
Answers

Section A

1 C

	€
Accounting profit	115,000
Less: Corporation tax	(15,000)
	<u>100,000</u>
Deemed distribution (70% x 100,000)	70,000
Less: Final dividend paid on 30 March 2014	(30,000)
	<u>40,000</u>
SDC liability (50% Cyprus tax residents shareholders x €40,000) x 17%	3,400

2 B

3 D

	€	€
Gross interest on deposit (€12,500 x 100/80)		15,625
SDC liability at 30%		4,688
Less: Foreign tax credit – lower of SDC liability	4,688	
Foreign tax paid (20% x €15,625)	<u>3,125</u>	
		(3,125)
		<u>1,563</u>

4 D

	€
Capital gain	54,655
Less:	
Capital loss brought forward	(6,800)
General lifetime exemption (not used in the past)	(17,086)
Chargeable gain	<u>30,769</u>
Capital gains tax liability (€30,769 x 20%)	6,154

5 B

	€
Plant and machinery:	
Cost	30,000
Less: Wear & tear claimed (2010–2013) (€30,000 x 10% x 4 years)	(12,000)
Tax written down value	18,000
Disposal proceeds	<u>27,300</u>
Balancing charge	9,300
Plot of land:	
No balancing adjustment arises	<u>0</u>
	<u>9,300</u>

6 D

	€	€
Salary		27,000
Interest received from a deposit in a local bank (exempt)		0
Income tax repayment interest (exempt)		0
Net income		<u>27,000</u>
Less: Personal allowances		
Social insurance contributions (7·8% x €27,000)	(2,106)	
Restricted to 1/6 of net income		<u>(2,106)</u>
Taxable income		<u>24,894</u>

7 B**8 A****9 B**

	€
Trading loss	(18,600)
Interest income (exempt)	0
Taxable rents from the leasing of a plot of land	10,000
Capital loss	0
	<u>(8,600)</u>
Add back: Donations to approved charities	500
Tax loss carried forward	<u>(8,100)</u>

Tutorial notes:

1. Losses which have been created by donations to approved charities cannot be carried forward.
2. Capital losses could not be carried forward for corporation tax purposes.

10 C**11 C****12 B****13 A**

	€
Calculation of insurable emoluments:	
Actual emoluments	1,500
Central holiday fund contribution 8% x 1,500	120
	<u>1,620</u>
Calculation of contributions:	
Social insurance fund (7·8% x 2) x €1,620	253
Redundancy fund 1·2% x €1,620	19
Industrial training fund 0·5% x €1,620	8
Social cohesion fund 2% x €1,620	32
Central holiday fund 8% x 1,500	120
	<u>432</u>

Marks

14 A

Salary	€ 22,000
Car benefit (€60 + €322 + €1,227 + €4,111) x 40%	<u>2,288</u>
	<u>24,288</u>

15 C

2 marks each

30

Section B
Marks

- 1 (a)** The interest paid on a partner's contributed capital, although an accounting expense, is not a tax deductible expense as it is regarded as a method of appropriation of profits for tax purposes.

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The interest will form part of each partner's taxable partnership profits and it will be subject to income tax.

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The interest paid on a business bank overdraft is a tax deductible expense for the partnership.

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(b) Partners' shares of the tax adjusted profit for the year ended 31 December 2014

	Christos €	Petros €	Androula €	Total €	
Partnership's tax adjusted profit				150,000	½
Salaries:					
Christos (9/12 x €39,000)	29,250			(29,250)	1
Petros (9/12 x €10,000)		7,500		(7,500)	1
Interest on fixed capital:					
Christos (€30,000 x 5% x 9/12)	1,125			(1,125)	1
Petros (€30,000 x 5% x 9/12)		1,125		(1,125)	½
Androula (€30,000 x 5% x 9/12)			1,125	(1,125)	½
Rent of partner's premises:					
Androula (9 x €500)			4,500	(4,500)	1
Profit balance				105,375	
Profit sharing ratio (PSR) (1:1:2)	26,344	26,344	52,687	(105,375)	1½
				<u>0</u>	
Partnership profit share	<u>56,719</u>	<u>34,969</u>	<u>58,312</u>	<u>150,000</u>	

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- 2 (a)** Dividends paid between resident companies are not subject to the special defence contribution (SDC), unless the non-exemption rule applies.

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Non-exemption rule: Exemption does not apply to any dividends received indirectly, if four years have passed from the end of the year in which the profits arose, out of which those dividends were declared; such dividends will be subject to SDC.

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- (b)** Dividends received by a resident company from non-resident companies are exempt from special defence contribution (SDC), unless the non-exemption rule applies.

