

Fundamentals Level – Skills Module

Taxation (Cyprus)

Monday 3 December 2007

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–3.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

The Institute of Certified Public Accountants of Cyprus



Paper F6 (CYP)

SUPPLEMENTARY INSTRUCTIONS

- 1 Calculations and workings need only be made to the nearest £.
- 2 All apportionments should be made to the nearest month.
- 3 All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances for the year 2006 are to be used in answering the questions.

Income tax	
First £10,000	nil
£10,001 – £15,000	20%
£15,001 – £20,000	25%
Over £20,001	30%

Capital allowances	
Plant and machinery	10%
Agricultural machinery and tools	15%
Motor vans	20%
Hotel, industrial and agricultural buildings	4%
Other buildings	3%
Computer hardware	20%
Computer software	33%

Corporation tax	
Statutory bodies	25%
Other companies	10%
Statutory rate of interest	9%

Value added tax	
Registration limit	£9,000
Standard rate	15%
Reduced rate	5%

Social insurance contributions	
Social insurance fund	6.3%
Redundancy fund	1.2%
Human resources development fund	0.5%
Social cohesion fund	2%
Central holiday fund	8%

Capital gains tax

Rate	20%
Life time exemptions	
General	£10,000
Agricultural	£15,000
Residential dwelling	£50,000
Retail price index	
1 January 1980	34.96
September 1981	41.98
January 2001	87.41
April 2006	102.65
September 2006	103.24

ALL FIVE questions are compulsory and MUST be attempted

1 Mr Andreas has been a successful merchant for many years, but he has never kept proper books and records as regards his business. In May 2006, the Inland Revenue demanded that Mr Andreas submit within one month, his business and personal assets and liabilities, for the period 1 January 2001 to 31 December 2006.

In order to respond on time and properly to the demands of the Inland Revenue, Mr Andreas has sought your assistance. He provides you with the following information:

Particulars	Note	Assets as at 1 January 2001	
			£
Cash held			1,000
Business bank overdraft			10,000
Trade debtors	1		70,000
Creditor	2		30,000
Stock in trade	3		55,000
Business machine (at cost)	4		30,000
Investments	5		20,000
Apartment in London	6		180,000

Notes

1. As at 31 December 2006 the trade debtors were as follows:

	£
Trade debtors	77,000
Less: General provision for bad debts (10%)	7,000
Total	<u>70,000</u>

2. This amount was borrowed from a friend in 1998. Mr Andreas paid him an annual interest of £3,000 on 31 December of each year. On 1 January 2006 Mr Andreas settled his debt by paying the friend £25,000 for full and final settlement.

3. As at 31 December 2006 stocks were valued at £100,000 including a 25% mark up on cost and after deducting stocks costing £20,000, which were destroyed by fire during November 2006.

4. In January 2003 Mr Andreas bought a new machine for £50,000. The old machine was traded in for £5,000.

5. During 1995 Mr Andreas bought 1,000 shares in Laiki bank at £5 each. On 1 January 2001 the value of each of these shares was £20. During 2005 he sold 500 shares for £40 each, after collecting a net dividend of £8,500.

6. The apartment in London had been given to Mr Andreas by his grandfather. The market value of the apartment as at 31 December 2006 was £400,000. During the period under examination he received gross rents totalling £100,000.

7. In January 2001 Mr Andreas purchased a piece of land for £140,000, paying the following expenses of acquisition in that month:

	£
– Land registry transfer fees	15,000
– Agent’s commission	10,000
– Legal fees	5,000
– Bank interest (gross)	4,646

The land was sold on 24 October 2006 for £300,000. The sale transaction was taxed under capital gains tax law and all the capital gains tax resulting was paid on 30 October 2006.

Mr Andreas had already used his lifetime exemption in full against previous property transactions.

8. During 2001 Mr Andreas bought two apartments at Protara. As at 31 December 2006 these apartments were valued by an independent valuer at £150,000 each. The cost of acquisition during 2001 was £75,000 for each apartment. His father-in-law contributed £25,000 against the acquisition of each apartment.

9. For the period under examination:
- Mr Andreas' living expenses were agreed with the Inland Revenue at £90,000.
 - In December 2003 Mr Andreas was assessed with income taxes of £30,000 and special contribution for the defence of £10,000. Although he agrees with these assessments Mr Andreas has not paid them yet.
 - Mr Andreas paid interest to various banks of £16,000.

Required:

(a) Prepare for Mr Andreas a capital statement (or net worth statement), for the period 1 January 2001 to 31 December 2006, clearly showing his total taxable income for the six-year period. (20 marks)

(b) In relation to value added tax (VAT):

(i) State the circumstances in which a refund of VAT paid may be claimed. (5 marks)

(ii) State and explain the circumstances in which the VAT Commissioner may postpone or refuse the refund of VAT paid. (5 marks)

(30 marks)

- 2 (a) Elysia Ltd is a Cyprus resident private company. The net profit of Elysia Ltd for the year ended 31 December 2006 was £600,000, after taking into account the following items:

	Notes	£
Interest received (gross)	1	30,000
Trade goodwill received	2	60,000
Dividends received (gross)	3	50,000
Loss from the sale of motor vehicles	4	14,000
Interest paid	5	60,000
Profit from the sale of shares	6	100,000
Tax payments	7	90,000
Gain from the sale of land taxed under capital gains tax law		200,000
Depreciation		20,000

