Answers

1 Dan

MEMORANDUM

To: A Tax Partner
From: A Tax Senior
Date: 3 January 2011
Re: Proposed business ventures of Dan and Milania

Following my recent meeting with Dan, I detail below the information relating to the items discussed. Please let me know when you would like to discuss these further.

(a) Golden handshake

Excluding the golden handshake, Dan's only taxable income in 2011 will be one month's salary of €5.000, less social insurance contributions of 6,8%. Thus no tax would be payable given the nil-rate tax band of €19.500. In 2012 however, he would have income of €5.000 per month and so will be paying tax at a much higher rate than in 2011. As such, it would be more beneficial to receive the golden handshake as a lump sum of €15.000 in December 2011, and thereby fully utilise the nil-rate tax band of €19.500 to reduce the overall tax attributable to the golden handshake.

(b) Tax payable by Dan for the tax year 2012

As detailed in the appendix to this memorandum, if he chooses to receive his golden handshake as a lump sum in 2011, Dan's taxable income and tax payable for the year 2012 will be €47.907 and €7.257 respectively.

(c) Office property, including fixtures and fittings

(i) Value added tax (VAT) considerations

If the property is in the name of CSA directly, then CSA will have the right to reclaim the VAT on the purchase price as well as on the refurbishment costs, given that the offices will be used for a business that will make taxable supplies. The value of the input tax is €97.500 (€650.000 x 15%) for the offices, and €45.652 (€350.000 x 3/23) for the refurbishment, i.e. a total of €143.152.

If the property is placed in the name of RSA, which then rents the property to CSA, RSA will still have to pay Cyprus VAT, given that the place of supply of both the acquisition of the property and the fixtures and fittings will be where the property is located, i.e. in Cyprus. However RSA will not have the right to reclaim any of the input VAT given that the acquisition will relate to an exempt supply being rental income.

(ii) Corporation tax implications

If the property is in the name of CSA, it will be allowed to claim capital allowances every year equal to 3% of the purchase price of the offices, excluding the land element. In addition, the company will be allowed to claim capital allowances on the cost of the fixtures and fittings equal to 3% of the cost, given that they are permanent fixtures and fittings and thus are considered to be part of the building.

If RSA acquires the property, CSA will be able to claim a tax deduction for the rental expense. However, RSA will be liable to tax in Cyprus on the rental income received less capital allowances (as above). Double tax relief should be available if the same income is taxable in Russia. In order to make an informed decision, we would need to know the Russian tax implications for RSA of the acquisition of the property.

(iii) Potential future acquisition of shares by Dan

If CSA meets certain profit targets in five years, RSA will sell 20% of CSA's shares to Dan. If the property is held in the name of CSA, then the sale of the shares by RSA will be subject to capital gains tax in Cyprus. Because 20% of the company is being sold, the gain will be calculated based on 20% of the increase (if applicable) in the market value of the property held by CSA during the five-year period. The rate of capital gains tax is 20%. This may or may not be significant, depending on whether there is a significant increase in the market value of the property.

If the property is held directly by RSA, then no Cyprus capital gains tax will arise on the sale of the shares, given that CSA will not own any Cyprus property. In addition, the sale of the shares will not be subject to any tax in Cyprus. There may be tax implications in Russia, however.

(d) Milania's Italian dividends

If the shareholding of 50% of Sekuteen Ltd, which is currently held directly by Milania, were to be transferred to a Cyprus company owned by Milania, then any dividend between the Italian company and the Cyprus company would be free of withholding tax.

The dividend income received would be exempt from corporation tax in Cyprus. It would not be subject to the special defence contribution tax given that Sekuteen Ltd is involved in trading activities. As such, the dividend income would be tax-free in Cyprus.

Finally, any dividend from the Cyprus company to Milania, who is a non-Cyprus tax resident, would be free of any withholding tax, given that the special defence contribution applies only to Cyprus tax-resident persons. Therefore if an intermediate Cyprus company is used the only tax on the dividend would arise from the Russian tax on overseas dividends of 5%, and Milania will have a tax saving of 5% compared to the current structure.

