Answers

	1 January 2001	31 December 2006	*Marks*
1 (a) Mr Andreas Capital (Net Worth) Statement	**£**	**£**	
Assets			
Cash (per question)	1,000	0	½
Trade debtors (note 1)	70,000	77,000	1
Business machines (note 4)	30,000	50,000	1
Stock in trade (note 3 ((100,000 – 20%) + 20,000))	55,000	100,000	1
Investments (note 5 (1000 x 5) (500 x 5))	5,000	2,500	1
Apartment in London (per question)	180,000	180,000	½
Apartments in Protaras (note 8 (75,000 x 2))	0	150,000	½
Total assets	341,000	559,500	
Less: liabilities:			
Bank overdraft (per question)	(10,000)	0	½
Creditors (note 2)	(30,000)	0	½
Income tax and defence (note 9)	0	(40,000)	½
Net assets	301,000	519,500	
Less: net assets as at 1 January 2001		(301,000)	½
Capital increase for the period		218,500	
Add:			
Maintenance expenses (note 9)		90,000	½
Capital gains tax paid (note 7 see working)		20,000	½
Interest paid to various banks (note 9)		16,000	½
Interest paid to creditor (note 2 5 x £3,000)		15,000	½
Total assets and expenses		359,500	
Deduct:			
Gross rents received (note 6)		(100,000)	½
Gross dividends received (note 5 (8,500 + 1,500 tax withheld))		(10,000)	1
Donations from father-in-law (note 8 (25,000 x 2))		(50,000)	1
Loss from the sale of old business machine (note 4)		25,000	1
Profit from the sale of shares (note 5 (500 x 35))		(17,500)	1
Capital gain (100,000 + 25,354)		(125,354)	1
Debt waived by creditor (note 2 (30,000 – 25,000))		5,000	1
Taxable income for the period 1 January 2001 to 31 December 2006		86,646	

Working:	**£**	**£**	
Disposal proceeds		300,000	
Less: Cost of land	140,000		½
Indexation allowance [140,000 x (103·24/87·41) – 140,000]	25,354		1
Land registry transfer fees	15,000		½
Agent's commission	10,000		½
Legal fees	5,000		½
Bank interest	4,646	(200,000)	½
Taxable capital gain		100,000	
Capital gains tax payable £100,000 x 20%		20,000	½
			20

(b) (i) Refund of VAT

The VAT Commissioner should refund VAT which has been paid but which was not due, provided 1
the taxable person makes an application for a refund. The application should be submitted within 2
three years from the date of payment except where the VAT was paid in error. In cases where
payment was in error the period of three years starts from the date of discovery of the error or from 1
the date from which the claimant could, with reasonable diligence, have discovered the error. 1

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	Marks
(ii) Postponement or refusal of a VAT refund	
The VAT commissioner may direct that a VAT credit be carried forward to a later VAT return or postpone the payment of a refund in the case of a trader who has failed to submit a VAT return for any previous VAT period.	2
The VAT Commissioner may refuse to refund VAT paid if the repayment would unjustly enrich the claimant.	1
For example, a retail department store has been charging its customers VAT on certain items which were not subject to VAT. The VAT Commissioner may refuse to refund the VAT overcharged because the department store would be unable to refund such VAT to its customers and would therefore be in a position to unjustly enrich itself.	2
	5
	30

