

Fundamentals Level – Skills Module

# Taxation (Cyprus)

Tuesday 12 June 2012



**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 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 2011 are to be used in answering the questions.

### Income tax

€0 – €19.500	nil
€19.501 – €28.000	20%
€28.001 – €36.300	25%
€36.301 – €60.000	30%
Over €60.000	35%

### 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	5·00%
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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%
Industrial training fund	0·5%
Social cohesion fund	2%
Central holiday fund	8%
Maximum annual insurable income of employees	€50.104
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	112,69	114,14	115,05	114,63	114,45
2011	113,51	114,00	115,12	116,46	117,04	117,62	115,89	115,95	116,86			

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

- 1 Mr Costantinos, a lawyer, was employed from 1 January 2006 until 31 December 2007 by Elara Ltd. On 1 January 2008 he set up his own legal practice. In March 2012, the Inland Revenue demanded that Mr Costantinos submit, within one month, his business and personal assets and liabilities for the period 1 January 2006 to 31 December 2011.

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

		Assets as at 1 January 2006 €	Assets as at 31 December 2011 €
Bank deposits	Note 1	100.000	334.000
Investments	2	–	54.000
Motor vehicles at cost	3	–	20.000
Debtors	4	–	64.000
Business equipment	5	–	20.000
Personal bank overdraft		50.000	60.000
Business bank overdraft			40.000
Trade creditors		–	60.000

**Notes:**

- This balance includes the net interest credited as at 31 December 2011 of €17.000.
- On 1 January 2007, Mr Costantinos acquired 8.000 shares of CPB, a listed public company, for €5 each (nominal value of €1 each). During March 2008 Mr Costantinos bought a further 2.000 shares of CPB at the price of €3 each. On 1 December 2010, Mr Costantinos sold 4.000 of his CPB shares at €4 each. The market value of CPB shares as at 31 December 2011 was €9 each.
- During 2009 Mr Costantinos acquired a new saloon car for €50.000. He made an advance payment for the car of €20.000, but the balance remains outstanding as at 31 December 2011.
- As at 31 December 2011 the debtors were as follows:

	€
Trade debtors	80.000
Less: General provision for bad debts (20%)	(16.000)
	<u>64.000</u>

- As at 31 December 2011 business equipment comprised:

	€
Equipment at cost	25.000
Less: Accumulated depreciation (10%)	(5.000)
Net book value	<u>20.000</u>

- For the period under examination:
  - His living expenses were agreed with the Inland Revenue at €240.000.
  - He paid social insurance contributions of €22.000 including cohesion fund contributions of €4.000.
  - His gross business income was €300.000 after payment of income taxes of €50.000.
  - His gross salaried income was €100.000 before the payment of income taxes of €10.000.
  - He has paid business rent of €1.000 per month since 1 January 2008.
  - Since 2006, he has paid monthly rent of €500 per month for his main residence.

**Required:**

- (a) **Prepare for Mr Costantinos a Capital Statement (or Net Worth Statement) for the period 1 January 2006 to 31 December 2011, showing his total income for the six-year period.** (17 marks)
- (b) Mr Costantinos has been informed by one of his friends that the Collection and Assessment Law was recently amended.

**Briefly describe the following, in accordance with the amended law:**

- (i) **the obligations of a taxpayer to maintain books and records;** (1 mark)
- (ii) **the obligations of a taxpayer to issue invoices;** (2 marks)
- (iii) **the obligations of a taxpayer to carry out stock take; and** (2 marks)
- (iv) **the power of the Director of Income tax to carry out field audits.** (3 marks)

**(25 marks)**

- 2 Paradisos Ltd is a Cyprus tax resident company. The net profit of the company for the year ended 31 December 2010 was €600.000. The following items have been taken into account when calculating this net profit:

	Note	€
Income		
Trade goodwill	1	60.000
Dividends		2.000
Gross interest on bank deposits		3.000
Rental income	2	150.000
Interest receivable from a loan to Paradisos Ltd's holding company	3	9.000
Expenses		
Legal fees for the increase in share capital		750
Saloon car expenses	4	1.000
Amount paid for trade goodwill	1	35.000
Bonus paid to the sales director		3.300
Interest payable	4 & 5	8.000
Loss on revaluation of shares		10.000
Other bank charges		1.000
Depreciation	6	28.000
Corporation (provisional) tax paid for the year		10.000
Special contribution for the defence tax paid for the year		13.000

