



**SUPPLEMENT No. 2**  
**TO**  
**THE SOVEREIGN BASE AREAS GAZETTE**  
**No. 1656 of 18th June 2012**  
**LEGISLATION**

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**INCOME TAX (AMENDMENT) ORDINANCE 2012**

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An Ordinance to amend the Income Tax Ordinance 2003

**G. E. STACEY**  
**ADMINISTRATOR**

*14th June 2012.*

**BE** it enacted by the Administrator of the Sovereign Base Areas of Akrotiri and Dhekelia as follows:—

**1. Short title**

This Ordinance may be cited as the Income Tax (Amendment) Ordinance 2012.

**2. Commencement**

- (1) This Ordinance comes into force on 1 July 2012.
- (2) The amendments made by sections 4 and 5 have effect in relation to the 2012 and subsequent tax years.

**3. Income Tax Ordinance 2003 amended**

The Income Tax Ordinance 2003(a) is amended in accordance with sections 4 to 6.

**4. Section 5 amended (charge of tax)**

- (1) Section 5(1) is amended by omitting the full stop after paragraph (f) and substituting a semi-colon and by adding the following new paragraph—
  - “(g) deemed interest, being interest at an annual rate of 9% calculated at the end of every month on the balance of any loan or other monetary facility (other than a debt in respect of a commercial transaction) granted by a company to a director or an individual shareholder or to a relative of the first or second degree of a director or shareholder.”

- (2) Section 5(2) is amended by omitting the full stop after paragraph (f) and substituting a semi-colon and by adding the following new paragraph—

“(g) deemed interest, being interest at an annual rate of 9% calculated at the end of every month on the balance of any loan or other monetary facility (other than a debt in respect of a commercial transaction) granted by a company to a director or an individual shareholder or to a relative of the first or second degree of a director or shareholder.”

#### **5. Section 9 amended (deductions allowed)**

- (1) Section 9(1) is amended by omitting “subsections (2) and (3)” and substituting “subsections (1A) to (3)”.

- (2) Section 9 is amended by inserting the following new subsections after subsection (1)—

“(1A) Where outgoings and expenses wholly and exclusively incurred in the production of income are in the form of a payment for services, the payment is not deductible if any contribution due from the taxpayer on the payment to the Human Resource Development Fund, the Redundancy Fund, the Social Coherence Fund, the Social Insurance Fund or any pension fund established by law is not made in the tax year in which it is due.

(1B) However, if any outstanding contribution, together with any charges and interest, is paid within 2 years after the due date, the contribution, any charges and interest and the payment for services to which the contribution relates are deductible in respect of the tax year of payment.

(1C) In subsection (1A)—

“Human Resource Development Fund” has the meaning given to “Fund” in section 2 of the Human Resource Development Authority (Republic of Cyprus) (Recognition) Ordinance 2001**(b)**;

“Redundancy Fund” has the meaning given in section 2 of the Employment (Termination) Ordinance 2010**(c)**;

“Social Coherence Fund” means the fund of that name referred to in section 3(1) of the Social Coherence Fund Ordinance 2002**(d)**;

“Social Insurance Fund” has the meaning given to “Fund” in section 2 of the Social Insurance (Facilitation of Republican Social Insurance Scheme) Ordinance 1980**(e)**.”

#### **6. Section 37 amended (regulations)**

Section 37(1) is amended—

- (a) by omitting from paragraph (a) “calculated by reference to tax tables prepared by the Commissioner” and substituting “calculated in a manner prescribed in the regulations”; and
- (b) by omitting “The tables referred to in paragraph (a) shall be drawn up in such a manner that, so far as it is possible, all the tax payable on the salaries of a person for any tax year is obtained from the deductions from the payments to him of, or on account of, salaries made to him during that year.”

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#### **Notes**

**(a)** Ordinance 29/03, as amended by Ordinance 19/11.

**(b)** Ordinance 22/01.

**(c)** Ordinance 3/10.

**(d)** Ordinance 37/02.

**(e)** Ordinance 16/80.

## EXPLANATORY NOTE

### (This note does not form part of the Ordinance)

1. This explanatory note relates to the Income Tax (Amendment) Ordinance 2012 (the “Ordinance”). It has been prepared by the Office of the Attorney-General and Legal Adviser in order to assist the reader of the Ordinance and should be read in conjunction with it.
2. The Ordinance amends the Income Tax Ordinance 2003 (the “principal Ordinance”). The amendments to sections 5 and 9 of the principal Ordinance reflect amendments made to the Income Tax Law of the Republic of Cyprus by law 197(I)/2011.
3. Where a company lends money to a director, shareholder or a close relative of a director or shareholder, the borrower is deemed to earn interest at a rate of 9% per year on the value of the loan (see new section 5(1)(g) and (2)(g) of the principal Ordinance). Tax is chargeable on that interest.
4. Where an employer fails to make due contributions to the Social Insurance Fund or certain other funds, the employer may not deduct the wages or salary in relation to which the contributions are due from the employer’s gross income for the purpose of calculating taxable income (see new section 9(1A) to (1C) of the principal Ordinance). However, if the employer pays the outstanding contribution within 2 years, the amount may be deducted from gross income for the tax year of payment.
5. The regulation-making power in section 37 of the principal Ordinance is amended to remove the requirement that regulations requiring employers to calculate and deduct tax do so by reference to tax tables prepared by the Commissioner. A requirement to calculate and deduct tax may be imposed in any manner prescribed in regulations.

