



Wolters Kluwer



# GLOBAL TAX WEEKLY

## a closer look

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**SUBJECTS** TRANSFER PRICING INTELLECTUAL PROPERTY VAT, GST AND SALES TAX CORPORATE TAXATION INDIVIDUAL TAXATION REAL ESTATE AND PROPERTY TAXES INTERNATIONAL FISCAL GOVERNANCE BUDGETS COMPLIANCE OFFSHORE

**SECTORS** MANUFACTURING RETAIL/WHOLESALE INSURANCE BANKS/FINANCIAL INSTITUTIONS RESTAURANTS/FOOD SERVICE CONSTRUCTION AEROSPACE ENERGY AUTOMOTIVE MINING AND MINERALS ENTERTAINMENT AND MEDIA OIL AND GAS

**COUNTRIES AND REGIONS** EUROPE AUSTRIA BELGIUM BULGARIA CYPRUS CZECH REPUBLIC DENMARK ESTONIA FINLAND FRANCE GERMANY GREECE HUNGARY IRELAND ITALY LATVIA LITHUANIA LUXEMBOURG MALTA NETHERLANDS POLAND PORTUGAL ROMANIA SLOVAKIA SLOVENIA SPAIN SWEDEN SWITZERLAND UNITED KINGDOM EMERGING MARKETS ARGENTINA BRAZIL CHILE CHINA INDIA ISRAEL MEXICO RUSSIA SOUTH AFRICA SOUTH KOREA TAIWAN VIETNAM CENTRAL AND EASTERN EUROPE ARMENIA AZERBAIJAN BOSNIA CROATIA FAROE ISLANDS GEORGIA KAZAKHSTAN MONTENEGRO NORWAY SERBIA TURKEY UKRAINE UZBEKISTAN ASIA-PAC AUSTRALIA BANGLADESH BRUNEI HONG KONG INDONESIA JAPAN MALAYSIA NEW ZEALAND PAKISTAN PHILIPPINES SINGAPORE THAILAND AMERICAS BOLIVIA CANADA COLOMBIA COSTA RICA ECUADOR EL SALVADOR GUATEMALA PANAMA PERU PUERTO RICO URUGUAY UNITED STATES VENEZUELA MIDDLE EAST ALGERIA BAHRAIN BOTSWANA DUBAI EGYPT ETHIOPIA EQUATORIAL GUINEA IRAQ KUWAIT MOROCCO NIGERIA OMAN QATAR SAUDI ARABIA TUNISIA LOW-TAX JURISDICTIONS ANDORRA ARUBA BAHAMAS BARBADOS BELIZE BERMUDA BRITISH VIRGIN ISLANDS CAYMAN ISLANDS COOK ISLANDS CURACAO GIBRALTAR GUERNSEY ISLE OF MAN JERSEY LABUAN LIECHTENSTEIN MAURITIUS MONACO TURKS AND CAICOS ISLANDS VANUATU

## Cyprus's New Package Of Tax Incentives And Technical Amendments

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### Introduction

The Cyprus Government has announced a number of proposed tax incentives aimed at encouraging economic activity and attracting inward direct investment. It has also submitted a number of draft laws to the House of Representatives to implement the new provisions of the EU Parent-Subsidiary Directive, to simplify the tax regime and make it more attractive, fair and effective.

The proposed changes fall under three main headings:

- Stimulating economic activity and investment in real estate;
- Increasing competitiveness and aligning domestic legislation with EU Directives;
- Attracting high-net-worth individuals and high-earning employees.

### Economic Activity And Investment In Real Estate

#### *Reduction Of Transfer Fees On Real Estate Transactions*

In order to stimulate the property market, the Government proposes to halve the fee payable on



transfers of immovable property until December 31, 2016.

The current rate is 3 percent on the first EUR85,340 (USD95,298) of the consideration, 4 percent on the next EUR85,340 and 8 percent on the balance.

#### *Temporary Exemption From Capital Gains Tax*

In addition, any future gain on disposal of immovable property acquired in the period beginning on the date the law becomes effective and ending on December 31, 2016, will be exempt from capital gains tax.

