

Fundamentals Level – Skills Module

Taxation (Cyprus)

Monday 1 December 2008

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 3–4.

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)

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The question paper begins on page 3.**

SUPPLEMENTARY INSTRUCTIONS

- 1 Calculations and workings need only be made to the nearest €.
- 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 2007 are to be used in answering the questions.

Income tax

First €18.367	nil
€18.368 – €26.910	20%
€26.911 – €35.197	25%
Over €35.197	30%

Capital allowances

Plant and machinery	10%
Motor vans	20%
Hotel, industrial and agricultural buildings	4%
Other buildings	3%
Computer hardware	20%
Computer software	33%

Corporation tax

Statutory bodies	25%
Other companies	10%
Statutory rate of interest	8%

Value added tax

Registration limit	€15.600
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Social insurance contributions

Social insurance fund	6·3%
Redundancy fund	1·2%
Human resources development fund	0·5%
Social cohesion fund	2%
Central holiday fund	8%

Capital gains tax

Life time exemptions	
General	€17.086
Agricultural	€25.629
Residential dwelling	€85.430

Retail prices index

1 January 1980	34·96
December 1997	82·37
July 1998	82·32
January 2000	86·17
September 2002	92·74
December 2002	93·78
March 2007	103·33
November 2007	107·73

ALL FIVE questions are compulsory and MUST be attempted

- 1** Mr Tsangaris, a successful self employed architect, has provided you with the following information for the period 1 January 2002 to 31 December 2007:
1. His business income for the years 2002 until 2006 was €50.000 per annum. On 1 January 2007 he sold his business for €100.000, out of which the amount of €50.000 was goodwill and the balance was the value of the business equipment sold. The equipment had been acquired in 2001 for €120.000 and €40.000 of wear and tear allowances had been granted on the equipment prior to its sale.
 2. In January 2004 he completed the construction of his residential house in Limassol which had cost him €280.000. The land, which had been donated by his father, had a value of €100.000. Maintenance expenses for the house amount to €10.000 per year.
 3. During 2003 he bought a holiday home in Monaco which cost him €600.000.
 4. During 2000 he had purchased a plot of land in Limassol for €200.000. During 2003 he completed the construction of five small flats on the land at a cost of €250.000. Since 1 January 2004 he has rented out these flats receiving €30.000 of rent per annum per flat. The maintenance expenses relating to the flats amount on average to €5.000 per annum.
 5. During 1999 he purchased 1.000 shares in a company quoted on the Cyprus Stock Exchange for €15 each. The market value of these shares as at 31 December 2001 and 31 December 2007 was respectively €5 and €10 each.
 6. His living expenses are estimated to be €2.000 per month, including €200 per month car running expenses and a €100 per month donation to an approved philanthropic institution.
 7. On 1 January 2006 he took out a loan to purchase an Audi car for €100.000. As at 31 December 2007 the Audi was estimated to be worth around €80.000. The balance of the loan as at 31 December 2007 was €60.000 and the interest paid for the period 1 January 2006 to 31 December 2007 was €10.000.

Required:

- (a) **Prepare for Mr Tsangaris a capital statement (or net worth statement) for the period 1 January 2002 to 31 December 2007, clearly showing his total taxable income for the six-year period.** (12 marks)
- (b) **Based on the information available, calculate the taxable income of Mr Tsangaris for the year 2007.** (8 marks)
- (c) **Describe the main features of the self assessment system for income tax as applicable to a self-employed individual with an obligation to prepare audited accounts, clearly specifying the time limits that apply to filing returns and the payment of tax.** (10 marks)

(30 marks)

- 2 Konstantinoupoli Ltd is a trading and investment company resident in Cyprus. Its summarised results for the years 2006 and 2007, are as follows:

Year ended 31 December	2006 €	2007 €
Accounting profit	450.000	350.000

The following items have been taken into account when calculating the accounting profit

	Notes		
Trade goodwill paid	1	170.000	
Trade goodwill received	2		130.000
Dividends received		20.000	14.000
Loss from sale of saloon car		(4.000)	–
Loan interest paid	3	38.000	25.000
Bank mortgage fees paid		5.000	
Profit from the sale of shares	4	500.000	
Gain from the sale of immovable property	5		300.000

Konstantinoupli Ltd had four subsidiary companies during all or part of the two year period ended 31 December 2007. These four companies recorded losses for tax purposes as follows in the two years 2006 and 2007:

	2006 €	2007 €
– Atalia Ltd	(50.000)	(40.000)
– Efesos Ltd	(80.000)	(30.000)
– Smirni Ltd	(30.000)	(20.000)
– Prousa Ltd	(10.000)	(15.000)

Notes:

