

## TAX NEWS – first package of measures

On 26<sup>th</sup> of August 2011 The House of Representatives voted as first package of austerity measures a number of amendments to tax legislation for the purpose of raising revenues and decreasing government spending and for the objective of avoiding entry into the support mechanism.

### Amendments related to International Business Companies

- **As from 2011 an annual levy of €350 is introduced for all companies incorporated in Cyprus payable to the Registrar of Companies.**

For a group of companies the maximum levy is fixed at €20.000.

The levy for 2011 must be paid by 31<sup>st</sup> December 2011, whereas the levy for 2012 onwards must be paid by 30<sup>th</sup> June of each year.

Dormant companies, companies which do not own any assets, as well as companies owning property located in the non Government controlled areas of Cyprus are exempted from the payment of the levy.

Financial penalties of 10% will be levied for the delay in payment by two months and 30 % for the delay in payment by 5 months from the due date. If the levy is not paid within 5 months the Registrar of Companies will remove the company from the registry. The return of the company can be affected within two years with the payment of a levy of €500 per annum and thereafter with the payment of a levy of €750 per annum.

### Other amendments

- **Increase in the rate of defense tax on interest**

The rate of special contribution for Defense of the Republic (“defense tax”) is increased from 10% to 15%. In the case of corporations, if the interest results from the ordinary carrying on of any business, it is not subject to defense tax, but instead is subject to corporate income tax (10%).

- **Increase in the rate of defense tax on dividends from 15% to 17%**

The rate of defense tax on dividends received by a Cypriot tax resident is increased from 15% to 17 % and applies only to individuals. This applies only to individuals, since under

the provisions of the legislation companies are generally exempt from the payment of defense tax.

➤ **Increase in the maximum personal income tax rate to 35%**

A new income tax rate of 35% is introduced for individuals on taxable income in excess of €60,000.

The increase has come into force as from 1<sup>st</sup> January 2011.

➤ **Tax incentives for the employment in Cyprus of highly paid non-Cypriot resident individuals**

Employee that prior to employment in Cyprus was resident outside Cyprus and was not considered as a tax resident of Cyprus earning €100,000 per annum will have 50% deduction of income for the first 5 years of employment.

The incentive for new employees will come into force for employments starting as from 1<sup>st</sup> January 2012.

➤ **Abolition of exemption from taxation if the President of the Republic and the President of the House of Representatives**

➤ **Entry into force**

The above provisions will come into force as the new law is published in the official gazette of the Republic, if not mentioned otherwise.

➤ **The rates applicable for the payments of immovable property tax are as follows:**

▪ Up to €120,000	0%
▪ €120,000 – €170,000	4%
▪ €170,001 – €300,000	5%
▪ €300,001 – €500,000	6%
▪ €500,001 – €800,000	7%
▪ Over €800,000	8%

The increase will be effective as from the year 2012.

➤ **Construction or purchase of a flat or a house to be used as private main residence is a subject of reduced VAT rate of 5% as follows:**

- area of the property does not exceed 200 sq. meters;
- first 200 sq. meters in case the total area does not exceed 300 sq. meters.

The reduced rate of 5% applies as from 1<sup>st</sup> November 2011.