

Examiner's report

F6 (CYP) Taxation

June 2017

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 the 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 pilot paper 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 question for discussion

Example 1

Which of the following define the term "resident in the Republic" when applied to a company?

- (1) Where the board meetings of the company are held
- (2) Where the company's registered office is situated
- (3) Where the majority of the directors reside
- (4) Where the general policy of the company is formulated

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

This question tested the definition of the term "resident in the Republic" when applied to a company. This term is likely to be used on a daily basis by the majority of candidates who work in the private sector and it is the backbone of Cyprus taxation. Candidates were expected to be able to select the correct answer without a struggle, but it was disappointing to see that it was one of the most poorly answered questions in Section A.

In general the term "resident in the Republic" is confirmed by testing where the company's management and control is situated in Cyprus.

The first statement indicates that the directors of the company must have their board meetings in Cyprus which is one of the elements of the definition.

The second statement is the location of the registered office of a company. A Cyprus registered company must have a registered office in Cyprus but this does not necessarily indicate that the company is managed and controlled in Cyprus. Therefore this statement is not relevant to the management and control of a company.

The third statement is where the majority of the directors reside. If the majority of the directors reside in Cyprus, this expresses a strong indication that the company is managed and controlled from Cyprus.

The fourth statement is where the general policy of the company is formulated. If the first and second statements are met, then it is implied that the general policy of the company is formulated in Cyprus. If the first and second statements are not met, then the management of the company must prove that the general policy of the company is formulated in Cyprus.

The correct answer was C, statements 1, 3 and 4.

Section B

Question One

This 10-mark question examined the topic of value added tax (VAT).

Part (a) for seven marks required candidates to calculate the amount of VAT payable by a company. Many candidates were able to answer this question very well and some even scored full marks.

Where candidates did not score enough marks to pass, this was because they did not understand in full the theory of VAT. This was a basic question which offered easy marks to the candidates.

Part (b) for three marks required candidates to identify how the company should disclose VAT errors. The candidates were expected to write both the voluntarily and mandatory ways of disclosing the errors in the VAT returns. Candidates' performance was satisfactory on this question.

Question Two

This 10-mark question required candidates to calculate the adjusted taxable income tax payable by an individual. This was a straightforward and basic question. Performance on this question was satisfactory.

Candidates were expected to identify the expenses that needed to be adjusted and the tax deductible contributions.

Common mistakes made by candidates were:

- The majority of the candidates correctly identified a capital expenditure which was included as a repair, but failed to apply the relevant wear and tear allowance.
- Some candidates did not calculate the social insurance contributions.

Question Three

This 10-mark question required candidates to calculate the capital gains tax payable as a result of an exchange of immovable property with shares in a private limited company, and state the due dates for the submission of the declaration and payment of the tax due.

Part (a) for eight marks required candidates to calculate the capital gains tax. This part of the question was answered well by the majority of candidates.

Most were able to calculate the indexed value of the land and factory and identify that there was no reinvested profit arising from the exchange. The question also provided the value of the shares of the private company which was correctly omitted by the majority of candidates as it was not relevant to the calculation of the capital gains tax.

Part (b) for two marks required candidates to state the due date for the submission of the declaration and payment of the tax due. Most candidates scored full marks.

Question Four

This 10-mark question required candidates to calculate the special defence contribution payable by a Cyprus tax resident company and to explain the concept of double tax relief. The company had dividend and interest income. Candidates should have explained the treatment of the dividend income from the overseas company only.

Part (a) for five marks required a calculation of the special defence contribution payable by a Cyprus tax resident company and to explain the treatment of the dividend income from an overseas company only.

Most candidates scored well in this question but there were many who failed to read the requirements of the question correctly as they explained the treatment for all items instead for just the overseas dividend income. This caused candidates to spend time explaining the treatment for each item but did not receive any extra marks.

Part (b) for five marks required candidates to explain the concept of double tax relief. This question was the least answered in the paper.

The requirement gave candidates the chance to score good marks but unfortunately the majority of the candidates answered this question poorly whilst some candidates did not attempt the question at all.

Common mistakes that candidates did were:

- Not explaining that the double tax relief is provided irrespective of the existence of a double tax treaty;
- Confusing the concept with group relief; and
- Not providing the limitations on the relief.

Question Five

This 15-mark question was a basic tax computation for a Cyprus tax resident company.

Candidates were expected to identify the expenses which were not allowable for tax purposes, the non-taxable income and to make the relevant adjustments.

This question was answered very well and candidates were able to identify the adjustments needed to the tax computation. However, some candidates chose an unorthodox way of presenting the computation rather than the classic three-column presentation. The majority of the candidates identified by the use of a zero all items which were not taxable/deductible as per the requirements of the question.

This may have caused candidates to omit some adjustments to the computation as they were not clearly presented.

A large number of candidates seemed to add back the temporary (provisional) tax paid. This treatment is not correct as the temporary (provisional) tax paid is not an expense but a prepayment made to the tax department until the actual tax is calculated. This did not impact the marks given to the candidates but they made an additional calculation which was not necessary and so wasted time.

Question Six

This 15-mark question required candidates to prepare a capital statement or net worth statement for an individual. This question provided several easy marks to the candidates as some items did not require any adjustments.

Many candidates were able to answer this question very well and presented the capital statement in a professional manner.

Where candidates did not tend to score well it was because they were trying to score easy marks without understanding the principle and the rationale of the capital statement as they were just copying the items from the question.

Candidates who scored well identified the expenditure which was not related to the capital statement such as the payments made by the grandfather.