

Amendments to Cyprus Tax and Company Law

On 26 August 2011 the House of Representatives voted a first package of austerity measures and at the same time aiming at maintaining the competitiveness of Cyprus as an international business and financial centre.

The most significant changes in the tax and company legislation are set out below:

1. COMPANY LAW

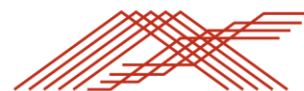
As from 2011 an annual levy of €350 is introduced for all companies incorporated in Cyprus payable to the Registrar of Companies. For groups of companies the maximum levy is fixed at €20,000.

The levy for 2011 must be paid by 31 December 2011, whereas the levy for 2012 onwards must be paid by 30 June of each year.

Dormant companies, companies which do not own any assets, as well as companies owning property located in the non Government controlled areas of Cyprus are exempted from the payment of the levy.

In case where the levy is not paid within the prescribed period and

- the levy is paid within 2 months from the due date, a penalty of 10% is payable and
- Is increased to 30% if the levy is paid within 5 months from the due date.
- If the levy is not paid within 5 months, the Registrar of Companies will remove the company from the registry (something which is expected to restrict the company from filing documents or requesting certificates from the Registrar's office).
- The return of the company to the registry can be affected within 2 years with the payment of a levy of €500 per annum and thereafter with the payment of a levy of €750 per annum.



2. INCOME TAX LAW

(a) Personal Income Tax Rates

Increase in the maximum personal income tax rate to 35%. A new income tax rate of 35% is introduced for individuals on taxable income in excess of €60.000.

All individuals who are tax residents of Cyprus are now taxed at the following rates:

Chargeable Income	Tax Rate
Up to €19,500	Nil
From €19,501 to € 28,000	20%
From €28,001 to €36,300	25%
From €36,301 to €60,000	30%
Over €60,001	35%

This change will be effective as from the tax year 2011.

(b) Tax Incentive

Highly paid employees (with income in excess of €100.000 per annum) will enjoy an exemption from income tax of 50% on their income for the first 5 years of their employment.

This deduction applies to both Cypriot and non Cypriot employees who take up residence in Cyprus on condition that prior to employment in Cyprus such a person was resident outside Cyprus and was not considered as a tax resident of Cyprus.

The change will be effective as from 1 January 2012.

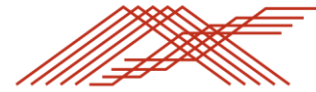
3. The Special Defence Contribution Law

(a) Interest - increase of the Special Defence Tax from 10% to 15%

An increase of the SDC tax rate on interest received or credited to Cypriot tax residents has been introduced, from 10% to 15%, which applies to both individuals and corporations.

APSEROU SHIAKA & CO

52, Kyriacou Matsi Avenue, Suite 7, 1082 Nicosia, Cyprus
Phone: 00357 22 424096, Fax: 00357 22 424097
e-mail: info@shiakas.com website: www.shiakas.com



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In the case of corporations, where the interest results from the ordinary carrying on of their business, they will NOT be affected by this increase since interest which arises from the ordinary (or closely related) activities of the company will be subject to the flat income tax rate of 10% and shall be exempt from Special Defence Tax.

Only if the interest is classified as "passive income" it will be subject to the increased 15% Special Defence Tax.

It should be noted that no Special Defence Tax is payable on interest payments to non Cyprus tax residents.

The reduced 3% rate still applies for provident funds, in the case of individuals whose total income for the year does not exceed €12.000 (including interest income) and to interest received by individuals from Government savings certificates and development stocks.

Financing companies, including companies involved in intra - group financing activities, are not expected to be affected from the increase in the rate of Special Defence Tax.

(b) Dividends - Increase of defence tax on dividends from 15% to 17%

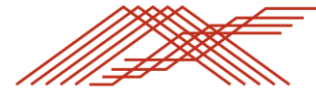
Special Defence Tax on dividends received or deemed to have been received by Cyprus Tax resident individuals is increased from 15% to 17%.

Non resident individuals or companies are exempted from defence tax on dividends and thus not affected by this change.

The change will be effective as from 31 August 2011, being the date of the publication of the amending law in the Official Gazette of the Republic.

APSEROU SHIAKA & CO

52, Kyriacou Matsi Avenue, Suite 7, 1082 Nicosia, Cyprus
Phone: 00357 22 424096, Fax: 00357 22 424097
e-mail: info@shiakas.com website: www.shiakas.com



Chartered Certified Accountants

4. The Immovable Property Tax

The rates applicable for the payment of immovable property tax for properties situated in Cyprus (based on the assessed value of the property as at 1 January 1980) have increased as follows:

Property value	Tax
	⁰ / ₀₀
Up to €120.000	0
From €120.000 to €170.000	4
From €170.001 to €300.000	5
From €300.001 to €500.000	6
From €500.001 to €800.000	7
Over €800.001	8

This change will be effective as from 2012.

5. The Value Added Tax

A lower VAT rate of 5% has been imposed on the purchase or construction of a flat or house to be used as a first private main residence. This rate will apply for the first 200 sq. meters of residences of total covered area of up to 300 sq. meters. This reduced VAT rate applies as from 1 November 2011.

6. Public Sector Employees

Public Sector Employees will contribute 3% of their salaries toward future pension benefits.

Further, Public Sector Employees will make contributions towards reduction of the budget deficit.

This measure is also effective immediately.