

Fundamentals Level – Skills Module

# Taxation (Cyprus)

Monday 6 December 2010

**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 2–3.

**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)

## SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest €.
2. All apportionments may 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 2009 are to be used in answering the questions.

### Income tax

First €19.500	nil
€19.501 – €28.000	20%
€28.001 – €36.300	25%
Over €36.300	30%

### Capital allowances

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

### Corporation tax

All companies	10%
---------------	-----

### Interest

Statutory rate	8%
----------------	----

### Value added tax (VAT)

Registration limit	€15.600
Standard rate	15%
Reduced rate	5%, 8%

### 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

Rate	20%
<b>Life time exemptions</b>	
General	€17.086
Agricultural	€25.629
Residential dwelling	€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	34,96											
1980	35,40	35,68	35,99	37,23	36,74	36,81	37,54	37,57	38,22	38,53	38,79	39,16
1981	39,62	39,95	40,32	40,61	40,62	41,01	41,50	41,76	41,98	42,33	42,95	43,20
1982	43,18	43,58	43,46	44,05	43,95	43,63	43,44	43,73	44,19	44,38	44,94	45,19
1983	45,59	45,66	46,08	46,66	46,31	45,69	45,70	46,08	46,17	46,64	46,80	47,06
1984	47,46	47,78	48,06	48,38	48,80	48,86	49,21	49,15	49,01	49,63	50,41	50,90
1985	50,85	50,89	51,31	51,44	51,31	50,84	50,60	51,42	52,11	52,65	51,92	51,85
1986	52,18	52,13	52,24	51,83	51,25	51,21	51,75	51,73	51,71	52,40	53,06	53,31
1987	52,76	52,63	53,23	53,04	53,41	53,88	53,10	53,82	53,91	53,71	54,16	54,53
1988	54,47	54,89	55,22	55,79	55,22	54,73	54,35	54,71	55,35	55,97	56,71	56,82
1989	57,46	57,17	57,28	57,47	56,87	56,66	56,88	57,02	57,39	58,43	58,44	58,42
1990	58,21	58,75	59,37	60,25	60,50	60,04	59,50	59,93	60,12	60,80	61,00	61,80
1991	62,18	61,69	62,18	62,65	63,08	62,44	62,63	61,71	62,87	64,54	64,77	65,83
1992	66,60	65,68	66,52	67,57	66,50	66,20	66,61	66,21	67,05	67,91	68,78	70,11
1993	70,43	68,69	69,08	70,57	69,80	69,64	70,17	69,54	70,48	71,95	72,49	72,32
1994	72,12	70,44	72,18	72,89	73,01	73,48	73,77	72,64	75,11	76,48	76,32	76,09
1995	75,34	73,46	74,92	75,47	75,49	75,49	75,83	74,62	75,49	76,82	77,38	77,33
1996	77,22	75,37	77,37	77,70	77,94	77,88	78,13	77,11	78,43	79,12	79,17	79,27
1997	79,27	78,05	80,21	80,94	80,33	80,28	81,21	79,89	81,15	82,09	82,61	82,37
1998	80,84	80,73	81,24	82,23	82,37	82,71	82,32	82,86	84,17	83,86	83,49	83,15
1999	82,80	81,66	82,96	83,19	83,42	83,54	83,78	82,99	84,72	85,42	85,65	85,99
2000	86,17	85,18	86,80	87,16	87,50	87,04	87,01	86,81	87,88	88,41	88,87	88,99
2001	87,41	87,23	88,05	88,68	88,98	89,65	87,89	88,38	89,68	90,81	90,64	91,10
2002	89,77	89,58	90,13	91,03	91,08	91,47	90,81	91,71	92,74	93,09	93,23	93,78
2003	93,45	93,55	95,51	96,11	95,73	95,15	93,84	94,41	96,11	96,89	97,01	96,12
2004	95,14	95,29	95,90	96,57	97,16	97,82	96,94	97,43	98,39	99,35	99,91	100,15
2005	98,29	98,03	98,62	99,70	99,62	99,85	98,36	99,00	100,84	102,38	102,96	102,33
2006	100,50	100,62	101,81	102,65	102,74	102,87	101,53	102,07	103,24	103,84	104,06	104,00
2007	102,15	102,08	103,33	104,47	105,00	104,78	104,00	104,59	105,96	106,95	107,73	108,07
2008	106,58	107,11	108,19	109,30	110,59	110,51	109,85	110,24	111,61	112,55	111,43	110,04
2009	107,76	107,82	109,36	110,07	110,89	110,74	108,97	109,15	110,24	111,65	112,95	112,60

