Following President Anastasiades’ announcement yesterday at the Annual General Meeting of the Institute of Certified Public Accountants of Cyprus (ICPAC), of a number of tax law proposals approved by the Council of Ministers, the Ministry of Finance has today announced the submission of these proposals to the House of Representatives.

The amendments to the 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 proposals submitted today to the House of Representatives:
**Introduction of Notional Interest Deduction (NID) on “Qualifying” Equity**
This reform will allow companies to fund their operations from own equity/capital and obtain tax relief for Notional Interest Deduction, effectively reducing their overall effective tax rate. 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%.

**Revised Personal Income Tax Exemption Regime**
Currently the Law provides for a 20% or 50% exemption on employment income received by individuals commencing employment in the Republic (depending on the circumstances), for the first 3 or 5 years of employment respectively. The proposed reforms provide for an extension to these exemption periods to 5 and 10 years respectively.

**Introduction of “Domicile” Concept in the Special Contribution for Defence Law (SDC)**
A new term of Non-Domicile is introduced in an effort to attract expatriates and high net worth individuals to reside in Cyprus. Under these proposals Non-Domiciled individuals are exempt from Special Defence Contribution on dividend, interest and rental income, even though they may be tax resident in Cyprus. Hence, only Cyprus tax resident individuals who are domiciled or deemed domiciled in Cyprus will be subject to Special Defence Contribution.

**Simplified Foreign Exchange (FX) Treatment**
The proposed reform intends simplifying the tax treatment of FX. Specifically, profits arising from FX differences would be tax neutral in all cases except for companies trading in FX. In the latter case such companies will have the right to choose a consistent method of treating unrealised FXs.

**Alignment of Cyprus Tax Laws with EU Directives and Case Law**
Changes are proposed to align the Cyprus Tax Legislation with EU Directives and ECJ decisions. With respect to the alignment of group relief provisions with ECJ decisions, it is proposed that losses may be surrendered to a Cyprus tax resident company by a company tax resident in another Member State, provided that such company has exhausted all the possibilities of carrying forward or surrendering its losses in its resident State or in another Member State. There are also changes which incorporate in the tax law amendments to the Parent Subsidiary Directive, in order to introduce anti-abuse measures in the case of mismatching of items treated as expenses in one country and dividends in another.

**Transfer Pricing Adjustments**
Changes are introduced to allow for corresponding adjustments both on income and expenses for tax purposes. This will ensure that no double taxation is suffered by group companies.

**Changes in the taxation of Immovable Property**

- **Reduction of Immovable Property Transfer Fees**
  With the purpose of encouraging trade in the immovable property sector, a 50% reduction of immovable property transfer fees is proposed until 31 December 2016.
Exemption from Capital Gains Tax (CGT) on Immovable Property
There are proposals to the CGT Law, which provide that any future sale of immovable property acquired from the date the Law comes into effect to 31 December 2016, will be exempt from CGT.

Other proposals to the CGT Law provide for the taxation of indirect disposals of immovable property (i.e. sale of shares in a company holding shares in a company that owns immovable property) to the extent that the value of the immovable property represents at least 50% of the value of the shares being disposed.

Abolition of the Immovable Property Levy payable to Municipalities
The Ministry announced the abolition of the municipality and community levy payable to the Municipalities.

Immovable Property Tax Law
A new Immovable Property Tax Law is introduced which provides for the imposition of tax, based on a single tax rate of 1‰ on the value of the latest General Valuation of the immovable property (currently that of 31 December 2013).

Increased Capital Allowances on Machinery and Buildings
The tax reform provides for an extension to the increased capital allowances for machinery and buildings acquired up to the end of 2016. The current legislation provides for the increased allowances to apply to acquisitions up to 31 December 2014.

Anti-abuse Provision
A number of anti-abuse measures are introduced to guard against artificial transactions.

Once these tax law proposals are enacted into laws by the House of Representatives, a more detailed tax alert will be published.