

## NEW TAX INCENTIVES INTRODUCED TO BOOST FOREIGN INVESTMENT

A number of significant tax amendments have been voted into law as from 16 July 2015 in an effort to make the Cyprus tax regime more attractive to foreign investors.

### CORPORATE TAXATION

#### *Notional Interest Deduction on new equity*

The amendments to the Income Tax Law introduce a significant incentive for investors to fund their corporate vehicles by injecting equity rather than debt, which overall promotes a more stable economy.

The new provisions allow for new equity injected into Cyprus companies to be deducted by way of a **Notional Interest Deduction**, provided that such equity is used in the company's operations. This amendment is optional and is applicable to new equity which has been injected into Cyprus companies as of 1<sup>st</sup> January 2015.

The deduction will be calculated by applying an interest rate which is based on the effective interest earned on 10 year government bonds of the country where the funds are invested in plus 3%. There will be a minimum rate applied which is the effective interest earned on 10 year bonds of the government of Cyprus plus 3%.

As a safeguard, the amended provisions provide that the Notional Interest Deduction will not apply in cases where the company has only recorded losses and in any case it cannot exceed 80% of the taxable income of the company in the year before the deduction.

### PERSONAL TAXATION

#### *Non-Domicile provisions*

The concept of "**domicile**" is introduced in the Cyprus tax legislation in order to give tax incentives to individuals who acquire the Cyprus residency either through the Permanent Residency scheme or through the naturalisation by Exception and possibly become Cyprus tax residents as well.

The concept of domicile is defined by law and it includes both *domicile by origin* and *domicile by choice*. Domicile by origin refers to the place of birth and is applicable by default and domicile by choice applies in cases where the individual has chosen to leave the place of birth to permanently reside in another country.

As a general rule, Cyprus tax resident individuals are liable to pay Special Defence Contribution ('SDC') on income derived from dividends, interest or rent. An individual becomes a Cyprus tax resident if he/she is physically present in Cyprus for more than 183 days per year.

New provisions have been introduced to the SDC Law which provide that an individual will be liable to pay SDC only if he/she is both tax resident and domiciled in Cyprus.

In accordance with the recent amendments, investors who become Cyprus tax residents will be completely exempt from SDC if they are not domiciled in Cyprus.

### PROPERTY TAXATION

A number of further amendments have been introduced which aim at promoting the purchase of immovable property in Cyprus. The new provisions include the exemption from capital gains tax on capital gains arising from the disposal of immovable property (both land and buildings) which was acquired between 16 July 2015 and 31 December 2016.

Additionally, a 50% reduction on transfer fees payable on transfers of immovable property and

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on registration of leasing and sub-leasing contracts, which are effected by 31 December 2016 is introduced. Both amendments are applicable as of 16<sup>th</sup> July 2015.

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