Specimen Exam

Exam Name: Taxation Advisory Professional (STA CYP)
Time Allowed: 3 hours 15 minutes
Pass Mark: 50%

This examination contains 2 sections:

Section A:
1 question, worth 50 marks

Section B:
2 questions, each worth 25 marks

Total 100 marks

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

You should assume that today's date is 3 June 2026.

You are a tax assistant working for a firm of accountants. Your manager has recently received an email from Katerina, a client of your firm. Katerina, an established seller of vintage clothes, is currently a registered self-employed taxpayer in Cyprus, trading under the name Upsell. She also owns an events management business, Happy Happenings Ltd (Happy).

The following **exhibits** provide information relevant to the question:

1. Katerina – email to tax manager from Katerina detailing her financial situation and current plan to sell Upsell
2. Upsell – financial information for Upsell
3. Happy Happenings Ltd – financial information for Happy Happenings Ltd
4. Work to be carried out – email from your tax manager on the work to be carried out

1 Katerina

Email from Katerina dated 1 June 2026

Dear Tax manager,

As you know, I moved from Cyprus to the country of Chicland in 2010, but I moved back to Cyprus in 2021 once I reached retirement age. Since then, as well as receiving self-employment income from running my own vintage clothes resale business, 'Upsell', I also receive a pension income of €20,000 per year from my previous employment in Chicland. As I am a non-resident in Chicland, no tax is deducted from this pension income before I receive it. In addition, I receive €12,000 per year (gross) in pension from my previous employment in Cyprus. I have also been the sole shareholder and director of Happy Happenings Ltd (Happy), a Cyprus tax resident events-management company incorporated in 2021. It has always been a profitable business in the past, but it has not generated any income in it so far this year, as I have been focusing on building my Upsell business.

I have recently received an offer from a friend, Sophia, to buy Upsell, which I am going to accept. When Upsell was setup, I paid €100,000 to purchase the trading goodwill of an existing vintage clothes business and immediately registered for value added tax (VAT). Sophia, who is currently VAT registered already in Cyprus, will purchase Upsell for $400,000 plus VAT (if applicable), comprising €180,000 for trading goodwill and €220,000 for inventory. At her request, I have prepared a statement of financial position as at 31

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May 2026 and a statement of profit or loss for the five-month period ending 31 May 2026, so you can use these for tax purposes. I plan to stop trading in Upsell as soon as possible to facilitate the upcoming sale. I will deposit my net proceeds after tax of €200,000 in a 12-month fixed interest 4.5% deposit account with a Cyprus bank. The deposit term for the year ended 31 December 2026 will be for six months (July – December).

As regards my events-management business, Happy, I am contemplating recommencing trading but with a view to organising many of the music events in the country of Danceland, where I can benefit from the low tax rate. My two options are as follows:

Option 1

Setting up a branch and keeping it at a smaller scale, employing local workers but not aiming for trade profits above €200,000 (and no non-trade profits).

Option 2

Setting up a subsidiary, Joyous Ltd (Joyous), and aiming for trade profits in excess of €800,000 (no non-trade profits). Once Happy is generating income again, Joyous would charge Happy for marketing services provided, in such a way that saves Cyprus tax.

I am reliably informed that Danceland has no double tax treaty with Cyprus.

Alternatively, given the upcoming sale of Upsell, I might retire altogether and simply liquidate Happy on 31 December 2026 after one final event in November which has already been organised and which will generate a net profit of €16,262. The company only owns one asset, an office, and I have already had an offer from someone to buy that, so I would sell that before the liquidation takes place.

I would really appreciate some tax advice regarding my plans.

Best regards,
Katerina

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2 Upsell

Extract from the statement of financial position as at 31 May 2026

	Note	31 May 2026 €
Trading goodwill	**1**	100,000
Inventory of finished goods	**2**	150,000
Total assets		**250,000**
Capital account of Katerina		(250,000)

Extract from the statement of profit or loss for the five-month period ended 31 May 2026

	Note	€
Gross profit	**3**	130,000
Less: expenses		
Depreciation		0
Katerina's salary		(40,000)
Entertaining customers		(10,000)
Electricity, water and rent		(30,000)
Net accounting profit for the period		**50,000**

Notes:

1. No amortisation is calculated in relation to trading goodwill.

2. Finished goods are included in the financial statements at the lower of cost and net realisable value.

3. The gross profit margin of Upsell was 45%. A batch of Upsell clothes costing €12,500 has been taken by Katerina for her own use. This cost has been included in the cost of sales in arriving at gross profit.

