
Answers

Section A

1 A

- (1) Correct
- (2) Correct
- (3) Failure to submit tax return constitutes tax evasion
- (4) Rental income must always be declared

2 C

	€
Profit before tax	25,000
USB gifts to customers with business logo	0
Trade samples	0
Gifts to weddings	500
Loan to employee written off	1,500
Improvements to shop	4,000
Tax adjusted profit	<u>31,000</u>

3 B

	€
Profit before tax	65,000
<i>Add:</i>	
Drawings	2,500
Profit margin on drawings ($€2,500 \times 100/80$) – €2,500	625
Loss on disposal of motor van	4,000
Provision for repairs	2,000
	<u>74,125</u>
<i>Less:</i>	
Balancing allowance $€1,000 - (€25,000 - €25,000 \times 20\% \times 4)$	<u>(4,000)</u>
Tax adjusted profit	<u>70,125</u>

4 B

	€
Accounting profit	50,000
Less: Unrelieved foreign taxes	(8,000)
Less: Depreciation	(5,000)
Less: Corporation tax	(3,000)
Less: 10% additional tax	(300)
Accounting profit for deemed dividend distribution	<u>33,700</u>

5 B

- (1) Correct
- (2) Exemption is granted if the owner is a farmer
- (3) Only individuals are eligible to claim exemptions
- (4) Correct

6 A

	€
Employee's contributions	
Salary ($€2,200 \times 15/20$)	1,650
Central holiday fund ($€1,650 \times 8\%$)	132
Total	<u>1,782</u>
Social insurance contribution ($€1,782 \times 8.3\%$)	148
General health scheme contributions (GHS) ($€1,782 \times 1.7\%$)	30
	<u>178</u>
Employer's contributions	
Central holiday fund	132
Social insurance contributions ($€1,782 \times 12\%$)	214
GHS ($€1,782 \times 1.85\%$)	33
	<u>379</u>
Total	557

7 C

	€
Penalty for late submission of VAT return	51
Late payment penalty ($€12,000 \times 10\%$)	1,200
Interest ($2\% \times 40/365 \times €13,200$)	29
Total	<u>1,280</u>

8 C

	€
5% monetary charge for late payment ($€8,000 \times 5\%$)	400
5% monetary charge for delaying payment for more than two months ($€8,000 \times 5\%$)	400
Interest charge for 2018 ($€8,000 \times 3.5\% \times 5/12$)	117
Interest charge for 2019 ($€8,000 \times 2\% \times 3/12$)	40
Total	<u>957</u>

9 D €2,250 ($€50,000 \times 9\% \times 6/12$)

10 C

	€
Profit before tax	250,000
Profit from permanent establishment	(35,000)
Amortisation of goodwill	5,000
Interest payable	0
Provision for obsolete inventory	12,000
Mortgage fees	1,000
Chargeable income	<u>233,000</u>

11 D

- (1) Overseas dividends received by individuals are always taxed at 17%
- (2) Tax resident individuals might be liable to reduced SDC rate at 3%
- (3) Correct
- (4) Correct

12 A

	€
Disposal proceeds	500,000
Less: Indexed cost	(350,000)
Chargeable gain	<u>150,000</u>
Taxable gain (€500,000 – €400,000)	<u>100,000</u>
Roll over relief	<u>50,000</u>

13 B

- (1) Registration threshold is exceeded
- (2) The company must be registered in another EU member state
- (4) There is no minimum threshold for services provided to customers registered in EU member states

14 C

15 D

- (1) Non-Cyprus tax resident companies are taxed on their Cyprus income
- (2) Cyprus tax resident companies are taxed on their accrued or derived income
- (3) This is not one of the criteria
- (4) The majority of the directors must reside in Cyprus

2 marks each

30

Section B

Marks

1 (a) Redistribution of wealth and different types of taxes

The Cyprus government and, in general, all governments seek to achieve redistribution of wealth from the rich to the poor. 1/2

Governments can achieve this by imposing different type of taxes on both individuals and companies. 1/2

Direct taxes such as income tax and capital gains tax are imposed on persons who have income and/or own immovable properties. 1/2

Income tax can be viewed as having the effect of a progressive tax since it is aimed at individuals with high incomes and the tax rate increases in proportion to the income. 1/2

Capital gains tax can be viewed as having the effect of a progressive tax since even though an individual may have low income, they will not be able to avoid taxation if their living standard depends on capital assets. 1/2

Indirect taxes such as VAT are imposed on goods and services and thus increase the price which consumers have to pay. This, in theory, discourages spending and encourages savings. 1/2

Indirect taxes can be viewed as having the effect of a regressive tax since both the rich and the poor pay the same tax in order to enjoy goods and services. 1

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(b) Explanation of the nature and function of the tax circulars

The tax circulars are issued by the Tax Department in order to explain the Tax Department's view on how the law is implemented in practice. 1

The tax circulars have no force of law. 1

The tax circulars are valid unless they are successfully challenged by the taxpayers before the prescribed Tax Tribunals or before the Supreme Court. 1

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(c) The powers of the Commissioner of Taxation to require information on receipt of an objection by a taxpayer

