



Cyprus Tax News

Deemed Dividend Distribution as at 31 December 2019

We would like to remind you of the deemed dividend distribution (DDD) provisions of the Special Contribution for the Defence Law that apply on 31 December 2019.

What profits are within the scope of the DDD provisions?

The DDD provisions apply to the profits of Cypriot tax resident companies that are attributable directly to Cypriot tax residents and domiciled shareholders. These provisions do not apply to the proportion of profits attributable directly or indirectly to non-Cypriot tax resident shareholders or to Cypriot tax resident shareholders that are not Cypriot-domiciled.

When do the DDD provisions apply?

The DDD provisions apply where a Cypriot tax resident company has not distributed at least 70% of its after tax profits (as adjusted for DDD purposes) within two years from the end of the tax year to which such profits relate. In such a case, the undistributed part of such profits is subject to Special Defence Contribution (SDC) at 17%.

Therefore, companies with accounting profits for tax year 2017 that fall within the DDD provisions, would have to declare an appropriate amount of dividend in order to meet the 70% threshold of distributed profits on or before 31 December 2019 and where applicable, pay the relevant SDC via [JCC smart](#) (category 603: withholding from dividends paid) by the end of the following month that such dividend was declared.

Otherwise, on 31 December 2019, the relevant undistributed accounting profits (up to the 70% threshold) would be considered as deemed distributed and the relevant SDC would need to be paid by **31 January 2020** via [JCC smart](#) (category 623: Defence on deemed dividends).

It is important to note that as from 1 March 2019, the distribution of either an actual dividend or a deemed dividend, to Cypriot tax resident shareholders (irrespective of their domicile status) is also subject to contributions to the General Healthcare Scheme (GHS) at 1,7%. For more details on GHS contributions, please refer to the [guidance](#) issued by the Cyprus Tax Authorities.

GHS contributions on actual dividends would need to be paid by the end of the following month that the dividend was declared via [JCC smart](#) (category 703: GHS withheld from dividends paid) and on deemed dividends by **31 January 2020** via [JCC smart](#) (category 723: GHS on Deemed Dividends Distribution).

What are the penalties for late payment of the SDC and GHS due?

Late payment of the SDC and GHS due will be subject to interest at the current rate of 2% per annum and to a 5% penalty on the tax due. An additional penalty of 5% on the tax due may be imposed if the tax remains unpaid two months after the above due dates.

How can we help?

We are at your disposal to assist you with the relevant calculations as well as with the administration of the payment process.



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