Taxation (Cyprus)
F6 (CYP)
June & December 2011

This syllabus and study guide is designed to help with planning study and to provide detailed information on what could be assessed in any examination session.

THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

Relational diagram of paper with other papers

This diagram shows where any direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers such as Advanced Performance Management by Performance Management. These links are shown as solid line arrows. Other papers only have indirect relationships with each other, such as links existing between the accounting and auditing papers. The links between these are shown as dotted line arrows. This diagram indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper

Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

Relational diagram of the main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

Study Guide

This is the main document that students, tuition providers and publishers should use as the basis of their studies, instruction and materials. Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate and the broad intellectual level at which these may need to be demonstrated (*See intellectual levels below)

Reading lists

ACCA has one Approved Learning Partner – Content (Platinum) which is BPP Learning Media. In addition there are ALP–c (Gold) who also publish text books for ACCA examinations.

BPP and the Gold ALP-c base their study texts on the detailed contents of the study guides as published by ACCA. All approved study content providers will be subject to extensive quality assurance by ACCA, but the highest level of approval - Platinum - will benefit from an exclusive examiner review of content. There will be only one

Platinum approved study content provider over a three-year period, and BPP Learning Media are ACCA's inaugural Platinum study content provider.

In addition ACCA examiners may also suggest other text books where appropriate, which students can refer to when widening their reading beyond the approved study texts. These are listed at the end of this study guide.

A learning content provider for study and/or revision material and/or extra reading can be found by searching for your paper within the following link.

http://www.accaglobal.com/learningproviders/alpc/content_provider_directory/search/

Relevant articles will also be published in *student accountant.*

INTELLECTUAL LEVELS

The syllabus is designed to progressively broaden and deepen the knowledge, skills and professional values demonstrated by the student on their way through the qualification.
The specific capabilities within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels:
Level 1: Knowledge and comprehension
Level 2: Application and analysis
Level 3: Synthesis and evaluation

Very broadly, these intellectual levels relate to the three cognitive levels at which the Knowledge module, the Skills module and the Professional level are assessed.

Each subject area in the detailed study guide included in this document is given a 1, 2, or 3 superscript, denoting intellectual level, marked at the end of each relevant line. This gives an indication of the intellectual depth at which an area could be assessed within the examination. However, while level 1 broadly equates with the Knowledge module, level 2 equates to the Skills module and level 3 to the Professional level, some lower level skills can continue to be assessed as the student progresses through each module and level. This reflects that at each stage of study there will be a requirement to broaden as well as deepen capabilities. It is also possible that occasionally some higher level capabilities may be assessed at lower levels.

LEARNING HOURS

The ACCA qualification does not prescribe or recommend any particular number of learning hours because increasingly study and learning patterns and styles vary greatly between people and organisations and in different personal, professional and educational circumstances.

Each syllabus contains between 23 and 35 main subject area headings depending on the nature of the subject and how these areas have been broken down in those particular papers.

GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The Fundamentals level examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

The Knowledge module is assessed by equivalent two-hour paper based and computer based examinations.

The Skills module examinations are all paper based three-hour papers. The structure of papers varies from ten questions in the *Corporate and Business Law* (F4) paper to four 25 mark questions in *Financial Management* (F9). Individual questions within all Skills module papers will attract between 10 and 30 marks.

The Professional level papers are all three-hour paper based examinations, all containing two sections. Section A is compulsory, but there will be some choice offered in Section B.

For all three hour examination papers, ACCA has introduced 15 minutes reading and planning time.

This additional time is allowed at the beginning of each three-hour examination to allow candidates to read the questions and to begin planning their answers before they start writing in their answer books. This time should be used to ensure that all the information and exam requirements are properly read and understood.

During reading and planning time candidates may only annotate their question paper. They may not write anything in their answer booklets until told to do so by the invigilator.

The Essentials module papers all have a Section A containing a major case study question with all requirements totalling 50 marks relating to this case. Section B gives students a choice of two from three 25 mark questions.

Section A of each of the Options papers contains 50-70 compulsory marks from two questions, each attracting between 25 and 40 marks. Section B will offer a choice of two from three questions totalling 30-50 marks, with each question attracting between 15 and 25 marks.

