Answers

Section A

1 B

2 B

3 A

Dividends between Cyprus resident companies are not subject to special defence contribution.

4 A

	€
Salary	29,000
Tips from customers	250
Interest received on a deposit with a Cyprus bank	0
Income tax repayment interest (exempt)	0
Net income	29,250

5 D

6 A

	€
Cost (€200,000 – €50,000)	150,000
Less capital allowances claimed (2003–2013)	
3% x €150,000 x 11 years	(49,500)
TWDV 1 January 2014	100,500
Less disposal proceeds (€350,000 – €90,000)	260,000
Balancing charge – restricted to capital allowances claimed	49,500

7 B

Only the amounts actually paid to a registered charity during the accounting period are allowable as a deduction against trade profits. Donations to the Cyprus government are deductible expenses.

8 C

9 D

The trade samples are a business expense and are therefore allowable. As the pens bear the company's logo, they are also allowable.

10 D

11 B

Koulla's basic salary is €26,000. She is also taxable on the bonus of €2,000 received in the tax year 2014.

12 C

Tutorial note: *The loss of €2,800 is not deductible in arriving at the accounting profit for deemed dividend distribution purposes, since it remains an unrealised loss.*

Marks

13 A

Tutorial note: *A partnership is not a taxable entity. Each individual partner is liable to capital gains tax individually. As the asset is owned by all the partners, each partner must declare his share of any gain on his own capital gains tax self-assessment return.*

14 B

	€
Calculation of insurable emoluments:	
Actual emoluments	1,000
Central holiday fund contribution 8% (exempt)	–
	1,000
Calculation of contributions:	
Social insurance fund (7·8% x 2) x €1,000	156
Redundancy fund 1·2% x €1,000	12
Industrial training fund 0·5% x €1,000	5
Social cohesion fund 2% x €1,000	20
Central holiday fund (exempt)	–
	193

15 C

2 marks each **30**

Section B *Marks*

1 Mr Pavlos

(a) Capital gains tax (CGT) liability on the disposal of his main residence

	€	€	Marks
Disposal proceeds – January 2014		700,000	½
Less: Acquisition cost			
Cost of the house	(120,000)		1
(acquired before 1 January 1980, therefore, market value on 1 January 1980)			
Add: Indexation allowance			
(€120,000 x (117·49/34·96)) – €120,000	(283,284)		1
		(403,284)	
Less: Additions			
Swimming pool – February 1996	(25,000)		½
Add: Indexation allowance			
(€25,000 x (117·49/75·37)) – €25,000	(13,971)		1
		(38,971)	
Less: Incidental expenses			
Commission paid to an approved agent (5% x €700,000)	(35,000)		½
Immovable property tax	0		1
		(35,000)	
		222,745	
Less:			
Capital loss brought forward		(10,000)	1
Principal dwelling house lifetime exemption (not previously used)		(85,430)	1
Chargeable gain		127,315	
CGT liability at 20%		25,463	½
			8

(b) The capital gains tax (CGT) is payable by self-assessment. ½

Mr Pavlos is required to submit a declaration of disposal of property and pay the tax due within one month of the date of disposal, i.e. by 31 January 2014. 1½

2

10

Marks

2 Mrs Roulla

(a) **Registration for value added tax (VAT)**

Mrs Roulla is required to register for VAT when the value of her taxable supplies for the 12 months then ended exceeds €15,600 (the historic test). 1

Therefore, she will be required to register on 30 April 2014, as her taxable supplies at the end of April 2014 are €15,900 (working). 1

She must notify the VAT Commissioner within 30 days after the end of the month in which her taxable turnover for the previous 12 months exceeds the statutory limit of €15,600, i.e. by 30 May 2014. 1

Working:

Month	Gross sales	Amounts not to be included in sales for VAT purposes	Taxable supplies for VAT purposes	Cumulative taxable supplies	Marks
	€	€	€	€	
2013					
June	500		500	500	
July	600		600	1,100	
August	700		700	1,800	
September	1,000		1,000	2,800	
October	1,100		1,100	3,900	
November	1,300		1,300	5,200	
December	2,500	1,000	1,500	6,700	1
2014					
January	2,900	500	2,400	9,100	½
February	2,900	500	2,400	11,500	½
March	2,500	500	2,000	13,500	½
April	2,900	500	2,400	15,900	½
					6

