

Tax update

Newsletter

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House of Representatives approves first package of measures for improvement of public finances

The first package of measures for the improvement of public finances was discussed and voted by the House of Representatives on Friday 26 August 2011.

The measures aim at the reduction of public spending as well as at boosting government revenues without putting at risk the competitiveness of Cyprus as a financial centre.

Long-standing structural imbalances have been addressed in what appears to be a balanced first package geared towards immediate results.

The measures

1. New top rate for personal income tax

Cyprus resident individuals or individuals exercising an employment or profession in Cyprus will be taxed at the rate of 35% on their taxable income exceeding €60.000 as from the tax year 2011.

2. Tax incentives to attract highly-paid employees

Employees who take up residence in Cyprus and whose annual remuneration is in excess of €100.000, will enjoy an exemption from income tax of 50% of their employment income for a period of 5 years. The exemption applies from the year of commencement of the employment for years starting 1 January 2012.

3. Increased rates of Special Defence Contribution on dividends and interest

Dividends

The rate of Special Defence Contribution on dividends is increased from 15% to 17% with immediate effect. This will mostly affect individuals resident in Cyprus earning or deemed to be earning dividends, and groups of companies ultimately held by Cyprus tax resident individuals.

In relation to groups ultimately held by non-Cyprus residents, an announcement is expected to be made soon clarifying that the deemed distribution rules will not apply to them in the future.

Interest

The rate of Special Defence Contribution on interest is increased from 10% to 15% with immediate effect. This measure will again mostly affect individuals resident in Cyprus earning bank interest. Individuals whose total income does not exceed €12.000 as well as Provident Funds continue to be taxed at 3%. Special Defence Contribution on interest earned by individuals from government debt also remains at 3%.

Companies will generally remain unaffected as their profit from interest should in most cases be subject to income tax at 10% and be exempt from Special Defence Contribution.

4. Fixed annual duty for companies

All companies (except for dormant and those not owning any assets) are required to pay an annual fixed duty of €350 to the Registrar of Companies. For groups of companies the total duty is capped at €20.000.

The duty for 2011 is due by 31 December 2011 and for subsequent years by 30 June. Financial penalties of 10%/30% will be levied for late payment within 2/5 months from the due date. The Registrar may deregister the company in case of further delay. The fee for re-registering is €500/€750 depending on the circumstances.

5. Immovable Property Tax

The bands and rates for Immovable Property Tax for properties situated in Cyprus have been revised as follows as from the year 2012:

Property value as at 1 January 1980	Rate %
Up to €120.000	0
€120.000 - €170.000	0,4
€170.000 - €300.000	0,5
€300.000 - €500.000	0,6
€500.000 - €800.000	0,7
Over €800.000	0,8

6. Public sector employees: pension contributions

Public sector employees (excluding those whose employment will commence after the law comes into effect) will be contributing 3% of their salaries towards future pension benefits, with immediate effect.

7. Public sector employees : one-off contribution

Public sector employees will make progressive contributions at rates ranging from 1,5% to 3,5% for incomes above €1.500 per month for two years as a temporary measure towards reduction of the budget deficit. This contribution is not deductible for Income Tax purposes. The measure will come into effect from 1 September 2011.

8. Decreased VAT on acquisition and/or construction of first residence

In an effort to counter-balance the impact of the above measures, the acquisition and/or construction of first residence by eligible persons will be subject to a lower VAT rate of 5%. The rate will apply for the first 200 square meters of residences of total covered area of up to 300 square meters.

Eligible person is any individual who fulfills the following conditions:

- (i) has completed 18 years of age at the time of submission of his application,
- (ii) is a citizen of the Republic of Cyprus or any other Member State of the EU, and
- (iii) does not own any other place of residence in Cyprus.

The reduced rate of 5% applies as from 1 November 2011. The reduced rate applies only for residences which are used as the primary and permanent place of residence.

The VAT refund scheme will cease to apply once all pending applications which are submitted or can be submitted for transactions completed or in process up to 1 November 2011 are examined.

Way forward: how PwC can help you

Our teams are ready to discuss the above developments with you and offer support in ensuring that all corporate and personal tax affairs of your enterprise remain in full compliance with the new provisions at all times.

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