



**MEMORANDUM OF UNDERSTANDING
BETWEEN THE REPUBLIC OF
CYPRUS AND TROIKA**

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INTRODUCTION

During December 2012, the House of Representatives voted for a number of new and amending laws under the Memorandum of Understanding between the Republic of Cyprus and Troika.

The objective of the voting was to strengthen the public finances. The most relevant changes are discussed and analysed below:

A) V.A.T.**1) Law amending the Value Added Tax Law**

- The standard rate of VAT increases from 17% to 18% for the period from 14 January 2013 to 12 January 2014.
- The standard rate of VAT increases from 18% to 19% as of 13 January 2014.
- The reduced rate of VAT increases from 8% to 9% as of 13 January 2014. Such rate applies to the following services:
 - ❖ Restaurant and food services,
 - ❖ Services relating to tourist residency,
 - ❖ Passenger transport services, along with their baggage with them, within the Republic with urban, intercity and rural taxis,
 - ❖ Passenger transport services, along with their baggage with them, within the Republic with tourist, excursion and intercity buses.
- The reduced rates of VAT 5% and 0% remain the same.

B) INCOME TAX**2) Law amending the Income Tax Law**

- Persons, who have an obligation to prepare audited financial statements, will be able to carry tax losses incurred over the next 5 years from the end of the tax year in which they were incurred, to be offset against taxable income (previously there was no such time limitation).
- Persons who have such obligation are legal persons (companies) and individuals with annual turnover exceeding €70.000.
- The limitation of 5 years means that the tax of the year 2012, the losses which may be eligible for deduction from the income for the year 2012 must be only losses with respect to the years 2007 up to and 2011 (5 years).

3) Law amending the Assessment and Collection of Taxes Law (1) – OECD (Organization for Economic Cooperation and Development) Recommendations

- The keeping of accounting records is now mandatory for persons who have income from dividends and interests, whether they originate from sources within or outside the Republic of Cyprus. The purpose of this amendment was to include trusts in the provisions of the law for keeping accounting records.
- Companies established in Cyprus but are not tax residence in Cyprus, are obliged to submit tax returns until 31 December of the year following the tax year to which they relate (or March 31 in case of electronic submission).
- It is now possible to provide information to the competent authorities of another state, based on agreements for the exchange of information or the Directive 2011/16/EE of the Council of European Communities of 15 February 2011 on administrative cooperation in the field of taxation.
- The Director of Inland Revenue is not required to inform the person to whom the information is requested for, if the information could impede the investigation being conducted.

4) Law amending the Assessment and Collection of Taxes Law (2)

- Person, who is condemned as guilty of fraudulent failure or delay in the payment of tax, will be subject to an increase in the prison sentence from 'up to 6 months' to 'up to' 1-year.
- In such case, the competent authorities of Cyprus are obliged to provide information about the individual who commits the offence, when such information is requested by the competent authorities of another state.

C) CAPITAL GAINS TAX

5) Law amending the Capital Gains Tax Law

- The law has been amended in order to clarify how the base cost value of the property is determined in case there is no valuation of the property as at 1 January 1980 by the Land Registry Office.
- The restriction over the increase of the value of the property, due to inflation, on the 1st January 1980, which was considered for the calculation of capital gains tax, in cases of immovable property located in the Turkish occupied areas, is withdrawn.

D) COMPANY LAW

6) Law amending the Company Law (1)

(a) Amending law which was published in the Official Gazette on 21 December 2012:

- From 2012 and onwards, the annual levy of €350 becomes payable for all registered companies in the Cyprus Companies Registry.
- With this amendment, all exemptions from the compulsory payment of the annual levy are eliminated. These exemptions related to:
 - ❖ Companies that were dormant,
 - ❖ Companies that had no assets,
 - ❖ Companies that had property in the Turkish occupied areas.
- The maximum total fees payable of €20.000 for group companies is abolished.
- The annual fee is payable from the first year that a new company is registered.
- The annual fee shall be paid on the 30th June of each year.

(b) Amending law which was published in the Official Gazette on 1 February 2013:

- The maximum of €20.000 in the case of group of companies, which was erased with the above law (a), continues to apply.
- The last day for payment of the annual fee for 2012 is the 29th March 2013.
- The companies below will not have to pay the levy of €350 for the year 2012 and will be deemed to be written off from the register by the 1st of January 2012, if applying for the liquidation procedure up to the 29th of March 2013:
 - ❖ Any new registered company in 2012 or
 - ❖ Dormant company or
 - ❖ Company that had no assets or
 - ❖ Company which owns assets in non-controlled areas of the Republic.

