

THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2025

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. ArmeniCo Ltd is a company registered in Armenia. In 2022 it incorporated CypCo Ltd, a company registered in Cyprus, and held 100% of CypCo Ltd's share capital. Shortly thereafter, ArmeniCo Ltd sold 20% of its holding in CypCo Ltd to IsraCo Ltd, a company registered in Israel.

The equity share capital of CypCo Ltd was initially €10 million; however, in December 2022, CypCo Ltd took out a €20 million loan from BULL#2, a private equity fund, at an annual interest rate of 8.5%. On 1 January 2023, CypCo Ltd invested its €30 million cash balance as follows:

- 1) It set up a 100% subsidiary in Ghana, GhanCo Ltd, by subscribing €10,000 for its share capital. CypCo Ltd then granted a 10-year, €14,970,000 loan, denominated in US dollars, to GhanCo Ltd at an annual interest rate of 11%.
- 2) It set up a 100% subsidiary in Greece, GreCo Ltd, by subscribing €10,000 for its share capital. CypCo Ltd then granted a 10-year, €10 million loan to GreCo Ltd at an annual interest rate of 11%.
- 3) It set up a 90% subsidiary in Georgia, GeoCo Ltd, by subscribing €10,000 for its share capital. CypCo then granted a 10-year, €5 million loan to GeoCo Ltd at an annual interest rate of 11%.

On 1 July 2023 CypCo Ltd increased its equity share capital from €10 million to €30,850,000 and issued €20,850,000 in new share capital to BULL#2.

According to the Cyprus Ministry of Finance, the 10-year yields on sovereign bonds for the year 2023, which you may assume to be the risk-free loan rates in the selected countries, are as follows:

- | | | |
|----|------------------|---------|
| a) | Cyprus | 3.25% |
| b) | Ghana (USD rate) | 22.845% |
| c) | Greece | 3.042% |
| d) | Georgia | 8.425% |

You are required to:

- 1) **Analyse, for each of the loans granted to CypCo Ltd subsidiaries, whether the Cyprus tax authorities would accept the 11% per annum interest rate as an arm's length loan interest rate (as defined in s. 33 of the Income Tax Law 118/2002 as amended), in view of the fact that CypCo Ltd has been charging a 2.5% mark-up on the 8.5% interest rate that it pays to BULL#2. (19)**
- 2) **Explain how BULL#2's loan conversion during 2023 would affect the deemed interest deduction amount (per the provisions of s.9B of the Income Tax Law 118/2002 as amended), indicating the appropriate components of the calculation. You are not required to provide a full calculation. (6)**

Total (25)

2. Peter, a United Kingdom national, visited Cyprus in the spring of 2023 and fell in love with the island. Peter is 75 years old and receives a UK state pension. He decided to move permanently to Cyprus and invested as follows:

- 1) He acquired a 50-year-old building that once operated as a hotel, which he renovated and converted into 15 apartments, setting aside the top floor apartment as his own private residence. The remaining 14 apartments were rented out on short rental basis through a short-term homestay app.
- 2) He acquired a plot of agricultural land which he used to produce and sell lemons and oranges.
- 3) He acquired shares in various Cyprus entities from which he received dividends during the year 2024.

Peter also holds shares in a number of UK and EU companies from which he received dividends in 2023, as well as corporate bonds from which he received interest in 2023. During 2023 Peter also received rental income from the UK, as he rented out his UK home when he moved to Cyprus.

During the course of 2023, Peter spent approximately 200 days in Cyprus. In early 2024, however, Peter fell ill and returned to the UK for treatment. Due to his state of health, which requires continuous monitoring, he was compelled to spend most of his time in the UK. However, he visited Cyprus on occasions, staying at his apartment during his visits. From 2024, Peter spends 90-110 days in Cyprus annually.

Due to the change in his circumstances, Peter is considering selling his investments in Cyprus in the future, as his children reside in the UK and show no intention of moving to Cyprus in the near future.

You are required to:

- 1) **Analyse Peter's Cyprus tax residency position for 2023 and 2024.** (5)
- 2) **Analyse Peter's Cyprus Income Tax, Special Defence Contribution, General Healthcare System (GeSY) and VAT obligations for 2023 and 2024, for each of his income sources.** (15)
- 3) **Explain the Cyprus Capital Gains Tax implications of the future disposal of Peter's Cyprus assets, referring also to any allowances or reliefs that Peter may avail himself of.** (5)

Total (25)

PART B

You are required to answer ONE question from this Part.

3. Giannakos, a Cypriot national and resident, inherited a building plot of land from his family back in July 2003. The land was initially acquired by his late father in December 1978 for €25,000; it was valued at €26,000 on 01 January 1980, and at €200,000 in July 2003.

