also included a donation to the Cyprus government of €10,000.

What is the amount to be added back when calculating Virginia Ltd's tax adjusted profits for the year 2014?

- A** €0
- B** €15,000
- C** €25,000
- D** €45,000

8 Stavroula ordered some goods from Alaska Fish Ltd on 1 August 2014. The goods were despatched on 8 August 2014. On 4 September 2014, Stavroula received an invoice for the goods dated 2 September and she paid Alaska Fish Ltd on 16 September 2014.

What is the tax point of the transaction for value added tax (VAT) purposes?

- A** 1 August
- B** 2 September
- C** 8 August
- D** 16 September

9 Argaka Ltd deducted the following items in arriving at its net profit for the year ended 31 December 2014:

Gifts of trade samples to customers	€850
Gifts of pens to customers – one pen per customer at a cost of €4.50 each, bearing the company's logo	€4,500

What is the amount which is allowable when calculating Argaka Ltd's tax adjusted profits for the year 2014?

- A €0
- B €850
- C €4,500
- D €5,350

10 Which of the following are examples of direct taxes?

- (1) Capital gains tax
- (2) Special defence contribution
- (3) Value added tax (VAT)
- (4) Corporation tax

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

11 Koulla works for Nikodemos, a sole trader, as a salesperson for an annual salary of €26,000. On 30 September 2014, Koulla received a bonus of €2,000 as a result of good trading profits in the year ended 31 December 2013. Koulla is told that she will receive another bonus of €3,500 as a result of excellent trading profits in the year ended 31 December 2014. She finally receives the bonus of €3,500 in June 2015.

What are Koulla's assessable earnings for 2014?

- A €26,000
- B €28,000
- C €29,500
- D €31,500

12 Digenis Ltd holds 10,000 shares, listed on the Cyprus stock exchange, which were purchased for 30 cents each in the year 2011. On 31 December 2014, the value of the shares had reduced to two cents each. Digenis Ltd recognised the resulting valuation loss in its 2014 accounting profit. Digenis Ltd's accounting profit after tax for the year 2014 is €100,000.

What is the amount which should be used as Digenis Ltd's accounting profit for the purposes of determining the deemed dividend distribution?

- A €100,000
- B €97,000
- C €102,800
- D €97,200

13 The ABC partnership has recently disposed of chargeable immovable property. The immovable property is situated in Paphos, Cyprus and was owned jointly by all the partners.

Which of the following statements correctly describes the capital gains tax position on the disposal of the immovable property by the ABC partnership?

- A** Capital gains tax is payable on the disposal by the partners assessed individually
- B** No capital gains tax is payable on the disposal
- C** Capital gains tax is payable on the disposal by the ABC partnership
- D** Capital gains tax is payable on the disposal by the partners assessed jointly

14 An employer who is exempted from the central holiday fund contributions employs Nikos for €1,000 per month.

What is the total monthly amount of the social insurance contributions liability payable by both Nikos and his employer in respect of Nikos' employment?

- A** €173
- B** €193
- C** €273
- D** €288

15 On which of the following items of expenditure is input value added tax (VAT) NOT recoverable?

- (1) Telephone or other office expenses incurred for private purposes
- (2) Business entertainment expenditure in respect of any person who is not an employee
- (3) The cost of a private saloon passenger motor car
- (4) Motor running expenses which had been incurred for business purposes

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

(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** Mr Pavlos bought a plot of land in March 1965 for €20,000. During January 1978 he commenced the construction of a house, which was completed in November 1979, at a cost of €50,000. The market value of the plot and the house on 1 January 1980 was €120,000. In February 1996, Mr Pavlos constructed a swimming pool at a cost of €25,000.

On 1 January 2014, Mr Pavlos sold the plot of land together with the house for €700,000. A 5% agent's commission was paid to an approved estate agent on the disposal. Mr Pavlos had used the house as his main residence throughout the period of his ownership of the property. Since the day of purchase he has paid immovable property tax of €1,463 each year.

Mr Pavlos has a capital loss of €10,000 brought forward from a previous sale of a plot of land. Mr Pavlos has not previously claimed any lifetime exemption.

Required:

- (a) Calculate Mr Pavlos' capital gains tax (CGT) liability on the disposal of the house on 1 January 2014.** (8 marks)

- (b) State how and by when Mr Pavlos' CGT liability (as calculated in (a)) should be paid.** (2 marks)

(10 marks)

- 2 Mrs Roulla commenced trading as a wholesaler on 1 June 2013. Her recorded monthly sales for the years 2013 and 2014 are as follows:

	Notes	€
2013		
June		500
July		600
August		700
September		1,000
October		1,100
November		1,300
December	1	2,500
2014		
January	2	2,900
February		2,900
March		2,500
April		2,900
May		2,900
June		2,500
July		2,100
August		2,900
September		2,900
October		2,500
November		2,100
December		2,100

Notes:

1. The sales figure for December 2013 includes proceeds of €1,000 from the incidental disposal of some machinery.
2. From January 2014 onwards the sales figures include monthly rental income of €500 in respect of a house which Mrs Roulla rents out to tenants.

