

“Amendments to Cyprus Tax Laws”

First package of austerity measures

Background

On 26 August 2011 the House of Representatives voted the first package of austerity measures which includes a number of amendments to the tax laws of Cyprus.

This represents the first set of measures that the Cypriot government will be taking in order to reduce public spending and to boost public revenues without putting at risk the competitiveness of Cyprus as a financial centre

It is also expected that a second set of measures will be enacted by the middle of September.

The most significant changes in the tax and company legislation are set out below:



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The Income Tax Law

Increase in the maximum personal income tax rate to 35%.

- A new income tax rate of 35% is introduced for Cyprus tax resident individuals on taxable income in excess of €60.000.

Tax incentives for the employment in Cyprus of highly paid non Cypriot resident individuals.

- In order to encourage the establishment or expansion in Cyprus of new businesses, tax incentives are offered for the employment in Cyprus of persons who are not tax residents of Cyprus.
- In such a case, if the income from employment exceeds €100.000 per annum, a 50% deduction is allowed for such income for the first 5 years of employment.
- The incentive is granted both to Cypriots and non Cypriots, on condition that prior to employment in Cyprus such a person was resident outside Cyprus and was not considered as a tax resident of Cyprus.

“New Income Tax
Rate of 35% for
income in excess
of Euro60.000”

“Tax Incentives
for highly paid non
resident
individuals”

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Tax Abolition of exemption from taxation of the President of the Republic and the President of the House of Representatives

- The exemption from taxation of the official emoluments and the pension of the President of the Republic and the pension of the President of the House of Representatives is abolished.

“Defence Tax on Interest
increased from 10% to
15%”

Entry into force

- The increase in the personal tax rate will come into effect retrospectively as from 1 January 2011, whereas the incentive for new employees will come into force for employments starting as from 1 January 2012.

The Special Contribution for the Defence of the Republic Law

Tax Increase in the rate of defence tax on interest from 10% to 15%

- The rate of special contribution for the Defence of the Republic (“defence tax”) on interest received or credited by Cypriot tax residents is increased from 10% to 15%.
- This applies to both individuals and corporations.

“Loan financing companies not affected. The tax rate remains 10% on net income”

- In the case of corporations, if the interest results from the ordinary carrying on of any business, including any interest closely connected with the ordinary carrying on of the business, it is not subject to defence tax, but instead is subject to corporate income tax. Therefore, financing companies, including companies involved in intra - group financing activities, are not expected to be affected from the change in the rate.
- It should be noted that no defence tax is payable on interest payments to non residents.
- It should also be noted that this provision applies to interest received by resident individuals or corporations, both from sources within Cyprus and outside of Cyprus.

For provident funds defence tax on interest received remains at 3%, as well as in the case of an individual whose total income for the year does not exceed €12.000 (including interest income). The same rate applies to interest received by an individual from Government savings certificates and development stocks.

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Increase in the rate of defence tax on dividends from 15% to 17%

- The rate of defence tax on dividends received by a Cypriot tax resident is increased from 15% to 17%.
- This applies only to individuals, since under the provisions of the legislation companies are generally exempt from the payment of defence tax on dividends.
- The increase in the rate also applies when the deemed distribution rules are applied in cases where a tax resident company does not distribute within two years at least 70% of its after tax profits.
- It should be noted that no defence tax is levied on dividends paid to non-resident individuals or corporations.
- It is also noted that the deemed distribution rules are not applicable in the case where shareholders of a resident company are non tax residents of Cyprus.

“In relation to groups ultimately held by non-Cyprus residents, an announcement is expected to be made soon clarifying that the deemed distribution rules will not apply to them in the future”

“Increase in the rate of defence tax from 15% to 17%”

“The above increase will mostly affect Cyprus resident individuals”

- However, the deemed distribution rules are applicable in the case of a Cypriot tax resident company owned by another Cypriot tax resident company, which in turn is owned by non residents.
- It is expected that shortly such companies will be excluded from the provisions of the deemed distribution rules, therefore there would be a significant benefit for such companies in case of inability to distribute an actual dividend.

Entry into force

The above provisions will enter into force as soon as the new law is published in the official gazette of the Republic of Cyprus.

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Immovable Property Tax Law

- The existing bands are replaced and the rates increased from a maximum of 0,4% to a maximum 0,8% paid by owners of immovable property situated in Cyprus based on the property values as at 1 January 1980.
- The new bands and rates are as per the below table:

“Immovable
Property Tax rates
significantly
increased”

Property Value as at 1/01/1980	Rate %
Up to €120.000	0
€120.000 - €170.000	0,4
€170.000 - €300.000	0,5
€300.000 - €500.000	0,6
€500.000 - €800.000	0,7
Over €800.000	0,8

Entry into force

- The above provisions will come into force for employments starting as from 1 January 2012.

“Annual fixed duty of Euro350 for all companies, except for companies that are dormant and those not owning any assets.”

The Companies Law

Annual duty for companies

- All companies (except for dormant and those not owning any assets) are required to pay an annual fixed duty of €350 to the Registrar of Companies.
- For groups of companies the total duty is capped at €20.000.
- The duty for 2011 is due by 31 December 2011 and for subsequent years by 30 June.
- Late payment of the fee will give rise to the following penalties:
 - ⇒ in case of up to a 2-month delay – a 10% penalty;
 - ⇒ in case of a delay between 2 and 5 months – a 30% penalty.
- The Registrar of Companies may deregister the company in case of further delay.
- If a company is re-instated within a 2-year period from its strike-off a fixed penalty of €500 (in addition to the outstanding amount of the fee) is imposed. The fixed fee will be increased up to €750 where a company is re-instated after the 2-year period.

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Value Added Tax

Decreased VAT on acquisition and/or construction of first residence.

In an effort to counter-balance the impact of the above measures, the acquisition and/or construction of first residence by eligible persons will be subject to a lower VAT rate of 5%. The rate will apply for the first 200 square meters of residences of total covered area of up to 300 square meters.

Eligible person is any individual who fulfills the following conditions:

- I. has completed 18 years of age at the time of submission of his application,
- II. is a citizen of the Republic of Cyprus or any other Member State of the EU, and
- III. does not own any other place of residence in Cyprus.

Entry into force

The reduced rate of 5% applies as from 1 November 2011.

The reduced rate applies only for residences which are used as the primary and permanent place of residence.

“Reduced Vat rate of 5% on first residence”

Public sector employees: Pension contributions

- I. A 3% contribution has been introduced on salaries, payable to the Government Pension Fund.
- II. Furthermore, a contribution of 2% will be made to the Widows’ Fund.
- III. The above amendments apply from the first day of the second month following the publication of the Law in the Gazette.

Public sector employees: One-off contribution

Public sector employees will make progressive contributions at rates ranging from 1,5% to 3,5% for incomes above €1.500 per month for two years.

Monthly Gross Salary	Rate %
0 - €1.500	0
€1.501 - €2.500	1,5
€2.501 - €3.500	2,5
€3.501 - €4.500	3,0
Over €4.501	3,5

The special contribution applies from 1 September 2011 for a period of 24 months.

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