

On 26 August 2011 the House of Representatives of Cyprus voted a number of amending laws which were presented by the Government of the Republic, representing the first package of austerity measures, aiming at increasing the Government revenues and at the same time reducing Government expenditure.

The Income Tax Law

□ A new tax band has been introduced at the rate of 35% for income above €60.000, effective from tax year 2011.

□ 50% exemption will apply to income of a non-resident person taking up residence in Cyprus to work for an employer in Cyprus, effective from 1 January 2012. This exemption applies for a period of 5 years starting from the first year of employment provided that the annual income of the employee exceeds €100.000 per annum.

The Special Contribution for the Defence of the Republic Law

Changes in the Law affect only the rates of contribution while the basis of taxation remains the same. The following changes have been voted:

□ An increase in the rate of special defence contribution from 10% to 15% for interest income taxable under this Law which will be effective on all interest arising, accruing or deemed to arise or accrue from the date the law is published in the Cyprus Government Gazette.

□ An increase in the rate of special defence contribution from 15% to 17% for dividend income received by Cypriot resident persons which will apply to all dividends arising, accruing or deemed to arise or accrue from the date the law is published in the Gazette irrespective of which year such dividends relate to.

The Immovable Property Tax Law

The changes in this Law are that the existing bands are replaced and the rates are increased from a maximum of 0.4% to a maximum 0.8%. The tax is paid by owners of immovable property situated in Cyprus based on the property values as at 1 January 1980.

The new bands and rates, as they appear on the table below, are applicable as from 1 January 2012. Value of the property at 1.1.1980	Rate of taxation (‰)
Up to €120.000	0
€120.001 - €170.000	4
€170.001 - €300.000	5
€300.001 - €500.000	6
€500.001 - €800.000	7
More than €800.001	8

Companies Law

A fixed annual levy of €350 is imposed on each company, with a maximum of €20.000 for companies of a group (as defined in the Companies Law).

The levy will not be payable in the case where a company is dormant or it does not own any assets or when a company owns property in the territory not controlled by the Republic. The levy is not payable for the year in which the company is incorporated. The levy is payable by 31 December 2011 for the year 2011 whereas from 2012 onwards it is payable by 30 June.

Late payment of the levy will give rise to the following penalties:

- ☐ 10% penalty in case of up to a 2-month delay;
- ☐ 30% penalty in case of a delay between 2 and 5 months.

Non-payment of the levy may result in a deregistration (strike-off) of a company by the Cyprus Registrar of Companies. If a company is re-instated within a 2-year period from its strike-off a fixed penalty of €500 (in addition to the outstanding amount of the levy) is imposed. The fixed fee will be increased up to €750 where a company is re-instated after the 2-year period.

The Value Added Tax Law

Changes in the VAT legislation, effected as from 1 November 2011 include the following:

- ☐ For purchase or construction of an individual's first residence of up to 300 sq.m. the VAT on the first 200 sq.m. will be subject to the reduced rate of 5%.
- ☐ The special subsidy currently payable on such first residence is abolished.

The Special Contribution by Government, Semi-Government Employees and Pensioners

A special contribution is payable by all Government and semi-Government employees and pensioners depending on the level of their salary (pension) according to the scale described below.

**Monthly gross salary/
pension of employees (excl.
hourly paid workers)**

**Monthly gross emoluments
of employees (hourly paid
workers)**

Rate (%)

€0 – €1.500	€0 – €1.500	0
€1.501 - €2.500	More than €1.500	1.5
€2.501 – €3.500	N/A	2.5
€3.501 – €4.500	3.0	
More than €4.500	3.5	

The special contribution applies from 1 September 2011 for a period of 24 months.

Contributions by Government and Semi-Government Employees to the Government Pension Scheme

The following contributions have been voted with regard to contributions of Government and semi-Government employees:

- ☐ A 3% contribution has been introduced on salaries, payable to the Government Pension Fund.
- ☐ A contribution of 2% will be made to the Widows' Fund.

The above amendments apply from the first day of the second month following the publication of the Law in the Gazette.