
Answers

Section B

Marks

1 B&C Partnership

(a) Calculation of profits assessable on the partners for the years 2015 and 2016

	Bonnie €	Clyde €	Earl €	Total €	
Year 2015					
1 January to 30 June 2015					
Trading profit	30,000	30,000	0	60,000	1½
1 July to 31 December 2015					
Trading profit	20,000	20,000	20,000	60,000	2
Total for year	50,000	50,000	20,000	120,000	
Year 2016					
1 January to 30 June 2016					
Trading profit	15,000	0	15,000	30,000	1½
1 July 2016 to 31 December 2016					
Salary (€6,000 x 6/12)	0	0	3,000	3,000	1
Trading profit (2:1)	18,000	0	9,000	27,000	2
Total for year	33,000	0	27,000	60,000	
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(b) Procedure for declaring the partnership's income

Each of the partners must declare their share of chargeable profit in their personal income tax returns. 1

Each partner must submit a copy of the partnership's audited financial statements with their personal income tax return.

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2 (a) John – Compulsory registration for value added tax (VAT)

	€	Cumulative sales €	
2015			
December	1,500	1,500	½
2016			
January to April (€1,000 + €2,500 + €1,200 + €1,500)	6,200	7,700	1
May (€3,700 – €2,500)	1,200	8,900	1
June	2,400	11,300	½
July	2,800	14,100	½
August (€1,350 – €500)	850	14,950	½
September (€1,100 – €500)	600	15,550	½
October (€2,200 – €500)	1,700	17,250	½

John's sales exceed the registration limit of €15,600 in October 2016, therefore, he is required to register for VAT at the end of that month, i.e. from 31 October 2016.

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He must notify the Commissioner of Taxation within 30 days from the registration date, i.e. by 30 November 2016.

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If John does not submit his VAT return on time, then a surcharge of €51 is imposed.

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(b) Types of goods/services for which no VAT input credit can be deducted are:

- Goods/services used for private purposes.
- Goods/services used for purposes other than business.
- Goods/services supplied for the use of another person.
- Business entertainment in respect of a person who is not an employee.
- Purchase of a private saloon car, except for rental cars, taxis and driving school cars.

- Goods/services in respect of which a margin scheme applies.
- Goods/services which relate to an exempt supplier.

FOUR items only required, ½ mark each item, maximum

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10**3 Stavroulla – Capital gains on disposal of residential dwelling****Capital gain in respect of the land**

	€	€	
Value of land ($€230,000 \times (7,200 - 1,500)/7,200$)		182,083	1
Less:			
Cost ($€150,000 \times (5,700/7,200)$)	(118,750)		1
Inflation ($€118,750 \times (217.68/181.33) - €118,750$)	(23,805)		1
		(142,555)	
Agent's commission ($€550,000 \times 2\%$) x ($€182,083/€550,000$)		(3,642)	1
		35,886	
Less: Lifetime exemption		(17,086)	½
Capital gain		18,800	
Capital gains tax $€18,800 \times 20\% = €3,760$			½

Capital gains in respect of the house

	€	€	
Proceeds ($€550,000 - €182,083$)		367,917	½
Less:			
Cost of land ($€150,000 - €118,750$)	(31,250)		½
Inflation ($€31,250 \times (217.68/181.33) - €31,250$)	(6,264)		1
		(37,514)	
Agent's commission ($€11,000 - €3,642$)		(7,358)	½
		323,045	
Less:			
Cost of house	(200,000)		½
Inflation ($€200,000 \times (217.68/194.51) - €200,000$)	(23,824)		1
		(223,824)	
		99,221	
Less: Residential dwelling lifetime exemption (maximum of $€85,430 - €17,086$)		(68,344)	½
Capital gain		30,877	
Capital gains tax $€30,877 \times 20\% = €6,175$			½

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Tutorial note: The residential dwelling exemption only applies to the gain accruing on the disposal of a principal dwelling house situated on land not exceeding 1,500 square metres.