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3 Happy Happenings Ltd

Extract from forecast statement of financial position as at 31 December 2026

	Note	€
Property, plant and equipment	**1**	85,000
Total assets		**85,000**
Share capital		1,000
Accumulated profits	**2**	84,000
Total equity		**85,000**

Extract from forecast statement of profit or loss for the year ended 31 December 2026

	Note	€
Total revenue		0
Less: expenses		
Depreciation	**3**	0
Sundry expenses (allowable)		(5,000)
Net accounting loss		**(5,000)**

Notes:

1. The only asset owned by the company is an office in Larnaca which was bought new in March 2022 through an exchange of a building plot owned by Happy.

At that time, the building plot had an indexed cost of €50,000 and a market value of €90,000; the office had an indexed cost of €70,000 and a market value of €100,000. Happy also paid a further €10,000 in cash on the exchange.

If the liquidation goes ahead rather than the expansion to the country of Danceland, the office is expected to be sold for €160,000 on 31 December 2026; the effects of this transaction have not yet been accounted for in the results above.

2. Accumulated profit movements are as follows:

Year of assessment	Distributable profit/(loss)	Dividends paid	Accounting profit/(loss)
	€	€	€
2022	(10,000)	0	(10,000)
2023	156,000	117,000	39,000
2024	140,000	105,000	35,000
2025	100,000	75,000	25,000
			89,000

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Dividends for each year have always been declared on a current year basis. Any final dividends are expected to be issued on 31 December 2026 to settle the debit balance of the shareholder before the final cash settlement to them.

3. Depreciation on the cost of the office is applied at 5% per year. However, whilst full depreciation is charged in the year of acquisition, none is charged in the year of disposal

4. The one outstanding event has not been taken into account.

5. There are no unrelieved tax losses according to the tax loss memorandum of the company.

4 Work to be carried out

Extract from an email from your tax manager dated 3 June 2026

I would like you to prepare a memorandum, which addresses the following matters:

(a) In relation to the sale of Upsell assuming it takes place on 30 June 2026:

- **Assess the Cyprus tax treatment of the sale for Katerina's 2026 income tax computation; and**

- **Evaluate whether the sale can be treated as a transfer of a going concern for Cyprus value added tax (VAT) purposes.**

(8 marks)

(b) In relation to future plans for Happy Happenings Ltd (Happy):

- **Assess the Cyprus tax consequences of operating in the country of Danceland through a branch/permanent establishment and evaluate any restricting factors; and**

- **Evaluate whether the proposed structure involving Joyous Ltd and the intercompany marketing charges could give rise to a Cyprus tax charge for Happy Happenings Ltd.**

(10 marks)

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(c) Liquidation of Happy

Evaluate the taxes which would arise for Happy on liquidation if Katerina decides on Option 1 rather than Option 2.

Note: Assume that the RPI for November 2026 is 259.24.

(10 marks)

(d) Katerina's personal tax position

Assess Katerina's overall Cyprus personal tax position for the year ended 31 December 2026.

Note: You should assume that the sale of Upsell has taken place together with the liquidation of Happy.

(12 marks)

(40 marks)

Requirements:

You should assume that today's date is 3 June 2026.

Prepare the memorandum as requested by the tax manager.

Note: The split of the mark allocation is shown in Exhibit 4 – Work to be carried out.

(40 marks)

Professional marks will be awarded for the demonstration of skill in communication, analysis and evaluation, scepticism and commercial acumen in your answer.

(10 marks)

(50 marks)

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Section B

Question 2

You should assume that today's date is 3 June 2026.

Zoe, currently a resident in the country of Farland, has recently accepted a job at Fortuitous Ltd working mainly in Cyprus but partly in Farland.

The following **exhibits** provide information relevant to the question:

1. Zoe – client background information about residency
2. Employment offer – email to Zoe from the chief executive officer of Fortuitous Ltd detailing her new role and employment package
3. Fortuitous Ltd results – Fortuitous Ltd's projected accounting results for the year ended 31 December 2026, prepared before accounting for the effects of Zoe's employment package

1 Zoe

Zoe is to move to Cyprus permanently within the next two months to work for Fortuitous Ltd and has already rented an apartment in Limassol. She plans to move to Cyprus five days before starting her new job to give herself time to get settled. She was outside Farland from 1 January 2026 to 20 March 2026 but has not yet left Farland since returning there on 21 March 2026.

