

Corporate Tax - Cyprus

Ruling clarifies taxation of advances to directors and shareholders

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New arrangements for the taxation of loans or advances to directors and shareholders were introduced to the Income Tax Law through Law 197(I)/2012, which came into force on January 1 2012 (for further details please see "[New law increases power of authorities to disclose information](#)"). Article 39 of the Income Tax Law, which created deemed interest income for the company equal to 9% of the value of the debit balance, was abolished.

For tax years from 2012 onwards, a physical person who maintains a debit balance in the books of a company in which he or she is a shareholder or director is deemed to enjoy a benefit equivalent to 9% a year on the debit balance. The benefit also applies to other first or second-degree relatives of shareholders or directors if they also maintain a debit balance in the company's books. The benefit is added to the individual's total taxable income and taxed according to the normal income tax brackets. The company is required to estimate and pay the tax each month through the pay-as-you-earn system.

The tax authorities recently issued a ruling confirming that if the individual concerned is not resident in Cyprus, there will be no liability to tax. If the individual was present in Cyprus for part of the tax year, Section 5(2)(g) of the law will be triggered and tax will be charged on a *pro rata* basis, according to the total number of days on which the individual was present in Cyprus in the year concerned.

The arrangements regarding taxation of advances apply only to physical persons and to advances in the nature of financing. No interest is payable if the debit balance is created as a result of a commercial transaction. If a company maintains a debit balance in the nature of financing in the books of another company in which it is a director or a shareholder, interest should be charged on the debit balance based on arm's-length principles.

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