



Cyprus Tax News

Tax Law amendments voted

We are pleased to inform you that the House of Representatives voted yesterday certain tax law amendments.

Please note that not all proposed amendments (as per our tax news alert 5/2015 dated 2 July) have been voted into law. Below, we present the most important changes voted that aim to:

- improve Cyprus' competitiveness in attracting foreign investments
- attract businesses to set up operations in Cyprus and relocate their senior management and
- incentivize high net worth individuals to reside in Cyprus.

A more detailed alert with all the amendments voted will follow as soon as the amending laws are published in the Gazette.

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Introduction of Notional Interest Deduction (NID) on qualifying equity

Companies that obtain fresh equity/capital would be able to claim a notional interest deduction of up to 80% of their taxable income, reducing their overall effective tax rate to as low as 2.5%.

The NID would be calculated as follows: **NID = qualifying equity x reference rate.**

Qualifying equity will include share capital and share premium issued and settled on or after **1 January 2015**.

The applicable **reference rate** will be the 10-year government bond rate (as at the end of the year preceding the relevant tax year) of the country in which the qualifying equity is invested in, increased by 3%, subject to a minimum rate equal to the 10-year Cyprus Government bond rate increased by 3%.

The notional interest would be deductible according to the same rules as actual interest expense, i.e. the degree of tax deductibility would depend on the way the fresh equity/capital will be utilized.

The NID provides a significant tax incentive for existing companies to re-capitalize their operations. Furthermore, it aims to attract new companies to set up their operations in Cyprus and benefit from this tax incentive.

Extension of personal income tax exemptions

Non-Cyprus tax resident individuals taking up employment in Cyprus are eligible to claim one of the following two tax exemptions:

Tax Exemption	Exemption Period
50% of their employment income earned in Cyprus to be exempt from income tax, assuming such individuals earn more than €100,000 per year. To put this into context, an individual earning €120,000 per year would take home approximately €105,000.	5 years
20% of their employment income earned in Cyprus to be exempt from income tax up to a maximum of €8,550.	3 years

This law amendment extends the exemption period for the 20% tax exemption from 3 to 5 years for employment that commenced on or after 2012. The 20% tax exemption can be claimed up to and including the tax year 2020 and it is then phased out. Furthermore, the exemption period for the 50% tax exemption is extended from 5 to 10 years.

Introduction of “domicile” concept

With the introduction of the concept “domicile in the Republic” in the SDC Law, non-domiciled individuals will be exempt from Special Defence Contribution on their dividend, interest and rental income, even if they spend more than 183 days in Cyprus (Cyprus tax residents).

Therefore, non-domiciled Cyprus tax resident individuals will be exempt from both income tax and SDC on dividend income and interest income.

This amendment aims to attract high net worth individuals to reside in Cyprus.

In addition to the above, a number of other tax changes were voted yesterday, which will be analyzed in more detailed as soon as the amending laws are officially published in the Gazette.

We are at your disposal to discuss the above tax changes.



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