Therefore, after taking into account the (a) and (b) above:

- The dormant companies of the year 2012 must pay the annual levy up to the 29th of March 2013.
- The new companies registered in 2012 must also pay the annual fee up to the 29th of March 2013.
- All of the companies of the year 2013, except for the companies which are under the liquidation procedure, will have to pay the levy for the year 2013 up to and including the 30th of June 2013.
- Companies which have applied for the liquidation procedure up to the 29th of March 2013, will not have to pay the levy of €350 for the year 2012.

7) Law amending the Company Law (2) – OECD Recommendations

- The law is amended so that share warrants may be issued only by Cypriot companies listed on regulated markets.
- Companies should keep their accounting records for 6 years after the end of the calendar year to which they relate to.

E) OPAP PROFITS AND NATIONAL LOTTERY

8) Law providing for the Taxation of Betting Games of OPAP and National Lottery

- In any game of OPAP, which is conducted in Cyprus, as well as from the profits of National Lottery, tax is imposed at a rate of 20% on the amount of profit that exceeds €5.000.
- The above law comes into effect as from 1 January 2013.

F) BANK LEVY FOR FINANCIAL INSTITUTIONS

9) Law amending the Bank Levy Payable by Financial Institutions

- During 2011, a bank levy was introduced on financial institutions operating in Cyprus for the years 2011 and 2012, amounting to 0,095% of their total deposits (domestic and foreign), excluding interbank deposits. In accordance with the law, this levy should not exceed 20% of the total taxable income of the financial institutions for the 2 years and any excess levy paid would not be refundable.
- With this amendment, the followings should apply:
 - ❖ With retrospective effect from 2011, the provision that the levy paid would not exceed 20% of the total taxable income is removed,
 - ❖ With retrospective effect from 2011, the provision for refund of the excess levy paid is removed,
 - ❖ From 2013, the rate increases from 0,095% to 0,11% and the provisions of this law are extended indefinitely.

G) EXCISE DUTIES

10) Law amending the Excise Duties Law (1)

- The excise duties on tobaccos and alcoholic drinks, with the exemption of wine, are increased immediately.
- In addition to the above increases in excise duties, VAT at the increased rate will be imposed.

11) Law amending the Excise Duties Law (2)

- The excise duty on petrol and gasoline is increased by 7 cents per litre as from 1 January 2013 and an additional amount of 5 cents per litre as from 1 January 2014.
- In addition to the above increases in excise duties, VAT at the increased rate will be imposed.

H) SPECIAL CONTRIBUTION

12) Law amending the Provision for Special Contribution by the Employees, Self-Employed and Pensioners of the Private Sector

The provisions of the existing law for employees, pensioners and self-employed in the private sector to contribute a percentage on their gross monthly salaries / pensions is extended for an additional period of 3 years (until 31 December 2016). In addition, from 1 January 2014, the relevant bands of the special contribution change as follows:

<u>Special Contribution 2012 – 2013</u>		<u>Special Contribution 2014 – 2016</u>	
Gross Monthly Salary or/and Pension €	Special Contribution %	Gross Monthly Salary or/and Pension €	Special Contribution %
0 – 2.500	0%	0 – 1.500	0%
2.501 – 3.500	2,5% with a minimum amount of special contribution of €10	1.501 – 2.500	2,5% with a minimum amount of special contribution of €10
3.501 – 4.500	3%	2.501 – 3.500	3%
4.501 and over	3,5%	3.501 and over	3,5%

- The special contribution on the salary is shared equally between the employee and the employer.
- The special contribution applies also on pensions and income of self employed individuals and the burden is suffered exclusively by the pensioners / self employee individuals.

13) Law amending the Provision for Special Contribution by the Employees and Pensioners of the Public and Broader Public Sectors

The same rates will apply as in the case of employees in the private sector for the years 2014-2016. Moreover, the special contribution of the employees who are at the highest rank of their scale will be calculated based on the below rates:

Monthly Salary €	Special Contribution %
0 – 1.500	0%
1.501 – 2.500	3%
2.501 – 3.500	3,5%
3.501 and over	4%

- In the case of public servants the full contribution is payable by the employee.

