

Fundamentals Level – Skills Module

Taxation (Cyprus)

Thursday 8 June 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 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 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%
Hotels, 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 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%
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Lifetime exemptions

General	€17,086
Farmer in respect of farmland	€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	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** Pambos Ltd is registered for value added tax (VAT). The following information relates to its transactions for the quarter ended 31 December 2016.
1. Standard rated sales amounted to €110,000 (excluding VAT). A 2% discount is offered to all the company's customers for prompt settlement of their invoice.
 2. Standard rated expenses amounted to €68,700 (excluding VAT). This amount includes €3,000 for entertaining customers and €1,500 for a staff party.
 3. In December 2015, the company wrote off a trade receivable of €5,000. This receivable comprised of two invoices: one issued in April 2014 for €1,500, and another issued in July 2016 for €3,500.
 4. The sales manager has the use of a company car for both business and private purposes. The private use has been calculated as one-third. During the quarter ended 31 December 2016, Pambos Ltd paid €2,340 for service and petrol and €250 to renew the road licence for this car.

All amounts are inclusive of VAT, unless stated otherwise.

Required:

- (a) Calculate the amount of value added tax (VAT) payable by Pambos Ltd for the quarter ended 31 December 2016.** (7 marks)
- (b)** Pambos Ltd has discovered that, due to a problem with its invoicing software, a number of errors have been included in its VAT returns.

Required:

Advise Pambos Ltd how these errors should be disclosed to the VAT authorities. (3 marks)

(10 marks)

- 2 Mr Aris, a self-employed individual, runs a retail clothing shop. His draft statement of comprehensive income for the year ended 31 December 2016 is as follows:

	Note	€	€
Gross profit	1		132,105
Depreciation	2	24,880	
Repairs and renewals	3	6,750	
Motor expenses	4	2,368	
Sundry expenses	5	3,890	
Entertaining expenses		4,900	
Other expenses (all allowable for tax purposes)		37,340	(80,128)
Profit before tax			<u>51,977</u>

Notes:

1. The shop has a gross profit margin of 40%.
2. Depreciation has been calculated in accordance with the Tax Department's approved capital allowances rates except for a specific motor van. This van was purchased in April 2014 for €25,000 and, due to its heavy use during the year 2016, Mr Aris decided to depreciate it by 25%.
3. Repairs and renewals include €1,500 for a new office desk and furniture, and €1,200 for decorating Mr Aris's flat which is above the shop.
4. The motor expenses relate to Mr Aris's private motor car. During the year, he drove a total of 9,000 km in this car of which 3,000 km were for private purposes.
5. Sundry expenses include a donation of €1,220 to a football association which has agreed that Mr Aris's clothing shop will be advertised on the players' uniforms.

Additional information:

- (i) During the year 2016, Mr Aris paid social insurance contributions on an income of €384 per week, and temporary tax of €7,500.
- (ii) During the year, Mr Aris paid the following insurance premiums:
 - €4,000 for a life policy on his life, with a capital sum of €50,000; and
 - €1,850 for a life policy on his wife's life, with a capital sum of €150,000.

Required:

Calculate the adjusted taxable profit and income tax payable for Mr Aris for the year ended 31 December 2016.

Note: You should list all of the items referred to in notes (2) to (5), indicating by the use of zero (0) any which do not require adjustment.

(10 marks)

- 3** James was gifted a plot of land in Platres by his mother, in January 2000. The plot had been purchased by his mother in June 1977 for €60,000. The plot's value as at 1 January 1980 was €105,000.

In 2002, James commenced the construction of a small factory on the plot. The construction was completed in 2005 at a cost of €840,000, including €105,000 for equipment and machinery.

During 2012, the factory was renovated and repaired at a cost of €175,000, and additional equipment and machinery purchased for €35,000.

During 2016, a friend found a contact who was interested in exchanging the factory with 65,000 shares in Pefkos Ltd. The shares had a nominal value €1 each and a market value of €2.50 each. The exchange was made on 15 December 2016, and James paid his friend a commission of €18,000 for assisting him with the deal.

As at 31 December 2016, the market value of the factory was €1,120,000, excluding the value of the land of €210,000, and the market value of the immovable property owned by Pefkos Ltd was €595,000.

James has not used his lifetime exemptions.

Required:

- (a) Calculate the capital gains tax payable by James as a result of the transfer of the factory property.**

(8 marks)

- (b) State by when James must submit the declaration of disposal of property in respect of this transfer and pay the tax due.**

(2 marks)

(10 marks)

- 4** Flower Ltd, a Cyprus tax resident company, owns 100% of the issued share capital of Bee Ltd and an investment in Roses Ltd. Bee Ltd is a company tax resident in the Bahamas, 60% of whose activities lead to investment income. Roses Ltd is a Cyprus tax resident trading company.

For the year 2016, Flower Ltd received the following income:

- Gross dividend income of €75,000 from Bee Ltd (no tax was withheld at source).
- Net interest income of €25,000 from Bee Ltd (tax at 20% was withheld at source).
- Gross dividend income of €30,000 from Roses Ltd.