The pass mark for all ACCA Qualification examination papers is 50%.

GUIDE TO EXAMINATION ASSESSMENT

ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and assurance, law and tax papers except where indicated otherwise, ACCA will publish *examinable documents* once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions..

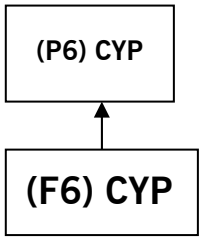
For paper based examinations regulation ***issued*** or legislation ***passed*** on or before 30th September annually, will be assessed from June 1st of the following year to May 31st of the year after. Please refer to the examinable documents for the paper for further information.

Regulation issued or legislation passed in accordance with the above dates may be examinable even if the ***effective*** date is in the future.
The term issued or passed relates to when regulation or legislation has been formally approved.

The term effective relates to when regulation or legislation must be applied to an entity transactions and business practices.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list.

Syllabus



AIM

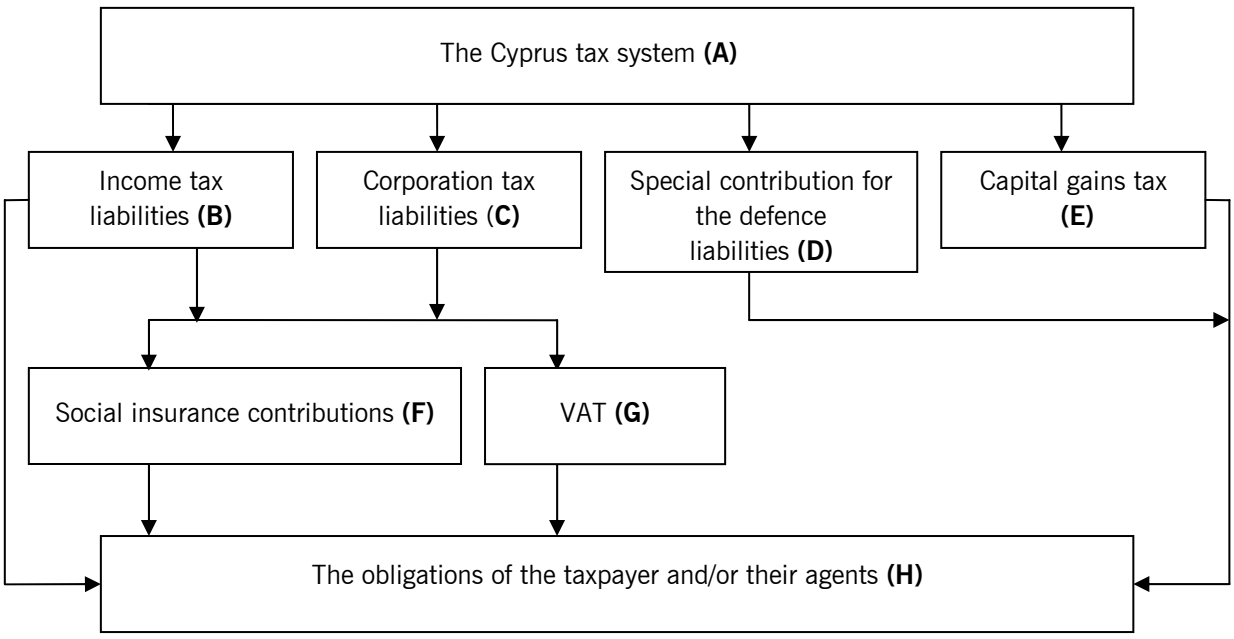
To develop knowledge and skills relating to the Cyprus tax system as applicable to individuals, single companies and groups of companies.

MAIN CAPABILITIES

After completing this examination paper students should be able to:

- **A** Explain the operation and scope of the Cyprus tax system
- **B** Explain and compute the income tax liabilities of individuals
- **C** Explain and compute the corporation tax liabilities of individual and groups of companies
- **D** Explain and compute the special contribution for the defence (SCD) liabilities of individuals and companies
- **E** Explain and compute the capital gains tax liabilities of Individuals and companies
- **F** Explain and compute the effect of social insurance contributions on employees, employers and the self employed
- **G** Explain and compute the effects of value added tax on incorporated and unincorporated businesses
- **H** Identify and explain the obligations of tax payers and/or their agents and the implications of non-compliance.