On receipt of an objection by a taxpayer, the Commissioner of Taxation may, within a period of 12 months from the date on which the objection was submitted, require the following from the taxpayer with respect to the object of the tax: 1/2

– Accounts/financial statements of the business; 1/2

– Books, accounting records, bank statements, invoices, receipts and other vouchers; 1/2

– Capital statement for the taxpayer and his/hers spouse and dependants; 1/2

– Request to have a meeting with the taxpayer regarding the objection; 1/2

– Request to have a meeting with any other person with respect to the assessment made. 1/2

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2 Sweater Ltd

(a) Calculation of VAT payable for the quarter ended 31 December 2019

	€	€	
Output VAT			
Sales of goods in Cyprus (€150,000 x 19%)	28,500		1/2
Export of goods to Russia (non-EU)	0		1/2
Imports of goods from Greece (EU) (€10,000 x 19%)	1,900		1/2
Consultancy services received from Germany – reverse charge (€2,000 x 19%)	380		1/2
Total output VAT		30,780	
Input VAT			
Purchases of goods from Cyprus (€55,000 x 19%)	(10,450)		1/2
Imports of goods from China (non-EU) (€15,000 x 19%)	(2,850)		1/2
Imports of goods from Greece (EU)	(1,900)		1/2
Irrecoverable debts written off (€3,000 x 19%)	(570)		1/2
Consultancy services received from Germany – reverse charge	(380)		1/2
Staff party (€1,500 x 9%)	(135)		1/2
Entertaining customers	0		1/2
Purchase of saloon car	0		1/2
Purchase of motor cycle (€5,000 x 19%)	(950)		1/2
Purchase of magazines and newspapers (€250 x 5%)	(13)		1/2
Total input VAT		(17,248)	
VAT payable (€30,780 – €17,248)		13,532	
			<u>7</u>

(b) Conditions for relief of irrecoverable debts

A trader, individual or company, can claim a refund of output VAT on an irrecoverable debt if the following conditions are met:

– The goods sold or services provided have been accounted for and the tax due paid;	1/2
– At least 12 months have elapsed since the date the invoice was issued but not more than four years;	1/2
– The debt has been written off in the taxpayer's VAT account;	1/2
– The debt has been written off in the accounting books of the taxpayer;	1/2
– The taxpayer must inform the customer within seven days from the date of the claim;	1/2
– The taxpayer must prove that all logical steps and actions to collect the outstanding debt have been taken.	1/2
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3 Crayon Ltd

(a) Calculation of balancing statement

	€	€	
Cost of factory (€450,000 – €85,000)	365,000		1/2
Cost of renovations	100,000		1/2
		465,000	
Less: Capital allowances			
On factory (€365,000 x 4% x 11 years)	(160,600)		1
On renovations (€100,000 x 7% x 7 years)	(49,000)		1
		(209,600)	
Tax written down value		255,400	
Selling price of factory (€950,000 – €150,000)		(800,000)	1/2
Profit on sale of factory		(544,600)	
Balancing addition restricted to capital allowances claimed		209,600	1/2
			<u>4</u>

(b) Calculation of capital gains tax

	€	€	
Sales proceeds on 20 March 2019		950,000	
<i>Less:</i>			
Cost of acquisition 16 June 2008	(450,000)		1/2
Inflation [(€450,000 x 220·06/212·26) – €450,000]	(16,536)		1/2
Transfer fees	(20,000)		1/2
Renovation expenses of capital expenditure	(100,000)		1/2
Inflation [(€100,000 x 220·06/227·43) – €100,000]	0		1/2
Loan interest	0		1/2
Valuation fee	(2,000)		1/2
Commission paid	0		1/2
Accountant fees	0		1/2
Legal fees	(800)		1/2
		(589,336)	
		360,664	
<i>Add:</i>			
Capital allowances (as per requirement (a))		0	1/2
Taxable capital gain		360,664	
Capital gains tax (€360,664 x 20%)		72,133	1/2
			6
			10

4 Mr Derek – Income tax**(a) Calculation of taxable income**

	€	€	
Pension income (€1,300 x 13)	16,900		1/2
Rental income	9,600		1/2
Cancelled life insurance policy (€2,000 x 4 years x 20%)	1,600		1
		28,100	
<i>Less: Deductions</i>			
20% deduction of rental income (€9,600 x 20%)	(1,920)		1/2
Repairs to flat	0		1/2
Interest on loan to acquire rented property	(800)		1/2
Wear and tear allowance (€200,000 – €15,000 x 3%)	(5,550)		1
		(8,270)	
Net income		19,830	
<i>Less: Deductions</i>			
GHS contributions on pension (€1,300 x 1·7% x 11 months)	(243)		1
GHS contributions on rental income (€800 x 1·7% x 10 months)	(136)		1
GHS contributions on interest income [(€500 + €258) x 1·7%]	(13)		1/2
		(392)	
Taxable income		19,438	7