**Notes:**

1. The gross amount of €60.000 represents the receipt from the sale of trade goodwill, which had been purchased in 2006 for €10.000. The amount of €35.000 represents goodwill purchased during 2010.
2. The rental income relates to a shop in London owned by Paradisos Ltd. The tax paid abroad on this rental income was €15.000. Paradisos Ltd purchased the shop on 1 January 2009 for €500.000. The initial cost of the shop in May 1993 was €100.000, including the cost of land of €28.000.
3. At the beginning of the year, Paradisos Ltd granted a non-trading loan of €150.000 to its holding company, Pyli Ltd, with interest rate at 6%. Pyli Ltd is a Cyprus tax resident company, and owns 85% of Paradisos Ltd's shares. The remaining 15% of Paradisos Ltd's shares is owned by Oniro Ltd, a non-Cyprus tax resident company.
4. On 1 January 2010, a saloon car was transferred as a gift to Paradisos Ltd from its holding company, Pyli Ltd. Pyli Ltd's acquisition cost of the car was €20.000 with a market interest rate of 6%. The car is used solely by Paradisos Ltd's director for private use.
5. (a) A flat had been purchased on 1 January 2005 for €52.000 with a market interest rate of 9%. The flat is used solely by Paradisos Ltd's director.  
(b) On 1 January 2009, Paradisos Ltd acquired 77% of the shares in Ouranos Ltd, with a loan with a market interest rate of 5%. Ouranos Ltd is a Cyprus tax resident company. This share investment is included in Paradisos Ltd's balance sheet as inventory (stocks) at its cost of €100.000. The results of Ouranos Ltd for the years ended 31 December 2009 and 31 December 2010 showed tax losses of €5.000 and €15.000, respectively.
6. (a) Paradisos Ltd had the following transactions in fixed assets during the year to 31 December 2010:
  - Sold computer hardware for €8.000, which had been bought in 2007 for €30.000.
  - Purchased new computer hardware for €45.000.
 (b) Computer software which had been purchased in 2006 for €20.000 was still in use as at 31 December 2011.  
(c) The depreciation charge for the year includes €20.000 regarding the revaluation of immovable property.

**Additional information:**

- (i) Kipos Ltd, a Cyprus tax resident company, has been a 100% subsidiary of Paradisos Ltd since its incorporation on 1 January 2009. Despite the fact that Kipos Ltd was incorporated in January 2009, it only actively started trading at the end of May 2010. For the tax year ended on 31 December 2010, Kipos Ltd incurred a tax loss of €18.000.
- (ii) On 31 December 2010, Paradisos Ltd paid a gross dividend of €70.000 which is the final dividend for the year.

**Required:**

- (a) **Calculate the corporate income tax payable by Paradisos Ltd for the year ended 31 December 2010.**  
(23 marks)
- (b) **Calculate the special defence contribution payable by Paradisos Ltd for deemed dividend distribution purposes, if the company does not intend to make any other dividend distribution from the profits of 2010, and state the date by which this is payable.**  
(7 marks)

**(30 marks)**

**3** Alexandros made the following transactions during 2010:

- (i)** On 15 January 2010, he sold his main residential house, which he owned jointly with his wife, for €720.000. He and his wife had bought this main residential house for €400.000 on 12 April 1995. In October 2005 they had renovated the residential house at a total cost of €100.000 and 50% of the renovations are considered to be of a capital nature.
- (ii)** On 15 September 2010, he sold a plot of land in Limassol for €400.000 which he had bought in September 2002 for €100.000, paying transfer fees of €8.000.
- (iii)** In October 2010, he exchanged a plot of land (number 14) with the value of €200.000, for a plot of land (number 24) with the value of €140.000 which was owned by Andreas. Plot of land 24 had been bought by Andreas in August 1995 for €100.000 and plot of land 14 by Alexandros in February 1997 for €100.000.
- (iv)** In November 2010, he exchanged a flat with the value of €150.000 for a plot of land with the value of €120.000 which is owned by Gianna. The flat had been bought by Alexandros in August 2000 for €60.000 and the plot of land by Gianna in March 1995 for €30.000.

Alexandros has never previously used the lifetime exemption.

**Required:**

**Calculate the capital gains tax payable by Alexandros on each of the transactions (i) to (iv) made in the year 2010, showing the readjusted value of the properties exchanged (if any).**

The following mark allocation is provided as guidance for this question:

- (i)** 7 marks
- (ii)** 5 marks
- (iii)** 4 marks
- (iv)** 4 marks

**(20 marks)**

**4 (a) List the conditions that must be satisfied before input value added tax (VAT) will be recoverable.**

(5 marks)

- (b)** Sotiroulla is in the retail clothing business. She is registered for value added tax (VAT), and is in the process of completing her VAT return for the quarter ended 30 June 2011.

The following information is available (all figures are stated exclusive of VAT):

1. Cash sales amounted to €42.000 in respect of standard rated sales.
2. Sales invoices totalling €12.000 were issued in respect of standard rated credit sales.

Sotiroulla offers all of her credit sale customers a 5% discount for payment within one month of the date of the sales invoice, and all of the customers pay within this period. The sales figure of €12.000 is stated before any deduction for the 5% discount.

3. Purchase and expense invoices totalling €19.200 were received from VAT registered suppliers. This figure is made up as follows:

	Notes	€
Standard rated purchases and expenses	i	11.200
Reduced rated purchases (5%)	ii	6.000
Exempt expenses		2.000
		<hr/>
		19.200

**Notes:**

- (i) Included in the standard rated purchases and expenses is €2.000 for the leasing of a saloon car.
- (ii) Included in the reduced rated purchases is €300 for lunch with clients.

**Required:**

**Calculate the value added tax (VAT) payable by Sotiroulla for the quarter ended 30 June 2011, clearly identifying any amounts for which input VAT is not recoverable, and state the due date for the submission of the VAT return.**

(10 marks)

**(15 marks)**

**5 Describe the main features of the self assessment system as applicable to a self employed individual (i) with an obligation to prepare audited accounts and (ii) with an obligation to prepare unaudited accounts, with respect to:**

**(a) temporary tax** (7 marks)

**(b) final tax and the filing of the return.** (3 marks)

**In each case, clearly specify the time limits that apply.**

**(10 marks)**

**End of Question Paper**