Suggested solution

Section A

1 B and C

- Tax avoidance involves exploiting legal loopholes to reduce tax payable
- Failing to declare rental income which is below €19,500 is tax evasion

Statement A is incorrect as tax evasion can occur even if there is no intention to deceive.

Statement D is incorrect as delaying a disposal to qualify for the principal private residence exemption is sensible tax planning rather than tax evasion.

2 D

((€30,000 *[100%-8.8%]) + (€12,000 * [100%-20%]) – ((€150,000 - €20,000) x 3%)) = €33,060

The answer must correctly deduct the social insurance contributions from employment income at the rate of 8.8%, the 20% statutory deduction from the gross rental income and the 3% capital allowances on the cost of the flat excluding the cost of land.

3 A, B and F

- Losses cannot be carried forward if the company delays the submission of tax returns for more than six years from the due date
- Donations and contributions cannot be carried forward if not utilised
- Capital allowances giving rise to a loss are treated as trading losses and may be carried forward

Statement C is false because losses cannot be carried forward if there is a change in ownership AND there is also a substantial change in the nature of the business within three years before or after the change in ownership.

Statement D is false because overseas permanent establishment losses can increase the taxable losses of a Cyprus-based company.

Statement E is false because losses cannot be carried forward if the company delays the submission of tax returns and computations for more than six years from the due date.

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4 B and C

Transactions B and C represent chargeable disposals for capital gains tax purposes.

Transaction A is not a chargeable disposal because immovable property purchased in 2016 is exempt from capital gains tax.

Transaction D is not a chargeable disposal because a gain from the disposal of listed shares is exempt from capital gains tax.

5 €702

(€1,500 x 100/80.35 x 3%) + (€3,800 x 17%) = €702

The net interest income must be grossed up by taking into consideration 17% deducted for special defence contribution (SDC) and 2.65% for GHS contributions. Then, to apply the 3% reduced SDC rate because Michelle's total income is less than €12,000 and finally apply the 17% SDC on foreign dividend income.

6 A

Statement A is correct. Truffle Ltd is considered a Cyprus tax resident because its management and control are exercised in Cyprus.

Statement B is incorrect because tax residency is defined where the control and management is exercised and not where the company was incorporated.

Statement C is incorrect because tax residency is defined where the control and management is exercised and not where the company's registered office address is situated.

Statement D is incorrect because the company's fixed place of business does not determine its tax residency. The tax residency is defined where the control and management is exercised.

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7 A, C and D

The following statements are correct in relation to Cyprus partnerships:

- A partnership is not considered a separate legal entity and is taxed at the level of the partners.
- A partnership is required to prepare financial statements regardless of its level of income.
- Partners' salaries do not reduce the partnership's taxable profits.

Statement B is not correct because partnerships do no distribute dividends like companies do. Partnership profits are allocated directly to partners.

Statement E is not correct because a partnership itself is not taxed and therefore not subject to provisional tax. Its partners account for provisional tax on their share of profits.

Statement F is not correct because partnerships do not submit income tax returns.

8 €280,000

The correct treatment was not to add the gain from the revaluation of the immovable property since this is not taxable, nor to add the profit from the overseas permanent establishment (PE) as this is exempt from tax in Cyprus. Similarly, the dividend income does not form part of taxable profit because this is taxed under special defence contribution (SDC).

9 A

([€600,000 x 60%] – [€200,000 x 60%]) = €240,000

The answer correctly calculates the gain on 60% of the market value of the immovable property and deducts Polyana's share of the cost of the immovable property.

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10 B

The correct answer is B, once her total turnover in a rolling 12-month period exceeds €15,600, including both local and EU sales. The registration threshold includes both taxable sales to Cyprus and cross-border B2C sales.

Option A is incorrect because selling to EU customers does not automatically trigger VAT registration; the total taxable turnover threshold must be met.

Option C is incorrect because the €10,000 EU distance selling threshold applies to cross-border B2C sales, but this does not override the Cyprus VAT registration threshold.

Option D is incorrect because the registration threshold includes taxable sales to Cyprus and cross-border B2C sales (not just local sales).

11 B

([€35,000 x 1.19 x 17%] + [€35,000 x 1.19 x 4%] + [€35,000 x 1.19 x 5%]) x 55% = €5,956

The actual cost for repairs and maintenance is ignored.

12 A

([€1,400 x 17/21] – [€1,400 x 17/21 x 1.08 x 8.8%] - [€1,400 x 17/21 x 1.08 x 2.65%]) = €993

13 C

[€200,000 x 75% x 12.5%] – [€100,000 x 12.5% x 50%] = €12,500

14 D

Statements 1 and 2 are true.

