

Fundamentals Level – Skills Module

Taxation (Cyprus)

Monday 7 June 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 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

IFAC

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 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 €0 – €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%
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Interest

Statutory rate of interest: up to 31 December 2009	8%
Statutory rate of interest: from 1 January 2010	5.35%

Value added tax (VAT)

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

Social insurance contributions

Social insurance fund (up to 31 March 2009)	6.3%
Social insurance fund (from 1 April 2009)	6.8%
Redundancy fund	1.2%
Human resources development fund	0.5%
Social cohesion fund	2%
Central holiday fund	8%

Capital gains tax

Rate	20%
Life time exemptions	
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	110.34
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 (a) Aggelos completed his studies in Greece and returned to Cyprus during May 2008. Since June 2008 he has been working as an employee in an audit firm in Limassol. His wife Maria also completed her studies in Greece on May 2008 but did not return to Cyprus until August 2008. Maria commenced employment as a teacher in a private school in Limassol on 1 September 2008.

Aggelos and Maria have the following income for the year 2009:

		€
Aggelos		
	Note	
Income from rents	1	10.000
Net dividend from a Greek company	2	4.500
Gross income from employment in Cyprus	3	39.000
Dividend received from a Cyprus shipping company		5.950
Net bank interest received		900
Maria		
Income from rents	1	10.000
Net dividend from a Greek company	2	2.500
Gross income from employment in Cyprus	3	26.000
Bank interest		1.500

Notes

1. The rents received relate to a flat in Athens jointly owned by Aggelos and Maria, the flat was acquired during 2001 for €350.000 (including land of €50.000). Tax of €6.000 was paid in Greece on the gross rents received.
2. The dividends from the Greek companies were subject to withholding tax at the rate of 10%, which was deducted at source.
3. Social insurance contributions at the statutory rate and approved provident fund contribution at the rate of 5% will be deducted by their respective employers. (Employment income is payable in 13 salary instalments.)

Required:

- (i) Calculate the taxable income of Aggelos and of Maria for the year 2009; (17 marks)
- (ii) Calculate the special contribution for the defence payable by Aggelos for the year 2009. (6 marks)

- (b) Aggelos is considering setting up his own accounting practice.

Required:

Explain to Aggelos the obligations of a self-employed individual to keep books and records under the collection and assessment law. (7 marks)

(30 marks)

- 2 Rayfil Ltd is a Cyprus resident company. Phil, the financial controller of the company, has provided you with details of the company's audited profit and loss account for the year ended 31 December 2009 as follows:

	Note	2009 €
Turnover		19,500,000
Sales cost		(13,800,000)
Gross profit		<u>5,700,000</u>
Other income	1	200,000
Profit from the sale of immovable property	2	400,000
Financing expenses (net)	3	(900,000)
Goodwill impairment	4	(50,000)
Loss on sale of fixed assets	5	(54,000)
Taxation payments	6	(96,000)
Impairment charge on investment	7	(500,000)
Depreciation	8	(100,000)
Net profit for the year		<u><u>4,600,000</u></u>

Notes

1. Other income received during the year comprises

	€
Dividends from subsidiaries	100,000
Dividends from available-for-sale investments	40,000
Rents from investments in property	60,000
	<u>200,000</u>

2. Capital gains tax was paid on the profit from the sale of the immovable property.
3. Financing expenses (net) comprises the following:

	€
Interest receivable	
Gross interest on current account debit balances	20,000
Gross interest on deposit account debit balances	180,000
	<u>200,000</u>
Interest payable	
Bank charges	34,000
Interest on bank loan used to purchase investments (see Note 7)	252,000
Leasehold interest	400,000
Hire purchase interest	300,000
Interest on late tax payments	64,000
Mortgage expenses	50,000
	<u>(1,100,000)</u>
Net financing expenses	<u><u>900,000</u></u>

4. The goodwill movement for the year 2009 was as follows:

	€
As at 1 January 2009	650,000
Impairment for the year	(50,000)
As at 31 December 2009	<u>600,000</u>

5. The company disposed of computer equipment for €30.000, which had been acquired during 2007 for €80.000 and of a motor van for €5.000, which had been acquired during 2002 for €20.000.
6. The provisional taxation charge is based on the profit for the year as adjusted for tax purposes. The total tax charge for the year consists of the following:

	€
Provisional tax for the year	36.000
Immovable property taxes	16.000
Capital gains tax	10.000
Deferred taxation	34.000
	<u>96.000</u>

7. The movement on investments for the year 2009 was as follows:

	€
As at 1 January 2009	4.000.000
Additions during June 2009	1.000.000
Impairment charge	(500.000)
	<u>4.500.000</u>

All the investments were financed by a 6% interest bearing bank loan.