Farland tax residency for individuals is determined according to the number of days throughout a calendar year that an individual resides in Farland. Specifically, if that individual is present in Farland for more than 183 days in a calendar year then that individual is taxed on his/her worldwide income per Farland's tax legislation. Individuals considered non-tax residents of Farland are taxed only on income which is sourced in Farland.

Zoe currently has no income sourced in Farland.

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2 Employment offer

To: Zoe
From: Chief Executive Officer, Fortuitous Ltd
Subject: Employment offer
Date: 15 May 2026

Dear Zoe,
We are delighted to extend an offer of employment to you for the position of Head Financial Analyst at Fortuitous Ltd (Fortuitous).

Basic package

Cyprus: gross salary of €7,500 per month for each month worked in Cyprus, which will be for a maximum period of nine months per calendar year.
Farland: gross salary of €7,000 per month + €2,000 overseas monthly allowance paid by the Farland branch for each month worked in Farland, which will be for a minimum period of three months per calendar year.

Additional benefits

Whilst working in Cyprus, you will be provided with a hybrid motor vehicle for both your personal and professional use. This will include all fuel and repair expenses, at a cost to the company equivalent to 15% of the original cost of the car. The car has not been used by any member of staff prior to it being made available to you, although it was bought new by Fortuitous in 2024 at an original cost price of €30,000. This benefit is aimed at enhancing your mobility and convenience while fulfilling your job responsibilities, which will include visiting clients.

Details of working for Fortuitous' branch in Farland

Your employment at Fortuitous' branch in Farland throughout each calendar year will be for a period of at least 90 days, specifically including October, November and December each year. The branch is a fully fledged trading branch carrying out exclusively trading activities.

Start date

Your anticipated start date has yet to be finalised but will be either 15 June 2026 or 15 July 2026. Please confirm your acceptance of this offer and we will proceed with the necessary onboarding formalities.

Warm regards,
Chief Executive Officer, Fortuitous Ltd

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3 Fortuitous Ltd results

Fortuitous Ltd's projected accounting results for the year ended 31 December 2026 (before taking into account Zoe's employment package).

	€	€
Gross profit		**1,550,000**
Expenses:		
Salaries	(520,000)	
Social insurance and general healthcare system (GHS) cost	(100,000)	
Loan interest (€1million loan used to acquire 100% ownership in a subsidiary in 2022, 3% interest rate per year)	(30,000)	
Loan interest (€2 million loan, 2.5% interest rate per year	(50,000)	
Depreciation (note 1)	(80,000)	
Other allowable expenses	(190,000)	
		(970,000)
		580,000
Other income:		
Overseas branch's accounting profit		10,000
Projected accounting profit for the year		**590,000**

Notes relevant to the projected accounting profit

1. The depreciation expense above is equal to the capital allowances rates for 2026. Zoe's car, however, for which no depreciation has yet been included, will be depreciated at 20% per year.
2. All available distributable profits are paid out to Fortuitous Ltd's shareholders for each relevant accounting year.
3. Fortuitous Ltd does not contribute to the holiday fund. No contributions to social security funds are applicable relative to Zoe's work at the overseas branch.

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Requirements:

You should assume that today's date is 3 June 2026.

(a) In respect of Zoe:

- **Assess whether Zoe will be regarded as Cyprus tax resident for the tax year 2026 under the Cyprus residence rules; and then**

- **Assuming Zoe is Cyprus tax resident in 2026, evaluate the Cyprus income tax exemptions available to Zoe in 2026 in respect of her employment duties performed in Cyprus for Fortuitous Ltd and her overseas duties performed in Farland**.

(7 marks)

(b) Assuming Zoe's employment starts on 15 June 2026, assess the adjustments required to Fortuitous Ltd's projected accounting profit for the year ended 31 December 2026 to reflect the employment package and overseas assignment of Zoe as described.

(4 marks)

(c) Evaluate the impact of employing Zoe on Fortuitous Ltd's 2026 corporate tax position, including the shareholder-level special defence contribution (SDC) and general healthcare system (GHS) consequences arising from the distribution of the 2026 profits in line with the company's dividend policy.

