Professional Level – Options Module

Advanced Taxation (Cyprus)

Thursday 8 December 2016

Paper P6 (CYP)

Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

Tax rates and allowances are on pages 2–5

Do NOT open this question paper until instructed by the supervisor.

This question paper must not be removed from the examination hall.

Think Ahead ACCA ΣΕΛΚ

The Association of Chartered Certified Accountants

The Institute of Certified Public Accountants of Cyprus

SUPPLEMENTARY INSTRUCTIONS

1. You should assume that the tax rates and allowances for the tax year 2015 shown below will apply for the foreseeable future unless instructed otherwise.
2. Calculations and workings need only be made to the nearest € unless you are instructed otherwise.
3. All apportionments should be made to the nearest month.
4. All workings should be shown.

TAX RATES AND ALLOWANCES

The following rates and allowances for the year 2015 are to be used in answering the questions

Income tax

€0 – €19,500	Nil
€19,501 – €28,000	20%
€28,001 – €36,300	25%
€36,301 – €60,000	30%
Over €60,000	35%

Corporation tax

All companies	12·5%

Special modes of taxation of certain kinds of income

Pensions of residents from services rendered outside the Republic (which exceed €3,420)	5%
Gross amount of royalties, premiums, compensation, etc	10%
Film rental, etc of non-residents	5%
Profits of non-resident professionals, artists, etc	10%
Widow's pension (in excess of €19,500)	20%

Capital allowances

Annual (wear and tear) allowances

Tractors, trenchers, excavators, bulldozers, transcavators, self-propelled shovels and loaders, drums, oil tanks	25%
Motor vehicles other than saloon cars	20%
Computer hardware and operating software	20%
Application software	
(a) if not exceeding €1,710	100%
(b) if exceeding €1,710	33·3%
Agricultural machinery and tools	
– acquired in the years 2012, 2013 and 2014	20%
– otherwise	15%
Other plant and machinery	
– acquired in the years 2012, 2013 and 2014	20%
– otherwise	10%
Hotel, industrial and agricultural buildings	
– acquired in the years 2012, 2013 and 2014	7%
– otherwise (maximum 25 years)	4%
Commercial and other buildings (maximum 33 years)	3%
Glass houses, metallic skeleton	10%
Glass houses, wooden skeleton	33·3%

Amortisation allowance

On the cost of purchase or development of intellectual property rights (from 1 January 2012)	20%

Interest and surcharge on unpaid tax

Interest on income and corporation tax assessments (interest is calculated on the basis of completed months. The same rate applies to overpayments of tax.)	4·0% p.a.
Additional tax	5% of tax due
PAYE assessments	4·0% p.a. plus surcharge of 1% per month

Special defence contribution

On dividends received (where applicable)	17%
On interest received	
– standard rate	30%
– reduced rate (applicable under specific circumstances)	3%
On rental income (on 75% of the gross rental income)	3%

Value added tax (VAT)

Registration limit	€15,600
Deregistration limit	€13,669
Standard rate	19%
Reduced rates	5%, 9%

Social insurance

Self-employed	14·6%
Employer	7·8%
Employee	7·8%
Maximum annual insurable income of employees	€54,396

Other contributions by employers

Social cohesion fund	2%
Redundancy fund	1·2%
Industrial training fund	0·5%
Central holiday fund (if not exempted)	8%

Capital gains tax

Rate	20%
Life time exemptions (maximum €85,430)	
– General	€17,086
– Farmer in respect of farm land	€25,629
– Residential dwelling	€85,430

Immovable property tax

On every Euro not exceeding €40,000	6‰
On every Euro from €40,001 to €120,000	8‰
On every Euro from €120,001 to €170,000	9‰
On every Euro from €170,001 to €300,000	11‰
On every Euro from €300,001 to €500,000	13‰
On every Euro from €500,001 to €800,000	15‰
On every Euro from €800,001 to €3,000,000	17‰
On every Euro from €3,000,001	19‰

Note: If the total 1 January 1980 value of property amounts to €12,500 or less, no tax is due.

Stamp duty

€nil for amounts up to €5,000
€1·50 for every €1,000 or part of €1,000 for amounts from €5,001 up to €170,000
€2·00 for every €1,000 or part of €1,000 for amounts exceeding €170,000 but with a maximum amount of stamp duty payable of €20,000

Land transfer fees

€1 to €85,000	3%
€85,000 to €170,000	5%
Over €170,000	8%

Note:
For contracts concluded between 2 February 2011 and 31 December 2016, no transfer fees will be payable when the immovable property to be transferred is subject to VAT.

