

Fundamentals Level – Skills Module

Taxation (Cyprus)

Tuesday 3 December 2013



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 2–3.

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

ZEAK

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 2012 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	10%
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Interest on unpaid tax

Interest on income and corporation tax assessments	5% p.a.
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Value added tax (VAT)

Registration limit	€15.600
Standard rate	
– From 1 March 2012	17%
– Until 29 February 2012	15%
Reduced rates	5%, 8%

Social insurance contributions

Social insurance fund	6,8%
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	€53.304
Self-employed contributions	12,6%

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

ALL FIVE questions are compulsory and MUST be attempted

- 1 (a) Costas Costoulas, a civil engineer, relocated from the United Arab Emirates to Cyprus on 1 January 2012. He had lived in the United Arab Emirates since 2006, working for a large construction company.

Costas was appointed as the managing director of ABC Constructions Ltd (ABC), a Cyprus tax resident company, from 1 January 2012. His annual gross salary was agreed at €110,000. In 2012 the PAYE deducted from Costas's salary was €10,500.

Costas was provided immediately with a house by ABC, for which ABC paid an annual rent of €12,000, and incurred ancillary services in 2012 as follows:

Electricity	€1,700
Water	€500

Costas is provided with a car by ABC, in order to visit their various construction sites and give instructions to the builders. He will also use the car for private purposes. The private use of the car, as agreed with the Inland Revenue, is 30%. The annual running expenses of the car are borne by ABC and comprise:

Road tax	€200
Insurance	€700
Repairs	€2,000
Fuel	€5,000

Costas himself made the following payments in 2012:

– Subscription to ETEK (professional body)	€300
– Donation to FC Apoel (football club)	€500
– Donation to an approved charity	€300
– Professional development seminar related to his job	€200
– Social insurance contributions in accordance with the applicable rates	
– Life insurance in his own name (sum assured €100,000)	€8,000

Costas receives rental income from a luxury flat in Paphos which he owns jointly with his wife, Maria. The flat was acquired during 1999 for €300,000 (including land of €100,000). The total rents received by Costas and Maria (jointly) in 2012 were €24,000, and they paid €2,000 in interest on the loan they had taken out in order to buy the rental property.

You are provided with the following information for the special defence contribution tax on rental income which is 3% on 75% of the gross rental income.

Required:

- (i) Calculate the tax payable by/refundable to Costas Costoulas for the year 2012, assuming that he will take advantage of all available exemptions. (15 marks)
- (ii) Briefly outline the conditions applicable to each of the exemptions available to Costas Costoulas in respect of his employment income in 2012. (3 marks)
- (iii) Calculate the special defence contribution (SDC) payable by Costas Costoulas for the year 2012, and state the due dates of payment. (2 marks)

- (b) Eleni is a software developer who started working for Clever Ideas Ltd, a Cyprus tax resident company, on 1 January 2012.

The following information is available in respect of Eleni's agreement with Clever Ideas Ltd:

- On completion of each software development project, Eleni is paid a fixed fee for each project which she works on for Clever Ideas Ltd. However, she is not obliged to accept any of the contracts offered to her by Clever Ideas Ltd. Eleni carries out the work under her own control and expects to receive €50,000 from Clever Ideas Ltd during 2012.

- Eleni works from her home in Nicosia, and will never work at the premises of Clever Ideas Ltd. She uses one room of her two-room flat exclusively for work purposes. The total annual running cost of the flat is €5.000.
- Eleni is required to provide her own equipment. She purchased a new computer on 1 January 2012 for €2.000.
- Eleni's telephone bills for 2012 are €500 higher than they were prior to the commencement of her working from home.

Required:

- (i) **List and briefly explain SIX criteria to be considered when deciding whether Eleni is employed or self-employed in respect of her work for Clever Ideas Ltd.** (6 marks)
- (ii) **Calculate Eleni's taxable income for 2012 if she is treated as self-employed, assuming that her only income is from her work for Clever Ideas Ltd and she paid social insurance contributions of €3.000.** (4 marks)

(30 marks)

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Question 2 begins on page 7.**

2 Alasia Ltd, a Cyprus tax resident company, is a computer hardware and software manufacturer.

The company's summarised income statement for the year ended 31 December 2012 is as follows:

	Note	€	€
Turnover			1.300.000
Cost of sales			(300.000)
Gross profit			1.000.000
Operating expenses			
Depreciation	1	54.200	
Loss on disposal of a saloon car used for business purposes	1	5.000	
Gifts and donations	2	6.400	
Bad debts	3	8.300	
Professional fees	4	7.000	
Salaries	5	331.500	
Repairs and renewals	6	149.000	
Other expenses	7	20.000	
			(581.400)
Operating profit			418.600
Other income			
Profit from the disposal of furniture	1		2.000
Profit from the disposal of factory building No. 2	1		188.100
Profit from the disposal of shares listed on the stock exchange	8		10.000
Interest received	9		12.360
			631.060
Interest payable	10		(18.400)
Profit before taxation			612.660

