

Fundamentals Level – Skills Module

Taxation (Cyprus)

Monday 6 June 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 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 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 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 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%
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				

ALL FIVE questions are compulsory and MUST be attempted

- 1** Mr Yiannis, a Cyprus tax resident individual, has provided you with the following information for the year 2010.

Yiannis had been employed since 2002 by Worldwide Ltd, a Cyprus tax resident company, as group internal auditor based in the Limassol head offices. He was paid on a monthly basis. On 15 September 2010 he was informed that his employment with the company would be terminated on 30 September 2010. The company granted him a compensation for loss of office of €100.000.

Worldwide Ltd furnished him with the following certificate of emoluments (Ir63) for the period 1 January 2010 to 30 September 2010:

	€		€
Gross salary	90.000	Social insurance contributions	3.440
Other allowances (note 1)	9.000	Provident fund contributions	4.500
Total income	<u>99.000</u>	PAYE tax	18.000

Note 1

Other allowances consists of the following:

€500 per month entertainment allowance

€500 per month travelling allowance (50% of which was for business purposes)

On 1 October 2010 Yiannis commenced his own accounting practice in Limassol. His business income for the period 1 October to 31 December 2010 was €46.000 including value added tax (VAT). His business expenses for the period 1 October to 31 December 2010 were as follows:

	€
Office rent	3.000
Seminar fees (including VAT)	1.150
Income tax paid	6.000
Electricity (including VAT)	575
Employee salary (note 2)	6.000
Office furniture (including VAT)	9.200
Office computer hardware (including VAT)	6.900
	<u>32.825</u>

Note 2

On 1 October 2010, Yiannis employed Alina as a secretary, at a gross monthly salary of €2.000. This was Alina's first employment for the year 2010.

Yiannis did not pay either the employer or self-employed social insurance contributions for the year 2010.

Required:

- (a) **Calculate the total social insurance contributions (including the cohesion and holiday funds) payable by Yiannis as employer for the period 1 October to 31 December 2010.** (4 marks)
- (b) (i) **Calculate the income tax payable by Yiannis for the year 2010;** (15 marks)
- (ii) **State, with reasons, the due date for the submission of Yiannis' income tax return for the tax year 2010.** (2 marks)
- (c) (i) **Calculate the value added tax (VAT) payable by Yiannis for the quarter 1 October to 31 December 2010;** (3 marks)
- (ii) **State the due date(s) for the submission of the VAT return and the payment of the VAT for the quarter 1 October to 31 December 2010.** (1 mark)

(25 marks)

- 2 Masharika Ltd is a Cyprus resident company. The company's audited profit and loss account shows a profit before tax of €1.500.000 for the year ended 31 December 2010 after taking into account the following items:

	Note	€
Gross dividends received		20.000
Loss from the sale of computer equipment	1	6.000
Depreciation	1	50.000
Interest received gross	2	9.000
Profit from the disposal of shares	3	250.000
Goodwill paid	4	80.000
Interest expense	5	50.000
Saloon car expenses		3.000

Notes:

- Depreciation has been calculated on the following assets held by the company at 31 December 2010:
 - The Limassol office, which had been acquired on 1 January 2005 for €444.000 including €244.000 for the value of the land.
 - Application software acquired for €40.000 during 2007 and which was upgraded during 2010 at an additional cost of €30.000.
 - During January 2010 the company sold all its computer hardware for €10.000; this computer hardware had been acquired on 1 January 2007 for €40.000. New computer hardware to replace that sold, was acquired in January 2010 for €100.000.
 - A saloon car acquired during 2007 at a cost of €50.000.
- Interest received comprised:

	€
Interest earned from a bank current account (no tax withheld at source)	500
Interest earned from a bank deposit account (€500 tax withheld at source)	5.000
Interest earned from trade debtors (no tax withheld at source)	3.500
	<u>9.000</u>
- During July 2010 Masharika Ltd sold 100% of the shares it held in Hofa Ltd for a total consideration of €500.000 (the amount of €200.000 was agreed to be the value of goodwill). The Hofa Ltd shares had been acquired during 2007 for €250.000 (including €50.000 for the value of goodwill).
- During September 2010 Masharika Ltd acquired 50% of the shares of Zeta Ltd for €200.000 (including €80.000 for the value of goodwill).
- The average borrowing cost applicable is 5%.

