Corporate Tax - Cyprus

Changes to tax rates have limited impact

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Main changes

In accordance with its agreement with international lenders, Cyprus has made a number of changes to its tax rates.

Increase in corporate tax rate
With effect from January 1 2013, the corporate tax rate has increased from 10% to 12.5%.

Transfer and carry forward of tax losses by credit institutions
With effect from March 25 2013, in the event of a transfer of operations, assets, rights or obligations from one credit institution to another under the Credit Institutions Resolution Law, any accumulated losses of the transferor at the date of the transfer will be transferred to the acquirer. The acquirer may use such losses for up to 15 years from the end of the year in which the transfer took place.

Increase in SDC tax rate on interest
The special defence contribution (SDC) tax rate on interest has increased from 15% to 30%. The increase will take effect from the date of publication of the law in the *Official Gazette*, which is expected to occur shortly. SDC tax is payable only by tax residents of Cyprus; non-resident individuals and companies are exempt. Interest on corporate financing or loan arrangements is subject to income tax rather than SDC tax.

Annual levy on bank deposits
With effect from January 1 2013, the levy payable by banks on customer deposits has increased from 0.11% to 0.15%. No levy is payable on inter-bank deposits. The levy is not deductible for the purpose of calculating taxable profits. However, it will reduce the amount of profits subject to deemed dividend distribution.

Comment

The changes do not detract from Cyprus's attractiveness as a holding company jurisdiction. Even after the increase, Cyprus's corporate tax rate is one of the lowest in the European Union and the increase should not materially affect most holding companies. Furthermore, the other benefits of the Cyprus holding company regime - such as the tax-free flow of dividends through Cyprus and the beneficial exit opportunities offered by the country's favourable national tax legislation and wide network of double tax agreements - remain intact.

A number of press reports have mistakenly referred to an increase in capital gains tax. This is due to a misinterpretation and incorrect translation of the increase in SDC tax on interest. Cyprus does not impose capital gains tax, except on gains deriving from real estate in the country.

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