

Special Contribution for Defense is imposed on income earned by Cyprus tax residents. Non-tax residents are exempt from special contribution for defense. It is charged at the rates shown in the table below.

Tax rates

Individuals	Legal entities
Dividend income from Cyprus resident companies payable to Cyprus residence	20
Dividend income from non-Cypriot resident companies	20
Interest income arising from the activities of the business closely	20
Other Interest	20
Rental income (reduced by 25%)	3
Profits of semi-government organizations	3

Notes: Dividend income from abroad is exempt from defense fund contribution. This exemption does not apply if:

- (a) more than 50 percent of the paying company's activities result directly or indirectly in investment income, and
- (b) the foreign tax burden is significantly lower than the tax rate payable in Cyprus. The Tax Authorities have clarified through a circular that significantly lower, means a tax burden rate below 5 percent. When the exemption does not apply, the dividend income is subject to Special Contribution for Defense at the rate of 20 percent. Interest income from Cyprus government savings bonds and development bonds and all interest earned by a provident fund is subject to Special Contribution for Defense at 3 percent.

Where the total income of an individual including interest does not exceed €11.960 in a taxable year, then the rate is reduced to 3 percent.

Due dates:

- (a) Special Contribution for Defense on rental income and trading profits of semi-government organization is payable in 6 monthly intervals on 30 June and 31 December each year

- (b) Special Contribution for Defense due on interest and dividends received gross is payable at the end of the month following the month in which they were received.

Foreign taxes paid can also be credited against the defense tax liability.

Deemed dividend distribution

If a Cyprus resident company does not distribute a dividend within two years from the end of the tax year then:

70 percent of accounting profits are deemed to have been distributed and 20 percent special contribution for defense is imposed on deemed dividend distribution applicable to shareholders who are residents of Cyprus, including higher level Cyprus parent companies deemed distribution is reduced with payments of actual dividends which have already been paid during the two years from the profits of the relevant year When an actual dividend is paid after the deemed dividend distribution, then special contribution for defense (if any) is imposed only on the additional dividend paid not previously subject to deemed dividend distribution.

Special Contribution for Defense paid under the deemed dividend distribution provisions can be reclaimed where a dividend is eventually paid to a higher level Cyprus parent company.

Company dissolution

The cumulative profits of the last five years prior to the company's dissolution which have not been distributed or deemed to have been distributed, will be considered as distributed on dissolution and will be subject to Special Contribution for Defense at the rate of 20 percent.

This provision does not apply in the case of dissolution under a reorganization.

Reduction of capital

In the case of reduction of capital of a company, any amounts paid or due to the shareholders up to the amount of the undistributed taxable income of any tax year calculated before the deduction of losses from subsequent years, will be considered as dividends distributed subject to Special Contribution for Defense at 20 percent after deducting any amounts which have been deemed as distributed.

The above provisions do not apply where the shareholders are non-Cyprus residents.