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Non-exemption rule: If the company paying the dividends engages, directly or indirectly, to the extent of more than 50% in activities which lead to investment income and the foreign tax burden on the income of the company paying the dividends is substantially lower than the tax burden of the company in Cyprus, the dividend will be subject to SDC.

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(c) Dedalus Ltd

Special defence contribution (SDC) payable for the year ended 31 December 2014

	€	€	
Gross dividend received from A Ltd	<u>2,000</u>		
SDC liability – Exempt as the four year rule does not apply		0	½
Gross dividend received from X Inc (non-Cyprus company) (€8,500 + tax withheld at source €1,500)	<u>10,000</u>		½
SDC liability – Exempt as non-exemption rule does not apply		0	½
Gross dividend received from Y Inc (non-Cyprus company) (€19,000 + tax withheld at source €1,000)	<u>20,000</u>		½
SDC liability – Taxable as the non-exemption rule applies (€20,000 x 17%)	3,400		½
Less: Double tax relief for foreign tax (€1,000, but restricted to SDC)	<u>(1,000)</u>		1
		2,400	
Gross interest received from a bank deposit account (€1,000 x 100/70)	<u>1,429</u>		½
SDC liability – (€1,429 x 30%)	429		½
Less: SDC deducted at source	<u>(429)</u>		½
		0	
Gross interest received from trade debtors	<u>2,000</u>		
SDC liability – Exempt as it is closely connected with the ordinary carrying on of the business		0	1
Total SDC payable		<u>2,400</u>	<u>6</u>
			10

Tutorial notes:

1. The A Ltd dividend is a direct dividend paid out of trading profits in less than four years.
2. X Inc does not engage to the extent of more than 50% in activities which lead to investment income.
3. Y Inc does engage to the extent of more than 50% in activities which lead to investment income, and the foreign tax burden on its income is substantially lower than the tax burden of the company in Cyprus.

3 Paris

(a) Chargeable gain in respect of the sale of the plot of land

	€	€	
Disposal proceeds – March 2014		180,000	1/2
Less: Acquisition cost – September 1988	(35,000)		1/2
Add: Indexation allowance			
(€35,000 x (116·37/55·35) – 35,000)	(38,585)		1
Less: Acquisition expenses			
Land transfer fees	(1,050)		1/2
Add: Indexation allowance (not eligible)	(0)		1/2
Levelling of land paid during 1988	(1,000)		1/2
Add: Indexation allowance			
(€1,000 x (116·37/55·35) – 1,000)	(1,102)		1
Legal fees related to acquisition	(1,600)		1/2
Add: Indexation allowance (not eligible)	(0)		1/2
		(78,337)	
Less: Incidental expenses			
Commission paid to a non-approved estate agent	(0)		1
Loan interest paid	(8,900)		1/2
Immovable property taxes	(0)		1/2
Sewerage board fees	(0)		1/2
Accounting fees relating to the calculation of the capital gains tax	(0)		1/2
		(8,900)	
Capital gain		92,763	
Less:			
General lifetime exemption		(17,086)	1/2
Chargeable gain		75,677	
			9

(b) Date tax is payable: 30 April 2014.

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4 Armadillos Ltd

- (a) Supplies of goods between EU member states are not regarded as imports or exports, but as intra-community acquisitions and intra-community dispatches.

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The intra-community supplies of goods from Cyprus (intra-community dispatches) are treated as zero rated, provided that the buyer is VAT registered in another EU member state and the Cyprus seller shows the buyer's VAT registration number on the invoice, after they have verified the VAT number.

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- (b) Value added tax (VAT) return for the quarter ended 30 June 2014

	€	€	
Output VAT			
Standard rated supplies in Cyprus (€10,800 x 19/119)	1,724		1
EU dispatches – Sales to a taxable person in UK (€12,000 x 0%)	0		1
Exports to Israel (€11,000 x 0%)	0		1
		<u>1,724</u>	
Input VAT			
Imports from China (€20,000 x 19%)	(3,800)		1
Accounting services received from a Cypriot accountant (€500 x 19/119)	(80)		1
Entertaining of customers	0		1
Other expenses (€300 x 19/119)	(48)		1
	<u></u>	<u>(3,928)</u>	
VAT refundable		<u>(2,204)</u>	
			<u>7</u>
			<u>10</u>

5 Armageddon Ltd

- (a) In accordance with Cyprus tax law, the profits from a foreign permanent establishment are exempt from Cyprus corporate income tax, unless:

- the foreign tax burden is substantially lower than the Cyprus tax burden, and
- the branch engages directly or indirectly to the extent of more than 50% in investing activities.

1½

As neither of these conditions is satisfied, the Bithania branch profit is not subject to Cyprus corporate income tax.