2 (a) Elysia Ltd
Corporation tax payable for the year ended 31 December 2006

	£	£	
Net profit per question		600,000	
Deduct: Adjustments on income:			
Interest received from deposit account: (50% x £10,000)	5,000		1
Interest received from government bonds (50% x £10,000)	5,000		1
Interest received from bank current account	0		1/2
Interest received from trade debtors	0		1/2
Cost of trade goodwill acquired in 2003	40,000		1
Gross dividend received from a Cyprus company	10,000		1
Gross dividend received from a Greek company	20,000		1
Gross dividend received from an Italian company	20,000		1
Profit from the sale of shares	100,000		1/2
Gain from the sale of land	200,000	(400,000)	1/2
Add: Adjustments on income:			
Balancing addition on motor van (working)	4,000	4,000	1/2
Add: Adjustments on expenditure			
Depreciation	20,000		1/2
Loss from the sale of motor vehicles	14,000		1/2
Capital gains tax	30,000		1/2
Special contribution for the defence	15,000		1/2
Final tax for 2005	25,000		1/2
Provisional tax paid for 2006	20,000		1/2
Interest on late payment of taxation	4,000		1/2
Interest on bank overdraft	0		1/2
Interest on loan for trading purposes	0		1/2
Interest on the acquisition of the saloon car	12,000		1
Interest on the acquisition of the apartment	14,000	154,000	1
Deduct: Capital allowances:			
Motor van (£20,000 x 20%)	4,000		1/2
Saloon car	0	(4,000)	1/2
Taxable profit		354,000	
10% corporation tax		35,400	1/2
Deduct provisional assessment		(20,000)	1/2
		15,400	
Add 10% Additional tax (£200,000 is less than 75% of £354,000)		1,540	1/2
Final corporation tax payable		16,940	

		Marks
Working		
Cost of motor van	10,000	
Less Depreciation up to 31 December 2005 (4 years at 20%)	8,000	
Net book value	2,000	1
Disposal proceeds	6,000	1/2
Balancing addition	4,000	
		19

(b) Elysia group of companies

Since Elysia Ltd holds in excess of 75% of Epsilon Ltd only from 31 March 2006, Epsilon Ltd is not part of the group for the tax year 2006, and thus will be taxed on its profits of £200,000. 1

Therefore, in computing the group tax position for the year 2006 only the tax results of companies Elysia Ltd, Beta Ltd, Gamma Ltd and Delta Ltd, can be used.

Losses available for relief for 2006	£	
Beta Ltd	(60,000)	1/2
Gamma Ltd	(500,000)	1/2
Total losses available for relief in 2006	(560,000)	

Profits available for relief for 2006	£	
Elysia Ltd	380,000	1/2
Delta Ltd	100,000	1/2
Total profits available for relief in 2006	480,000	

The profit of £480,000 can be fully relieved by the available losses.
The remaining £80,000 of losses cannot be utilised and must be carried forward to subsequent years in the company in which the loss was incurred. 1

The relief may be given as follows:

	Elysia Ltd	Beta Ltd	Gamma Ltd	Delta Ltd	
	£	£	£	£	
Taxable profit/(loss)	380,000	(60,000)	(500,000)	100,000	
Relief	(380,000)				1/2
Relief		60,000			1/2
Relief			420,000		1/2
Relief				(100,000)	1/2
Taxable profit/(loss) to be carried forward	NIL	NIL	(80,000)	0	6
					25

3 (a) Mrs Constantia: capital gains tax computation

	£	£	
Disposal proceeds (20% of £2,500,000)		500,000	1
Less: Market value of land as at 1 January 1980 (20% of £500,000)	100,000		1
Indexation allowance ((102·65/34·96 x 100,000) – 100,000)	193,621		1
Cost of building (20% of £400,000)	80,000		1
Indexation allowance ((102·65/41·98 x 80,000) – 80,000)	115,617	489,238	1
		10,762	
Add capital allowances (276,000 x 20%)		55,200	1
		65,962	
Less: Lifetime exemption		10,000	1/2
Taxable capital gain		55,962	
Capital gain tax at 20%		11,192	1/2

Mrs Constantia must submit a declaration of disposal of property in respect of the shares and pay the tax due within one month of the date of disposal. 1

