
Answers

1 Mr Constantinos

Marks

(a) Taxable income for the year 2011

	€	€	
Income from employment		88.000	0.5
Rental income from abroad (€13.700 + €300)	14.000		1
Less: 20% allowance	(2.800)	11.200	1
	<u>6.000</u>		0.5
Rental income from Cyprus		4.800	1
Less: 20% allowance	(1.200)		
	<u></u>		
Dividend from abroad – exempt		0	0.5
Bank deposit interest received from abroad – exempt		0	0.5
Bank deposit interest received from Cypriot bank – exempt		0	0.5
Interest received from Government savings bonds – exempt		0	0.5
		<u></u>	
Total taxable income		104.000	
Less: Allowances			
Social insurance contribution (maximum €52.104 x 6,8%)	(3.543)		1
Provident fund contributions	(8.800)		0.5
Contributions to approved life insurance policy	(6.000)		0.5
	<u>(18.343)</u>		
Total deductions			
Restricted to 1/6 of total taxable income (€104.000/6)	17.333	(17.333)	1
	<u></u>	<u></u>	
Taxable income		86.667	
		<u></u>	9

(b) Special defence contribution (SDC) for 2011

	€	€	
Net bank interest from abroad – December			
SDC payable			
(€9.500 + €500) x 15%	1.500		1.5
Tax deducted at source (double tax relief)	(500)		1
	<u></u>		
SDC payable		1.000	
Due date of payment – 31 December 2011			1
Gross bank interest from abroad – December 2011			
SDC payable			
€5.000 x 15%		750	0.5
Due date of payment – 31 December 2011			0.5
Bank interest from Cypriot bank – no tax withheld			
SDC payable			
€3.000 x 15%		450	0.5
Due date of payment – 31 January 2012			1
Rental income from Cyprus			
SDC payable			
€6.000 x 75% x 3%		135	1.5
Due date of payment – 30 June 2011 – €67,50			0.5
Due date of payment – 31 December 2011 – €67,50			0.5
Rental income from abroad (€13.700 + €300)			
SDC payable			
€14.000 x 75% x 3%	315		1.5
Less: tax deducted at source	(300)		1
	<u></u>		
SDC payable		15	
Due date of payment – 30 June 2011			1
Gross dividend from abroad – November 2011			
SDC payable			
€7.000 x 17%		1.190	1
Due date of payment – 31 December 2011			1

	€	€	Marks
Interest from government bonds			
SDC payable			
€2.910 x 100/97 x 3%	90		1·5
SDC deducted at source	(90)		0·5
	<u> </u>		
SDC payable		0	<u> </u>
			16
			<u>25</u>

2 Ntegra Ltd

(a) Group relief available

Group relief for the tax year 2010

	€	
A Ltd – 100% of the company was acquired on 1 January 2010 – the whole of the loss for the year 2010 can be utilised	80.000	1
B Ltd – none of the loss can be utilised – the holding was only acquired part way through the year, in March 2010, and the holding prior to 31 December 2010 was less than 75%	–	1
C Ltd – none of the loss can be utilised – the holding was only acquired part way through the year, in October 2010	–	1
D Ltd – the loss cannot be utilised – the holding is less than 75%	–	1
	<u> </u>	
Total loss available for group relief for the year 2010	80.000	

Group relief for the tax year 2011

	€	
A Ltd – holding throughout the year 2011 exceeds 75%	65.000	1
B Ltd – holding throughout the year 2011 exceeds 75% – increased from 60% to 80% from 30 December 2010	45.000	1
C Ltd – holding sold in the year – the loss cannot be utilised	–	1
D Ltd – holding was also sold in the year but it was already below 75%, so the loss could not have been utilised	–	1
	<u> </u>	
Total loss available for group relief for the year 2011	110.000	
		<u>8</u>

(b) Taxable income for the years ended 31 December 2010 and 2011

	2010 €	2011 €	
Accounting profit (per question)	570.000	840.000	
<i>Deduct:</i> Adjustments to income			
Profit from the sale of shares in K Ltd	(18.000)		0.5
Profit from the sale of shares in D Ltd	(550.000)		0.5
Decrease in general provision for bad debts	(14.000)		1
<i>Add:</i> Adjustments to income			
Trade debtors recovered from previous years	0		0.5
Loss from sale of saloon car	6.000		0.5
Stock used by the director (€2.200 – €400)		1.800	1
<i>Add:</i> Adjustments to expenditure			
Increase in specific bad debts provision	0		0.5
Goodwill paid	40.000		1
Employee costs		0	0.5
Expenses for the issue of new shares		15.000	1
Loan interest:			
Year 2010 €450.000 x 6% = 27.000, but restricted to actual interest expense	24.000		1.5
Year 2011 €450.000 x 6% x 10/12		22.500	1.5
Seminars organised for the employees		0	0.5
Weekend excursion to Troodos organised for the company directors (entertainment limit: lower of 1% of turnover, i.e. €16.000 or €17.086) (€17,000 – €16,000)		1.000	1.5
Taxable profit	58.000	880.300	
Group relief (from part (a)) – 2010	(58.000)		0.5
Group relief (from part (a)) – 2011		(110.000)	0.5
Taxable profit/(loss)	0	770.300	
			13

(c) Capital gains tax payable for 2011 on the sale of shares in D Ltd

	€	€	
August 11 Proceeds (€600.000 is ignored since the only asset of the company is the land)		700.000	1.5
<i>Less:</i>			
January 01 Cost of acquisition €300.000 x 45%	135.000		1
Inflation (€135.000 x 115,90/87,41) – €135.000	44.001		1
		179.001	
Taxable capital gain		520.999	
Capital gains tax payable at 20%		104.200	0.5
			4

Tutorial note: Indexation allowance is calculated using index for July 2011 rather than August 2011 because the August indexation value is not known during August, therefore in accordance with the current tax practice for indexation purposes the price of the month preceding the sale is used.