- Goodwill paid was as follows:
 - On 1 January 2006 trade goodwill of €70.000 was paid for the acquisition of 100% of the shares of Atalia Ltd.
 - On 30 May 2006 trade goodwill of €40.000 was paid for the acquisition of 70% of the shares of Efesos Ltd.
 - On 15 December 2006 trade goodwill of €40.000 was paid for the acquisition of 90% of the shares of Smirni Ltd.
 - On 30 December 2006 trade goodwill of €20.000 was paid for the acquisition of an additional 10% of the share capital of Efesos Ltd.
- Goodwill received was as follows:
 - Trade goodwill of €100.000 received on 30 March 2007 on the sale of all the shares acquired in Smirni Ltd.
 - Trade goodwill of €30.000 received on 30 November 2007 on the sale of 20% of the shares in Atalia Ltd.
- In December 2005, the company obtained a loan of €300.000 solely for the purposes of financing the acquisition of Atalia Ltd.
- On 12 April 2007 Konstantinoupoli Ltd sold its 50% holding of shares in Prousa Ltd for €600.000. The shares had been acquired in October 2002 for €100.000. Prousa Ltd's only asset is a plot of land acquired in January 1998 for €200.000. This transaction was agreed with the Inland Revenue Department to be taxed under capital gains tax.
- On 12 December 2007 Konstantinoupoli Ltd sold its offices in Limassol for €500.000. The offices had been acquired in January 2003 for €200.000 including €40.000 for the value of the land. This transaction was agreed with the Inland Revenue Department to be taxed under income tax.
- On 1 October 2007 the company bought an Audi A8 car for its managing director for €90.000. The car is used by the managing director wholly and exclusively for business purposes.

Required:

(a) Determine the group relief available to Konstantinoupli Ltd for each of the years 2006 and 2007. If you conclude that no relief is available in respect of a particular subsidiary/loss, state why this is the case. (7 marks)

(b) Calculate Konstantinoupli Ltd's taxable income for each of the years 2006 and 2007. (14 marks)

(c) Calculate the capital gains tax payable by Konstantinoupli for the year 2007. (4 marks)

(25 marks)

3 Andreas and Alexandros are brothers who jointly own two plots of land as follows:

- Plot no 1 located in Pafos with a market value on 1 December 2007 of €300.000 which had been donated to them by their father in June 1998. The market value of this plot on 1 January 1980 was €20.000.
- Plot no 2 located in Nicosia with a market value on 1 December 2007 of €300.000, which had been purchased on 30 January 2000 for €104.000, including €4.000 of transfer fees.

In December 2007 the two brothers agreed with Timoty Developments Ltd to exchange the two plots for two finished apartments located in Limassol, plus €150.000 in cash each. The market value of the apartments is €150.000 each.

This is the second sale for both brothers. Andreas' first disposal concerned another plot of land in 2002 resulting in a capital gain before exemptions of €5.000. Alexandros' first disposal concerned a building site in 2003 resulting in a capital loss of €20.000.

Required:

(a) Calculate the tax payable by Andreas and Alexandros arising on the exchange of property with Timoty Developments Ltd in December 2007. (15 marks)

(b) Briefly describe the tax considerations that should be taken into account when deciding whether to sell or exchange a property. (5 marks)

(20 marks)

4 Arena Ltd, a Cyprus resident private company, has the following income for the year 2007:

	Note	€
Net dividend received from an Austrian company	1	18.000
Net dividend received from a Greek company	2	24.000
Gross dividend from a Panamanian company	3	10.000
Royalties received from a Czech company	4	28.500
Royalties received from a Russian company	5	12.000
Net deposit interest received from an Austrian bank	6	8.000
Gross deposit interest received from a Russian bank	7	14.000
Net deposit interest received from a Cyprus bank	8	6.300
Business profits earned in Cyprus	9	50.000

Notes:

1. Arena Ltd holds less than 1% of the shares in the Austrian company. Tax withheld in Austria was €2.000.
2. Arena Ltd holds less than 1% of the shares in the Greek company. Tax withheld in Greece was €6.000.
3. Arena Ltd holds less than 1% of the shares in the Panamanian company. No tax was withheld in Panama.
4. Tax withheld €1.500.
5. No tax was withheld.
6. Tax withheld €2.000.
7. No tax was withheld.
8. Tax withheld €700.
9. The business profit is after deducting depreciation of €10.000 in respect of the company's office, which had been acquired in 2006 for €200.000 (including €20.000 for the value of land).

Required:

- (a) Calculate the corporation tax payable (refundable) by Arena Ltd for the year 2007. (8 marks)
- (b) Calculate the special defence contribution payable by Arena Ltd for the year 2007. (7 marks)
- (15 marks)**

- 5 (a) State FOUR circumstances in which the value added tax (VAT) Commissioner may issue a best judgment VAT assessment. (4 marks)
- (b) Define the term 'connected person' under the VAT legislation. (2 marks)
- (c) Briefly describe the 'reverse charge method' under the VAT legislation. (4 marks)
- (10 marks)**

End of Question Paper