In addition, the Cyprus company could distribute the income to Milania only when she wanted, thus controlling the amount and the timing of the distribution. The deemed distribution rules would not apply as the shareholder, Milania, is a non-Cyprus tax resident.

There are various ways in which the Cyprus company could acquire the shares from Milania, however, these potential acquisition methods may have tax implications in Russia and/or in Italy, and we would need to examine what these implications are in order to finalise our advice.

(e) Novoku martial arts school ('the school')

(i) Income tax implications of master's income

The school will rent a gymnasium. This will constitute a permanent establishment, given that the gymnasium is a fixed place of business through which the school will operate. As such, the income derived by this business will be considered Cyprus source income and taxable in Cyprus. Given that this income is considered to be the personal income of the master, he will be taxed as a self-employed person.

The master himself will be in Cyprus for less than 183 days, i.e. only five months of the year, thus will not be a Cyprus tax resident. He will be taxable only on income generated from Cyprus sources, which is the case for the school income as explained above.

His taxable income will be calculated as the fee income received from the students, less any expenses incurred wholly and exclusively for the purpose of generating the income. This will include the rent for the gymnasium for the whole 12-month period, as well as the royalty payment. The net taxable income will then be subject to the normal income tax brackets in Cyprus, with the first €19.500 not being taxable.

(ii) Withholding tax on the royalty payment to Dorica

The royalty payment will be subject to withholding tax in Cyprus. The double tax treaty allows for a maximum rate of 20%, however, under its tax laws, Cyprus will charge 10%. If the net amount to be received in Dorica is €4.500, then the gross amount to be invoiced will be €5.000 (€4.500 x 100/90).

The school is responsible for the payment of the tax. It must deduct €500 from the payment and remit it to the Cyprus Revenue by the end of the month following the month in which the deduction was made. The payment should be accompanied by a statement showing how the deduction was calculated, together with full details of the circumstances that gave rise to the deduction.

The royalty payment will be tax deductible for the master, as explained in (i) above.

(iii) VAT treatment of the royalty payment to Dorica

With regards to VAT, the royalty payment is made for royalty services received by the school in Cyprus from Dorica, for the purpose of the business activities of the school. As such, the place of supply of this business-to-business, or B2B, transaction follows the general rule which is the place of belonging of the recipient, i.e. the school in Cyprus.

As such, the school should apply the reverse charge to the gross amount of the invoice received. Given that the royalty payment is directly related to the provision of martial arts lessons, a vatable supply of services, the school will be able to reclaim the input VAT from applying the reverse charge in full and as such no VAT cost will arise.

(iv) VAT treatment of the sale of tournament tickets

The place of supply of the ticket sales will follow the special rule for sporting and entertainment activities, which is that the place of supply will be where the tournament is physically carried out, i.e. in Cyprus. As such, the ticket sales will be subject to Cyprus VAT, at the rate of 5%.

APPENDIX

Computation of Dan's tax payable for the tax year 2012

	€	€
Income from employment (12 x €5.000)		60.000
Less social insurance contributions (maximum applies of €52.104 x 6,8%)		(3.543)
Less 20% of emoluments up to €8.550 due to being non-resident in 2011		(8.550)
Taxable income		47.907
Tax payable:		
0 – 19.500 at 0%	Nil	
19.501 – 28.000 at 20%	1.700	
28.001 – 36.300 at 25%	2.075	
36.301 – 47.907 at 30%	3.482	
Total tax payable		7.257

2 Claudia

(a) Value added tax (VAT) treatment of education

Kindergarten education is exempt from VAT in Cyprus, given that the school providing the education has been approved by the Ministry of Education.

(b) Tax loss groups

To be part of a tax group for the purposes of group loss relief, members must be Cyprus tax-resident companies, be part of the group for the entire tax year, and have a 75% effective (direct or indirect) shareholding connection. Thus Light Blue Tower Holdings Ltd (LBTH) and LBT Cyprus Ltd (LBT Cyprus) are part of a tax group for group loss relief purposes. LBT France Ltd (LBT France) is not part of the group because it not a Cyprus tax-resident company.