Additional information:

1. The interest income received from Bee Ltd is not considered closely related to Flower Ltd's ordinary activities.
2. The corporate tax rate in the Bahamas is 5%.
3. Cyprus does not have a double tax treaty in force with the Bahamas.

Required:

- (a) Calculate the special defence contribution payable by Flower Ltd in 2016, giving an explanation of your treatment of the dividend income received from Bee Ltd.**

Note: You should list all the income items referred to in the question, indicating by the use of zero (0) any which are exempt.

(5 marks)

- (b) Explain the concept of double tax relief, including any limitations on the relief available.**

(5 marks)

(10 marks)

- 5 Mina Lisa Limited is a Cyprus resident private limited company, whose principal activity is general trading. Its audited income statement for the year ended 31 December 2016 showed the following:

	Notes	€
Turnover		1,800,000
Net profit for the year		800,000
Interest received	1	5,850
Dividends received	2	33,500
Profit from the sale of listed securities		34,000
Realised exchange profit		36,000
Saloon car expenses		12,000
Repairs and maintenance		5,450
Bad debts	3	20,000
Donations	4	6,070
Interest paid	5	6,396
Entertainment expenses		24,350
Depreciation	6	30,750
Temporary (provisional) tax paid		45,000

Notes:

1. The interest received during the year comprises:

	€
Gross interest from bank deposits	3,500
Gross interest from trade receivables	1,850
Gross interest from bank current account	500
	<u>5,850</u>

2. The dividends received during the year comprise:

	€
Dividend from a Cyprus public limited company	14,000
Dividend from Mina Lisa Ltd's 100% owned foreign trading subsidiary (no tax was deducted at source)	19,500
	<u>33,500</u>

3. Bad debts comprise:

	€
Specific trade receivable written off	5,000
Increase in general provision	15,000
	<u>20,000</u>

4. Donations were made during the year to the following:

	€
A political party	1,670
The local football club	2,000
An approved charity	2,400
	<u>6,070</u>

5. Interest paid comprises:

	€
Interest on bank overdraft	3,645
Interest on overdue taxes	896
Interest on a loan used to purchase listed securities	1,855
	<hr/>
	6,396
	<hr/>

6. The depreciation charge for the year relates to the following assets held by the company at 31 December 2015:

- computer hardware acquired on 8 March 2015 for €5,500;
- machinery acquired on 1 January 2014 for €25,000; and
- an office building acquired on 1 January 2001 for €660,000, including €250,000 for the value of the land.

Required:

Calculate Mina Lisa Limited's corporation tax payable/refundable for the year ended 31 December 2016.

Note: You should list all of the income and expense items referred to in the question, indicating by the use of zero (0) any which are not taxable/deductible.

(15 marks)

- 6 Ms Fioroulla has been a successful fashion designer for many years but she has never kept proper books and records. The Tax Department has demanded that she submits details of her business and personal assets and liabilities, including those of her husband, Mr Fioroulla, and their children, for the period from 1 January 2011 to 31 December 2016.

The following information relates to Ms Fioroulla and her family for the relevant period:

	Notes	1 January 2011 €	31 December 2016 €
House (including private furniture)		235,000	235,000
Business furniture	1	18,000	32,000
Investments	2	0	12,300
Motor cars	3	20,000	9,000
Trade receivables	4	5,000	8,500
Bank balances (private)	5	0	55,600
Business bank overdraft		(18,000)	(90,000)
Trade payables		(25,000)	(38,000)

Notes:

1. As at 31 December 2016, the business furniture comprised:

	€	€
Cost of furniture purchased prior to 2011		20,000
Furniture purchased in 2012	18,000	
Less: Accumulated depreciation	(6,000)	12,000
Total		<u>32,000</u>

2. On 4 April 2013, Ms Fioroulla bought 5,000 shares in a listed company for €1.20 each. During January 2014, she sold these shares for €2.50 each but one month later she again bought 5,000 shares in the company for €2.80 each. The value of the shares as at 31 December 2016 is €2.46 each.
3. In 2015, Ms Fioroulla sold her car at a loss of €3,500.
4. As at 31 December 2016, the trade receivables were as follows:

	€
Trade receivables	10,000
Less: General provision for bad debts (15%)	(1,500)
Total	<u>8,500</u>

5. The bank account is in Mr Fioroulla's name, and includes net interest credited on 31 December 2016 of €1,800.
6. For the period under examination the following information is available:
- (i) The family's living expenses were €125,000.
 - (ii) Ms Fioroulla paid income taxes and special defence contribution of €13,000.
 - (iii) Mr Fioroulla's employment income was €25,000 gross, and €23,500 net of income taxes per year.
 - (iv) Ms Fioroulla regularly visited her daughter, who was studying in the UK, from 2013 to 2016 inclusive. She estimates that she spent €1,500 in each of these years on travelling. Her daughter's fees and accommodation in the UK of €10,000 per year, were paid for by her grandfather.
 - (v) During 2016, Ms Fioroulla and her husband renovated their house for €24,000.

Required:

Prepare a capital statement (or net worth statement) for Ms Fioroulla for the period from 1 January 2011 to 31 December 2016, clearly showing her total taxable income for the six-year period.

(15 marks)

End of Question Paper