THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2026

MODULE 2.03 – CYPRUS OPTION

ADVANCED INTERNATIONAL TAXATION (JURISDICTION)

TIME ALLOWED – 3¼ HOURS

This exam paper has **three** parts: **Part A**, **Part B** and **Part C**.

You need to answer **five** questions in total. You will **not** receive marks for any additional answers.

You must answer:

- **Both** questions in **Part A** (25 marks each)
- **One** question from **Part B** (20 marks)
- **Two** questions from **Part C** (15 marks each)

Further instructions

- All workings should be made in Euros, unless otherwise stated. Any monetary calculations should be made to the nearest whole Euro. Any necessary time apportionments in your calculations should be made to the nearest whole month.
- You must provide appropriate line breaks between each question, and clearly indicate the start of each new question using the formatting tools available.
- Marks may be allocated for clarity of presentation of your answers.
- The time you spend answering questions should correspond broadly to the number of marks available for that question. You should therefore aim to spend approximately half of your time answering Part A, and the other half answering questions in Parts B and C.
- There is no separate reading time, so you can start typing your answers as soon as the exam begins. However, we recommend that you set aside some time to thoroughly read each question and plan each of your answers.

PART A

You are required to answer BOTH questions from this Part.

1. CypSoft Ltd is a Cyprus tax resident company that develops software used in industrial production. The software is protected as copyrighted software and includes a patented decision-engine (Patent CY/2025/000). CypSoft Ltd owns the qualifying intellectual property (IP) rights, and undertakes research and development (R&D) activities in Cyprus.

CypSoft Ltd's results for the year ending 31 December 2025 include the following income and costs relating to the qualifying IP assets:

	€
Royalty income from third-party licensees	900,000
Embedded IP income	400,000
Upfront licence fee for a three-year territory licence	200,000
Insurance compensation for infringement	40,000
Direct exploitation costs (customer support team)	120,000
Other Direct exploitation costs	80,000
Legal & registration costs directly linked to the IP (capitalised as part of the IP)	20,000
Amortisation/capital allowances	100,000

In addition, CypSoft Ltd incurred the following R&D expenditures over the life of the IP (cumulative to 31 December 2025).

R&D expenditure (cumulative)	Nature	€
In-house developer salaries	Revenue	300,000
Consumables, test data and prototype costs	Revenue	50,000
Development costs capitalised as an intangible asset under IFRS (in-house costs)	Capital	300,000
R&D subcontracted to an unrelated third-party specialist	Revenue	110,000
R&D subcontracted to a related group company	Revenue	80,000
Acquisition of a pre-existing software module from a related group company (used within the IP)	Capital (acquisition)	400,000

On 30 November 2025, the company sold the patent to an unrelated buyer for €1,500,000 but retained the copyrighted software. The tax written down value of the patent at that date was €900,000. The sale agreement is structured as a disposal of the patent (as a capital asset), not a sale of trading stock.

You are required to:

1) **Identify whether CypSoft Ltd's IP assets and the income streams listed above qualify for the Cyprus IP Box regime in 2025.** (8)

2) **Compute the nexus fraction for the qualifying IP, using the cumulative R&D data provided, and calculate the qualifying profits for 2025.** (17)

Total (25)

2. Ms F is a Cyprus tax resident and domiciled individual for the tax year 2025. She is employed as the chief financial officer of a Cyprus-resident company.

During the year ending 31 December 2025, Ms F received the following income:

a) Gross annual salary and performance bonus.
b) Use of an employer-provided company car available for private use.
c) Employer-paid residential accommodation in Cyprus.
d) Employer contributions to an approved pension fund.
e) Dividends from a Cyprus company.
f) Interest from Cyprus bank deposits.
g) Rental income from Cyprus immovable property.
h) Gain on disposal of listed shares.

She also made personal pension contributions and charitable donations to approved organisations.

