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# Answers

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1 Aggelos and Maria

Marks

(a) (i) Taxable income for the year 2009

	€	€	
<b>Aggelos</b>			
Income from employment		39.000	½
Income from rents	10.000		½
Less: 20% allowance	(2.000)		1
Wear and tear allowance (€300.000 x 3% x 50%)	(4.500)		1
		3.500	
Dividend from a Cyprus shipping company – exempted		0	½
Dividend from a Greek company – exempted		0	½
Bank interest received – exempted		0	1
Aggelos' total income		42.500	
Less:			
Social insurance contribution ((€39.000 x 3/13) x 6.3%)		(567)	1
Social insurance contribution ((€39.000 x 10/13) x 6.8%)		(2.040)	1
Provident fund contributions (€39.000 x 5%)		(1.950)	1
First time employment exemption (lowest €8.550 or 20% of employment income – €39.000 x 20%)		(7.800)	1½
Aggelos' taxable income		30.143	
<b>Maria</b>			
Gross income from employment in Cyprus		26.000	½
Income from rents	10.000		½
Less: 20% allowance	(2.000)		½
Less 3% wear & tear (€300.000 x 50% x 3%)	(4.500)	3.500	½
Dividend from a Greek company – exempted		0	½
Bank interest – exempted		0	½
Maria's total income		29.500	
Less:			
Social insurance contributions ((€26.000 x 3/13) x 6.3%)		(378)	1
Social insurance contribution ((€26.000 x 10/13) x 6.8%)		(1.360)	1
First time employment exemption (lowest €8.550 or 20% of employment income – €26.000 x 20%)		(5.200)	1½
Provident fund contribution (€26.000 x 5%)		(1.300)	1
Maria's taxable income		21.262	
			17

(ii) Aggelos' special contribution for the defence for the year 2009

	€	€	
Income from rents	10.000		
Less 25% allowance	(2.500)		1
	7.500		
Special defence contribution at 3%		225	1
Dividends from Cyprus shipping company – exempt		0	1
Dividend from Greek company (€4.500 x 100/90)	5.000		½
Special defence contribution at 15%		750	1
Bank interest (€900 x 100/90)	1.000		½
Special defence contribution at 10%		100	1
Total special defence contribution		1.075	6

**(b) Obligations of self-employed individuals to keep books and records**

Self-employed individuals are required to keep such books and records and issue such receipts as prescribed by Regulations.

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The Regulations issued, provide for the issue of receipts and invoices but they do not specify the books to be kept, however, specific provisions have been enacted which provide for the keeping of books and records by self-employed persons, as well as other persons (s.30 of the *Assessment and Collection of Taxes Law of 1978, Law 4/78 as amended*). According to these provisions, a self-employed person deriving income from a business, or from property etc, whose total gross income or turnover exceeds the annual amount of €68.344, shall for every year of assessment:

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(1) Issue invoices and receipts in connection with its transactions and receipts (i.e. as before).

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(2) Keep accounting books and records, on the basis of which accounts should be prepared in accordance with accepted accounting principles, which shall be audited in accordance with accepted auditing principles by a person having the qualifications to be appointed as auditor of a company under the Companies Law (for example members of the Institute of Certified Public Accountants of Cyprus having a practicing certificate).

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1½

The books and records should be preserved for a period of seven years.

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7**30****2 Rayfil Ltd****(a) Taxable income for the year 2009**

	€	€	
Net profit (per question)		4.600.000	
Add: Adjustments on income	5.000		½
Balancing addition (working 2)		5.000	
Deduct: Adjustments on income			
Dividend from subsidiaries (note 1)	100.000		½
Dividend from available for sale investments (note 1)	40.000		½
Rents from investment property (note 1)	0		½
Profit from the sale of property (note 2)	400.000		½
Interest on current account (note 3)	0		½
50% of interest from deposit accounts (note 3)	90.000		1
		(630.000)	
Add: Adjustment on expenditure			
Bank charges (note 3)	0		½
Restriction of interest (working 3)	252.000		½
Leasehold interest (note 3)	0		½
Hire purchase interest (note 3)	0		½
Interest on late payment of taxes (note 3)	64.000		½
Mortgage expenses (note 3)	50.000		½
Goodwill impairment (note 4)	50.000		½
Loss on the sale of fixed assets (note 5)	54.000		½
Provisional tax (note 6)	36.000		½
Immovable property taxes (note 6)	16.000		½
Capital gains tax (note 6)	10.000		½
Deferred taxation (note 6)	34.000		½
Impairment charge on investment (note 7)	500.000		½
Depreciation (note 8)	100.000		½
		1.166.000	
Deduct adjustments on expenditure			
Balancing allowance (working 1)		(18.000)	½
Deduct capital allowances (note 8)		(100.000)	½
Taxable profit		<u>5.023.000</u>	

**Marks**

Working 1

Balancing statement on the sale of computer equipment	€	
Cost (2007)	80.000	1/2
Wear and tear allowances to date (€80.000 x 20% x 2)	(32.000)	1/2
Sales proceeds	(30.000)	1/2
Balancing allowance	<u>(18.000)</u>	

Working 2

Balancing statement on the sale of motor van		
Cost (2002)	20.000	1/2
Wear and tear allowances to 1 January 2009	(20.000)	1/2
Sales proceeds	(5.000)	1/2
Balancing addition	<u>5.000</u>	

Working 3 – Interest restriction

€4.000.000 x 6%	240.000	1/2
€1.000.000 x 6% x 6/12	30.000	1/2
	<u>270.000</u>	
Restricted to actual interest paid	252.000	1
		<u>17</u>

