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# Answers

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Section A

1 D

All other statements are FALSE about tax evasion

2 B €21,400 (20,400 + 1,000)

3 A €49,050 (50,000 – 950)

4 B €31,250

	€
Accounting profit before tax	100,000
Less: Corporation tax (€100,000 x 12.5%)	(12,500)
Adjusted accounting profit	<u>87,500</u>
70% deemed distribution (€87,500 x 70%)	61,250
Less: Final dividend paid	(30,000)
Accounting profit subject to deemed distribution	<u>31,250</u>

5 D

(1) Social insurance contributions are suffered both by businesses employing individuals and by sole traders  
(3) Special defence contribution is suffered both by individuals and companies

6 C

(1) and (4) are chargeable disposals for capital gains purposes

7 C €1,680

	€
Rental income (€600 x 6)	3,600
Less: 20% allowance	(720)
Less: Wear and tear allowance ((€100,000 – €20,000) x 3% x 6/12)	(1,200)
Taxable rental income	<u>1,680</u>

8 A €110,000

	€
Income from Cyprus sources	90,000
PE profits (tax free)	0
Recapture of PE losses claimed in 2016	20,000
Chargeable income	<u>110,000</u>

9 B €39,132

	€
Sale proceeds	330,000
Less: Indexed cost (€250,000 x 217.79/188.16)	(289,368)
Less: Legal fees for the sale agreement	(1,500)
	<u>39,132</u>

10 D

11 B €2,093

	€
VAT on sales (€8,000 x 3 x 19%)	4,560
Less: VAT on expenses (€5,000 x 3 x 19/119)	(2,395)
Less: VAT on car expenses (€150 x 3 x 19/119)	(72)
VAT liability for the quarter	<u>2,093</u>

12 B

- (2) Drawings are disallowed at selling price  
 (3) Interest is allowed for acquiring 100% of the subsidiary

13 C

- (1) False: 75% of rental income is liable to special defence contribution  
 (4) False: Resident companies earning interest deriving from Cyprus sources are taxed at 30%

14 C €432 (126 + 120 + 186) = (1,500 x 1.08 x 7.8%) + (1,500 x 8%) + (1,500 x 1.08 x 11.5%)

15 A

The actual tax point prevails over the basic tax point and is the earlier of the date of invoice (10 May 2017), the date of payment (7 May 2017) and the basic tax point (i.e. delivery of goods 5 May 2017). Due to the fact that the issue of invoice is made within 14 days after the basic point, this is considered to the actual tax point.

2 marks each

30

## Section B

## Marks

## 1 (a) Antonis – Calculation of VAT liability

	€	
<b>Output VAT</b>		
Bottled water (€2,000 x 5%)	100	½
Basic foodstuff (€3,500 x 5%)	175	½
Newspapers and magazines (€2,500 x 5%)	125	½
Other standard rated sales (€13,000 x 19%)	2,470	½
Service received from a non-EU company (reverse charge) (€600 x 19%)	114	½
Total output VAT	<u>2,984</u>	
<b>Input VAT</b>		
Basic foodstuff (€1,200 x 5%)	60	½
Newspapers and magazines (€1,000 x 5%)	50	½
Other standard rated purchases [(€8,000 – €900) x 19%]	1,349	1
Services received [(€1,500 – €400 – €600) x 19%]	95	1
Services received from a non-EU company (reverse charge) (€600 x 19%)	114	½
Business entertaining	0	½
Car expenses (€700 x 2/3 x 19%)	89	½
Total input VAT	<u>1,757</u>	
Total VAT liability (€2,984 – €1,757)	1,227	
Due date for submission of VAT return 10 August 2017.		<u>1</u>
		<u>8</u>

**Tutorial note:** Input VAT on goods is recoverable if they have been acquired for business purposes within a period of three years prior to the date of registration and are still held at the time of registration.

Input VAT on services is recoverable if they have been acquired for business purposes within a period of six months prior to the registration date.

