

Cyprus: First Package of austerity measures
September 2011

First Package of austerity measures
<p>On 26 August 2011, the Cyprus House of Representatives voted on a number of law amendments, commonly referred to as the 'First Package' of austerity measures.</p> <p>These measures are the result of extensive discussions between the government, the political parties, trade unions and professional bodies. The aim of these measures is to address the local impacts of the global economic crisis and contribute towards fiscal consolidation (i.e. to raise state revenues and decrease state spending) whilst in the same time maintaining the competitiveness of Cyprus as a financial center.</p>
Laws amended
<p>This information sheet presents the main changes brought by these measures, affecting the following Cyprus Laws:</p> <ol style="list-style-type: none"> 1. The Companies Law 2. Income Tax Law 3. The Special Defense Contribution Law 4. Immovable Property Tax Law 5. The Value Added Tax Law
1. The Companies Law
<p>An annual levy of €350 has been introduced for all Cyprus registered companies.</p> <ul style="list-style-type: none"> • This levy for 2011 is due by 31 December 2011 and for subsequent years by 30 June • No levy is payable on the year of incorporation • No levy is payable by dormant companies or companies with no assets • For groups of companies this levy is capped to €20.000 • Penalties apply for late payment (10% penalty if paid within 2 months of the due date, increasing to a 30% penalty if paid within 5 months of the due date). In the event of non-payment of this levy within 5 months of the due date, the Companies Registrar shall remove the company from the Companies Register. Reinstatement of the company can then be made at an extra levy (€500 or €750 depending on circumstances) <p>➔ Entry into force: As from 2011</p>
2. Income Tax Law
<p>Personal Income Tax Rate: Increase of the maximum personal income tax rate for Cyprus tax resident individuals from 30% to 35% for taxable income in excess of €60.000.</p> <p>➔ Entry into force: As from tax year 2011</p> <p>Tax incentive to attract highly paid non-Cyprus resident employees if they take up residence in Cyprus and earn more than €100.000 per year. Such persons will enjoy a 50% exemption of their annual employment income for 5 years.</p> <p>➔ Entry into force: 1 January 2012</p>
3. The Special Defense Contribution ("SDC") Law

Interest: Increase of the SDC tax rate on interest from 10% to 15%.

SDC tax on interest continues to apply on the gross amount of passive nature interest (e.g. bank deposit interest) received or credited by Cyprus tax residents (individuals and corporations).

➔ **Entry into force:** Immediate effect

Note: In the case of companies, interest that arises from the ordinary or closely related to the ordinary activities of the company is treated as any other business income, thus taxed only under income tax at the flat income tax rate of 10% after deduction of tax allowable expenses. Consequently the abovementioned change does NOT affect companies involved in financing activities including intra-group loans. Furthermore, in the case of provident funds, SDC tax on passive interest received remains at 3%.

Dividends: The rate of the SDC tax on dividends received or deemed to have been received by Cyprus tax resident individuals has increased from 15% to 17%.

➔ **Entry into force:** Immediate effect

Note: Companies are generally exempt from SDC tax on dividends received. Also, no SDC tax is withheld on dividends paid to Cyprus resident companies or to any non-Cyprus resident persons (individuals or companies).

4. Immovable Property Tax Law

The rates applicable for the payment of Immovable Property Tax have significantly increased whereas the relevant thresholds have decreased.

Up to €120.000	0%
From €120.000 to €170.000	0,4%
From €170.001 to €300.000	0,5%
From €300.001 to €500.000	0,6%
From €500.001 to €800.000	0,7%
Over €800.001	0,8%

Immovable Property Tax is paid by both individuals and companies **only on property owned in Cyprus**. This tax is levied on the assessed value of the property as at 1 January 1980.

➔ **Entry into force:** 1 January 2012

5. The Value Added Tax Law

Reduced VAT rate of 5% (as opposed to 15%) on the purchase or construction of a house or flat to be used as private main residence, provided the area of the property does not exceed 200 sq.m. (the reduced rate of 5% also applies on the first 200 sq.m. if the total area of the property does not exceed 275 sq.m.). This favourable provision aimed to stimulate the local property market replaces a lesser attractive similar provision whereby certain amount of VAT could be refunded.

➔ **Entry into force:** 1 October 2011

Other

Other economic measures have also been voted as part of this First Package that directly relate to civil servants and semi-government employees. These include the imposition and/or increase of various contributions to their pension and other funds.

NOTES:

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.