(c) VAT implications of book business

LBTH purchases the books from the US supplier and sells them to LBT Cyprus, which is responsible for importing them into Cyprus. As such, LBTH will not include Cyprus VAT on the invoice to LBT Cyprus as it sells the books at high seas, i.e. before the arrival of the books in Cyprus.

LBT Cyprus will be responsible for the importation of the books into Cyprus. Cyprus VAT will be charged by customs on importation at the reduced rate of 5%. This will be a cost for LBT Cyprus given that it cannot recover the input VAT because LBT Cyprus includes the books within its main service supply, that of the provision of education, which is an exempt supply (as stated in (a)).

(d) Proposed investment in Ildoria

(i) Investment in the form of equity or debt

Making the investment in the form of equity will mean that the investment is tied up as share capital and will only be available to LBTH upon the liquidation of LBT Ildoria Ltd (LBT Ildoria) or upon a reduction of its capital. This is the main negative aspect of equity investment.

Currently any dividends that flow from Ildoria to Cyprus will be subject to a 10% withholding tax in Ildoria, on the gross amount of the dividends. The dividends will be exempt from corporation tax in Cyprus, but will form part of the accounting profits of LBTH for deemed distribution purposes.

Instead, LBTH may consider extending a loan to the Ildorian enterprise as it will be easier to control the capital repayment this way. The withholding tax on the loan interest will also be 10%, which will be offset under double tax relief at the LBTH level and so there will be no further taxes to pay in Cyprus. However, this tax obligation would not exist under equity investment.

Given that the double tax treaty is being renegotiated to remove the withholding tax on dividends, receipt of dividends will in future be a more tax efficient way of receiving income from Ildoria. This fact, together with the conviction that the Ildorian project will be loss-making in the short run, thus possibly unable to repay much interest and capital of a loan, before turning to profit in year four, may suggest that it will be better to finance the project through equity in the long term.

(ii) Branch vs subsidiary

Given that it is uncertain whether the expansion in Ildoria will be profitable, if the project does not make a profit and is terminated, the accumulated losses of an Ildorian subsidiary company will not be available for relief in Cyprus, i.e. all the losses will be wasted. This is because LBT Ildoria is a non-Cyprus tax-resident company and as such cannot be part of a loss relief group with LBTH.

Even if the project is successful, the losses will remain unutilised for the first three years until the profits are available, but will then reduce profits that are subject to Ildorian tax at 8%.

If the initial investment is made in Ildoria not through a subsidiary but through a branch, the following advantages will arise:

– Any losses made by the Ildorian branch will be available for relief against the profits of LBTH each tax year. Thus the losses will be available immediately instead of in three years' time.

– The losses will reduce the profits of LBTH in Cyprus which are taxed at the rate of 10%. If they were carried forward, as would be the case if an Ildorian company was formed, they would reduce future profits taxed only at 8%. Thus, there is a 2% tax advantage in utilising the losses in Cyprus rather than in Ildoria.

– However, the loss relief in Cyprus will be subject to the recapture rules. This provides that, when the branch becomes profitable, an amount of Ildorian profits equal to the amount of losses claimed in Cyprus should be added to the taxable profits of LBTH in that tax year. Double tax relief will be available so, given an Ildorian tax rate of 8%, additional tax of only 2% will be paid in Cyprus under these rules.

– The branch is a permanent establishment abroad and so its profits will be exempt from Cyprus corporation tax. However, the branch profits will form part of the accounting profit of LBTH and will be subject to the deemed distribution rules. These mean that at least 70% of branch profits will be deemed to be distributed within two years from the tax year in which they were generated as a dividend (if not actually distributed), and subject to the special defence contribution at 17%. In contrast, by incorporating the subsidiary, Claudia will be able to decide how much to issue as dividends from Ildoria and when.

  In the event that the business is profitable, the business should be incorporated into a subsidiary in Ildoria because of both the recapture rules and the deemed dividend rules.

