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**Cyprus**
Andreas Neocleous & Co

# Changes to tax rates

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

With effect from January 1 2013 the corporate income tax rate has been increased from 10% to 12.5%. The rate of special defence contribution (SDC) on interest has also been increased, from 15% to 30%. The increase will take effect from the date of publication of the law in the official gazette, probably during May 2013. SDC tax is payable only by tax residents of Cyprus; non-resident individuals and companies are completely exempt, and interest on corporate financing or loan arrangements is subject to income tax rather than SDC tax.

In this connection it should be noted that a number of reports in the media 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 Cyprus.

These changes do not materially affect Cyprus's attractiveness as a holding company jurisdiction. Cyprus's corporate tax rate is one of the lowest in the EU even after the increase, and most holding companies will be only marginally affected. 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 Cyprus's favourable national tax legislation, and wide network of double tax agreements remain intact.

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