8. The company applies depreciation rates which are the same as the wear and tear allowances rates.

Required:

- (a) Calculate the taxable profit/(loss) of Rayfil Ltd for the year 2009.**

Note: your computation should list all of the items referred to in notes 1 to 8, indicating by the use of '0' where no adjustment is required. (17 marks)

- (b) Calculate the profit of Rayfil Ltd which will be subject to special contribution for the defence deemed distribution provisions for the year 2009.** (3 marks)

- (c) Define the term group for the purposes of surrendering losses.** (5 marks)

(25 marks)

- 3 Fredi purchased a plot of land with registration number 44, situated in Limassol on 1 October 2004 for €300.000. Fredi paid the following expenses in respect of the land during October 2004:

	€
Land registry transfer fees	15.000
Planning permission fees	5.000
Electricity installation fees	7.000
Architect fees	2.000
Levelling of land	3.000
Legal fees	2.000
Immovable property taxes	5.000

Fredi obtained a bank loan to finance the purchase cost of the land and paid total interest from the date of purchase until the date of exchange of €35.000 and mortgage fees of €3.000.

On 15 June 2008 Fredi signed a contract for the exchange of the plot of land for 50% of the shares in Lemesiana Ltd, based on an exchange value of €900.000. The tax office has estimated the value of the plot of land at the date of exchange at €1.200.000.

The market value of the immovable properties of Lemesiana Ltd is €600.000.

Fredi has already used all of his lifetime exemptions for capital gains tax.

Required:

- (a) Calculate Fredi's capital gains tax liability on the disposal by exchange of the plot of land, after claiming any available reliefs.

Note: your computation should list all of the expenses referred to in the question, indicating by the use of '0' those that are not allowable/deductible. (16 marks)

- (b) State how and when Fredi's capital gains tax liability (as calculated in (a)) should be paid. (2 marks)

- (c) Calculate the restated value of Lemesiana Ltd's immovable properties. (2 marks)

(20 marks)

- 4 The restaurant Soti had the following sales and purchases in the quarter January to March 2009.
- Income from the sale of catering services (taxed at the reduced rate of 8% including value added tax (VAT)) €54.000.
 - Purchases of standard rated food (including VAT) €23.000.

Required:

- (a) Calculate the value added tax (VAT) payable by the Soti restaurant for the quarter January to March 2009. (3 marks)
- (b) State the due date for the submission of the January to March 2009 VAT return and the date when the VAT payable amount should be paid. (2 marks)
- (c) Calculate the fines and/or penalties which would be incurred by the Soti restaurant if its VAT return form for the quarter January to March 2009 was not submitted and the VAT due paid until 10 May 2009. (5 marks)
- (d) List the types of supplies on which VAT is chargeable. (5 marks)

(15 marks)

5 Pavarotti Ltd is a Cyprus tax resident company. The financial controller of the company has provided you with the following information for the year 2009.

	Note	€
Gross bank deposit interest from abroad	1	10.000
Gross dividends from abroad	2	20.000
Gross bank deposit interest from Cyprus		100.000
Dividends from Cyprus		40.000
Business income from Cyprus		200.000
		<hr/>
		370.000
Cost of sales		(130.000)
Administration expenses		(30.000)
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Profit before tax		210.000
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Notes

1. Withholding tax of €3.000 was deducted at source from this bank interest.
2. The foreign dividend was received from an overseas company, in which Pavarotti Ltd holds less than 1% of the shares. Withholding tax of €4.000 was deducted at source from this dividend.

Required:

(a) Calculate the tax payable by Pavarotti Ltd for the year 2009. (6 marks)

(b) Calculate the special defence contribution payable by Pavarotti Ltd for the year 2009. (4 marks)

(10 marks)

End of Question Paper