
Answers

Section A

1 C

	€
Employer	
Social insurance contributions (54,396 x 9.5%)	5,168
Social cohesion fund (58,000 x 2%)	1,160
Giorgos	
Social insurance contributions (54,396 x 7.8%)	4,243
Total	<u>10,571</u>

2 B

Beta Ltd is a 100% subsidiary of Alpha Ltd which has been incorporated during the year. Therefore Beta Ltd is part of the tax loss relief group for 2018.

Gamma Ltd is not part of the group as Alpha Ltd's holding is only 60%.

Delta Ltd is part of the group as Alpha Ltd's shareholding is more than 75% and it is an EU company and there is no option to utilise its losses in Greece, its country of residence.

The Epsilon Ltd shareholding was sold during the year and therefore this company cannot be a member of the group for 2018.

3 A

	€
Gross employment income	35,000
Less: social insurance contributions (35,000 x 7.8%)	(2,730)
Rental income	6,600
Less: 20% allowance (6,600 x 20%)	(1,320)
Less: capital allowances (230,000 x 3%)	(6,900)
Chargeable income	<u>30,650</u>

4 D

	€
Entertaining customers (allowable amount limited to lower of 1% of turnover and actual expenditure) (3,500 – 3,000)	500
Entertaining employees (allowable)	0
Legal expenses relating to the acquisition of a new office	3,200
Bank charges on a bank loan taken out to acquire machinery	0
Write off of an irrecoverable loan to an employee	4,600
Total amount to add back to chargeable income	<u>8,300</u>

5 C

(1) and (3) do not constitute tax evasion.

6 A

	€	€
Dividends from trading company are exempt		0
Special defence contribution (SDC) on interest received from the Bank of Cyprus is deducted at source		0
UK bonds (4,000 x 100/80)	5,000	
SDC (5,000 x 30%)		1,500
Withholding tax (5,000 x 20%)		(1,000)
Interest from employee loan	1,500	
SDC (1,500 x 30%)		450
Total SDC payable		<u>950</u>

7 B

8 D

	€
Annual salary	17,000
Bonus	5,000
Overtime	1,500
Gift for his birthday	0
Gift from customer	500
Income tax repayment interest	0
Taxable income	<u>24,000</u>

9 C

	€
Legal consultation (not for business purposes)	0
Other business expenses (exceeding six months)	0
Accounting fee (within six months) (1,190 x 19/119)	190
Goods for resale acquired on 15 June 2015 (exceeding three years)	0
Goods for resale acquired on 30 November 2015 (within three years) (7,140 x 19/119)	1,140
Total input value added tax (VAT) claimable	<u>1,330</u>

10 A

PAYE payable for May 2018 is due on 30 June 2018.
Actual payment was made on 10 November 2018.
There is a 1% penalty per complete month the tax remains unpaid (i.e. 4%).

	€
Penalty (10,000 x 4%)	400
Interest (10,000 x 3.5% x 4/12)	117
Total penalties and interest	<u>517</u>

11 D

As the market value of the immovable property is less than 50% of the market value of the Eva Ltd shares there is no chargeable gain arising.

12 B

€30,000 (230,000 – 130,000 – 70,000)

13 C

(2) The registration threshold for distance sales is €35,000.
(3) Insurance income is exempt.

14 B

(1) Is incorrect because a Cyprus tax resident person is liable to special defence contribution (SDC) on overseas rental income.

(4) Is incorrect because the due date for payment of SDC by self-assessment on overseas dividends received during August 2018 is 31 December 2018.

15 D

€4,051 $(60,000 \times 9\% \times 4/12 + 45,000 \times 9\% \times 5/12 + 25,000 \times 9\% \times 3/12)$

2 marks each

30

Section B

Marks

1 (a) Compulsory registration

Andreas must register for value added tax (VAT) if the value of his taxable supplies exceeds €15,600 in any period up to 12 months; or

1

If there are reasonable grounds to believe that the value of his taxable supplies will exceed €15,600 in the next 30 days.

1

2

(b) Two advantages and two disadvantages of voluntary VAT registration

Advantages

- (1) The ability to recover input VAT.
- (2) Provides credibility to outsiders.
- (3) Late registration penalties can be avoided.
- (4) The business develops discipline in keeping proper books and records.

1/2 mark each item with maximum

1

Disadvantages

- (1) Additional administration costs for the business.
- (2) Non-VAT registered customers will have VAT added to their costs.
- (3) The risk of penalties and additional tax in the case of errors, omissions or late submission of VAT returns.

