

Fundamentals Level – Skills Module

Taxation (Cyprus)

Thursday 7 December 2017



Time allowed: 3 hours 15 minutes

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.

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 need only be made to the nearest € unless you are 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 rates and allowances for the year 2016 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, 2014, 2015 and 2016	20%
– otherwise	10%
Motor vans	20%
Hotel, industrial and agricultural buildings	
– acquired in the years 2012, 2013, 2014, 2015 and 2016	7%
– otherwise	4%
Other buildings	3%
Computer hardware and operating software	20%
Application software	33·3%

Corporation tax

All companies	12·5%
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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% p.a.
Additional tax	5% of tax due
PAYE assessments	4% p.a. plus a surcharge of 1% per month

Special defence contribution

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%
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Life time exemptions

General	€17,086
Farmer in respect of farm land	€25,629
Residential dwelling – restricted to land of 1·5 decares (1,500 square metres)	€85,430

Retail price index for capital gains purposes
Based on the Tax Department table of RPI

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1.1.80	67.15											
1980	67.99	68.53	69.14	71.51	70.56	70.70	72.12	72.16	73.41	74.00	74.50	75.21
1981	76.09	76.72	77.43	77.98	78.02	78.77	79.71	80.21	80.63	81.29	82.49	82.98
1982	82.94	83.70	83.48	84.60	84.40	83.81	83.44	83.99	84.89	85.23	86.22	86.80
1983	87.57	87.70	88.51	89.63	88.95	87.76	87.77	88.49	88.67	89.59	89.88	90.37
1984	91.16	91.78	92.31	92.92	93.73	93.83	94.92	94.41	94.13	95.33	96.81	97.77
1985	97.68	97.75	98.55	98.79	98.57	97.63	97.20	98.76	100.09	101.13	99.73	99.58
1986	100.22	100.12	100.33	99.53	98.44	98.36	99.39	99.37	99.34	100.65	101.92	102.39
1987	101.32	101.08	102.23	101.87	102.58	103.49	102.00	103.37	103.56	103.17	104.02	104.74
1988	104.61	105.44	106.05	107.16	106.06	105.11	104.39	105.09	106.30	107.51	108.92	109.12
1989	110.36	109.81	110.02	110.38	107.74	108.81	109.25	109.53	110.24	112.21	112.25	112.20
1990	111.80	112.84	114.04	115.72	116.19	115.32	114.27	115.11	115.48	116.78	117.16	118.70
1991	119.43	118.49	119.42	120.33	121.14	119.93	120.29	118.51	120.76	123.96	124.40	126.45
1992	127.91	126.18	127.76	129.79	127.72	127.15	127.93	127.18	128.77	130.44	132.09	134.65
1993	135.27	131.93	132.68	135.54	134.07	133.75	134.77	133.55	135.77	138.20	139.22	138.90
1994	138.52	135.29	138.64	139.99	140.23	141.13	141.68	139.57	144.27	146.90	146.57	146.14
1995	144.69	141.09	143.89	144.95	144.99	144.95	145.65	143.33	145.00	147.54	148.63	148.54
1996	148.32	144.76	148.61	149.23	149.68	149.58	150.06	148.10	150.64	151.97	152.04	152.26
1997	152.26	149.90	154.07	155.46	154.29	154.18	155.98	153.45	155.86	157.65	158.66	158.26
1998	155.27	155.06	156.03	157.95	158.20	158.87	158.10	159.15	161.66	161.07	160.35	159.70
1999	158.66	155.71	158.83	159.56	159.85	161.01	161.87	160.26	163.42	164.92	164.85	165.66
2000	165.52	163.60	166.72	167.40	168.05	167.16	167.12	166.74	168.78	169.81	170.68	170.92
2001	167.89	167.53	169.11	170.32	170.90	172.19	168.81	169.74	172.24	174.41	174.09	174.98
2002	172.43	172.05	173.11	174.83	174.93	175.69	174.42	176.15	178.11	178.79	179.06	180.13
2003	179.49	179.68	183.44	184.59	183.87	182.76	180.24	181.33	184.59	186.10	186.32	184.61
2004	182.74	183.03	184.18	185.48	186.61	187.87	186.18	187.13	188.97	190.81	191.88	192.36
2005	188.43	188.16	189.51	191.21	191.17	191.07	189.73	191.07	194.51	196.68	197.38	196.18
2006	193.03	193.26	195.55	197.16	197.33	197.58	195.01	196.12	198.29	199.45	199.87	199.75
2007	196.20	196.07	198.47	200.66	201.67	201.25	199.75	200.88	203.52	205.42	206.92	207.57
2008	204.70	205.73	207.80	209.93	211.64	212.26	210.99	211.74	214.37	216.17	214.02	211.93
2009	206.97	207.09	210.05	211.41	212.99	212.70	209.30	209.64	211.74	214.45	216.94	216.27
2010	212.01	213.04	215.08	216.58	216.41	216.83	214.68	216.44	219.23	220.98	220.17	219.82
2011	218.02	218.96	221.11	223.68	224.80	225.91	222.59	222.71	224.45	227.70	228.43	228.47
2012	224.82	225.72	228.56	230.58	231.43	229.91	227.43	228.66	230.10	231.66	231.18	230.98
2013	228.93	229.43	231.00	229.89	229.83	230.08	226.72	226.49	227.74	227.95	226.32	225.66
2014	222.32	223.51	225.72	226.22	226.70	227.35	225.39	224.86	225.66	226.83	225.97	222.36
2015	219.40	220.36	221.48	221.53	222.19	221.84	218.69	218.86	219.96	221.09	221.19	219.69
2016	216.16	214.43	215.87	216.22	217.57	217.26	217.68	217.50	218.62	218.80	218.67	219.68