RELATIONAL DIAGRAM OF MAIN CAPABILITIES



RATIONALE

This syllabus introduces candidates to the subject of taxation and provides the core knowledge of the underlying principles and major technical areas of taxation, as they affect the activities of individuals and businesses.

In this syllabus, candidates are introduced to the rationale behind and the functions of the tax system. The syllabus then considers the separate taxes that an accountant would need to have a detailed knowledge of, such as income tax from self employment, employment and investments; the corporation tax liability of individual companies and groups of companies; special contribution for the defence liabilities and capital gains tax liabilities of individuals and companies; the social insurance contribution liabilities of both employed and self-employed persons; and the value added tax liability of businesses.

Having covered the core areas of the basic taxes, the candidate should be able to compute tax liabilities, explain the basis of their calculations, apply tax planning techniques for individuals and companies and identify the compliance issues for each major tax through a variety of business and personal scenarios and situations.

DETAILED SYLLABUS

A The Cyprus tax system

1. The overall function and purpose of taxation in a modern economy
2. Different types of taxes
3. Principal sources of revenue law and practice
4. Tax avoidance and tax evasion

B Income tax liabilities

1. The scope of income tax
2. Income from employment
3. Income from self-employment
4. Other income, pensions and investment income
5. The comprehensive computation of taxable income and income tax liability
6. The use of exemptions and deductions in deferring and minimising income tax liabilities

C Corporation tax liabilities

1. The scope of corporation tax
2. Profits chargeable to corporation tax
3. The comprehensive computation of corporation tax liability
4. The effect of a group corporate structure for corporation tax purposes
5. The use of exemptions and deductions in deferring and minimising corporation tax liabilities

D Special contribution for the defence

1. The scope of the special contribution for the defence (SDC)
2. The comprehensive computation of SDC liabilities for individuals and companies
3. Deemed Distribution Provisions and the comprehensive computation of the tax liability

E Capital gains

1. The scope of the taxation of capital gains
2. The basic principles of computing gains and losses
3. Gains and losses on the disposal of immovable property
4. Gains and losses on the disposal of shares
5. The computation of the capital gains tax payable by individuals and companies
6. The use of exemptions and deductions in deferring and minimising capital gains tax liabilities

F Social insurance contributions

1. The scope of social insurance contributions

2. Social insurance contributions for employed persons, made by employees and employers and for self-employed persons

3. Social cohesion fund contributions

G Value added tax

1. The scope of value added tax (VAT)

2. The VAT registration requirements

3. The computation of VAT liabilities

H The obligations of taxpayers and/or their agents

1. The systems for self and temporary assessment and the making of returns

2. The time limits for the submission of returns, information, objections, claims and payment of tax

3. The procedures relating to enquiries, objections and appeals.

4. Penalties for non-compliance

APPROACH TO EXAMINING THE SYLLABUS

The paper will be mainly computational and will have five questions, all of which will be compulsory.

- Questions one will be on income tax and question two will be on corporation tax for a total of 55 marks. One of the questions will be for 30 marks and the other for 25 marks

- Question three will be for 20 marks, and will focus on capital gains tax, either for an individual or a company

- Questions four and five will be on any area of the syllabus and will be for 15 marks and 10 marks respectively.

There will always be at a minimum of 10 marks on value added tax on any paper. These marks might be included as part of a question or there might be a separate question on value added tax.

Social insurance contributions will not be examined as a separate question, but may be examined in any question involving income tax or corporation tax.

Groups and overseas aspects will only be examined in question two, and will account for no more than 8 marks in total on any one examination paper.

Capital gains tax may be examined in questions other than question 3, for example as part of a corporation tax or income tax scenario.

Any of the five questions might include the consideration of issues relating to the minimisation or deferral of tax liabilities.

