

## **Amendments to the Cyprus Income Tax Law – Effective from 1 January 2009**

The amendments to the Cyprus Income Tax Legislation passed by the Cyprus Parliament on 22 October 2009, with effect as from 1 January 2009, aim to expand further the position of Cyprus for potential investors. These amendments focus on the tax treatment of interest income and foreign dividend income exemption.

### **Tax treatment of interest income received by Cyprus tax resident companies**

Interest received by a CIS (closed-ended or open-ended) is taxed under income tax law after deducting expenses at the standard corporation tax rate of 10%. Interest received by persons (individuals and companies) in the ordinary course of their business including interest closely connected to the ordinary course of business is taxed under income tax law after deducting expenses at the standard corporation tax rate of 10%. Interest received by a person (individuals and companies) which does not satisfy the conditions prescribed immediately above is subject to special defence contribution ('SDC') without expense deduction at the rate of 10%.

### **Tax treatment of foreign dividend income received by Cyprus tax resident companies**

The amendments abolished the minimum 1% holding requirement for the exemption of foreign dividends from taxation in Cyprus when received by a Cyprus tax resident company. This makes it easier for portfolio investors to benefit from the dividend participation exemption. Therefore, the new requirement is that the dividend from abroad tax exemption will not apply only when:

- a) more than 50% of the foreign paying company's activities result directly or indirectly in investment income, and
- b) the foreign tax is significantly lower than the tax burden in Cyprus, i.e. less than 5%.

## **Tax Update October 2009 (2)**

### **Tax treatment of units held in CIS**

Units of closed-ended and open-ended CIS are considered as titles. Profit arising in the hands of any person (individuals and companies) from the disposal of titles is exempt from corporation tax and SDC.

### **Collective Investment Schemes ("CIS")**

The following provisions are applicable only to Cyprus tax resident unit holders:

- a) The SDC rate for dividend deemed distributions has been reduced from 15% to 3%.
- b) The SDC rate for dividend deemed distributions arising on liquidation has been reduced from 15% to 3%.
- c) Redemption of units or other interest in closed-ended or open-ended CIS is not subject to SDC.