1/2 mark each item with maximum

1

2

(c) Basic VAT tax point

The basic tax point is the date on which the goods are delivered;

1/2

or made available to the buyer;

1/2

or when the services are completed.

1

2

(d) VAT treatment for services received from overseas suppliers

For the services which Andreas will receive, for which the supply is deemed to be made in Cyprus, VAT is charged in Cyprus under the reverse charge mechanism.

2

Under the reverse charge mechanism, Andreas must account for both output and input VAT on the supply.

1

The VAT tax effect of the reverse charge mechanism is neutral unless Andreas was engaged in exempt supplies.

1

4

10

2 Telco Ltd – Special defence contribution (SDC) liability on deemed dividend distribution

	€	€	
Accounting profit before taxation		225,000	
<i>Add:</i>			
Transfer to general reserve	35,000		1
		35,000	
<i>Less:</i>			
Unrealised gain – valuation of securities	(15,000)		1
Capital gains tax paid (80,000 x 20%)	(16,000)		1
Corporation tax paid (42,450 – 3,750 – 1,200)	(37,500)		1
Additional tax paid	(3,750)		1
SDC paid	(850)		1
		(73,100)	
Accounting profit subject to deemed distribution		186,900	
Deemed distribution on 31 December 2018 (186,900 x 70%)		130,830	1
<i>Less:</i> final dividend paid		(20,000)	1
Deemed dividend subject to SDC		110,830	
SDC liability			
Cyprus tax resident persons [(110,830 x 60%) x 17%]		11,305	1
The due date of payment is 31 January 2019.			1
			10

3 Hotel Ltd – Capital gains tax computation

	€	€	
Sales proceeds on 3 May 2018		1,100,000	½
<i>Less:</i>			
Cost of acquisition	(850,000)		½
Inflation [(850,000 x 220·23/219·82) – 850,000]	(1,585)		½
Cost of enhancement/capital expenditure	(45,000)		½
Inflation [(45,000 x 220·23/223·68) – 45,000]	0		½
Transfer fees	(15,000)		½
Preparation of capital gains tax return	0		½
Commission to licensed estate agent	(33,000)		½
Advertising	(500)		½
Interest paid on bank loan	0		½
		(945,085)	
		154,915	
<i>Add:</i>			
Capital allowances (working)		220,600	½
		375,515	
<i>Less:</i>			
Capital loss brought forward		(35,500)	½
Taxable capital gain		340,015	
Capital gains tax (340,015 x 20%)		68,003	½

Marks**Working**

	€	€	
Cost on 5 December 2010 (850,000 – 200,000)	650,000		1/2
Enhancement/capital expenditure	<u>45,000</u>		1/2
		695,000	
Less: capital allowances			
On cost (650,000 x 4% x 8 years)	(208,000)		1
On enhancement/capital expenditure (45,000 x 4% x 7 years)	<u>(12,600)</u>		1
		(220,600)	
Tax written down value		474,400	
Selling price of the hotel (1,100,000 – 700,000)		<u>(400,000)</u>	1/2
Balancing deduction (allowance)		<u>74,400</u>	
			10

Tutorial note: Since there is a balancing deduction (allowance), the capital allowances are added back.

4 (a) Income tax treatment of the branch in Dreamland

The profits from the Dreamland branch (a foreign permanent establishment) are exempt from Cyprus corporation tax unless: 1/2

- (i) the foreign tax burden is substantially lower than the Cyprus tax burden, **AND** 1/2
- (ii) the permanent establishment is engaged directly or indirectly to the extent of more than 50% in investing activities. 1/2

An election is available to have the foreign permanent establishment profits taxed in Cyprus. 1/2

In such case, a tax credit for the foreign taxes incurred on the profits of the foreign permanent establishment is available without the need for a double tax treaty to be in place. 1/2

If the Dreamland branch were loss-making, the losses can be set off against other profits derived from Cyprus. 1

However, when in future the foreign permanent establishment generates profits, an amount equal to the losses claimed is recaptured by adding the amount on the chargeable income. 1

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(b) Silence Ltd – Corporation tax computations

Year ended 31 December

	2016	2017	2018	
	€	€	€	
Profit/(loss) before taxation	(25,000)	18,000	15,000	
Dividends (exempt)	–	–	–	1/2
Profit from branch (exempt)	–	–	–	1/2
Interest on bank deposits (exempt)	–	–	–	1/2
	<u>(25,000)</u>	<u>18,000</u>	<u>15,000</u>	
Less:				
Capital allowances	(2,500)	(1,800)	(1,000)	1 1/2
Donations to approved charities	<u>800</u>	–	–	1
Chargeable income/(loss)	(26,700)	16,200	14,000	
Tax loss brought forward	–	(26,700)	(10,500)	1
Taxable income/(loss)	<u>(26,700)</u>	<u>(10,500)</u>	<u>3,500</u>	
				<u>5</u>
				10

