

Amendments to the companies and taxation laws

On 26 August 2011 the house of Representatives voted a number of amendments to the tax and companies legislation with an aim to further boost Cyprus' finances.

The most significant changes which may apply to international businesses operating in Cyprus are set out below.

The Companies Law

- As from 2011 an annual levy of €350 is introduced for all companies incorporated in Cyprus payable to the Registrar of Companies. For groups of companies the maximum levy is fixed at €20.000
- The levy for 2011 must be paid by 31 December 2011, whereas the levy for 2012 onwards must be paid by 30 June of each year.
- Dormant companies, companies which do not own any assets, as well as companies owning property located in the non Government controlled areas of Cyprus are exempted from the payment of the levy.

In case where the levy is not paid within the prescribed period, if the levy is paid within two months from the due date, a penalty of 10% is payable which is increased to 30% if the levy is paid within five months from the due date. If the levy 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 per annum and thereafter with the payment of a levy of €750 per annum.

The Income Tax law

- **Increase in the maximum personal income tax rate to 35%**
A new income tax rate of 35% is introduced for individuals with 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.
- **Entry into force**
The increase in the personal tax rate will come into effect 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

- **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 companies. In the case of companies, 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 companies, both from sources within Cyprus and outside of Cyprus.

➤ **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 companies. 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. 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.

The Immovable Property Tax Law

The rates applicable for the payment of immovable property tax, which is paid by both individuals and companies on property owned in Cyprus are increased, as well as the threshold as from which taxes are paid is lowered. It should be noted that tax remains levied on the assessed value of the property as at 1 January 1980. The rates are as follows:

Up to €120.000	0%
From €120.000 to €170.000	0.4%
From €170.001 to €300.000	0.5%
From €300.001 to €500.000	0.6%
From €500.001 to €800.000	0.7%
Over €800.000	0.8%

The increase will be effective as from the year 2012.

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