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# Cyprus

## Cyprus's New Package of Tax Incentives and Technical Amendments

On July 2, 2015, the Cyprus Government published details of proposed tax incentives aimed at encouraging economic activity and attracting inward direct investment. At the same time it 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 have three main objectives:

- to stimulate economic activity and investment in real estate;
- to increase competitiveness and align domestic legislation with EU Directives and ECJ case law; and
- to attract high-net-worth individuals and high-earning employees.

### 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.

### 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% 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 Until December 31, 2016

The accelerated tax writing-down allowances on plant and machinery and hotel and industrial 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 to Cyprus.

### 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 interest rate on the government 10-year bond. The NID will be limited to 80% 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, by making both 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 realised profits or losses.

### Limitation of Losses Carried Forward on IP Activities

Cyprus's IP box regime allows an 80% 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% of the resulting loss will be deductible.

### 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 Special Contribution for Defense ("SCD") of dividend payments to


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another resident company if such a company was interposed without valid commercial or economic reason apart from reducing or avoiding the liability for SCD.

## Introduction of Non-Domiciled Regime for SCD

At present all Cyprus tax-resident individuals are liable to pay SCD on rents, dividends and interest. It is now intended to introduce the option for individuals who are resident in Cyprus to obtain exemption from SCD tax 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 100,000 euros per annum are currently entitled to a 50% deduction for the first five years of employment. The government intends to extend the period for which the deduction is available from 5 to 10 years.

## 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. A more detailed analysis will follow in a forthcoming issue once the laws have been enacted.

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