

Examiner's report

F6 Taxation (CYP)

June 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. This is the first examiner's report since the introduction of the new exam format and question types. 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 question is 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 question selected.

Sample Questions for Discussion

Example 1

With reference to Cyprus tax, which of the following items do NOT have the force of law?

- (1) Internal tax manuals used by Department of Taxation staff
- (2) Interpretation by the courts (case law)
- (3) Tax circulars issued by the Department of Taxation
- (4) The laws enacted by the House of Representatives

- A 1 only
- B 1 and 3
- C 3 and 4
- D 1 and 2

This question tested the topic of the various sources of Cyprus tax law. Option (1) Internal tax manuals used by Department of Taxation staff have no force of law. Additionally, option (3) Tax circulars issued by the Department of Taxation have no force of law. On the other hand, option (2) Interpretation by the courts (case law) and option (4) The laws enacted by the House of Representatives do have the force of law.

The correct answer was therefore B, options 1 and 3.

Example 2

Argaka Ltd deducted the following items in arriving at its net profit for the year ended 31 December 2014:

Gifts of trade samples to customers	€850
Gifts of pens to customers – one pen per customer at a cost of €4.50 each, bearing the company's logo	€4,500

What is the amount which is allowable when calculating Argaka Ltd's tax adjusted profits for the year 2014?

- A €0
- B €850
- C €4,500
- D €5,350

This question tested the areas of tax adjustments on profits, and the tax deductibility of expenses. The trade samples are regarded as a business expense and are therefore allowable. As the pens bear the company's logo, they are also allowable for tax purposes.

As both expenses were tax deductible the correct answer was D.

Section B**Question One**

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

Part (a) for 8 marks required candidates to calculate Mr Pavlos' capital gains tax (CGT) liability on the disposal of his house on 1 January 2014. Candidates' performance was satisfactory on this question. Where candidates did not perform well, this was frequently because they made the following mistakes:

- Failing to use the principal dwelling house lifetime exemption.
- Failing to use the capital loss brought forward.
- Claiming the immovable property tax paid in the past as a deduction.

Part (b) for 2 marks required candidates to state how and by when Mr Pavlos' CGT liability should be paid. Candidates' performance was also satisfactory on this question.

Question Two

This 10-mark question covered the topics of registration for value added tax (VAT) and the input tax recoverability rules. Performance on this question was mixed.

Part (a) for 6 marks required candidates to determine the date from which Mrs Roulla will be required to compulsorily register for value added tax (VAT) and state the action she must take in order to register and the deadlines for doing so. This part of the question was answered well by the majority of candidates.

As in previous diets, a number of candidates tended to only state the historic test or even the future test but failed to apply the historic test. To gain the remaining marks candidates needed to estimate the cumulative taxable supplies to determine when the registration limit was breached, and then state the action to be taken by Mrs Roulla in order to register and the relevant deadline for doing so.

Many candidates presented their answers well as they adopted a columnar approach to estimate the cumulative taxable supplies at the end of each month.

Part (b) for 4 marks required candidates to explain the conditions which must be met for input VAT to be deductible in the case of an ongoing business, and candidates performed well on this part of the question. Where candidates did not perform well, this was because they discussed the issue of pre-registration VAT, although it was stated clearly that were not required to do so.

Question Three

This 10-mark question required the preparation of a capital statement (or net worth statement) for Andreas and Androula Markou for the period from 1 January 2009 to 31 December 2014.

This question was answered well by the vast majority of candidates.

Where candidates did not tend to score well, this was because they confused the capital statement with the calculation of the tax adjusted profits.

Question Four

This 10-mark question covered the area of collection and assessment law.

Part (a) for 3 marks required candidates to explain the obligations of a self-employed individual, whose total turnover exceeds the annual amount of €70,000, to keep books and records under the collection and assessment law. Performance on this part of the question was satisfactory.

Many candidates were able to correctly identify the obligations of a self-employed individual to keep books and records; however it was common to see answers where candidates provided a description of the obligations to file tax returns and make self-assessment payments. The requirement was to explain the obligations to keep books and records and not to explain the obligation of filing tax returns and make self-assessment payments. Candidates are reminded of the importance of careful reading of the question requirements.

Part (b) for 3 marks required candidates to state the due date of submission of Mr Marios' income tax return for the year 2010 in part (i) and to calculate the interest payable to Mr Marios by the Department of Taxation on the tax refunded in part (ii). Performance on this question was mixed.

Candidates were generally able to identify the due date of submission of an employee's tax return. Fewer candidates were able to calculate the interest payable on the tax refunded.



Part (c) for 4 marks required candidates to calculate the interest and/or monetary charges payable by ABC Ltd in respect of the tax year 2012.

Unfortunately, the note telling candidates to ignore the 5% additional tax was overlooked by many candidates who then wasted time on a calculation for which there were no marks available..

Question Five

This 15-mark question was based on Sky Blue Ltd, a Cyprus tax resident company. This question tested the candidates' knowledge in calculating the corporate income tax payable.

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 Sky Blue Ltd. The calculation involved adjusting for disallowed costs, a detailed capital allowances computation, and the ability to calculate a corporation tax liability.

Candidates were particularly confident in calculating capital allowances correctly. However, some candidates did not always adequately adjust for disallowed expenses due to a lack of knowledge about which expenses are specifically not allowed. The layout of some candidates' answers was also less than satisfactory.

Question Six

This 15-mark question was based on Danny Georgiou, an advertising consultant, and his wife, Artemis Georgiou. The question tested the areas of income tax and special defence contributions for two individuals, including the computation of taxable income.

Part (a) for 7 marks required a calculation of the income tax payable by Danny Georgiou for the year 2014. Performance on this question was satisfactory.

Many candidates were able to display a good understanding of how to calculate income tax payable for a self-employed person. However, a common mistake involving incorrect identification of which expenses were not deductible.

Part (b) for 5 marks required candidates to calculate the income tax payable by Artemis Georgiou for the year 2014. This question was answered well by most candidates who displayed a good understanding of how to calculate income tax payable for an individual receiving only rental income, dividends and interest. The scenario was provided so that candidates could apply their knowledge with regards to the calculation of the taxable rental income; however it seems that many candidates did not identify all of the three allowed deductions. Moreover many candidates wrongly treated the profit on the disposal of land as a taxable income. Another common mistake was not applying the maximum limit on the annual insurable income of employees.

Part (c) for 3 marks required candidates to calculate the special contribution for the defence (SDC) payable by Artemis Georgiou for the year 2014. Candidates demonstrated that they knew how to apply the correct rate of special defence contribution, but they failed to identify when the special defence contribution was deducted at source.