



Examiner's report

F6 (CYP) Taxation

December 2016

General Comments

There were two sections to the examination 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 questions. Candidates preparing for the next examination of F6 (CYP) are advised to work through the 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

Beta Ltd submitted its temporary tax return in respect of the year of assessment (YA) 2015 estimating its temporary income as €15,000 and paid the relevant temporary tax. On submitting its final tax return and accounts, its final chargeable income for YA 2015 was €22,000.

What is the balance of corporation tax payable by Beta Ltd on submission of its final tax return for 2015?

- A €963
- B €2,750
- C €875
- D €919

This question tested the candidates' ability to calculate corporation tax payable. Corporation tax liability is calculated on the gross taxable income of the taxpayer. On the other hand, the final corporation tax payable computation shows how much of the corporation tax liability is still outstanding. Therefore, candidates must be able to deduct the temporary tax paid within the year from the corporation tax liability.

Moreover, candidates must be able to identify correctly whether the additional 10% tax by reason of low temporary assessment will be payable.

The correct answer was A.

Example 2

Pericles works for LM Ltd for an annual salary of €28,000. On 30 September 2015 he received a bonus of €1,000 in respect of LM Ltd's trading results for the year ended 31 December 2014. The directors of LM Ltd also gave Pericles a mobile phone as a gift for his birthday, which had cost €800. LM Ltd pays to Pericles a travelling allowance for travelling from home to work. The total travelling allowance paid to him during 2015 was €550.

What is Pericles's net income for the tax year 2015?

- A €29,000
- B €30,350
- C €29,550
- D €28,550

This question tested the areas of income tax of an employee, the benefits in kind and the treatment of allowances paid to an employee. Employment income is an important area of the syllabus, and candidates are expected to know how to estimate taxable employment income. Moreover candidates are expected to know that personal gifts are not treated as benefits in kind, and therefore are not regarded as a taxable income.

The correct answer was C.

Section B

Question One

This 10-mark question covered the topics of self-employment and the calculation of the relevant taxable income.

Part (a) for 2 marks required candidates to list four criteria that should be considered when deciding whether Christos is employed or self-employed in respect of his work for Green Building Ltd. Candidates' performance was satisfactory on this question. Many candidates were able to confidently identify more factors than the required four.

The requirement was to list and not to describe or explain. However, many candidates instead of listing the relevant criteria, they had fully explained them. This was not what the question required and hence wasted time and did not score any extra marks.

Part (b) for 8 marks required candidates to calculate Christos' taxable income for 2015, by assuming that Christos is treated as self-employed. Candidates' performance was satisfactory on this question. It was answered well by most candidates who displayed a good understanding of how to calculate taxable income for a self-employed individual. A common mistake was not applying the maximum limit on the annual insurable income of employees.

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

- Restricting capital allowances and expenses rather than the personal allowances.
- Treating capital allowances as personal allowances.
- Failing to recognise that saloon car expenses are not tax deductible expenses.
- Deducting the cost of acquisition of non-current assets from taxable income.

In addition a significant minority of candidates did not read the question carefully, and instead of calculating the taxable income of a self-employed individual, calculated the taxable income of an employee.

Question Two

This 10 mark question covered the topics of the calculation of value added tax payable and the voluntary correction of errors. Candidates' performance was satisfactory on this question.

Part (a) for 6 marks required candidates to calculate the amount of value added tax (VAT) payable by Beaten Ltd for the quarter ended 30 June 2015. Candidates' performance was satisfactory on this question. Many candidates were able to confidently calculate both output and input tax in a timely way, and some scored full marks.

Where candidates did not score enough marks to pass, this tended to be because some candidates wrongly applied the effect of discounted supplies, or because they wrongly applied the input VAT recoverability rules.

Part (b) for 4 marks required candidates to explain the circumstances in which a VAT registered trader can make a voluntary correction of an error discovered in regard to a previous VAT return, and the possible tax benefits of doing so. Candidates' performance was mixed on this question. Many candidates were aware of the conditions that must be satisfied. In addition many candidates were able to correctly state the benefits of doing a voluntary correction of error. Where candidates did not tend to score well this was because they did not refer to the relevant criteria.

Question Three

This 10-mark question covered the topic of capital gains tax.

Part (a) for 5 marks required candidates to calculate the capital gains tax payable by Skynet Holdings Ltd in respect of the sale of the shares in Tremendous Ltd. Performance on this question was mixed.

Most were able to identify that a sale of a shareholding held in a private company, which owns properties that are situated in Cyprus, is subject to capital gains tax in Cyprus. Where candidates did not tend to score well, this was because they ignored that the immovable property situated in Ackland is not subject to capital gains tax in Cyprus. Or due to a failure to estimate the chargeable gain and use instead the accounting profit on disposal of the shares. Moreover, some candidates deducted the capital loss from the capital gains tax liability, instead of deducting it from the capital gain.