**ALL FIVE questions are compulsory and MUST be attempted**

- 1 Mr Ourin has been a successful self-employed travel agent for many years. In March 2010, the Inland Revenue demanded that Mr Ourin submit, within one month, his business and personal assets and liabilities for the period 1 January 2004 to 31 December 2009.

In order to respond on time and properly to the demands of the Inland Revenue, Mr Ourin has sought your assistance. He has provided you with the following information:

Particulars	Note	Assets as at 1 January 2004	Assets as at 31 December 2009
		€	€
Immovable property	1	250.000	950.000
Investments	2	0	150.000
Equipment	3	26.000	52.000
Motor vehicles at cost	4	0	50.000

**Notes**

1. During 2002 Mr Ourin inherited an apartment from his late grandmother. The market value of the apartment at the date of inheritance was €100.000. During 2003 he carried out major renovation work (capital in nature) amounting to €150.000. Since 1 January 2004 the apartment has been rented out for a monthly rent of €2.000. The special contribution for the defence (SDC) arising on the rental income has all been paid on the due dates.

During 2008 Mr Ourin acquired a plot of land for €700.000, paying €18.000 to a licensed agent and €50.000 in transfer fees.

2. During January 2008 Mr Ourin acquired 1.000 shares in a listed public company for €15 per share (nominal value of €10 per share). In December 2008 he sold 500 of the shares at €5 per share. During March 2009 Mr Ourin exercised 500 rights, converting them into ordinary shares at the price of €10 per share; with every exercised right he was also granted one bonus share with a nominal value of €10 per share. He sold all of his shares during December 2009 for €20 per share. The sale proceeds were used to acquire 5.000 shares in Hellenic Bank. Market value of Hellenic Bank shares as at 31 December 2009 was €30.

3. As at 31 December 2003 the equipment comprised:

	€
Equipment at cost	50.000
Less: Accumulated depreciation (10%)	(24.000)
Net book value as at 31 December 2003	<u>26.000</u>

As at 31 December 2009 the equipment comprised:

	€
Equipment at cost	100.000
Less: Accumulated depreciation (10%)	(48.000)
Net book value as at 31 December 2009	<u>52.000</u>

4. During 2009 Mr Ourin bought a new car with a cost of €50.000 on credit. His old car which had been acquired during 2004 for €20.000 was traded in for €5.000. Except for the trade-in value he has not made any payments under the credit agreement and the balance is still outstanding.
5. For the six-year period under examination:
- Mr Ourin's living expenses were agreed with the Inland Revenue Department at €120.000 (€20.000 per year).
  - He paid social insurance contributions of €24.000 including cohesion fund contributions of €4.000.

- (iii) His assessed business income for the years 2004 to 2008 inclusive was €250.000 (€50.000 per year) before the payment of income taxes of €30.000, and for the year 2009 €100.000 before the payment of income taxes of €20.000.
- (iv) He pays rent for his residential house of €1.000 per month.

**Required:**

- (a) **Prepare for Mr Ourin a capital (or net worth) statement for the period 1 January 2004 to 31 December 2009 showing his undeclared income for the six year period.** (18 marks)
- (b) **Explain Mr Ourin's obligations to keep books and records as per the Assessment and Collection of Taxes Law during the years 2004 to 2009.** (6 marks)
- (c) **State Mr Ourin's obligations as a self-employed individual for value added tax (VAT) registration.** (3 marks)
- (d) **State Mr Ourin's obligations as a self-employed individual under the Social Insurance Scheme.** (3 marks)

**(30 marks)**

- 2 (a) Akropolis Ltd is a Cyprus tax resident company, whose main activity is the development and sale of computer software programs.

