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Prepared by

P & P ADVISORY SERVICES LTD

Tax Reforms

Tax Allowance for fresh Capital Injection into a Business

1. This is a tax incentive towards the capitalization of companies and business through the injection of fresh capital to the business, either in cash or in kind.
2. In case on of an in kind contribution of assets, it must be evidenced that the transaction has taken place at market value.
3. Fresh capital, means the share capital and the share premium accounts, to the extent that these have been issued and paid up after 1st January 2015.
4. The interest on the new capital is calculated on the basis of the interest yield of the 10 year government bond (31 December of the preceding fiscal year) of the state that the new capital has been invested, plus 3%.

Tax Allowance for fresh Capital Injection into a Business

5. The amount of deemed interest cannot exceed the limit of 80% of the relevant year's taxable profits of the company, as calculated in accordance with the provisions of the Law and before accounting for the aforesaid deemed interest. It is therefore understood that any interest which is less that 80% of the company's taxable profits is fully tax allowable.
6. The above deemed interest allowance is available to companies that are tax residents of the Republic as well as non resident companies which have a permanent establishment in Cyprus.

Tax Allowance for fresh Capital Injection into a Business

7. The interest allowance reduces the company's taxable profits the same way that any other interest does, provided that the capital injected is used for the financing of the Company's taxable trading assets. Otherwise the interest allowance will be subject to restrictions in line with the existing provisions of the Income Tax Laws. e.g. if the fresh capital is utilized towards the financing of the new shares, then the interest allowance is not available since dividend income or profit from sale of shares is not a taxable income.
8. The new Law contains a series of anti avoidance provisions aiming towards the prevention of transactions which are outside of the spirit of the Law.

Special Defense Contribution tax

9 Before the July 2015 Tax reforms, all individuals who spend more than 183 days in the Republic, were subject to Special Defense Contribution (SDC tax) over their income from Dividend, interest and Rent, at 17%, 30% and 3% respectively.

10 According to the July 2015 Tax Reforms all non domiciled persons are exempted from the above taxation as from the year 2015 onwards.

11 The above exemption is available not only to Non Cypriot Domiciles but also to:
a) persons that are Cyprus Domicile but have also acquired another domicile of choice of a different State, and provided that he or she was not a Tax Resident of Cyprus for any period of at least 20 consecutive years before the relevant tax year that he or she is a tax resident of the Republic.

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Special Defense Contribution tax

b) A person that has retained the Cyprus Domicile of Origin but has not been a tax resident of the Republic for at least 20 consecutive years before the current Law has been enacted.

12 Irrespective of the place of Domicile, anyone person who was a tax resident of the Republic for 17 out of the last 20 years before the relevant tax year, he or she will be considered as Cyprus Domicile and can not therefore take advantage of the exemption after the 18th year.

13 The above changes of the Law are effective from 16th July 2015, and therefore any SDC tax paid before that date is not exempted.

Special Defense Contribution tax

14 When dividend is paid by a Cyprus Resident company to its shareholders who are companies, then the Commissioner of Taxation has the right to challenge the substance of such structures and may demand the payment of SDC tax there by ignoring its legal form, provided that there are evidence in place that the purpose of such structure is the avoidance of postponement of the payment of the tax.

15 According to the current provisions of the SDC Law, the dividend accruing must be distributed to the ultimate Beneficial owners within 4 years after its occurrence, irrespective of the Group structure in place.

16 The above provisions do not apply when the Ultimate Beneficial Owners are not Tax Resident of the Republic.

Capital Gains Tax

1. The New Law provides for unlimited exemption from the Capital Gains Tax, of any future profits arising from the acquisition of properties, made after 16 July 2015 to 31 December 2016.
2. It follows from the above that any purchase of Land and Buildings through a legal agreement, with the exemption of Gifts and Exchange, at market value, from Non Related Parties is exempted from the provisions of the CGT.
3. The above provision does not apply in the case of Liquidations.

Stamp Duty Law

1. On the basis of the Tax Reforms Law, the stamp duty is reduced by 50% on all property transfers provided that:
   a) The transfer is completed before 31 December 2016, irrespective of the date that the agreement was signed and lodged with the Land Registry OR
   b) The Agreement has been completed and filed with the Land Registry within the period 2 December 2011 to 31 December 2016, irrespective of the date of transfer.

   The 50% discount does not apply in the case where the property is acquired through a liquidation process. The Law is valid for transactions taking place after the16th Day of July 2016.

Income Tax Laws

The following Laws are expected to be ratified soon by the Parliament:

1. Foreign exchange:
   Income arising from foreign exchange transactions to be exempted from taxation, provided that such transactions do not fall within the ordinary course of business.
2. 50% tax allowance on the emoluments of non residents that were not Tax Residents before the current Law was enacted and are earning over €100.000 per annum; to be extended from 5 years to 10 years.

Income Tax Laws

3. The 20% allowance to be extended from 3 years to 5 years in relation to the emoluments of persons employed in the Republic who were not residents before the commencement of the employment.
4. Republic of Cyprus – includes also the Exclusive Economic Zone.
5. Treatment of tax losses arising from the 80% tax allowance over the income from the use of Intellectual Properties.
6. Extension over the claim for increased capital allowances on machinery, equipment and hotel buildings acquired before the end of the year 2016

Income Tax Laws

7. Group relief: Provisions to be improved.
8. Advance Tax Rulings: To be Regulated.