Corporate Tax - Cyprus

Recent amendments announced to income tax, SDC tax and VAT laws

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In December 2011 a number of amendments were made to the laws regarding income tax, special defence contribution (SDC) tax and value added tax (VAT) in order to reduce the government deficit. The main changes are as follows.

Income Tax Law

Deductibility of payroll costs
Employment costs will not be allowed as a tax-deductible expense unless social insurance, provident fund and pension fund contributions have been paid within the year due for payment. If unpaid contributions and any related penalties are paid within two years of the due date, the emoluments and associated contributions will be allowed as a deductible expense in the year of payment.

Loans and advances to directors and shareholders
If a company provides a loan or advance to a director or shareholder (including his or her spouse and first or second-degree relatives) other than in the normal course of business and on normal commercial terms, that director or shareholder will be liable to income tax on the benefit in kind, calculated at 9% a year on the balance. The benefit will be taxed as income subject to tax under the pay-as-you-earn (PAYE) system.

These provisions replace Article 39 of the Income Tax Law, which provided for deemed interest at the rate of 9% on loans to directors and shareholders of closely held companies to be attributed to the company and subjected to SDC tax at 15%.

SDC Tax Law

Dividends paid after more than four years
Dividends paid by one Cyprus-resident company to another are generally exempt from SDC tax. However, dividends paid more than four years after the underlying profit was earned are now subject to SDC tax if the recipient is a tax resident (whether corporate or individual) of Cyprus.

Increase of SDC rate on dividends
For 2012 and 2013 the rate of SDC tax applicable to dividends or deemed distributions is 20%.

Neither of these changes will affect companies whose ultimate shareholders are not resident in Cyprus.

VAT Law

Increase in the standard rate of VAT
With effect from March 1 2012 the standard rate of VAT will increase from 15% to 17%. The reduced rates of 5% and 8% will remain unchanged.

Obligation to issue receipts
A taxable person that supplies goods or provides services to a non-taxable person is now obliged to issue a receipt showing the name, address and VAT registration number of the supplier, the description of goods or services and the total amount payable, including VAT. Failure to issue a receipt incurs a penalty of 20% of the amount of the receipt. On conviction by the court, an additional fine of up to €1,700, imprisonment for up to six months or both may be imposed.

Levy on private sector earnings and pensions

For 2012 and 2013 a special levy will be payable on wages, salaries and pensions paid by private sector employers and on self-employed earnings at the following rates:

- no charge for the first €2,500 of gross monthly earnings;
- 2.5% (with a minimum of €10) for gross monthly earnings between €2,500 and €3,500;
- 3% for gross monthly earnings between €3,500 and €4,500; and
- 3.5% for all gross monthly earnings above €4,500.

For employees, the levy is payable by the employer and the employee in equal shares. No levy is payable on:

- retirement gratuities;
- payments out of provident funds;
- emoluments of foreigners employed by a foreign government;
- emoluments of the crew of a Cyprus ship; or
- allowances to cover business expenses for the account of the employer.

For self-employed persons, the contribution is payable on the individual's earned income, with the minimum being the amount on which social insurance contributions are paid.

For employees or pensioners the levy will be deducted and paid in the same way as income tax under PAYE. For self-employed persons there will be a self-assessment system.

The levy is deductible for income tax purposes.

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