Required:

- (a) **Determine the date from which Mrs Roulla will be required to compulsorily register for value added tax (VAT) and state the action she must take in order to register and the deadlines for doing so.** (6 marks)
- (b) **Explain the conditions which must be met for input VAT to be deductible in the case of an ongoing business.**
 Note: You are not required to discuss the issue of pre-registration VAT. (4 marks)

(10 marks)

- 3 Andreas Markou and his wife, Androula Markou, have operated a confectionary shop for many years, but they have never kept proper books and records. In February 2015, the Department of Taxation demanded that Andreas submit details of his business and personal assets and liabilities, including those of his wife, for the period from 1 January 2009 to 31 December 2014.

The following information relates to Andreas and Androula Markou for the relevant period:

	Notes	1 January 2009	31 December 2014
		€	€
Deposits		5,000	32,000
Trade receivables (debtors)	1	10,000	45,000
Trade payables (creditors)		5,000	15,000
Inventory		22,000	35,000
Plant and machinery		40,000	50,000
Saloon cars		10,000	25,000
Business bank current account		30,000	15,000
Shop		100,000	100,000
Private house	2	100,000	130,000
Bank loan – Capital improvements to the private house	3	–	25,000

Notes:

1. As at 31 December 2014, the trade receivables were as follows:

	€
Trade receivables	55,000
Less: General allowance for irrecoverable debts	(10,000)
	<u>45,000</u>

2. The house was purchased jointly by Andreas and Androula on 1 January 1999 for €100,000. During January 2012, the couple made some improvements to the house at a cost of €30,000. In 2011, an amount of €5,000 was spent on repairs and maintenance to the house.
3. The loan was taken out to finance the capital improvements to the house during January 2012 (note 2). For the period under examination, the interest paid on the loan was €12,000.
4. For the period under examination:
- Andreas and Androula’s living expenses were agreed with the Department of Taxation as €83,000.
 - The couple paid income taxes, special contribution for the defence and social insurance payments of €32,000.
 - Andreas’ father gave him a gift of €25,000 in cash.
5. Interest received by the couple during the period under examination was €3,000.

Required:

Prepare a capital statement (or net worth statement) for Andreas and Androula Markou for the period from 1 January 2009 to 31 December 2014, clearly showing the couple’s total taxable income for the six-year period.

(10 marks)

- 4 (a) Explain the obligations of a self-employed individual, whose total turnover exceeds the annual amount of €70,000, to keep books and records under the collection and assessment law. (3 marks)
- (b) Mr Marios submitted his income tax return for the year 2010 on 31 August 2012. The assessment for the year 2010, raised by the Department of Taxation on 22 January 2014, shows a tax refund of €550. This refund is as a result of the excess income tax deducted at source from Mr Marios' employment income under pay as you earn (PAYE) over his tax liability for the year. The refund was paid to Mr Marios on 1 March 2014.

Required:

- (i) State the due date of submission of Mr Marios' income tax return for the year 2010. (1 mark)
- (ii) Calculate the interest payable to Mr Marios by the Department of Taxation on the tax refunded.

Note: The rate of interest payable in respect of overpayments of tax in earlier years was as follows:

– Until 31 December 2012	5%	
– Until 31 December 2013	4.75%	(2 marks)

- (c) ABC Ltd submitted its income tax return for the year 2012 electronically on 31 August 2014. ABC Ltd paid temporary tax of €10,000 for the tax year 2012, but no further payments were made by the company. The Department of Taxation raised a discovery assessment on 10 November 2014, indicating additional tax payable of €5,000. ABC Ltd agreed with the assessment, and it paid the additional tax due on 12 December 2014.

Required:

Calculate the interest and/or monetary charges (if any) payable by ABC Ltd in respect of the tax year 2012.

Note: The 5% additional tax should be ignored. (4 marks)

(10 marks)

- 5 Sky Blue Ltd is a Cyprus tax resident company. For the year ended 31 December 2014, Sky Blue Ltd's net profit and turnover are €300,000 and €1,500,000 respectively.

The following items have been taken into account when calculating the net profit of €300,000.