(d) When applied to a company, the term 'resident in the Republic' means that the company has its management and control exercised in the Republic.

2

(e) In order to determine whether or not a company is resident in Cyprus, the following three factors must all coexist:

- the place where the majority of directors reside; 1
- the place where the decisions of importance are taken/voted upon; and 1
- the place where the general policy of the company is formulated. 1

3

30

3 Alexia

(a) Capital gains tax liability for the year 2011

Plot A Reg. No. 24/68

	€	€	
April 2011 Sale proceeds		700.000	0·5
Less: Market value at 1 January 1980	200.000		1
Inflation (€200,000 x 115,12/34,96) – €200.000	458.581		1
Levelling of land October 1974	0		1
Levelling of land September 1992 (included in December 1992 valuation)	0		1
Land registry transfer fees (no indexation)	6.000		1
Levelling of land November 1995	25.000		1
Inflation (€25.000 x 115,12/77,38) – €25.000	12.193		1
Immovable property taxes	0		0·5
		(701.774)	
Loss on disposal carried forward		(1.774)	

Plot B Reg. No. 12/71

July 2011 Sale proceeds		500.000	0·5
Less: Cost of land September 1999	180.000		0·5
Inflation (€180,000 x 117,62/84,72) – €180.000	69.901		1
Planning permission fees December 1999	5.000		0·5
Inflation (€5.000 x 117,62/85,99) – €5.000	1.839		1
Architect fees December 1999	12.000		0·5
Inflation (€12,000 x 117,62/85,99) – €12.000	4.414		1
Land registry transfer fees (no indexation)	14.000		0·5
Sewerage charges	0		1
Immovable property taxes	0		0·5
Bank interest	45.000		0·5
		(332.154)	
Gain on disposal		167.846	
Less: Lifetime exemption		(17.086)	1
Loss brought forward		(1.774)	2
Taxable capital gain		148.986	
Tax payable at 20%		29.797	0·5
			19

(b) The latest payment date for the capital gains tax is 24 August 2011.

1
20

4 Michalis

(a) Compulsory registration

Year 2012	Working	Monthly sales used to determine registration date	Cumulative sales	
€		€	€	
January		2.000	2.000	0·5
February		3.000	5.000	0·5
March	1	5.000	10.000	1·5
April		4.000	14.000	0·5
May	2	500	14.500	1·5
June		6.000	20.500	0·5
The registration threshold of €15.600 was exceeded during June 2012.				1
				<u>6</u>

Workings:

1. March: the amount of €6.000 is not taken into consideration since it relates to proceeds from the sale of machinery. Therefore this month's sales are €5.000 (€11.000 – €6.000).
2. May: the amount of €2.500 is not taken into consideration since it relates to rental income. Therefore this month's sales are €500 (€3.000 – €2.500).

- (b) Michalis must notify the VAT commissioner of his obligation to register within 30 days from the end of June 2012, i.e. by 30 July 2012.

His registration will be effective from the end of that month, i.e. from 1 August 2012.

1

1

2

- (c) The term 'business' means any economic activity, which is carried on independently in any place, whatever the purpose or results of those activities.

1

Economic activity, in this respect, includes all activities of producers, traders or persons supplying services, including mining and agricultural activities and the activities of the professions.

2

The exploitation of tangible or intangible property for the purpose of obtaining income therefrom on a continuing basis is also considered an economic activity.

1

Employed and other persons, in so far as they are bound to an employer or by other legalities creating the relationship of employer and employee as regards working conditions, remuneration and employer's liability, do not carry out an economic activity 'independently'.

1

5

- (d) The term 'open market value' is the money value, before value added tax (VAT), which would have been payable by a customer for a supply of goods or services, the price of which has not been affected by any commercial, financial or other relationship between the purchaser and the seller.

1·5

It is the price that the customer would pay if money were the only consideration.

0·5

2

15

- 5 (a) The criteria which are used to determine whether an isolated transaction should be treated as a trading transaction or a capital transaction are as follows:

- The subject matter of the transaction
- The length of ownership
- Frequency of similar transactions
- Supplementary work
- Circumstances responsible for the sale
- Motive
- Method of financing the cost
- Knowledge of the owner
- Method of acquisition
- How the sale proceeds are used

0·5

0·5

0·5

0·5

0·5

0·5

0·5

0·5

0·5

0·5

5

- (b) The following companies are not required to submit the form IR 623 in respect of the deemed distribution of dividends:

1. A company all the shareholders of which are non tax resident in Cyprus (physical as well as legal persons) and are shown as shareholders in the Register of Shareholders of the company.

1

2. A company all the beneficial shareholders of which are non tax residents in Cyprus (physical as well as legal persons), who are not shown as shareholders in the Register of Shareholders of the company, but whose shares are held by non-residents in Cyprus (physical or legal persons) as trustees who are shown as shareholders in the Register of Shareholders of the company.

2

3. A company all the beneficial shareholders of which are non tax resident in Cyprus (physical as well as legal persons), who are not shown as shareholders in the Register of Shareholders of the company, but whose shares are held by residents in Cyprus (physical or legal persons) as trustees.

Marks

2

5

10