– In the event that the Ildorian business is not profitable, the branch may potentially be easier to close down than a company. However, the company will be a separate legal entity whereas legally the branch will be an extension of LBTH, and any potential litigation against the branch can therefore impact the holding company directly.

(iii) Sale of Cyprus properties to the Fund

The sale of the Cyprus properties directly to the Fund by LBTH will result in the following tax consequences:

– Land transfer fees will be payable on the estimated market value of the properties. Given the size of the transactions, these will be approximately 8% of the value (€6.834 on the first €170.860 and 8% on remaining value).

– Capital gains tax will be payable by LBTH on the difference between the sales price and the indexed purchase price at the rate of 20%.

– The increase in LBTH's accounting profit as a consequence of the sale will be subject to the deemed distribution rules.

If LBTH sold its shares to the Fund, then it will be subject to the same capital gains tax calculation as it would have been had it sold the properties directly, as the original base cost of the properties to LBTH will be used in the calculation of the gain on the sale of the shares. The gain from the sale of shares would be exempt from corporation tax.

However, LBTH has three separate 'branches of activity'. The first is the holding of investments in the subsidiary companies; the second is the purchase and sale of educational books; the third is property investment from which rental income is derived. Therefore, LBTH may use a 'transfer of assets' reorganisation scheme. Under such a scheme, LBTH's property investment activity can be transferred to a new company (NewCo), in exchange for shares in that new company representing its capital. LBTH will not be dissolved but it will become the 100% shareholder of the property owning NewCo. LBTH can then sell the shares in NewCo to the Fund.

The tax implications of such a scheme will be as follows:

– Transfer of properties to NewCo:
  – No taxes will arise, including no balancing statement, no capital gains tax, no corporation tax, no special defence contribution, no stamp duty and, most importantly in this case, no land transfer fees.

However, the use of such a scheme may be regarded by the income tax office as a scheme to avoid tax (i.e. the land transfer fees) and not be accepted. Consequently, a tax ruling on this scheme should be obtained before it is put into effect, to ensure there will be no unpleasant surprises.

3 Serlov

(a) Trusts may be used for a wide variety of purposes, including:

– The protection of the property of a member of the family, including members with medical conditions or who tend to waste their money (a family trust)
– Estate planning, including avoiding inheritance tax
– Charitable donations and legacies

– Provident funds
– Trusts of immovable property
– Unit and investment trusts/investment funds
– Employee share schemes
– The creation and enforcement of interests of debenture holders
– Common trust funds: developed by banks and credit institutions for the common management of small private funds, thus minimising administration costs
– Management by a person of a bank account or of shares which belong to another person.

Note: only SIX items required.

(b) The specific requirements of a Cyprus international trust are that:

– None of the beneficiaries are permanent residents of Cyprus, other than a charitable institution.
– The settlor is not a permanent resident of Cyprus.
– At least one of the trustees is a permanent resident of Cyprus.
– The trust property does not include any immovable property in Cyprus.

A Cyprus international trust cannot be used by Serlov as one of the beneficiaries, Eiresel, is a Cyprus tax resident, so a Cyprus trust will have to be used.

(c) Serlov would be the settlor of the Cyprus trust and he would settle the shares in Bookersel Inc as the trust property. The beneficiaries could be himself, as well as his two children, Julia and Eiresel.

Given that the three beneficiaries have different financial needs, especially given Eiresel's medical condition, it would be more appropriate for the trust to be a discretionary trust, allowing the trustees to distribute appropriate income to the beneficiaries depending on their needs. For example, if Eiresel requires more income in a particular year for medical treatment, the trustees would be able to provide this extra income by distributing less to the other beneficiaries.

(d) Marie could be appointed protector of the trust, with a right to watch over the decisions of the trustees. As such, she could be given powers of veto over the decisions of the trustees, or the power to remove the trustees. Alternatively, Marie could be appointed as an additional trustee.

