
Answers

				Marks
1	Mr Tsangaris			
(a)	Capital (net worth) statement	1 January 2002	31 December 2007	
		€	€	
	Assets			
	Business equipment (note 1)	120.000	0	0·5
	Residential house (note 2)		280.000	0·5
	Holiday house in Monaco (note 3)		600.000	0·5
	Plot in Limassol (note 4)	200.000	200.000	1
	Construction of five flats in Limassol (note 4)		250.000	0·5
	Shares (note 5)	15.000	15.000	1
	Audi car (note 7)		100.000	0·5
	Total assets	<u>335.000</u>	<u>1.445.000</u>	
	Liabilities			
	Loan to acquire the Audi car (note 7)	<u>0</u>	<u>(60.000)</u>	0·5
	Net assets	335.000	1.385.000	
	Less net assets 1 January 2002		<u>(335.000)</u>	0·5
	Capital increase for the period		1.050.000	
	<i>Add</i>			
	House maintenance expenses (note 2) (4 years x €10.000 per year)		40.000	0·5
	Flat maintenance expenses (note 4) (4 years x €5.000 per year)		20.000	0·5
	Living expenses (note 6) (6 years x €24.000 per year)		144.000	0·5
	Interest on loan (note 7)		10.000	0·5
	Loss on sale of equipment (working 1)		<u>30.000</u>	1·5
	Total assets and expenses		1.294.000	
	<i>Deduct</i>			
	Business income (note 1) (5 years x €50.000 per year)		(250.000)	1
	Rent from flats (note 4) (4 years x €150.000 per year)		(600.000)	1
	Goodwill received from the sale of his business (note 1)		<u>(50.000)</u>	1
	Taxable Income for the period		<u><u>394.000</u></u>	<u>12</u>
(b)	Income tax computation for 2007			
		€	€	
	Trading income (note 1)		0	0·5
	Rental income (note 4)	150.000		1
	<i>Less</i>			
	Wear & tear allowance 3% (note 4) (€250.000 x 3%)	(7.500)		1
	General allowance 20% (note 4) (€150.000 x 20%)	<u>(30.000)</u>	112.500	1
	Goodwill on sale of business (note 1)		50.000	1
	Balancing deduction (working 1)		(30.000)	1
	Donation (€100 x 12)		<u>(1.200)</u>	1
	Taxable income		<u><u>131.300</u></u>	
	<i>Working 1</i>			
	Balancing statement for the disposal of business equipment			
	Proceeds from the sale of equipment (note 1)	50.000		0·5
	<i>Add:</i> Wear & tear allowances granted (note 1)	40.000		0·5
	<i>Less:</i> Cost of equipment (note 1)	<u>(120.000)</u>		0·5
	Balancing deduction	<u><u>(30.000)</u></u>		<u>8</u>
(c)	The self-assessment system for final tax relies upon the self-employed taxpayers completing and filing the tax return and paying the tax due with the self-assessment return.			1

	Marks
The self-assessment system for final tax	
Individuals with an obligation to keep accounting books and records and prepare audited accounts should submit the self-assessment and pay the tax due on or before 1 August of the year that follows the year of assessment.	1 1
Self-assessment system for temporary tax	
Self-assessment for temporary tax for self-employed individuals means that self-employed individuals have to calculate their own income tax on form IR5 during the year and make current year payments. The self-assessment temporary tax return should be completed and used to pay the first instalment of the temporary tax due 1 August. It is submitted in duplicate. One copy is returned to the taxpayer to be used for making the following two current year payments, due 30 September and 31 December. A self-employed individual may revise his temporary self-assessment at any time before the end of the current year, i.e. before 31 December. The revision is made on a similar new return. If the revised tax payable is higher than the tax declared on the first temporary tax return, interest on the balance of tax payable is calculated from the due date of payment (1 August, 30 September).	1 1 1 1 1 1
Self-assessment system filing the return	
Individuals with an obligation to issue invoices and receipts, and with an obligation of keeping accounting books and records and preparation of accounts, may submit their return up to 31 December of the following year of assessment.	1 1
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	<u>30</u>

2 Konstantinoupoli Ltd

(a) Group relief available

Group relief 2006	€	
(i) Atalia Ltd was acquired on the 1 January 2006 therefore the loss for the year 2006 can be utilised	50.000	1
(ii) Efesos Ltd holding is less than 75% therefore its loss cannot be utilised	–	1
(iii) Smirni Ltd was acquired in December 2006 therefore the loss cannot be utilised	–	1
(iv) Prousa Ltd holding is less than 75% therefore the loss cannot be utilised	–	1
Total loss available for group relief	<u>50.000</u>	
Group relief 2007	€	
(i) Atalia Ltd loss can be utilised since the holding still exceeds 75%	40.000	1
(ii) Efesos Ltd holding has increased to 80% therefore the loss can be utilised	30.000	1
(iii) All the shares in Smirni Ltd have been sold therefore the loss cannot be utilised	–	0·5
(iv) Prousa Ltd holding was also sold but was in any case already below 75% so the loss cannot be utilised	–	0·5
	<u>70.000</u>	<u>7</u>

