



Cyprus Tax News

Cyprus Tax Law Amendments

On 9 July 2015, the House of Representatives enacted into laws a number of significant tax law proposals which were published in the Cyprus Government Gazette on 16 July 2015.

The amendments to the Cyprus Tax Legislation are in an effort to modernize the framework of the Cyprus tax system and improve Cyprus' competitiveness in attracting foreign investments.

We briefly outline below the main provisions with respect to the various tax law amendments:

- [Income Tax Law](#)
- [Capital Gains Tax Law](#)
- [Special Contribution for Defence Law](#)
- [Department of Lands and Surveys \(Levy and Duties\) Law](#)

Issue 7/2015

22 July 2015

Contacts:

Nicosia offices
infonicosia@deloitte.com
tel: +357 22 360300

Limassol offices
infolimassol@deloitte.com
tel: +357 25 868686

Larnaca offices
infolarnaca@deloitte.com
tel: +357 24 819494

Income Tax Law

Introduction of Notional Interest Deduction on “Qualifying” Equity

The Income Tax Law (ITL) has been amended to introduce a Notional Interest Deduction (NID) on equity.

According to the amended Law, companies resident in Cyprus and companies not resident in Cyprus which maintain a permanent establishment in Cyprus are entitled to a NID on equity, which is effectively a tax allowable deduction against the taxable profits of the company.

The NID is calculated by multiplying the “new equity” held and used by the business in the carrying on of its activities with the “reference interest rate”.

For the purpose of the Law:

- “Reference interest rate” is the yield of the 10 year government bond of the state in which the new equity is invested plus a 3% premium, having as a minimum rate the 10 year Cyprus government bond yield as at 31 December of the tax year preceding the relevant tax year, plus a 3% premium.
- “New equity” is the equity introduced in the business on or after 1 January 2015 in the form of issued share capital and share premium (provided that these are fully paid) and does not include amounts that have been capitalised and which were derived from revaluation of movable or immovable property.

It is provided that any new equity that has been introduced in a company on or after 1 January 2015 which directly/indirectly emanates from reserves existing as at 31 December 2014 but does not relate to the financing of new assets used in the business, is not deemed as new equity.

The NID granted on new equity cannot exceed 80% of the taxable profit as calculated before allowing the NID. It is further provided that in the case of a loss such deduction is not granted.

A company may in any given tax year elect to claim the whole or part of the amount of the NID available.

Anti-abuse measures

In the case where the new equity of a Cyprus tax resident company or a non-Cyprus tax resident company which maintains a permanent establishment in Cyprus, is derived directly/indirectly from the new equity of another Cyprus tax resident company or a non-Cyprus tax resident company which maintains a permanent establishment in Cyprus, the NID on the new equity is available only to one of the two respective companies.

In the case where the new equity emanates directly/indirectly from loans on which interest expense deduction is claimed, the NID on the new equity is reduced by the amount of the interest expense deduction claimed.

In the case where equity is contributed in the form of assets in kind, the amount of equity for the purposes of NID may not exceed the market value of the assets at the date of their introduction into the business, and their market value must be substantiated by the Commissioner’s judgement.

In the case where reorganization is carried out without generating profits subject to taxation, the NID on equity is calculated as if the reorganization has not taken place.

The Commissioner may not grant the NID, if in his judgment actions/transactions have taken place without substantial economic or commercial purpose or the new equity on which the NID is claimed emanates from equity that existed prior to 1 January 2015 and is presented as new equity through actions/transactions with related parties, with the aim of claiming NID.

Effective Date

The above provisions have come into effect on 16 July 2015, which is the date they were published in the Official Gazette.

Our View

These new provisions which allow companies to fund their operations from own equity/capital and obtain a tax allowable deduction (NID), have been introduced to encourage the introduction of new equity into Cyprus tax resident companies and thus promote the development of the Cyprus economy. With a corporate tax rate of 12,5% and depending on the level of capitalization of a company the effective tax can be reduced to as low as 2,5%.

Special Contribution for Defence Law

Introduction of “Domicile” concept in the Special Contribution for Defence Law

The Special Contribution for Defence (SDC) Law is amended by introducing the new term of “**domicile**”.

For the purposes of the SDC Law, an individual has a “**domicile in the Republic**” if he/she has a domicile of origin in Cyprus based on the provisions of the Wills and Succession Law (WSL) (i.e. domicile of the father at the time of birth), except for:

- i) an individual who has acquired and maintains a domicile of choice outside Cyprus based on the provisions of the WSL (i.e. factual concept – an individual permanently lives and intends to live in another country), provided that he/she has not been resident in Cyprus as defined in accordance with the provisions of the ITL for any period of at least 20 consecutive years prior to the relevant tax year, or
- ii) an individual who has not been resident in Cyprus as defined in accordance with the provisions of the ITL for a period of at least 20 consecutive years immediately prior to the entry into force of the provisions of this Law.

It is provided that regardless of the domicile of origin, any individual who is resident in Cyprus, as defined in accordance with the provisions of the ITL for at least 17 out of the last 20 years prior to the relevant tax year, will be deemed domiciled in Cyprus for the purposes of this Law.