Part (b) for 4 marks required candidates to calculate Marialena's chargeable gain in respect of the sale of the land in Platres village. Candidates scored well on this part of the question, with many obtaining full marks. Where candidates did not tend to score well this was because they misunderstood the question and thought they needed to calculate a chargeable gain for the house in Lemesos too; this was not required. Candidates should use their allotted reading time to read the question requirements carefully prior to writing anything.

Part (c) for 1 mark required candidates to state the circumstances in which a gift of immovable property will NOT be subject to capital gains tax. This part of the question was answered very well and candidates were able to score full marks.

Question Four

This 10-mark question covered the topics of income tax assessments, objections and the calculation of interest and penalties on overdue income tax liability.

Part (ai) for 1 mark required candidates to state the latest date by which the objection should be submitted. Performance on this part of the question was mixed.

Many candidates were able to correctly identify the latest date by which the objection should be submitted. In addition a minority of candidates misunderstood the requirement and instead of stating the due date by which the objection should be submitted, they explained the procedure to be followed for submitting an objection in regards with a capital gains tax assessment.

Part (a ii) for 4 marks required an explanation of the powers and procedures the Tax Department will follow on receiving an objection, and state the relevant deadlines. Performance on this question was unsatisfactory.

Candidates were generally not able to explain the powers and procedures the Tax Department will follow on receiving an objection. Unfortunately, the actual requirement for procedures the Tax Department will follow on receiving an objection was overlooked by many candidates. Many candidates provided the procedures to be followed by the company on receiving a discovery income tax assessment rather than procedures the Tax Department will follow on receiving an objection. Some candidates explained the procedures to be followed by the company on receiving a VAT assessment rather than procedures the Tax Department will follow on receiving

an objection. Fewer candidates were able to fully explain the powers and procedures the Tax Department will follow on receiving an objection, and state the relevant deadlines. Candidates must answer the question set rather than the one they wish had been.

Part (b) for 5 marks required candidates to calculate the interest and penalties payable by Metamorfosis Ltd if the corporation tax return for the tax year 2015 was not submitted nor the outstanding tax paid until 20 June 2017. Performance on this part of the question was mixed. Many candidates correctly identified and calculated the relevant monetary charges, but they failed to identify and estimate the interest on overdue tax liability. In addition some candidates wrongly treated the monetary charges as interest penalties.

Question Five

This 15-mark question was based on Hercules Holdings Ltd.'s group. This question tested the areas of tax group, the group loss relief and the calculation of corporation tax liabilities.

Part (a) for 1 mark required an explanation of the income tax treatment of the bank loan interest paid by Hercules Holdings Ltd (HHL) on the loan used to acquire its subsidiaries.

This part of the question was answered very well and candidates were able to confidently identify that the relevant interest expense is not a tax deductible expense. However, some candidates explained how interest income from a bank shall be treated for income tax purposes. Again, this was not what the question required and hence did not score any marks.

Part (b) for 4 marks required candidates to explain which of the other four companies can potentially be members of HHL's tax group for the year ended 31 December 2015, and which cannot. Performance on this question was satisfactory. It was pleasing that many candidates had demonstrated a good understanding of the relevant criteria. Most candidates were able to provide good clarifications about which companies can potentially be members of HHL's tax group; however some of these recommendations were too brief. In addition some explanations failed to address that the place of incorporation is irrelevant for determining whether a company is a Cyprus tax resident. Tax groups and the group loss relief claims are important parts of the syllabus and candidates are expected to know the relevant criteria which must be met in order to be able to claim a group loss relief.

Part (c) for 10 marks required candidates to calculate the corporation tax liability of each member of the HHL tax group for the year 2015, assuming that any available reliefs are given in the most tax efficient manner. Performance on this part of the question was unsatisfactory. It was pleasing that many candidates set their answer out in four columns being one column for each Cyprus tax resident company. However, those who separately provided a calculation for each company tended to repeat themselves and possibly wasted some time.

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

- Claiming 20% deduction on rental income of a company.
- Treating foreign permanent establishment's profits as a taxable income, despite that the non-exemption rule is not applicable.
- Failing to recognise that a loss recapture must be applied.
- Deducting exempted income from the profit even though the question stated that other income was not included in the trading profit/(loss) given above.

Question Six

This 15-mark question was based on a retired person Mr Thanasis. The question tested the areas of income tax.

Part (a) for 11 marks required candidates to calculate Mr Thanasis' income tax liability for the year 2015. Performance on this question was satisfactory. It was answered well by most candidates who displayed good understanding of how to calculate income tax liability for an individual.

Where candidates did not tend to score well this was because of the following mistakes:

- Claiming saloon car expenses.
- Claiming repairs of a letting property held by an individual.
- Claiming life insurance premium on a cancelled policy.
- Estimating SIC for a retired person

Part (b) for 4 marks required candidates to explain, in detail, when a car benefit arises, and how it should be calculated. Performance on this question was satisfactory.

The requirement verb was to "explain in detail" therefore sufficient detail was required to score the 4 marks available. Candidates are reminded yet again that benefits in kind are a core topic area and they must be able to explain and calculate them. In addition many candidates confused terminology and referred to tax deductible expenses.