

Fundamentals Level – Skills Module

Taxation (Cyprus)

Monday 1 June 2009

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 3–4.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

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

The Association of Chartered Certified Accountants

The Institute of Certified Public Accountants of Cyprus

ACCA

IFAC

Paper F6 (CYP)

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The question paper begins on page 3.**

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest €.
2. All apportionments may be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances for the year 2008 are to be used in answering the questions.

Income tax	
First €19,500	nil
€19,501 – €28,000	20%
€28,001 – €36,300	25%
Over €36,300	33%

Capital allowances	
Plant and machinery	10%
Motor vans	20%
Hotel, industrial and agricultural buildings	4%
Other buildings	3%
Computer hardware	20%
Computer software	33%

Corporation tax	
Statutory bodies	25%
Other companies	10%
Statutory rate of interest:	8%

Value added tax	
Registration limit	€15,600
Standard rate	15%
Reduced rate	5%

Social insurance contributions	
Social insurance fund	6·3%
Redundancy fund	1·2%
Human resources development fund	0·5%
Social cohesion fund	2%
Central holiday fund	8%

Capital gains tax	
Rate	20%
Life time exemptions	
General	€17,086
Agricultural	€25,629
Residential dwelling	€85,430

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	98.07	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

ALL FIVE questions are compulsory and MUST be attempted

1 Mr Giannis, an accountant, and his wife Ioanna, a pediatrician, both relocated to Cyprus during February 2007 after spending 10 years in Greece. In December 2007 Giannis commenced employment with the Bank of Cyprus and Ioanna set up her own practice.

During 2008 Giannis received salaried remuneration of €28,000 before the deduction of:

- PAYE €3,000
- Social insurance contributions €3,000
- Provident fund contributions €4,500

During August 2008 he received an *ex gratia* bonus of €5,000, in recognition of his outstanding performance, during his first six months of employment.

In October 2008 Giannis attended a seminar on banking administration paying his own registration fees of €1,500.

Giannis had inherited an antique from his father, which he sold in September 2008 for €30,000. The antique had been valued at €12,000 at the date of inheritance.

Ioanna has income (net of allowable expenses) from self employment for the year 2008 of €50,000. She did not pay any tax or social insurance contributions, during 2008.

During January 2008 Giannis and Ioanna sold the flat they jointly owned (one half each) in Athens for €200,000, paying an agent fee of €10,000. The flat had cost them €100,000 in 2005 (including €30,000 for the value of the land). The sales proceeds were deposited in a joint account with the Bank of Cyprus (Strovolos branch). An amount of €4,500 was credited as interest to this account on 31 December 2008. This transaction was agreed with the Inland Revenue to be treated as of a trading nature.

Giannis and Ioanna also jointly own a house (one half each) in Limassol, which was purchased for their own holiday use on 31 March 1999 for €50,000 (including €6,000 for the value of the land). A loan of €30,000 was obtained in order to finance the purchase of the holiday house. This loan was fully settled in 2003 and the total interest paid for the loan amounted to €1,680. Land transfer fees paid amounted to €1,500. During February 2008, the couple incurred advertising expenses in respect of the letting of the house amounting to €300. The house was actually let on a commercial basis from 1 April 2008. The letting generated a rental income of €2,000 per month from 1 April 2008 to 31 October 2008. Other expenses incurred during 2008 in respect of the house were the cost of painting the house before letting of €2,300 and an estate agent's commission equal to one month's rent. The house was sold during November 2008 for €300,000 and it was agreed with the Inland Revenue that this transaction is to be treated as of a capital nature.

Required:

Calculate the following tax liabilities for Gianni and Ioanna for the year 2008:

- (a) **Income tax.** (19 marks)
- (b) **Capital gains tax.** (7 marks)
- (c) **Special defence contribution.** (4 marks)

(30 marks)

- 2 Odessa Ltd is a Cyprus tax resident controlled company. The company's audited profit and loss account, for the year ended 31 December 2008 discloses a net profit and turnover of €440,000 and €1,444,000 respectively.

The following items have been taken into account when calculating the net profit of Odessa Ltd:

	Notes	€
Saloon car expenses	1	5,000
Revaluation of land	2	100,000
Dividends received	3	20,000
Employee costs	4	40,000
Prospectus fees	5	10,000
Losses from group companies	6	425,000
Bonus shares given to employees	7	300,000
Bank interest expense		55,000

Notes:

- On 1 July 2008 the company considered it necessary to purchase a Mercedes saloon car costing €80,000 for use by its sales director. The exclusive use of the car was for business purposes.
- Land purchased during 2005 for €200,000 was revalued during 2008 to €300,000.
- On 31 January 2008 the board of directors decided to purchase 500,000 shares of €1 each representing 1% of the share capital of Azale Ltd, a Cyprus tax resident company. During March 2008 a dividend of €20,000 was received.

