

Examiner's report

P6 (CYP) Advanced Taxation

June 2017



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.

Candidates performed particularly well on questions 2(a), 2(b), 3(c) and 4(a). The questions candidates found most challenging were questions 1(iii), 3(a), 3(b), 5(c). Candidates seemed to know the international aspects of the syllabus well but lacked basic knowledge of Cyprus taxation legislation as it applies to local businesses. It was very surprising to see that candidates were unable to perform simple corporation tax and capital allowances calculations on buildings with accuracy.

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

- Repeating the facts of the question in the answer and wasting valuable examination time. This should only be done if it is considered necessary for the markers to understand the answer. A good example is when the question specifically states that a tax payer is resident and domiciled in Cyprus at the outset, it is not necessary for the candidates to explain the residency and domiciliation rules. This must be taken for as given and not part of the required answer.
- In a lot of cases candidates using the facts of the question addressed the taxation of transactions outside the scope of the requirements.
- Vague or improper use of words to specifically explain the application of the legislation. Phrases like “eligible for taxation”, “may be taxed” when a definitive answer is required do not help.
- Instead of applying the legislation to the facts of the questions and proving a simple answer candidates selected to repeat the legislation and ignore the facts.
- Candidates in a lot of cases confuse the following terms:
 - a) “Deducted at source” with “self- assessment”
 - b) “Board of Directors meetings” with “AGM – Annual General Meeting”
 - c) “Exempt supply” vs “zero-rated supply” vs “outside the scope” for VAT purposes
 - d) “Management and control” with “ultimate beneficial owner”

Part A - Question 1

Part (i) required candidates to calculate Special Defense Contribution (SDC) on rental income and explain how and when is payable. Most candidates did very well on this part of the question.

Part (ii) required candidates to address the issue of a Director / Shareholder borrowing money from their company. Most candidates made reference to 9% but failed to explain how it would apply to Anna – answers were vague simply stating a benefit of 9%. Most candidates failed to address the fact that even with the deemed interest benefit of 9% Anna would not be suffering any tax as she would have been below the €19,500 tax free amount.

Part (iii) required candidates to calculate all taxes payable by Anna's company for 2017 making some assumptions and present them in a simple “totals only” cash flow – as in a tax planning exercise where a tax

professional is required to explain what taxes would be payable by a company every year. This was the worst answered part of the whole exam paper. It was evident that candidates did not have an all-round knowledge of the syllabus and could not break the question in simple – very basic – calculations and answer it. It was very surprising to see that in cases where candidates understood that they had to compute after-tax accounting profits for SDC deemed distribution purposes for 2015 they could not make the calculation.

Part (iv) required candidates to address the SDC implications of Anna transferring a building from her company to her name and the issue of how the value will be determined. I expected that most candidates would at least explain that the difference between sale price and market value would be considered deemed dividend and SDC at 17% would be payable but very few answers actually mentioned this. A lot of candidates went off at a tangent and addressed transfer fees, stamp duty and capital gains tax.

Part A - Question 2

Question 2 was an interest income tax planning scenario with a wealthy client exploring all possibilities.

Part (a) required candidates to explain when is a company considered resident of Cyprus and most candidates did very well although some answers showed that candidates did not understand the basics. Part (a) was intentionally included to help candidates on part (b) that was to follow.

Part (b) required candidates to address 7 different possibilities. Most candidates scored very high marks on this part showing a firm and clear understanding of the relevant legislation. Properly structured answers addressed not only the SDC but also the income tax and corporation taxation aspects. Most candidates however missed the fact that interest earned by Cyprus tax resident companies (irrespective of the place of registration) even though not taxable under corporation tax, would increase after tax accounting profits for SDC deemed dividend distribution purposes. This seriously affects overall tax payable.

In part (c) most candidates identified that the transaction could be considered as between related parties but did not expand on it further. A lot of answers described the transaction as a “back to back loan” which showed that candidates did not correctly understand the facts.

Part B – Question 3

It is evident from the answers in question 3 that candidates confuse what is an exempt, an outside the scope and a zero-rated supply as the three are used interchangeably. Also it is clear that a lot of candidates use the term “reverse charge” and then they explain something else showing that they do not understand what the term means.

It was clear from the answers in part (a) of this question that candidates did not know the basic provisions of the legislation regarding the timing of supply of goods in terms of the basic and actual tax points. Very few candidates gave satisfactory answers.

It was also clear from the answers in part (b) that candidates did not know the basic rule of a supply of goods that they are outside the scope of Cyprus legislation if at the time of transfer of ownership / issue of invoice they are not in Cyprus. The goods in part (b) never came to Cyprus – very few candidates explained it correctly.

Part (c) was answered extremely well by all candidates attempting this question.

It was disappointing to see most of the candidates in part (d) unable to identify the transaction as a supply of service from outside the EU with a reverse charge accounting for VAT by K-Parts.

Part B – Question 4

Most candidates got full marks on part (a) of question 4.

Even though the requirements of part (b) stated clearly “You are not required to consider the availability of group relief in this part” a lot of candidates addressed group relief in this part as well losing valuable time.

Generally candidates scored high marks in this question which shows good understanding of loss relief provisions of the legislation.

Part B – Question 5

In question five candidates were asked to simply state legislation provisions regarding shipping companies. Even if candidates lacked the knowledge of shipping company provisions a lot of marks could still be obtained by correctly stating basic provisions:

- in part (a) for Stolos Ltd – not a shipping company but a holding company,
- in part(a) for Varka Overseas Ltd – not a Cyprus resident company
- in part (b) – when a physical person is considered tax resident of Cyprus and basic provisions for the taxation of interest and dividends for non-domiciled physical persons.

It was evident from answers in part (c) that very few candidates understand what a double tax treaty is and when it may be used.