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## special NEWSLETTER



### AMENDMENTS TO THE TAX LEGISLATION IN CYPRUS

*On the 14th of December 2010 the Cyprus Parliament introduced several amendments to the tax legislation in Cyprus in its efforts to eliminate tax avoidance and evasion, and to meet the relevant requirements of the European Union. The amendments were published in the official Gazette of the Republic of Cyprus on the 31st of December 2010.*

#### THE MOST SIGNIFICANT CHANGES IN THE LEGISLATION THAT MAY AFFECT INTERNATIONAL INVESTORS DOING BUSINESS THROUGH CYPRUS ARE SUMMARIZED BELOW:

##### **REGISTRATION WITH THE TAX AUTHORITIES**

Companies are obliged to register with the Inland Revenue Department and obtain a Tax Identification Code (T.I.C) **within 60 days** from the date of their incorporation or registration.

In the case of a company which has been incorporated outside the Republic of Cyprus and has its place of business within the Republic of Cyprus, it has an obligation to register with the Inland Revenue Department **within 60 days** from the date of its registration with the Companies Registrar or from the date it is considered as a Cyprus resident.

Companies registered with the Companies Registrar before the current amendments come into effect have an obligation to register with the Inland Revenue Department **by 30 June 2011**.

Companies already registered with the Inland Revenue Department are required to inform the Commissioner of any changes that may affect the records of the Inland Revenue **within 60 days** from the date when the relevant change occurred.

##### **UPDATING OF ACCOUNTING RECORDS AND ISSUANCE OF INVOICES**

Companies which have an obligation to keep books and records for every tax year are obliged to update those books and records within 4 months from the date of the transactions.

In addition to the above, companies are required to issue invoices within 30 days from the date of the transaction unless written approval has been obtained from the Commissioner for the purpose of issuing the invoices at a later stage.

**Further to the above, we would like to draw our Clients' attention to the fact that in the future accounting records (bank statements, invoices, receipts, contracts, etc.) covering every single month of the financial year must be collected and delivered to LAVECO's Cyprus office within 30 days from the end of the subject month.**

Any expenditure which is not supported by invoices or relevant receipts or other supporting documentation as required by the relevant Regulations will not be treated as deductible expenses for income tax purposes.

The Regulations referred to above were issued in 1997 and refer to the information that should be included on invoices and/or receipts, being the same information that is required for invoices issued in compliance with the VAT Laws and Regulations.

### **SUBMISSION OF TAX RETURNS**

Provisions are introduced for the submission of electronic tax returns in cases where these have been prepared based on audited financial statements or are submitted by a professional accountant. The deadline for submitting tax returns is extended **by 3 months** if the returns are submitted electronically.

### **TAX ASSESSMENTS ISSUED BY THE COMMISSIONER**

In the case of a person (individual or company) who omits to submit a tax return within the time limit set out by the provisions of the Assessment and Collection of Taxes Law and in case the Commissioner decides that such person has an obligation to pay taxes, then the Commissioner can proceed with the issuance of an assessment to that person based on the information available to the Commissioner.

Furthermore, in the case where a person omits to submit the required tax return or to keep proper books and records or omits to provide to the Commissioner information that will facilitate the verification of the correctness of the submitted documents and in such case the Commissioner believes that the documents submitted are inaccurate or insufficient, then the Commissioner has the right to proceed with the issuance of an assessment to that person based on the findings of a review or on the results of an examination that has occurred for a previous year.

### **INSPECTIONS BY THE COMMISSIONER**

The Commissioner has the right during the normal hours of operation of a business (excluding private residence) to enter the office or any other facilities used by that business and inspect any goods and documents that are used for business purposes. The inspection can only take place after reasonable notice has been given.

### **ADMINISTRATIVE PENALTIES**

The Cyprus Parliament has approved the imposition of administrative penalties which are applicable to Income Tax, Assessment and Collection Taxes, Special Defence Contribution Tax, Capital Gains Tax and Immovable Property Tax Laws:

a) **Administrative penalty of €100** will be imposed on a person (company or individual) who refuses, omits or neglects to give notice or to submit a return or to provide information requested by the Commissioner or to perform any compliance obligations within the deadline given by the relevant tax law.

b) **Administrative penalty of €200** will be imposed on a person (company or individual) which refuses, omits or neglects to give notice or to submit a return or to provide information requested by the Commissioner or to perform any compliance obligations within the deadline given by the relevant tax law and in such case the Commissioner has requested from that person in writing that they comply with their obligations and the person fails to comply within 60 days.

c) **Additional tax of 5% on the tax due** will be imposed in cases where a person does not pay the amount of tax due within the due date in accordance with the provisions of the relevant law or determined in a notice issued by the Commissioner.

The above amendments will come into effect 6 months after the publication of the relevant amendments to the law in the official Gazette of the Republic of Cyprus (31/12/2010).

## **CONCLUSION**

There are two main reasons behind the above amendments to the Cyprus tax legislation.

First of all, due to the global economic crisis, the Cyprus government is aiming to improve its collections from taxes without significantly affecting the position of Cyprus as an international business centre.

Secondly, Cyprus is continuously updating and amending its legislation to fall in line with the EU requirements at all times, thus retaining and even enhancing the good reputation of the jurisdiction.

These amendments, therefore, will further improve the good reputation of Cyprus as an international business centre.

Companies which maintain updated proper books and records and settle their liabilities to the tax authorities on time are not expected to be affected significantly.

Therefore, we recommend that all of our Clients comply with the above amendments to the Cyprus tax legislation and contact us if they require further information on their obligations.



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