

---

# Answers

---

Section B

Marks

1 (a) Resident in the Republic

A Cyprus tax resident individual is an individual who stays in the Republic of Cyprus for a period, or periods, exceeding in aggregate 183 days in a year of assessment.

1

An individual who does not satisfy the above condition may still be deemed to be a Cyprus tax resident individual if they satisfy all of the following conditions within the same tax year (1 January to 31 December):

1/2

- does not spend more than 183 days in any other country;
- is not a tax resident of another country;
- remains in Cyprus for at least 60 days;
- at any time during the tax year, carries on a business in Cyprus, is employed in Cyprus or holds an office in a Cyprus tax resident person; and
- maintains a permanent home in Cyprus which is either owned or rented by them.

1/2

1/2

1/2

1

1

A company is resident in the Republic of Cyprus if its management and control is exercised in Cyprus.

1

6

**Tutorial note:** *If the business, employment or holding of an office is terminated during the year, then the individual will cease to be considered a resident in the Republic. It was not necessary for candidates to state this to get the mark.*

(b) Philip

As a Cyprus tax resident, Philip is subject to Cyprus income tax on his worldwide income. Therefore, the gross royalty income (i.e. inclusive of the withholding tax suffered in Sistaland) of €20,000 will be taxable in Cyprus in the year 2017.

1/2

1

Despite there being no double tax treaty between Cyprus and Sistaland, Cyprus will give unilateral relief for the foreign tax suffered on a credit basis.

1

The credit given will be the lower of the foreign tax suffered (i.e. €4,000) and the tax payable on the foreign income by Philip in Cyprus using his average income tax rate in 2017 based on the fraction (total tax chargeable on total income/total worldwide income).

1 1/2

4

**10**

## 2 (a) Tikes Ltd

(i) A dividend will not be exempt from the special defence contribution (SDC) if:

- (1) more than 50% of the activities of the non-resident company paying the dividend lead to investment income; and
- (2) the foreign tax burden on the income of the company paying the dividend is substantially lower than the tax burden of the Cyprus tax resident company.

1

1

2

(ii) Special defence contribution (SDC) for 2017

	€	
<b>Rental income</b>		
– January to June 2017 (€500 x 6 x 75% x 3%)	68	1
– Due date: 30 June 2017		½
<b>Dividend from Safron Ltd</b>		
– Exempt (foreign tax burden at 12% is not substantially lower than 12.5%)	0	1
<b>Bank interest</b>		
– Gross interest received: €1,500 (€1,050 x 100/70)		½
– SDC at 30%	450	½
– Deducted at source		½
<b>Interest on loan to employee</b>		
– SDC €700 at 30%	210	½
– Due date: 31 January 2018		½
	<u>728</u>	<u>5</u>

## (b) Tibshelf Ltd

2017 adjusted accounting profit for deemed dividend distribution purposes

	€	
Accounting profit	180,000	
<i>Add:</i>		
Depreciation on cost	0	½
Additional depreciation due to the revaluation of a building	2,400	½
Unrealised loss on revaluation of financial assets	12,000	½
Transfer to general reserve	20,000	½
<i>Less:</i>		
Corporation tax paid (€3,800 – €500)	(3,300)	1
Adjusted accounting profit	<u>211,000</u>	<u>3</u>
		<u>10</u>

## 3 Nicos

## Capital gains tax liability on the sale of land

	€	€	
Disposal proceeds (20 August 2017)		380,000	
Less:			
Indexed cost of land ( $€250,000 \times 216.17/207.80$ )	260,070		1
Land registry transfer fees	15,000		1
Indexed levelling of land ( $€6,500 \times 216.17/207.80$ )	6,762		1½
Indexed civil engineer fees ( $€1,500 \times 216.17/207.80$ )	1,560		1
Plot cleaning	0		1
Indexed water installation fee ( $€4,000 \times 216.17/231.66 = 3,733$ )	4,000		1½
Commission ( $€380,000 \times 3\%$ )	11,400		½
Valuation of the land	1,500		½
Bank loan interest	25,350		1
		(325,642)	
		54,358	
Less: Life time exemption		(17,086)	½
Taxable capital gain		37,272	
Capital gains tax payable at 20%		7,454	½

10

**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.

**Note to markers:** ½ mark for including land transfer fee, ½ mark for not applying indexation.

## 4 Omicron Ltd

## (a) Value added tax (VAT) for the quarter ended 30 June 2017

	€	€	
<b>Output VAT</b>			
Sales of goods in Cyprus ( $€65,000 \times 19\%$ )	12,350		½
Sales to VAT registered persons in Germany	0		1
Consultancy services received from a UK consultant – reverse charge ( $€3,500 \times 19\%$ )	665		½
		13,015	
<b>Input VAT</b>			
Purchases of goods in Cyprus ( $€18,000 \times 19\%$ )	3,420		½
Imports from USA ( $€23,000 \times 19\%$ )	4,370		½
Consultancy services received from a UK consultant ( $€3,500 \times 19\%$ )	665		½
Staff party held at a restaurant ( $€800 \times 9\%$ )	72		1
Entertaining customers in Cyprus (blocked)	0		½
Acquisition of new motor van ( $€10,000 \times 19\%$ )	1,900		½
Road tax for the new motor van (exempt)	0		½
		(10,427)	
Net VAT payable		2,588	
Due date for submission of the VAT return: 10 August 2017.			1

