
Answers

1 Mr Yiannis

Marks

(a) Employer social insurance contributions payable for the quarter 1 October to 31 December 2010

	€	€	
Employee salary (€2.000 x 3 months)	6.000		0.5
Central holiday fund contributions at 8%	480		0.5
Total amount for calculating contributions	<u>6.480</u>		0.5
Employer contributions paid as follows:			
Social insurance fund at (€6.480 x 6.8%)	441		0.5
Redundancy fund at (€6.480 x 1.2%)	78		0.5
Human resources development fund (€6.480 x 0.5%)	32		0.5
Social cohesion fund at (€6.480 x 2%)	130		0.5
Central holiday fund contributions (as above)	480		0.5
Total contributions payable as employer	<u>1.161</u>		
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(b) (i) Income tax payable for the year 2010

	€	€	
Salary income – as per Ir63	90.000		0.5
Entertainment allowance (€500 x 9 months)	4.500		1
Travelling allowance (€500 x 9 months x 50%)	2.250		1.5
Compensation for loss of office	0		1
Business income (working 1)	<u>26.339</u>		0.5
Total income		123.089	
Less deductions			
Social insurance contributions – as per Ir63	(3.440)		0.5
Social insurance fund contributions as self employed (€40.000 x 12.6%)	(5.040)		1
Provident fund contributions – as per Ir63	<u>(4.500)</u>		0.5
Total deductions		<u>(12.980)</u>	
Taxable income		<u>110.109</u>	
Tax thereon			
€0 – €19.500 at 0%	0		
€19.501 – €28.000 at 20%	1.700		
€28.001 – €36.300 at 25%	2.075		
€36.301 – €110.109 at 30%	<u>22.143</u>		
Total tax payable		25.918	1
Tax paid (€6.000 as self employed + €18.000 PAYE)		<u>(24.000)</u>	1
Income tax payable		<u><u>1.918</u></u>	

Working 1

Business income – excluding VAT		40.000	1
Less expenses			
Office rent	(3.000)		0.5
Seminar fees – excluding VAT	(1.000)		0.5
Income tax paid	0		0.5
Electricity – excluding VAT	(500)		0.5
Employee's salary	(6.000)		0.5
Social insurance contributions as employer (as per part a)	(1.161)		1
Wear and tear allowance on office furniture (€8.000 x 10%)	(800)		1
Wear and tear allowance on computer (€6.000 x 20%)	(1.200)		1
Total business expenses		<u>(13.661)</u>	
Net business income		<u><u>26.339</u></u>	
			<u>15</u>

			Marks
(ii)	Mr Yiannis has been self-employed for part of 2010, but has no obligation to file audited accounts, so must submit his tax return by 30 June 2011.		<u>2</u>
(c) (i)	Value added tax (VAT) payable for the quarter 1 October to 31 December 2010		
	€	€	
Output VAT			
Business income (€46.000 x 15/115)		6.000	0·5
Input VAT			
Seminar fees (€1.150 x 15/115)	150		0·5
Office furniture (€9.200 x 15/115)	1.200		0·5
Office computer (€6.900 x 15/115)	900		0·5
Electricity (€575 x 15/115)	75		0·5
	<u> </u>		
Total input VAT		(2.325)	
VAT payable for the quarter		<u>3.675</u>	0·5
		<u> </u>	<u>3</u>
(ii)	The VAT return must be submitted and the tax due must be paid by 10 February 2011.		<u>1</u>
			<u>25</u>

2 Masharika Ltd

(a) Taxable profit for the year 2010

	€	€	
Accounting profit (per question)		1.500.000	0·5
<i>Add:</i> Adjustments on income			
Loss on sale of computer equipment	6.000		0·5
Goodwill sold less cost (€200.000 – €50.000)	<u>150.000</u>		1
		156.000	
<i>Deduct:</i> Adjustments on income			
Gross dividend received	20.000		0·5
Profit from sale of shares	250.000		0·5
Interest from bank current account	0		0·5
Interest from bank deposit account (only subject to SDC)	5.000		0·5
Interest earned from trade debtors	0		0·5
Balancing deduction (working 1)	<u>6.000</u>		0·5
		(281.000)	
<i>Add:</i> adjustments on expenditure			
Depreciation	50.000		0·5
Restriction of interest expense (working 2)	9.000		0·5
Goodwill paid	80.000		1
Saloon car expenses	<u>3.000</u>		0·5
		142.000	
<i>Deduct:</i> Capital allowances			
Limassol office building (€444.000 – €244.000 x 3%)	6.000		1
Application software (€30.000 x 33·33%)	10.000		0·5
Application software acquired during 2007 already written off	0		1
Computer hardware (€100.000 x 20%)	20.000		0·5
Saloon car (not a qualifying asset)	<u>0</u>		0·5
		(36.000)	
Taxable profit for the year 2010		<u>1.481.000</u>	
Working 1 – Balancing statement			
Cost of computer hardware	40.000		0·5
Less wear and tear allowances claimed (€40.000 x 20% x 3 years)	(24.000)		0·5
Less disposal proceeds	<u>(10.000)</u>		0·5
Balancing deduction	<u>(6.000)</u>		

