

Information Sheet No.104

Cyprus: Second Package of austerity measures (December 2011)

Introduction

On 14 December 2011, the Cyprus House of Representatives voted on a number of legislative acts in an effort to steer the Cyprus economy back to economic growth. This Tax Alert outlines the main changes with an emphasis to the ones affecting foreign investors.

These latest measures follow the First Package of austerity measures passed on 26 August 2011. More information about the First Package can be found in [Information Sheet No.100](#) in the Knowledge Center section of our web site.

Increase in dividend tax

The rate of Special Defence Contribution ("SDC") tax on dividends is increased from 17% to 20%. This increase shall apply for the years 2012 and 2013 for:

- Actual or deemed dividend distributions by a Cyprus company.
- Dividend income (where the dividend exemption criteria are not met)

Note: SDC tax on dividends and deemed dividend distribution provisions do NOT apply in cases of non-Cyprus tax resident shareholders.

Tax on dividends paid four years after their generation

Special Defence Contribution is imposed on dividends paid four years from the year the profits were generated. This applies only where the shareholder is tax resident of Cyprus (company or individual) and to the extent that the ultimate shareholders are Cyprus tax resident persons.

Increase in the standard rate of VAT

The standard rate of VAT has increased from 15% to 17%. The reduced rates of 5% and 8%, where applicable, remain unaltered.

It is now an obligation for receipts to be issued in case where a taxable person supplies goods or provides services to a non-taxable person. In cases of non-compliance, the taxable person is subject to a penalty of 20% of the amount of the receipt and in addition is liable in case of conviction by the court, to a penalty of €1.700 or imprisonment of six months or to both a penalty and imprisonment.

→**Entry into force:** As of 1 March 2012.

Loans and advances to company directors and shareholders

A benefit in kind will be assessed on physical person directors and physical person beneficial shareholders of Cyprus companies who receive a loan or other form of financial assistance from a Cyprus company. The benefit in kind for such cases will be 9% per annum calculated on the monthly balance of the loan/ financial assistance and will be subject to personal income tax through the PAYE system.

→**Entry into force:** As of 1 January 2012.

Note: In light of the above, Article 39 of the Income Tax Law, which provided for such cases a 9% notional interest imposed and taxed on the company under SDC at the rate of 15%, has been revoked.

Special emoluments contribution for employees, self-employed persons and pensioners

A special contribution is introduced on the gross emoluments of employees, self-employed and pensions of the private sector. This contribution shall apply for the years 2012 and 2013 and is charged as follows:

- Up to €2.500 of gross emoluments → No contribution
- 2.5% contribution for emoluments from €2.501 to €3.500 with a minimum amount of €10
- 3.0% contribution for emoluments from €3.501 to €4.500
- 3.5% contribution for emoluments in excess of €4.500

In case of an employee this contribution is shared equally between the employee and the employer and paid under the PAYE system. In case of self-employed persons this contribution is paid on a self-assessment basis.

Note: No contribution is payable on the emoluments of the crew of a Cypriot ship, distributions of provident funds and other emoluments.

Other measures

- **Stability fund:** Enactment of legislation for the creation of a stability fund where Cypriot banking institutions will contribute. The contribution has been set to 0.03% on the liabilities of the institutions.
- **Capital contributions:** Enactment of legislation allowing the Cyprus government to take necessary measures in case of financial crisis including potential capital contribution to Cypriot banks in case of liquidity or going concern issues.
- Salaries, for which the relevant contributions have not been paid within the year due, will not be allowed as a tax deductible expense for the company. If these are then paid within two years from their due date, they will be allowed as a tax deductible expense in the tax year that they were paid.
- Freezing of salaries of government related employees for 2 years.
- Criteria for student subsidies and child allowances changed.

Incentive for settlement of tax liabilities

Interest and penalties for tax liabilities owed for the years up to 2008 are waived if such tax liabilities (plus a flat penalty of 5%) are paid by 30 March 2012.

Disclaimer

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained. Totalserve Management Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.

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