Akropolis Ltd had the following results for the year 2009:

	Note	€
Gross profit	1	460.000
Less:		
Payments for the right to use software programs	2	(136.000)
Distribution and administration expenses	3	(80.000)
Gain from the sale of land	4	292.000
Loss on sale of fixtures and fittings	5	(10.000)
Profit before taxation		<u>526.000</u>

**Notes:**

1. The gross profit was calculated on an accrual basis and includes €55.000 of gross profit relating to the company's branch in Athens. In ascertaining its 2008 tax liability, Akropolis Ltd had deducted from its taxable profits a loss amounting to €40.000 related to its Athens branch.
2. Payments for the right to use software programs were calculated on a cash basis and relate to the right to use three software programs (A, B and C).

The right to use these software programs related to a calendar year of production and was payable on 31 July of that year for the first semester of production and on 31 January of the following year for the second semester of production.

During 2009, the payments made were as follows:

	31 January 2009	31 July 2009
	€	€
Right to use software program A	38.000	8.000
Right to use software program B	12.000	22.000
Right to use software program C	23.000	33.000

The owners of the rights are other Cyprus companies. Rights A and B are used exclusively in Akropolis Ltd's Cyprus operations. Right C is used exclusively by the Athens branch.

The creditors' due balances regarding the rights to use the software programs were as follows:

	31 December 2008	31 December 2009
	€	€
Creditor for software program A	113.000	93.000
Creditor for software program B	132.000	112.000
Creditor for software program C	55.000	35.000

3. Distribution and administration expenses were calculated on a cash basis and are as follows:

	€
Related to the operations in Cyprus	60.000
Related to the operations of the Athens branch	<u>20.000</u>
Total	<u>80.000</u>

The balances due regarding the distribution and administration expenses were as follows:

	31 December 2008	31 December 2009
	€	€
Related to the operations in Cyprus	15.000	12.000
Related to the operations of the Athens branch	4.000	—

4. On 30 December 2009, a plot of land was sold for €1.100.000 and commission at 3% of the selling price was paid to a registered lawyer. The land had been bought on 1 January 2009 for €750.000 and land transfer fees of €25.000 were paid. The sale was agreed with the Inland Revenue to be of a capital nature.
5. During the year fixtures and fittings, which had been bought on 1 January 2006 for €40.000, were sold for €18.000. Akropolis Ltd depreciates its fixtures and fittings at 10% per annum on a straight-line basis.

**Required:**

- (i) Calculate Akropolis Ltd's taxable profit subject to corporation tax for the year 2009;**

Note: in this part you should ignore any available group loss relief.

(13 marks)

- (ii) Calculate Akropolis Ltd's taxable profit subject to capital gains tax for the tax year 2009.** (5 marks)

- (b)** Akropolis Ltd owns shares in three Cyprus subsidiaries as set out below.

- On 1 January 2008, Akropolis Ltd acquired 75% of the shares in Alfa Ltd.
- On 1 January 2008, Alfa Ltd acquired 75% of the shares in Beta Ltd.
- On 15 December 2008, Beta Ltd acquired 75% of the shares in Gama Ltd.
- On 30 December 2008, Alfa Ltd acquired 20% of the shares in Gama Ltd.
- On 1 January 2009, Alfa Ltd acquired the remaining 25% of the shares in Beta Ltd.
- On 1 January 2009, Alfa Ltd acquired the remaining 5% of the shares in Gama Ltd.

The taxable profits/(losses) of the three subsidiary companies for the years 2008 and 2009 were as follows:

	2008	2009
	€	€
Alfa Ltd	(70.000)	(60.000)
Beta Ltd	(60.000)	(90.000)
Gama Ltd	(10.000)	(130.000)

**Required:**

**State, giving reasons, whether group loss relief will be available to Akropolis Ltd in respect of the losses of its three subsidiaries in each of the years 2008 and 2009.**

Note: for the purposes of this part you should assume that Akropolis Ltd had sufficient taxable profits to offset all available relief in both years.