Notes:

1 Fixed assets

On 1 January 2012 Alasia Ltd's cost of assets was as follows:

	€
Machines (purchased in 2007)	10.000
Saloon car (purchased in 2000, sold in 2012)	18.000
Saloon car (purchased in 2004)	17.500
Furniture (purchased in 2000)	2.300
Furniture (purchased in 2004, sold in 2012)	8.000
New furniture from Nuevo Furniture Ltd (purchased in 2012)	10.000
Computer hardware (purchased in 2008)	2.000
Factory building No. 1 (purchased in June 2000, including cost of land €150.000)	320.000
Factory building No. 2 (purchased in December 2000, sold in 2012)	137.100

The following transactions took place during the year ended 31 December 2012 (the costs of these assets are included in the list given above):

- Purchased new furniture from Nuevo Furniture Ltd for €10.000
- Disposed of old furniture for €3.000. This furniture had been purchased in 2004 for €8.000.
- Disposed of a saloon car for €1.000. This saloon car had been purchased in 2000 for €18.000.
- Disposed of factory building No. 2 for €250.995 on 2 November 2012. Factory building No. 2 had been purchased on 1 December 2000 for €137.100, including cost of land €30.000.

2 Gifts and donations are made up as follows:

	€
Gifts to customers (pens costing €5 each, displaying Alasia Ltd's name)	1.100
Donation to AKEL (a recognised political party)	5.200
Donation to Nicosia Municipality	100
	<u>6.400</u>

3 Bad debts comprise:

	€
Trade bad debts recovered from previous years	(3.000)
Trade debts written off	7.200
Loan to a director written off	4.100
	<u>8.300</u>

4 Professional fees are made up as follows:

	€
Accountancy and audit fee	3.600
Legal fees	
– in connection with the acquisition of a plot of land	1.100
– debt collection	2.300
	<u>7.000</u>

5 Salaries comprise:

	€
Gross salaries	300.000
Cohesion fund contributions	6.000
Other social insurance contributions	25.500
	<u>331.500</u>

The company paid part of its payroll costs on 1 January 2014. The amount of salaries and relevant contributions not paid on time included within the 2012 expense was €20.000.

6 Repairs and renewals comprise:

	€
Replacing the roof of factory No. 1, which was in a poor state of repair	43.300
Extending the factory No. 1 building	100.700
Repairs to plant and machinery	5.000
	<u>149.000</u>

7 Other expenses include €15.000 for the entertaining of suppliers and customers.

8 The profit of €10.000 is in respect of shares quoted on the stock exchange, which were sold on 1 December 2012 for €20.000. The shares had been purchased for €10.000 in 2000.

9 Interest received is made up as follows:

	€
Interest on a loan made to a customer on 1 July 2012	11.360
Interest from bank deposits	1.000
	<u>12.360</u>

10 The interest payable is in respect of a loan from a local bank.

Other information:

- (i) Alasia Ltd paid temporary tax of €30.000 in respect of 2012, on the relevant due dates. The temporary assessment was for €300.000
- (ii) Alasia Ltd incorporated a 100% subsidiary, Ledra Ltd, on 1 March 2012. Ledra Ltd made a tax adjusted trading loss of €46.800 for 2012.

Required:

- (a) Calculate Alasia Ltd's tax adjusted trading profit for the year ended 31 December 2012.**

Note: Your computation should commence with the profit before taxation figure of €612.660 and should list all the items mentioned in notes (1) to (10), indicating by the use of zero (0) any items which do not require adjustment. (22 marks)

- (b) Calculate Alasia Ltd's taxable profit and the corporation tax payable for the year 2012, taking into account any relief available for the loss made by Ledra Ltd. (3 marks)**

(25 marks)

- 3** Aristos Kyrios is 52 years old and lives and works in Salamiou, Cyprus. He is involved as a sole trader in the cultivation of fresh fruits. Aristos has also invested in land in Cyprus and in Farland, a country in Asia.

Aristos sold his old family house for €230.000 on 31 March 2012 and paid a commission of €10.000 to Alexis, a non-approved estate agent, who found the buyer. The house had been purchased in May 1979 for €20.000, and its market value on 1 January 1980 was €26.500. In June 1998, Aristos spent €25.000 on structural alterations to the house.

Aristos had lived in the house from 1979 to 2000, when he decided to move to a bigger house. From 1 January 2001 until it was sold, Aristos had let the house for residential purposes. He had claimed wear and tear allowances for the years 2001 to 2010 inclusive.

The land developer who was to buy the property offered to pay Aristos partly in cash and partly by giving him a flat in a new building. The market value of the flat at the date of the exchange was €150.000 and the market value of the house at the date of the exchange was €265.000. Aristos decided to accept the developer's offer.

