
Cyprus proposals for corporate and personal tax reform to enhance the competitiveness of Cyprus

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In brief

On July 1, 2015 the President of Cyprus announced a number of tax proposals aimed at improving the tax competitiveness of Cyprus and modernising the tax law. These proposals have been approved by the Cabinet of Ministers but are yet to be voted by the Parliament. The proposals include:

- a tax allowable deduction on corporate equity by way of a notional interest deduction (NID)
- an exemption from taxation for personal investment income (dividends and interest) of non-domiciled (non-doms) individuals
- an extension of the employment income exemption for expatriates earning over €100.000
- an extension of the accelerated tax depreciation available on buildings and plant & machinery until the end of 2016
- an exemption from future capital gains tax for properties purchased by the end of 2016
- a reduction by 50% of the land transfer fees until the end of 2016
- abolishment of the Local Authority Tax on immovable property tax and reform of the Immoveable Property Tax

The proposals aim to reduce corporate debt by increasing the attractiveness of equity from a tax perspective. They also aim to further encourage high net-worth individual investors and high earning employees to reside, work and invest in Cyprus.

The President's announcement was not accompanied by a detailed briefing document. The proposals have been presented to Parliament for discussion and voting before they can become law. We will monitor developments in relation to these proposals and issue a more detailed newsletter once the bills are voted into law.

In detail

Tax allowable deduction on corporate equity – Notional interest deduction (NID)

This proposal aims to reduce corporate debt and encourage

new equity by introducing a tax allowable deduction – notional interest deduction.

In a similar way that interest expense on debt financing is generally calculated as an interest rate on loan principal,

the annual NID deduction is calculated as a notional interest on new equity.

PwC Observation

The aim of the proposal is to encourage new equity which in turn should increase the

economic robustness of Cyprus companies through less reliance on debt financing whilst keeping their competitiveness.

More details regarding the proposal are required before a full analysis may be made.

Exemption from taxation for personal investment income (dividends and interest) of non-Cyprus domiciled (non-doms) individuals

Currently Cyprus tax resident individuals are subject to the Cyprus Special Contribution for Defence (SDC) Law.

With this proposal individuals who have non-dom status will be exempt from taxation in Cyprus on investment income in the form of dividends and 'passive' interest. Further, non-doms earning rental income will only be subject to income tax on such income as they will no longer be subject to SDC.

PwC Observation

The Cyprus tax laws currently provide for an unconditional exemption from tax for gains on disposals of shares/bonds issued by companies and other qualifying corporate titles (except in certain cases where the company holds immovable property in Cyprus). This exemption coupled with the new proposed amendment makes Cyprus very tax efficient for the holding by non-doms of investments in shares and bonds.

Clearly it will be important to establish which individuals will be considered as domiciled/not domiciled in Cyprus for this SDC Law proposed exemption.

Extension of the employment income exemption for expatriates earning over €100,000

Currently remuneration from any employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment enjoys a 50% exemption from income tax for a period of 5 years provided that the annual remuneration exceeds €100,000. This is applicable for employments commencing as from 1 January 2012.

This proposal increases the period for which the exemption may be enjoyed to 10 years.

PwC Observation

The maximum income tax rate on personal income in Cyprus is currently 35%. The above mentioned 50% exemption means that the effective income tax rate on eligible employment income will range from less than 8% to below 17,5%. The extension of the exemption period further enhances the attractiveness of this measure.

Extension of the accelerated tax depreciation available on buildings and plant & machinery until the end of 2016

Plant and machinery purchased in 2012-2014 benefited from 20% per annum tax depreciation where this was greater than the rate applying for the particular asset purchased. Industrial buildings and hotels purchased in 2012-2014 benefited from 7% per annum tax depreciation. The proposal is to extend the period for which accelerated depreciation is available to purchases made by the end of 2016.

PwC Observation

The proposal is aimed to encourage business investment in qualifying fixed assets.

Exemption from future capital gains tax for properties purchased by the end of 2016

Currently upon disposal of immovable property located in Cyprus the disposer is subject to capital gains tax (CGT) at the rate of 20% on the taxable gain. This proposal will exempt from future CGT immovable property purchased until the end of 2016.

PwC Observation

This proposal aims to enhance investment in the Cyprus real estate market.

Reduction by 50% of the land transfer fees until the end of 2016

This proposal will reduce these fees by half for purchases before the end of 2016.

PwC Observation

This proposal also aims to enhance investment in the Cyprus real estate market.

Abolishment of the Local Authority Tax on immovable property and reform of the Immovable Property Tax

It is proposed that the Local Authority Tax on immovable property will be abolished. At the same time the annual Immovable Property Tax will be revised to be based on new valuations (currently the law is based on 1980 valuations) and will be a flat rate of 0,1% per annum irrespective of property value.

A discount of 10% will apply if the tax is paid by its due date (currently the tax is due by 30 September each year).

PwC Observation

It is expected that the reference to current value is the 2013 valuation carried out.

The takeaway

These proposals aim to make the Cyprus tax system even fairer, simpler and even more competitive and should ultimately contribute positively to the local economy.

The proposals on personal taxation should encourage more high net-worth individual investors and high earning employees to reside, work and invest in Cyprus.

The NID deduction and the accelerated tax depreciation should have a positive impact for business.

The immovable property related proposals regarding CGT and land transfer fees should encourage investment in the Cyprus real estate market. The proposals regarding the Local Authority Tax on immovable property and the reform of the Immovable Property Tax modernise this area of taxation.

The proposals have now been presented in the form of a draft

bill to Parliament for discussion and voting before they can become law.

Once the bills are voted into law we shall be issuing a more detailed newsletter with an in-depth analysis of the amendments.

Let's talk

For an in-depth discussion of how these proposals might affect you or your business, please contact:

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