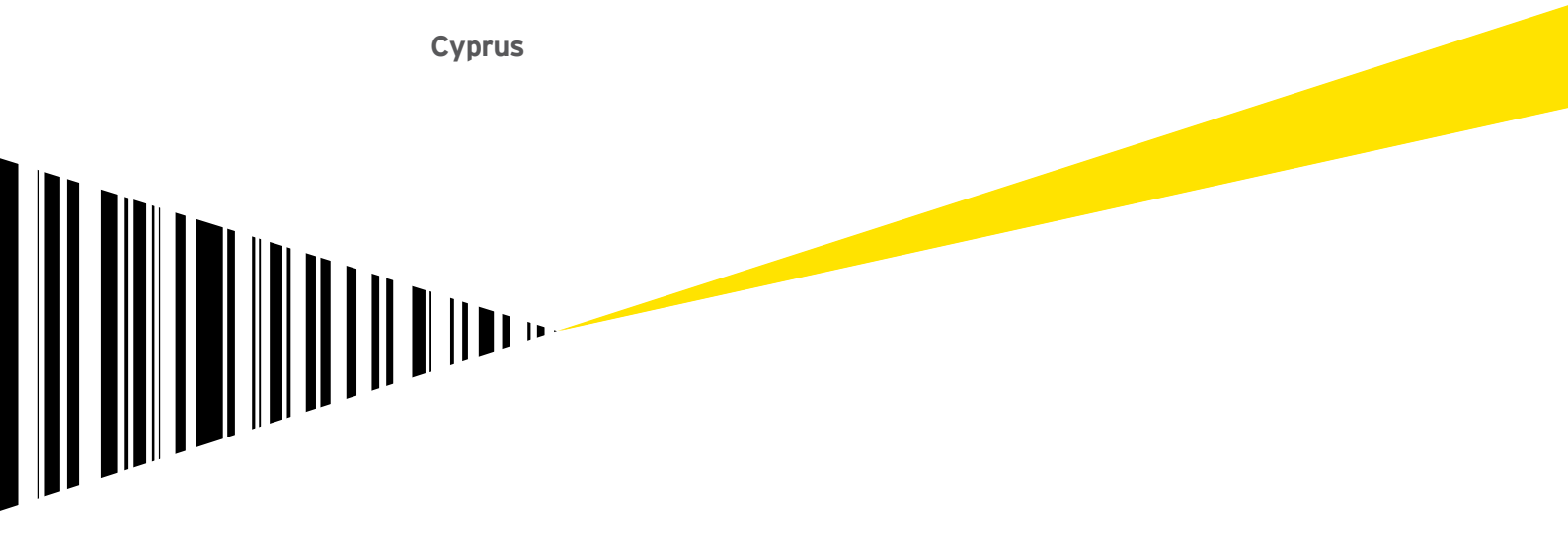


Tax Alert

Cyprus



Recent changes to the Cypriot tax legislation which will enhance Cyprus position as an international business centre

On 22 October 2009 the Cyprus Parliament enacted legislation which removes various tax disadvantages to companies involved in investment activities. The law is expected to enter into force shortly and will have retroactive effect as of 1 January 2009.

The main changes in the law may be summarized as follows:

Dividends received from investments in foreign companies

Up to now dividends received by a Cyprus tax resident company from investment in non resident companies were exempt from Cypriot corporate tax and defence contribution, provided the participation in the non resident company was in excess of 1%, otherwise dividends received were subject to 15% defence contribution. Under the recent amendment this percentage threshold has been removed and as from 2009 the exemption will apply to all dividends received from non resident companies.

It should be noted that dividends received from a non resident company, the income of which directly or indirectly is derived from passive income will still be subject to 15% defence contribution unless the profits have been taxed at an effective tax rate of at least 5%.

Interest income received by tax resident companies

Interest income earned by Cyprus tax resident companies, which is not considered to be derived in the ordinary course of business or closely connected to the ordinary course of business up to now was subject to 10% defence contribution and 50% of the interest income was subject to corporation tax at 10%, i.e. effectively it was taxed at 15%.

With the recent changes, such interest income would be either included in the taxable income of the company and be subject to 10% corporation tax (if it is considered to be derived in the ordinary course of business or closely connected to the ordinary course of business) or be subject to only 10% defence tax in all other cases.

Taxation of collective investment funds

In a recent circular issued by the Cypriot tax authorities it has been clarified that participations/shares in open ended or close-ended collective investment funds are considered as titles and therefore gains from the sale of such participations/shares are exempt from taxation.

With the recent changes in the tax legislation, it has been clarified that interest earned by a collective investment scheme is subject only to income tax at 10% and at the same time it has been clarified that the redemption of participations/shares in such funds is considered as a disposal of titles and thus is exempt from tax.

Furthermore dividends received by a Cypriot resident individual from collective investment funds established in Cyprus are subject only to 3% defence contribution instead of 15% which applies for all other types of dividends.

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