			Marks
(b)	Income tax computation		
	2006	2007	
	€	€	
Year ended 31 December			
Accounting profit (per question)	450.000	350.000	
<i>Deduct:</i> Adjustments on income			
Dividends received	(20.000)	(14.000)	1
Bank interest received (€5.000 x 50%)		(2.500)	1
Profit from the sale of shares (note 4)	(500.000)		1
Trade goodwill paid for the acquisition of Smirni Ltd (notes 1 & 2)		(40.000)	1
Trade goodwill paid for the acquisition of Atalia Ltd (restricted to the amount received) (notes 1 & 2)		(30.000)	1·5
<i>Add:</i> Adjustments on income			
Loss on sale of saloon car	4.000		1
Trade goodwill paid (notes 1 & 2)	170.000		1
<i>Add:</i> Adjustments on expenditure			
Bank mortgage fees	5.000		1
Interest restricted on investment in shares			
– Year 2006 (note 3) (€300.000 x 8%)	24.000		1·5
– Year 2007 (note 3) (€300.000 x 8% x 11/12)		22.000	1·5
– Year 2007 (note 3) (€300.000 x 8% x 80% x 1/12)		1.600	1·5
<i>Deduct:</i> Capital allowances			
Offices (note 5) (€160.000 x 3%)	(4.800)		1
Taxable profit	<u>128.200</u>	<u>287.100</u>	
Group relief (from (a))	(50.000)		0·5
Group relief (from (a))		(70.000)	0·5
Taxable profit	<u><u>78.200</u></u>	<u><u>217.100</u></u>	<u>14</u>
(c)	Capital gains tax computation for 2007		
	€	€	
Sales proceeds		600.000	1
<i>Less:</i> Purchase cost (€200.000 x 50%)	100.000		1
<i>Add:</i> Indexation allowance €100.000 x (103·33 – 82·37)/82·37	<u>25.446</u>		1
		<u>(125.446)</u>	
Taxable profit		<u>474.554</u>	
Capital gains tax payable at 20%		<u><u>94.911</u></u>	<u>1</u>
			<u>4</u>
			<u>25</u>

- 3 (a) The value of the property given by Andreas and Alexandros as at 1 January 1980 is €120.000 in total (€20.000 + €100.000). The market value of the property received is €300.000 (2 x €150.000).

Since the market value of the property received is higher than the value of the property given as at 1 January 1980, the gain realised by Alexandros and Andreas which has not been reinvested is subject to capital gains tax as follows:

	Andreas 50%		Alexandros 50%		
	€	€	€	€	
Plot no 1					
Value of land 1 January 1980 €20.000	10.000		10.000		1
Add: Indexation allowance					
€10.000 x (107.73 – 34.96)/34.96	<u>20.815</u>		<u>20.815</u>		1
		30.815		30.815	
Plot no 2					
Cost €100.000	50.000		50.000		1
Add: Indexation allowance					
€50.000 x (107.73 – 86.17)/86.17	<u>12.510</u>	62.510	<u>12.510</u>	62.510	1
Transfer fees €4.000		<u>2.000</u>		<u>2.000</u>	1
		95.325		95.325	
Market value of property received		<u>150.000</u>		<u>150.000</u>	1
Reinvested profit		<u>54.675</u>		<u>54.675</u>	

Andreas and Alexandros will pay capital gains tax on the profit which was not reinvested for the purchase of the new property as follows:

	Andreas 50%		Alexandros 50%		
	€	€	€	€	
Market value of Plot no 2 December 2007	150.000		150.000		1
Cash received	<u>150.000</u>		<u>150.000</u>		1
Total proceeds		300.000		300.000	
Less:					
Cost of plot no 1 including indexation allowance	30.815		30.815		0.5
Cost of plot no 2 including indexation allowance	62.510		62.510		0.5
Transfer fees	<u>2.000</u>	<u>95.325</u>	<u>2.000</u>	<u>95.325</u>	0.5
Profit from the exchange		204.675		204.675	
Less: Profit reinvested for the acquisition of the new property		<u>54.675</u>		<u>54.675</u>	0.5
Profit subject to capital gains tax		150.000		150.000	
Less: Lifetime exemption Andreas (€17.086 less €5.000 used previously)		(12.086)			1
Less: Lifetime exemption Alexandros (never utilised)				(17.086)	1
Less: Loss brought forward from 2003				(20.000)	1
Taxable gain		<u>137.914</u>		<u>112.914</u>	
Tax payable at 20%		<u>27.583</u>		<u>22.583</u>	1
					<u>15</u>