Noor, a foreign national who took up permanent residency in Cyprus during year 2023, wishes to invest in real estate development. During a night out, she met Giannakos at a bar in Limassol and, after a long conversation, they decided that they wanted to do business together.

Giannakos and Noor later visited a civil engineer, who advised them of the following:

- 1) Giannakos's land is valued at €500,000 exclusive of VAT as of July 2024. On the basis of its zone classification, it may be developed into 12 apartments of approximately equal size and value, with an expected total sale value of €2,160,000 plus VAT.
- 2) The cost of construction of this development project is expected to be €1 million plus VAT. Giannakos has no cash to invest in the project.
- 3) The project's development costs will be primarily funded by Noor's cash deposits in Cyprus of €1 million. The remaining costs will be funded by a bank loan, for which the project will serve as collateral.

You may assume that the transaction will take place during August 2024 and that Giannakos never had any other transactions of immovable property in Cyprus. You may also assume that the indexed cost of the land is €99,281.

Giannakos and Noor were advised that they could transact via one of the following alternative scenarios:

Scenario A

They form a partnership which will develop the project and sell all 12 apartments to unrelated buyers. The partnership will then develop the project, sell the apartments, pay off the bank loan and then distribute the profits and the capital to its shareholders.

Scenario B

They form a limited liability company, to which Giannakos sells his land for €500,000 plus VAT if applicable in exchange for 33.34% of the company's shares. At the same time, Noor deposits €1 million with the company's bank account in exchange of 66.66% of the company's shares. The company will then develop the project, sell the apartments, pay off the bank loan and then distribute the profits and the capital to its shareholders.

You are required to:

For each scenario above, analyse the Income Tax, Capital Gains Tax, Special Defence Contribution and General Healthcare System (GeSy) implications which arise for Giannakos, Noor, the partnership in Scenario A, and the limited company in Scenario B. (20)

4. The Cyprus Income Tax Law provides generous tax exemptions for individuals taking up a 'first employment'. The relevant section 8(21A), which provides for a 20% discount, and section 8(23A), which provides for a 50% discount, were last amended in 2022 and 2023 respectively.

For individuals taking up 'first employment' during the year 2024, you are required to:

- 1) Explain the term 'commencement of first employment' in Cyprus. (4)
- 2) Explain the provisions of section 8(21A). (6)
- 3) Explain the provisions of section 8(23A) as amended by Law 51/2023. (10)

Total (20)

PART C

You are required to answer TWO questions from this Part.

5. “The December 2022 amendment of the Cyprus Income Tax Law extended the concept of Cyprus tax residency for limited liability companies from the 2022 tax year.”

You are required to:

- 1) **Critically evaluate the above statement, explaining the circumstances under which a limited liability company will be deemed as Cyprus tax resident.** (10)
- 2) **Explain how the tax residency of a company impacts its tax status in Cyprus.** (5)

Total (15)

6. “The income of a foreign company will be taxable in Cyprus, to the extent that this emanates from activities of a permanent establishment (PE) of this foreign company situated in Cyprus.”

According to Section 2 of the Income Tax Law 118/2002 as amended, you are required to:

- 1) **State what is defined as a PE.** (5)
- 2) **State what is explicitly not a PE.** (10)

Total (15)

7. The Income Tax Law 118/2002 as amended, in Sections 26-30, provides for important tax exemptions and deferrals for transactions falling within the definition of a scheme of company re-organisations.

Within such a scheme, you are required to explain the following:

- 1) **What is a ‘re-organisation through a company division’? What is a partial division?** (7)
- 2) **What is a ‘re-organisation through a transfer of assets’? How does this differ from a merger of a division?** (4)
- 3) **What is a ‘re-organisation through an exchange of shares’?** (4)

Total (15)

8. As a tax adviser with knowledge of Cyprus's VAT system, you have been presented with the following transactions:

- 1) Taxi services provided to diplomats of Slovenia (an EU member state) in Cyprus. The services were ordered and paid for by the Slovenian embassy in Athens.
- 2) Civil engineering services provided by a Cypriot civil engineering company to a Cypriot land developer relating to a building site located in Saudi Arabia.
- 3) Carriage of passengers from Cyprus to the United Arab Emirates by a Cypriot airline, on a contract signed with a tour operator based and registered in Italy (an EU member state).
- 4) Entrance to a fashion show in Larnaca, Cyprus, organised by an Israeli firm.
- 5) Services provided by a Cypriot quantity surveyor to an Italian land developer, for a building site in Cyprus.
- 6) Bank management services provided by an Italian consultancy company to a Cyprus-based bank.
- 7) Bookkeeping services undertaken by an Indian back-office company and provided to a Cypriot audit firm on a sub-contracted basis.

You are required to determine the place of supply of the service in each of the above transactions for VAT purposes, and to identify the corresponding VAT compliance obligations of the Cyprus tax-registered persons. (15)