Specimen Exam

Exam Name: Taxation (E1 CYP)
Time Allowed: 3 hours
Pass Mark: 50%

This exam contains 2 sections:

Section A:
15 questions, each worth 2 marks
30 marks in total

Section B:
4 questions, each worth 10 marks
2 questions, each worth 15 marks
70 marks in total

Note: This specimen examination has been prepared based on legislation passed by 30 September 2025 (to be updated).

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Section A

Question 1

Which TWO of the following statements about tax evasion/tax avoidance are true?

A Tax evasion is legal provided there is no proof of an intention to deceive
B Tax avoidance involves exploiting legal loopholes to reduce tax payable
C Failing to declare rental income which is below €19,500 is tax evasion
D Intentionally delaying the disposal of a private residence from 31 December 2024 to 28 February 2026 to qualify for the private residence exemption is tax evasion

Question 2

Paul, a tax resident of Cyprus, had the following sources of income for the year 2025:

	€
Gross salary from employment	30,000
Rental income from a flat in Protaras, Cyprus	12,000

The flat in Protaras was purchased in 2021 for €150,000 (including €20,000 for the land).

Ignoring general healthcare system (GHS) contributions, what is Paul's taxable income for the year 2025?

A €35,460
B €35,700
C €32,460
D €33,060

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Question 3

Which THREE of the following statements regarding trading losses of a company are correct?

A Losses cannot be carried forward if the company delays the submission of tax returns for more than six years from the due date
B Donations and contributions cannot be carried forward if not utilised
C Losses cannot be carried forward if there is a change in ownership of the shares of the company
D Losses of an overseas permanent establishment cannot increase the taxable losses of a Cyprus-based company
E Losses cannot be carried forward if the company fails to submit its tax return and computations within three years from the due date
F Capital allowances giving rise to a loss are treated as trading losses and may be carried forward

Question 4

Constantia, a Cyprus tax resident individual, is trying to determine whether she will be subject to capital gains tax in 2025.

Which TWO of Constantina's transactions below represent a chargeable disposal for capital gains tax purposes?

A Sold her holiday house in Limassol, Cyprus. The house was purchased in 2016 from a friend
B Exchanged a large plot of land in Larnaca, Cyprus, with a flat in Limassol. At the date of the exchange, the market value of the plot of land was higher than the market value of the flat
C Sold a piece of land in Paphos, Cyprus, which she had inherited from her father in 2019
D Sold shares of Bank of Limassol listed on Cyprus Stock Exchange, resulting in a gain of €15,000

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Question 5

Michelle, a retired Cyprus tax resident, received the following income for the year 2025:

	€
Pension income from Cyprus	6,000
Net interest received from a local Cyprus bank deposit account	1,500
Gross dividend income from a foreign trading company	3,800

Note: The foreign trading company is resident in Neverland and engages mainly in trading activities. The corporation tax rate in Neverland is 10%.

Calculate Michelle's special defence contribution (SDC) liability for the year 2025.

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Question 6

Truffle Ltd is a company incorporated under the laws of Malta and has its registered office address there.

The company's board of directors consists of three members. Two members reside in Cyprus and one in Malta. The board holds regular board meetings in Nicosia, Cyprus, where key strategic decisions are made.

The company has a branch in Cyprus and employs two full time employees.

Which of the following statements relating to the Cyprus tax residency status of Truffle Ltd is correct?

A Truffle Ltd is tax resident in Cyprus because its management and control are exercised in Cyprus
B Truffle Ltd is not tax resident in Cyprus because it was incorporated in Malta
C Truffle Ltd is not tax resident in Cyprus because it does not have its registered office address in Cyprus
D Truffle Ltd is tax resident in Cyprus because it has an operational branch in Cyprus

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Question 7

Which THREE of the following statements regarding partnerships are true?

A A partnership is not considered a separate legal entity and is taxed at the level of the partners
B A partnership is required to pay dividends to its partners out of its profits
C A partnership is required to prepare financial statements regardless of its level of income
D Partners' salaries do not reduce the partnership's taxable profits
E Partnerships are subject to provisional tax
F The deadline for the submission of a partnership's income tax return is 31 July of the year following the year of assessment

Question 8

Fenderer Ltd, a Cyprus tax resident company, had the following results for the year ended 31 December 2025:

	Note	€
Trading profit		280,000
Gain from the revaluation of immovable property		15,000
Profit from a permanent establishment situated in Farland	1	20,000
Gross dividend income	2	12,000

Notes:

1. The permanent establishment was incorporated in Farland in April 2025 and its principal activity is textile trading. The profit is for the period from 1 April 2025 to 31 December 2025. The corporation tax rate in Farland is 4%.

2. The dividend was distributed to Fenderer Ltd by a wholly owned subsidiary, resident in Closeland. The subsidiary company engages predominantly with investment activities. The corporate tax rate in Closeland is 2%.