For contracts concluded between 16 July 2015 and 31 December 2016, if the immovable property to be transferred is not subject to VAT the transfer fee will be reduced by 50%.

Retail Price Index for Capital Gains Purposes

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1.1.80	34·96											
1980	35·40	35·68	35·99	37·23	36·74	36·81	37·54	37·57	38·22	38·53	38·79	39·16
1981	39·62	39·95	40·32	40·61	40·62	41·01	41·50	41·76	41·98	42·33	42·95	43·20
1982	43·18	43·58	43·46	44·05	43·95	43·63	43·44	43·73	44·19	44·38	44·94	45·19
1983	45·59	45·66	46·08	46·66	46·31	45·69	45·70	46·08	46·17	46·64	46·80	47·06
1984	47·46	47·78	48·06	48·38	48·80	48·86	49·21	49·15	49·01	49·63	50·41	50·90
1985	50·85	50·89	51·31	51·44	51·31	50·84	50·60	51·42	52·11	52·65	51·92	51·85
1986	52·18	52·13	52·24	51·83	51·25	51·21	51·75	51·73	51·71	52·40	53·06	53·31
1987	52·76	52·63	53·23	53·04	53·41	53·88	53·10	53·82	53·91	53·71	54·16	54·53
1988	54·47	54·89	55·22	55·79	55·22	54·73	54·35	54·71	55·35	55·97	56·71	56·82
1989	57·46	57·17	57·28	57·47	56·87	56·66	56·88	57·02	57·39	58·43	58·44	58·42
1990	58·21	58·75	59·37	60·25	60·50	60·04	59·50	59·93	60·12	60·80	61·00	61·80
1991	62·18	61·69	62·18	62·65	63·08	62·44	62·63	61·71	62·87	64·54	64·77	65·83
1992	66·60	65·68	66·52	67·57	66·50	66·20	66·61	66·21	67·05	67·91	68·78	70·11
1993	70·43	68·69	69·08	70·57	69·80	69·64	70·17	69·54	70·48	71·95	72·49	72·32
1994	72·12	70·44	72·18	72·89	73·01	73·48	73·77	72·64	75·11	76·48	76·32	76·09
1995	75·34	73·46	74·92	75·47	75·49	75·49	75·83	74·62	75·49	76·82	77·38	77·33
1996	77·22	75·37	77·37	77·70	77·94	77·88	78·13	77·11	78·43	79·12	79·17	79·27
1997	79·27	78·05	80·21	80·94	80·33	80·28	81·21	79·89	81·15	82·09	82·61	82·37
1998	80·84	80·73	81·24	82·23	82·37	82·71	82·32	82·86	84·17	83·86	83·49	83·15
1999	82·80	81·66	82·96	83·19	83·42	83·54	83·78	82·99	84·72	85·42	85·65	85·99
2000	86·17	85·18	86·80	87·16	87·50	87·04	87·01	86·81	87·88	88·41	88·87	88·99
2001	87·41	87·23	88·05	88·68	88·98	89·65	87·89	88·38	89·68	90·81	90·64	91·10
2002	89·77	89·58	90·13	91·03	91·08	91·47	90·81	91·71	92·74	93·09	93·23	93·78
2003	93·45	93·55	95·51	96·11	95·73	95·15	93·84	94·41	96·11	96·89	97·01	96·12
2004	95·14	95·29	95·90	96·57	97·16	97·82	96·94	97·43	98·39	99·35	99·91	100·15
2005	98·29	98·03	98·62	99·70	99·62	99·85	98·36	99·00	100·84	102·38	102·96	102·33
2006	100·50	100·62	101·81	102·65	102·74	102·87	101·53	102·07	103·24	103·84	104·06	104·00
2007	102·15	102·08	103·33	104·47	105·00	104·78	104·00	104·59	105·96	106·95	107·73	108·07
2008	106·58	107·11	108·19	109·30	110·59	110·51	109·85	110·24	111·61	112·55	111·43	110·04
2009	107·76	107·82	109·36	110·07	110·89	110·74	108·97	109·15	110·24	111·65	112·95	112·60
2010	110·38	110·92	111·98	112·76	112·67	112·89	111·77	112·69	114·14	115·05	114·63	114·45
2011	113·51	114·00	115·12	116·46	117·04	117·62	115·89	115·95	116·86	118·55	118·93	118·95
2012	117·05	117·52	119·00	120·05	120·49	119·70	118·41	119·05	119·80	120·61	120·36	120·26
2013	119·19	119·45	120·27	119·69	119·66	119·79	118·04	117·92	118·57	118·68	117·83	117·49
2014	115·75	116·37	117·52	117·78	118·03	118·37	117·35	117·07	117·49	118·10	117·65	115·77
2015	114·23	114·73	115·31	115·34	115·68	115·50	113·86	113·95	114·52	115·11	115·16	114·35

