

Fundamentals Level – Skills Module

Taxation (Cyprus)

Tuesday 4 June 2013



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 2012 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	
If purchased 2012 to 2014	20%
Otherwise	10%
Motor vans	20%
Hotel, industrial and agricultural buildings	
If purchased 2012 to 2014	7%
Otherwise	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%
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Value added tax (VAT)

Registration limit	€15.600
Standard rate	
From 1 March 2012	17%
Until 29 February 2012	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	€53.304
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	118,55	118,93	118,95
2012	117,05	117,52	119,00	120,05	120,49	119,70	118,41	119,05	119,80	120,61	120,36	120,26

ALL FIVE questions are compulsory and MUST be attempted

- 1 Alexis Pambos is a self-employed businessman and his wife, Maria, is a housewife. In March 2013, the Inland Revenue demanded that Alexis and his wife submit within one month, their business and personal assets and liabilities for the period 1 January 2007 to 31 December 2012.

In order to respond on time and properly to the demands of the Inland Revenue, Alexis and Maria have sought your assistance. They have provided you with the following information:

		Assets as at 1 January 2007 €	Assets as at 31 December 2012 €
Bank deposit accounts with local banks	Note 1	150.000	200.000
Bank deposit accounts with foreign banks	2	200.000	100.000
Immovable property	3, 7 & 8	50.000	1.000.000
Motor vehicle	4	50.000	50.000
Trade debtors	5	110.000	50.000
Investments	6	150.000	200.000

Notes:

- The local bank deposit accounts balance includes net interest credited as follows:
 - for the period 1 January 2007 to 30 August 2011 €18.000;
 - for the period 31 August 2011 to 31 December 2012 €8.500.
- The foreign bank deposit accounts balance includes net interest credited as follows:
 - for the period 1 January 2007 to 30 August 2011 €30.000 (tax deducted at source €5.000);
 - for the period 31 August 2011 to 31 December 2012 €3.000 (tax deducted at source €1.000).
- On 1 January 2012, Alexis acquired plot of land no 4 jointly with his two brothers for €510.000. In order to finance the purchase of the plot, Alexis and his two brothers obtained a joint loan from a local bank for €300.000, repayable by monthly instalments of €3.000. The market value of the plot as at 31 December 2012 was €300.000

On 1 October 2012, Alexis sold plot of land no 5 for €200.000, which he had acquired in October 2003 for €50.000. After paying the capital gains tax on the sale, which amounted to €20.000, the net proceeds of €180.000 were deposited in the brothers' joint bank loan account. As at 31 December 2012, the loan account balance was €210.000.
- During 2010 Alexis acquired a new motor vehicle by trading in his old car for €20.000 and making an additional payment of €50.000.
- Trade debtors were as follows:

	1 January 2007 €	31 December 2012 €
Trade debtors	150.000	75.000
Less:		
General provision for bad debts	(15.000)	(10.000)
Specific provision for bad debts	(25.000)	(15.000)
	<u>110.000</u>	<u>50.000</u>

- During 2005 Maria inherited, from her father, 50,000 shares in a listed company when the market value was €3 per share. During 2011 she acquired a further 50,000 shares in the company at €1 per share, paying total broker and stock exchange fees of €1.000. The market value of the shares as at 31 December 2012 was €2.
- In January 2008, Alexis and Maria acquired their main residence for €500.000, paying transfer fees of €40.000. During 2009 they carried out renovations costing €100.000. The annual immovable property tax charge on the residence is €1.000 per year. Maria paid the immovable property tax for the years 2008 and

2009, but for the years 2010 and 2011 the immovable property tax was paid by Alexis's father. The 2012 immovable property tax is still due. The market value of the residence as at 31 December 2012 was €600.000

8. In January 2011 Maria acquired a shop for €250.000 (value of land €50.000). Since January 2011, the shop has been rented out to the Yellow Pride Café for a monthly rent of €3.000. The special contribution for the defence tax on rents for both 2011 and 2012 was paid on the due dates. The self-assessed income tax for the year 2011 was also paid on the due date and for the tax year 2012, Maria paid provisional income tax amounting to €5.000. The rental income was Maria's only income for the year 2011. The market value of the shop as at 31 December 2012 was €300.000.
9. For the period under examination:
- (i) The couple's living expenses were agreed with the Inland Revenue at €240.000.
 - (ii) Alexis paid social insurance contributions of €40.000, excluding cohesion fund contributions of €4.000.
 - (iii) Alexis' gross business income was €600.000.
 - (iv) Alexis paid income taxes of €100.000.

Required:

Prepare for Alexis and Maria Pambos a capital statement (or net worth statement) for the period 1 January 2007 to 31 December 2012.

