
Answers

1 Dr Akis

Marks

(a) Income tax payable for 2007

	£	£	
Income			
Employment income (19,000 + 1,200 + 2,800)	23,000		1
Income from self-employment	12,000		1
Rental income (£8,000 at 80%)	6,400		1
Dividends received from Cyprus companies – exempt	0		1/2
Dividends received from French companies – exempt	0		1/2
Donation received from his parents	0		1/2
Lottery winnings	0		1/2
Capital gain from disposal of land	0		1/2
Interest received from Cyprus bank	0		1/2
Interest received from Greek bank	0		1/2
Interest received from French bank	0		1/2
Profit from the sale of shares	0		1/2
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Total income		41,400	
Deductions			
Capital allowances on rental income (£30,000 x 3%)	900		1
Bank interest related to rented house	1,000		1
Bank interest related to main residence (not allowable)	0		1
Living expenses	0		1/2
Donations (allowable only £150)	500		1
Capital gains tax paid	0		1/2
Expenses on rented property	0		1/2
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Total deductions		(2,400)	
Allowances			
Social insurance contributions	1,200		1
Life assurance premiums – Policy 1 (restr. £60,000 at 7%)	4,200		1
Policy 2 (not allowed on wife's life)	0		1
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		(5,400)	
Taxable income		<u>33,600</u>	
Income tax liability			
£10,750 at 0%		0	
£10,751–£15,750 at 20%		1,000	
£15,751–£20,600 at 25%		1,213	
£20,601–£33,600 at 30%		3,900	
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		6,113	1
Less:			
PAYE		(2,800)	1/2
Provisional tax paid by self-assessment		(1,000)	1/2
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Tax payable		<u>2,313</u>	
		<hr/>	
			<u>18</u>

	£	£	Marks
(b) Special defence contribution payable for 2007			
Rental income (£8,000 at 75% x at 3%)	90	90	1
Due date of payment	30 June 2007	31 December 2007	$\frac{1}{2}$
Dividend income			
1. Cyprus dividend (£1,700 x 100/85 at 15%)		300	$\frac{1}{2}$
Tax deducted at source (as above)		300	$\frac{1}{2}$
Tax payable		0	
2. French dividend (£6,000 x 100/80 at 15%)		1,125	$\frac{1}{2}$
Tax deducted at source (£6,000 x 100/80 at 20%)		(1,500)	$\frac{1}{2}$
Tax payable		0	
Interest income			
1. From Cypriot bank (£1,800 x 100/90 at 10%)		200	$\frac{1}{2}$
Tax deducted at source (as above)		200	$\frac{1}{2}$
Tax payable		0	
2. From Greek bank (£1,500 x 100/75 at 10%)		200	$\frac{1}{2}$
Tax at source (£1,500 x 100/75 at 25%)		500	$\frac{1}{2}$
Tax payable		0	
3. From French bank (£1,200 x 10%)		120	$\frac{1}{2}$
Tax withheld at source		0	$\frac{1}{2}$
Tax payable		120	
Due date at payment		31 January 2008	$\frac{1}{2}$
			<u>7</u>
(c) A self-employed person is liable to pay social insurance contributions for each week in which he has worked as a self-employed person.			1
Self-employed persons pay their contributions quarterly in arrears within one month and ten days from the end of each quarter. Persons wishing to pay monthly are allowed to do so.			2
In the case of delay in the payment of contributions by a self-employed person (or an employer), there is an automatic payment of a charge, fixed as a percentage of the contributions due and rising progressively according to the time of delay. For the first month of delay the charge is 3% and increases by three points for each month of delay after the first month, up to a maximum of 15%.			2
			<u>5</u>
			<u>30</u>

