



## Cyprus government announces tax system improvements

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Cyprus President, Nicos Anastasiades, confirmed this week at the 54<sup>th</sup> Annual General Assembly of the Institute of Certified Public Accountants of Cyprus (ICPAC) that a series of new tax measures were ratified by the Council of Ministers that will make the island's tax system more fair, simple and competitive.

We consider these measures to be of particular importance given that they will significantly modernise and strengthen the competitiveness of the Cyprus domestic tax system. We are awaiting for the release of the relevant draft legislation before we are able to offer further details, and we will, as always, keep you informed of all updates purporting to this matter.

The measures announced are:


(1) A deemed tax deduction will be provided on new capital introduced in Cyprus. This will take the form of deemed interest deduction. This provides the incentive to introduce equity in businesses whilst at the same time receiving a tax deduction as if the capital were a loan;

(2) A new term, that of *domicility*, will be introduced in the Cyprus legislation. A person who qualifies as a Cyprus tax resident (based on the number of days spent in Cyprus) and at the same time will qualify as a non-domiciled person (we are awaiting for the draft legislation for the definition) will not be subject to Special Defence Contribution (SDC). SDC is the only tax that a Cyprus tax-resident physical person pays on dividends received. The current rate is a flat 17%.

This will give an advantage principally to physical persons moving to Cyprus and becoming tax residents, who are also the registered shareholders of companies that are themselves tax resident in Cyprus. These companies will be subject to the corporation tax of 12,5% on their taxable profits, which are calculated following the generous exemptions and deductions already offered in the legislation.

Any dividends from these companies to their resident non-domiciled shareholder will not be subject to any further taxes, rendering the effective tax rate at a maximum of 12,5%. This is perhaps the single most important amendment to the Cyprus tax legislation ever since the overhaul of the Cyprus tax system in 2003;

(3) Accelerated capital allowances will continue to be provided on the purchase of equipment, fixtures, fittings and buildings, up until the end of 2016;



(4) The existing tax incentive, being the tax exemption on part of the income of a person who starts employment in Cyprus, and who was a non-Cyprus tax resident before commencing such employment, will be strengthened by increasing the period over which the exemption will apply;

(5) Land transfer fees on all immovable properties purchased will be reduced by 50% until 31 December 2016;

(6) Any properties purchased after the new legislation is put in force, and before 31 December 2016, will be exempt from any future capital gains tax;

(7) The municipal and community taxes imposed by local authorities on owners of any immovable property, will be abolished;

(8) The way immovable property tax is calculated will be overhauled. A single tax rate of 1/1.000 will apply, instead of the current progressive tax rates, on the most recent valuation of the properties carried out by the Land Registry Office. There will be a 10% reduction of the tax for early payment and an exemption on all taxes that do not exceed €25 per owner.