Notes:

- The gross amount of interest received during the year comprises:

	£
Interest received net from a bank deposit account (10% tax deducted at source)	10,000
Interest received gross from a bank current account	1,000
Interest received gross from trade debtors	9,000
Interest received gross from Government bonds	10,000
	<u>30,000</u>
- The amount of £60,000 represents the gross amount received from the sale of trade goodwill acquired in 2003 for £40,000.
- The gross amount of dividends received during the year comprises:

	£
Dividend received net from a Cyprus company	10,000
Dividend received net from a Greek company (tax withheld at source £1,500)	20,000
Dividend received gross from an Italian company (no tax withheld at source)	20,000
	<u>50,000</u>
- In January 2006 an old motor van was replaced with a new motor van costing £20,000. The trade in value of the old van, which had been acquired on 1 January 2002 for £10,000, was £6,000. In January 2006 an old saloon car used by the finance director was replaced with a new car costing £40,000. The trade in value of the old car (which had been acquired in the year 2000 for £30,000) was £10,000. The rate of depreciation for all motor vehicles is set at 10%.
- Interest paid comprises:

	£
On a bank overdraft account	7,000
On a loan for trading purposes	23,000
On a loan for the acquisition of the apartment to be used by the finance director	14,000
On a loan for the acquisition of the saloon car for the use of the finance director	12,000
On the late payment of taxation	4,000
	<u>60,000</u>
- As at 1 January 2006 the company had investments in listed shares costing £400,000. On 30 June 2006, shares costing £200,000 were disposed of for £300,000.

7. Tax payments comprise:	£
Provisional tax for 2006	20,000
Final tax for 2005	25,000
Capital gains tax	30,000
Special contribution for the defence	15,000
	<hr/>
	90,000
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Required:

Calculate the final corporation tax payable by Elysia Ltd for the year ended 31 December 2006.

(19 marks)

- (b) On 1 January 2006 Elysia Ltd owned other Cyprus-resident companies, as follows: 100% of Beta Ltd, 85% of Gamma Ltd, 75% of Delta Ltd and 30% of Epsilon Ltd. On 31 March 2006 Elysia Ltd acquired the remaining 70% of Epsilon Ltd.

For the year 2006 the four companies have the following taxable profits/losses:

	Profit £	Loss £
Beta Ltd		60,000
Gamma Ltd		500,000
Delta Ltd	100,000	
Epsilon Ltd	200,000	

Required:

Assuming for the purposes of this part only that Elysia Ltd's taxable profit for the year ended 31 December 2006 is £380,000, explain how the group tax position will be computed for that year, clearly identifying to what extent (if any) the losses can and cannot be relieved.

(6 marks)

(25 marks)

3 Mrs Constantia and her husband Mr Elias set up a company in 1978 called Lemesia Hotels Ltd. Mr Elias has 80% of the shares and Mrs Constantia 20% of the shares in the company.

During 1979 the company bought a plot of land for £400,000.

The market value of the land as at 1 January 1980 was £500,000.

In October 1981 the company completed the construction of a building costing £400,000.

This land and building was the only immovable property held by the company.

Capital allowances granted on the building up to 31 December 2005 were £276,000.

On 31 May 2006 Mr Elias and Mrs Constantia sold their shares in the company.

The market value of the property as at 31 May 2006 was £2,500,000.

Neither Mr Elias nor Mrs Constantia have used any of their capital gains tax exemptions.

Required:

- (a) Calculate the capital gains tax payable by Mrs Constantia on the sale of the shares in Lemesia Hotels Ltd, and state how and by when the tax is payable. (8 marks)**
- (b) Define the term person in the context of capital gains tax law. (4 marks)**
- (c) State the conditions which must be satisfied in order for the following exemptions to be allowed:**
 - (i) Principal dwelling house. (6 marks)**
 - (ii) Agricultural land. (2 marks)**

(20 marks)

4 In the case of legal persons and individuals:

- (a) State the circumstances in which returns of income must be submitted. (4 marks)**
- (b) State the submission dates for these returns of income. (8 marks)**
- (c) Specify the methods by which returns of income may be submitted. (3 marks)**

(15 marks)

- 5 Lemosos Ltd is a Cyprus resident company having the following Cyprus tax resident shareholders: Elena 50% of the shares and Trimrose Ltd 50% of the shares.

Alexandros, the financial controller of the company, has provided you with details of Lemosos Ltd's tax computation for the year ended 31 December 2006, as follows:

	£
Accounting profit for the year	250,000
<i>Add:</i> adjustments on expenditure	
Annual depreciation	50,000
Additional depreciation due to revaluations of assets	40,000
Defence tax deducted at source on interest income	4,000
50% of interest income taxed under the special contribution for the defence	16,000
<i>Deduct:</i> adjustments on income	
Gross dividends received (tax withheld £4,000)	(20,000)
Revaluation of shares	(20,000)
Taxable profit	320,000
Corporation tax	(32,000)
Profit after tax	<u>288,000</u>

Required:

Calculate the special contribution for the defence payable by Lemosos Ltd if the company distributes £100,000 from the profits for the year 2006 in December 2008 and a further £170,000 in January 2009. Support your calculations with relevant explanations.

(10 marks)

End of Question Paper