Statement 3 is incorrect as dividends paid by an overseas company to a Cyprus tax resident company are exempt from SDC unless the overseas company deals more than 50% with investment activities and the foreign tax burden is less than 6·25%.

Statement 4 is incorrect because dividends are subject to SDC.

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15 €950

(€5,950 x 19/119) = €950

Input VAT has been calculated on the balance due from Customer A because more than 12 months has elapsed since the invoice was issued.

No input VAT can be claimed on Customer B because 12 months has not yet elapsed since the payment was due.

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Section B

16

Healthsave Ltd

(a) Value added tax (VAT) registration

Healthsave Ltd provides general healthcare services which are considered exempt supplies, so this does not lead to an obligation to register for value added tax (VAT).

However, Healthsave Ltd acquired goods from a supplier based in Greece exceeding €10,252.

This acquisition creates an obligation for Healthsave Ltd to register for VAT within 30 days from the end of the month in which the acquisition exceeded €10,252, therefore by 30 July 2025.

(b) VAT treatment of services provided and acquisition of goods within EU

The general healthcare services provided by Healthsave Ltd are exempt from VAT, therefore it should not charge VAT on its revenue invoices.

In respect of the acquisition of medical goods from a Greek supplier, Healthsave Ltd should provide its VAT registration number to the supplier, in order not to charge Greek VAT.

Healthsave Ltd should account for the invoices received under the reverse charge mechanism.

Since Healthsave Ltd makes only VAT-exempt supplies, it cannot recover any input VAT incurred on purchases.

This means that by applying the reverse charge mechanism, Healthsave Ltd will account for VAT output but not for VAT input and will therefore have payable VAT in Cyprus.

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(c) Calculation of VAT payable

	€	€
Output VAT		
Services rendered (exempt)	0	
Acquisitions from supplier in Greece (€13,000 x 19%)	2,470	
		32,470
Input VAT		
Acquisitions from supplier in Greece	0	
		0
VAT payable		**2,470**

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17

Pistachio Ltd's special defence contributions (SDC) and general healthcare system (GHS) contributions liabilities relating to deemed dividend distribution

	€	€
Accounting profit before taxation		280,000
Add:		
Machinery depreciation	0	
Expected credit loss on trade receivables	0	
		0
Less:		
Accounting profit from disposal of investment property	0	
Corporation tax paid (€31,500 - €4,800 - €1,700)	(25,000)	
Additional tax	(4,800)	
Interest and penalties	0	
Government grain	0	
Capital gains tax (€75,000 x 20%)	(15,000)	
Unrelieved foreign tax (€8,000 - €5,000)	(3,000)	
		(47,800)
Accounting profit subject to deemed distribution		**232,200**
Deemed dividend distribution (€232,200 x 70%)		162,540
Less: final dividend paid		(100,000)
Deemed dividend subject to SDC and GHS		**62,540**
SDC liability		
Cyprus tax resident individuals (€62,540 x 75% x 17%)		7,974
GHS liability		
Cyprus tax resident individuals (€62,540 x 50% x 2.65%)		829
Total liability		**8,803**

The due date of payment is 31 January 2026.

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18

Arestia

(a) Capital gains tax (CGT) on sale of house

	€	€
Disposal proceeds (€500,000 - €20,000)		480,000
Less:		
Cost of house	(250,000)	
Indexation (€250,000 x 258.19 / 221.11 - €250,000)	(41,924)	
Land registry transfer fees	(3,000)	
Bank interest	0	
Repainting the house	0	
Legal fees	(500)	
		(295,424)
Add: Capital allowances ((€250,000 - €50,000) x 3% x 12 years)		72,000
Chargeable gain		**256,576**
Less: General lifetime exemption (€17,086 - €4,000)		(13,086)
Taxable capital gain		**243,490**
CGT (€243,490 x 20%)		**48,698**

(b) CGT obligations, due date and treatment of capital allowances

The CGT is payable by self-assessment. Arestia will be required to submit a declaration of disposal of property and pay the tax due within one month from the date of disposal.

Relating to capital allowances, because Arestia was receiving rental income from renting out her house and claiming capital allowances, upon disposal of her house, all capital allowances claimed must be added back.

