

Fundamentals Level – Skills Module

Taxation (Cyprus)

Monday 2 June 2008

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are printed 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

ACCA

IFAC

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 2007 are to be used in answering the questions.

Income tax	
First £10,750	nil
£10,751 – £15,750	20%
£15,751 – £20,600	25%
Over £20,601	30%

Capital allowances	
Plant and machinery	10%
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	8%

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

Life time exemptions

General	£10,000
Agricultural	£15,000
Residential dwelling	£50,000

Retail prices index

1 January 1980	34·96
November 1995	77·38
November 2003	97·01
November 2005	102·96
June 2007	104·78

ALL FIVE questions are compulsory and MUST be attempted

1 Dr Akis is a lecturer at Limassol University. He is a Cyprus tax resident (during the year he has spent 185 days in Cyprus) and had the following income and expenses for the year 2007:

Income	Note	£
Net income from employment	1	19,000
Net income from self-employment	2	12,000
Donation by his parents		10,000
Income from rents	3	8,000
Capital gain from the disposal of land		24,000
Net dividends received from Cyprus companies		1,700
Net dividends received from French companies	4	6,000
Lottery winnings		1,000
Net interest received	5	4,500
Profit from the sale of shares in listed companies		10,000
Total income		96,200
Expenses		
Life assurance policy premiums	6	8,000
Capital gains tax paid		6,000
Bank interest	7	3,000
Expenses on rented property	3	1,500
Donation to an approved charity club		500
Living expenses		20,000
Total expenses		39,000

Notes:

- Social insurance contributions of £1,200 and income tax of £2,800 were deducted at source.
- The self-employed business income arises from seminars he held in Greece. Dr Akis paid temporary tax by self-assessment of £1,000 for the year 2007.
- Rents received relate to a flat in Athens. The flat was acquired in 1999 for £50,000 (including land of £20,000). No tax has been paid in Greece on this income.
- The French dividends were subject to withholding tax at the rate 20% which was deducted at source.
- Dr Akis received bank deposit interest (net) on his bank accounts on 29 December 2007 as follows:

From banks in Cyprus (10% tax withheld at source)	1,800
From banks in Greece (25% tax withheld at source)	1,500
From banks in France (no withholding tax)	1,200
Total net interest received	4,500

6. The life assurance premiums are analysed as follows:

Policy number	Life insured	Insured amount £	Premium paid £
1	Dr Akis	60,000	5,000
2	Dr Akis' wife	10,000	3,000
Total premiums paid			8,000

7. Bank interest consisted of the following:	£
In respect of a loan to acquire his main residence in Limassol	2,000
In respect of a loan to acquire the Athens flat	<u>1,000</u>
Total bank interest paid	<u><u>3,000</u></u>

Required:

- (a) **Compute the income tax payable by Dr Akis for the year 2007.** (18 marks)
- (b) **Compute the special defence contribution payable by Dr Akis for the year 2007 and state the due dates of payment.** (7 marks)
- (c) **State Dr Akis' obligations as a self-employed person under the social insurance system and the penalties and/or interest which will be chargeable to Dr Akis as a result of the non-payment of social insurance contributions as a self employed person.** (5 marks)

(30 marks)

2 Tikinio Ltd, a Cyprus resident private company, is a well known distribution and delivery company based in Limassol. The net profit and turnover of the company for the year ended 31 December 2007 are £130,000 and £1,300,000 respectively.

Elena, the financial controller of the company, has provided you with a copy of its audited financial statements.

The following items have been taken into account when calculating the net profit for the year ended 31 December 2007:

	Note	£
Bad debts	1	12,000
Advertising and marketing	2	11,000
Other administration expenses	3	18,000
Depreciation	4	50,000
Office renovation costs	5	80,000
Payroll costs	6	73,000
Travelling inland	7	5,000
Dividends received from Cyprus companies		20,000

Notes:

1. Bad debts comprise:	£
Trade debtors recovered from previous years	(1,000)
Increase in specific bad debt provision	5,000
Increase in general provision for bad debts	8,000
	12,000
	12,000

2. Advertising and marketing comprise:	£
Entertaining employees	6,000
Entertaining customers	5,000
	11,000
	11,000

3. Other administrative expenses comprise:	£
Goods destroyed by employees	10,000
Cost of stock stolen by an employee (sale value £5,000)	2,000
Cost of stock stolen by a director (sale value £15,000)	6,000
	18,000
	18,000

4. During the month of April 2007, Tikinio Ltd acquired one long van, one short van and a new truck.

The long van was acquired second-hand for £6,000. The previous owner had used it for three years. The short van was also acquired second-hand for £15,000 and was bought as a replacement for another older short van having a written down value of £1,000 at the time of replacement and on which capital allowances of £6,000 had been claimed. The replaced older short van was sold for £3,000.

The new truck, which was acquired for £18,000, was completely destroyed in an accident in July 2007. Insurance compensation of £5,000 was received. A second new truck was bought in the same month for £20,000.

On 1 July 2007 a laptop computer was acquired for £2,000 for Elena, the financial controller. She estimates that she will use the computer around 20% for private purposes and 80% for business purposes.

