
Answers

		Marks
1	Ms Yana	
(a)	Special contribution for the defence (SDC)	
(i)	Year 2009	
	Ms Yana was not a Cyprus tax resident in 2009 and as such she is not subject to SDC in that year.	1
	Further, the SDC amounting to €100 which was deducted from the bank interest income earned from her Cyprus bank account during 2009 is refundable.	<u>1</u>
		2
(ii)	Year 2010	
	€	
	Rent from Limassol Apartment	
	SDC payable	
	€1.000 x 9 months x 75% x 3%	203 1
	Rent from Athens flat	
	€22.000 x 75% x 3% = €495	0.5
	Less tax paid in Greece, restricted to €495	0.5
	SDC payable	0
	Interest from Cyprus bank account	
	€1.350/0.9 x 10% = €150	0.5
	Less tax deducted at source €150	0.5
	SDC payable	0
	Interest received from Athens bank account	
	€4.000 x 10% = €400	0.5
	Less tax deducted at source €400	0.5
	SDC payable	<u>0</u>
		203
	Payment of SDC on rents is made by self-assessment twice a year on 30 June and 31 December respectively.	1
	Ms Yana will thus pay €68 on 30 June 2010 and €135 on 31 December 2010.	<u>1</u>
		6
(b)	Social insurance contributions for 2010	
	€	
	Mandria Ltd, as employer:	
	Social insurance contributions (maximum €50.592 x 6.8%)	3.440 0.5
	Redundancy fund contributions (maximum €50.592 x 1.2%)	607 0.5
	Human resource development authority contributions (maximum €50.592 x 0.5%)	253 0.5
	Central holiday fund (not applicable)	0 0.5
	Social cohesion fund contributions (€100.000 x 2%)	<u>2.000</u> 1
	Total contributions payable by employer	<u>6.300</u> 3
	Ms Yana, as employee:	
	Social insurance contributions payable (maximum €50.592 x 6.8%)	<u>3.440</u> 1

(c) Income tax computation for 2010

Marks

	€	
Income		
Director's fees – Mandria Ltd	100.000	0·5
Director's fees – Kazan Ltd	20.000	1
Limassol apartment – rental income (9 x €1.000)	9.000	0·5
Athens apartment rental income (€20.000 plus €2.000)	22.000	1
Interest income – all exempt	0	1
Total income	<u>151.000</u>	
Deductions:		
Capital allowances:		
Limassol apartment ((€250.000 – €50.000) x 3% x 9/12)	(4.500)	1
Athens apartment ((€400.000 – €50.000) x 3% x 12/12)	(10.500)	1
Deduction on rental income:		
Limassol apartment (€9.000 x 20%)	(1.800)	0·5
Athens apartment (€22.000 x 20%)	(4.400)	0·5
Total deductions	<u>(21.200)</u>	
Net income	129.800	
Allowances:		
Life insurance premiums paid in Cyprus (€2.500 x 9)	(22.500)	0·5
Life insurance premiums paid in Greece (€1.000 x 12)	(12.000)	1
Social insurance contributions (from (b))	(3.440)	0·5
Taxable income	<u>37.940</u>	
Limited to 1/6th of net income (1/6 x 129.800)	<u>21.633</u>	1·5
Taxable income	<u>108.167</u>	
Tax thereon		
€0–€19.500	Nil	–
€19.501–€28.000	20%	1.700
€28.001–€36.300	25%	2.075
€36.301–€108.167	30%	21.560
	<u>25.335</u>	1
Less:		
Tax paid (PAYE)	(20.000)	0·5
Tax withheld in Greece (€2.000 less €495 claimed under SDC (from (a)(ii)))	(1.505)	1
Income tax payable	<u>3.830</u>	
		<u>13</u>
		<u>25</u>