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19

Tony

(a) Income tax liability for the year 2025

	€	€
Pension income (€1,200 x 13)		15,600
Dividend income (exempt)		0
Rental income (€900 x 12)		10,800
Total income		**26,400**
Less: deductions		
20% statutory deduction (€10,800 x 20%)	(2,160)	
Capital allowances ((€100,000 - €20,000) x 3%)	(2,400)	
Total deductions		**(4,560)**
Less: personal allowances		
GHS on pension income (€15,600 x 2.65%)	(413)	
GHS on rental income (€10,800 x 2.65%)	(286)	
GHS on dividend income (€4,800 x 100/80 x 2.65%)	(159)	
Total allowances		**(858)**
Total deductions restricted to 1/5 of net income ((€26,400 - €4,560) x 1/5)		0
Taxable income		**20,982**
Calculation of income tax liability		
€0 - €19,500 at 0%		0
€19,501 - €20,982 at 20%		296
Total tax liability		**296**
Less: Withheld foreign tax		0
Income tax payable		**296**

(b) Calculation of special defence contribution (SDC)

	€	€
Dividend income	6,000	
SDC at 17%		1,020
Less: foreign withholding tax		(1,020)
Rental income (€900 x 12)	10,800	
Less: 25% allowance	(2,700)	
Rental income subject to SDC	**8,100**	
SDC at 3%		243
Total SDC payable		**243**

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20

Marcus

(a) Calculation of taxable income for the year 2025

	€	€
Salary	84,000	
Benefit in kind (BIK) (saloon car) (W1)	5,105	
BIK (medical insurance) (W2)	750	
Personal loan – deemed benefit (€40,000 x 9% x 6/12)	1,800	
Total income		**91,655**
Less: deductions		
Executive exemption (excludes deemed benefit) (€89,855 x 50%)		(44,928)
Net income		**46,727**
Less: personal allowances		
Social insurance contributions (€66,612 x 8.8%)	(5,862)	
GHS on salary (€84,000 x 2.65%)	(2,226)	
GHS on BIK (€5,855 x 2.65%)	(155)	
GHS on deemed benefit (€1,800 x 2.65%)	(48)	
Life insurance premium	(1,000)	
Medical insurance premium (€750 + €500)	(1,250)	
		(10,541)
Total deductions restricted to 1/5 of net income (€46,727 x 1/5)		1,196
Taxable income		**37,382**

Working 1 – Saloon car

	€	€
Cost of car	30,000	
Add: VAT (€30,000 x 19%)	5,700	
Cost of car for BIK purposes	**35,700**	
Use of car (€35,700 x 17%)	6,069	
Value of repairs (€35,700 x 4%)	1,428	
Value of fuel (€35,700 x 5%)	1,785	
	9,282	
Private use of car (€9,282 x 55%)		5,105

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Working 2 – Medical insurance

	€	€
Insurance premium	2,500	
BIK (€2,500 x (50% - 20%))		750

(b) Income from overseas employment – 2026

	€	€
Taxable income		50,000
Add: additional salary from Farland	0	
Less: social insurance contributions in Farland	0	
GHS on additional salary (€20,000 x 2.65%)	(530)	
		(530)
Revised taxable income		**49,470**

Marcus worked abroad for at least 90 days in a tax year, which means that the income earned from employment exercised outside Cyprus is fully exempt from taxation in Cyprus.

As the income is fully exempt, any deductions suffered abroad such as social insurance, other contributions or taxes, cannot reduce the taxable income in Cyprus.

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21

Computation of Playtronic Ltd's taxable profit for the year ended 31 December 2025

	€	€
Profit before taxation		420,000
Add: non-allowable expenditure		
Other expenses:		
- Legal fees for acquisition of showroom	6,700	
- Legal fees for increase of share capital	2,100	
- Payment for local padel team (advertising)	0	
Entertaining:		
- Staff party	0	
- Gifts to customers	2,800	
- Birthday party for managing director	0	
- Client entertaining	0	
Finance expense:		
- Leasing payments	0	
- Loan interest	0	
Balancing charge/addition (W)	50,400	
Depreciation	34,650	
		96,650
		516,650
Less: non-taxable income		
Profit from disposal of shop	(215,500)	
Net interest income:		
- From deposit account	(4,980)	
- From current account	0	
Profit from disposal of division	0	
Trading goodwill paid	(5,000)	
Purchase of innovative business	(35,000)	
Renewal cost for computer server	(10,000)	
		(270,480)
Adjusted profit before capital allowances		**246,170**
Less: capital allowances		
- Computer server (€15,000 x 20%)	(3,000)	
- Shop in Limassol (€450,000 x 3%)	(13,500)	
- Computer software	0	
- Furniture and fittings	0	
		(16,500)
Taxable profit		**229,670**

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Working – Balancing statement

	€
Cost of office	240,000
Less: capital allowances claimed (€240,000 x 3% x 7 years)	(50,400)
Tax written down value	**189,600**
Less: sales proceeds	(370,000)
Balancing charge/addition	**(180,400)**
Restricted to capital allowances claimed	**50,400**

