Information Sheet No. 55

Cyprus Tax Updates - May 2012

Introduction

On 24 May 2012, the Cyprus House of Representatives voted on a number of legislative acts with an aim to further stimulate the growth of the Cyprus economy and reinforce the competitiveness and attractiveness of Cyprus towards foreign investors.

Tax measures with effect as of 1 January 2012:

1. Intellectual Property rights – new tax incentives

This new law provides for an 80% tax exemption on the profit arising from the use or sale of Intellectual Property ("IP") assets. The exemption applies on the relevant profit after deduction of all direct expenses including amortization.

Further, the rate of capital allowances on the cost of acquisition of an IP has been set to 20% per annum (i.e. the cost is to be amortized equally over a five year period).

2. Increased capital allowances for capital expenditure

The capital allowances (i.e. depreciation for tax purposes) for assets acquired during 2012, 2013 and 2014 have increased as follows:

- For all machinery and plant: 20% per annum (previously being 10%)
- For industrial and hotel buildings: 7% per annum (previously being 4%)

3. Interest expense tax deductibility for acquisition of shares

Under the amended law, interest expense relating to the direct or indirect acquisition of shares in a 100% subsidiary (irrespective of its tax residency) shall be tax deductible for the Cyprus parent company which suffers the expense. This tax deduction is proportionally not available on the cost of any assets owned by the subsidiary which are not used in the business.

4. Group Loss Relief

A Cyprus resident company incorporated by its parent company during a particular year, is now considered as being a member of the same group for group loss relief purposes for that year as well.

(Note: Previously, such newly formed company should have been part of the same group for group loss relief purposes for the whole year of assessment)

5. Profits subject to Deemed Dividend Distribution ("DDD")

The profit subject to the DDD provisions is now further reduced by allowing a deduction for any capital expenditure incurred during 2012, 2013 and 2014 on the acquisition of plant and machinery (not including private saloon cars) and buildings.

Note: The DDD provisions do not apply to Cyprus companies that are ultimately owned by non-Cyprus residents.

Other Tax Measures:

- **Extension on the applicability of the reduced 5% VAT on residential property**

The reduced VAT rate of 5% on the construction or acquisition of residential property in Cyprus used as the primary or permanent residence by locals and foreigners is now extended to also apply for properties acquired by individuals who do not ordinarily reside in Cyprus, but acquire property to be used as their residence whilst in Cyprus. This provision comes into immediate effect following its publication in the official Gazette of the Republic.

Note: The reduced VAT rate is applicable provided that 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.)

- **Exemption on Land Registry Fees extended to 31 December 2012**

The exemption on Land Registry Fees on immovable property sales, initially applicable for 6 months as from 2 December 2011, is now extended until 31 December 2012.

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.

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