

Corporate Tax - Cyprus

Proposed amendments to tax laws

Contributed by **Andreas Neocleous & Co LLC**

July 17 2015

Introduction

Summary of proposed changes

Comment

Introduction

The Cyprus government has announced a number of proposed tax incentives aimed at encouraging economic activity and attracting inward direct investment. It has also submitted a number of draft laws to the House of Representatives to implement the new provisions of the EU Parent-Subsidiary Directive (90/435/EC) to simplify the tax regime and make it more attractive, objective and effective.

The proposed changes include:

- stimulating economic activity and investment in real estate;
- increasing competitiveness and aligning domestic legislation with EU directives; and
- attracting high-net-worth individuals and high-earning employees.

Summary of proposed changes

Reduction of transfer fees on real estate transactions

In order to stimulate the property market, the government proposes to halve the fee payable on transfers of immovable property until December 31 2016.

Temporary exemption from capital gains tax

Any future gain on the disposal of immovable property acquired in the period beginning on the date the law becomes effective and ending on December 31 2016 will be exempt from capital gains tax.

Taxation of capital gains on indirect disposals of real estate

Gains on the disposal of shares in companies in which the value of real estate directly or indirectly accounts for 50% or more of the value of the shares will now be subject to capital gains tax.

Abolition of local taxes on immovable property

Immovable property taxes charged by local authorities will be abolished.

Extension of accelerated capital allowances until December 31 2016

The accelerated tax writing-down allowances on plant and machinery and industrial and hotel buildings will be extended until December 31 2016.

Alignment with EU directives and ECJ case law

In order to implement the latest changes to the EU Parent-Subsidiary Directive, after December 31 2015 the exemption from Cypriot income tax on dividends received by Cyprus-resident companies will not be available in cases where the dividend was allowed as a tax deduction in the jurisdiction of the paying entity or where the arrangement is a sham. Further, the group loss relief provisions are to be amended with retrospective effect from January 1 2015 so that group relief is available between companies resident in Cyprus and companies resident in other EU member states.

Changes to arm's-length principle

Cyprus does not have specific transfer pricing rules in its domestic legislation, but the arm's-length principle is incorporated into the Income Tax Law, allowing the tax authorities to impose additional taxes on profits or benefits arising from related-party transactions. The only adjustments that can be made are to increase profits and there is no provision for the corresponding expenses and losses to be compensated. The law will be amended to tax profit from transactions between related parties and to allow for a corresponding deduction by the counterparty to the transaction. The government hopes that the adoption of international transfer pricing principles will attract more multinational businesses.

Notional interest deduction on equity capital

With effect from January 1 2015, companies and permanent establishments of foreign companies are to be given a notional interest deduction on new equity capital (share capital and share premium) introduced after that date, calculated by reference to the government 10-year bond. The notional interest deduction will be limited to 80% of the taxable profit before its deduction and no notional interest deduction will be allowed in the event of losses. The introduction of the notional interest deduction is intended to level the playing field between equity and debt finance, as both will be eligible for tax deductions.

Tax neutrality of foreign exchange gains and losses

Profits and losses arising from currency exchange rate fluctuations will be disregarded for tax purposes, apart from gains or losses arising from trading in foreign currencies or foreign currency derivatives. Entities trading in foreign currencies or foreign currency derivatives may irrevocably elect to be taxed on the basis of realised profits or losses.

Limitation of losses carried forward on IP activities

Cyprus's IP box regime allows for an 80% deduction from the net profit generated by the use or disposal of IP rights (for further information please see "IP box – a limited opportunity"). An amendment is proposed in order to make clear that if a loss is made from such activities, only 20% of the resulting loss will be allowable.

Anti-abuse provisions

Corporate reorganisations are exempt from all forms of tax. In order to prevent abuse, it is proposed that the exemption may be withheld if the tax authorities consider that a reorganisation is not carried out on valid commercial grounds. The tax authorities will also be given discretionary powers to disregard the exemption from the special contribution for defence tax of dividend payments to another resident company if such a company was interposed without valid commercial or economic reason apart from reducing or avoiding liability for tax.

Non-domiciled regime for special contribution for defence tax

At present, all Cyprus tax-resident individuals are liable to pay a special contribution for defence tax on rent, dividends and interest. It is now intended to introduce the option for individuals who are resident in Cyprus to obtain an exemption from the special contribution for defence tax if their domicile is elsewhere.

Extension of income tax exemption for new individual taxpayers

Individuals taking up residence and employment in Cyprus with income from employment above €100,000 per annum are entitled to a 50% deduction for the first five years of employment. The government intends to extend the period for which this deduction is available from five to 10 years.

Comment

The draft laws were approved by the legislature on July 9 2015 and will take effect when they are published in the official government gazette.

For further information on this topic please contact Philippos Aristotelous at Andreas Neocleous & Co LLC by telephone (+357 25 110 000) or email (aristotelous@neocleous.com). The Andreas Neocleous & Co LLC website can be accessed at www.neocleous.com.

The materials contained on this website are for general information purposes only and are subject to the disclaimer.

ILO is a premium online legal update service for major companies and law firms worldwide. In-house corporate counsel and other users of legal services, as well as law firm partners, qualify for a free subscription. Register at www.iloinfo.com.

Author

Philippos Aristotelous



© 1997-2015 Globe Business Publishing Ltd

Online Media Partners