Calculate Fenderer Ltd's taxable profit for the year ended 31 December 2025.

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Question 9

Polyana holds 60% of the shares of Sea Ltd.

Sea Ltd owns immovable property in Cyprus which it acquired in 2018 for €200,000.

On 15 June 2025, Polyana sold all her shares in Sea Ltd for €750,000. The market value of Sea Ltd's immovable property on the same date was €600,000.

Polyana has already claimed her general lifetime exemption for capital gains tax purposes.

What is the capital gain arising on the disposal of Sea Ltd shares by Polyana on 15 June 2025, ignoring any indexation allowance?

A €240,000
B €360,000
C €630,000
D €330,000

Question 10

Jenny runs an online boutique in Cyprus, selling handmade jewellery. She started her business in January 2025 and sells to both local customers and private individuals in other European Union (EU) countries. She is not value added tax (VAT) registered yet.

Her taxable sales have been as follows:

- January – June 2025: €6,000 (all local sales) in total
- July – December 2025: €7,000 in total (including €4,000 in sales to private individuals in the EU countries of France and Germany)
- January – February 2026: €3,500 in total (€2,000 local sales, €1,500 EU sales)

Which of the following indicates when Jenny must apply for VAT registration?

A Immediately, because she sells to customers in other EU countries
B Once her total turnover in a rolling 12-month period exceeds €15,600, including both local and EU sales
C Only if her EU sales exceed €10,000 in a calendar year, due to the EU distance selling rules
D Once her total turnover in a rolling 12-month period exceeds €15,600 for local sales only

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Question 11

Christina, an employee of Platres Ltd, was provided with a saloon company car for both private and business use on 1 January 2025.

Platres Ltd purchased the car new in 2024 for €35,000 plus 19% value added tax (VAT).

All running costs of the car are covered by Platres Ltd.

The actual cost for repairs and maintenance for the year 2025 amounted to €1,200.

What is the total car related benefits in kind which Christina must include in her taxable income for the year 2025?

A €5,005
B €5,956
C €5,700
D €4,895

Question 12

Ringo is the sole employee of Doors Ltd, a Cyprus tax resident company.

Ringo's monthly gross salary is €1,400 and Doors Ltd contributes to the Central Holiday Fund.

For the month of November 2025, Ringo was absent for four out of 21 working days.

What is the amount of net after tax salary received by Ringo for November 2025?

A €993
B €1,227
C €1,084
D €1,025

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Question 13

XYZ Ltd submitted a temporary tax assessment for the year 2025, estimating taxable profit of €100,000 for the year. It paid the first instalment by the due date.

In October 2025, the company estimated that its taxable profit for the year 2025 would be €200,000.

The company wants to minimise its tax payments within the applicable legal framework and at the same time ensure optimal cash flow management.

What is the amount of XYZ Ltd's second temporary tax instalment for the year 2025?

A €6,250
B €9,375
C €12,500
D €18,750

Question 14

Which of the following statements regarding special defence contributions (SDC) are TRUE?

(1) The SDC rate on overseas rental income is 3% which is levied on 75% of the rental income
(2) The reduced rate of 3%, which is levied on interest income from Cyprus government bonds, is applicable to both legal persons and individual Cyprus tax residents
(3) Dividends paid by an overseas company to a Cyprus tax resident company are exempt from SDC unless the overseas company's activities are more than 50% investment activities, or the foreign tax burden is less than 6.25%
(4) Dividends paid by a non-Cyprus tax resident company are not subject to SDC if received by a Cyprus tax resident individual

A 3 and 4
B 2 and 3
C 1 and 4
D 1 and 2

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Question 15

Charalambos is a sole trader. He is registered for value added tax (VAT) in Cyprus and has prepared his VAT return for the period ended 30 September 2025.

Charalambos had the following overdue customer balances on 30 September 2025:

Customer	Amount	Invoice issued	Payment date
A	€5,950	1 January 2024	1 February 2024
B	€3,570	1 November 2024	1 December 2024

Calculate the maximum input VAT Charalambos can claim as bad debt relief in his VAT return for the period ended 30 September 2025.

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Section B

Question 16

The following scenario relates to three requirements.

Healthsave Ltd is a Cyprus resident company, incorporated on 5 February 2025. The principal activity of the company is the provision of general healthcare services.

Healthsave Ltd is not registered for value added tax (VAT).

On 10 June 2025, Healthsave Ltd acquired medical goods for €13,000 from a VAT-registered supplier based in Greece. Healthsave Ltd's revenue to 30 June 2025 was €32,000.

Requirements:

(a) Analyse why Healthsave Ltd has an obligation to register for value added tax (VAT), including the relevant registration timeframes.

