

## **Amendments effective as from 1 January 2011**

### **Imposition of notional interest on receivables from directors or shareholders**

Notional interest 9% on debit balances or loans to shareholders will be imposed only in the case where the shareholder is an individual and will not apply in cases where the shareholder is a company. In the case where the shareholder is a company, the provisions of Section 33 apply, which provide that a market rate of interest should be charged between related party transactions.

### **Application date**

The above amendments will come into effect from 1 January 2011 except in the case of the imposition of the 5% tax in relation to the tax withheld on payments to non Cypriot residents which will take effect 6 months after the publication of the relevant amending law in the official Gazette of the Republic.

## **Amendments effective as from 1 January 2012**

### **Loans and advances (financial assistance) to company directors and shareholders**

The previous known **Article 39**, of which a notional interest of 9% was imposed at the level of the Cypriot company on balances receivable (debit balances) from the Directors and/or Shareholders and/or up to their second-degree relatives, is now **revoked**.

The notional interest of 9% per annum is now calculated as a monthly benefit of 9% per annum on the balance receivable at the end of each month (not yearly) from the Individual Directors and/or Individual Shareholders and up to their second-degree relatives.

This amendment should apply in the same way for both Cypriot and non Cypriot tax resident individuals. For the non Cypriot tax resident individuals, the benefit will be deemed to arise and hence taxable in their hands under the Cyprus Tax **only** for the days they will physically spend in Cyprus and taking into consideration the personal tax allowance for Income Tax purposes of €19.500 for 2012.

This monthly benefit is assessed and payable through the Pay As You Earn (PAYE) system.

Example 'A'

On 1/1/2012, a Cypriot Company Director receives net €2.300 salary on a monthly basis for 12 months. On 15/1/2012 the Company pays on his behalf €5.000 for various other expenses not wholly & exclusively for business purposes.

On 31/1/2012, the Director's total benefit is €2.337,50 [(€2.300 salary + (€450/12)].

Considering that the Director will not return the €5.000 back to the Company and the Company will not pay any additional expenses to the Director during the year 2012, then the Director's tax responsibility for 2012 is:

Director's net annual remuneration: €2.300 x 12 = €27.600 + €450 = **€28.050**  
chargeable income for tax purposes.

Chargeable Income	Tax rate	Accumulated tax
€	%	€
<b>0 – 19.500</b>	0	nil
<b>19.501 – 28.000</b>	20	1.700,00
<b>50</b>	25	12,50
<b>Total tax due</b>		<b>1.712,50</b>

**Under the P.A.Y.E scheme, the Company should deduct from Director's monthly salary the amount of €142,70 per month and pay this money to Tax office.**

Example 'B'

On 1/1/2012, a Cypriot Company Shareholder receives €0 salary. On 01/01/2012 the Shareholder has a balance receivable (shareholder owes money to the Company) from prior years of €300.000.

Even if Shareholder does not receive any salaries, he has to pay tax as a result of his balance receivable brought forward from prior years. The Company does not pay any other expenses on behalf of the Shareholder during the year 2012.

The chargeable income for tax purposes is: **€27.000** (€300.000 x 9%)

Chargeable Income	Tax rate	Accumulated tax
€	%	€
0 – 19.500	0	nil
19.501 – 27.000	20	1.500
<b>Total tax due</b>		<b>1.500</b>

**Under the P.A.Y.E scheme, the Company should get from Shareholder €125 per month and pay this money to Tax office.**

## General

As a result of the abolishment of Article 39, tax will rise at the level of the individual Director / Shareholder instead at the level of the Cypriot Company.

The amendments do not apply in the case of balances resulting from **normal** commercial transactions between the Company and its Shareholder/Director.

### **TIP:**

- stop using the Company's money for your private purposes.
- all expenses paid by the Company should be supported by appropriate tax invoices/receipts.
- all expenses paid by the Company should be wholly & exclusively for Company's purposes.
- if your annual salary exceeds the amount of €28.000 and you also have a balance receivable then you can either get dividend from the Company, if applicable, or pay back the balance receivable to your Company.

Contact us for a [tax planning advice](#)