Aristos is a higher rate taxpayer and he did not use his capital gains tax lifetime exemptions.

Required:

- (a) (i) **List and briefly explain the conditions to be satisfied for the principal dwelling house exemption to be given.** (4 marks)
- (ii) **State, giving reasons, whether or not the principal dwelling house exemption will be available to Aristos Kyrios on the disposal of his old family house.** (1 mark)
- (b) **Calculate Aristos Kyrios' chargeable gain arising from the exchange of the old family house with the new flat if all available exemptions and reliefs are claimed. Clearly identify any exemptions and reliefs claimed, and state the tax value of the new flat for the purposes of any future disposal.** (12 marks)
- (c) **State Aristos Kyrios' self-assessment obligations in respect of the disposal of his old family house, and the consequences of any non-compliance.** (3 marks)

(20 marks)

- 4 The following information relates to the management accounts of Petroulas Sports Ltd for the quarter ended 31 December 2012. All figures are stated exclusive of value added tax (VAT).

	Note	€	€
Sales	1 & 6		19.500
Sales returns	3		(1.100)
			<hr/> 18.400
Purchases	2	9.500	
Purchase returns	3	(500)	
		<hr/> 9.000	
Bad debts written off	4	500	
Salaries		2.500	
Customer entertaining	1	300	
Staff entertaining	1	500	
Other expenses	1 & 5	<hr/> 2.400	
			<hr/> (15.200)
Profit			<hr/> 3.200

Notes:

- (1) Sales and expenses are all standard rated for VAT.
- (2) Purchases are all deductible for VAT.
- (3) The sales and purchase returns are all evidenced by credit notes issued and received.
- (4) The bad debts were written off in December 2012. Payment for the original sales invoice was due by 28 February 2011.
- (5) Included in the other expenses figure is the cost (net of VAT) of both business and private petrol for a company car. The quarterly car fuel charge is €585 inclusive of VAT, and the VAT office has accepted that 30% of the car's use is for business purposes.
- (6) A sales invoice for €1.000 excluding VAT had been omitted in error from the VAT return for the quarter ended 30 September 2012.

Required:

- (a) **Compute Petroulas Sports Ltd's output and input value added tax (VAT) for the three-month period ended 31 December 2012 showing the amount of VAT due, and state the date on which this is payable.**

(9 marks)

- (b) **Briefly explain the treatment of:**

- (i) the bad debt written off (note 4); and
- (ii) the mistake relating to the quarter ended 30 September 2012 (note 6).

The following mark allocation is provided as guidance for this requirement:

- (i) 1 mark
- (ii) 2 marks

(3 marks)

- (c) **Explain the term VAT tax point and why it is important.**

(3 marks)

(15 marks)

- 5** Perikles Wise is the managing director and 100% shareholder of Aphrodite Ltd, a Cyprus tax resident company.

So far in the tax year 2012, Perikles has received his normal annual director's salary of €40.000 from Aphrodite Ltd, from which the relevant PAYE of €4.069 has been deducted. Perikles now wishes to withdraw a further €50.000 from the company, on 28 December 2012, either as additional director's salary (in which case the gross remuneration will be €50.000) or as a dividend (in which case the cash amount actually withdrawn will be €50.000).

Aphrodite Ltd's total taxable profits for the year ended 31 December 2012 will be €250.000. This figure is after deducting Perikles' normal director's salary of €40.000, but before taking into account the additional €50.000 Perikles now wishes to withdraw from the company.

Perikles will have no income from any other sources during 2012.

You are provided with the following information for the special defence contribution tax on dividends received (where applicable), which is as follows:

- | | |
|-------------------------------|-----|
| – For the years 2012 and 2013 | 20% |
| – From 31 August 2011 | 17% |
| – Until 30 August 2011 | 15% |

Required:

- (a) Calculate the additional income tax liability, social insurance contributions and special defence contribution (SDC) which Perikles Wise will have to pay for the tax year 2012, if he:**

- (i) withdraws additional gross remuneration of €50.000; and**
- (ii) withdraws a net cash dividend of €50.000.**

The following mark allocation is provided as guidance for this requirement:

- (i) 4 marks
- (ii) 3 marks

(7 marks)

- (b) Calculate Aphrodite Ltd's additional employer's social insurance contributions for the year ended 31 December 2012 if the company pays Perikles Wise:**

- (i) additional gross director's remuneration of €50.000; and**
- (ii) a net cash dividend of €50.000.**

Note: You should assume that Aphrodite Ltd has been given exemption from the central holiday fund contributions.

The following mark allocation is provided as guidance for this requirement:

- (i) 2 marks
- (ii) 1 mark

(3 marks)

(10 marks)

End of Question Paper