4 (a) The purposes of the temporary tax assessment system are:

- To collect the tax payable by a company or individual. 1
- For an individual, they must have an income other than employment income. 1
- To collect the tax in the same year of assessment for which the tax payable by that company or individual is imposed. 1

3**(b)**

	€	
Profit before tax	80,000	
Corporation tax ($€80,000 \times 12.5\%$)	10,000	1

Marks

Due dates and amounts of temporary tax payments

	€	
31 July 2015	5,000	1
31 December 2015	5,000	1
	<u>10,000</u>	
		<u>3</u>

(c) Interest is charged in the following cases:

- Where a company or an individual submits before 31 July, an estimate of the temporary tax payable but fails to pay the temporary tax due – the interest is charged from the due date. 1
 - Where the Commissioner of Taxation proceeds with the imposition of a temporary tax assessment for a company or an individual – the interest is charged from the prescribed date the temporary tax instalments are due. 1
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(d)

	€	
Final tax	8,500	
Temporary tax paid	<u>(10,000)</u>	
Refundable tax	<u>(1,500)</u>	1
Interest refundable at 4% per annum (€1,500 x 4% x 2/12)	<u>10</u>	1
		<u>2</u>
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5 (a) Giorgos

(i) Income tax payable/refundable for the year 2016

	€	€	
Old age pension (€1,600 x 13 months)		20,800	½
Profit from the sale of shares in a private company resident in Cyprus	0		½
Profit from the sale of shares in a private company not resident in Cyprus	0		½
Dividends received	0		½
Monthly rental income (€350 x 3 months)	1,050		½
Interest received	<u>0</u>	<u>1,050</u>	½
		21,850	
Less: Interest on principal dwelling loan	0		½
Less: Life insurance premium (restricted to 7% of €50,000)	<u>3,500</u>	<u>(3,500)</u>	1
		<u>18,350</u>	
Tax payable (amount below €19,500)		0	½
Less: PAYE deducted at source		<u>(300)</u>	½
Tax refundable for 2016		<u>(300)</u>	½
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(ii) Special defence contribution (SDC) payable for the year 2016			
Rental income	€ 1,050	€	½
Less: 25% allowance	(263)		½
	<u>787</u>		
Special contribution for defence (€787 x 3%)		24	½
Dividends received (€3,500 x 100/90)	<u>3,889</u>		1
Special contribution for defence (€3,889 x 17%)		661	½
Less: Overseas tax deducted (€3,889 x 10%)		(389)	1
Interest from bank deposit	<u>1,000</u>		½
Special contribution for defence (€1,000 x 30%)		<u>300</u>	½
Special contribution for defence payable		<u>596</u>	
			<u>5</u>

(b) Andry – Final income tax payable for 2016

	€	
Adjusted chargeable profit	49,000	½
Less: Social insurance contributions (€384 x 52 weeks x 14.6%)	<u>(2,915)</u>	1
Taxable income	<u>46,085</u>	
Income 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–€46,085 at 30%	<u>2,935</u>	
Income tax liability	6,710	1
Less: Temporary tax paid	<u>(4,000)</u>	½
	<u>2,710</u>	
Add: 10% additional tax (temporary assessment is lower than 75% of taxable income)	<u>271</u>	1
Income tax payable	<u>2,981</u>	
		<u>4</u>
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6 Akira Ltd – Tax loss for the year 2016

	€	€	
Net loss		(35,000)	
Less: Adjustments on income			
Interest received from trade receivables	0		1/2
Interest received from bank current account	0		1/2
Interest from bonds	(2,800)		1/2
Profit on disposal of office unit	(45,350)		1/2
Add: Balancing addition on disposal of office unit ((€120,000 + €15,000) – (€170,000 – €45,350))	10,350		2
(Restricted to capital allowances granted)			
		(37,800)	
Add: Adjustments on expenditure			
Donation to an approved charity	8,000		1/2
Donation to a political party	4,000		1/2
Legal fees paid for increase in share capital	3,800		1
Repairs with no receipt	600		1
Bad debts general provision (€2,550 – €2,100)	450		1/2
Trade receivables written off	0		1/2
Trade receivables recovered	0		1/2
Bank overdraft interest	0		1/2
Mortgage fees in respect of a business loan	2,300		1
Immovable property tax paid	1,700		1/2
Depreciation	12,750		1/2
Computer application software	2,500		1/2
		36,100	
Less: Capital allowances			
Factory (€180,000 x 4%)	(7,200)		1/2
Motor van (€35,000 x 20%)	(7,000)		1/2
Saloon car	0		1/2
Computer hardware (€6,000 x 20%)	(1,200)		1/2
Computer application software (€2,500 x 33.3%)	(833)		1/2
		(16,233)	
Tax loss for the year carried forward		(52,933)	
A tax loss can be carried forward for a maximum of five years.			1
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