[P.T.O.

Section A – BOTH questions are compulsory and MUST be attempted

1 Chris and Andrew are tax residents and tax domiciled in Cyprus. Chris is aged 52 and Andrew is aged 49. They have been equal (50:50) partners in C&A Design Services for many years. The partnership specialises in architectural designs.

As part of their business expansion plans, Chris and Andrew are considering converting the partnership into a limited liability company on 1 January 2017. The following information relevant to the partnership and its conversion is available:

1. If they proceed with the conversion to a limited company, Chris and Andrew will hold 50% each of the shares in the newly formed company, which will be called C&A Design Services Ltd.
2. The taxable profit of the partnership (or the company, in case of conversion) for 2017 is estimated to be €32,000. This figure has been calculated after deducting a fixed share of profit for each partner of €24,000. If the conversion to a limited liability company takes place, Chris and Andrew will continue to draw €24,000 each in salary from the company as employees. The accounting profits of the new company are not expected to be significantly different from the taxable profits of the partnership.
3. Chris owns the office building used by the partnership, for which he is paid a rent of €12,000 per annum. If the conversion to a limited liability company takes place, the company will continue to use the office building and pay rent on the same basis. This rent has been deducted from the estimated taxable profit for 2017 (given in (2) above).
4. The partnership does not own any immovable property.
5. Chris and Andrew have both always paid social insurance contributions as self-employed architects on the lowest limit of weekly income allowed for their employment category. For 2017, it is estimated that this lower limit will be €780 per week.
6. Chris has a personal life insurance policy for which he pays an annual premium of €2,600, which is all allowable for tax purposes.
7. The partnership is registered for value added tax (VAT).

Required:

In preparation for his next meeting with Chris and Andrew, your tax partner has asked you to prepare the following schedules and memorandum.

Note: You should ignore the tax payable under 'The Special Contribution of Employees, Pensioners and Self-Employed of the Private Sector Law of 2011 (N202/2011)'.

(a) **A set of schedules in which you compare the overall taxes (including social insurance) payable by Chris, Andrew and C&A Design Services partnership to the overall taxes which would be payable by Chris, Andrew and the proposed new company, C&A Design Services Ltd, in respect of the year 2017.**

Clearly state any assumptions you have considered it necessary to make. (15 marks)

(b) **A memorandum for the partner to use in the meeting in which you address the following:**

(i) **With reference to the schedules prepared in part (a), explain how the overall tax circumstances of Chris and Andrew will change if the partnership is converted to a limited company, and identify the various tax liabilities which are payable in each case, including how and when they will be paid.**

Note: You are not required to prepare any calculations or draw any conclusions as to which of the two structures is preferable. (12 marks)

(ii) **Explain the value added tax (VAT) implications of converting the business from a partnership to a limited liability company.** (4 marks)

Professional marks will be awarded in Question 1 for the format and presentation of the memorandum and the clarity and effectiveness with which the information is communicated. (4 marks)

(35 marks)

2 You should assume that today's date is 10 December 2016.

Marios left Cyprus when he was 21 years old to study civil engineering at a university in Farland. On completion of his studies, he was offered a job as a civil engineer with the wholly owned Farland subsidiary of a Cyprus based group of construction companies. Marios worked for this same subsidiary for his entire career, working in Farland and in other overseas countries. He has never worked in Cyprus and has only visited Cyprus for holidays for a few weeks every year.