(e) A trust is considered to be a transparent structure by the Cyprus income tax authorities. The beneficiaries are the persons liable for income tax purposes, and they are entitled to all the relevant tax deductions and exemptions for that income. However, the tax assessments are raised in the name of the trustees who are assessed on the income of the trust in a representative capacity, on behalf of the beneficiaries. It is the trustees who are responsible for submitting the appropriate returns and for paying the amounts due on behalf of the beneficiaries.

Dividend income is exempt from income tax in Cyprus but subject to special defence contribution. Given that they are both non-Cyprus tax residents, any dividend income distributed to Julia or Serlov would be exempt from special defence contribution in Cyprus. However, there may be tax implications in the UK and Canada respectively, where they are tax residents.

Any dividend income distributed to Eiresel would be subject to special defence contribution at source at 15% up to 30 August 2011 and 17% from 31 August 2011 onwards.

4 Malika

(a) Malika will remain in Cyprus eight months per year and thus will continue to be a Cyprus tax resident person, and taxed on her worldwide income. However, she will be eligible for the exemption under the 90-day rule. During the four months that she will be in Egypt, Greece, Bulgaria and Romania, she will be rendering services to permanent establishments of Dagestin Ltd, situated outside Cyprus, for a period exceeding 90 days. As such, her emoluments relating to those four months will be exempt from Cyprus tax. If there is no separate remuneration in place for the time Malika spends outside Cyprus, then the exemption will be given in proportion to the number of days she spends abroad.

For the purposes of calculating the days of stay outside Cyprus:

(a) the day of departure from Cyprus is deemed to be a day outside Cyprus,
(b) the day of arrival in Cyprus is deemed to be a day in Cyprus,
(c) the arrival in Cyprus and the subsequent departure from Cyprus on the same day is deemed to be a day in Cyprus,
(d) the departure from Cyprus and the subsequent arrival in Cyprus on the same day is deemed to be a day outside Cyprus.

(b) (i) The place of supply of B2B legal services falls under the general B2B rule, which is where the recipient of the service is established.

As such, the services offered to Greek business clients will be invoiced without the imposition of Cyprus VAT, and the Greek customer should apply the reverse charge in their country. Dagestin Ltd should verify the Greek VAT registration number of the clients.

The services offered to Egyptian business clients will be outside the scope of Cyprus (and EU) VAT, given that Egypt is outside the EU, and no Cyprus VAT will be charged on these invoices.

(ii) The place of supply of B2C legal services falls under the general B2C rule, which is where the supplier of the service is established, unless the recipient is established in a country outside the EU, in which case the place of supply will follow an exception to the general rule and be where the recipient is established.

The services offered to Greek consumer clients will be invoiced with the imposition of Cyprus VAT at the rate of 15%.

The services offered to Egyptian consumer clients will follow the special B2C place of supply rule. The supply will be outside the scope of Cyprus (and EU) VAT, given that Egypt is outside the EU.

(c) Capital gains tax payable by Malika

	€
March 2011 sale proceeds (market value)	650.000
Less May 2007 indexed cost 380.000 x (114,00/105,00)	(412.571)
	237.429
Roll-over relief (650.000 + 400.000) – 412.571= 637.429 => restricted	(237.429)
Chargeable gain	Nil
Capital gains tax at 20%	Nil
Readjusted value of new house for future disposal 1.050.000 – 237.429	812.571

(d) Malika must file her capital gains tax self-assessment return within one month from the date of the disposal, i.e. by 24 April 2011.

5 Grandpa Vyroni

(a) The lump-sum payment by way of commutation of pension is exempt from income tax and thus Grandpa Vyroni will receive it tax free.

The pension is income in respect of salaried services and subject to income tax at normal rates.

(b) The €9.500 received from the premiums reinvested is not taxable income for Grandpa Vyroni.

However, given that the life insurance policy is cancelled in the sixth year from the date it was made, 20% of the allowances received from the tax-deductible premiums will be recaptured as taxable income in the current tax year. This will result in taxable income of €3.000 (20% x €3.000 x 5).