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Mark scheme

Section A

Questions 1 – 15 (all questions worth two marks)

Maximum 30 marks

Section B

Question 16

a	VAT registration: - General healthcare exempt supplies - Acquisition from Greece - Registration date	 1 1 1
Maximum 3 marks		
b	VAT treatment: - No VAT charged on general healthcare - VAT registration number - Reverse charge mechanism - No recovery - Payable VAT in Cyprus	 1 1 1 1 1
Maximum 5 marks		
c	Output VAT: - Services rendered exempt Acquisitions from Greece Input VAT: - Acquisitions from Greece	 0.5 0.5 1
Maximum 2 marks		
Total 10 marks		

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Question 17

	Pistachio Ltd – Liabilities relating to deemed dividend distribution:	
	- Depreciation	0.5
	- Credit loss	0.5
	- Profit on disposal	0.5
	- Corporation tax	1
	- Additional tax	0.5
	- Interest and penalties	0.5
	- Government grant	0.5
	- Capital gains tax	1
	- Unrelieved foreign tax	1
	- Deemed dividend distribution	1
	- Deduct final dividend paid	0.5
	- SDC liability	0.5
	- GHS liability	1
	- Due date	1
Maximum 10 marks		
Total 10 marks		

Question 18

a	Arestia – Capital gains tax on house sale:	
	- Disposal proceeds	0.5
	- Cost of house	0.5
	- Indexation	1
	- Land registry fees	0.5
	- Bank interest	0.5
	- Repainting the house	0.5
	- Legal fees	0.5
	- Capital allowances	1.5
	- General lifetime exemption	1
	- Capital gains tax	0.5
Maximum 7 marks		
b	Declaration	1
	Due date	1
	Capital allowances	1
Maximum 3 marks		
Total 10 marks		

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Question 19

a	Tony – Income tax liability for 2025:	
	- Pension income	0.5
	- Dividend income	0.5
	- Rental income	0.5
	- Statutory deduction	0.5
	- Capital allowances	1
	- GHS on pension	0.5
	- GHS on rental	0.5
	- GHS on dividends	1
	- Restricted to 1/5	1
	- Total tax liability	0.5
	- Deduct foreign withholding tax (WHT)	0.5
Maximum 7 marks		
b	Calculation of SDC:	
	- Dividend income subject to SDC	0.5
	- SDC on dividends	0.5
	- Deduct foreign WHT	0.5
	- Rental income subject to SDC	1
	- SCD on rental income	0.5
Maximum 3 marks		
Total 10 marks		

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Question 20

a	Marcus – Calculation of taxable income for 2025:	
	- Salary	0.5
	- Medical insurance benefit	1
	- Loan benefit	1
	- Executive exemption	1
	Personal allowances	
	- SIC	1
	- GHS on salary	0.5
	- GHS on car and medical insurance	0.5
	- GHS on loan	0.5
	- Life insurance premium	0.5
	- Medical insurance premium	0.5
	- PAYE	0.5
	- Restricted to 1/5	0.5
	(W1) Car benefit	
	- Cost	0.5
	- VAT	0.5
	- Use of car	0.5
	- Repairs	0.5
	- Fuel	0.5
	- Private use apportionment	0.5
Maximum 11 marks		
b	Overseas income for 2026:	
	- Farland salary	1
	- Farland SIC	0.5
	- GHS on additional salary	0.5
	- Fully exempt	1
	- Deductions not taxable	1
Maximum 4 marks		
Total 15 marks		

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Question 21

	Playtronic Ltd – taxable profits for the year ended 31 December 2025:	
	- Legal fees re showroom	1
	- Legal fees re share capital	0.5
	- Payment for local padel team	0.5
	- Staff party	0.5
	- Customer gifts	0.5
	- Managing director's party	0.5
	- Client entertaining	0.5
	- Leasing payments	0.5
	- Loan interest	0.5
	- Depreciation	0.5
	- Profit on disposal – shop	0.5
	- Deposit account interest	0.5
	- Current account interest	0.5
	- Profit on disposal – division	0.5
	- Trading goodwill	1
	- Purchase new business	1
	- Computer server	1
	Capital allowances:	
	- Server	0.5
	- Shop	0.5
	- Software	0.5
	- Furniture and fittings	0.5
	(W1) Balancing charge	
	- Cost of office	0.5
	- Less capital allowances	1
	- Less sale proceeds	0.5
	- Restricted	0.5
Maximum 15 marks		
Total 15 marks		

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