**(b) Profit subject to deemed distribution for Rayfil Ltd for the year 2009**

	€	
Accounting profit before tax for the year	4.600.000	1
Corporation tax charge for the year (€5.023.000 x 10%)	(502.300)	1
Impairment on investment	500.000	1
Profit subject to the deemed distribution provisions	<u>4.597.700</u>	
		<u>3</u>

**(c) Definition of a group**

Two companies are deemed to be members of a group if one is the 75% subsidiary of the other or both, each one separately, are 75% subsidiaries of a third company. 1 1/2

Group companies may be a mixture of resident or non-resident companies, provided the non-resident company owns at least 75% of a resident company. 1/2

The holding of 75% relates to:

- voting shares 1/2
- profits available for distribution and 1/2
- assets on a winding up 1/2

In determining the 75% holding the following shares are disregarded:

- any shares held as trading stock directly 1/2
- any shares held indirectly (the direct holding being trading stock) and 1/2
- any shares held directly or indirectly in a company which is not resident in the Republic (s.13(8)). 1/2

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## 3 Fredi

## (a) Capital gains tax liability

	€	€	
Disposal Proceeds		1,200,000	1
Less:			
Cost of land	300,000		½
Inflation €(300,000 x 110·59/99·35) – €300,000	33,941		1½
Planning permission fees	5,000		½
Inflation €(5,000 x 110·59/99·35) – €5,000	566		½
Architects' fees	2,000		½
Inflation €(2,000 x 110·59/99·35) – €2,000	226		½
Electricity installation fees	7,000		½
Inflation €(7,000 x 110·59/99·35) – €7,000	792		½
Levelling of land	3,000		1
Inflation (€3,000 x 110·59/99·35) – €3,000	339		1½
Land registry transfer fees	15,000		1½
Legal fees	2,000		1½
Immovable property taxes	0		1
Mortgage fees	0		1
Bank interest	35,000		1
Indexed cost of plot		(404,864)	
Profit on the disposal		795,136	
Less: profit reinvested for the acquisition of Lemesiana Ltd shares (market value of Lemesiana properties less indexed cost of plot: €300,000 – €404,864)		NIL	1
Capital gain		795,136	
Tax payable at 20%		159,027	½
			<u>16</u>

- (b) The tax is payable by self assessment. Fredi will be required to submit a declaration of disposal of property and pay the tax due within one month of the date of disposal.

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## (c) Restated value of Lemesiana property

	€	
Market value of properties	600,000	1
Less profit rolled over	NIL	1
Restated value of properties	600,000	
		<u>2</u>
		<u>20</u>

## 4 Restaurant Soti

## (a) VAT payable amount for the quarter January to March 2009

	€	
Output VAT		
Outputs (inclusive of VAT)		
Reduced rate 8%: €54,000 x 8/108	4,000	1
Total output VAT	4,000	
Input VAT		
Inputs (inclusive of VAT)		
Standard rate 15%: €23,000 x 15/115	3,000	1
Total input VAT	3,000	
VAT payable amount for the quarter January to March 2009 (€4,000 – €3,000)	1,000	1
		<u>3</u>

		<b>Marks</b>
(b)	The VAT return form should be submitted by and the VAT payable should be paid by 10 May 2009	1 1 <hr/> 2
(c)	<b>Fines and penalties</b>	
	Fixed penalty for the late submission of the VAT return form – €51	1½
	Penalty for the late payment of VAT due:	
		€
–	10% penalty on VAT payable amount (€1.000 x 10%)	100
–	8% annual interest on total outstanding VAT liability – VAT payable amount plus penalty – (€1.000 x 8% x 30/365)	7
		<hr/> 107
		<hr/> 5
(d)	VAT is chargeable on the following types of supply:	
–	the supply of goods or services within Cyprus	1
–	on acquisitions from other EU member states	1
–	on imports from third countries	1½
–	on the reverse charge for services	1½
		<hr/> 5
		<hr/> <b>15</b>

5 Pavarotti Ltd

(a) Tax computation for the year 2009

	€	
Profit before tax	210.000	
Less dividends from – abroad	(20.000)	1/2
from – Cyprus	(40.000)	1/2
Bank deposit interest (50% x (€100.000 + €10.000))	(55.000)	1
	<u>95.000</u>	
Taxable profit		
	<u>95.000</u>	1/2
Tax charge at 10%	9.500	1/2
Less tax credit (working 1)	(257)	1/2
	<u>9.243</u>	
	<u><u>9.243</u></u>	
Working 1		
Income tax credit for foreign withholding tax		
Taxable revenue from abroad: interest	10.000	1/2
Total revenue in Cyprus	370.000	1
	<u>370.000</u>	
Maximum tax credit: =(€10.000/€370.000) x €9.500	257	1 1/2
	<u><u>257</u></u>	
		6

**(b) Special defence contribution**

Dividends from abroad (less than 1% shareholding)	20.000	1/2
Special defence contribution at 15%	3.000	1/2
Tax credit in respect of foreign tax withheld (maximum)	(3.000)	1
	0	
Dividends from Cyprus are exempt	0	1/2
Bank deposit interest from abroad	10.000	
Special defence contribution at 10%	1.000	1/2
Tax credit in respect of foreign tax withheld (maximum)	(1.000)	1/2
	0	

Bank deposit interest from Cyprus	<u>100.000</u>	<b>Marks</b>
Special defence contribution at 10%	<u>10.000</u>	<u>½</u>
		<u>4</u>
		<b><u>10</u></b>