Working 2 – Interest restriction

	€	€	
Cost of investments in Hofa Ltd ($€200.000 \times 6 \text{ months} \times 5\%$)	5.000		1
Cost of investments in Zeta Ltd ($€120.000 \times 3 \text{ months} \times 5\%$)	1.500		1
Cost of saloon car ($€50.000 \times 5\%$)	<u>2.500</u>		<u>0.5</u>
Total interest restriction		<u>9.000</u>	<u>15</u>

- (b) (i) For capital allowances to be granted in respect of an asset the following requirements must be satisfied:
- the expenditure must be made in respect of a fixed asset; 0.5
 - the expenditure must be made in respect of a qualifying fixed asset; 0.5
 - the qualifying asset must belong to the person claiming the capital allowances; and 0.5
 - the qualifying asset must be used in the person's business. 0.5
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- (ii) Under the renewals method, there is no wear and tear allowance in the first year of acquisition. Instead when any of the bought assets are replaced, the cost of replacement (cost of the new asset less any sale proceeds from the replaced asset) is treated as an allowable expense in the profit and loss account. 2
- If the cost of the new asset includes any element of addition or improvement, such element is capitalised in the same way as the original asset purchase. 1
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- (iii) A balancing statement is required where an asset in respect of which capital allowances have been claimed, is disposed of and during the year of assessment: 1
- the fixed asset ceases to belong to the person carrying on the business, whether on the sale of the fixed asset or otherwise; Or 1
 - while continuing to belong to the person carrying on the business, the fixed asset permanently ceases to be used for the purposes of the business carried on; Or 1
 - the business is permanently discontinued, the fixed asset not having previously ceased to belong to the person carrying on the business. 1
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- (c) (i) A taxable supply is any supply of goods or services made within Cyprus that is neither an exempt supply nor a supply outside the scope of value added tax (VAT). 2
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- (ii) The following transactions are outside the scope of VAT as neither supplies of goods nor supplies of services:
- (i) The recovery of second-hand goods under a hire purchase agreement or an insurance contract.
 - (ii) The transfer of a going concern.
 - (iii) The assignment of rights in goods subject to a hire purchase contract.
 - (iv) Disbursements made by an agent.
 - (v) Gifts whose cost to the trader does not exceed €17,09.
 - (vi) Services rendered by an auctioneer in connection with the sale of goods to either the seller or the purchaser, the value of which is taken into account in the selling or the purchase price.
- ANY FOUR items, 1 mark each maximum 4

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3 Ms Adelina

(a) Capital gains tax payable on disposal

	€	€	
Gain in relation to the residential house			
Value of house (€1.000.000 – €600.000)		400.000	1
Value of land ((1.500/6.000) x €600.000)		150.000	2
		<u>550.000</u>	
Total sales proceeds applicable to residential house		550.000	
Less			
Market value of the land on 1 January 1980 (€20.000 x (1.500/6.000))	5.000		1
Inflation ((€5.000 x 109.36/34.96) – €5.000)	10.641		1
Market value of the house on 1 January 1980	40.000		0.5
Inflation ((€40.000 x 109.36/34.96) – €40.000)	85.126		0.5
Renovation of capital nature – October 2002	100.000		0.5
Inflation ((€100.000 x 109.36/93.09) – €100.000)	17.478		1
Renovation of non capital nature – October 2002	0		0.5
Swimming pool – May 2005	50.000		0.5
Inflation ((€50.000 x 109.36/99.62) – €50.000)	4.889		1
Interest paid on loan from the bank	30.000		0.5
Commission paid to an approved agent (€550.000 x 3%)	16.500		0.5
		<u>(359.634)</u>	
		190.366	
Less lifetime exemption		(85.430)	1
Taxable capital gain on residential house		104.936	
Capital gains tax payable at 20%		<u>20.987</u>	0.5
Gain in relation to the land			
Sale proceeds (€1.000.000 – €550.000)		450.000	1
Less			
Market value of the land on 1 January 1980 (€20.000 x (4.500/6.000))	15.000		1
Inflation ((€15.000 x 109.36/34.96) – €15.000)	31.922		0.5
Commission to an approved agent (€450.000 x 3%)	13.500		0.5
		<u>(60.422)</u>	
		389.578	
Less lifetime exemption (already used in full)		0	1
Taxable capital gain		389.578	
Capital gains tax payable at 20%		<u>77.916</u>	0.5
Total capital gains tax payable (€77.916 + €20.987)		<u>98.903</u>	0.5
		<u>17</u>	

