

Examiner's report

F6 (CHN) Taxation December 2015

General Comments

There were two sections to the examination paper and all of the questions were compulsory. Section A consisted of 15 multiple choice questions (two marks each) which covered a broad range of syllabus topics. Section B had four questions worth 10 marks each and two longer questions worth 15 marks, each testing the candidates' understanding and application of Cyprus Taxation in more depth. The following paragraphs report on each section and focus on some of the key learning points.

Specific Comments

Section A

It was very pleasing to see that almost all candidates attempted all of the Section A questions. Candidates preparing for the next examination of F6 (CYP) are advised to work through specimen questions and sample questions discussed here and to carefully review how each of the correct answers were derived. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F6 (CYP) syllabus, rather than attempting to question spot. The following two questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected.

Sample Questions for Discussion

Example 1

Domus Ltd, a Cyprus tax resident company, received interest from a foreign deposit account of €12,500 on 31 December 2014. The interest was received net of foreign tax of 20%.

What is the special defence contribution (SDC) payable on the interest received by Domus Ltd?

- A €1,250
- B €4,688
- C €3,750
- D €1,563

This question tested the candidates' ability to calculate special defence contribution on foreign interest of a Cyprus tax resident company. Candidates must be able to gross-up the net foreign interest given. Moreover, candidates must be able to identify correctly the available foreign tax credit claim.

The correct answer was D.

Example 2

On 1 January 2014, Spectra Ltd owned 100% of the shares in E Ltd and 80% of the shares in G Ltd. On 1 January 2014, G Ltd owned 75% of the shares in D Ltd. On 30 April 2014, Spectra Ltd acquired 100% of the shares in F Ltd. All the companies are tax resident in Cyprus except for E Ltd which is tax resident outside Cyprus.

To which companies could G Ltd surrender a trading loss which it incurred in 2014?

- A Spectra Ltd only
- B Spectra Ltd and D Ltd only
- C Spectra Ltd, D Ltd and E Ltd
- D Spectra Ltd, D Ltd and F Ltd

This question tested the areas of tax groups, and the group loss relief claims. Tax groups and the group loss relief claims are important parts of the syllabus and require candidates to have the necessary technical knowledge. Candidates are expected to know the relevant criteria which must be met in order to be able to claim a group loss relief.

The correct answer was B.

Section B

Question One

This 10-mark question covered the topic of partnerships.

Part (a) for 3 marks required candidates to explain the difference between the tax treatment of the interest paid on a partner's contributed capital and the tax treatment of the interest paid on a business bank overdraft. Candidates' performance on this question was unsatisfactory. Many candidates were not able to confidently identify that interest paid on a partner's contributed capital is not a tax deductible expense as it is regarded as a method of appropriation of profits for tax purposes. Moreover, some candidates wrongly explained the tax treatment of the interest income of the bank, rather than the tax treatment of the interest paid on a business bank overdraft.

Part (b) for 7 marks required candidates to calculate the amount of each of Christos, Petros and Androula's share of the tax adjusted profit of the business for the period ended 31 December 2014. Candidates performed well on this question.

Some candidates failed to score marks because they made the following mistakes:

- Treating partners' salaries as deductible expenses rather than treating them as an appropriation of profits.
- Treating partners' interest on capital as deductible expenses rather than treating them as an appropriation of profits.
- Treating partner's rent as deductible expense rather than treating it as an appropriation of profits.
- Ignoring the existence of the partnership agreement, and its effect on the allocation of the taxable profit between the partners

Question Two

This 10-mark question covered the topic of special defence contribution (SDC). Performance on this question was mixed.

Part (a) for 2 marks required candidates to explain the SDC tax treatment of the dividends paid by a Cyprus tax resident company to another Cyprus tax resident company. Candidates did not perform well on this question, as many ignored the 'four years rule'. Moreover many candidates wrongly explained the 'deemed dividends tax treatment'. This was not what the question required and hence did not score any marks.

Part (b) for 2 marks required candidates to explain the SDC tax treatment of the dividends paid by a non-Cyprus tax resident company to a Cyprus tax resident company. Candidates' performance was satisfactory on this question.

Part (c) for 6 marks required candidates to calculate Dedalus Ltd's SDC payable for the year ended 31 December 2014. Candidates' performance was also satisfactory on this question. Where candidates did not tend to score well, this was because they confused the treatment of dividend income of a Cyprus tax resident company with the treatment of dividend income of a Cyprus tax resident individual.

