

Examiner's report

F6 Taxation (CYP)

December 2012



General Comments

It was pleasing to see that many candidates had prepared well for the examination. There was little evidence of time pressure - where part questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or having spent too long on other questions.

I would like to take this opportunity to remind candidates that they need to:

- Write clearly
- Plan the layout and organisation of the answers
- Start new questions on a fresh page
- Show full workings, clearly presented and labelled so as to be easy to follow
- Study the whole syllabus so as to be able to attempt answers to all questions
- Read the questions and requirements carefully so as to provide relevant and accurate answers
- Be guided by the marks allocated to each part so as to provide the appropriate level of detail
- Allocate their time to each question based upon the marks available

Candidates planning to continue their taxation studies at P6 level should be aware that a full and detailed understanding of the whole of the F6 syllabus is assumed at P6. P6 exam questions cannot be answered satisfactorily without the fundamental knowledge learned at F6.

Specific comments

Question One

Part (a) asked candidates to calculate the taxable income of Mr Constantinos for the year 2011, and was answered well by most candidates who displayed good understanding of how to calculate taxable income for an individual employee. A common mistake was not applying the maximum limit on the annual insurable income of employees.

Part (b), which required candidates to calculate the special defence contribution payable and state the due payment date for each type of income, was also answered very well. Candidates demonstrated that they knew how and when to gross up income and to apply the correct rates of special defence contribution. A number of candidates were confused about the due payment dates. A few candidates knew the correct rate with which the interest from government bonds is taxed for special defence contribution.

Question Two

Part (a) required candidates to determine the group relief available to Ntegra Ltd for each of the years 2010 and 2011 and, if none was available, to state why. This part was well answered by candidates who knew the basic conditions for group relief.

In part (b) Ntegra's taxable income needed to be calculated for each of the years 2010 and 2011. Very good answers were prepared by many candidates, demonstrating sound knowledge of the various adjustments to be performed to calculate the taxable income of Ntegra Ltd. Candidates were particularly confident in calculating capital allowances correctly.

In part (c), which asked candidates to calculate the capital gains tax payable by Ntegra for the year 2011, a few candidates recognised that the proceeds of €700,000 should be taken into account in the computation capital gains tax, since land was the only asset of D Ltd (whose shares were sold), and remembered to apportion the



cost of acquisition of the land down to the 45% holding of the shares sold. A number of candidates incorrectly deducted the general lifetime exemption from the capital gain - this is available to individuals, not companies.

In parts (d) and (e), candidates needed to define the term 'resident in the Republic' when applied to a company, and to list the factors used when determining whether or not a company is resident in Cyprus. Most candidates produced excellent answers to both parts.

Question Three

This question tested candidates' knowledge of the calculation of capital gains tax liabilities for an individual, and the due date for payment, and was answered very well. Candidates displayed a good understanding of the calculation of capital gains tax and correctly claimed relief for the loss arising from the first disposal against the gain of the subsequent disposal.

A common mistake was to deduct the cost of levelling the land in September 1992 which was included within the valuation carried out three months later, in December 1992. A small number of candidates tried to calculate the gain on both disposals in a single computation, which cannot be done: each disposal of immovable property is taxed separately, so each gain or loss must be computed separately.

Question Four

The practical parts (a) and (b) asked candidates to determine from what date Michalis will be required to compulsorily register for value added tax (VAT), by when he must notify his obligation to register to the authorities and from when his registration will be effective. These were answered well as most candidates determined the date for compulsory registration according to the registration threshold of €15,600, remembering to exclude the proceeds from the sale of machinery and the rental income.

Candidates found the theoretical parts (c) and (d), which requested definitions of the terms 'business' and 'open market value' in the context of VAT law, challenging. This highlights the importance of studying the whole syllabus, and being prepared to answer written questions as well as computational ones.

Question Five

In part (a) the majority of candidates performed very well and listed the ten criteria which are used to determine whether an isolated transaction should be treated as a trading nature transaction or a capital nature transaction.

It was not necessary to provide explanations on this occasion; candidates could have used the time spent giving explanations more effectively elsewhere.

A few candidates produced excellent answers to part (b) and some knew part of the answer, but most found this part difficult due because they did not know when form IR623 need not be submitted in respect of a deemed distribution of dividends.