7

**(b) Interest and penalties for the late submission of VAT return and payment of due VAT**

	€	
Surcharge in respect of late return	51	½
Surcharge and interest in respect of late payment:		
– Additional tax (€2,588 x 10%)	259	1
– Interest (€2,847 (€2,588 + €259) x 3·5% x 35/365 days)	10	1½
	<u>320</u>	<u>3</u>
Total surcharge and interest		<u><b>10</b></u>

**5 Laces Ltd****Corporation tax liability for the year ended 31 December 2017**

	€	€	
Profit before taxation		65,518	
<i>Add:</i> Non-allowable expenditure			
Salaries	0		½
Rent	0		½
<b>Professional fees</b>			
Annual company fee	350		1
Legal fees relating to overdue trade receivables	0		½
Annual retainer fee for legal consultants	0		½
<b>Gifts and donations</b>			
Donations made to political parties	300		½
Gifts to customers – diaries displaying the company's logo	0		½
Gifts to customers – bottles of wine	1,500		½
Scholarship	10,000		½
<b>Entertaining</b>			
Entertaining employees (allowable)	0		½
Entertaining customers (€4,825 < 1% x €650,000)	0		½
<b>Interest paid</b>			
On loan to invest in 100% subsidiary	2,500		½
On bank overdraft	0		½
<b>Provisions</b>			
Bad debts recovered from previous years	0		½
Increase in specific bad debt provision	0		½
Provision for obsolete stock	2,600		½
Depreciation	<u>35,120</u>		½
		52,370	
<i>Less:</i> Non-taxable income			
<b>Other operating income</b>			
Interest income from bank deposit	(1,275)		½
Unrealised exchange profit	(3,460)		½
Realised exchange profit	(790)		½
Dividends received from subsidiary	<u>(683)</u>		½
		(6,208)	
<i>Less:</i> Capital allowances			
Factory (€320,000 x 4%)	(12,800)		½
Assembly machines (€80,000 x 10%)	(8,000)		½
Sewing machine (€20,000 x 20%)	(4,000)		½
Computer hardware (€5,600 x 20%)	(1,120)		½
Accounting software (100%)	<u>(800)</u>		1
		(26,720)	
Taxable profit		<u>84,960</u>	
Corporation tax liability at 12·5%		10,620	½
<i>Less:</i> Temporary tax paid		<u>(12,000)</u>	½
Corporation tax refundable		<u>(1,380)</u>	
			<u><b>15</b></u>

## 6 Constantina

## (a) Income tax liability for the year 2017

	€	€	
Income			
Gross salary	117,000		1/2
Rental income	14,400		1/2
Gross interest received – bank situated in Cyprus	0		1/2
Gross interest received – bank situated in Russia	0		1/2
Director's loan benefit [(€35,000 x 9% x 6/12) + (€55,000 x 9% x 6/12)]	4,050		1
Total income		135,450	
Less deductions:			
Executive first employment exemption (€117,000 x 50%)	58,500		1
Rented property expenses (€14,400 x 20%)	2,880		1/2
Capital allowances of rented property [(€350,000 – €95,000) x 3%]	7,650		1
Interest paid on loan to acquire rented property	2,950		1/2
Donations to football club	0		1/2
Donations to approved charities (€300 – €100)	200		1
		(72,180)	
Net income		63,270	
Less deductions:			
Social insurance (maximum €54,396 x 7.8%)	4,243		1
Life insurance premium (maximum €35,000 x 7%)	2,450		1/2
Medical insurance (maximum €135,450 x 1.5%)	2,032		1/2
Provident fund contributions	3,510		1/2
	12,235		
Total deductions restricted to 1/6 of net income (€63,270 x 1/6)		(10,545)	1
Taxable income		52,725	
			11

**Tutorial note:** Constantina is entitled to the executive first employment exemption because she was resident outside Cyprus in 2015 (the year before the commencement of her employment with Everseas Ltd) and her employment income (salary) is greater than €100,000.

## (b) Deemed benefit

A deemed benefit arises when a Cyprus tax resident company provides:	1/2
– a loan,	1/2
– cash drawings, or	1/2
– any other financial assistance	1/2
to	
– a director, or	1/2
– a shareholder who is a physical person, or	1/2
– their spouse or any other relative up to second degree.	1
	4
	15