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 Bonnie and Clyde have been equal partners in the B&C Partnership for many years. On 1 July 2015, Earl joined the partnership as an equal partner, entitled to one-third of the profits. On 31 December 2015, Clyde resigned from the partnership.

On 1 July 2016, Bonnie and Earl changed their partnership agreement to provide for a yearly salary of €6,000 for Earl and a profit sharing ratio of 2:1 to Bonnie and Earl respectively.

The partnership's profits for the two years 2015 and 2016 are:

- 31 December 2015 – €120,000
- 31 December 2016 – €60,000

Required:

- (a) Calculate the partnership profits assessable to Bonnie, Clyde and Earl respectively for each of the years 2015 and 2016. (8 marks)

- (b) Briefly explain the procedures for declaring the taxable income from a partnership business to the Tax Department. (2 marks)

(10 marks)

- 2 John owns a small retail store selling electronics. He commenced trading on 1 December 2015 and recorded monthly sales as follows:

Month	Note	€
December 2015		1,500
January 2016		1,000
February 2016		2,500
March 2016		1,200
April 2016		1,500
May 2016	1	3,700
June 2016		2,400
July 2016		2,800
August 2016	2	1,350
September 2016	2	1,100
October 2016	2	2,200
November 2016	2	2,600
December 2016	2	3,500

Notes:

- (1) The sales recorded for May 2016 include the proceeds from the sale of a motorcycle of €2,500.
- (2) From August onwards, the sales recorded include monthly rental income received of €500.

Required:

- (a) Determine from what date John is required to be compulsorily registered for value added tax (VAT), state the action he must take to register, and the default surcharge in case his VAT return is not submitted on time. (8 marks)

- (b) List ANY FOUR types of goods/services for which no VAT input credit can be deducted. (2 marks)

(10 marks)

- 3** On 12 August 2016, Stavroulla sold her residential dwelling house for €550,000, including €230,000 for the value of the land. A commission of 2% was paid to a licensed estate agent.

Stavroulla had built the house on a piece of land, with an area of 7,200 square metres, which she bought on 14 August 2003 for €150,000. The cost of construction of the house was €200,000. Stavroulla moved to the house when the construction was completed on 25 September 2005. The house was used by Stavroulla as her residential dwelling from 25 September 2005 until it was sold on 12 August 2016.

Required:

Calculate the capital gains tax arising on the sale by Stavroulla of her residential dwelling on 12 August 2016.

(10 marks)

- 4** Profitable Ltd estimates that its operating profit for the year 2015 will be €100,000, and its profit before tax will be €80,000.