(3 marks)

(b) Assuming Healthsave Ltd applies for VAT registration, analyse how the services provided by Healthsave Ltd and its acquisition of medical goods from VAT-registered persons in Greece are treated for VAT purposes.

(5 marks)

(c) Calculate the VAT payable/refundable by Healthsave Ltd for the quarter ended 30 June 2025.

(2 marks)

(10 marks)

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Question 17

The following scenario relates to one requirement.

Pistachio Ltd, a Cyprus tax resident company, has provided the following information for the year ended 31 December 2023:

	Note	€
Accounting profit before taxation		280,000
Corporation tax paid	1	31,500
Machinery depreciation	2	28,000
Accounting profit from disposal of investment property	3	110,000
Government grant received for research and development	4	20,000
Expected credit loss on trade receivables	5	18,000
Foreign withholding tax	6	8,000
Final dividend paid	7	100,000

Notes:

1. The corporation tax paid includes €4,800 in additional tax due to underestimating temporary tax payments and €1,700 in interest and penalties for late payment of the final tax.

2. Pistachio Ltd purchased new machinery in 2023 for €350,000. The company applied an annual depreciation charge of €28,000 in the financial statements. However, for tax purposes, the allowable depreciation is €35,000.

3. Pistachio Ltd disposed of an investment property for €600,000 in 2023. The accounting profit from the disposal was €110,000, while a taxable capital gain of €75,000 was realised. The capital gains tax was paid on time but was not deducted from the 2023 accounting profit.

4. The company received a €20,000 government grant for research and development which was recognised as income in the financial statements.

5. An expected credit loss on trade receivables of €18,000 was included as an expense in the financial statements. However, no debts were actually written off during the year.

6. Only €5,000 of the foreign withholding tax was used as foreign tax credit against the Cyprus corporation tax.

7. The final dividend was the only dividend paid by Pistachio Ltd out of the profits of 2023.

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The shareholders of Pistachio Ltd comprise:

- 25% Cyprus tax resident individuals.
- 25% non-Cyprus tax resident individuals.
- 50% Cyprus tax resident companies. The shareholders of these companies are 50% Cyprus tax resident individuals.

Requirement:

Calculate Pistachio Ltd's special defence contributions (SDCs) and general healthcare system (GHS) contributions in relation to the deemed dividend distribution to be made on 31 December 2025, including the due date of payment.

Note: Your calculation should start with the accounting profit before taxation of €280,000 and should list all of the items referred to in the scenario, indicating by the use of zero (0) any items which do not require adjustment.

(10 marks)

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Question 18

The following scenario relates to three requirements.

On 1 March 2011 Arestia acquired a house in Cyprus for €250,000 (including €50,000 for the land). Arestia also paid land registry transfer fees of €3,000.

To finance the purchase, Arestia took out a bank loan of €100,000, at an interest rate of 5% per annum. The loan was repaid in full on 1 June 2021.

Arestia rented out the house from 1 January 2013 to 20 September 2025 and received total rental income of €120,000. Arestia always claimed capital allowances at the rate provided by the Tax Department.

The total interest expense paid for the period from 1 January 2013 to 1 June 2021 was €40,000. On 10 June 2025 Arestia spent €3,500 on repainting the house.

Arestia sold the house on 20 September 2025. The sale price agreed upon was €500,000 which included €150,000 for the land, €20,000 for the non-current assets included in the house, and €330,000 for the building.

On 5 October 2025 Arestia paid €500 to her lawyer for drafting the sale agreement.

This is Arestia's second disposal of immovable property in Cyprus. Her first disposal resulted in a chargeable capital gain, before general lifetime exemptions, of €4,000.

Requirements:

(a) Calculate the capital gains tax (CGT) payable by Arestia in respect of the sale of the house.

Note: You should list all of the items referred to in the scenario, indicating by the use of zero (0) any item which does not require adjustment.

(7 marks)

(b) Analyse Arestia's CGT obligations arising on the disposal, including the payment procedure, due date, and the treatment of capital allowances.

(3 marks)

(10 marks)

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Question 19

The following scenario relates to two requirements.

Tony, a retired individual residing in Cyprus, received the following sources of income in the tax year 2025:

- A monthly pension of €1,200 for 13 months.
- Rental income of €900 per month from a flat situated in Larnaca, Cyprus. The flat was purchased in 2012 for €100,000, including €20,000 for the land.
- A net dividend of €4,800 from a company based in Greece. The dividend was subject to withholding tax at 20%.

Requirements:

(a) Calculate Tony's income tax liability for the year 2025.

Note: You should list all of the items referred to in the scenario, indicating by the use of zero (0) any item which does not impact the calculation.

(7 marks)

(b) Calculate Tony's special defence contribution payable for the year 2025.

(3 marks)

(10 marks)

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Question 20

The following scenario relates to two requirements.

