We would like to inform you that on the 16th July 2015, the Cyprus parliament passed the below amendments. These proposals are aimed at improving the tax competitiveness of Cyprus.

The key measures announced are:

(1) Notional Interest Deduction (NID)

A deemed tax deduction will be provided on new capital introduced in Cyprus and this will take the form of deemed interest deduction. This amendment to the Income Tax Law aims to reduce corporate debt and encourage new equity (share capital and share premium) by introducing an annual tax allowable deduction. New equity introduced to a company as from January 1, 2015 in the form of paid-up share capital or share premium is eligible for the annual NID deduction.

New Equity may be contributed in cash or in assets 'in kind'. In the case of assets in kind the amount of new equity may not exceed the market value of the asset, which must be substantiated.
The NID interest rate is the yield on 10 year government bonds (as at December 31 of the prior tax year) of the country where the funds are employed in the business of the company plus 3% premium. This is subject to a minimum amount which is the yield of the 10 year Cyprus government bond (as at the same date) plus a 3% premium.
The NID is tax deductible in a similar manner as for actual interest expense. Accordingly, the NID deduction is tax deductible when new equity is used to finance most types of business assets.

The NID deduction cannot exceed 80% of the taxable profit (as calculated prior to the NID).
Any amount of NID deduction which has been restricted due to the cap 80% of taxable profit, is not available to be utilized by way of carry forward to future tax years or otherwise.

In order to tackle possible abuse of the amendment introduces a general anti-avoidance provision for non-commercial transactions. The amendment also contains a number of specific anti-avoidance provisions which may restrict the NID, which, inter alia, include:
(a) New equity which emanates from reserves existing at December 31, 2014 is restricted unless the new equity is financing new business assets;
(b) New equity which emanates from share capital/premium existing at December 31, 2014 is restricted;
(c) New equity which emanates from revaluations of assets is exclude;.
(d) Companies benefiting from the reorganization provisions of the tax law will have their new equity

Christabel House, 118 Agias Fylaxeos Str., 3087 Limassol, Cyprus
PO Box 51686, CY-3507 Limassol, Cyprus
Tel.: +357-25822766, Fax: +357-25730668
Website: www.christabelonline.com, E-mail: corporate@christabelonline.com

calculated as if the reorganization had not taken place;
(e) To avoid duplication of the NID deduction, it will be available only to one company in cases where the new equity of a company is derived directly/indirectly from the new equity of another;
(f) A reduction in the NID deduction to the extent that another entity has claimed in Cyprus an interest deduction on funds if the new equity emanates directly or indirectly from such funds;
It is expected that the Cyprus tax authorities will issue a clarifying circular on the practical application of the NID. The NID applies to Cyprus tax resident and to permanent establishments (PEs) in Cyprus of non-resident companies and is effective as from January 1, 2015.

(2) Non-Domiciled Individuals

A person who qualifies as a Cyprus tax resident (based on the number of days spent in Cyprus) and at the same time will qualify as a non-domiciled person will not be subject to Special Defense Contribution (SDC) on the dividends and interest earned.

For the purposes of the SDC Law an individual has his/her domicile in Cyprus if he/she is either:

(a) an individual who has a domicile-of-origin in Cyprus, as defined in the Wills and Succession Law with the exception of:
(i) an individual who has acquired and maintains a domicile-of-choice outside Cyprus based on the provisions of the Wills and Succession Law and such individual was not a tax resident of Cyprus per the Income Tax Law (ITL) for any period of at least 20 consecutive years prior to the tax year assessment;
Or
(ii) an individual who was not a resident of Cyprus per the ITL for a period of at least 20 consecutive years immediately before these amending provisions enter into force.
Or
(b) irrespective of (a) above, an individual who is a resident of Cyprus per the ITL for period of at least 17 years out of the last 20 years prior to the tax year of assessment.

SDC is the only tax that a Cyprus tax-resident physical person pays on dividends received. The current rate is a flat 17%. This will give an advantage, to physical persons moving to Cyprus and becoming tax residents, who are also the registered shareholders of companies that are themselves tax resident in Cyprus. These companies will be subject to the corporation tax of 12,5% on their taxable profits.

Any dividends from these companies to their resident non-domiciled shareholder will not be subject to any further taxes, rendering the effective tax rate at a maximum of 12,5%.

(3) Land Transfer Fees

Land transfer fees on all immovable properties purchased will be reduced by 50% until 31 December 2016;

(4) Exemption on Capital Gains Tax

Any properties purchased after the new legislation is put in force, and before 31.12.2016, will be exempt from any future capital gains tax;

We are at your disposal should you need any further clarifications on the above

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