

# New Tax Measures 2011

## Changes in the Cyprus Tax Law

As from **14 December 2010** the Cyprus Parliament has voted changes in the tax laws concerning the taxation of physical and legal persons (including amendments to the Capital Gains Tax Law and the Immovable Property Tax Law) as well as the assessment and collection of taxes. The main changes to the law as well as the dates on which they begin to apply are the following:

### **A. INCOME TAX LAW (AMENDED) 133(.) /10, 31.12.2010**

As from 1 January 2011, no expenditure is allowed as deductible expense for income tax purposes unless it is supported by the relevant **legal evidence** (invoices and receipts).

**Taxes withheld from payments to non-Cypriot residents**, for income on intellectual property rights for use in Cyprus or from royalties or fees of professional artists and athletes, not remitted by the end of the month following the month of the withholding will be subject to an additional tax of 5% of the tax due with effect date 1 July 2011.

As from 1 January 2011, for any **debit balances of directors/shareholders** being legal entities and not physical persons the interest rate to be used in the calculation of deemed interest will be the market interest rate. For physical persons the interest rate remains at 9%.

### **B. SPECIAL DEFENCE CONTRIBUTION LAW (AMENDED) 132(.) /10, 31.12.2010**

**(All the amendments to the Special Defence Contribution Law will be in effect from 1 July 2011)**

- **Disposal of company's assets** to either its shareholders (only individuals) or to relatives up to second degree, including spouses, at a consideration which will be lower than the market value of the disposed assets will be treated as a deemed dividend distribution to the shareholders as far as it concerns the difference between the market value and the disposal consideration. The amendment does not apply if the disposed asset was originally acquired by way of gift from the shareholders or relatives up to second degree including spouses.

- Companies under **voluntary dissolution or liquidation** are obliged to submit to the Tax Authorities the relevant resolution within one month from the date of the decision as well as to submit the deemed dividend distribution return and pay the relevant defence tax applicable to the company's profits of the current tax year and the two preceding tax years, if any.

- Any money returned to shareholders (individuals) as a result of **capital reduction** in excess of the amount which was initially paid by the shareholders will be treated as distribution of dividends.

- **Withholding of special defence contribution** is required upon the payment of rental expense. This amendment does not apply for individuals but applies for all companies, partnerships, government organizations and any local authorities paying rent.

## **C. ASSESSMENT AND COLLECTION OF TAXES LAW (AMENDED) 136(./)/10, 31.12.2010**

*(All the amendments to the Assessment and Collection of Taxes Law will be in effect from 1 July 2011)*

- All **newly incorporated companies** are required to register with the Tax Authorities immediately after their incorporation with the Registrar of Companies or the latest within 60 days after their incorporation.

*For companies already incorporated but not registered with the Tax Authorities, before the date this Article will go into effect, a period of compliance up to the 30th of June 2011 is given.*

- The **Commissioner of the Inland Revenue** has the **right to set the tax liabilities of a taxpayer for different tax years based on his discretion** and based on the information available to him in case the taxpayer do not comply with his tax liabilities. Therefore, the results of a tax investigation for one tax year can be used by the Commissioner for extracting conclusions for other tax years too.
- **Tax inspections** by the Commissioner of Taxes can only be conducted at the taxpayer's offices or any other facilities during the normal operating hours of the business and after giving a reasonable notice.
- A company's **books and records** have to be updated the latest four months after the month in which the transactions have taken place.
- **Invoices** have to be issued within thirty days from the date the related transactions have taken place.
- **Stocks** have to be counted at the year end (or if before or later a reconciliation has to be performed as at the year end) and a stock list has to be available to be given to the Tax Authorities if and when requested.

## **D. ADMINISTRATIVE PENALTIES**

The administrative penalties apply to all the Laws mentioned above as well as to the Capital Gains Tax Law and the Immovable Property Tax Law and they will **apply from 1 July 2011** onwards as follows:

- Delay in the submission of tax returns in accordance with the tax deadlines will be subject to €100 penalty.
- Failure or delay in submission of returns to the Inland Revenue Department in accordance with the tax deadlines and failure to comply within the specified period with the written notice for compliance issued afterwards by the Commissioner of the Inland Revenue will be subject to €200 penalty.
- Failure or delay in submission of information requested by the Commissioner of the Inland Revenue Department within the specified period will be subject to €200 penalty (no Tax deadline exists in this case).
- Third party failing to comply with the tax deadline set by the Commissioner of the Inland Revenue in respect of the provision of information will be charged with €100 penalty.
- Failure to pay the due or withheld taxes in accordance with the tax deadlines as set by the Inland Revenue Department will result in **additional tax** equal to the 5% of the tax due.

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