

Fundamentals Level – Skills Module

Taxation (Cyprus)

Thursday 9 June 2016



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This question 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 question 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 question paper.

This question paper must not be removed from the examination hall.

Paper F6 (CYP)

Think Ahead

ACCA

ZEAK

The Association of Chartered
Certified Accountants

The Institute of Certified Public
Accountants of Cyprus

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 2015 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%
Hotels, 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.)	4·0% p.a.
Additional tax	5% of tax due
PAYE assessments	4·0% p.a. plus a 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	19%
Reduced rates	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 (if not exempted)	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
2015	114.23	114.73	115.31	115.34	115.68	115.50	113.86	113.95	114.52	115.11	115.16	114.35

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** Charalambos has been registered for value added tax (VAT) in Cyprus since starting his clothing manufacturing business in January 2011.

The following information relates to the quarter ended 30 September 2015. All amounts are stated inclusive of VAT, where applicable.

- (1) He issued sales invoices of €20,000 for standard rated supplies made in Cyprus, of €13,000 for exports made to Russia, and of €18,000 to Clever Ltd, an Italian VAT registered business.

Charalambos always gives a 5% discount for prompt payment to all of his customers.

- (2) His expenses (all standard rated) for the quarter were:

	€
Entertaining a major customer	200
Repair of a machine	350
Saloon car acquisition (the car is used 33·33% for business purposes by Charalambos)	15,860
Staff bonding dinner (for staff only)	500
Other expenses (all allowable for VAT purposes)	4,550

Required:

- (a) Calculate the amount of value added tax (VAT) payable by Charalambos for the quarter ended 30 September 2015. (7 marks)

- (b) Briefly advise Charalambos of the VAT implications of his ceasing to trade. (3 marks)

(10 marks)

- 2 Rodoula, aged 45, has lived and worked in Dubai for many years. In 2014 she resigned from her job and moved permanently to Cyprus. When she moved to Cyprus she owned the following immovable properties:

Market value at 20 January 2015

	€
A plot in Nicosia, acquired on 2 June 2005 for €170,000	600,000
Agricultural land in Nicosia, received as a gift from her father on 2 July 2011	500,000

The market value of the agricultural land at the date of the gift was €160,000. Rodoula's father had bought the land on 3 January 1981 for €30,000.

Rodoula now wishes to acquire a villa in Peyia from a land developer, which she will use as her main residence in Cyprus. The villa is valued at €500,000.

Rodoula is looking to exchange one of the properties she currently holds for the villa. She has offered the land developer one of two alternatives:

- (1) To exchange with him the plot in Nicosia, and receive €100,000 in cash from him; or
- (2) To exchange with him the agricultural land in Nicosia (no cash will be paid or received in this case).

In either case, the exchange and payment of cash will be made on 20 January 2015.

Rodoula has not previously sold or exchanged any immovable property in Cyprus.

Required:

- (a) Calculate Rodoula's chargeable gain arising from the exchange of the plot in Nicosia with the villa in Peyia, claiming all available exemptions and reliefs. Clearly identify the exemptions and reliefs claimed. (5 marks)
- (b) Calculate Rodoula's chargeable gain arising from the exchange of the agricultural land in Nicosia with the villa in Peyia, claiming all available exemptions and reliefs. Clearly identify the exemptions and reliefs claimed. (5 marks)

(10 marks)

3 (a) State the circumstances in which trading goodwill will be subject to either income tax or corporation tax.

(3 marks)

- (b)** In 2012 Pericles, a successful lawyer, was made a partner in the firm of lawyers where he worked. He paid €100,000 to buy his share of the trading goodwill of the partnership. At the beginning of 2015, Pericles left the partnership to open his own legal firm and received €125,000 in respect of his share of the trading goodwill at that time. In the 2015 tax year, Pericles's own legal firm realised a tax adjusted profit of €70,000.

In addition to the above, Pericles used to run a small souvenir shop in Ayia Napa. He purchased the shop in 2010 for €100,000, including the cost of the land of €23,000. The purchase was financed by a bank loan and yearly interest of €5,600 was payable on this loan. The shop was closed down on 30 June 2015. The tax adjusted profit (before capital allowances and loan interest expense) of the shop for the six months to 30 June 2015 was €12,000. On 1 July 2015, Pericles rented the shop to a local business for €1,600 per month.

Required:

Calculate Pericles's total taxable income for the year 2015.

Note: Ignore any available personal allowances.

(7 marks)

(10 marks)

- 4 Farmers Ltd is a Cyprus tax resident company which produces soft fruit. It is wholly owned by Mr Pantelis, a Cyprus tax resident individual, and has no associated companies.

In the year ended 31 December 2015 Farmers Ltd realised an accounting profit before taxation of €125,000, before taking into account any of the following transactions which occurred during December 2015:

- (1) Sold its offices for €150,000. The offices had been acquired on 1 July 2002, when Farmers Ltd commenced trading, for €90,000. The land value was agreed at one-third of the total consideration. Commission of €1,200 was paid to Mr Polydoros, a licensed estate agent, for finding the buyer.
- (2) Sold a plot of land for €30,000. The land had been acquired on 1 January 2002 for €13,000. For the purposes of watering the fruit plants, a water well was drilled at a cost of €5,600 on 11 June 2003.
- (3) Sold Hellenic Bank shares for €500. The shares had been acquired for €13,200 in November 1999.
- (4) Sold an antique saloon car for €15,000. The car had been acquired for €5,000 in October 2008.

