



## Cyprus Tax Alert

26 October 2009

### Three wins for investors: portfolio investors, Collective Investment Schemes and interest earning companies

The Cyprus Parliament passed amendments to the Income Tax Law and Special Contribution for Defence (SDC) of the Republic Law on 22 October 2009 that make Cyprus even more attractive to investors. The amendments come into force immediately with retroactive effect to 1 January 2009.

The objective of these legislative developments is to contribute to the promotion of Cyprus as an attractive jurisdiction for the establishment of Cypriot-based Collective Investment Schemes (CISs) and for companies holding interests in Cypriot and non-Cypriot CISs. The legislation provides new benefits for CISs and their investors, as well as clarity and certainty for corporate portfolio investors in general.

#### A win for all corporate portfolio investors

A key result of the amendments is the relaxation of the conditions to qualify for the benefits of the participation exemption for dividends received from nonresident companies. Before these changes, dividend income received by a Cypriot tax resident company from abroad was subject to a 15% SDC if a minimum 1% holding in the payer company was not maintained, regardless of whether other exemption criteria were met. The 1% minimum holding requirement is abolished so that investors can now qualify for the participation exemption in respect of their portfolio holdings.

#### A win for Collective Investment Schemes

The amendments clarify the tax treatment of interest earned by open-ended and closed-ended CISs. According to the amended legislation, interest income earned by a CIS is subject only to income tax (less any allowable expenses) and exempt from SDC.

#### Contacts

Pieris Markou  
pmarkou@deloitte.com  
+357 22 360 607

Antonis Taliotis  
ataliotis@deloitte.com  
+357 25 868 820

Paul Mallis  
pmallis@deloitte.com  
+357 22 360 617

Christos Papamarkides  
cpapamarkides@deloitte.com  
+357 22 360 420

The buy-back or redemption of units or other ownership interests in a CIS is not considered a capital reduction for Cyprus tax purposes. As a result, any amounts payable to investors of a CIS will not be deemed as distributed dividends and, therefore, will be free of SDC otherwise chargeable at 15% (in the case of resident unit holders).

These amendments provide further clarity for a CIS following a circular issued by the Cyprus tax authorities in December 2008 stating their agreement that units in a CIS are considered to be "titles" for Cypriot tax purposes, the gains on disposal of which are exempt from tax.

## A win for companies earning interest

There are two types of taxes that may apply to interest income earned by a Cypriot company: income tax at 10% levied on interest derived, less any allowable expenses and SDC at 10% applied to gross interest income.

Interest earned by a Cyprus tax resident company derived in the ordinary course of business or closely connected thereto is only subject to income tax. Before the amendments, other sources of interest income were subject to both SDC and income tax (with a 50% exemption). Now, however, such income is entirely outside the scope of income tax. The result is that, where previously an effective tax rate of up to 15% was possible for interest earned by a Cypriot company, this is now reduced to a maximum rate of 10% in all cases.

---

[Security](#) | [Legal](#) | [Privacy](#)

**Audit. Tax. Consulting. Financial Advisory.**

Member of  
**Deloitte Touche Tohmatsu**

This material has been prepared by professionals in the member firms of Deloitte Touche Tohmatsu. It is intended as a general guide only, and its application to specific situations will depend on the particular circumstances involved. Accordingly, we recommend that readers seek appropriate professional advice regarding any particular problems that they encounter. This information should not be relied upon as a substitute for such advice. While all reasonable attempts have been made to ensure that the information contained herein is accurate, Deloitte Touche Tohmatsu accepts no responsibility for any errors or omissions it may contain whether caused by negligence or otherwise, or for any losses, however caused, sustained by any person that relies upon it.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its Member Firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in 140 countries, Deloitte brings world class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's 150,000 professionals are committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

© 2009 Deloitte Touche Tohmatsu. All rights reserved.