Question Three

This 10-mark question covered the topics of capital gains tax calculation and assessment.



Part (a) for 9 marks required candidates to calculate Mr Paris' chargeable gain. This part of the question was answered well by the majority of candidates.

Many candidates were able to calculate the chargeable gain correctly and even scored full marks. Where candidates did not score enough marks to pass, because they made the following mistakes:

- Failing to use the general lifetime exemption.
- Claiming the principal dwelling house lifetime exemption.
- Failing to claim the indexation allowance properly.
- Claiming the immovable property tax paid in the past as a deduction.

Part (b) for 1 mark required candidates to state by when Mr Paris' CGT liability should be paid. Candidates' performance was also satisfactory on this question.

Question Four

This 10-mark question covered the topics of intra-community trade for value added tax (VAT) and the calculation of value added tax payable/(refundable). Performance on this question was mixed.

Part (a) for 3 marks required a description of the VAT treatment of the intra-community supplies of goods made from Cyprus to a taxable person registered in another EU member state. Performance on this part of the question was mixed.

Many candidates were able to correctly identify the VAT treatment of the intra-community dispatches of goods made from Cyprus to a taxable person registered in another EU member state. However many candidates wrongly explained VAT treatment of the intra-community acquisitions of goods made in Cyprus from a taxable person registered in another EU member state, rather than answering the question actually set.

Part (b) for 7 marks required a calculation of the VAT payable/(refundable) by Armadillos Ltd for the quarter ended 30 June 2014. Performance on this question was satisfactory. This question was answered well by most candidates, and many scored full marks. Where candidates did not score as well, this was mainly due to a failure to distinguish between VAT output and VAT input. Moreover some candidates wrongly applied the reverse charge on the supply of accounting services received from an accountant based in Cyprus.

Question Five

This 15-mark question was based on Armageddon Ltd, a Cyprus tax resident company. This question tested the area of corporation tax.

Part (a) for 2 marks required an explanation of the corporate income tax treatment of the Bithania branch's profits.

This part of the question was answered very well and candidates were able to confidently identify the tax treatment of corporate profits from a foreign permanent establishment. However, some candidates did not always adequately explain the non-exemption rule criteria. In addition the requirement for tax treatment of the Bithania branch's **profits** was overlooked by many candidates, as, rather than explaining the profits treatment, they instead focused on **losses** implications. This was not what the question required and hence did not score any marks. Candidates must answer the question set rather than the one they wish had been.

Part (b) for 13 marks required candidates to calculate Armageddon Ltd's corporation tax payable for the year ended 31 December 2014. Performance on this question was satisfactory.

This part of the question was answered very well and candidates were able to confidently calculate the company's taxable income and tax payable. Satisfactory answers were prepared by many candidates, demonstrating sound knowledge of the various adjustments to be performed to calculate the taxable income of Armageddon Ltd. The calculation involved adjusting for disallowed costs, a detailed capital allowances computation, and the ability to calculate a corporation tax liability. However, some candidates did not know the relevant pro-forma layout.

Question Six

This 15-mark question was based on Christopher and his wife Elena. The question tested the areas of income tax for two individuals, including the computation of taxable income.

Part (a) for 9 marks required a calculation of the income tax payable by Christopher for the year 2014. Performance on this question was mixed.

Many candidates were able to display a good understanding of how to calculate income tax payable for an individual self-employed person. The most common mistakes made by some candidates were:

- Failing to identify which expenses were not tax deductible.
- Claiming the personal allowances despite that the question states clearly that candidates must ignore the effect of personal allowances.
- Failing to claim the capital allowances properly.

Part (b) for 3 marks required candidates to calculate Elena's taxable income for the tax year 2014. Performance on this question was satisfactory.

Common mistakes made by candidates in part (b) were:

- Estimating special defence contribution, this is not required and so would not score any marks.
- Claiming the personal allowances despite that the question states clearly that candidates must ignore the effect of personal allowances.

Part (c) for 3 marks required an explanation of how and when Christopher's income tax liability would have been paid. Performance on this question was unsatisfactory.

Many candidates confused terminology and referred to the submission of tax returns and the obligations to keep books and records.