In September 2016, Marios retired and returned to Cyprus. He is now 67 years old and expects to live in Cyprus for the remainder of his life, only leaving for the occasional few weeks' holiday. He wants to put his tax affairs in order and he has provided you with the following information:

Income from Farland

Marios will earn a pension from his employment in Farland of €25,000 a year. He will receive this pension into a new Cyprus bank account he has opened to receive his Farland income. Farland will not deduct any withholding tax at source from this pension payment.

Marios bought a house in Farland when he was 30 years old, paying €115,000 for the property (including €23,000 for the land). When he left Farland, Marios let out this house for a gross rent of €20,000 per year. His accountant in Farland advised him that, as there is no double tax treaty between Cyprus and Farland, he will have to pay tax in Farland on this rental income of €4,000 per year.

While in Farland, Marios invested in a portfolio of shares listed on the Farland stock exchange. He expects to receive net dividends of €8,000 per calendar year from this share portfolio. He will also earn net interest of €4,000 per year on fixed bank deposits in Farland. Farland deducts tax at source at the rate of 20% on both dividends and interest.

Income from Cyprus

Immediately after his return to Cyprus, Marios was offered a part-time job with a Cyprus construction company, which he accepted and started in September 2016. He will earn €12,000 a year as a salary from this part-time job.

Marios inherited some shares in a Cyprus tax resident construction company 15 years ago. He receives a dividend from these shares of €5,000 per year, which has always been paid into a bank account he has in Cyprus. This bank account has accumulated a small amount of money and Marios expects to receive gross interest of €600 on this bank account in 2017.

Gifts to Stefanos

Marios's grandson, Stefanos, was born in Cyprus and lived in Cyprus with his Cypriot parents until he was 21 years old. He has a Cyprus domicile of origin. Stefanos moved to Farland eight years ago, where he lived with his grandfather and went to university. Stefanos is currently working as a business consultant in Farland and only comes to Cyprus for two weeks' holiday each year. However, he plans to return permanently to Cyprus in February 2017, following which he expects to travel overseas very rarely.

In 2012, Marios gave Stefanos the shares he held in Supertrade Ltd, a successful and profitable trading company in Cyprus. In 2014, Supertrade Ltd paid a dividend to Stefanos of €15,000 without deduction of any tax. Stefanos expects to receive a similar dividend from Supertrade Ltd in 2017.

On Stefanos's next birthday in January 2017, Marios plans to give him the shares he has in Smallbuild Ltd, a small Cyprus resident company. Marios owns 50% of the share capital of Smallbuild Ltd, and the other 50% is owned by John. John is a British citizen, who lives and works in the United Kingdom; he is neither Cyprus tax resident nor domiciled. Smallbuild Ltd has purchased immovable property in Cyprus for investment and development purposes and has been seriously hit by the economic crisis. Although Smallbuild Ltd made after tax accounting profits of €30,000 in 2014 and €20,000 in 2015, the company is expected to make losses from 2016 onwards, so will not distribute any dividends for 2014 or 2015, as the surplus cash has been re-invested to cover its losses.

Investment by Marios

Marios plans to sell the portfolio of shares listed on the Farland stock exchange in October 2017, and use the proceeds to purchase a block of four new flats currently under construction by a reputable development company in Cyprus. The acquisition cost of the block will be €400,000 (€100,000 for each flat) excluding value added tax (VAT). Marios is currently undecided as to what he will do with this property investment. If he can make a quick profit on his initial investment, he may sell the flats one by one. Alternatively, if he cannot sell at a profit, he will rent the residential flats out to tenants.

Required:

(a) **Determine Marios's Cyprus tax status for 2017 and explain the tax treatment of each of his sources of income and gains in that year.**

Notes:
You should NOT perform tax calculations for this part.
You should assume that there will be no income or gains arising from the investment in the block of residential flats in 2017. (10 marks)

(b) **Explain the Cyprus tax implications (if any) for 2017 for all relevant parties (individuals and companies) as a result of the gift of the Supertrade Ltd shares and the planned gift of the Smallbuild Ltd shares, and advise on how any of these taxes may be reduced or avoided.** (9 marks)

(c) **With respect to Marios's intention to invest in the block of four residential flats, explain the value added tax (VAT) implications arising from their initial purchase, their use for rental and their sale (new or used).** (6 marks)

(25 marks)

Section B – TWO questions ONLY to be attempted

3 Lathos Ltd is a foodstuff distribution company, registered and tax resident in Cyprus. All of the company's directors and shareholders are Cyprus tax residents and Cyprus domiciled.

