Cyprus New and Amending 'Troika' Laws

January 2013

In December 2012, the Cyprus House of Representatives enacted a number of new laws and amendments to existing legislation to comply with the Memorandum of Understanding ("MOU") which will be signed between the Republic of Cyprus and the European Union, European Central Bank, and the International Monetary Fund, collectively known as the *Troika*. The amendments are intended to strengthen public finances and enhance the stability of the financial sector, while retaining the benefits that Cyprus offers international investors who choose it as reputable international business centre.

The most relevant amendments are:

1. Value Added Tax (VAT)
The standard VAT rate increases to 18% (from 17%) for the period 14 January 2013 to 12 January 2014 and then to 19% from 13 January 2014. The reduced VAT rate will be increased to 9% (from 8%) as of 14 January 2014.

2. Restriction of Carry Forward of Tax Losses
Legal persons and individuals with turnover exceeding €70,000, who are obligated to prepare audited financial statements, will now be able to carry over losses for a maximum of five years from the end of the tax year in which they were incurred, for offsetting against future taxable income (no time limitation existed previously). Given its length, this five-year limit is not expected to cause any practical issues for affected persons.

3. Annual Levy of €350
From 1 January 2013 all exemptions from the payment of the Cyprus annual companies levy have been abolished. All companies in the Cyprus Registrar of Companies are now subject to the annual levy of €350. The annual fee is payable from the first year that a new company is incorporated. Previously there were exemptions for dormant companies, those with no assets, or which held property in the Turkish occupied areas of Cyprus. The cap of €20,000 for the maximum total levy paid for a group of companies has also been abolished.

4. Temporary Tax Assessments
Temporary Tax returns must now be filed before 31 July (instead of 1 August). Additionally, the payment of taxes will be now made in two instalments (instead of three), the first being due on 31 July and the second on 31 December.

5. Penalty for fraudulent omission or delay in tax payments
The prison sentence for individuals convicted for fraudulent omission or delay in tax payments has been increased from a maximum of six months to a minimum of one year. The Republic of Cyprus' authorities are obliged to provide information about the individual who commits the offence, when such information is requested by the competent authorities of another state.

6. Social Insurance Contributions
From 2014, the Social Insurance Contributions rate increases by 1% to 7.8% for each of both employers and employees. The contribution also increases for self-employed and voluntary contributors who will each contribute 13.6% of their annual income.

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7. Special Contribution on Salaries of Employees in the Private Sector

Private sector employees, pensioners and the self-employed are required to make a special contribution to the Cyprus Treasury, expressed as a percentage of their gross monthly salaries/pensions, until 31 December 2016. The rates of the special contributions are:

Special Contribution 2012–2013		Special Contribution 2014–2016	
Monthly Salary or Pension	% of Special Contribution	Monthly Salary or Pension	% of Special Contribution
€0–€2,500	0%	€0–€1,500	0%
€2,501–€3,500	2.5%	€1,501–€2500	2.5%
€3,501–€4,500	3.0%	€2,501–€3,500	3.0%
€4,501 and above	3.5%	€3,501 and above	3.5%

8. Regulations for the Provision of Fiduciary and other Corporate Services

The provision of fiduciary and other corporate services is now regulated by the Cyprus Securities and Exchange Commission. This regulation applies to eligible persons providing such services to or from the Republic of Cyprus (lawyers and auditors who are already regulated by their respective regulatory bodies are excluded from the scope). Regulatory bodies for auditors and lawyers are also responsible for the supervision of any trust and corporate services that their members provide to third parties.

9. Exchange of Information

The House of Representatives confirmed that the procedures already in place in relation to the exchange of information are fully aligned with the OECD guidelines.

10. Amendments to meet OECD Recommendations

- Companies registered in Cyprus but not tax resident there are now required to submit their tax returns annually.
- It is now mandatory for Cyprus tax residents who have income from dividends and interest payments to keep accounting records, irrespective of whether the income originates from sources within or outside the Republic of Cyprus. This provision includes income from trusts.
- Share warrants may be issued only by Cypriot companies listed on regulated markets.
- Cyprus companies should keep their accounting records for a period of six years after the end of the calendar year to which they relate to (instead of seven).
- Cyprus may now exchange tax information with any other country with which it has signed an agreement to exchange tax information. Previously, it could only do so if it had signed a double taxation agreement with the country.

The Cyprus tax authorities can require any person to make available any information, such as records, books or any other document which they consider necessary to be disclosed under the double tax agreements to which Cyprus is a party. The Cyprus Inland Revenue is not obliged to inform the person about whom the information is requested, if it believes doing so could jeopardise the investigation.

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