
Answers

Section A

1 C

2 D

	€	€
Disposal proceeds 15 November 2016		290,000
Less: Cost of building	220,000	
Inflation ($€220,000 \times (218.80/218.02) - €220,000$)	787	
Architect fees	5,000	
Commissions	2,000	
Immovable property tax (not allowable)	0	
		<u>(227,787)</u>
Taxable capital gain		<u>62,213</u>

3 B

Output VAT of €9,580 ($€20,000 \times 19/119 \times 3$)
 Input VAT of €7,125 ($€12,500 \times 19\% \times 3$)
 Net VAT liability for the quarter is €2,455 ($€9,580 - €7,125$)

4 A

	€
Gross salary	1,300
Central holiday fund ($€1,300 \times 8\%$)	<u>104</u>
Adjusted salary	1,404
Social insurance contributions at 7.8%	110

5 A

	€	€
Rental income ($€2,500 \times 11$ months)		27,500
Less: 20% allowance	5,500	
3% wear and tear ($€170,000 \times 3\% \times 11/12$)	<u>4,675</u>	<u>(10,175)</u>
		<u>17,325</u>

6 D

7 C

	€
Accounting/taxable profit for the year	185,000
Less: Corporation tax at 12.5%	<u>(23,125)</u>
Accounting profit after corporation tax	161,875
Profit for deemed distribution ($€161,875 \times 70\%$)	113,313
Profit subject to deemed distribution ($€113,313 \times 50\%$)	56,657
Special defence contribution at 17%	9,632

8 B

	€
Penalty for late submission of income tax return	100
5% penalty for not paying tax by due date ($€8,500 \times 5\%$)	425
4% interest for late payment of tax due ($€8,500 \times 4\% \times 16/12$)	453
5% penalty for not paying the tax within 30 days of submission due date ($€8,500 \times 5\%$)	425
4% additional interest charged on the 5% penalty immediately above ($4\% \times €425 \times 7/12$)	10
Total penalties and interest	<u>1,413</u>

9 C

10 D

11 C

12 A

	€
Income from employment	33,000
Bonus	1,500
Cancellation of insurance policy after four years ($€2,000 \times 20\%$)	400
	<u>34,900</u>

13 C

	€	€
Sale proceeds		20,000
Cost of motor van	35,000	
Less: Capital allowances ($€35,000 \times 20\% \times 3$ years)	<u>(21,000)</u>	<u>(14,000)</u>
Balancing addition		<u>6,000</u>

14 B

15 A

2 marks each

30

1 Pambos Ltd

(a) Value added tax (VAT) payable for the quarter ended 31 December 2016

	€	€	
Output VAT			
Sales (€110,000 x 98% x 19%)		20,482	2
Input VAT			
Expenses (€68,700 x 19%)	13,053		$\frac{1}{2}$
Entertainment (€3,000 x 19%)	(570)		1
Staff party (no adjustment)	0		$\frac{1}{2}$
Bad debts (€1,500 x 19/119)	239		1
Motor vehicle expenses:			
Service and petrol (€2,340 x 19/119 x 2/3)	249		$1\frac{1}{2}$
Road licence (no adjustment)	0	(12,971)	$\frac{1}{2}$
VAT payable		<u>7,511</u>	<u>7</u>

(b) Disclosure of errors

If the net value of the errors is less than €1,708, they can be disclosed by correcting them in the next VAT return.

1

If the net value of the errors is above €1,708, a letter must be sent to the Tax Department (Indirect Taxation) informing the Commissioner of Taxation about the errors and stating the intention to make corrections in the VAT returns.

1

If the errors involve a period of more than three years, a letter must be sent to the Tax Department (Indirect Taxation) informing the Commissioner of Taxation about the errors and stating the intention of making corrections, but such corrections can be included in the next VAT return only at the direction of the Commissioner of Taxation.

13**10**

2 Mr Aris

Adjusted taxable profit and income tax payable for the year ended 31 December 2016

	€	€	
Profit before tax		51,977	
Add expenses not deductible for tax purposes:			
Depreciation	24,880		½
Repairs (€1,500 + €1,200)	2,700		1
Motor expenses	2,368		½
Sundry expenses: Donation to football association	0		½
Entertainment expenses (€4,900 – (€132,105/0.4 x 1%))	1,597		1½
		<u>31,545</u>	
		83,522	
Less deductible expenses not included			
Capital allowances (€24,880 – (€25,000 x 5%) + (€1,500 x 20%))		(23,930)	2
Adjusted profit		59,592	
Less:			
Social insurance contributions (€384 x 52 weeks x 14.6%)		(2,915)	1
Insurance premiums:			
Own policy (restricted to 7% x €50,000)		(3,500)	1
Wife's policy		0	½
Taxable profit		<u>53,177</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–€53,177 at 30%	5,063		
		<u>8,838</u>	1
Less: Temporary tax paid		(7,500)	½
Income tax payable		<u>1,338</u>	
			<u>10</u>

3 James

(a) Capital gains tax payable on transfer of factory property

	€	
Value of land as at 1 January 1980 (€105,000)	105,000	1
Add:		
Indexation (€105,000 x (218·67/67·15) – €105,000)	236,926	1
	<u>341,926</u>	
Factory cost (€840,000 – €105,000)	735,000	1
Add:		
Indexation (€735,000 x (218·67/189·51) – €735,000)	113,095	1
	<u>848,095</u>	
Total cost of James' property (€341,926 – €848,095)	1,190,021	
Market value of Pefkos Ltd property	595,000	½
Reinvested profit	<u>–</u>	1
Market value of land and factory as at 31 December 2016 (€1,120,000 + €210,000)	1,330,000	1
Less: Value of James' property (as per above calculation)	<u>(1,190,021)</u>	
	139,979	
Less:		
Lifetime exemption	<u>(17,086)</u>	½
Chargeable profit	<u>122,893</u>	
Capital gains tax at 20%	24,579	½
No adjustment for commission paid to friend.		½
		<u>8</u>

Tutorial note: There is no reinvested profit as the market value of Pefkos Ltd property is less than the indexed cost of James' property.