(b) Calculation of special defence contribution

	€	€	
Rental income	9,600		
25% allowance	(2,400)		1/2
	<u>7,200</u>		
Special defence contribution €7,200 x 3%		216	1/2
Interest received from deposit account (€350 x 100/70)	500		1/2
Special defence contribution €500 x 30%		150	1/2
Interest received from Cyprus government saving bond (€250 x 100/97)	258		1/2
Special defence contribution €258 x 3%		8	1/2
		<u>374</u>	<u>3</u>
			10

5 Athena**(a) Computation of income tax payable/refundable for the year 2019**

	€	€	
Income			
Gross salary	60,000		
Net dividends received from a company listed on China Stock Exchange	0		1/2
Saloon car benefit (Working)	616		W
Total income		60,616	
<i>Less deductions:</i>			
Executive exemption (€60,000 x 50%)	(30,000)		1
Donation to football club	0		1/2
Donation to charities (€350 – €50)	(300)		1/2
		<u>(30,300)</u>	
Net income		30,316	
<i>Less deductions:</i>			
Social insurance (maximum €4,554 x 6 x 8.3%)	(2,268)		1
GHS contributions (€60,000 + €616) x 1.7%	(1,030)		1
GHS contributions on dividend (€1,800 x 100/90 x 1.7%)	(34)		1
Life insurance premium (maximum €50,000 x 7%)	(3,500)		1/2
Medical insurance (maximum €60,616 x 1.5%)	(909)		1/2
Provident fund	(1,800)		1/2
	<u>(9,541)</u>		
Total deductions restricted to 1/6 of net income (€30,316 x 1/6)		<u>(5,053)</u>	1/2
Taxable income		<u>25,263</u>	
Computation of income tax liability			
€0–€19,500 at 0%	0		
€19,501–€25,263 at 20%	1,153		
Total amount of tax		1,153	1/2
Less: PAYE		<u>(1,000)</u>	1/2
Tax payable		<u>153</u>	
Working			
Cost of saloon car (€15,000 x 1.19)	17,850		1
Cost of car use (€17,850 x 17%)	3,035		1/2
Cost of repairs/expenses (€17,850 x 3%)	536		1/2
Cost of fuel (€17,850 x 3%)	536		1/2
Saloon car private use (€3,035 + €536 + €536) x 30% x 6/12 months		616	1
			<u>12</u>

(b) Resident in the Republic as applied for individuals

A Cyprus tax resident individual is an individual who stays in the Republic of Cyprus for a period, or periods, exceeding in aggregate 183 days in a year of assessment.

1/2

An individual who does not satisfy the above condition may still be deemed to be a Cyprus tax resident individual if they satisfy all of the following conditions within the same tax year (1 January to 31 December):

- does not spend more than 183 days in any other country; 1/2
- is not a tax resident of another country; 1/2
- remains in Cyprus for at least 60 days; 1/2
- at any time during the tax year, without termination, carries on a business in Cyprus, is employed in Cyprus or holds an office in a Cyprus tax resident person; and 1/2
- maintains a permanent home in Cyprus which is either owned or rented by them. 1/2

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15**6 Apricot Ltd – Computation of tax**

	€	€	
Year ended 31 December 2019			
Profit before taxation		27,000	
<i>Add: Non-allowable expenditure:</i>			
Finance costs			
Loss on sale of investment property	8,000		1/2
Interest paid on loan to acquire subsidiary	2,000		1/2
Bank overdraft interest	0		1/2
Unrealised exchange loss	1,800		1/2
Restriction of interest for saloon car (€20,000 x 4%)	800		1/2
Staff expenses			
New Year's party	0		1/2
Excess entertaining expenses (€1,900 + €4,100 – €5,000)	1,000		1/2
Annual levy	350		1/2
Depreciation	28,000		1/2
Irrecoverable debts			
Loan written off	3,300		1/2
Gifts to clients	400		1/2
Car expenses			
Saloon car expenses	1,200		1/2
Motor van expenses	0		1/2
Special defence contribution paid	5,100		1/2
Fines for late payment of temporary tax	650		1/2
	<hr/>	52,600	
<i>Less: Non-taxable income</i>			
Interest received			
Gross interest on trade receivables	0		1/2
Gross interest on deposit account	(1,000)		1/2
Dividends received			
From overseas subsidiary	(12,000)		1/2
From Cyprus subsidiary	(15,000)		1/2
Finance income			
Government grant	0		1/2
Realised exchange profit	(2,500)		1/2
	<hr/>	(30,500)	
<i>Less: Capital allowances</i>			
Computer hardware (€8,000 x 20%)	(1,600)		1/2
Computer application software (whole amount)	(500)		1/2
Furniture and fittings	0		1/2
Saloon car	0		1/2
Office building (€350,000 – €50,000) x 3%	(9,000)		1/2
	<hr/>	(11,100)	
Taxable profit		<hr/> 38,000	

	€	Marks
Corporation tax liability (€38,000 x 12·5%)	4,750	½
Less: Provisional tax paid (€20,000 x 12·5%)	(2,500)	½
Less: Maximum foreign tax credit allowed	(1,900)	1
Lower of (€200,000/€500,000 x €38,000 x 12·5%) and (2% x 200,000)		
	<hr/>	
Corporation tax payable	350	
	<hr/>	<hr/>
		15