

## Corporate Tax - Cyprus

### Improvement in tax regime for collective investment schemes

Contributed by [Andreas Neocleous & Co LLC](#)

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Recent amendments to the Income Tax Law and the Special Contribution for Defence Law will give rise to significant benefits for holders of units in collective investment schemes, thus improving the attractiveness of Cyprus as a base for such schemes.

In a tax authorities circular issued in December 2008 the definition of 'securities and titles' was widened to include units in collective investment schemes. As profits on disposals of securities and titles are exempt from tax in Cyprus, gains on disposals of units are now also exempt from tax.

Following amendments to the laws in October 2009, redemptions of units in collective investment schemes do not constitute a deemed distribution for the purposes of special contribution for defence (SDC) tax, which is payable by Cyprus residents on interest, dividends and rent. As a result, redemptions of units do not trigger any tax liability as the Income Tax Law now expressly provides that they are treated as a disposal of securities, which is exempt from tax. Furthermore, the SDC tax rate for deemed dividend distributions in respect of collective investment schemes has been reduced from 15% to 3%. This reduction applies to both income and proceeds of liquidation. Unit holders that are not residents of Cyprus are exempt from SDC tax. Finally, the abolition of the 1% participation threshold will extend the dividend tax exemption to small portfolio holdings and thus benefit collective investment schemes.

The October 2009 changes are retrospective and thus effective from January 1 2009.

*For further information on this topic please contact [Elias A Neocleous](#) at [Andreas Neocleous & Co LLC](#) by telephone (+357 25 110 000), fax (+357 25 110 001) or email ([eliasn@neocleous.com](mailto:eliasn@neocleous.com)).*

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### Author

[Elias A Neocleous](#)



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