- (b) When considering the sale or exchange of property the following should be borne in mind:

- (i) Under certain circumstances, in an exchange of property, under the capital gains tax legislation there are possibilities of obtaining relief in respect of the capital gain by deducting the gain from the cost of the new property obtained in exchange, thus deferring the payment of capital gains tax. 2
- (ii) Both the sale and the exchange of property are transactions which may give rise to either income tax or capital gains tax or, in case of buildings on which capital allowances have been claimed, to both income tax and capital gains tax. 2
- (iii) There may be less land transfer fees payable where immovable property is exchanged with another immovable property than those payable in case of a sale. 1

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4 Arena Ltd

(a) Corporation tax computation for the year 2007.

	€	€	
Business profits (note 9)	50.000		0.5
Depreciation (note 9)	10.000		0.5
Dividend income (notes 1, 2 & 3)	–		1.5
Royalties from a Czech company (note 4)	30.000		0.5
Royalties from a Russian company (note 5)	12.000		0.5
Interest received from an Austrian bank (50% x €10.000)	5.000		0.5
Interest received from a Russian bank (50% x €14.000)	7.000		0.5
Interest received from a Cypriot bank (50% x €7.000)	3.500		0.5
	<u> </u>	117.500	
<i>Deduct: Capital allowances</i>			
Office (€180.000 x 3%)	5.400		1
	<u> </u>	(5.400)	
Taxable profit		<u>112.100</u>	
10% Corporation tax		11.210	0.5
Less Double tax relief for the Czech tax			
Lower of (i) withheld tax €1.500			
(ii) proportion of Cypriot tax			
<u>€30.000</u>	x €11.210 = €3.000		1
€112.100		(1.500)	0.5
Final corporation tax payable by Arena Ltd		<u>9.710</u>	<u>8</u>

(b) Special defence contribution for the year 2007.

		€	
Dividend income			
1. Austrian dividend	€18.000 + €2.000 = €20.000 at 15%	3.000	1
Tax deducted at source		(2.000)	0.5
Tax payable		<u>1.000</u>	
2. Greek dividend	€24.000 + €6.000 = €30.000 at 15%	4.500	1
Tax deducted at source		(6.000)	0.5
Tax payable		<u>0</u>	
3. Panamanian dividend	€10.000 x 15%	1.500	0.5
Tax deducted at source		0	0.5
Tax payable		<u>1.500</u>	
Interest income			
1. From Austrian bank	€10.000 x 10%	1.000	0.5
Tax deducted at source		2.000	0.5
Tax payable		<u>0</u>	
2. From Russian bank	€14.000 x 10%	1.400	0.5
Tax at source		0	0.5
Tax payable		<u>1.400</u>	
3. From Cypriot bank	€7.000 x 10%	700	0.5
Tax withheld at source		(700)	0.5
Tax payable		<u>0</u>	
Total special defence contribution payable by Arena Ltd		<u>3.900</u>	<u>7</u>
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- 5 (a) The VAT Commissioner may issue a best judgment VAT assessment in the following circumstances:
- where a taxable person has failed to make any returns;
 - where a taxable person has failed to keep any documents and afford the facilities necessary for the verification of such returns;
 - where it appears to the Commissioner that, following a control visit, such returns are incomplete or incorrect;
 - where a refund of tax was wrongly made;
 - where a deduction or credit of tax was given in respect of input tax not allowable;
 - where a trader has failed to account for goods acquired in the course of his business;
 - where a fiscal warehousekeeper has failed to account for VAT on any missing or defective goods;
 - where a fiscal warehousekeeper has failed to account for VAT on any goods removed from the bonded warehouse.

Any FOUR items, 1 mark each, maximum

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- (b) Connected persons include spouses, relatives of a trader or his/her spouse (brother, sister etc), and a partner (or spouse or relative of a partner).

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A company is connected with another company if one and the same person controls both companies or if one person controls one company and his relatives control the other.

0·5

0·5

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- (c) Reverse charge

The services listed in the Third Schedule when supplied by a person resident in another country to a person resident in Cyprus, are subject to VAT under the reverse charge method.

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Under this method the person resident in Cyprus receiving the prescribed services is deemed to supply these services to himself and at the same time to have received the same services. Where the services are used for business purposes by a taxable person there is no effect as far as VAT is concerned, because at the same time input VAT is allowed. There is however a difference where the business is an exempt business and no deduction of the VAT is allowed. If these services are supplied by a person resident in Cyprus to a recipient resident outside Cyprus they are outside the scope of VAT.

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