Anti-abuse measures

Furthermore, the amended Law introduces an anti-abuse measure which provides that in the case where any person domiciled in Cyprus transfers assets to a relative up to third degree kindred who is not domiciled in Cyprus, and in the Commissioner’s judgment the main purpose of the transfer was to avoid paying SDC, the income arising from these assets is subject to SDC.

Effective Date

The above provisions have come into effect on 16 July 2015, which is the date they were published in the Official Gazette.

Our View

The new term is introduced in an effort to attract expatriates and high net worth individuals to reside in Cyprus. Under the “non-domicile” rules, Cyprus tax resident individuals who are not domiciled in Cyprus are exempt from SDC on dividend, interest and rental income. Hence, the amendment makes the holding of investments in dividend/interest earning assets e.g. shares, bonds by non-Cyprus domiciled individuals more attractive.

Taxation of Dividends

An anti-abuse provision has been introduced in the SDC Law in relation to the taxation of dividends when these are paid to a company beneficially owned indirectly by Cyprus resident and domiciled individual(s).

In case where actual dividend is received by a company which is owned indirectly by Cyprus tax resident and domiciled individual(s) and the Commissioner considers that the interposition of this company as a shareholder of the company paying the dividend does not serve any substantial commercial or economic purpose but is primarily intended to prevent, reduce or postpone the payment of SDC, the Commissioner may deem that the dividend is paid directly to the Cyprus tax resident and domiciled individual(s) who directly/indirectly control the company receiving the dividend and require the payment of the SDC on the dividend either from the company receiving the dividend or from the Cyprus tax resident individual(s) who directly/indirectly control the company.

Effective Date

The above provisions have come into effect on 16 July 2015, which is the date they were published in the Official Gazette.

Our View

The anti-avoidance measure has been introduced to guard against possible abuse of the deemed distribution provisions by Cyprus resident and domiciled individuals. It does not affect companies owned directly or indirectly by non-resident or non-domiciled shareholders.

Capital Gains Tax Law

Exemption from Capital Gains Tax on Immovable Property acquired until 31 December 2016

The Capital Gains Tax (CGT) Law has been amended to provide that gains from the disposal of immovable property consisting of land or land and buildings are exempt from CGT, provided that :

- i. It is acquired from the date the amended Law comes into effect (16 July 2015) until 31 December 2016.
- ii. It is acquired through purchase or purchase agreement and not through an exchange or donation, at market value, from a non-related party.

This exemption does not apply to disposals of immovable property that has been acquired under foreclosure procedures.

Effective Date

The above provisions have come into effect on 16 July 2015, which is the date they were published in the Official Gazette.

Our View

This amendment aims to revive the Cyprus immovable property market and it does not apply to the disposal of share in companies that own immovable property.

Department of Lands and Surveys (Levy and Duties) Law

Reduction in Immovable Property Transfer Fees & Lease/Sublease registration fees

As per the amended Law, for any transfer of immovable property as well as the registration of any lease/sublease until 31 December 2016, a 50% reduction in immovable property transfer fees and lease/sublease registration fees is provided.

The above reduction does not apply to transfers of immovable property that have been acquired under foreclosure procedures.

Abolition of Levy Refunds

The amended Law has abolished the provisions by which the Commissioner refunded after five years from the day of transfer the amount of levy imposed and collected:

- on transfers of immovable property from a partnership to a company having as sole shareholders the partners of the assignor partnership.
- on transfers of immovable property to a (family) company by an individual shareholder of the company or his/her close relatives (i.e. spouse or relatives up to third degree kindred).

Abolition of Special Levies on Transfers from a Company to relatives of the shareholders.

According to the amendment to the Law, the special levies imposed on transfers of immovable property from a company to relatives of up to third degree of kindred of the shareholders are abolished and such transfers are now subject to the normal rates of levy on the values of the immovable property.

Effective Date

The above provisions have come into effect on 16 July 2015, which is the date they were published in the Official Gazette.

Our View

These amendments aim to revive the Cyprus immovable property market by providing a further reduction in the transfer fees. It is worth noting that the exemption on the transfer of property subject to VAT continues to apply and it is not affected by the above exemption.

Income Tax Law

Taxability of Widow's Pension

The amendment allows the individual taxpayer to opt whether his/hers widow's pension is to be taxed under the special mode of taxation (i.e. widow's pension exceeding €19.500 taxed at the rate of 20%) or to be taxed under the general mode of taxation (i.e. widow's pension included in the individual's aggregate taxable income).

Effective Date

These provisions are effective as from the tax year 2014.

Our View

The option for the widow's pension to be taxed under the general mode of taxation is provided since in some cases it may reduce the tax liability of the individual taxpayer.

We are at your disposal to discuss how the above developments may affect your business.



Deloitte refers to one or more Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries with a globally connected network of member firms in more than 150 countries. Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

Deloitte Limited is the Cyprus member firm DTTL. Deloitte Cyprus is among the nation's leading professional services firms, with more than 500 professionals, operating out of offices in all major cities. For more information, please visit the Cyprus firm's website at www.deloitte.com/cy.

Deloitte Limited is a private company, registered in Cyprus (Reg. No. 162812). Offices: Nicosia, Limassol, Larnaca.

This communications contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2015 Deloitte Limited