

New Tax Incentives introduced in Cyprus

A number of new tax incentives were voted by the House of Representatives on Thursday 24th May 2012. These incentives aim to make Cyprus a preferred intellectual property holding jurisdiction and to enhance its position as a location for financing companies.

They also make Cyprus attractive for the importation of private aircraft in the EU when used for business purposes and enable the acquisition of new private residence at the reduced VAT rate of 5%.

1. Intellectual property (effective from 1 Jan 2012)

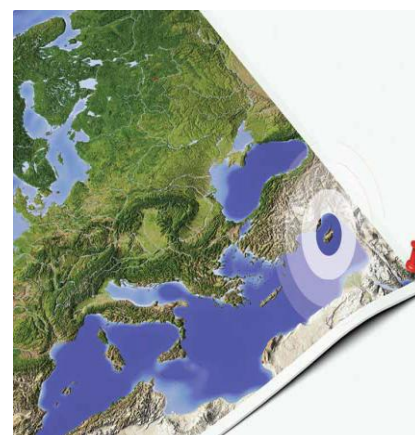
The Income Tax Law has been amended to provide generous exemptions from tax of income related to IP. More specifically:

- (i) 80% of any income generated from IP owned by Cypriot resident companies (net of any direct expenses) will be exempt from income tax.
- (ii) 80% of profit generated from the disposal of IP by Cypriot resident companies (net of any direct expenses) will be exempt from income tax.
- (iii) the definition of IP includes all intangible assets, including copyrights, patents and trademarks
- (iv) any expenditure of a capital nature for the acquisition or development of IP will be claimed as a deduction in the tax year in which it was incurred and the immediate four following years on a straight-line basis.

2. Deductibility of interest expense (effective from 1 Jan 2012)

Interest expense incurred for the acquisition of **100%** of the share capital of a subsidiary company (direct or indirect) will be treated as deductible for income tax purposes provided that the subsidiary company does not own any assets that are not used in the business. Loans receivable are deemed to constitute assets that are used in the business.

In the case where the subsidiary company owns assets that are not used in the business, then the interest expense incurred by the



Cyprus tax resident parent company which corresponds to such assets will be treated as non-tax deductible.

Assets not used in the business include shares and other securities as defined under the Law and income from which is generally exempt from taxation in Cyprus under other provisions of the Law.

Shares acquired before 1 January 2012 which previously attracted restriction of interest for seven years will remain under the 7-year rule.

3. Incentives to capital investment

Machinery and equipment acquired during the tax years 2012, 2013 and 2014 will be eligible to claim accelerated tax depreciation at the rate of 20% per annum (increased from 10%).

For industrial and hotel buildings which are acquired during the tax years 2012, 2013 and 2014, tax depreciation at the rate of 7% per annum may be claimed (increased from 4%).

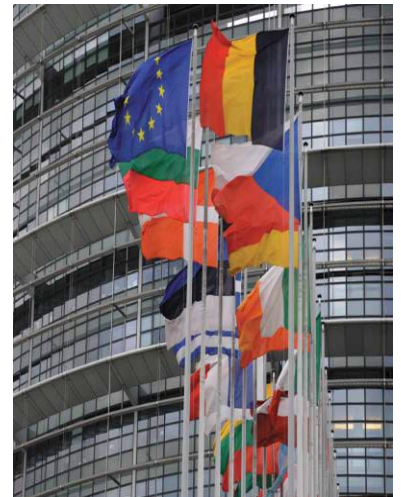
The cost of acquisition of machinery, equipment and buildings will be treated as deductible from the accounting profits for deemed distribution purposes. This is relevant only to companies whose ultimate beneficial shareholders are Cyprus residents.

4. Group relief

In the case where a subsidiary company is incorporated by its parent company during a specific tax year, the subsidiary company will be considered as being a member of the group for the whole tax year and therefore will be able to claim group relief for that tax year.

5. Contributions to Funds

Contributions made to Pension Funds, Provident Funds or any other Insurance Funds will be treated as deductible in calculating the taxable income of an individual provided that such Funds are approved by the Commissioner of Income Tax.



6. VAT on private aircraft

The importation of private aircraft from a place outside the EU is made without the need of actual payment of VAT on importation. This applies when the importer is a taxable person and the importation takes place within the context or for the promotion of his business activity.

The VAT arising upon importation will be only reported in the VAT return of the taxable person with no cash outflow created as a result of the importation of the aircraft in Cyprus. The Commissioner has the right to demand the placement of a guarantee by the importer but this shall not exceed the amount of the VAT that is chargeable on the importation of the aircraft.

Aircraft that is used by an airline engaged chiefly in international transportation of passengers for a reward continues to be subject to VAT at the zero rate.

7. VAT incentives for the acquisition and/or construction of residential properties

The VAT provisions regarding the reduced VAT rate of 5% that are applicable to the construction or acquisition of residential property that is used as the primary and permanent place of residence are extended to include acquisitions by individuals who do not ordinarily reside in Cyprus but acquire the property to use as their residence whilst in Cyprus.

How BDO can help you

Our tax team is always available to discuss the new developments and provide support in ensuring that all tax affairs will remain in full compliance with the tax laws and tax developments.



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