(c) If the life insurance policy is taken out by Grandpa Vyroni on the life of his daughter, then no tax deduction for income tax purposes is available either for him or his daughter. Only life insurance premiums paid on a policy for a taxpayer's own life are tax deductible.

Life insurance premiums are tax deductible as part of a taxpayer's personal allowances, but are restricted to 7% of the capital amount insured. All personal allowances are in turn restricted to 1/6th of the amount of taxable income before the deduction of personal allowances.

The premiums on the policy will only be tax deductible if the policy is taken out by the daughter in her own name and the premiums are paid by her. Thus, Grandpa Vyroni should make a cash gift of the amount of the premiums to his daughter so she can take out the policy and pay the premiums.

(d) The apartment is situated in the UK. As such, it will be considered UK source income and taxed accordingly in the UK. The income will also be taxable in Cyprus given that Grandpa Vyroni is a Cyprus tax-resident person and so is taxed on his worldwide income. Thus the gross rental income less a 20% statutory deduction, less loan interest payments and capital allowances, will be subject to income tax. In addition, Grandpa Vyroni would be liable to pay special defence contribution (SDC) tax at the rate of 3% on 75% of the gross rents. Grandpa Vyroni will be able to claim double tax relief against his Cyprus income tax and SDC tax for any UK tax paid.

(e) In the case of a future sale of the UK property in five to seven years' time, as per the UK–Cyprus double tax treaty, the capital gain would be taxed in the country of residence of the owner, Grandpa Vyroni, that is Cyprus. However, Cyprus capital gains tax law only applies to properties that are physically situated in Cyprus, so any gain from the sale of the apartment would be tax free for Grandpa Vyroni as no tax would be due in the UK or in Cyprus.

				Available	Maximum
1	Dan				
	(a)	Advice to receive lump sum in 2011 with explanation		2	2
	(b)	Income			
		Social insurance on maximum insurable amount		0,5	
		Deduction for non-resident in 2011		1	
		Calculation of tax payable at progressive rates		1,5	
				3	3
	(c)	**(i)**	Explanation of VAT treatment if property in the name of CSA	2	
			Calculation of total input VAT amount	1	
			Explanation of VAT treatment if property in the name of RSA	2	
				5	5
		(ii)	Explanation of corporation tax treatment if property in the name of CSA	2	
			Explanation of corporation tax treatment if property in the name of RSA: for CSA	0,5	
			for RSA	1,5	
				4	4
		(iii)	Explanation of capital gains tax treatment if property in the name of CSA	2	
			Explanation of capital gains tax position if property in the name of RSA	1	
				3	3
	(d)	Transfer shares to Cyprus company		0,5	
		Dividend not subject to WHT in Italy		0,5	
		Dividend received exempt from corporation tax in Cyprus		0,5	
		Dividend received not subject to SDC with reason		1	
		No Cyprus WHT on dividend to Milania with reason		1	
		Tax saving of 5%		0,5	
		Cyprus company also allows Milania to control timing and amount of distribution		1	
		Not subject to deemed distribution rules, with reason		1	
		Russian/Italian tax implications of transfer of shares require examination		1	
				7	6
	(e)	**(i)**	Explanation of existence of permanent establishment and its implications	2	
			Explanation of tax residency of the master and its implications	1,5	
			Explanation of how the tax will be calculated	1,5	
				5	5
		(ii)	10% withholding tax applies	1	
			Calculation of WHT	0,5	
			School responsible to effect payment	0,5	
			Explanation of how to effect remittance	1	
				3	3
		(iii)	Explanation of B2B and place of supply	1,5	
			Application of reverse charge	0,5	
			Explanation of why no VAT cost	1	
				3	3
		(iv)	Explanation of place of supply	2	2
	Format and presentation of the memorandum			1	
	Appropriate use of the appendix			1	
	Effectiveness of communication			2	
				4	4
					40

