

Examiner's report

P6 (CYP) Advanced Tax

June 2016

The ACCA logo consists of the letters 'ACCA' in a white, bold, sans-serif font, centered within a dark grey square.

General Comments

The examination consisted of five questions in two sections. Candidates had to attempt two compulsory questions in Section A – question 1 for 35 marks and question 2 for 25 marks and any two out of three questions in Section B for 20 marks each.

The vast majority of candidates answered the required number of questions. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor exam technique, as opposed to time pressure.

As in previous sessions, a small minority of candidates answered question 1 of section A last and their answers were often incomplete. As question 1 was the most complex one in the paper and carries 35 marks leaving this question until last can be a risky strategy even if it seems the most difficult question, as many answers presented were incomplete or appeared rushed with candidates tending to lose the easy marks of the question.

Candidates performed particularly well on questions 2(a) and 2(b), 4(a) and 5(a). The questions candidates found most challenging were questions 3(a), 3(b), 4(b) and 1(v). Candidates seemed to know the international aspects of the syllabus well but lacked the fundamental knowledge of Cyprus taxation legislation and especially basic VAT.

A number of common issues arose in candidate's answers:

- Repeating the facts of the question in the answer and wasting valuable examination time.
- Poor format of answers – a lot of candidates who answered the question by giving a mathematical formula to arrive at a number ended up losing a lot of marks.
- In cases where the answer could be formatted into 3 or 4 simple columns, one column with description and 3 with numbers to avoid repetition and waste of time, candidates chose to repeat the description 3 times.
- Handwriting which was often difficult to read.
- Vague or improper use of words to specifically explain the application of the legislation.
- Instead of applying the legislation to the facts of the questions and providing a simple answer, candidates selected to repeat the legislation and ignore the facts.
- Candidates addressing business, legal and financial reporting aspects of the facts of the question instead of just the taxation issues and therefore losing valuable time.

Part A - Question 1

Question 1 was about the very common case of a company wanting to dispose immovable property with the added implications of the company being liquidated thereafter. The immovable property was being sold to two physical persons and they also wanted basic tax advice on the acquisition and taxation of future income generated. At the end the candidates had to address, in point format, the alternative scenario of the company as a whole being sold instead of just the building itself.

Candidates were required to address all taxation aspects of the transaction, as they would as qualified professionals in real life and had the opportunity to collect easy marks in part (i) where they had to consider the VAT aspect and part (ii) where they were required to address the land transfer fees and stamp duty of the transaction. Most candidates performed well on part (i) but some wasted time by writing irrelevant VAT legislation text for just 2 marks. Very few candidates however got full marks on part (ii) of the question. Marks were given, however, for using the correct method. In this part candidates were asked to specify by whom and when transfer fees and stamp duty were payable which is something that often causes misunderstanding in real life but very few candidates gave the correct answer.

It was extremely surprising that the majority of candidates did not manage to provide a solid well formatted answer to part (iii) which involved basic taxation of rental income. It was expected that candidates would get full marks in this part but the result was very disappointing. Although a lot of candidates knew about the 20% statutory deduction for physical persons applicable on rental income they failed to correctly calculate capital allowances and interest.

Most candidates failed to address all the implications of the sale of the building in part (v). A lot did not even calculate the basic capital gains tax required.

A lot of candidates addressed part (vi) well showing that low marks in other parts was due to lack of knowledge.

Part A - Question 2

Again this question was based on the very common case of a Cyprus company expanding abroad with a subsidiary (part a) and one its directors moving abroad with a generous salary package to manage the setup (part b).

Most candidates did well in part a(i) where they had to address the possibility of tax residency of the foreign subsidiary in Cyprus. What was expected of candidates was to state the management and control principles but in order to get full marks candidates were expected to apply the principles to the facts, state that there is no set definition (as in the case of a physical person) and each case has to be examined separately under its own facts and that country or incorporation is irrelevant.

A lot of candidates lost a lot of valuable time by expanding the answer in part a(ii) by repeating blindly the legislation and ignoring the facts and the question. I was very satisfied to see that a lot candidates identified the tax issues involved successfully and especially the deemed distribution issue.

Also in part a(iv) a lot of candidates identified the tax issues but lost time by writing about the legal issues as well that were irrelevant to the question and the paper.

In part b(i) of the question candidates performed well. I was surprised however to see answers at this level completely out of scope. The question asked about residency of Anna in Cyprus and some answers referred to her residency in Dubai. Also a number of answers failed to show understanding of what is the significance of residency. Part b(iii) was answered well - most answers on the capital gains tax of the disposal of the house in Limassol were correct.

Part B – Question 3

With the change in the Special Defense Contribution (SDC) legislation some years back every tax computation for a company in Cyprus needs to address the deemed dividend distribution provisions, as it is a tax that needs to be paid in two years but it is the unavoidable result of this year's profits.

Part (a) was very straightforward with only a simple complication of unrealised profit on listed shares (something very common in Cyprus due to the bail in of company deposits in 2013 and the government support provided to local banks). Unfortunately it is evident that the vast majority of candidates who attempted this question failed to provide a correct, well-formatted answer. Very few candidates showed accurate knowledge of this area of the legislation. It was surprising to see that even the deemed dividend distribution definition was disclosed wrongly. Candidates worked on accounting profits and not on after-tax accounting profits as per the legislation and also applied the corporation tax rate to accounting profits and not on taxable profits.

Candidates performed poorly in part (b) of this question.

Part (c) again was very straightforward but a lot of candidates failed to give correct answers.

Part B – Question 4

Parts (a) to (c) of this question were based on the very common scenario that candidates will regularly meet in their professional career, of the tax implications of buying a motor van. In part (d) candidates were asked to show basic knowledge and understanding of intellectual property taxation.

A lot of candidates did very well in part (a) of this question – a lot of them getting full marks. Basic VAT knowledge was all that was required to revise the cash flow projections given. The question even provided the format of the answer, simply requiring a revision of the numbers to exclude VAT.

It was very surprising to see that even though part (a) was answered well candidates at this level found part (b) very difficult due to lack of knowledge of basic taxation principles. A large number of candidates did not even try to calculate capital allowances and a balancing allowance. Again a very large number of candidates deducted the whole cost of the car from first year taxable profits. The question required candidates to end up with the tax saving as a result of the purchase of the motor van and it was surprising to see candidates at this level reporting a saving bigger than the cost of the van itself.

Part (d) was very straightforward and a lot of candidates performed well.

Part B – Question 5

In this question candidates were required to show basic VAT knowledge to give advice to an intending trader in response to all the questions such a trader will have in real life with the expectation of straightforward simple answers.



Candidates performed well in this question. In rare occasions the facts of the question were not interpreted correctly due to lack of basic knowledge in the area.

The only area where candidates showed that they did not really understand is the possibility of voluntary VAT registration by an intending trader. A lot of candidates incorrectly stated that this is only possible if his sales in the next 12 months would have exceeded the threshold.