Study Guide

A THE CYPRUS TAX SYSTEM

1. The overall function and purpose of taxation in a modern economy

a) Describe the purpose (economic, social etc) of taxation in a modern economy.[2]

2. Different types of taxes

a) Identify the different types of capital and revenue tax.[1]

b) Explain the difference between direct and indirect taxation.[2]

3. Principal sources of revenue law and practice

a) Describe the overall structure of the Cyprus tax system.[1]

b) State the different sources of revenue law.[1]

c) Appreciate the interaction of the Cyprus tax system with that of other tax jurisdictions. [2]

4. Tax avoidance and tax evasion

a) Explain the difference between tax avoidance and tax evasion.[1]

b) Explain the need for an ethical and professional approach.[2]

Excluded topics

- *Anti-avoidance legislation.*

B INCOME TAX LIABILITIES

1. The scope of income tax

a) Describe the scope of income tax.[2]

b) Explain how the residence of an individual is determined.[1]

Excluded topics

- *Income from trusts and settlements*.
- *Jointly held assets*
- *Taxation of non-residents and temporary residents*

2. Income from employment

a) Recognise the factors that determine whether an engagement is treated as employment or self-employment.[2]

b) Recognise the basis of assessment for employment income.[2]

c) Compute the income assessable.[2]

d) Explain the treatment of benefits received 'in kind'.[2]

e) Recognise the allowable deductions.[2]

f) Explain the PAYE system.[1]

Excluded topics

- *Share and share option incentive schemes for employees.*
- *Lump sum receipts by employees*

3. Income from self-employment

a) Recognise the basis of assessment for self-employment income.[2]

b) Describe and apply the badges of trade.[2]

c) Recognise the expenditure that is allowable in calculating the tax-adjusted trading profit.[2]

d) Capital allowances

i) Define 'plant and machinery' and 'building' for capital allowances purposes [1]
ii) Compute wear and tear allowances for plant, machinery and buildings [2]
iii) Compute balancing allowances and balancing charges [2]
iv) Recognise when a balancing statement is and is not required [2]
v) Explain the treatment available on the replacement of assets (balancing additions) [2]'

e) Relief for trading losses

i) Understand how trading losses can be carried forward [2]
ii) Explain how trading losses can be carried forward following, on the conversion of a business to a limited company [2]
iii) Understand how trading losses can be claimed against total income of the current year [2]

f) Partnerships and limited liability partnerships

i) Recognise the treatment of consideration received in respect of trading goodwill [2]
ii) Explain how a partnership is assessed to tax [2]
iii) Compute the assessable profits for each partner following a change in the profit sharing ratio [2]
iv) Compute the assessable profits for each partner following a change in the membership of the partnership [2]

g) Prepare a net worth /capital statement for an individual

Excluded topics

- *Capital allowances on the conversion of an unincorporated business to a limited company*
- *Capital allowances on the death of a sale trader*.

4. Other income, pensions and investment income

a) Compute the income assessable from rents.[2]

b) Understand the treatment of rental losses.[2]

c) Explain the treatment of interest and dividend income.[2]

d) Explain the treatment of pensions and annuities.[2]

Excluded topics:

- *Value of owner's benefits derived from additions or alterations by a tenant*
- *Disposition or alienation of income from rents*
- *Deemed interest under section 39 (controlled companies)*

5 The comprehensive computation of taxable income and income tax liability

a) Prepare a basic income tax computation involving different types of income.[2]

b) Compute the amount of income tax payable.[2]

c) Compute the double tax relief available.

Excluded topics

- *The income of minor children.*

6. The use of exemptions and deductions in deferring and minimising income tax liabilities

a) Recognise the income which is exempt.[2]

b) Explain and compute the deduction given for contributions to approved provident funds and pension schemes.[2]

c) Explain and compute the deduction given for life assurance premiums.[2]

Excluded topics

- *Pension scheme and personal life assurance policy rules applicable in 2002 and earlier tax years.*
- *The conditions that must be met in order for a pension or provident fund to be approved.'*

C CORPORATION TAX LIABILITIES

1. The scope of corporation tax

a) Define the terms 'year of assessment' and 'accounting period'.[1]

b) Explain how the residence of a company is determined.[2]

c) Define the term 'permanent establishment' and explain the consequences of an activity being so classified.[2]

Excluded topics

- *Investment companies*
- *Companies in receivership or liquidation*
- *Reorganisations*
- *The purchase by a company of its own shares*
- Companies undertaking specialist business activities such as insurance, shipping and air transport.