2	**Claudia**	*Available*	*Maximum*
(a)	Services exempt from VAT	1	1
(b)	Explanation of tax loss group	1	
	LBTH and LBT Cyprus form loss group	0,5	
	LBT France not in loss group	0,5	
		2	2
(c)	Explanation of VAT treatment of LBTH invoice	1	
	Explanation of VAT treatment of importation by LBT Cyprus	1	
	LBT Cyprus no right to claim input VAT, with reason	1	
		3	3
(d) (i)	Disadvantages of using equity	1	
	Explanation of current taxation on dividends	1,5	
	Explanation of current taxation on interest	1,5	
	Explanation of long-term benefit of equity investment given DTT renegotiation	2	
		6	6
(ii)	Explanation of tax disadvantages of using an Ildorian subsidiary, with reasons	2	
	Explanation of branch benefits re use of losses	2	
	Explanation of recapture rule with DTR	1,5	
	Branch profits are exempt, with reason	0,5	
	Explanation of deemed distribution position	2	
	Advise incorporation once profitable	0,5	
	Explanation of legal status of branch vs company	1,5	
		10	10
(iii)	Tax consequences of a direct sale:		
	Land transfer fees	0,5	
	Capital gains tax	1	
	Deemed distribution rules	1	
	Tax consequences of selling shares	1	
	Identify use of transfer of assets scheme	1,5	
	Explain procedure under scheme	1,5	
	Tax consequences of transfer of assets	1,5	
	Recommendation to obtain tax ruling	0,5	
		8,5	8
			30

			Available	Maximum
3	Serlov			
	(a)	½ mark for each use, maximum of 3 marks	3	3
	(b)	½ mark for each requirement	2	
		Explanation why Cyprus international trust cannot be used	0,5	
			2,5	2
	(c)	Identification of settlor	0,5	
		Identification of trust property	0,5	
		Identification of beneficiaries	1	
		Explanation of discretionary trust with reasons	1,5	
			3,5	3
	(d)	Recommendation for Marie as protector	1,5	
		Recommendation for Marie as trustee	0,5	
			2	2
	(e)	Trust is a transparent structure for tax purposes, beneficiaries liable to tax and entitled to all deductions	1	
		Explanation of responsibility of trustees as tax representatives	1,5	
		Dividends exempt from income tax	0,5	
		Explanation of SDC treatment for Julia and Serlov	1	
		Identification of potential tax consequences in UK/Canada	0,5	
		Explanation of SDC treatment for Eiresel with rates	1	
			5,5	5
				15
4	Malika			
	(a)	Malika will still be a Cyprus tax resident	0,5	
		Rendering services for permanent establishments of a Cyprus employer	1	
		Emoluments fall under 90-day rule and are exempt	1	
		Explanation of method of apportionment	0,5	
		Days calculation principles	1,5	
			4,5	4
	(b)	**(i)** Explanation of place of supply for Greek business clients	1,5	
		Dagestin Ltd should verify Greek VAT registration number	0,5	
		Explanation of place of supply for Egyptian business clients	1	
			3	3
		(ii) Explanation of place of supply for Greek consumer clients	1	
		Explanation of place of supply for Egyptian consumer clients	2	
			3	3
	(c)	Calculation of capital gains tax including rollover relief	3	
		Calculation of base value of new house	1	
			4	4
	(d)	Correct date of filing of self-assessment return	1	1
				15

		Available	Maximum
5	**Grandpa Vyroni**		
(a)	Lump-sum payment exempt	1	
	Pension taxed as normal	1	
		2	2
(b)	Investment income not taxable	0,5	
	20% of total allowances received taxable with calculation	1,5	
		2	2
(c)	No tax deduction, with reason	1,5	
	Explanation of restriction of personal allowances and premiums	1,5	
	Advice for daughter to take out life insurance policy in her name with explanation	1,5	
		4,5	4
(d)	Rental income taxed in UK as UK source income	1	
	Also, taxed in Cyprus where Grandpa is tax resident	0,5	
	Explanation of Cyprus income tax and SDC computation	2,5	
	Availability of double tax relief	1	
		5	5
(e)	Explanation of CGT under double tax treaty	1	
	Explanation of CGT in Cyprus	1	
	Conclude that gain is tax free	0,5	
		2,5	2
			15