5 (a) Petro – Income tax payable/(refundable) for the tax year 2018

	€	€	
Income			
Gross salary	52,000		1/2
Car benefit (3,600 x 60%)	2,160		1
Living accommodation costs	17,400		1/2
Employer's contribution to approved provident fund	0		1/2
Gross rental income (5,000 x 50%)	2,500		1/2
Loan benefit (25,000 x 9% x 6/12)	1,125		1
		75,185	
Less: deductions			
Rented property expenses (2,500 x 20%)	(500)		1/2
Capital allowances on rented property	0		1/2
Subscription to professional body	(240)		1/2
Seminars	(500)		1/2
Donations to approved charities (with receipts)	(200)		1/2
Donations to approved charities (without receipts)	0		1/2
Donation to football club	0		1/2
		(1,440)	
Net income		73,745	
Less: deductions			
Social insurance contributions (52,000 x 7.8%)	(4,056)		1/2
Provident fund (52,000 x 10%)	(5,200)		1/2
Life insurance premium (restricted to 7% of insured amount)	(5,600)		1
	14,856		
Restricted to 1/6th of net income (73,745 x 1/6)		(12,291)	1
Taxable income		61,454	
Computation of 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		
€1,454 at 35%	509		
Total amount of tax		11,394	1
Less: PAYE		(11,500)	1/2
Tax refundable		(106)	
			12

Tutorial note: The capital allowance of 3% for commercial buildings derives from the tax life of the building which is deemed to be 33 years. Therefore no capital allowance is provided for buildings which were built more than 33 years ago.

(b) Maria – Special defence contribution (SDC) payable/(refundable) for the tax year 2018

	€	€	
Rental income (5,000 x 50%)	2,500		1/2
Less: 25% allowance	(625)		1/2
	1,875		
SDC payable (1,875 x 3%)		56	1/2
Gross interest	1,600		
SDC (1,600 x 100/70 x 3% – since total income does not exceed €12,000)	69		1
Less: SDC withheld (2,286 x 30%)	(686)		1/2
SDC refundable		(617)	
			3
			15

6 Architect Ltd – Corporation tax computation for the year ended 31 December 2018

	€	€	
Accounting profit before taxation		1,200,000	
<i>Add:</i> adjustments on expenditure			
Depreciation	50,000		½
Loss from sale of computer hardware	2,000		½
Impairment of shares	35,000		½
Lawyer's annual retainer fee	0		½
Fees for increase in company share capital	5,000		½
Fees for letters sent to trade receivables	0		½
Fines and penalties	500		½
Unrealised exchange loss	1,300		½
Restriction of interest expense (working 1)	11,240		W1
Saloon car expenses	3,800		½
		108,840	
<i>Less:</i> adjustments on income			
Dividends received	(65,000)		½
Profit from disposal of shares	(28,000)		½
Balancing allowance (working 2)	(2,000)		W2
Realised exchange profit	(800)		½
Gross interest earned from a bank deposit account	(5,500)		½
Capital allowances (working 3)	(20,600)		W3
		(121,900)	
Profit subject to corporation tax		1,186,940	
Corporation tax at 12·5%		148,368	½
<i>Less:</i> temporary tax paid (800,000 x 12·5%)		(100,000)	1
		48,368	
<i>Add:</i> 10% additional tax for low temporary tax payment		4,837	½
Tax payable		53,205	

Working 1 – Restriction on interest expense

	€	
Cost of shares		
Cyprus Public Company Ltd (150,000 x 4%)	6,000	½
Plan Ltd (172,000 x 4% x 6/12)	3,440	1
Saloon car (45,000 x 4%)	1,800	½
Total restriction of interest	11,240	

Working 2 – Balancing allowance

	€	
Cost of computer hardware – 2016	20,000	
Capital allowances claimed (20,000 x 20% x 2 years)	(8,000)	1
Tax written down value	12,000	
Sale proceeds	(10,000)	½
Balancing allowance	2,000	

Working 3 – Capital allowances

	€	
Office [(450,000 – 130,000) x 3%]	9,600	1
Office furniture (25,000 x 20%)	5,000	½
Computer hardware (30,000 x 20%)	6,000	½
Saloon car (not a qualifying asset)	0	½
Computer application software (already written off)	0	½
Total capital allowances	20,600	