(30 marks)

- 2 Pambourinio Ltd is a Cyprus tax resident company. The company's net profit for the year ended 31 December 2011 was €1.044.000. The following items have been taken into account when calculating this net profit:

	Note	€
Income		
Profit from the revaluation of fixed assets		40.000
Unrealised exchange gain		20.000
Net interest received on a bank deposit account from a Cyprus bank on 31 December 2011		17.000
Gain from the sale of a building which was considered to be a fixed asset		100.000
Gain from the sale of land which was considered to be a business asset		150.000
Profit from a permanent establishment abroad		50.000
Expenses		
Loss on the revaluation of shares		30.000
Depreciation	1	12.000
Provisional corporation tax paid for the year	2	40.000
Loss from the sale of motor vehicles	3	15.000
Legal fees	4	35.000
Bonus paid to employees	5	20.000

Notes:

- Depreciation was calculated on the following assets held by the company at 31 December 2011:
 - Office premises acquired on 1 January 2005 for €300.000, which included €50.000 for the value of the land.
 - Computer hardware acquired during January 2007 for €40.000.
 - Application software acquired during January 2008 for €30.000.
 - A laptop acquired during January 2009 for €5.000. 25% of the use of this laptop is considered to be private use by the company's director.
- The third provisional tax instalment amounting to €20.000 is unpaid.
- The loss from the sale of motor vehicles comprised:
 - €5.000 profit from the sale of a motor van acquired during 2008 for €10.000, for which depreciation up to the date of sale was €6.000, and wear and tear allowances up to the date of sale were €7.500; and
 - €20.000 loss from the sale of a saloon car acquired during 2007 for €40.000.
- Legal fees comprised:
 - legal fees to collect business trade debtors €5.000;
 - legal fees incurred in defending the title to a fixed asset €3.000;
 - legal and other fees in connection with the acquisition of fixed assets €7.000;
 - fees in connection with obtaining a bank loan to finance the purchase of an investment €8.000;
 - fees for the valuation of the property to be used as a security for the bank loan €2.000; and
 - mortgage expenses for the bank loan €10.000.
- 50% of the bonus paid to employees was not declared for social insurance purposes.

Required:

Calculate the corporation tax payable by Pambourinio Ltd for the year ended 31 December 2011 and state by when the balance due will be payable.

Note: You should list all of the items referred to in the question, indicating by the use of '0' any items for which no adjustment is required.

(25 marks)

- 3** Airoza Limited is 100% owned by Karlitos Limited. Both Airoza Limited and Karlitos Limited are Cyprus tax resident companies. Airoza Limited's only asset is its office premises. On 1 June 2012, Airoza Limited disposed of its office premises for €2.000.000. The market value of the office premises on 1 June 2012 was €2.500.000 (€1.500.000 for the value of the building and €1.000.000 for the value of land).

The office premises had been purchased on 1 October 2000 for €500.000, when the value of the land was agreed to be one-fifth of the total purchase price. Land transfer fees of €25.000 and legal fees of €30.000 were paid on the purchase. The purchase was fully financed by a bank loan, the cumulative interest paid on this loan was €80.000. Wear and tear allowances claimed on the original building up to the disposal date were €150.000.

The office premises were renovated during January 2005 as follows:

	Cost	Wear and tear allowances claimed
Renovations of capital nature	€300.000	€63.000
Movable office partitions	€50.000	€10.500
Office furniture	€100.000	€21.000

Required:

- Calculate the capital gains tax payable by Airoza Limited resulting from the disposal of its office premises on 1 June 2012.** (8 marks)
- Calculate the balancing statement of Airoza Limited resulting from the disposal of its office premises on 1 June 2012.** (5 marks)
- Calculate the capital gains tax payable by Karlitos Limited if, instead of Airoza Limited selling the office premises, Karlitos Limited sold 100% of the shares in Airoza Ltd on 1 June 2012.** (3 marks)
- Explain why, if Airoza Limited had been owned 100% by an individual instead of by a company, it would have been more tax efficient to have sold the shares rather than the building.** (4 marks)

(20 marks)

- 4 (a) Briefly outline the circumstance in which the following can voluntarily register for value added tax (VAT):**
- domestic traders (actual and intending); and** (4 marks)
 - traders making supplies outside Cyprus.** (5 marks)
- (b) State, giving reasons, whether it would be advisable for each of the following traders to voluntarily register for VAT:**
- Trader A, who provides standard rated services to individuals.**
 - Trader B, who sells goods to individuals and small businesses. Of trader B's sales, 50% are of zero rated goods.**
 - Trader C, who is about to purchase some capital equipment in order to start a manufacturing business. Because of the need to install and test the equipment, trader C does not expect to make his first sale for at least three months.**

Note: The total marks will be split equally between each part. (6 marks)

(15 marks)

- 5 (a)** Andreas became a partner in the XYZ Partnership on 1 January 2013. As a condition of his being admitted to partnership, Andreas was required to pay €50,000 to purchase his share of trading goodwill.

Prior to Andreas becoming a partner, the XYZ Partnership had two partners who shared profits and losses equally. Peter, who had founded the business in 2000, and Paul, who had become a partner in 2005, paying Peter €12,000 for his share of the partnership's trading goodwill at that date.

Required:

Explain the income tax treatment of the €50,000 Andreas paid for trading goodwill for each of the partners: Andreas, Peter and Paul. (5 marks)

- (b) Explain the income tax treatment of the following:**

(i) a trading loss incurred by a partnership; and (3 marks)

(ii) pre-trading expenditure. (2 marks)

(10 marks)

End of Question Paper