Required:

- Calculate the taxable profit of Masharika Ltd for the year 2010.** (15 marks)
- List the FOUR requirements to be satisfied before a capital allowance is granted in respect of an item of expenditure;** (2 marks)
 - Briefly describe the application of the renewals method;** (3 marks)
 - State the circumstances in which a balancing statement needs to be prepared.** (4 marks)
- For the purposes of value added tax (VAT) define the term 'taxable supply';** (2 marks)
 - List ANY FOUR categories of supplies that are considered to be outside the scope of VAT because they are classed as neither a supply of goods nor a supply of services.** (4 marks)

(30 marks)

- 3** In 1975 Ms Adelina constructed a house at a cost of €30.000 on a plot of land in Limassol with an area of 6,000 square metres which she had purchased for €12.000. The market value of the house as at 1 January 1980 was €60.000, including €20.000 for the value of land.

During October 2002 Ms Adelina carried out major renovations amounting to €150.000, €100.000 of which were of a capital nature. In May 2005 Ms Adelina borrowed €50.000 from the bank to construct a swimming pool. She has not paid any instalments on the loan and the balance outstanding as at 12 April 2009 was €80.000. Ms Adelina has always used the house as her main residential dwelling.

On 12 April 2009 Ms Adelina sold the house including the land for €1.000.000. She paid 3% commission on the sale to an approved estate agent. Ms Adelina has provided an independent valuer certificate to the Inland Revenue for the value of the land as at 12 April 2009 of €600.000. The Inland Revenue Department has accepted this valuation.

Ms Adelina used the house as her main residential dwelling continuously up to the date of sale. She has not previously claimed any life-time exemption.

Required:

- (a) Calculate the capital gains tax payable by Ms Adelina as a result of the disposal of her residential dwelling.**
(17 marks)

- (b) Calculate the interest payable by Ms Adelina if the declaration of the disposal was effected and the tax payable (as calculated in part (a)) was paid on 12 April 2010.**
(3 marks)

(20 marks)

4 Pharos Ltd, a Cyprus tax resident company, has the following shareholders:

	% holding
Ms Olga, a Cyprus tax resident individual	20
Ms Tatiana, a non Cyprus tax resident individual	15
Natali Ltd, a Cyprus tax resident company	35
Katia Ltd, a non Cyprus tax resident company	30
	<hr/> 100 <hr/>

Pharos Ltd's profit and loss account for the year 2008 showed the following:

	Notes	€
Income	1	800.000
Less		
Depreciation	2	(50.000)
Finance expenses		(25.000)
Unrealised loss on revaluation of shares		(100.000)
Administration expenses		(125.000)
		<hr/>
Profit before tax		500.000
Taxation charge	3	(100.000)
		<hr/>
Profit after tax		400.000

Notes

1. Income includes bank deposit interest income of €45.000 (net of withholding tax of €4.500) and a profit from the sale of land amounting to €400.000.
2. The depreciation charge for the year includes additional depreciation due to asset revaluations of €20.000.
3. The taxation charge comprises:

	€
Provisional corporation tax paid	60.000
Capital gains tax paid	40.000
	<hr/> 100.000 <hr/>

Additional information:

1. Pharos Ltd's taxable profit for the year 2008 was €500.000.
2. The dividend payments made for the years 2008 and 2009 were:
November 2008 an Interim dividend of €100.000, paid out of the profits of the year 2008.
July 2009 a final dividend of €150.000, paid out of the profits of the year 2008.
No dividends were paid during the year 2010.

Required:

- (a) **State, with reasons, whether or not dividends payable by Pharos Ltd to its shareholders will or will not be subject to the special defence contribution (SDC).** (4 marks)
- (b) **Calculate the SDC payable by Pharos Ltd for each of the years 2008, 2009 and 2010 (if any) stating the due payment date in each case.** (11 marks)

(15 marks)

- 5 (a) Briefly describe the different sources of the Cyprus tax law. (7 marks)
- (b) Explain the nature and function of the tax circulars issued by the Cyprus tax authorities. (3 marks)
- (10 marks)**

End of Question Paper