## (b) Antonis – Calculation of penalties for late submission of VAT return and payment of VAT liability of €2,000

	€	
Fixed penalty for late submission of VAT return	51	½
Penalty for late payment of VAT liability (€2,000 x 10%)	200	½
Interest for late payment of VAT liability (€2,200 x 3·5% x 42/365)	9	1
	<u>260</u>	<u>2</u>
		<u>10</u>

## 2 Scissors Ltd – Calculation of special defence contribution

	€	€	
Rental income	35,000		
Less: 25% allowance	(8,750)		1/2
Rent subject to special defence contribution (SDC)	26,250		
SDC 3%	788		1/2
Less: Withheld at source (€788 x 5,000/35,000)	(113)		1
Special defence contribution payable		675	
<b>Dividends</b>			
Cyprus resident companies	0		1/2
Foreign trading company	0		1/2
Foreign investment company (€22,310 x 100/97)	23,000		1
Dividend subject to SDC	23,000		
SDC 17%	3,910		1/2
Less: Foreign tax credit (€23,000 x 3%)	(690)		1/2
Special defence contribution payable		3,220	
<b>Interest</b>			
Deposit account in Cyprus	3,500		1/2
Loan to employee	900		1/2
Trade receivables	0		1/2
Cyprus government saving bonds	1,200		1/2
Deposit account in bank situated outside Cyprus (€3,400 x 100/80)	4,250		1
Interest subject to SDC	9,850		
SDC 30%	2,955		1/2
Less: Withheld at source – Cyprus (€3,500 x 30% + 1,200 x 30%)	(1,410)		1
Less: Foreign tax credit (€4,250 x 20%)	(850)		1/2
Special defence contribution payable		695	
Total special defence contribution payable		4,590	
			<b>10</b>

## 3 (a) John and Maria – Capital gains tax on exchange of properties

	€	€	
<b>John: Exchange of holiday house on 20 August 2017</b>			
Sale proceeds (value of house)		300,000	
Cost of house (€115,000 x 216.17/112.84)	220,308		1
Cost of central heating (€7,000 x 216.17/167.16)	9,052		1
Transfer fees	6,000		1/2
Repaint of house	0		1/2
Legal fees	1,000		1/2
Valuation fees	500		1/2
Commission to licensed real estate agent	9,000		1/2
		(245,860)	
Chargeable gain		54,140	
Less: Life time exemption		(17,086)	1/2
Taxable capital gain		37,054	
Capital gains tax (€37,054 x 20%)		7,411	1/2

	€	€	Marks
<b>Maria: Exchange of holiday house on 20 August 2017</b>			
Sale proceeds (value of house)		200,000	
Cost of house (€50,000 x 216·17/67·15)	160,961		1
Cost of swimming pool (€12,000 x 216·17/228·56)	12,000		1/2
Transfer fees	5,000		1/2
		(177,961)	
Chargeable gain		22,039	
Less: Reinvestment of gain (roll-over relief)		(22,039)	1/2
Taxable gain		—	
			<u>8</u>

**Tutorial note:** The retail price index reached a maximum in 2012 and has been following a downward trend since, i.e. there is deflation and not inflation of prices. As a result, the inflation adjustment results in a lower cost rather than a higher cost as would normally be expected. The legislation provides in article 6(b) that what is allowable is any cost made wholly and exclusively for the purposes of realising the gain adjusted for inflation (not deflation). As the legislation does not provide for a retail price index adjustment but for an inflation adjustment to cost, no retail price adjustment should be made to cost.

**(b) John and Maria – Restated value of properties**

	John €	Maria €	
Value of properties (20 August 2017)	200,000	300,000	1
Less: Capital gains reinvested	—	(22,039)	1
Restated value for future disposal	200,000	277,961	
			<u>2</u>
			<u>10</u>

**4 (a) Taxes Ltd – Penalties and interest for late submission of corporation tax return and payment of corporation tax balance**

	€	
Monetary charge for late submission of tax return	100	1
5% monetary charge for late settlement of tax (€15,000 x 5%)	750	1
5% additional monetary charge for late settlement of tax (more than two months) (€15,000 x 5%)	750	1
Interest (€15,000 x 3·5% x 4/12)	175	1
	1,775	
		<u>4</u>

**(b) Final determination assessment**

The final determination assessment should be made within three years of the date of filing the objection.	1/2
On receiving the final determination, a taxable person may either:	
– within 45 days, file a hierarchical recourse to the Tax Tribunal, or	1/2
– within 75 days, apply to the Administrative Court.	1/2
The burden of proof that the assessment is excessive falls on the shoulders of the taxpayer.	1/2
The Tax Tribunal has the right	
– to increase or reduce the assessment,	1/2
– uphold or declare void the assessment, or it can remit the case to the Commissioner with instructions to re-examine or to take a new decision.	1/2
The taxpayer has the right to apply to the Administrative Court, after the decision of the Tax Tribunal, again within 75 days.	1/2
	<u>4</u>

**(c) Powers of Commissioner of Taxation during a stock-take**

Where there is a reasonable suspicion that the correct quantities and/or prices of the goods of a trade or business are not entered into the books of account, the Commissioner of Taxation has the power to audit the correctness thereof. The Commissioner may require that an agent/officer specially authorised by him in this respect be present during the stock-take of such goods.

