

Fundamentals Level – Skills Module

# Taxation (Cyprus)

Tuesday 6 December 2011

**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 2010 are to be used in answering the questions.

### Income tax

€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	33·3%

### Corporation tax

All companies	10%
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### Interest

Statutory rate of interest from 1 January to 31 December 2010	5·35%
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### Value added tax (VAT)

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

### Social insurance contributions

Social insurance fund	6·8%
Redundancy fund	1·2%
Human resources development fund	0·5%
Social cohesion fund	2%
Central holiday fund	8%
Maximum annual insurable income of employees	€50.592
Self employed contributions	12·6%



### Capital gains tax

Rate	20%
Lifetime exemptions	
General	€17.086
Agricultural	€25.629
Residential dwelling – restricted to land of 1·5 hectares (1.500 square metres)	€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
2010	110,38	110,92	111,98	112,76	112,67	112,89	111,77	112,70	114,14	115,05	114,63	114,45



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

- 1** During 2009 Ms Yana was a Greek tax resident working in Athens as the managing director of Kazan Ltd, a company listed on the Athens Stock exchange. Ms Yana received director's fees from Kazan Ltd for the year 2009 of €75.000. These fees were deposited directly by Kazan Ltd into Ms Yana's Cyprus bank account and the net interest earned on this account for the year 2009 amounted to €900.

On 30 April 2009 Kazan Ltd formed a 100% subsidiary in Cyprus, Mandria Ltd. Ms Yana was appointed as Mandria Ltd's managing director from 1 May 2009, but continued to work for Kazan Ltd in Athens. For the year 2009 Ms Yana received director's fees of €15.000 from Mandria Ltd.

On 1 January 2010 Ms Yana resigned from the position of managing director of Kazan Ltd and relocated permanently to Cyprus in order to expand the operations of Mandria Ltd. Her director's fees from Mandria Ltd were increased to €100.000 per annum from that date.

During 2010 Ms Yana acquired two apartments in Cyprus, one in Nicosia for €300.000 (including value of land €100.000) which she used as her main residence, and one in Limassol for €250.000 (including value of land €50.000) which was rented out from 1 April 2010 for the monthly rent of €1.000. Ms Yana's residential apartment in Athens which she had acquired during 2005 for €400.000 (including value of land €50.000) was rented out to various students in 2010 and the total rent collected for the year amounted to €20.000, after the payment of tax of €2.000 in Greece.

On 30 June 2010 Ms Yana was re-appointed as a non-executive director of Kazan Ltd for which she received director's fees for the year 2010 of €20.000.

On 1 April 2010 Ms Yana commenced paying monthly insurance premium payments of €2.500 for a life insurance policy with an approved Cypriot life insurance company. This policy was in addition to an existing approved policy she has with a Greek life insurance company, on which she has been paying a monthly premium of €1.000 since 2006.

For the year 2010 Ms Yana collected net interest from a deposit account she held with a Greek bank of €3.600 (net of Greek tax withheld of €400), and net interest from her Cyprus bank account of €1.350.

For the year 2010 the PAYE tax deducted by Mandria Ltd from Ms Yana's emoluments amounted to €20.000, but as Mandria Ltd did not register Ms Yana with the Social Insurance Department no social deductions were made from her remuneration.

**Required:**

- (a) (i) **State, giving reasons, whether or not Ms Yana will be liable for the special contribution for the defence tax on her Cyprus bank interest in the year 2009;** (2 marks)
- (ii) **Calculate the total special contribution for the defence tax payable by Ms Yana for the year 2010, stating how and when it will be paid.** (6 marks)
- (b) **Calculate the social insurance contributions obligations for the year 2010 of:**
- (i) **Mandria Ltd, as employer; and** (3 marks)
- (ii) **Ms Yana, as employee.** (1 mark)
- (c) **Calculate the income tax payable by Ms Yana for the year 2010.** (13 marks)

**(25 marks)**



- 2 Silas Ltd is a Cyprus resident company whose audited profit and loss account for the year ended 31 December 2010 shows an accounting profit before tax of €3.000.000, after taking into account the following items:

	Note	€
Depreciation	1	20.000
Impaired debts	2	40.000
Legal advisor expenses	3	11.000
Impairment of financial asset (shares)	4	500.000
Interest expense	5	30.000
Dividends received	6	75.000
Profit from the sale of a factory building	7	415.600
Provisional tax paid		30.000

**Notes:**

1. Depreciation was calculated on the following assets held by the company at 31 December 2010:

- computer hardware, which had been acquired during 2009 for €60.000; and
- office furniture acquired in January 2010 at a cost of €30.000.

Old office furniture which had been acquired during 2004 for €50.000, was traded in against the acquisition of the new furniture for €10.000 which equalled its accounting net book value.