Other information:

- (i) Farmers Ltd's depreciation policy is to depreciate all of its buildings over 25 years using the straight line method. No provision for depreciation is made in the year of disposal. Full provision for depreciation is made in the year of acquisition.
- (ii) The total capital gains tax paid in 2015 in relation to all the disposals listed is €12,560.
- (iii) Farmers Ltd realised a tax adjusted profit of €127,904 for the year ended 31 December 2015.
- (iv) On 31 December 2016 Farmers Ltd will distribute a dividend of €20,000 out of its year 2015 profits. This is the only dividend Farmers Ltd will pay out of its year 2015 profits.

Required:

Calculate Farmers Ltd's deemed dividend distribution for the year 2015 and the related special defence contribution liability.

Note: Your computation should commence with the accounting profit before taxation figure of €125,000 and should list all of the items referred to in transactions (1) to (4), indicating by the use of zero (0) any items which do not require adjustment.

(10 marks)

- 5 Christoforos commenced in business on 1 October 2014. His tax adjusted profits before capital allowances have been as follows:

	€
Period to 31 December 2014	37,130
Year ended 31 December 2015	145,600

He made the following capital additions and disposals of fixed assets:

Additions

	Cost
	€
1 October 2014 Motor car (private use by Christoforos has been estimated at 20%)	12,200
1 October 2014 Milling machine	10,600
1 November 2014 Truck	13,500
1 January 2015 Office building, including cost of land of €36,200	122,500
11 June 2015 Computer hardware	11,500
10 July 2015 Motor van	14,000

Disposals

	Disposal proceeds
	€
1 August 2015 Milling machine acquired on 1 October 2014	8,600

Required:

- State the requirements for capital allowances to be granted in respect of an asset.** (3 marks)
- State the effect (if any) on the wear and tear claim of the length of ownership of an asset and/or the length of the period of account.** (3 marks)
- Calculate the amount of trading profits to be assessed on Christoforos for each of the tax years 2014 and 2015.** (9 marks)

(15 marks)

- 6 (a)** Innovative Business Solutions Ltd is a Cyprus resident manufacturing company. The company's summarised statement of profit or loss for the year ended 31 December 2015 is as follows:

	Note	€	€
Gross profit			560,450
Less: Operating expenses			
Depreciation	1	45,560	
Patent royalties paid	2	12,500	
Office rent		24,000	
Irrecoverable receivables (debts)	3	29,000	
Gifts and donations	4	6,215	
Professional fees	5	30,950	
			(148,225)
Operating profit			412,225
Less: Finance costs	6		(12,650)
Profit before taxation			399,575

Notes:

1. Depreciation

The relevant capital allowances for tax year 2015 are €35,850.

2. Patent royalties comprise:

	€
Accrued at 31 December 2014	(3,600)
Paid on 31 October 2015	10,500
Accrued at 31 December 2015	5,600
	12,500

3. Irrecoverable receivables (debts) comprise:

	€
Trade receivables (debts) written off	12,500
Increase in the general allowance for irrecoverable debts	16,500
	29,000

4. Gifts and donations comprise:

	€
Gifts to customers (coffee cups costing €5 each and displaying the company's name)	5,550
Donation to a local football club	65
Donation to an approved charity	600
	6,215

5. Professional fees comprise:

	€
Legal fees in connection with the issue of share capital	5,550
Legal consultants – annual retainer fee	10,000
Accountancy and audit fees	15,400
	30,950

6. Finance costs

Interest in respect of a debenture loan which had been used for trading purposes of €12,650 was paid on 31 December 2015.

Required:

Calculate Innovative Business Solutions Ltd's taxable profit and corporation tax liability for the year 2015.

Notes:

1. Your computation should commence with the profit before taxation figure of €399,575 and should list all the items referred to in notes (1) to (6), indicating by the use of zero (0) any items which do not require adjustment.
2. Ignore temporary tax assessments. (7 marks)

- (b) Onesilos is the managing director and owner of all the ordinary shares of Onesilos Limited, an unlisted trading company incorporated in Cyprus. Onesilos has his permanent abode in Cyprus, where he lives with his family.

Onesilos Limited holds the following shareholdings in other unlisted companies:

- (1) 77% of the ordinary shares in Salamina Limited, a trading company incorporated and tax resident in Cyprus. Onesilos Limited acquired its shares in Salamina Limited on 15 January 2013.
- (2) 100% of the ordinary shares in Tefkros Limited, a non-Cyprus resident trading company. Onesilos Limited acquired its shares in Tefkros Limited on 20 August 2014.
- (3) 100% of the ordinary shares in Bees Limited, a trading company incorporated and tax resident in Cyprus. Onesilos Limited acquired its shares in Bees Limited on 20 August 2015.

The trading results of all four companies for the year 2015 are as follows:

	Trading profit/(loss)
	€
Onesilos Limited	250,000
Salamina Limited	(60,000)
Tefkros Limited	(80,000)
Bees Limited	(50,000)

On 1 January 2015, Onesilos Limited has a tax loss brought forward from the tax year 2009 of €20,500.

Onesilos Limited paid all the instalments due under its temporary tax assessment during the year 2015 amounting to €13,000.

Required:

- (i) State, giving reasons, which companies will be regarded as members of Onesilos Limited's tax group for the year 2015. (4 marks)
- (ii) Calculate Onesilos Limited's taxable profit and the corporation tax payable for the year 2015, taking into account any loss reliefs available. (4 marks)

(15 marks)

End of Question Paper