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		Marks
(b)	The term person in the context of the capital gains tax law includes:	
	– an individual person;	1
	– a legal person;	1
	– a partnership (in this case the partners are taxed according to their partnership sharing ratios); and	1
	– a fraternity or society of persons with or without legal personality.	1
		4
(c)	**(i)** In order for the principal dwelling house exemption to be allowed the following conditions must be satisfied.	
	1. The principal dwelling house must be used by the owner exclusively for his own habitation.	1
	2. The principal dwelling house must be so used for at least five years, and in the case of the disposal of a dwelling house for a second or more times, the total period of use by the owner exclusively for his own habitation is increased to 10 years.	1 1
	3. The principal dwelling house must be situated on land not exceeding one and a half dekare. Where the dwelling house is situated on land exceeding one and a half dekare, tax shall be paid on the proportion of the gain accruing from the disposal of the land in excess of one and a half dekare.	1 1
	4. The principal dwelling house exemption will not be allowed where the disposal of the dwelling house has taken place more than one year after it has ceased to be used by the owner for his own habitation.	1
		6
	(ii) In order for the agricultural land exemption to be allowed, the disposal must be by an individual whose main occupation is agriculture; where 'main occupation' means the business by which the person earns his living.	**2**
		20

4 (a)	Submission of a return of income is compulsory for every legal person who derives income during a year of assessment and this income is liable to tax in accordance with the provisions of s.5 of the Income Tax Law.	2
	Submission of a return of income is compulsory for every individual who derives gross income during a year of assessment in excess of £10,000 (tax free amount).	2
		4
(b)	The return of income of a legal person must be submitted not later than 31 December of the year following the year of assessment.	2
	For an individual who does not have the obligation to keep books and records, or to prepare audited accounts which must be audited by an independent auditor, the return of income must be submitted not later than 30 June of the year following the year of assessment.	2
	For an individual who has the obligation to keep books and records and prepare audited financial statements which must be audited by an independent auditor, the return of income must be submitted not later than 31 December of the year following the year of assessment.	2
	For an employee the return of income must be submitted not later than 30 April of the year following the year of assessment.	2
		8
(c)	Returns of income may be submitted as follows:	
	– By completing the pre-printed form IR1 for individuals and IR4 for legal persons as approved by the Commissioner.	2
	– Electronically via taxisnet.	1
		3
		15

Marks

5 Lemesos Ltd

December 2008 dividend

A Cyprus tax-resident company paying a dividend to a Cyprus tax-resident individual shall deduct the special contribution for the defence at the rate of 15%. 1

The special contribution for the defence payable on the dividend paid by Lemesos Ltd in December 2008 to Elena will be £100,000 x 50% x 15% = £7,500 ½

A Cyprus tax-resident company paying a dividend to another Cyprus tax-resident company is not required to deduct the special contribution for the defence. Thus the distribution to Trimrose Ltd is not subject to the special contribution for the defence. 1

Deemed dividend

As Lemesos Ltd is a tax-resident company which has not distributed dividends equal to 70% of its after-tax accounting profit within two years i.e. by 31 December 2008, the deemed dividend distribution provisions will apply as follows:

	£	Marks
Accounting profit (per question)	288,000	½
Foreign tax withheld on dividends	4,000	1
Corporation tax paid for the year 2006	(32,000)	1
Add: Additional depreciation due to revaluation of assets	40,000	1
Accounting profit subject to deemed distribution provisions	300,000	
Deemed distribution (70% x £300,000)	210,000	1
Less: Dividend distribution made	(100,000)	1
Profit subject to the special contribution for the defence	110,000	
Special contribution for the defence payable (£110,000 x 15%)	16,500	½

January 2009 dividend

As a Cyprus tax-resident company paying a dividend to a Cyprus tax-resident individual, Lemesos Ltd must deduct the special contribution for the defence (SDC) of £170,000 x 50% x 15% = £12,750 from the dividend paid to Elena. The deemed SDC paid by the company for the year 2006 cannot be offset against the SDC paid on the dividend payment. 1

As a Cyprus tax-resident company paying a dividend to another Cyprus tax-resident company, Lemesos Ltd is not required to deduct the special contribution for the defence from the dividend paid to Trimrose Ltd. ½

10