2 Silas Ltd

(a) Corporation tax computation for the year 2010

	€	€	
Profit before tax (per question)		3,000,000	0.5
<i>Add back:</i>			
Depreciation	20,000		0.5
Increase in general provision for impaired debts	25,000		1
Fees for the increase of the share capital	4,000		1
Restriction of interest expense (W3)	30,000		0.5
Impairment of financial assets (shares)	500,000		1
Provisional tax paid	30,000		0.5
Balancing charges on sale of building (W4)	25,600		0.5
		634,600	
		3,634,600	
<i>Deduct:</i>			
Balancing allowance on sale of old equipment (W2)	10,000		0.5
Capital allowances (W1)	15,000		0.5
Dividends received (€50,000 + €25,000)	75,000		1
Profit on disposal of buildings	415,600		0.5
		(515,600)	
Profit subject to corporation tax		3,119,000	
Tax at 10%		311,900	0.5
Less provisional tax paid per question		(30,000)	0.5
		281,900	
Add 10% charge for low provisional tax payment		28,190	1
Tax payable		310,090	
Due date of payment is by 1 August 2011			1
Workings:			
1. Capital allowances:			
		€	
Computer hardware (20% x €60,000)		12,000	1
Office furniture (10% x €30,000)		3,000	1
		15,000	
2. Balancing allowance on sale of old equipment			
		€	
Cost equipment – 2004		50,000	0.5
Capital allowances (6 years x 10% x €50,000)		(30,000)	1
Net tax value		20,000	
Sale proceeds of furniture		(10,000)	0.5
Balancing allowance		10,000	
3. Interest restriction			
Cost of shares:			
		€	
Bank of Cyprus		500,000	
Hellenic Bank		400,000	
		900,000	
Restriction of interest on cost of investments			
€900,000 x 4% = €36,000, restricted to actual interest expense		€30,000	2

4. Balancing charges on sale of building

	Cost 2003	Cost 2004	Total cost	Rate	Years	Capital allowances	Net tax value	Selling price	Excess of selling price over net tax value	
	€	€	€			€	€	€	€	
Land	10.000		10.000				10.000	200.000	0	1
Factory building	70.000		70.000	4%	7	19.600	50.400	100.000	49.600	1·5
Office building	20.000		20.000	3%	7	4.200	15.800)			1
Office building		10.000	10.000	3%	6	1.800	8.200)	200.000	176.000	0·5
	<u>100.000</u>	<u>10.000</u>	<u>110.000</u>			<u>25.600</u>	<u>84.400</u>	<u>500.000</u>	<u>225.600</u>	1

Balancing charges (restricted to allowances received)

	€	
Factory building	19.600	1
Office building (4.200 + 1.800)	6.000	1
	<u>25.600</u>	
		<u>24</u>

(b) (1) Impaired debt items

Debts of a business written off as irrecoverable are an allowable deduction. As the amount written off would have been deducted for tax purposes in previous years, any amounts recovered are taxable in the year of receipt. 1·5

Specific provisions for impaired debts also constitute an allowed deduction, but general provisions of any type are not allowable. 1·5

(2) Legal advisor expenses

Both the annual retainer and the fees for letters sent to trade debtors constitute revenue expenditure incurred in the course of business and in the production of taxable income, and as such are allowable. 2

The fees relating to the increase in share capital are capital in nature and thus not allowable. 1

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3 Anthi Ltd

(a) Balancing statement on the sale of the office building

	€	
Cost	400.000	1
Renovations	200.000	1
Less: Capital allowances		
On cost (€400.000 x 3% for 12 years)	(144.000)	1
On renovations (€200.000 x 3% for eight years)	(48.000)	1
Tax value	408.000	
Selling price of the office building	(300.000)	1
Balancing deduction	<u>108.000</u>	
		<u>5</u>

