

Tax update

Newsletter

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The tax laws in Cyprus have been amended during 2011 in order to introduce, among others, certain measures which aim to encourage compliance with statutory obligations as well as to facilitate collection of taxes on rental payments.

1. Administrative Penalties

In an effort to encourage better compliance the following laws have been amended:

- (i) Collection and Assessment Law
- (ii) Special Defence Contribution (SDC) Law
- (iii) Capital Gains Tax Law
- (iv) Immovable Property Tax Law

Administrative penalties are now imposed for failure to comply with the provisions of the tax legislation.

The Income Tax Office (ITO) has announced that it will enforce the provisions relating to administrative penalties from 1 October 2011 instead of 1 July 2011.

It is strongly advised that taxpayers take advantage of the three additional months to bring their tax affairs up to date.

2. SDC on Rental Income – withholding procedure

As from 1 July 2011, companies, partnerships, the Government or any local authorities that pay rents are required to withhold SDC at source at the rate of 3% on 75% of the amount of the rent. That is 2,25% on the gross rent.

The new provisions relate to rental periods from 1 July 2011 whereby the rent is paid after 1 July 2011.

Tenant obligations

SDC is withheld by the tenant on the date of the payment of the rent to the landlord.

The SDC withheld is paid by the tenant to the ITO by the end of the following month from the date of the withholding. Form **IR601A** “payment of defence contribution withheld and self assessment of income subject to defence” has been issued by the ITO to facilitate this payment.

Strict compliance to the withholding provision is strongly advised. Failure to comply results to interest and penalties imposed on tenants.

From tax year 2011 onwards, tenants are required to submit with their annual tax declaration (company / partnership tax declaration as applicable) a list of the landlords for which SDC was withheld.

At the end of the six months period (on 30 June and 31 December) the tenant should provide the landlord form **IR614A rec** “Confirmation of withholding of special contribution for defence from rents” stating the monthly SDC withheld.

The Commissioner of Income Tax has the right to collect the SDC withheld from the tenant but is not limited to collect from the landlord in case the tenant has not withheld the SDC.

Landlord obligations

On receipt of the confirmation of SDC withheld by the tenant (form **IR614A rec**), the landlord must ensure that the SDC withheld is correct. Any additional SDC due must be paid by the landlord by self assessment on 30 June and 31 December by filing form **IR601A**. Form **IR601A** is also used to make SDC payments on rentals which are

not subject to withholding tax. Landlords should keep form **IR614A rec** as proof of the SDC withheld by the tenants and for use/filing at the time of preparation and submission of their annual tax return.

Strict compliance to the procedure is strongly advised. Failure to comply results to imposition of interest and penalties.

Rent paid to non residents

In relation to rental paid to non residents there is no obligation to withhold SDC provided that the tenant has received the following documents:

- a) "Questionnaire for ascertaining whether the conditions relating to the term "non Cyprus Resident" are met for the year" (**IR 614A Q**) – to be completed every year.
- b) "Declaration for exemption from the deduction of Defence Contribution on rents" (**IR 614A Decl**) – completed once. In case the landlord becomes Cyprus tax resident he is required to inform the tenant accordingly.

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