2**10****5 Philippos – Capital (net worth) statement**

		1 January 2012	31 December 2017	
		€	€	
<b>Assets</b>				
Cash held	(Note 1)	2,000	7,200	1
Investments (3,000 x €3.50)	(Note 2)	–	10,500	1
Inventories (€55,000 x 100/125)	(Note 3)	20,000	44,000	1
Trade receivables	(Note 4)	15,000	40,000	1
Business equipment	(Note 5)	30,000	65,000	1
Motor vehicles	(Note 6)	8,000	35,000	1
Jewellery	(Note 7)		5,000	½
Total assets		75,000	206,700	
<b>Less: Liabilities</b>				
Business bank overdraft (as per question)		(25,000)	(50,000)	½
Trade payables (as per question)		(22,000)	(40,000)	½
Car loan (€35,000 – €5,000) = €30,000 loan – €15,000 repayments + €3,000 interest)	(Note 6)		(18,000)	1
Net assets		28,000	98,700	
Less: Net assets as at 1 January 2012			(28,000)	
Capital increase for the period			70,700	
<b>Add:</b>				
Loan interest	(Note 6)		3,000	½
Loss from sale of old car (€4,000 – €8,000)	(Note 6)		4,000	1
Income tax and special defence contribution			8,000	½
Social insurance payments			13,000	½
Living expenses			130,000	½
Annual holidays (€2,800 x 6)			16,800	½
Residential house rent (€2,500 x 6 x 12)			180,000	1
Total assets and expenses			425,500	
<b>Less:</b>				
Profit from sale of shares (5,000 shares x (€4.20 – €2.50))	(Note 2)		(8,500)	1
Hilary's net emoluments (€28,400 x 6)			(170,400)	½
Business income			(180,000)	½
Additional taxable income for the period			66,600	
				<u><b>15</b></u>

## 6 Rock Ltd – Calculation of corporation tax

	€	€	
Net profit for the year		480,000	
<i>Add: Non-allowable expenditure</i>			
Increase in general provision for impaired debts	7,000		1/2
Increase in specific impaired debt provision	0		1/2
Entertaining (€8,500 + €11,000 – €11,500)	8,000		1
Gifts to employees	2,800		1/2
Gifts to customers (with logo)	0		1/2
Depreciation	55,000		1/2
Payroll expenses – Bonus paid to sales director	0		1/2
Donations – political parties	3,200		1/2
Donations – approved charities	0		1/2
Interest paid – on loan to acquire shares in public listed companies in Cyprus	3,550		1/2
Interest paid – on loan to acquire saloon car	1,550		1/2
Saloon car expenses	1,460		1/2
Goods stolen by ex-employee	0		1/2
Realised exchange loss	6,570		1/2
Legal expenses in relation to trade receivables	0		1/2
		89,130	
<i>Less: Non-taxable income</i>			
Interest received from overseas bank deposit accounts	(5,000)		1/2
Interest from local bank current accounts	0		1/2
Interest from Cyprus government development stock	(4,000)		1/2
Gross dividend from private limited companies in Cyprus	(16,000)		1/2
Gross dividends from private limited companies in Greece	(12,000)		1/2
Profit from sale of shares	(13,000)		1/2
		(50,000)	
<i>Less: Capital allowances</i>			
Machinery (€80,000 x 20%)	(16,000)		1
Saloon car	0		1/2
Factory ((€500,000 – €80,000) x 7%)	(29,400)		1
		(45,400)	
Taxable profit		473,730	
Corporation tax liability at 12.5%		59,216	1/2
<i>Less: Provisional tax paid (€300,000 x 12.5%)</i>		(37,500)	1/2
		21,716	
<i>Add: 10% additional tax (provisional assessment income declared is less than 75% of taxable income as adjusted)</i>		2,172	1/2
Total corporation tax payable		23,888	

**15**