

TAX NEWS – second package of measures

In December 2011 the Cyprus House of Representatives approved a new set of austerity measures, aiming at further fiscal consolidation.

Amendments related to International Business Companies

- **The parliamentarians approved a two-point hike in value added tax (VAT) from 15 to 17 per cent.**

The increase in VAT will be implemented as of March 1st 2012 instead of January 1st as the government has suggested which is expected to earn a total of 160 million euro by this new measure.

- **Loans to shareholders and directors**

Loans to the company's individual shareholders or directors will be regarded as monthly benefit in kind for the individual shareholder or director (and not the company). This benefit in kind will be equal to a yearly rate of 9% on the outstanding loan amount and will be regarded as part of the taxable income of the individual shareholder or director and the company must withhold this amount on their behalf.

The above new amendment will be effective from 1st of January 2012.

Loans to legal persons (i.e. companies) acting as shareholders or directors will continue to be subject to the Income Tax (section 33) which provides for loans between related parties to carry an interest based on the prevailing market rates.

- **Dividend income**

Dividend income of the company in case the shareholders of the company paying dividends are directly or indirectly residents of Cyprus are subject to Special Defence Contribution Tax. As from 1st of January 2012 the rate of Special Defence Contribution Tax on dividend income further increased from 17% to 20% (following recent increase from 15% to 17% in August 2011).

➤ **Special contribution by the employees of the private sector**

This special contribution will be considered as tax deductible for both the employee and the employer; it will be covered in equal proportions by both the employee and the employer and will be applicable for a period of two years from January 2012 until December 2013.

Gross Monthly Salary	Total Special Contribution
€	%
Up to 2.500	0
2.501 - 3.500	2.5% (min €10)
3.500 - 4.500	3
4.500 and above	3.5