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Tax Update

Changes due to the Troika bailout of Cyprus

April 2013

Delivering results on time ...

The recent Troika (International Monetary Fund, European Central Bank and European Commission) bailout of Cyprus resulted in some significant developments and changes. In particular:

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Corporation Tax
From 2013 the corporation tax rate increases to 12.5% (from 10%)

Special Defense Contribution on Interest
From 2013 the special defend contribution of Cyprus tax residents on interest earned increases to 30% (from 15%)

Value Added Tax (VAT)
The standard VAT rate from 17% increases to 18% for the period of 14/01/2013 until 12/01/2014 and thereafter to 19%. The reduced rate will increase from 8% to 9% from 13/01/2014

Restriction of Carry Forward of Tax Losses
Even though previously there was no such limitation, from now on tax losses will be carried forward for up to five years to be offset against future taxable income

Cyprus Company Annual Levy
From 2013 the annual levy of €350 becomes payable by all companies registered in Cyprus with no exemptions

Social Insurance Contributions
From 2014 the rate increases by 1% for both employers and employees who will contribute a total of 7,8% each, whereas, the self-employed will pay a total of 13,6%

Banking Sector
The agreement reached with Troika involves significant changes and in particular:

1. Laiki Bank: Insured deposits (i.e. those under €100,000 per depositor) together with performing loans will be transferred to Bank of Cyprus. Non-performing loans together with uninsured deposits will remain in the bank which will subsequently be dissolved. It is expected that uninsured depositors will suffer losses in excess of 80%. Shareholders, bondholders and other investors are not expected to recover any of their investments.

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2. Bank of Cyprus: The bank will absorb the insured deposits and the serviced loans of Laiki Bank and will subsequently be recapitalized using part of its uninsured deposits. The percentage of the haircut on unsecured deposits was fixed to 37.5% and the depositors will be compensated with new shares. A further 22.5% of unsecured deposits will remain frozen until the finalization of a more detailed and updated independent valuation of the assets of bank which will show the exact percentage of the haircut required.

2. Temporary Restrictions on Bank Transactions: In order to maintain the stability of the banking sector the Central Bank has imposed certain restrictions which are lifted gradually. These include, but are not limited to, restrictions in cash withdrawals, the movement of funds from one bank to another and the movement of funds outside Cyprus.

Our View: While Cyprus as a banking centre has undoubtedly suffered a huge blow which will take years to recover from, it continues to be an attractive location for international tax planning since, in most cases, the above changes do not have any significant effect on the tax burden of international groups.

Please note that Cyprus companies do not have to use bank accounts based in Cyprus and that most of the significant tax provisions that make Cyprus one of the most favored jurisdictions remain unchanged. These include the corporation tax exemption on dividend income, the zero withholding taxes on dividend, interest and royalty payments to non-residents, the 80% corporation tax exemption on profits from the exploitation of intellectual property rights, the zero capital gains tax on the disposal of shares, other securities and of immovable property situated outside Cyprus.