2. Profits chargeable to corporation tax

a) Recognise the expenditure that is allowable in calculating the tax-adjusted trading profit.**[2]**

b) Compute capital allowances (as for income tax).**[2]**

c) Explain the treatment of dividends, interest and property income. **[2]**

d) Understand how losses can be claimed against income of the current year of assessment. **[2]**

e) Understand how losses can be carried forward and set off in subsequent years. **[2]**

f) Compute profits chargeable to corporation tax.**[2]**

Excluded topics

- *Research and development expenditure.*
- *Arms length principle*
- *Losses on change of ownership*

3. The comprehensive computation of corporation tax liability

a) Compute the corporation tax liability.[2]

b) Explain how relief for double taxation is given on foreign sourced income.**[2]**

c) Compute the double tax relief available.**[1]**

d) Explain how exemptions and deductions can defer or minimise corporation tax liabilities.**[2]**

4. The effect of a group corporate structure for corporation tax purposes.

a) Define a group and recognise the reliefs that are available to members of such a group.**[2]**

Excluded topics

- *Controlled foreign companies*

5. The use of exemptions and reliefs in deferring and minimising corporation tax liabilities (The use of such exemptions and reliefs is implicit within all of the above sections 1 to 4 of part C of the syllabus, concerning company tax)

D. SPECIAL CONTRIBUTION FOR THE DEFENCE

1. The scope of the special contribution for the defence (SDC)

a) Describe the scope of SDC. **[2]**

b) Distinguish between income subject to withholding at source and that accounted for by assessment. **[2]**

Excluded topics

- *Public corporate bodies; non-resident entrepreneurs*

2. The comprehensive computation of special contributions for the defence liabilities for individuals and companies

a) Compute income subject to SCD.

b) Calculate the SCD liability and the payment dates.

c) Compute the double tax relief available.

3. Deemed Distribution Provisions and the comprehensive computation of the tax liability

E CAPITAL GAINS

1. The scope of the taxation of capital gains

a) Describe the scope of capital gains tax.[2]

b) Understand what constitutes a chargeable disposal.[2]

Excluded topics

- *Inaccessible areas*
- *Inherited property*
- *Leases*
- *Transfers by reason of death*
- *Transfers of property or shares in the case of re-organisation*
- *Exchange or disposal of property under the Agricultural Land (Consolidation) Laws*
- *Gifts to and from a limited company*
- *The estate duty credit*
- *Gifts from parent to child, between husband and wife and other close relatives*

2. The basic principles of computing gains and losses

a) Compute capital gains for both individuals and companies.[2]

b) Explain the treatment of deductions including the indexation allowance.[2]

c) Explain the treatment of capital losses for both individuals and companies.[1]

Excluded topics

- *Election for value 14.7.1974*
- *Methods of valuation*
- *Losses due to capital allowances*
- *Deemed disposal proceeds*

3. Gains and losses on the disposal of immovable property

a) Understand what constitutes immovable property.[2]

b) Compute the chargeable gain when an immovable property is disposed of.[2]

c) Compute the chargeable gain arising on the exchange of properties of equal or different value. [2]

d) Explain the exemption applicable when a principal dwelling is disposed of.[2]

4. Gains and losses on the disposal of shares

a) Understand the circumstances in which a charge to capital gains tax arises on the disposal of company shares.[2]

b) Compute the chargeable gain arising on the disposal of shares in a company owning immovable property.[2]

5. The computation of the capital gains tax payable by individuals and companies

a) Recognise and apply the lifetime exemptions available to individuals.[2]

b) Compute the amount of capital gains tax payable.[2]

6. The use of exemptions and deductions in deferring and minimising capital gains tax liabilities

a) Identify and apply the right reduction/relief in given circumstances.[2]

F SOCIAL INSURANCE CONTRIBUTIONS

1. The scope of social insurance contributions

a) Describe the scope of social insurance contributions.[1]