(b) **Conditions to be met for input VAT to be deductible**

(1) The claimant must be a taxable person (making standard, reduced rate or zero-rated supplies) when the input VAT was incurred. 1

(2) The supply must be made to the claimant, and the claimant must use the goods or services received for business purposes. 1

Thus, personal expenses cannot be eligible for input VAT deduction. However, where goods and services are acquired partly for business purposes and partly for private purposes, for example, in the case of electricity and telephone, an apportionment may be made. 1

(3) The supply received must be supported by the required evidence. This will normally be the original VAT invoice but in the case of imports from non-EU countries, it will be the copy of the customs clearance document with the original cash receipt for payment of duties. 1

4

10

Marks

3 Andreas and Androula Markou

	1 January 2009	31 December 2014	
	€	€	
Deposits	5,000	32,000	½
Trade receivables (debtors) (Note 1)	10,000	55,000	1
Inventory	22,000	35,000	½
Plant and machinery	40,000	50,000	½
Saloon cars	10,000	25,000	½
Business bank account	30,000	15,000	½
Shop	100,000	100,000	½
Private house (Note 2)	100,000	130,000	½
Total assets	317,000	442,000	
Less: Liabilities			
Trade payables (creditors)	(5,000)	(15,000)	½
Bank loan (Note 3)	–	(25,000)	½
Net assets	312,000	402,000	
Less: Net assets as at 1 January 2009		(312,000)	½
Increase in net assets		90,000	
Add:			
Loan interest paid (Note 3)		12,000	½
House repairs and maintenance (Note 2)		5,000	½
Living expenses (Note 4)		83,000	½
Taxes and social insurance contributions (Note 4)		32,000	½
Total income		222,000	
Less: Non-taxable income			
Interest received (Note 5)		(3,000)	1
Cash gift from father (Note 4)		(25,000)	1
Total taxable income for the period 1 January 2009 to 31 December 2014		194,000	
			10

4 (a) Obligation to keep books and records

A self-employed person whose total turnover exceeds the annual amount of €70,000 must for every year of assessment:

– issue invoices and receipts in connection with their transactions, as prescribed by the Regulations; 1

– keep accounting books and records, on the basis of which accounts should be prepared in accordance with acceptable accounting principles; and 1

– ensure that their accounts are audited in accordance with acceptable auditing principles by a properly qualified auditor (for example, a member of the Institute of Certified Public Accountants of Cyprus who holds a practising certificate). 1

3

(b) Mr Marios

(i) The due date for submission of the 2010 income tax return was 30 April 2011. 1

(ii) As the income tax return was submitted after the due date, interest on the refundable income tax starts three months after the submission of the return.

Therefore, interest on the tax refund will be payable from 1 December 2012 to 28 February 2014. 1

The interest payable is:

((€550 x 5% x 1/12) + (€550 x 4·75% x 12/12) + (€550 x 4·50% x 2/12)) = €33 1

2

		Marks
(c) ABC Ltd – Interest and monetary charges on underpaid tax for 2012		
10% additional tax: €5,000 x 10% = €500		1
Interest payable on the tax due from 1 August 2013 to 31 November 2014: (€5,500 x 4·75% x 5/12) + (€5,500 x 4·50% x 11/12)) = €336		1
Monetary charge of 5%: 5% x €5,500 = €275		1
A monetary charge of €100 is payable.		1
		4
		10

Tutorial notes:

1. *Additional tax of 10% is payable because the temporary income declared is lower than the income finally determined by more than 25%.*
2. *The monetary charge of 5% is payable because the final self-assessment was not paid on time, i.e. before 1 August 2013.*
3. *The monetary charge of €100 is payable because the income tax return was not submitted on time, i.e. before 31 March 2014.*