On 1 December 2007, Tikinio Ltd purchased a new office computer for £4,000. The computer was delivered in boxes to the company's office in the same month but its installation did not occur until January 2008.

5. In September 2007 Tikinio Ltd acquired its own office premises for £500,000 (including land of £100,000). During the same month the company spent £80,000 renovating these offices.

The renovation costs were made up as follows:

	£
– Painting	10,000
– Construction of new separating walls	40,000
– Removal of old tiles and fitting new laminated parquet	5,000
– Installing 15 new air conditioning units	15,000
– Renewal of the old electric installation	10,000
	<u>80,000</u>
6. The payroll costs comprise:	£
Directors' bonuses	60,000
Cohesion fund contributions	3,000
Social insurance fund contributions	10,000
	<u>73,000</u>
7. Travelling inland comprises:	£
Parking fines	500
Speeding fines	1,000
Motor vehicle insurance and road tax	3,500
	<u>5,000</u>

Required:

- (a) Calculate the taxable profit/(loss) of Tikinio Ltd for the year 2007. (21 marks)
- (b) Define the term 'group' in the context of the income tax law. (2 marks)
- (c) Briefly state the conditions for the granting of capital allowances on qualifying assets. (2 marks)

(25 marks)

3 Alexandros and Antonis are joint owners (50% each) of two companies Lemesia Ltd and Nicosia Ltd.

Alexandros and Antonis concluded the following agreement on 31 July 2007.

Alexandros will exchange his shares in Nicosia Ltd for Antonis' shares in Lemesia Ltd, therefore Alexandros will be the sole owner, 100% of Lemesia Ltd and Antonis the sole owner, 100% of Nicosia Ltd. In addition Alexandros will also take possession of a plot of land owned by Nicosia Ltd, Plot No 339.

You are provided with the following information:

1. Lemesia Ltd owned the following plots at the time of the exchange:
 - Plot No 336 acquired on 15 December 2003 for £105,000. The plot had a market value of £23,200 as at 1 January 1980. The market value of the plot as at 31 July 2007 was £185,000.
 - Plot No 337 acquired on 15 December 1975 for £5,000. The plot had a market value of £10,000 as at 1 January 1980. The market value of the plot as at 31 July 2007 was £85,000.
2. Nicosia Ltd owned the following plots at the time of the exchange:
 - Plot No 338 acquired on 15 December 1995 for £100,000. The plot had a market value of £12,000 as at 1 January 1980. The market value of the plot as at 31 July 2007 was £152,800.
 - Plot No 339 acquired on 15 December 1979 for £10,000. The plot had a market value of £12,000 as at 1 January 1980. The market value of the plot as at 31 July 2007 was £22,500.

Neither Alexandros nor Antonis has used his lifetime exemption.

Required:

- (a) In the case of each of the above exchanges of shares calculate the capital gains tax payable (if any) by Alexandros and Antonis respectively, giving brief explanations as to the basis of your calculations.** (16 marks)
- (b) State the due date for the payment of capital gains tax.** (1 mark)
- (c) Define the term 'restated value of acquisition' in the context of the capital gains tax legislation.** (3 marks)

(20 marks)

4 Olga is a value added tax (VAT) registered person and has the following VAT periods:

1 September to 30 November; 1 December to 28 February; 1 March to 31 May; and 1 June to 31 August.

Olga made the following supplies on credit to Giannis, who is also a VAT registered person.

Date of supply	VAT exclusive £	VAT	VAT inclusive £
12 April 2007	10,000	zero-rated	10,000
10 June 2007	8,000	1,200	9,200
24 October 2007	25,000	3,750	28,750
5 December 2007	10,000	1,500	11,500
	<u>53,000</u>	<u>6,450</u>	<u>59,450</u>

Olga also made the following purchases from various suppliers:

Date	VAT exclusive £	VAT	VAT inclusive £
20 March 2007	6,000	900	6,900
11 October 2007	8,000	zero-rated	8,000
1 November 2007	4,000	600	4,600
	<u>18,000</u>	<u>1,500</u>	<u>19,500</u>

You are also provided with the following information:

- On 10 October 2007 Olga collected £10,000 from Giannis.
- On 10 December 2007 she collected another £49,540 from Giannis in full and final settlement of his accounts, since Giannis had gone bankrupt.

Required:

(a) Calculate the VAT payable/refundable for each of the VAT periods:

- 1 March to 31 May 2007
- 1 June to 31 August 2007
- 1 September to 30 November 2007
- 1 December 2007 to 29 February 2008 (8 marks)

(b) State the circumstance in which a trader may be deregistered from VAT. (5 marks)

(c) State the circumstance in which voluntary deregistration may not be approved by the VAT commissioner. (2 marks)

(15 marks)

- 5 (a) Briefly explain what is meant by the term 'employment' for income tax purposes. (2 marks)
- (b) List four payments other than salaries and wages that are classified as income from employment. (2 marks)
- (c) State six factors that are used when determining whether a contract is a contract of services. (6 marks)
- (10 marks)**

End of Question Paper