Corporate Tax - Cyprus

Amendments aim to stimulate economy and attract investment

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Parliament has approved a number of changes to the laws relating to income tax and the special defence contribution (SDC) tax aimed at stimulating the economy and attracting investment from overseas. The changes will come into force when the amending laws are published in the *Official Gazette*, and will have retrospective effect from January 1 2012.

Taxation of IP rights

Expenditure on the acquisition or development of IP rights is to be capitalised and amortised in equal instalments over the year in which the expenditure was incurred and the four following years.

Revenue from the exploitation of IP rights - including compensation for infringement of rights and revenue from the sale of rights - after deduction of the amortisation and any other expenses incurred in earning the revenue, is four-fifths exempt from tax (ie, only one-fifth is subject to tax). These provisions apply to all expenditure incurred by a person carrying on a business on the acquisition or development of intangible assets, including those defined in the Patent Law 1998 (as amended), the IP Rights Law 1976 (as amended) and the Trademark Law (Cap 268, as amended).

Deductibility of interest costs

With effect from January 1 2012, interest incurred in connection with the acquisition of shares in a subsidiary company that is wholly owned (whether directly or indirectly), wherever it is incorporated or resident, will be deductible for tax. This represents a change from the practice previously adopted by the tax authorities, where such interest was treated as non-deductible. If any of the subsidiary's assets are not employed in its business, the deductible interest cost will be reduced by the amount referable to the non-business assets. Hitherto, interest has not been deductible.

Capital allowances

For all plant and machinery (excluding private saloon cars) acquired during 2012, 2013 and 2014, the annual capital allowance for tax purposes will be doubled to 20% of the cost. For industrial and hotel buildings acquired during these years, the annual capital allowance will increase from 4% of the cost of the asset to 7%.

Deemed distribution rules

For the purposes of calculating profits subject to the deemed distribution rules, any capital expenditure incurred on the acquisition of plant and machinery (excluding private saloon cars) and buildings during 2012, 2013 and 2014 is deductible from post-tax profits.

Group relief

The previous group relief rules required companies to be members of a group for the whole of the tax year in order to qualify. A subsidiary incorporated by its holding company during a year is now deemed to have been a member of the group for the whole year.

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