On 30 June 2008 200,000 of the shares were sold at €0.50 each.

On 30 November 2008 a further 200,000 of the shares were sold at €2 each.

- Employee costs consists of:

	€
Cash bonus paid to employees at Christmas	20,000
Christmas party organised for employees	5,000
Seminars organised for employees	3,000
Weekend cruise offered to employees	10,000
Contributions to employees' medical fund	2,000
	<u>40,000</u>

- In October 2008 the amount of €10,000 was paid to an investment consultant in order to prepare a prospectus for raising additional capital.
- On 1 January 2008 Odessa Ltd owned shares in other Cyprus-resident companies which were acquired prior to 2001 as follows: 100% of Kappa Ltd; 85% of Lamda Ltd; 70% of Mi Ltd and 30% of Ni Ltd.

On 30 November 2008 Odessa Ltd sold 25% of Mi Ltd and 15% of Lamda Ltd. On 1 December Odessa Ltd acquired a further 50% of Ni Ltd for €100,000.

For the year 2008 the four companies had the following losses for tax purposes:

	Loss
	€
Kappa Ltd	200,000
Lamda Ltd	100,000
Mi Ltd	50,000
Ni Ltd	75,000

- On 24 October the board of directors decided to issue a total of 100,000 bonus shares with a nominal value €1 each. The bonus shares were distributed to all employees at a cost of €0.50 per share. The market value of a share on that date was €3.

8. On 1 February 2008 the managing director was loaned €50,000 by the company. On 1 July 2008 the managing director received a bonus of €100,000, which was credited to his account. On 1 December 2008 he withdrew the €100,000 bonus from his account.

Required:

- (a) Calculate the chargeable income of Odessa Ltd for the year ended 31 December 2008. (21 marks)

- (b) Explain the PAYE implications (if any) for Odessa Ltd of the transactions identified in notes (1) to (8). (4 marks)

(25 marks)

- 3 (a) Christina has concluded the following transactions in immovable property, all of which were accepted by the income tax office as being of a capital nature.

Disposal of immovable property in June 1999 resulting in a profit of €5,000.

Disposal of immovable property in July 1999 resulting in a loss of €50,000.

Disposal of immovable property in March 2003 resulting in a loss of €80,000.

Disposal of immovable property in October 2004 resulting in a profit of €60,000.

Disposal of immovable property in October 2005 resulting in a profit of €100,000.

Christina had never used her lifetime exemption prior to these transactions.

Required:

- (i) Calculate the tax payable by Christina (if any) as a result of the above transactions. (8 marks)

- (ii) Explain Christina's obligations under the capital gains tax law in respect of tax due because of the above transactions. (2 marks)

- (b) List the criteria that are used to determine whether an isolated transaction should be treated as a trading transaction or as a capital transaction. (10 marks)

(20 marks)

4 (a) Describe the circumstance in which a trader may make a voluntary correction of an error or misdeclaration for value added tax (VAT). (7 marks)

(b) Nicos, a trader in goods, is registered for value added tax (VAT). The following information relates to his return period to 31 March 2009. All figures are stated excluding any applicable VAT.

(1) Sales of goods amounted to:	€
Cash sales of: basic foodstuffs	3,000
Magazines and periodicals	2,000
Other non-foodstuffs	5,000
Credit sales (all other non-foodstuffs)	10,000

Nicos offers his credit sale customers a discount of 3% for prompt payment. 70% of Nico's credit sale customers paid within the discount period.

(2) Purchases of goods amounted to:	€
Basic food stuffs	2,000
Magazines and periodicals	1,500
Other non-foodstuffs	3,000

(3) Purchases of services amounted to €4,000, including €400 for business entertaining at a local restaurant and €600 for the running expenses of Nicos' private motor car.

Required:

Calculate the amount of value added tax (VAT) payable by Nicos for the return period ending 31 March 2009. (8 marks)

(15 marks)

5 (a) The most important social factor in raising tax revenue is the redistribution of wealth from rich to poor.

Required:

Briefly outline how government tax policy and the use of different types of taxes can be used to achieve such a redistribution of wealth. (6 marks)

(b) Andreou Ltd was issued with a corporate income tax assessment for the year ended 31 December 2007 by the Inland Revenue on 10 February 2009, based on a chargeable income of €96,000.

During the year ended 31 December 2007 Andreou Ltd had made two payments of provisional tax of €3,200 each; but did not make the third final payment because based on its management accounts the directors believed that the profit for the year would be only €50,000.

Andreou Ltd submitted its tax return for the year ended 31 December 2007 by the due date.

Required:

State the latest date for the payment of the assessment and calculate the total amount payable (including any interest and penalties due) on that date. (4 marks)

(10 marks)

End of Question Paper