



TAX UPDATE

Under the Memorandum of Understanding between the Republic of Cyprus and Troika lenders and with the aim of strengthening the Republic's public finances, during December 2012 the House of Representatives voted for a number of new and amending laws for the introduction of new/increase of existing taxes and reductions in public spending.

The most relevant amendments are analysed below:

Restriction of carry forward of tax losses

Restriction of the right to carry forward tax losses in order to be set off with future taxable profits has been introduced. Tax losses can now be carried forward for only a five year period (previously tax losses could be carried forward indefinitely) from the end of the tax year in which they were incurred.

Annual levy of €350

From 2013 the legislation has been amended so that the annual levy of €350 becomes payable for all registered companies in the Republic, irrespective of whether they carry out activities or had no assets or only had property in Turkish occupied areas. Furthermore, the maximum total fee payable of €20.000 for group companies is abolished and the annual fee is payable from the first year that a new company is registered. The annual levy is payable by 30 June each year so the annual levy for year 2013 is payable by 30 June 2013.

Value Added Tax (VAT)

The standard rate of VAT is increased to 18% (from 17%) as from 14 January 2013 and to 19% as from 13 January 2014.

The reduced rate of 8% (mainly applies to accommodation and catering services by hotels and restaurants and taxis) will be increased to 9% as from 13 January 2014.

Social Insurance Contributions

From 1 January 2014, the rate of social insurance contributions increases by 1% (from 6,8% to 7,8%) for each of the employer and employee.

Capital Gains Tax

An amendment of the law has been made so as to clarify how the base cost value is determined for properties with no valuation by the land registry office as at 1 January 1980.

Special Contribution on salaries of employees in the private sector

The Special Contribution Law for employees, pensioners and self employed in the private sector to contribute a % of their monthly gross salary/pension is extended for an additional period of 3 years.



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The Special contribution on the salaries is shared equally between the employee and the employer.

In the case of pensioners and self employed individuals the special contribution is suffered exclusively by the pensioner/self employed.

The relevant bands of the special contribution are as follows:

Special Contribution 2012 - 2013		Special Contribution 2014 - 2016	
Monthly salary/pension	%	Monthly salary/pension	%
€0 - €2.500	0	€0 - €1.500	0
€2.501 - €3.500	2,5	€1.501 - €2.500	2,5
€3.501 - €4.500	3,0	€2.501 - €3.500	3,0
Over €4.501	3,5	Over €3.501	3,5

Annual levy on bank deposits

As from 1 January 2013, the levy on bank deposits and credit institutions in Cyprus is increased to 0,11% from 0,095% and the levy now extends indefinitely.

The current provision for refund of levy in case it exceeded 20% of the taxable income of the bank is abolished.

Decrease in Public Spending

A number of laws were voted for the decrease in public spending in the years 2012 to 2016 including the following:

- 1) Reduction of the monthly salaries of all employees in the public sector, the broader public sector and government pensions
- 2) Suspension of paying Cost of Living Allowance (COLA) on salaries of employees in the public sector and the broader public sector up to 2016. There is also freeze of salaries and pensions
- 3) The retirement age increase to 65 years from 63 years, there is an increase in the contributions for pensions by government officials for whom special rules apply and there are provisions for payment of reduced pensions in case of early retirement
- 4) Changes in the work hours of the civil service employees
- 5) Reductions and/or termination of payment of a number of social allowances and special grants

Cooperation with other tax authorities

Provisions are introduced in the Tax Laws facilitating the better exchange of information with other countries whilst complying with the requirements of the OECD.



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Furthermore the EU Directive 2011/16/EU of 15 February 2011 regarding administrative cooperation on tax matters between member states has been adopted by law. Based on the Directive, the exchange of information is compulsory within specified time limits from the time the enquiry is received. In addition, there are provisions in specified cases for automatic exchange of information.

The Director of Inland Revenue is given the authority not to notify the taxpayer in case of investigation by another tax authority, if the information could impede the investigation being conducted.

Maintenance of books and records and filing of tax returns

- All companies incorporated in Cyprus are obliged to keep their accounting records for six years after the end of the calendar year to which they relate.
- The maintenance of accounting records is now mandatory for persons who have income derived from interest and dividends, irrespective of whether the income originates from sources within or outside the Republic of Cyprus. Following this amendment trusts are obliged to maintain accounting records.
- Companies incorporated in Cyprus but which are not tax residents are obliged to submit an annual tax return. In case a foreign tax authority requests financial information, the Director of Inland Revenue will be able to request the necessary information and pass it on to the competent foreign tax authority.

Liability for fraudulent omission or delay in payment of taxes

The Assessment and Collection of Taxes Law has been amended so that where a person is convicted for fraudulent omission or delay in tax payments, the period of imprisonment is increased to a minimum of one year (previously up to six months).

Law Governing the Provision of Fiduciary Services

A law has been enacted which governs the provision of fiduciary and other corporate services. The fiduciary and other corporate services relate to the administration or management of trusts and companies including the provision of directorship and secretarial services provided by a legal person acting as an alternate director/secretary, provision of registered office address, services in relation to holding of shares in a nominee or trustee capacity, the operation of bank accounts and the ownership of financial assets on behalf of 3rd parties.