Your firm has just been appointed auditors of Lathos Ltd and you have received a memorandum from the audit team informing you of various issues relating to the previous three years' accounts.

Previously reported profits/(losses) and borrowings

Lathos Ltd	2013	2014	2015
	€	€	€
Accounting profit/(loss) before tax	(25,000)	100,000	95,000
Taxable profit/(loss)	(55,000)	110,000	105,000
Total borrowings	600,000	621,000	660,000

Lathos Ltd has not declared any dividends since 2013, and does not plan to do so in any of the next three years.

Issues

1. Due to the erroneous accounting treatment of finance leases, the total interest expense has to be adjusted as follows:

	2013	2014	2015
	€	€	€
Incorrect interest cost included in accounting and taxable profits/(losses) (as above)	65,000	15,000	13,000
Correct interest cost	30,000	31,050	27,060

   No interest has been disallowed for tax purposes in order to arrive at the taxable profits.

2. The purchase of a new saloon car in 2014 for €66,640 (including value added tax (VAT)) for use by one of the directors was treated as a commercial van. Lathos Ltd depreciates all of its saloon cars over seven years for accounting purposes.

   The running expenses of the car included in the books of Lathos Ltd were €2,500 in 2014 and €3,780 in 2015. VAT claimed on these expenses was €350 for 2014 and €410 for 2015. The saloon car was used wholly for business purposes.

3. Lathos Ltd signed a contract in December 2015 for the sale of a plot of land for €600,000. The plot had been bought in June 1995 for €317,165 (including land transfer fees of €17,165) for the purposes of expanding the company's warehousing facilities, but had remained unused until the date of its sale.

   The transfer of the land at the Land Registry department has not yet taken place and no capital gains tax has been paid. The sale proceeds will be collected directly by the bank which has a fixed charge over the land. The sale transaction has not been included in the books of Lathos Ltd and, as a result, neither the accounting nor taxable profits reflect this transaction. Lathos Ltd does not depreciate land for accounting purposes.

4. In 2014, Lathos Ltd received a dividend of €10,000 from a portfolio investment company resident in Triland, which has not been included in either the accounting or taxable profits as the dividend was received in a bank account Lathos Ltd maintains in Triland. The Triland portfolio investment company's profits are exempt from tax in Triland. Lathos Ltd controls less than 1% of the voting shares of the Triland portfolio investment company.

Required:

(a) **Calculate the corporation tax payable by Lathos Ltd for the years 2013, 2014 and 2015, after making all corrections necessary, and calculate the special defence contribution (SDC) payable on the deemed dividend distribution of the profits made in 2013, 2014 and 2015.** (12 marks)

(b) **Explain the treatment of**

(1) the dividend received from the Triland portfolio investment company; and
(2) the sale of the plot of land,

including the consequences of the delay in declaring the transaction to the Department of Taxation. (4 marks)

(c) **Explain the tax implications for Lathos Ltd if the plot of land had been sold at a significantly lower price than its market value at the time of sale to a second degree relative of one of the company's shareholders.**

Note: Calculations are not required for this part. (4 marks)

(20 marks)

4 **You should assume that today's date is 30 June 2016.**

(a) Landco Ltd is a Cyprus tax resident company, registered in 2010. The company purchases agricultural land and separates it into plots for construction, and sells it on to interested buyers after construction of all roads, pavements, sewerage services, etc. Landco Ltd is not registered for value added tax (VAT) as all of its current activities are exempt from VAT.

Landco Ltd is in the process of entering into a services contract for the development and maintenance of a marketing website for its business. The cost of the initial development of the software will be €80,000 and there will also be an annual maintenance fee of €20,000, payable quarterly in advance for five years. Landco Ltd has obtained quotations for the work from a company in Cyprus, a company in Greece and a company in India. Both the Cypriot and Greek companies are registered for VAT in their respective countries. The supplier in India has informed Landco Ltd that no VAT or similar tax will be charged on the supply in India.

For the website to be operational, Landco Ltd will also need to purchase some computer hardware (a server) for €30,000, three months after signing the contract for the website development services. The computer server will be located at Landco Ltd's head office in Nicosia. A company in the UK and a company in China have both offered to supply the server at the same price. The UK supplier has informed Landco Ltd that the VAT rate applicable on such supplies in the UK is 20%, and the China supplier has informed Landco Ltd that no such tax is payable in China.