You are required to:

1) **Analyse the Cyprus income tax treatment of Ms F's employment income and benefits in kind, including her company car, employer-provided accommodation and employer pension contributions.** (7)

2) **Assess the deductibility of Ms F's personal pension contributions and charitable donations.** (3)

3) **Examine the taxation of dividend income, interest income and rental income for a Cyprus domiciled individual, including the application of Special Defence Contribution and General Healthcare System contributions.** (7)

4) **Explain the tax treatment of gains on disposal of listed shares and the policy rationale behind the exemption.** (3)

5) **If Ms F was tax resident in Cyprus but non-domiciled in Cyprus, how would your answers to the above questions differ?** (5)

Total (25)

PART B

You are required to answer ONE question from this Part.

3. CypCo Ltd is a company incorporated and tax resident in Cyprus. During the year ending 31 December 2025, the following information is relevant:

- Trading profit per financial statements amounted to €600,000, after charging the following:

  a) Depreciation of plant and machinery: €100,000 (cost of €300,000 on 1 January 2025; additions of €200,000 during the year).

  b) Directors' entertainment expenses: €25,000.

  c) Donation to an approved Cyprus charity: €20,000.

  d) Interest expense of €90,000 relating to a loan used to acquire 100% shares in a foreign subsidiary.

- Dividend income of €300,000, received from a 100% owned subsidiary resident in Sweden. The subsidiary pays corporate tax in Sweden at a rate of 25%.

- Gain of €100,000 arising from the disposal of shares in an unrelated foreign company.

- Rental income from a Cyprus property amounting to €50,000. Direct expenses relating to the property were €4,000.

CypCo Ltd had incurred a tax loss of €200,000 in the year ended 31 December 2024.

Capital allowances are calculated as 20% on cost. The company has no group relief claims, nor any tax losses carried forward to year 2024 from prior years.

You are required to:

1) Compute the corporation tax liability of CypCo Ltd for the year ending 31 December 2025. (13)

2) Explain the Cyprus tax treatment of the dividend income and the share disposal profit. (4)

3) Briefly explain whether Special Defence Contribution (SDC) or General Healthcare System contributions may apply to the rental income. (3)

Total (20)

4. Mr E is a Colombian national, domiciled in Colombia. On 1 February 2025 he relocated to Cyprus.

During the 2025 tax year Mr E spent:

- 150 days in Cyprus;
- 160 days in Colombia; and
- the remaining days travelling in the EU.

Mr E rents an apartment in Cyprus and acts as director and shareholder of a Cyprus tax resident company, but maintains an owned apartment in Colombia where his spouse and minor children continue to reside. Under Colombian domestic law, he remains tax resident in Colombia for 2025.

During 2025 Mr E received the following income:

a) Salary from the Cyprus company of €110,000.
b) Dividends from Colombian listed companies of €70,000 (subject to a 10% withholding tax).
c) Interest from Colombian bank deposits of €30,000 (subject to a 15% withholding tax).
d) Rental income from Colombian immovable property of €50,000 (on which expenses of €20,000 were incurred).
e) Capital gains on the sale of United States listed shares of €300,000.

You may assume that the double tax agreement between Colombia and Cyprus follows Article 4 of the OECD Model Tax Convention (OECD MTC) for residence tie-breaker purposes.

You are required to analyse:

1) Mr E's Cyprus domestic tax residence position, with reference to the 60-day and 183-day rules. (9)

2) The application of the treaty tie-breaker provisions in determining residence under Article 4 OECD MTC. You should analyse each step sequentially. (9)

3) The Cyprus tax consequences if treaty residence is allocated to Colombia. (2)

Total (20)

PART C

You are required to answer TWO questions from this Part.

5. ADev Ltd is a Cyprus VAT-registered property developer engaged in construction projects.

During 2025, the company recorded the following transactions:

a) It received construction services from SubA Ltd (a Cyprus VAT-registered company) relating to the structural works of a residential apartment building. The contract value is €1,200,000.

b) It supplied completed residential units to private individuals who qualify for the 5% reduced VAT rate on first occupation residential property.

c) It supplied construction services to InCo Ltd (a Cyprus VAT-registered company) in relation to a commercial office development. The contract value is €3,500,000.

d) It purchased architectural and engineering services from a VAT-registered firm in Italy (an EU member state) with no establishment in Cyprus. The fees totalled €300,000.