½

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(b) Corporate income tax for the year ended 31 December 2014

	€	€	
Net profit for the year		179,717	
<i>Add:</i> Expenses not deductible for tax purposes			
Depreciation	9,000		1/2
Employees' salaries	0		1/2
Directors' salaries	0		1/2
Money stolen by a director	5,000		1/2
Cohesion fund contributions	0		1/2
Provisional tax paid for the year	8,500		1/2
Special defence contribution paid	11,500		1/2
Immovable property taxes paid	6,665		1/2
Insurances	0		1/2
Repairs and maintenance	0		1/2
Interest on the late payment of taxes	2,100		1/2
		42,765	1/2
<i>Less:</i> Non-taxable income included in the financial statements			
Profit from the Bithania branch (foreign permanent establishment)			
– exempt (Note 1)	(50,000)		1/2
Gross rents received (Note 2)	0		1/2
Dividends received (Note 3)			
Gross dividend received from a Cyprus company	(20,000)		1/2
Net dividend received from a foreign company	(8,500)		1/2
Interest received (Note 4)			
Gross interest received from a bank deposit account	(2,000)		1/2
Net interest received from a foreign company	(8,500)		1/2
		(89,000)	
<i>Less:</i> Deductible expenses not included in the financial statements			
Capital allowances			
Let property (Note 2)			
Office building ((€150,000 – €40,000) x 3%)	(3,300)		1/2
Business assets (Note 5)			
Factory ((€320,000 – €120,000) x 4%)	(8,000)		1/2
Computer hardware (€10,000 x 20%)	(2,000)		1/2
Office equipment (€15,000 x 20%)	(3,000)		1/2
		(16,300)	
		117,182	
Corporation tax liability (12·5% x 117,182)		14,648	1/2
<i>Less:</i> Temporary tax paid		(8,500)	1/2
		6,148	
<i>Add:</i> 10% additional tax (temporary assessment is lower than 75% of taxable income)		615	1
Income tax payable		6,763	
			13
			15

6 Christopher and Elena

(a) Christopher – Income tax payable for the year ended 31 December 2014

	€	€	
Net profit for the year		63,787	
Add: Expenses not deductible for tax purposes			
Temporary tax paid	1,700		½
Saloon car expenses (Note 2)	3,558		½
Depreciation (Note 3)	2,600		½
Employee salaries (Note 4)			
Unpaid salaries and contributions	400		½
Irrecoverable trade receivables (Note 5)			
Trade debts written off	0		½
Loan to a customer written off	214		½
Interest on bank overdraft (Notes 2 and 6)			
Interest restriction			
(Saloon car cost €35,600 x 6% = €2,136, but restricted to the actual interest expense)	1,800		1
Entertaining expenses (€3,554 – €1,565)	1,989		1½
Maximum allowed is the lower of:			
– €17,086 and			
– 1% of the turnover (1% x €156,455) €1,565			
Donation to a political party	150		½
	<u>150</u>		
		12,411	
Less: Deductible expenses not included in the financial statements			
Capital allowances (Note 3)	(1,060)		½
	<u>(1,060)</u>		
		(1,060)	
		<u>75,138</u>	
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	
€60,000–€75,138 at 35%		5,298	
Total tax liability		16,183	1
Less: Temporary tax paid		(1,700)	½
		<u>14,483</u>	
Add: 10% additional tax (temporary assessment is lower than 75% of taxable income)		1,448	1
Income tax payable		<u>15,931</u>	
			<u>9</u>

Tutorial notes:

1. Saloon car expenses are specifically non-deductible expenses.
2. Interest expense which is attributed or is deemed to be attributed to the acquisition of a saloon car is not a deductible expense.

(b) Elena – Taxable income for the year ended 31 December 2014

	€	€	
Interest on bank deposit held with the Bank of Cyprus (exempt)		0	½
Shop – rental income	15,000		½
Less: 20% deduction on rental income (€15,000 x 20%)	(3,000)		½
Less: Capital allowances: (€130,000 – €25,000) x 3%	(3,150)		½
Less: Related loan interest paid	<u>(3,250)</u>		½
		5,600	
Gross dividend from a listed Cyprus company (exempt)		0	½
Taxable income		<u>5,600</u>	
			<u>3</u>

	<i>Marks</i>
(c) Christopher must pay his income tax liability for the tax year 2014 via self-assessment. He must submit a temporary self-assessment within the year 2014, and a final self-assessment in the following year.	1
The temporary tax estimated must be paid in two equal instalments as follows:	
– first instalment: 31 July 2014;	
– second instalment: 31 December 2014.	1
The balance of any income tax payable is payable by self-assessment on or before 1 August of the year following the year of assessment, i.e. by 1 August 2015.	1
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