2. The impaired debts charge comprises:

	€
Amounts recovered from trade debts written off in previous years	20.000
Increase in specific provision for impaired debts	35.000
Increase in general provision for impaired debts	25.000

3. Legal advisor expenses comprise:

	€
Lawyer's annual retainer fee	2,000
Fees for letters sent to trade debtors	5.000
Fees for an increase in the company's share capital	4.000
	<u>11.000</u>

4. The impairment of financial assets relates to 100.000 shares in Bank of Cyprus, which were acquired on 1 May 2006 for €500.000, and 200.000 shares in Hellenic bank, which were acquired on 1 June 2009 for €400.000. The total market value of these shares as at 31 December 2010 was €400.000.

5. The interest expense relates to the money borrowed to finance the purchase of the shares in (4) above. The average borrowing cost was 4%.

6. During 2010 Silas Ltd received the following dividends:

- Bank of Cyprus €50.000; and
- Hellenic Bank €25.000.

7. On 1 January 2003, Silas Ltd purchased a building at a cost of €100.000 made up as follows:

- land cost €10.000
- factory building cost €70.000
- office space cost €20.000

In August 2004 the offices were extended at a cost of €10.000.

On 30 June 2010 Silas Ltd sold the building for €500.000 made up as follows:

- land value €200.000
- factory building value €100.000
- office space value €200.000

The depreciation rates used by Silas Ltd for this building were equal to the capital allowances rates.



**Required:**

- (a) Calculate the tax payable by Silas Ltd for the year 2010 and state when any balance of tax due will be payable. (24 marks)
- (b) Briefly explain the tax treatment of each of the items listed in note 2 (impaired debts) and note 3 (legal advisor expenses). (6 marks)

**(30 marks)**



- 3** Anthi Ltd, a Cyprus tax resident company, obtained a bank loan to acquire an office building on 12 April 1998 for €500.000 (including value of land €100.000), paying transfer fees of €40.000. Anthi Ltd commenced using the office building for business purposes on 1 January 2000.

During 2002 Anthi Ltd spent an additional €200.000 on office renovations of a capital nature. These renovations were completed in September 2002.

On 24 September 2010 Anthi Ltd sold the office building for €1.700.000 (including value of land €1.400.000).

**Other information:**

- (1) Commission of 3% on the selling price was paid to a licensed estate agent.
- (2) Loan interest of €150.000 was paid on the loan.
- (3) Advertising expenses to find a purchaser were €5.000.
- (4) Valuation fees of €3.000 were paid.
- (5) Each year immovable property tax of €500 was paid.
- (6) Capital allowances at the rate of 3% were claimed on the office building.

**Required:**

- (a) Prepare the balancing statement on disposal of the office building.** (5 marks)

- (b) Calculate the capital gains tax payable by Anthi Ltd on the disposal of the office building.**

Note: you should list all of the items referred to under 'other information', indicating by the use of '0' any item for which no adjustment is required. (13 marks)

- (c) Briefly explain the circumstances in which the following expenses are deductible for the purposes of capital gains tax:**

- (i) interest paid on a loan to purchase immovable property; and**
- (ii) commissions paid on the sale of immovable property.** (2 marks)

**(20 marks)**



**4 (a) In relation to value added tax (VAT):**

- (i) State the circumstances in which a normal VAT invoice must be issued and need not be issued;** (4 marks)
- (ii) State the TWO types of VAT invoices and briefly explain the differences between them;** (4 marks)
- (iii) List the other documents that may be treated as a VAT invoice.** (2 marks)

- (b)** During July 2010 Mr Lefkos set up a mini market store in Limassol and registered for VAT. The first VAT period was from 1 July to 30 September 2010.

The monthly sales, including VAT, were as follows:

		€
July 2010:	Standard rated sales	5.500
	Reduced rated sales (5%)	1.500
August 2010:	Standard rated sales	6.600
	Reduced rated sales (5%)	2.000
September 2010:	Standard rated sales	4.200
	Reduced rated sales (5%)	3.000

Mr Lefkos filed his first VAT return and paid the due tax on 31 December 2010.

**Required:**

- (i) Calculate the VAT payable by Mr Lefkos for the quarter to 30 September 2010.** (3 marks)
- (ii) Calculate the penalty payable by Mr Lefkos for the late submission of the VAT return.** (1 mark)
- (iii) Calculate the penalty payable by Mr Lefkos for the late payment of the VAT liability.** (1 mark)

**(15 marks)**

- 5 (a) Briefly explain what is meant by 'tax evasion' and 'tax avoidance', distinguishing clearly between them.** (4 marks)

- (b) Briefly state the course of action available to a taxable person who does not agree with the final determination assessment issued by the Director of the Inland Revenue.** (6 marks)

**(10 marks)**

**End of Question Paper**