	Notes	€
Rents received		40,000
Repairs to rented property		(6,000)
Dividends received from a Greek trading company		500
Interest received	1	7,000
Loss from the sale of listed securities		(10,000)
Profit from the sale of unlisted bonds		5,000
Cohesion fund contributions		(12,000)
Interest paid	2	(20,000)
Saloon car expenses		(5,000)
Donation to an approved charity		(1,000)
Taxes paid	3	(12,300)
Expenses for the issue of new shares		(10,000)
Entertainment expenses		(16,000)
Depreciation	4	(25,000)

Notes:

1. Interest received during the year comprises:

	€
Gross interest received from a bank deposit account	2,000
Gross interest received from trade receivables (debtors)	5,000
	<u>7,000</u>

2. Interest paid during the year comprises:

Gross interest paid on trade payable (creditor) accounts	5,000
Interest paid on the late payment of income tax	3,000
Interest paid on a loan to acquire land held as an investment	12,000
	<u>20,000</u>

3. Taxes paid during the year were:

Provisional income tax paid	10,000
Immovable property tax	200
Special contribution for the defence tax	2,100
	<u>12,300</u>

4. Depreciation was calculated on assets held by the company at 31 December 2014 as follows:

- Office building acquired on 1 January 2000 for €140,000, including €40,000 for the value of the land.
- Computer hardware acquired on 1 January 2012 for €15,000.
- Office equipment acquired on 1 January 2012 for €40,000.
- Saloon car acquired on 1 June 2002 for €30,000.
- Shop acquired on 1 December 2000 for €60,000, including €15,000 relating to the cost of the land.

Required:

Calculate the corporation tax payable by/refundable to Sky Blue Ltd for the year ended 31 December 2014.

Note: Your computation should commence with the net profit figure of €300,000 and should list all the items referred to in the question, indicating by the use of zero (0) any item which does not require an adjustment.

(15 marks)

- 6 The following information relates to Danny Georgiou, an advertising consultant, and his wife, Artemis Georgiou, for the year ended 31 December 2014.

Danny

Danny is self-employed. For the year ended 31 December 2014, his turnover was €200,000 and his summarised profit and loss account was as follows:

	Notes	€	€
Gross profit			98,500
<i>Less: Expenses</i>			
Irrecoverable debts	1	1,500	
Office electricity		4,600	
Depreciation	2	15,000	
Motor expenses	3	5,600	
Employee salaries	4	18,000	
Office maintenance		1,600	
Promotional gifts (bearing the logo of the business) given to customers		950	
Donation to a political party		350	
		<hr/>	(47,600)
Net profit			<hr/> <u>50,900</u>

Notes:

1. The irrecoverable debt expense was made up as follows:

	€	€
Allowances carried forward:		
General	600	
Specific	900	
	<hr/>	1,500
<i>Less: Allowances brought forward:</i>		
General	500	
Specific	300	
	<hr/>	(800)
		<hr/>
Non-trade debts written off		700
Trade debts written off		300
		<hr/>
		500
		<hr/>
		1,500

2. Depreciation for the year was made up as follows:

Mercedes private saloon car acquired on 1 January 2009 for €100,000	10,000
Office furniture acquired on 1 January 2013 for €15,000	5,000
	<hr/>
	15,000

3. Motor expenses

These all relate to the Mercedes private saloon car (Note 2).

4. Employee salaries

The amount of salaries and relevant contributions not paid on time included within the 2014 expense was €2,000.

Artemis

During 2014, Artemis received the following income:

1. Gross rents of €19,000 from the leasing of a shop acquired during 1999 for €140,000 including €20,000 for the cost of the land. During the year ended 31 December 2014, she paid €2,600 in interest on a loan she had taken out in order to buy the shop.
2. Gross interest from her bank deposit account held with the Bank of Cyprus of €10,000.
3. Gross dividend income from a listed Cyprus company of €3,000.
4. A profit of €65,000 on the disposal of a plot of land for proceeds of €120,000.

In 2014, Artemis also paid a life insurance premium of €5,000 on a policy in her own name (the sum assured was €100,000).

Required:

(a) Calculate the income tax payable by Danny Georgiou for the year 2014.

Notes:

1. Your computation should commence with the net profit figure of €50,900 and should list all the items referred to in the question, indicating by the use of zero (0) any item which does not require an adjustment.
2. Personal allowances should be ignored. (7 marks)

(b) Calculate the income tax payable by Artemis Georgiou for the year 2014.

Note: Your computation should list all the items referred to in the question, indicating by the use of zero (0) any item of exempt income. (5 marks)

(c) Calculate the special contribution for the defence (SDC) payable by Artemis Georgiou for the year 2014.

(3 marks)

(15 marks)

End of Question Paper