5 Sky Blue Ltd

Corporation tax computation for the year ended 31 December 2014

	€	€	
Net profit (per question)		300,000	
Add: Disallowed expenses			
Repairs to rented property	0		½
Loss from the sale of listed securities	10,000		½
Cohesion fund contributions	0		½
Interest paid (Note 2):			
Gross interest on trade payable accounts	0		½
Interest on late payment of income tax	3,000		½
Interest on loan to acquire land held as an investment	12,000		½
Saloon car expenses	5,000		½
Donation to an approved charity	0		½
Taxes paid (Note 3):			
Provisional income tax paid	10,000		½
Immovable property tax	200		½
Special contribution for the defence tax	2,100		½
Expenses for the issue of new shares	10,000		½
Entertainment expenses (€16,000 – €15,000)	1,000		1
Maximum allowed is the lower of:			
– €17,086, and			
– 1% of the turnover (1% x €1,500,000) €15,000			
Depreciation (Note 4)	25,000		½
		78,300	
Deduct: Exempt income			
Rents received	0		½
Dividends received from a Greek trading company	(500)		½
Interest received (Note 1):			½
Gross interest received from a bank deposit account	(2,000)		½
Gross interest received from trade receivables	0		½
Profit from the sale of unlisted bonds	(5,000)		½
		(7,500)	
Deduct: Allowed expenses/charges not included in the financial statements			
Office building (acquired in 2000: (€140,000 – €40,000) x 3%))	(3,000)		½
Computer hardware (acquired in 2012: €15,000 x 20%)	(3,000)		½
Office equipment (acquired in 2012: €40,000 x 20% increased rate)	(8,000)		½
Saloon car (acquired in 2002: not eligible for capital allowances)	0		½
Shop (acquired in 2000: (€60,000 – €15,000) x 3%))	(1,350)		1
		(15,350)	
Taxable profit		355,450	

	€	Marks
Corporation tax liability (12·5% x €355,450)	44,431	½
Less: Provisional tax paid	(10,000)	½
Corporation tax liability balance	34,431	
Add: 10% Additional tax (low temporary assessment)	3,443	½
Corporation tax payable	37,874	
		15

6 Danny and Artemis Georgiou

(a) Danny – Income tax computation for 2014

	€	€	
Net profit (per question)		50,900	
Add: Disallowed expenses			
Irrecoverable debts (Note 1)			
General allowance (€600 – €500)	100		½
Specific allowance	0		½
Non-trade debts written off	300		½
Trade debts written off	0		½
Office electricity	0		½
Depreciation (Note 2)	15,000		½
Motor expenses (Note 3)	5,600		½
Employee salaries (Note 4)			
Unpaid salaries and contributions	2,000		½
Office maintenance	0		½
Promotional gifts given to customers	0		½
Donation to a political party	350		½
		23,350	
Deduct: Allowed expenses/charges not included in the financial statements			
Mercedes private saloon car (acquired in 2009: not eligible asset)	0		½
Office furniture (acquired in 2013: €15,000 x 20% increased rate)	(3,000)		½
		(3,000)	
Taxable profit		71,250	
Income tax liability			
€0–€19,500 at 0%	0		
€19,501–€28,000 at 20%	1,700		
€28,001–€36,300 at 25%	2,075		
€36,301–€60,000 at 30%	7,110		
€71,250–€60,000 at 35%	3,938		
Income tax liability		14,823	½
			7

Tutorial note: *Salaries for which social insurance contributions have not been paid by the due dates specified by the law are not tax deductible.*

Marks

(b) Artemis – Income tax computation for 2014

	€	€	Marks
Shop – rental income	19,000		½
Less: 20% deduction on rental income (€19,000 x 20%)	(3,800)		½
Less: Capital allowances:((€140,000 – €20,000) x 3%)	(3,600)		½
Less: Loan interest paid	(2,600)		½
		9,000	
Gross interest from a bank deposit account held with the Bank of Cyprus (exempt)		0	½
Gross dividend from a listed Cyprus company (exempt)		0	½
Profit from a disposal of a plot of land (exempt)		0	½
Net income		9,000	
Less: Personal allowances			
Life insurance premium:			
€5,000 paid, restricted to the 7% of sum assured (€7,000)	5,000		1
Restricted to 1/6th of net income (1/6 x €9,000)		(1,500)	½
Taxable income		7,500	
			5

(c) Mrs Artemis – Special defence contribution (SDC) computation for 2014

	€	€	Marks
Shop – rental income	19,000		
Less: 25% statutory deduction	(4,750)		½
Taxable	14,250		
SDC liability at 3%		427	½
Gross interest from the Bank of Cyprus	10,000		
SDC liability (30% x €10,000)	3,000		½
Less: SDC deducted at source	(3,000)		½
SDC payable		0	
Gross dividend from a listed Cyprus company	3,000		
SDC liability (17% x €3,000)	510		½
Less: SDC deducted at source	(510)		½
SDC payable		0	
			3
			15