

Summary of the Main Amendments to the Tax Laws for 2011

On 14 December 2010 the Cyprus Parliament voted for several amendments relating to a number of tax laws. These were published in the Cyprus Government Gazette on 31 December 2010. The new amendments are applicable as from the tax year 2011, some of which will come into force six months after their official publication (i.e. as from 1 July 2011).

The main changes and amendments are set out below:

1. INCOME TAX LAW

(a) Expenses:

With effect from 1 January 2011, expenses will be tax deductible only if they are supported by invoices or relevant receipts.

(b) Tax withheld on payments to non-Cyprus residents:

With effect from 1 July 2011, there will be a 5% additional tax on any applicable withholding tax which has not been paid to the tax authorities by the end of the following month. *Note: Such Cyprus withholding tax is applicable at the rate of 10% on royalties / copyrights used in Cyprus, film royalties and fees of professional artists and athletes.*

(c) Notional interest on debit balances with shareholders (Section 39):

With effect from 1 July 2011, notional interest at the rate of 9% in case of debit balances with shareholders shall now be imposed only in cases where the shareholder is an individual. In case where the debit balance is with a corporate shareholder then the applicable provision will be the arm's length provision as per section 33 of the law.

(d) Penalties for non compliance with tax obligations:

- Penalty €100 for late submission of tax returns (i.e. IR1, IR1SE, IR7, IR4, IR601, Temporary Tax Assessments)
- Penalty €200 for non compliance with deadlines advised by the Director of Inland Revenue (irrespective of whether these deadlines are provided in the laws or not)
- Penalty of 5% on the tax due for late payment of relevant taxes as per the due dates provided by law or as set by the Director of Inland Revenue.

2. SPECIAL DEFENCE CONTRIBUTION ("SDC") LAW

With effect as from 1 July 2011:

(a) Rents:

Companies and partnerships paying rent are now required to withhold the relevant SDC (i.e. 3% on 75% of the rental income) and be paid to the tax authorities six-monthly.



WORLDWIDE
Associating offices
providing business,
tax and financial advice

(b) Deemed Dividend Distribution (DDD)

(Note: applicable to Cyprus resident shareholders)

- **Calculation of accounting profits:** Corporation tax, SDC, capital gains tax and any foreign tax that has not been credited are deducted for the purposes of arriving at the accounting profit subject to the DDD provisions.
- **Disposal of asset:** Upon disposal / transfer of an asset to company shareholders (individuals) or relatives up to the second degree (including spouse) at a price below market value, the difference compared to the market value and the price paid shall be considered as a DDD and be taxed accordingly. This provision shall not apply when the asset was initially acquired by the company by way of gift or donation from the shareholder or relatives thereon.
- **Capital Reduction:** Any capital reduction (to a shareholder who is an individual) in excess of the initially contributed share capital shall be treated as a DDD and be taxed accordingly.
- **Voluntary dissolution or liquidation:** Companies under voluntary dissolution or liquidation are required to submit the relevant DDD forms regarding the year of dissolution or liquidation and the last two years preceding that within one month after taking the decision for the dissolution or liquidation. Relevant DDD payment should accompany this submission. The SDC resulting from the DDD provisions in these cases will not be payable to the extent that the net assets of the company are not sufficient to repay its creditors.

3. ASSESSMENT AND COLLECTION OF TAXES LAW

With effect as from 1 July 2011:

- (a) Obtaining Tax Identification Code (TIC):** Newly incorporated companies are obliged to register with the Cyprus tax authorities and obtain a TIC within 60 days from the incorporation date. Same applies for non-Cyprus companies whose management and control is moved to Cyprus. There will be an automatic administrative penalty for non compliance to this.
- (b) Objection deadlines on Tax Office Assessments issued in December** are now extended by one extra month for filing (i.e. until the end of February of the following year as opposed to January of the following year)
- (c) Premises inspection by the Cyprus tax authorities** in order to perform tax investigations is now possible on business premises (excluding private residences) during working hours and after giving a reasonable notice.
- (d) Keeping of accounting records:** Businesses which are obliged to keep accounting books must update their accounting records within 4 months from the month that transactions are done.



WORLDWIDE
Associating offices
providing business,
tax and financial advice

- (e) Issue of invoices** must be made within 30 days from the date of transaction (same as the VAT requirement).
- (f) Annual stock-take** and related records for this must be made / prepared for any business with inventory. The relevant records should be made available to the tax authorities upon request.
- (g) Electronic submissions via the TAXISnet system:** In order to encourage its use, an extra 3 months filing extension is granted to persons who submit their tax returns via TAXISnet.

NOTES:

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

June 2014



WORLDWIDE
Associating offices
providing business,
tax and financial advice