2 Tikinio Ltd

(a) Taxable profit for the year ended 31 December 2007

	£	£	
Net profit (per question)		130,000	1/2
<i>Deduct:</i> Adjustments on income:			
Dividends received	20,000		1/2
Balancing deduction (working 1)	<u>13,000</u>	(33,000)	1/2
<i>Add:</i> Adjustments on income			
Trade debtors recovered from previous years (note 1)	0		1/2
Balancing addition (working 2)	<u>2,000</u>		1/2
		2,000	
<i>Add:</i> Adjustments on expenditure			
Increase in general provision for bad debts (note 1)	8,000		1/2
Increase in specific provision for bad debts (note 1)	0		1/2
Goods destroyed by employees (note 3)	0		1/2
Stock stolen by director (note 3)	15,000		1
Stock stolen by employee (note 3)	0		1/2
Cohesion fund contributions (note 6)	3,000		1/2
Director bonuses (note 6)	0		1/2
Social insurance fund contribution (note 6)	0		1/2
Entertainment and presents to employees and customers (note 2)	1,000		1
Depreciation (note 4)	50,000		1/2
Office renovation costs capitalised (15,000 + 40,000) (note 5)	55,000		1/2
Motor vehicles insurances and road tax (note 7)	0		1/2
Parking fine (note 7)	500		1/2
Speeding fines (note 7)	<u>1,000</u>		1/2
		133,500	
<i>Deduct:</i> Capital allowances:			
Office premises (£400,000 x 3%) (working 3)	12,000		1/2
Long van (£6,000 x 20%) (note 4)	1,200		1/2
Short van (£15,000 x 20%) (note 4)	3,000		1/2
Truck (£20,000 x 20%) (note 4)	4,000		1/2
Computer (£2,000 x 20% x 80%) (note 4)	320		1
New computer (not used) (note 4)	0		1
Air conditioning units and separating walls (£55,000 x 10%) (note 5)	<u>5,500</u>		1 1/2
		(26,020)	
Taxable profit		<u>206,480</u>	
Workings:			
1. Balancing statement for truck			
Cost of truck (note 4)		18,000	1/2
Capital allowances granted (note 4)		–	1/2
Insurance compensation (note 4)		<u>5,000</u>	1/2
Balancing deduction		<u>(13,000)</u>	
2. Balancing statement for van			
Cost of old van (6,000 + 1,000) (note 4)		7,000	1/2
Capital allowances granted (note 4)		(6,000)	1/2
Sale proceeds (note 4)		<u>(3,000)</u>	1/2
Balancing addition		<u>2,000</u>	
3. Wear and tear calculation on office premises:			
– Cost of office (£500,000 less £100,000 land) (note 5)		400,000	1/2
Additions			
– Painting (note 5)		0	1/2
– Removal of old tiles and fitting new laminated parquet (note 5)		0	1/2
– Replacing the old electric installation (note 5)		<u>0</u>	1/2
Cost of office premises		<u>400,000</u>	
			21

Marks

(b)	Two companies shall be deemed to be members of a group if:	
–	one is by seventy-five per cent (75%) a subsidiary of the other; or	1
–	both, each one separately, are by seventy-five per cent (75%) subsidiaries of a third company.	1
		<u>2</u>
(c)	Capital allowances on qualifying assets are granted provided the following conditions are satisfied:	
–	the expenditure must be made in respect of a fixed asset;	1/2
–	the expenditure must be made in respect of a qualifying asset;	1/2
–	the qualifying asset must belong to the person claiming the capital allowances; and	1/2
–	the qualifying asset must be used in the business.	1/2
		<u>2</u>
		25

