Amendments to Tax Legislation

On the 14th of December 2011 the Cyprus Parliament has voted a number of amendments to the Tax Laws in one further effort to improve the public finances.

The amendments to the Laws passed are the following:

- Law Amending the Income Tax Law
- Law Amending the Special Contribution for the Defence Law
- Law Providing for Special Contributions by the Employees, Self Employed and Pensioners of the private sector
- Law Amending the Value Added Tax Law

Law Amending the Income Tax Law

1. Loan or other financial assistance provided to individuals who are directors or shareholders

In the case of company director or an individual shareholder, or his/her spouse, or any relative up to second degree, receiving a loan or financial assistance (cash withdrawal) from the company, then that person is deemed to have obtained a monthly benefit in kind in equal to 9% p.a. on the above facility. This amount will be included in the individual's income subject to Income Tax in accordance with Income Tax Law.

The amount of tax on the monthly benefit in kind must be withheld from the individual's monthly salary and paid to Inland Revenue on a monthly basis under the PAYE system.

With this measure, article 39 ''Loans to Directors'', which provides for 9% interest to be applied on loans or any financial assistance provided by a company controlled by not more than five persons, to its directors, or its individual shareholders, or relatives up to second degree of relative is abolished.

2. Employers contributions to be treated as deductible for tax purposes

Any wages and salaries relating to services offered within the tax year on which contributions to the Social Insurance Fund, Human Resource Development Fund, Social Cohesion Fund, Pension Fund and Provident Fund have not been paid in the year in which they were due will not be tax deductible for the calculation of taxable income.

In case the above contributions (including penalties and interest) are paid in full within two years after the last due date, such wages and salaries will be tax deductible in the tax year during which they were paid.

Effective date

The above changes come into effect as from 1 January 2012.

Law Amending the Special Contribution for the Defence Law

1. Special defence contribution rate on dividends

The rate of special defence contribution levied on dividends is increased from 17% to 20% for the tax years 2012 and 2013.

2. Special defence contribution on dividends paid more than four years from the end of the year in which profits arose

Special Defence contribution will be imposed on dividends paid by a company resident in the Republic, to another company, resident in the Republic, after four years from the end of the year in which the profits which were distributed as dividends were made.

Any dividends derived directly or indirectly from dividends on which Special Defence Contribution has already been paid are exempted from Special Defence Contribution.

Effective date

The above amendments come into effect as from 1 January 2012. The increased rate of Special Defence Contributions shall apply to income derived or deemed to have been derived or accrued in the period from 1 January 2012 until 31 December 2013.

Law Providing for Special Contributions by the Employees, Self Employed and Pensioners of the private sector

Each employee, self-employed, or person operating in the private sector receiving a pension, shall pay a special contribution to the Republic as follows:

Gross monthly salary €	Special Contribution %
Up to 2.500	-
2.500 3.500	2,5 (with a min amount of special contribution €10)
3.500 4.500	3
4.500 and over	3,5

The above special contribution is calculated on the total gross earnings with no restriction or maximum limit on the amount of the levy.

For employees of the private sector, the following are exempted from the special levy:

- Retirement bonus
- Amounts paid by provident funds
- Remuneration of a foreigner who is employed by a foreign government or by an international organization
- Remuneration of foreign diplomats and consular representatives who are not citizens of the Republic
- Remuneration of Cypriot ship's crew
- Allowances paid to employees covering business expenses on behalf of an employer

Employees or pensioners, who pay the Special Contribution under the Officers, Employees and Pensioners of the State and Public Sector Law on their salaries or pensions, are exempted from the above payment.

In the case of an employee, the payment of the special contribution is shared equally by the employer and the employee. (i.e. 50% of the special contribution is paid by the employee and 50% is paid by the employer).
The special contribution paid is deductible from the taxable income of the employee/employer that it relates to.

Imposition and payment of special contribution
The imposition and payment of the special contribution will be as follows:

• In the case of an employee of the private sector and / or person receiving a pension from the private sector the amount of special contribution will be withheld from the wage or pension and will be paid to the Inland Revenue on a monthly basis (PAYE).

• In the case of a self-employed, the amount of special contribution will be declared on a form approved by the Director of Inland Revenue and paid in three installments following the same procedure and dates provided for the provisional income tax (I.e. August 1, September 30 and December 31).

Effective day

The above amendment is effective for the period from 1 January 2012 to 31 December 2013.

Law amending the Value Added Tax Law

1. Increase of V.A.T.

From 1 March 2012, the basic VAT rate will be increased from 15% to 17%. The reduced rates of 5% and 8% would not be affected by this amendment.

2. Obligation to issue receipts

By changing Schedule 10 of the Law, all taxable persons making taxable supplies of goods or services to non-taxable persons are obliged to issue and deliver "legal receipts".

Any person failing to comply with this regulation will be subject to a penalty equal to 20% of the value of the transaction for which the legal receipt relates to.
Any person failing to issue and deliver a legal receipt at the time of the transaction shall be deemed guilty of an offense and be subject to a fine not exceeding € 1.700 or imprisonment up to 3 years or both.

The legal receipts must contain the following information:

- Issue Date
- ID number
- Name, address and registration number of the taxable person
- Adequate description of the goods or services offered
- Total amount payable, including VAT
- For each rate of VAT, the total amount payable (including VAT) and the applicable VAT rate.
- Indication of whether the transaction involves deposit payment, part consideration, cash payment or otherwise.

It should be noted that when an invoice is paid in cash, the issue of a legal receipt is not required as the cash invoice may also be used as a receipt.

Limassol, 23 December 2011