Marcus commenced employment in Cyprus on 1 January 2025. He has been tax resident outside Cyprus for the previous 18 consecutive years before his employment.

Marcus is employed as managing director by Beta Solutions Ltd, a Cyprus tax-resident company. His gross annual salary for the year 2025 is €84,000.

As part of his employment package, Marcus is provided with a company saloon car for personal and business use. The car was purchased new by the company in May 2023 for €30,000 plus 19% value added tax (VAT). The employer covers all running and maintenance expenses of the vehicle.

On 15 January 2025, Marcus took out a life insurance policy to insure an amount of €100,000. He paid total premiums of €1,000 during the year. He also has a medical insurance policy with an annual premium of €2,500 for the year 2025, of which Beta Solutions Ltd covered 80%, while Jacob paid the remaining 20%.

On 1 July 2025, Marcus took out an interest-free personal loan of €40,000 from Beta Solutions Ltd. The current market annual interest rate is 6%.

During the year, Beta Solutions Ltd deducted PAYE (Pay As You Earn) of €9,000 from Marcus's salary.

Additional information

Marcus has received an additional offer to work for Beta Solutions Ltd's branch in Farland for the period 1 September 2026 to 31 December 2026. As part of this offer, he will receive €20,000 in addition to his existing salary. The additional salary will be subject to social insurance and other contributions in Farland of €2,000.

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Requirements:

(a) Calculate Marcus's taxable income for the year 2025.

Note: You should list all of the items referred to in the scenario, indicating by the use of zero (0) any item which does not require adjustment.

(11 marks)

(b) Assuming Marcus's taxable income for the following year, 2026, is €50,000, calculate his revised taxable income for the year 2026 after taking into consideration the employment in Farland, providing a reason for the tax treatment of each item.

Note: You should assume that the rates applicable for 2025 apply in future years.

(4 marks)

(15 marks)

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Question 21

The following scenario relates to one requirement.

Playtronic Ltd (Playtronic) is a Cyprus tax resident company, whose principal activity is trading in electronic games.

Playtronic's audited financial statements for the year ended 31 December 2025, show a turnover of €900,000 and profit before tax of €420,000.

The profit before tax was calculated after taking into account the following items:

	Note	€
Profit from the disposal of property, plant and equipment	1	215,500
Net interest income	2	7,530
Profit from the disposal of a division of the company	3	60,000
Other expenses	4	(10,700)
Entertaining expenses	5	(11,500)
Finance expenses	6	(21,500)
Depreciation	7	(34,650)

Notes:

1. During the year, Playtronic sold one of its offices situated in Larnaca for €450,000 (including €80,000 for the land).

   The office was purchased new in 2018 for €280,000 (including €40,000 for the land) and was used solely for business purposes.

   The sale resulted in capital gains tax payable of €14,000 which was not included in the statement of profit or loss of the company.

2. Net interest income comprises:

	€
Interest from bank deposits with Cyprus banks	4,980
Interest from current accounts with foreign banks (foreign tax withheld at source at 15%)	2,550
	7,530

3. During the year, Playtronic sold its business operations in Paphos for €120,000 (including €20,000 for trading goodwill). They had paid €5,000 for the trading goodwill when it initially acquired the business in Paphos.

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4. Other expenses comprise:

	€
Legal fees related to the acquisition of a showroom	6,700
Legal fees related to the increase of Playtronic's share capital	2,100
Payment to a local padel sports team (in order to include the company's logo on their t-shirts)	1,900
	10,700

5. Entertaining expenses comprise:

	€
New Year's party for staff	4,600
Gifts to customers	2,800
Birthday party for the managing director	1,900
Entertaining clients	2,200
	11,500

6. Finance expenses comprise:

	€
Leasing payments for motor vans used by staff	12,200
Interest on bank loan relating to the shop in Limassol	9,300
	21,500

7. Depreciation was calculated on assets held by the company at 31 December 2025 as follows:

- Computer server acquired on 1 January 2023 for €15,000. The server broke down during 2025 and was replaced on 10 June 2025 with another server, resulting in a total renewal cost of €10,000.
- Shop in Limassol acquired in 2019 for €550,000 (including €100,000 for the cost of land).
- Computer software acquired in June 2022 for €5,000.
- Furniture and fittings acquired in 2019 for €30,000.

Additional information

8. On 1 July 2025, Playtronic acquired 100% of the issued share capital of Jobia Ltd, a Cyprus tax resident private limited company, for €35,000. Jobia Ltd is considered an 'innovative business'. The acquisition was classified in the financial statements of the company as 'investments in subsidiaries'.

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Requirement:

Prepare a computation of the taxable profit of Playtronic Ltd for the year ended 31 December 2025.

Note: Your computation should start with profit before tax of €420,000 and should list all of the items referred to in the scenario, indicating by the use of zero (0) any item which does not require adjustment.

(15 marks)

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