(7 marks)

**(25 marks)**

- 3 (a)** Kerkez Limited is a Cyprus tax resident company, which ceased operations on 30 November 2009 due to the economic recession. During the month of December 2009 the company undertook the following transactions:
1. Sold its office premises for €900.000. The office premises had been bought for €400.000 on 1 July 1996 when the company commenced its operations. The value of the land was agreed as one quarter (25%) of the total consideration on both the purchase and the sale of the office premises. Commission of €30.000 was paid to the lawyer of the company for her services in connection with the sale. Land transfer fees of €22.000 were paid on the purchase. The office premises were revalued to €600.000 in the books of the company at 1 January 2003. The company depreciates its buildings over 30 years using the straight-line method.
  2. Sold a plot of land for €800.000, paying commission to a registered agent at 3% on the selling price. The land had been bought on 1 January 1997 for €200.000 when transfer fees of €42.000 were paid. The transaction was agreed by the Inland Revenue Department to be treated as of a capital nature.
  3. Sold shares held in Bank of Cyprus Ltd, a company quoted on the Stock Exchange, for €30.000. The shares had been bought for €21.000 in November 1999.

**Required:**

**Calculate Kerkez Limited's capital gains tax liability for the year 2009.**

**(11 marks)**

**(b) In relation to the administration and collection of capital gains tax:**

- (i) State by when a chargeable person must file a declaration of disposal of property;** (1 mark)
- (ii) Explain what action(s) the Director of Inland Revenue can take if (1) no declaration is submitted; and (2) he is of the opinion that the self-assessment declaration made is incorrect;** (4 marks)
- (iii) In the case of each of the circumstances identified in (i) and (ii) above, state by when any resulting capital gains tax must be paid;** (2 marks)
- (iv) Explain how receipt of the sales consideration by instalments will affect the payment of the capital gains tax due.** (2 marks)

**(20 marks)**

- 4 (a) (i) State the conditions that must be satisfied before relief for bad debts is granted for the purposes of value added tax (VAT) including any time limit(s) applicable; (4 marks)
- (ii) Explain the process by which the relief for bad debts is given. (5 marks)

- (b) During the months of March, April and May 2009 Mr Nikos, a VAT registered person, made the following supplies to another VAT registered person, Mr Tolis.

Date of supply	VAT exclusive €	VAT rate	VAT inclusive €	VAT €
31 March 2009	2.000	0%	0	2.000
30 April 2009	1.000	15%	150	1.150
28 May 2009	4.000	15%	600	4.600
	<u>7.000</u>		<u>750</u>	<u>7.750</u>

A payment of €5.600 was received from Mr Tolis on 30 June 2009, however he has advised Mr Nikos that no further payments will be made as he is facing cash flow problems.

**Required:**

**Compute the VAT relief available to Mr Nikos for the bad debt due by Mr Tolis, clearly identifying the supplies or part supplies to which it relates.** (4 marks)

- (c) List FOUR circumstances in which a registered person is NOT required to issue a VAT invoice. (2 marks)

**(15 marks)**

- 5** The following information relates to Fernandez Ltd for the year 2008:
1. During 2008 the company paid provisional tax of €252.000 by three instalments of €84.000 each.
  2. On 31 July 2009 the company paid tax by self assessment for the year 2008 amounting to €5.000.
  3. On 10 October 2009 the audit by the company's auditors was completed and the preparation of the 2008 tax computation indicated taxable income of €3.550.000 for the year 2008.
  4. As at 31 December 2007 the company had taxable losses to carry forward of €150.000.

The company did not submit its tax return or pay all taxes due for the year 2008 until 28 February 2010.

**Required:**

**Calculate the corporation tax, interest and penalties payable by Fernandez Ltd on 28 February 2010.**

**(10 marks)**

**End of Question Paper**