December 2011 Tax Amendments

Amendment to the VAT Law

- Increase of the basic VAT rate from 15% to 17% as from 1st March 2012.

- The law imposes a penalty of 20% of the value of the transaction to taxable persons who do not issue a lawful receipt in accordance with the VAT Regulations.

- Failure to issue a lawful receipt in accordance with the Regulations becomes a criminal offence which is punished, in case of court indictment, with a penalty of up to €1,700- or imprisonment up to three years or to both penalties.
  These provisions come into effect as from the 16th January 2012.

Amendments to the Special Defence Contribution Law

- The rate of Special Defence Contribution on dividends (either actual dividends or deemed dividend distributions) is increased from 17% to 20%. It applies for two years, from 1.1.2012 until 31.12.2013.

- Dividends received by a Cyprus company from another Cyprus company will be subject to Special Defence Contribution if the dividends come out of dividends which come out of profits realised more than four years prior to the year in which the dividends are distributed. Any dividends issued out of dividends which have been subjected to Special Defence Contribution are exempt from any further Special Defence Contribution.

Amendments to the Income Tax Law

- A benefit in kind is taxable every time a company grants to a director or individual shareholder of the company or to a member of his family up to the second degree of relationship a loan or financial assistance including withdrawals from a current account. The benefit is equal to 9% on the debit balance at the end of every month from the above transactions on a monthly basis and the provisions of the Law and of the Regulations in respect of Pay As You Earn are applied to this benefit.

- The above provisions do not apply to any amount due by the above individuals which is the result of a trading transaction. However, any amount resulting from trading transactions to which arm's length principles do not apply will be subject to the provisions of article 33 and a benefit will be imposed on the company, based on market interest rates.

- Article 39 (which imposed on the company interest at 9% of the debit balance, subject to Special Defence Contribution) is abolished as from 1.1.2012.

- Salaries and other payments to employees or the employer's contributions will not be tax deductible if the social contributions due are not paid in the year in which they are due. The social contributions concerned are the contributions to the Social Security Fund, the Redundancy Fund, The Human Development Fund, the Social Cohesion Fund, any Pension Fund and any Provident Fund. If the social contributions are not paid in the year in which they are due but if they are paid fully together with any corresponding penalties within two years from the date they were due, then the salaries and all the contributions will be tax deductible in the year in which the contributions are paid (but not in the year incurred).

  The amendment applies as from 1.1.12012.

- **A new Law is introduced: Special Contribution of Employees, Pensioners and Self-Employed of the Private Sector. It will apply for the years 2012 and 2013. (A Special Contribution Law applies for employees and pensioners of the Public Sector as well)**

  - **For the years 2012 and 2013** a Special Contribution is imposed on the gross monthly earnings of private sector employees, pensioners and self-employed, with the following percentages:

Monthly earnings €	
0-2,500	0%
2,500-3,500	2.5%, with a minimum amount of €10.
3,500-4,500	3%
>4,500	3.5%

- The Special Contribution is payable at 50% by the employer and at 50% by the employee.

- The Special Contribution is imposed on the total earnings without any limits.

- In respect of the employees and the pensioners the Regulations of Pay As You Earn apply and the Special Contribution is paid every month.

- Self employed will pay the Special Contribution with a form approved by the Director of Inland Revenue on the same dates as the dates of the payment of their provisional tax assessment, i.e 1st August, 30 September and 30 December of each year. The contribution of self-employed in no case can be computed on an amount lower than the amount on which they pay Social Security contributions.

- The provisions of the Collection and Assessment of Taxes Law apply in respect of assessments, payments, objections, appeals, unlawful acts etc.

- The Special Contribution is a tax deductible expense for the purposes of Income Tax.

- The legislation is applied by the Inland Revenue Department.

- Gross Earnings for the purposes of the Law mean:

  -Salary, overtime payments, gratuitious payments and any allowance in respect of salaried services. Excluded from the definition are: retirement gratuity, amounts paid by provident funds, the earnings of a foreigner from a foreign government or international organisation, foreign diplomats, the earnings of the captain and staff of a qualifying Cyprus ship and allowances used to cover professional expenses for the benefit of the employer.

  -The earned income of self-employed from a business exercised in Cyprus, with a minimum amount that on which social security contributions are payable.

  -The amount of the gross pension, which does not include the retirement gratuity or any once off payment.

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