



AMENDMENTS IN CYPRUS TAX LEGISLATION

On 26 August 2011 the House of Representatives voted the first package of austerity measures to improve the Cyprus public finances with the objective of avoiding the entry into the European support mechanism. This first package includes amendments to tax legislation with the aim of raising revenues and decreasing government spending whilst safeguarding the competitiveness of Cyprus as a financial centre. The most significant measures are analysed below:

Increase in personal income tax rate to 35%

A new income tax rate of 35% is introduced for Cyprus resident individuals or individuals exercising an employment or profession in Cyprus and is applicable on taxable income in excess of €60,000 as from 1 January 2011.

Tax incentives to attract highly paid non Cyprus resident individuals

In an attempt to attract highly paid employees in Cyprus, tax incentive will be available to individuals who take up residence in Cyprus and whose remuneration is in excess of €100,000 per annum. These individuals will be allowed a 50% deduction of their employment income in the first 5 years of employment. This exemption also applies to Cypriots who were residents outside Cyprus and were not considered as tax residents of Cyprus prior to their employment in Cyprus. The incentive is available from the year of commencement of the employment for years starting 1 January 2012.

Dividends

The rate of Special Defence Contribution (Defence Tax) on dividends is increased with immediate effect from 15% to 17%. This applies mainly to individuals since under the provisions of Cyprus tax legislation, companies are generally exempt from the payment of defence tax on dividends. This increase also applies for deemed dividend distributions whereby a tax resident company does not distribute, within 2 years, at least 70% of its profits after tax.

It should be noted that no defence tax is withheld on dividends paid to non resident individuals or corporations. It is also noted that deemed distribution of dividends is not applicable in case where the shareholders of a resident company are not Cyprus tax residents.

However the deemed distribution rules are currently applicable in the case where a Cyprus tax resident company is owned by another Cyprus tax resident company, which in turn is owned by non-residents. An announcement is soon expected to be made whereby such companies will be excluded from the provisions of the deemed distribution rules. This will be a significant benefit for such companies in case of inability to distribute an actual dividend.

Interest

The rate of Special Defence Contribution (Defence Tax) on interest is increased with immediate effect from 10% to 15%.



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In case of companies where interest arises from the ordinary carrying on of the business activities or from activities closely connected to the ordinary business activities, this interest is not subject to defence tax, but instead is included in taxable income which is subject to income tax. Therefore, financing companies are not expected to be affected by this increase. This increase also applies to interest received by resident individuals or companies from sources within and outside Cyprus.

Companies Law - Fixed annual duty for companies

An annual duty of €350 is introduced for all companies incorporated in Cyprus (except for dormant and those companies not owning any assets) and is payable to the Registrar of Companies as from 1 January 2011. For groups of companies the maximum duty is €20.000. The duty for the year 2011 is due by 31 December 2011 and for subsequent years by 30 June. Financial penalty of 10% is applicable if the duty is paid within 2 months from the due date and 30% if the duty is paid within 5 months from the due date. If the duty is not paid within five months, the Registrar of Companies will remove the company from the registry (something which is expected to restrict the company from filing documents or requesting certificates from the Registrar's Office). The return of the company to the registry can be effected within two years with the payment of a levy of €500 and thereafter with the payment of a levy of €750.

Immovable property tax

The bands and rates of immovable property tax paid by both individuals and companies on property situated in Cyprus have been revised as follows as from 1 January 2012:

Property value as at 1 January 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%

Public sector employees

- Permanent pension contribution: Public sector employees (excluding those whose employment will commence after the law comes into force) will contribute 3% of their salaries towards pension benefits with immediate effect. New public sector employees will be registered on the social insurance scheme which is available to the private sector and will be contributing 6,8% of their salaries.
- Special contribution: Public sector employees will make progressive contributions of 1,5% - 3,5% for salaries above €1.500 per month for 2 years with effect from 1 September 2011.