You are required to analyse the VAT implications of the above transactions, with particular reference to:

1) The scope, operation and policy rationale of Article 11B of the Cyprus VAT Law. (3)

2) The application of the domestic reverse charge in the construction sector under Article 11B. (5)

3) The interaction between the Article 11B reverse charge rules and the 5% reduced rate for qualifying residential property. (4)

4) The treatment of services received from other EU member states, and the input tax recovery implications for a developer making both standard-rated and reduced-rated supplies. (3)

Total (15)

6. The A Trust is a discretionary trust settled in 2025 under the Cyprus International Trusts Law. The settlor is a non-Cyprus tax resident, and non-domiciled in Cyprus, at the time of settlement. The trustee is a Cyprus-resident corporate trustee.

The beneficiaries include the settlor, his spouse (also non-Cyprus resident and non-domiciled), and the settlor's daughter (who is non-Cyprus resident and non-domiciled, but plans to take up tax residence in Cyprus in early 2026).

You are required to analyse:

1) The Cyprus tax treatment of income derived by a Cyprus trust, including the relevance of the residence and domicile status of the settlor and beneficiaries. (8)

2) The tax treatment of distributions made to a Cyprus tax resident and domiciled beneficiary. (4)

3) The taxation of trustees and compliance obligations under Cypriot law. (3)

Total (15)

7. LICo Ltd is a company incorporated and tax resident in Cyprus. It is authorised to carry on long-term life insurance business activities in Cyprus and other EU member states through freedom of services.

For the year ending 31 December 2025, the following information is extracted from LICo Ltd's regulatory and financial statements:

a) Gross premiums written: €40 million
b) Reinsurance premiums ceded: €4 million
c) Claims paid and payable, net of reinsurance recoveries: €26 million
d) Increase in actuarial reserves (technical provisions): €5 million
e) Investment income (interest and dividends): €6 million
f) Realised gains on disposal of investment securities: €4 million
g) Management and administrative expenses: €6 million

Included within investment income are dividends of €3 million from EU subsidiaries and bank interest of €1,600,000.

The actuarial increase in reserves has been calculated in accordance with Solvency II requirements and approved by the Superintendent of Insurance.

You are required to analyse:

1) The general principles governing the taxation of life insurance companies in Cyprus, including the basis of computation of taxable profits. (2)

2) The tax treatment of premiums, claims, reinsurance and changes in actuarial reserves. (4)

3) The taxation of investment income and capital gains arising within a life insurance company. (4)

4) The relevance of Special Defence Contribution and any sector-specific considerations. (5)

Total (15)

8. CyGroup Ltd is the Cyprus tax resident holding company of an international group. Historically, the group has used Cyprus for holding, financing and intellectual property activities. Following the OECD BEPS Action Plan and subsequent EU measures, the board is concerned about the continued viability of its structure.

The group structure includes:

a) A Cyprus financing company lending to low-tax subsidiaries.

b) A Cyprus IP company benefiting from the IP regime.

c) A subsidiary in a jurisdiction taxed at 4% effective tax rate.

d) Intra-group hybrid financing instruments.

e) Extensive use of Cyprus double tax treaties for dividend repatriation.

You are required to analyse how the OECD BEPS Action Plan has been incorporated into Cyprus's tax legislation. In your answer you should:

1) Explain the BEPS minimum standards and how Cyprus has implemented them. (4)

2) Consider the impact of ATAD I and ATAD II on Cyprus structures, including CFC rules, interest limitation and hybrid mismatch provisions. (4)

3) Discuss the implications of treaty anti-abuse provisions and the Multilateral Instrument for treaty benefits offered by Cyprus. (3)

4) Evaluate whether Cyprus remains competitive as an international holding jurisdiction post-BEPS. (4)

Total (15)