

## Corporate Tax - Cyprus

### Department announces delay in imposition of tax penalties

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#### Introduction

#### Income Tax Law

#### Special Contribution for Defence Law

#### Other laws

#### Introduction

The government's budget for 2011, approved by the Parliament in December 2010, introduced a number of new penalties for late payment and late filing of returns under the Income Tax Law, the Special Contribution for Defence Law, the Assessment and Collection of Taxes Law, the Capital Gains Tax Law and the Immovable Property Tax Law.

These penalties were due to take effect on June 30 2011. However, the Inland Revenue Department has now announced a delay of three months in their introduction, aimed at encouraging taxpayers to bring their compliance obligations up to date immediately.

#### Income Tax Law

Payments to non-residents of Cyprus in respect of royalties, film rights and other Cyprus-source income are subject to a 10% withholding tax. The payer is required to deduct the tax and pay it to the Inland Revenue no later than the end of the month following that in which the payment was made. With effect from September 30 2011, in the event of late payment a penalty of 5% of the tax due will be payable. The penalty will apply to all assessments subsequently issued by the Inland Revenue, regardless of the tax year to which they relate.

#### Special Contribution for Defence Law

The new penalties announced in December 2010 under the Special Contribution for Defence Law included a €100 penalty for failure to submit a tax return or to meet any deadline prescribed by law. This penalty is doubled to €200 if the taxpayer does not comply with the requirements of the law after receiving written notice from the director of income tax setting a deadline for compliance (which should be at least 60 days). The €200 penalty is also applicable to persons that are required to submit information or make payments on behalf of third parties. Late payment of the special contribution for defence tax is subject to an additional penalty of 5% of the tax due. The penalties will be introduced with effect from September 30 2011 and will apply to all assessments subsequently issued by the Inland Revenue Department, regardless of the tax year to which they relate.

#### Other laws

The new penalties under the Assessment and Collection of Taxes Law, the Capital Gains Tax Law and the Immovable Property Tax Law correspond to those introduced in relation to the Special Contribution for Defence Law. There is a €100 penalty for failure to submit any return or meet any deadline prescribed by law, which is doubled to €200 if the taxpayer does not comply with the requirements of the law after receiving written notice from the director of income tax setting a deadline for compliance (which should be at least 60 days). As above, the €200 penalty is also applicable to persons who are required to submit information or make payments on behalf of third parties.

Late payment of these taxes is subject to an additional penalty of 5% of the tax due. These new penalties will take effect from September 30 2011 and will apply to all assessments subsequently issued by the Inland Revenue, regardless of the tax year to which they relate. The previous €51 penalty for not submitting a tax return under the Assessment and Collection of Taxes Law has been abolished.

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