You are informed that Greece and the UK are members of the European Union whereas India and China are not.

Required:

(i) **Explain the value added tax (VAT) implications of concluding the contract for the development and maintenance of the website with each of the three potential suppliers (from Cyprus, Greece and India) and advise on whether there would be any VAT advantage in selecting a particular supplier.** (10 marks)

(ii) **Explain the VAT implications of purchasing the computer server from each of the potential suppliers (from the UK and China).** (3 marks)

(iii) **Explain how any irrecoverable VAT will be treated for corporation tax purposes in the case of**

(1) **the website; and**
(2) **the computer server contracts.** (3 marks)

(b) A company based in Paphos, Cyprus is interested in obtaining general consultancy services from Landco Ltd. The proposed contract would run for three years starting from 1 January 2017 and will generate income of €32,000 per year, which would be invoiced by Landco Ltd annually in advance. Landco Ltd will utilise existing staff and office facilities to provide these services and very few additional expenses would be incurred.

Required:

Explain the VAT implications for Landco Ltd of entering into the contract to provide the consultancy services to the Paphos-based company. (4 marks)

(20 marks)

5 Stelios is tax resident and domiciled in Cyprus. He lives and works in Cyprus as a self-employed freelance chemicals engineer, offering his services mostly to Cyprus based companies. He expects his taxable income from these consultancy services for 2017 to be €70,000.

Stelios owns 20% of the shares in a company resident in Wayland called Grapejuice Ltd (GJ). The shareholders of GJ have asked Stelios to accept appointment as director of GJ when one of GJ's two current directors retires at the end of 2016. Both current directors of GJ are Wayland nationals, who live and work in Wayland and only visit Cyprus once every few years for holidays.

Wayland is a non-EU country which does not have a double tax treaty with Cyprus. GJ falls under the small company provisions of the Wayland tax legislation and pays a special type of corporation tax calculated at 6% on turnover.

Stelios was a founding shareholder of GJ when, ten years ago he, together with the other shareholders of GJ, discovered a revolutionary method of converting grape juice into wine within seven days by using enzymes. This method was developed and patented by GJ and has proved to be very successful. Due to his education and profession, Stelios, even though not a director, has actively participated in the affairs of GJ from the beginning and the existing directors of GJ have always asked for his advice on important matters.

The nature of GJ's business is the manufacture and sale of wine. GJ does not engage in any investment activities. Other than having Stelios as a shareholder and a director, GJ has no relationship with Cyprus. GJ owns the warehouse and offices out of which it operates in Wayland.

In order to offer his services as a director effectively, Stelios would have to travel to Wayland at least once every three months for a period of about 15 days on each visit. Starting in January 2017, Stelios's net salary as a director will be €25,000 per year, after the deduction of local Wayland tax of €5,500. He will have to pay for all of his travel expenses and for his accommodation whilst he is in Wayland specifically for his employment, totalling €4,000 per year, plus a further €1,200 for his subsistence.

GJ is interested in registering a wholly owned subsidiary in Cyprus – Stafili Ltd. Stafili Ltd will use GJ's wine making patent in Cyprus and will pay a quarterly royalty fee to GJ based on the number of litres of wine produced. To finance Stafili Ltd's operations, GJ will loan its subsidiary €100,000, on which Stafili Ltd will pay the market rate of interest on an annual basis.

Required:

(a) Explain in general terms the circumstances in which a company is considered tax resident in Cyprus, and advise whether the appointment of Stelios as a director could make Grapejuice Ltd (GJ) a tax resident of Cyprus and how this risk might be reduced. (6 marks)

(b) Explain the tax implications for GJ if it is considered to be tax resident in Cyprus. (5 marks)

(c) Assuming GJ IS NOT considered to be tax resident in Cyprus, calculate the additional amount of income tax which Stelios will pay in Cyprus on his director's salary from GJ and advise Stelios on how he might reduce this tax liability.

Note: Ignore any social insurance implications. (5 marks)

(d) Explain the tax implications for Stafili Ltd of the proposed use of the patent in return for royalties, and of the loan interest payable to its parent company, GJ. (4 marks)

(20 marks)

End of Question Paper