

Corporate Tax - Cyprus

Non-resident shareholders exempt from SDC tax for deemed distributions

Contributed by **Andreas Neocleous & Co LLC**

October 14 2011

The Inland Revenue Department recently issued a circular⁽¹⁾ introducing a significant change in practice, to the benefit of international companies in Cyprus.

Under Cyprus's deemed distribution rules, if a resident company does not distribute at least 70% of any after-tax profits that are attributable to Cyprus-resident shareholders within two years of the end of the year in which the profits were earned, the company must pay a special contribution for defence (SDC) tax at 17% on the amount by which the actual dividends distributed to resident shareholders within the two-year period fell short of the 70% threshold. A lower rate of 3% SDC tax is payable by companies that operate as collective investment schemes. The deemed distribution rules do not apply to the proportion of profits attributable to non-resident shareholders.

The new circular makes clear that profits attributable to resident shareholders that are ultimately attributable to non-resident shareholders should also be excluded from the deemed dividend calculation.

Companies in Cyprus are generally required to submit an annual return on Form IR 623 for the purpose of calculating deemed dividends. In cases where the entire share capital of a Cyprus-resident company is ultimately owned by non-residents, the directors of the company may make a declaration to this effect, have it certified by the company's auditors or lawyers and forward it to the tax authorities. Once the declaration has been accepted by the tax authorities, the company will no longer be required to make returns for deemed distribution purposes. Sample declaration and certification forms are appended to the circular.

If part of the share capital is ultimately owned by Cyprus residents, an annual return must still be submitted, but the profits ultimately attributable to non-resident shareholders will be excluded.

As a result of the change in approach set out in the circular, many companies will no longer need to pay dividends in order to avoid being caught by the deemed distribution provisions, allowing value to be retained in the company and giving maximum scope for exit planning, especially in light of the fact that gains on most securities are exempt from tax in Cyprus. Furthermore, there will be significant administrative savings, as many companies will no longer need to complete returns for deemed distribution purposes and indirect non-resident shareholders will no longer need to submit claims for repayment of SDC tax.

The circular has immediate effect and the new approach applies to all years for which companies' tax affairs have not yet been finalised.

For further information on this topic please contact [Elias A Neocleous](mailto:eliasn@neocleous.com) at Andreas Neocleous & Co LLC by telephone (+357 25 110 000), fax (+357 25 110 001) or email (eliasn@neocleous.com).

Endnote

⁽¹⁾ Circular 2011/10.

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

Elias A Neocleous