Required:

(a) Briefly explain the purposes of the temporary tax assessment system. (3 marks)

(b) Calculate the temporary tax payments of Profitable Ltd for the year 2015, and indicate the date payments are due. (3 marks)

(c) State the circumstances in which interest will be imposed on Profitable Ltd's temporary tax payments. (2 marks)

(d) Calculate the interest payable/refundable, assuming Profitable Ltd's final tax assessment is €8,500, and the balance is paid/refunded on 15 March 2016. (2 marks)

(10 marks)

- 5 (a) Giorgos is a Cyprus tax resident pensioner. The following information relates to Giorgos for the year 2016:

	Note	€
Monthly income from old age pension	1	1,600
Profit from the disposal of shares in a private company tax resident in Cyprus. (The company does not own any immovable property in Cyprus)		1,000
Profit from the disposal of shares in a private company tax resident in Greece		550
Net dividends received from a private company tax resident in Canada	2	3,500
Monthly rental income from a plot of land rented out from 1 October 2016	3	350
Gross interest received from bank deposits in Germany	4	1,000
Housing loan interest paid for his residential dwelling loan		1,500
Life insurance premium paid	5	4,000
PAYE deducted at source		300

Notes:

- (1) Giorgos receives a 13-month old age pension.
- (2) Tax was withheld at source from the dividends received from Canada at the rate of 10%.
- (3) The value of the land as at 31 December 2016 is €80,000.
- (4) No tax was withheld at source from the interest received from Germany.
- (5) The insured amount under the life policy is €50,000.

Required:

- (i) Calculate the income tax payable by/refundable to Giorgos for the year 2016.

Note: You should list all of the items referred to in the question, indicating by the use of zero (0) any item which is not taxable/deductible. (6 marks)

- (ii) Calculate the total special defence contribution (SDC) payable for the year 2016. (5 marks)

- (b) Andry is self employed and pays social security contributions on a weekly income of €384. For the year 2016, the adjusted chargeable profit of Andry's business is €49,000 and she paid temporary tax of €4,000.

Required:

Calculate the final income tax payable by Andry for the tax year 2016. (4 marks)

(15 marks)

- 6 Akira Ltd is a Cyprus tax resident manufacturing company. For the year ended 31 December 2016, Akira Ltd made a net loss of €35,000 after taking into account the following items:

	Note	€
Donations	1	12,000
Legal fees paid in respect of an increase in the company's share capital		3,800
Repairs and maintenance	2	2,200
Bad debt charge	3	850
Bank overdraft interest		8,900
Mortgage fees paid in respect of a business loan		2,300
Immovable property tax paid		1,700
Depreciation	4	12,750
Computer application software acquired during the year		2,500
Interest received	5	5,300
Profit on the disposal of an office unit	6	45,350

Notes:

- (1) The donations were made up as follows:

	€
To an approved charity	8,000
To a political party	4,000
	<u>12,000</u>

- (2) Repairs include a payment of €600 for which no invoice or receipt is available.

- (3) The bad debts account shows the following:

	DR €	CR €
Balance brought forward – general provision		2,100
Trade receivables written off	830	
Trade receivables recovered		430
Charge to profit or loss account		850
Balance carried forward – general provision	<u>2,550</u>	
	<u>3,380</u>	<u>3,380</u>

- (4) Depreciation was calculated on the assets held by the company as at 31 December 2016 as follows:

- A factory acquired during 2010 for €230,000, including €50,000 for the value of the land.
- A motor van acquired during 2013 for €35,000.
- A saloon car acquired during 2014 for €20,000.
- Computer hardware acquired during 2012 for €6,000.

- (5) Interest received comprises:

	€
Interest from trade receivables	1,600
Interest from bank current account	900
Interest from bonds	<u>2,800</u>
	<u>5,300</u>

- (6) In May 2016, Akira Ltd had sold an office unit for €170,000, including €70,000 for the value of the land. The office unit had been purchased in March 2011 for €120,000 including €60,000 for the value of the land. During 2013, the company extended the offices at a cost of €15,000. The office unit had been depreciated at the same rate for accounting purposes as for tax purposes.

Required:

Calculate the tax loss of Akira Ltd for the year 2016 and state for how long it can be carried forward.

Note: You should list all of the items referred to in the question, indicating by the use of zero (0) any item which does not require adjustment.

(15 marks)

End of Question Paper