3 Alexandros and Antonis

(a)	Alexandros will acquire 50% of the two plots no 336, 337.	1/2
	Alexandros will dispose of 50% of plot no 338.	1/2
	Antonis will acquire 50% of plot no 338.	1/2
	Antonis will dispose 50% of the two plots no 336, 337.	1/2
	In the case of Antonis the cost of acquiring the property and/or the value at 1 January 1980 (£57,500) is lower than the value of the property (£135,000) with which it is exchanged so all the capital gain which will arise is taxable.	1
	Capital gains tax computation for Antonis	
	Sales proceeds of plots 336, 337 (working 1)	£ 135,000
	Less	
	Cost of plots 336, 337 (working 2)	£ 57,500
	Indexation allowance (working 3)	14,191
		<u>(71,691)</u>
	Capital gain	63,309
	Less lifetime exemption	(10,000)
	Taxable capital gain	<u>53,309</u>
	Capital gains tax at 20%	<u>10,662</u>
	In the case of Alexandros, the cost of acquiring the property (£135,000) is greater than the value of the property with which it is exchanged (£76,400). There is rollover relief for the gain of £8,695.	1
	Capital gains tax computation for Alexandros	
	Sales proceeds of plot 338 (£152,800 x 50%)	76,400
	Less cost of plot 338 (£100,000 x 50%)	50,000
	Indexation allowance (104.78/77.38 x £50,000) – £50,000	17,705
		<u>67,705</u>
	Taxable capital gain	<u>8,695</u>
	Capital gains tax at 20%	<u>1,739</u>
	Workings:	
	1. Antonis disposed of 50% of three plots (336, 337) with a market value as at 31 July 2007 (£185,000 + £85,000) x 50%	135,000
	2. Acquisition cost of plots 336, 337 (£105,000 + £10,000) x 50%	57,500
	3. Indexation allowance	
	Plot 336 [(104.78/97.01 x £52,500) – £52,500]	4,205
	Plot 337 [(104.78/34.96 x £5,000) – £5,000]	9,986
		<u>14,191</u>
		<u>16</u>

	Marks
(b) The date of payment of capital gains tax is within one month from the date of disposal of the property, i.e. by 31 August 2007.	1
(c) 'Restated value of acquisition' means the market value of the property at the time of its acquisition reduced by the amount of the capital gains which arose in the past and for which no tax has been paid pursuant to the provisions of the capital gains tax law.	1
	1
	1
	<u>3</u>
	20

4 Olga

(a) (i) VAT calculation period 1 March 2007 to 31 May 2007		
	£	
VAT output	0	1
VAT input	900	1
VAT refundable	<u>900</u>	
(ii) Period 1 June 2007 to 31 August 2007		
	£	
VAT output	1,200	1
VAT input	–	1
VAT payable	<u>1,200</u>	
(iii) Period 1 September 2007 to 30 November 2007		
	£	
VAT output	3,750	1
VAT input	(600)	1
VAT payable	<u>3,150</u>	
(iv) Period 1 December 2007 to 29 February 2008		
	£	
VAT output	1,500	1
VAT input	–	1
VAT payable	<u>1,500</u>	
		<u>8</u>
(b) A trader may be deregistered from VAT under the following circumstances:		
(i) Compulsory deregistration is required if the registered person:		1
ceases to make taxable supplies; or		1
is an intending trader and has ceased to have the intention to trade.		1
(ii) Voluntary deregistration is permitted due to turnover reduction. Traders are eligible for voluntary deregistration if the value of their anticipated taxable turnover for the ensuing year does not exceed the £9,000 threshold.		1
		<u>5</u>
(c) Voluntary deregistration may not be approved when:		
– The trader intends to cease making taxable supplies at a future date falling within a 12-month period. In such a case deregistration will only take effect from the date of cessation of making taxable supplies.		1
– The trader intends to suspend trading for 30 days or more within a period of 12 months.		1
		<u>2</u>
		15

		Marks
5	(a) The term 'employment' applies where there is an employer–employee relationship. An employee means an individual who works for some other person either under a contract of employment or under certain circumstances that may lead to the existence of an employer–employee relationship.	1 1 <hr/> 2
	(b) In addition to salaries and wages income from employment includes payments in the form of: Overtime Bonuses Allowances Share of profits Fees Commissions	$\frac{1}{2}$ per item, max <u>2</u>
	(c) The factors that determine when a contract is a contract of services are: 1. An obligation by the employer to offer work and an obligation on the employee to accept the work. 2. An employee is not in a position to decline work given to him, if this is within the duties of the post of his employment. 3. The control exercised by the employer in the manner and method of the carrying out of the duties of employment by the employee. 4. The benefits to which the employee is entitled, such as sick pay, vacation leave etc. 5. The obligation of the employee to attend the place of work at specified times and in return to be paid a fixed salary by the month, week or day. 6. The employer provides the necessary equipment to the employee. 7. The employee is not required to hire assistants or to use his own equipment (this is the responsibility of the employer). 8. The employee has no economic risk. 9. The work performed by the employee is an integral part of the employer's business. 10. The wording of the contract between the parties.	1 mark per item, max <u>6</u> 10