I) REDUCTION OF PUBLIC EXPENDITURE

14) Law amending the Social Insurances Law

- From 2014, the rate of Social Insurance Contributions (SIC) increases by 1%. In particular:
 - ❖ The rate of SIC for employers increases from 6,8% to 7,8% for the years 2014-2018.
 - ❖ The rate of SIC for employees increases from 6,8% to 7,8% for the years 2014-2018.
- The rate of SIC for self-employed and voluntary contributors increases from 12,6% to 14,6% for the years 2014-2018.
- The marriage subsidy is eliminated.
- The funeral subsidy is reduced.
- The childbirth grant is reduced.

15) Law that repeals the Mother's Subsidy Law

It is hereby repealed, with effect from 1st January 2013, the mother subsidy.

16) Law amending the Child Subsidy Law

There is reduction in the child subsidy.

17) Law amending the Student Subsidy Law

There is reduction in the income threshold for the entitlement to student subsidies.

18) Law amending the Issuing of Social Pension Law

During the period from the 1st January 2013 up to and including 31st December 2016, the amount of social pension is set at €336,28.

19) Law Providing for the Reduction of Emoluments and Pensions by the Employees and Pensioners of the Public and Broader Public Sectors

- The monthly gross emoluments of employees and pensioners are reduced as following:

Monthly Gross Emoluments and/or Pensions €	Reduction %
0 – 1.000	0%
1.001 – 1.500	6,5%
1.501 – 2.000	8,5%
2.001 – 3.000	9,5%
3.001 – 4.000	11,5%
4.001 and over	12,5%

- The reductions above are applied on the emoluments from December 2012 onwards, including the 13th salary for the year 2012.
- As from 1 January 2014, there will be an additional flat deduction on salaries equal to 3% on the gross monthly salary.

20) Law amending the Government Pension Law

- The legislation is changed to cover persons who are entitled to more than one pension because of serving in more than one government position.
- The above amendment is placed in force as from 1 January 2013.

21) Law amending the Non Granting of Cost of Living Allowance (COLA) and Price Index Increases on Salaries of the Employees and on Pensions of the Pensioners of the Public and Broader Public Sectors Law

- The suspension of paying COLA on salaries of employees in the public and broader public sector, which applies for the years 2012 and 2013, will continue also for the years up to and including 2016.
- The freezing of price index will be extended until 2014.
- The above amendments are placed in force as from 1 January 2012.

J) WORKING TIME OF PUBLIC SECTOR EMPLOYEES

22) The Public Service Laws

There will be changes in the working hours of the public service employees with flexible timetable. However, the same total hours worked by these employees will be maintained. The revised working hours are as follows:

- Transitional period from 1/1/2013 to 31/8/2013:
 - ❖ Monday to Friday: 7.30/8.30 a.m. – 3.00/4.00 p.m.
- As from 1/9/2013:
 - ❖ Monday to Friday: 8.00/9.00 a.m. – 3.30/4.30 p.m.

K) ADMINISTRATIVE COOPERATION IN THE FIELD OF TAXATION

23) The Administrative Cooperation in the Field of Tax Law

- Rules are set on the exchange of information between EU member states which make it possible to cover all natural and legal persons of the EU.
- Procedures are being clarified for the exchange of information upon request, for automatic exchange of information and other forms of administrative cooperation.
- This law shall enter into force from 1st January 2013.

L) COMBATING ILLEGAL ACTIVITIES

24) Law amending the On Blocking and Money Laundering Law

- The powers of the Unit for Combating Money Laundering are more clearly defined.
- It is further clarified that the regulatory bodies of auditors and lawyers are also responsible for the supervision of services that these professionals provide with regards to trust services to third parties.

M) FIDUCIARY AND OTHER CORPORATE SERVICES

25) Regulations for the Provision of Fiduciary and Other Corporate Services

- A law has been enacted which governs the provision of fiduciary and other corporate services. This law applies to eligible persons who provide such services either in or from Cyprus.
- There is an exception for lawyers and accountants who are regulated by their respective regulatory bodies.
- As the responsible supervisory authority shall be the Cyprus Securities and Exchange Commission.

N) OTHER

26) Law amending the International Cooperation in Criminal Matters Law

In the event that the competent authority of the Republic of Cyprus receives request from the competent authority of a foreign country, with respect to a proceeding of offence, then such request should be performed.

27) The laying of the Rules of the Medium-term Budgetary Framework and Financial Rules Law

The executive authority has an obligation to lodge in the House of Representatives balanced budgets for approval.

28) Law Providing for the Management of Public Debt

A medium term plan has been prepared for the management of the public debt by at least 5 years.

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This publication 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.

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