

Corporate Tax - Cyprus

Simplification of Tax on Interest

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Cyprus has made a number of important changes to its tax laws relating to the participation exemption, the taxation of mutual funds and the taxation of interest. The changes were made by Laws 110(I)/2009 and 111(I)/2009, amending the Income Tax Law and the Special Contribution for Defence Law respectively.

While the main aim of the changes was to increase the attractiveness of the taxation regime for mutual funds and collective investment schemes, the authorities have also taken the opportunity to simplify the taxation of interest in general. Before the changes, interest was subject to income tax and possibly to special contribution for defence (SDC tax), according to whether the interest was active or passive in nature. In general terms, active interest was effectively taxed at 10% and passive interest was taxed at 15%. This basis of taxation will continue to apply to interest earned before December 31 2008.

Interest earned from January 1 2009 will be subject to either income tax or SDC tax (but not both), on the following bases:

- Interest receivable by mutual funds is subject to corporate income tax at the standard rate of 10%;
- The net amount of interest received by individuals and companies (after deduction of expenses) in the ordinary course of their business or closely connected to the ordinary course of their business is subject to income tax at standard rates (10% for companies and between 20% and 30% for individuals); and
- Any other interest receivable is subject to SDC tax at 10% with no deductions.

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