- (b) James must submit the declaration of disposal of property within one month from the date of the disposal, and before the transfer of the property. 1
- The tax must be paid within one month after the date of the disposal/transfer of the property. 1
- 2
- 10**

4 Flower Ltd

(a) Special defence contribution (SDC) payable for 2016

	€	€	
Gross dividend income from Bee Ltd (€75,000 x 17%)		12,750	½
Gross dividend from Roses Ltd		0	½
Gross interest income from Bee Ltd (€25,000/0·8 x 30%)	9,375		1
Foreign tax credit (€31,250 x 20%)	<u>(6,250)</u>		1
		<u>3,125</u>	
Total SDC payable		<u>15,875</u>	

The dividend received from Bee Ltd is not exempt from SDC because:

- more than 50% of Bee Ltd's income is derived from investing activities; and 1
 - the tax burden in the Bahamas is substantially lower than the tax burden in Cyprus. 1
- 5

(b) Double tax relief

Any foreign tax on income suffered by a Cyprus tax resident is allowed as a tax credit against the tax payable in the Republic, i.e. the tax due in Cyprus is reduced by the foreign tax paid, irrespective of the existence of a tax treaty.

1½

The relief/credit is subject to the following limitations:

- The total amount of the foreign tax credit cannot exceed the total tax payable by the taxpayer for the year of assessment. 1
- The total amount of the foreign tax credit cannot exceed the tax amount as calculated in accordance with the provisions of the Cyprus Income Tax law. 1
- The foreign tax credit is granted only for the specific taxable income at a rate ascertained by dividing the tax chargeable on the total specific income by the amount of the taxpayer's total income. 1
- Foreign tax credit claims cannot be made after more than six years have elapsed from the end of the year of assessment to which they relate. ½

5**10**

5 Mina Lisa Limited**Corporate income tax for the year ended 31 December 2016**

	€	€	
Net profit for the year		800,000	
<i>Add:</i> Expenses not available for tax purposes			
Saloon car expenses	12,000		½
Repairs and maintenance	0		½
Bad debts – written off of specific trade receivable	0		½
Bad debts – increase in general provision	15,000		½
Donations – to political party	1,670		½
Donations – to football club	2,000		½
Donations – to approved charity	0		½
Interest paid – on bank overdraft	0		½
Interest paid – interest on overdue taxes	896		½
Interest paid – interest on loan to purchase listed securities	1,855		½
Entertainment (€24,350 – €17,086)	7,264		1
Depreciation	30,750		½
		71,435	
<i>Less:</i> Non-taxable income			
Interest received – from bank deposits	3,500		½
Interest received – from trade receivables	0		½
Interest received – from bank current account	0		½
Dividends received – from Cyprus public company	14,000		½
Dividend received – from overseas company	19,500		½
Profit from sale of listed securities	34,000		½
Realised exchange profit	36,000		½
Capital allowances			
Computer hardware (€5,500 x 20%)	1,100		½
Machinery (€25,000 x 20%)	5,000		1
Building ((€660,000 – €250,000) x 3%)	12,300		1
		(125,400)	
Taxable income		746,035	½
Corporation tax liability at 12·5%		93,254	½
<i>Less:</i> Temporary (provisional) tax paid		(45,000)	½
		48,254	
<i>Add:</i> 10% additional tax (temporary (provisional) assessment less than 75% of taxable income)		4,825	1
Income tax payable		53,079	
			15

6 Ms Fioroulla

Capital statement for the period 1 January 2011 to 31 December 2016

	1 January 2011 €	31 December 2016 €	
Assets			
House (€235,000 + €24,000)	235,000	259,000	1½
Business furniture (note 1)	20,000	38,000	1½
Investments (5,000 x €2·80) (note 2)	0	14,000	1
Motor cars	20,000	9,000	1
Trade receivables (note 4)	5,000	10,000	1
Bank balances	0	55,600	1
Total assets	280,000	385,600	
Less: Liabilities			
Business bank overdraft	(18,000)	(90,000)	1
Trade payables	(25,000)	(38,000)	1
Net assets	237,000	257,600	
Less: Net assets 1 January 2011		(237,000)	
Capital increase for the period		20,600	
Add:			
Living expenses (note 6)		125,000	½
Income taxes (note 6)		13,000	½
Loss from sale of car (note 3)		3,500	1
Overseas travel (€1,500 x 4 years) (note 6)		6,000	1
Total assets and expenses		168,100	
Deduct:			
Husband's salary (€23,500 x 6 years) (note 6)		(141,000)	1
Profit from sale of shares ((€5,000 x €2·50) – (€5,000 x €1·20))		(6,500)	1
Net bank interest income (note 5)		(1,800)	1
Taxable income for the period		18,800	
			15