(b) Interest payable if declaration and payment made on 12 April 2010

The due date of declaration and payment is one month from the date of disposal, therefore interest will run from 13 May 2009.

	€	
Period from 13 May 2009 to 31 December 2009: €98.903 x 8% x 233/365 days	5.051	1
Period from 1 January 2010 to 12 April 2010: €98.903 x 5.35% x 102/365 days	1.479	1
	<u>6.530</u>	3
	<u>20</u>	

4 Pharos Ltd

- (a) Special defence contribution (SDC) will be payable on the dividends paid to Olga because she is an individual tax resident in Cyprus. 1

SDC will not be payable on the dividends paid to Tatiana, because she is an individual not tax resident in Cyprus and so is not subject to SDC. 1

SDC is also not payable on the dividends paid to Natali Ltd and Katia Ltd, because dividends paid to companies, whether resident or not resident in Cyprus, are not subject to SDC. 2

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- (b) Special defence contribution (SDC) payable for the years 2008, 2009 and 2010

SDC payable for the year 2008 on the dividend paid to Olga

Dividend income €20.000 (€100.000 x 20%)

SDC (€20.000 x 15%) €3.000 0·5

Due date of payment: 31 December 2008 0·5

SDC payable for the year 2009 on the dividend paid to Olga

Dividend income €30.000 (€150.000 x 20%)

SDC (€30.000 x 15%) €4.500 0·5

Due date of payment: 31 August 2009 0·5

SDC payable for the year 2010 on the 2008 profits subject to the deemed distribution provisions

Accounting profit before tax € 500.000 0·5

Add

Additional depreciation due to asset revaluations 20.000 1

Loss on revaluation of shares 100.000 1

620.000

Deduct

Corporation tax (€500.000 x 10%) (50.000) 1

Tax withheld on interest income 0 1

Capital gains tax paid 0 1

Accounting profit subject to the deemed distribution provisions 570.000

Deemed distribution (70% x €570.000) 399.000 1

Deduct

Dividend payment during 2008 (100.000) 0·5

Dividend payment during 2009 (150.000) 0·5

Accounting profit subject to deemed distribution provisions 149.000

Special contribution for the defence (€149.000 x 15%) 22.350 0·5

Due date of payment: 31 January 2011 1

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- 5 (a) The sources of the Cypriot tax law are:

(1) Statute law

The basic rules of law are founded on the primary legislation enacted by the legislative body, which is the House of Representatives. 1

Taxation laws, like any other laws, provide for the issue of subsidiary legislation in the form of Regulations (Statutory Instruments), a power vested in the Council of Ministers. The Regulations are always laid before the House of Representatives. 2

The tax authority supplements the law and regulations with notifications of certain matters envisaged in the law or regulations. In addition, the tax authority may make decisions on certain prescribed matters. 1·5

All laws, regulations, notifications and decisions are published in the Government Gazette. 0·5

Marks

(2) Case law

Decisions of the court form part of the Cyprus law where the interpretation of tax law is not clear or where there is a dispute between a taxpayer and the tax authority as to the interpretation of the law or on the facts and the Supreme Court is called upon by the taxpayer to review the decision of the tax authority.

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(b) Tax circulars

The tax authorities issue circulars, statements, notices, leaflets etc which explain how the law is implemented in practice.

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These circulars etc, which have no force of law, explain the tax practice. They are valid unless they are successfully challenged by the taxpayers before the prescribed Tax Tribunals or before the Supreme Court.

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