2. Social insurance contributions for employed persons, made by employees and employers, and for self-employed persons

a) Compute the contributions payable for employed persons by employees and employers. **[2]**

b) Compute the contributions made by self employed persons. **[2]**

c) Explain the system of surcharges which applies to late payments. **[2]**

3. Social cohesion fund contributions

a) Describe the scope of the social cohesion fund contributions (SCFC).**[2]**

b) Define emoluments for SCFC purposes.**[2]**

G VALUE ADDED TAX

1. The scope of value added tax (VAT)

a) Describe the scope of VAT.**[2]**

b) List the principal reduced rate, zero-rated and exempt supplies.**[1]**

2. The VAT registration requirements

a) Recognise the circumstances in which a person must register for VAT.**[2]**

b) Explain the advantages of voluntary VAT registration.**[2]**

c) Explain the circumstances in which pre-registration input VAT can be recovered.**[2]**

d) Explain how and when a person can deregister for VAT.**[1]**

Excluded topics

- *Group and divisional registration*.
- *Public Authorities*
- *Trustees, agents and VAT representatives*

3. The computation of VAT liabilities

a) Explain how VAT is accounted for and administered.**[2]**

b) List the main books and records that must be kept.[1]

c) Recognise the tax point when goods or services are supplied.**[2]**

d) List the information that must be given on a VAT invoice.**[1]**

e) Explain and apply the principles regarding the valuation of supplies.[2]

f) Recognise the circumstances in which input VAT is non-deductible.**[2]**

g) Compute the relief that is available for losses on trade debts.**[2]**

h) Compute input tax, output tax and the net amount of VAT payable/refundable.[2]

i) Explain the circumstances in which the default surcharge and default interest will be applied.**[1]**

Excluded topics

- *Imports, exports and trading within the European Community*
- *Partial exemption*
- *Transfer of going concerns*
- *Immovable property, including leases*
- *Schemes for farmers*
- *Tour operators margin scheme*
- *The second hand goods scheme*
- *The capital goods scheme*
- *Special schemes for retailers*
- *Offences and penalties apart from the default surcharge and default interest*

H THE OBLIGATIONS OF TAX PAYERS AND/OR THEIR AGENTS

1. The systems for self and temporary assessment and the making of returns

a) Explain and apply the features of the self and temporary assessment systems for income tax and SDC as they apply to individuals.[2]

b) Explain and apply the features of the self and temporary assessment systems for corporation tax and SDC as they apply to companies.[2]

c) Explain the procedures for the assessment and collection of capital gains tax as they apply to individuals and companies.[2]

d) Understand the function and describe the basic contents of the following tax forms: IR 4/6/7/7a/30/59/63/601/605.[1]

2. The time limits for the submission of returns, information, objections, claims and payment of tax

a) Recognise the time limits that apply to the filing of returns and information, and the making of claims, including claims for refunds, and objections.[2]

b) Recognise the due dates for the payment of tax under the self-assessment and the temporary payment systems.[2]

c) State the obligations of taxpayers to keep and retain books and records for tax purposes.[1]

3. The procedures relating to enquiries, objections and appeals.

a) State the general powers vested in the Director of the Inland Revenue.[2]

b) Explain the circumstances in which the Inland Revenue can enquire into a self-assessment tax return.[2]

c) Explain the procedures for dealing with objections, recoveries and appeals.[1]

4. Penalties for non-compliance

a) Calculate interest on overdue tax and SDC.[2]

b) State the offences that can arise and the penalties that can be charged.[2]

READING LIST

This section only contains examiner suggested reading which is in addition to the study texts and/or revision materials and/or other reading listed within the learning content provider directory.

Additional examiner suggested reading:

Textbooks for Paper F6 CYP can be obtained from:

CTR Publications Ltd
12 Prometheus Street CY 1065 Nicosia Cyprus
P O Box 28743 CY 2082 Nicosia Cyprus
Tel : + 357 22 451033
Fax : +357 22 451031

Relevant tax legislation including tax laws, tax regulations, tax notifications and Council of Ministers' orders, in English and Greek.

Cyprus Inland revenue Department Website:
http://www.mof.gov.cy/mof/ird/ird.nsf/dmlindex_en/dmlindex_en?OpenDocument

Cyprus VAT Service Department website:
http://www.mof.gov.cy/mof/vat/vat.nsf/DMLindex_en/DMLindex_en?OpenDocument

Further details on reading lists and Approved Learning Content can be found in the first few sections of this guide and on the following link.

http://www.accaglobal.com/learningproviders/alpc/content_provider_directory/search/