(9 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation and commercial acumen in your answer.

(5 marks)

(25 marks)

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Question 3

You should assume that today's date is 3 June 2026.

Spiros and Christos recently emigrated from the US to Cyprus. They are considering setting up a business offering an exceptional standard of training to students and business professionals in Cyprus, eventually with a view to expanding their offering abroad too.

The following **exhibits** provide information relevant to the question:

1. Business proposal – background and proposed structure of the business
2. Cash flow information – projected cash flows for the first quarter of operation (all activities) prepared by financial advisers

1 Business proposal

Background

The business would operate in two locations in Cyprus, Limassol and Nicosia, and offer on-campus education services, which are exempt for value added tax (VAT) purposes, along with cafeteria facilities, on which VAT is chargeable at the reduced rate of 9%. Suitable buildings which could be rented to house the business operations have been identified in both locations, and these would separately house the campus and the cafeteria. In each location, accounting and operations will be run from a management team present in that location, and it is expected that each location and business department could operate independently.

As part of their future plans, they would also offer a monthly newsletter to Cyprus business professionals (individuals, not VAT registered) including all recent amendments to Cyprus tax laws and predominantly advertising their strategic business partners. This newsletter would be delivered in a printed format to clients; according to a VAT ruling obtained, such a supply would give rise to VAT at a rate of 3% in Cyprus. Although this part of the business would not contribute positively towards the business' overall cashflow it is considered a marketing tool to raise awareness for their presence in the educational industry.

Proposed business structure

The proposed structure is to establish two separate companies: Teachright Edu Ltd (Edu), which will offer education services to Cyprus clients and Teachright Café Ltd (Café), which will offer catering services to clients in cafeterias located close to teaching premises. The two companies would initially be structured with Edu as the direct sole

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shareholder of Café, whilst management is examining an efficient way to report VAT for the group of companies.

Newsletter activities could be included together with either the education activities as part of Edu or the cafeteria activities as part of Café.

In respect of the Cyprus tax compliance obligations arising for Edu and Café as tenants of the Limassol and Nicosia premises, Spiros and Christos would like to understand the consequences for:

- special defence contribution (SDC) and general healthcare system (GHS) contribution withholding,
- VAT on rent (including the impact of where the newsletter activity is housed), and
- stamp duty on the lease agreements

2 Cash flow information

Projected cash flows for the first quarter (all activities)

Group results for value added tax (VAT) purposes for Teachright Edu Ltd (Edu) and Teachright Café Ltd (Café).

	Company	€
Income		
Tuition fees	Edu	250,000
Cafeteria sales	Café	150,000
Newsletter (Cyprus)	To be decided	20,000
		420,000
Expenses		
Rental expense	Edu	15,000
Rental expense	Café	15,000
Salaries and contributions	Edu	(90,000)
Salaries and contributions	Café	20,000
Newsletter costs (printing and courier costs)	To be decided	20,000
Purchases of food and drinks	Café	70,000
General overheads (electricity, water, heat)	Edu	5,000
General overheads (electricity, water, heat)	Café	6,000
		241,000

All revenue is reported inclusive of VAT, where applicable.

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General overheads, newsletter costs and purchases of food and drink all include VAT at the standard rate of 19%. VAT on the rental expense is included at 19% where relevant, according to the provisions of the VAT legislation.

The rental expense and general overheads paid by Edu cannot be directly allocated to either tuition fees or newsletter income.

Requirements:

You should assume that today's date is 3 June 2026.

(a) Evaluate value added tax (VAT) group registration as a reporting method for the Teachright group given the proposed two-company structure and the mix of exempt education supplies and taxable cafeteria/newsletter supplies.

(7 marks)

(b) Advise Spiros and Christos on the matters they have raised in relation to the Cyprus tax compliance obligations arising for Teachright Edu Ltd and Teachright Café Ltd as tenants of the Limassol and Nicosia premises.

(7 marks)

(c) Evaluate the Teachright VAT group's projected VAT payable/receivable for the first quarter, assuming VAT is reported on a group registration basis, and that the newsletter operations are carried out by Teachright Edu Ltd.

Note: Reasons should be provided for any items excluded.

(6 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation and commercial acumen in your answer.

(5 marks)

(25 marks)

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