#### *Taxation Of Capital Gains On Indirect Disposals Of Real Estate*

Gains on disposal of shares in companies in which the value of real estate directly or indirectly accounts for 50 percent or more of the value of the shares will now be subject to capital gains tax.

#### *Abolition Of Local Taxes On Immovable Property*

Immovable property taxes charged by local authorities will be abolished.

### ***Extension Of Accelerated Capital Allowances***

The accelerated tax writing-down allowances on plant and machinery and industrial and hotel buildings will be extended until December 31, 2016.

### **Alignment With EU Directives And ECJ Case Law**

In order to implement the latest changes to the EU Parent-Subsidiary Directive, after December 31, 2015, the current exemption from Cyprus income tax on dividends received by Cyprus-resident companies will not be available in cases where the dividend was allowed as a tax deduction in the jurisdiction of the paying entity, or where the arrangement is a sham.

In addition, the group loss relief provisions are to be amended with retrospective effect from January 1, 2015, so that group relief is available between companies resident in Cyprus and companies resident in other EU member states.

### **Changes To The Arm's Length Principle**

Cyprus does not have specific transfer pricing rules in its domestic legislation, but the arm's length principle is incorporated into the Income Tax Law, allowing the tax authorities to impose additional taxes on profits or benefits arising from related party transactions. Currently the only adjustments that can be made are to increase profits, and there is no provision for the corresponding expenses and losses to be compensated. The law will be amended to tax the profit arising from the transactions between the related parties and to allow a corresponding deduction for the counterparty to the transaction. The

Government hopes that the adoption of international transfer pricing principles will attract more multinational businesses.

### **Notional Interest Deduction On Equity Capital**

With effect from January 1, 2015, companies and permanent establishments of foreign companies are to be given a notional interest deduction (NID) on new equity capital (share capital and share premium) introduced after that date, calculated by reference to the government ten-year bond. The NID will be limited to 80 percent of the taxable profit before deducting the NID, and no NID will be allowed in the event of losses.

The introduction of the NID is intended to level the playing field between equity and debt finance, as both will be eligible for tax deductions.

### **Tax Neutrality Of Foreign Exchange Gains And Losses**

Profits and losses arising from currency exchange rate fluctuations will be disregarded for tax purposes apart from gains or losses arising from trading in foreign currencies or foreign currency derivatives. Entities trading in foreign currencies or foreign currency derivatives may irrevocably elect to be taxed on the basis of realized profits or losses.

### **Limitation Of Losses Carried Forward On IP Activities**

Cyprus's IP box regime allows an 80 percent deduction from the net profit generated by the use or

disposal of IP rights. An amendment is proposed in order to make clear that if a loss is made from such activities, only 20 percent of the resulting loss will be allowable.

### **Anti-Abuse Provisions**

Corporate reorganizations are currently exempt from all forms of tax. In order to prevent abuse, it is proposed that the exemption may be withheld if the tax authorities consider that a reorganization is not carried out on valid commercial grounds.

The tax authorities will also be given discretionary powers to disregard the exemption from the Special Contribution for Defence (SDC) of dividend payments to another resident company if such a company was interposed without valid commercial or economic reason apart from reducing or avoiding the liability for SDC.

### **Introduction Of Non-Domiciled Regime For SDC**

At present, all Cyprus tax-resident individuals are liable to pay SDC on rents, dividends and interest.

It is now intended to introduce the option for individuals who are resident in Cyprus to obtain exemption from SDC if their domicile is elsewhere.

### **Extension Of Income Tax Exemption For New Individual Taxpayers**

Individuals taking up residence and employment in Cyprus with income from employment of more than EUR100,000 per annum are currently entitled to a 50 percent deduction for the first five years of employment. The Government intends to extend the period for which the deduction is available from five years to ten.

### **Conclusion**

At this stage, the draft laws have still to be considered and voted on by the legislature, and there may be significant amendments during the course of the legislative process. We will monitor developments and issue further details when there is anything to report.