(b) Capital gains tax computation

	€	€	
Sale proceeds 24 September 2010		1.700.000	0.5
Less:			
Cost of acquisition 12 April 1998	500.000		1
Inflation ((€500.000 x 112.70/82.23) – €500.000)	185.273		1
Transfer fees	40.000		1
Advertising	5.000		1
Valuation fees	3.000		1
Renovation of capital nature 30 September 2002 (forms part of the building cost)	200.000		1
Inflation ((€200.000 x 112.70/92.74) – €200.000)	43.045		1.5
Immovable property tax	0		1
Interest paid on bank loan	0		1
Commission paid (1.700.000 x 3%)	51.000	(1.027.318)	1
Add:			
Capital allowances (from (a), €144.000 + €48.000)		192.000	1.5
Taxable capital gain		864.682	
Capital gains tax payable at 20%		172.936	0.5
			<u>13</u>

- (c) (1)** Interest paid on a loan to purchase an immovable property is an allowable deduction for the purposes of capital gains tax provided that it has not been allowed as a deduction for income/corporation tax. 1
- (2)** Commission paid on the sale of an immovable property is only allowed as a deduction for the purposes of capital gains tax if it is paid to a licensed estate agent. 1
- 2
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- 4 (a) (i)** A value added tax (VAT) invoice showing certain information about what has been supplied, must be issued and given to the customer when a VAT registered trader makes taxable supplies in Cyprus to other taxable persons. 1.5
- A VAT invoice need not be issued:
- if the supplies are zero-rated; or 0.5
 - when the input tax is not deductible; or 0.5
 - when VAT is chargeable in the case of supplies not made for consideration; or 0.5
 - when the supply falls under the profit margin scheme; or 0.5
 - if the customer is not a taxable person. 0.5
- 4
- (ii)** There are two types of VAT invoices:
- a VAT (tax) invoice; and 0.5
 - a retailer's invoice. 0.5
- A retailer's invoice is issued by a registered trader who supplies goods to the general public rather than to other traders, and need only be provided if the customer requests it. 2
- Where the consideration for the supply is €85 or less, a retailer's invoice can be less detailed than a normal VAT invoice. 1
- 4
- (iii)** The following documents are also treated as VAT invoices:
- a document issued by an auctioneer or bailiff for the sale of goods; 1
 - a document issued for self-billing purposes; and 0.5
 - an authenticated receipt in the construction industry. 0.5
- 2

(b) (i) Calculation of the VAT payable for the quarter 1 July 2010 to 30 September 2010

		€		VAT payable €	
July 2010	Standard rated sales	5.500	X 15/115	717	0.5
August 2010	Standard rated sales	6.600	X 15/115	861	0.5
September 2010	Standard rated sales	4.200	X 15/115	548	0.5
July 2010	Reduced rated sales(5%)	1.500	X 5/105	71	0.5
August 2010	Reduced rated sales(5%)	2.000	X 5/105	95	0.5
September 2010	Reduced rated sales(5%)	3.000	X 5/105	143	0.5
Total vat payable				2.435	3
(ii) Fixed penalty for late submission of the VAT return				€51	1
(iii) Penalty for late payment of VAT, €2.435 x 10%				€243	1
					15

5 (a) Tax evasion and tax avoidance

Tax evasion is illegal and consists of seeking to mislead the tax authorities by either:	1
– suppressing information to which they are entitled; or	1
– providing deliberately false information.	1
Tax avoidance is an entirely legal activity and in the very broad sense, could include any legal method of reducing the tax burden, e.g. taking advantage of the tax deductions, reliefs and exemptions offered by the tax legislation.	1
	4

(b) On receiving the final determination, a taxable person may either:

– Within 45 days, file an hierarchical recourse to the Tax Tribunal, or	1
– Within 75 days, apply to the Supreme Court for a revision of the decision of the Director.	1
The burden of proof that the assessment is excessive falls on the shoulders of the taxpayer.	1
The taxpayer has the right to apply to the Supreme Court, after the decision of the Tax Tribunal, again within 75 days, if he feels aggrieved with its decision.	1
The Director has no right to apply to the Supreme Court on a decision by the Tax Tribunal.	1
The Tax Tribunal decides on matters of facts and on law. It can increase or reduce the assessment, uphold or declare void the assessment or it can remit the case to the Director with instructions for further actions.	1
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