

Deemed Dividend Distribution for the tax year 2022

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Introduction

We would like to remind you of the deemed dividend distribution (DDD) provisions of the Special Contribution for the Defence Law that relate to the tax year 2022.

Profits subject to deemed dividend distribution

Companies are deemed to have distributed to their resident shareholders 70% of their accounting profits, after taxes and certain adjustments, as at the end of two years from the end of the year to which the profits relate to. Any actual dividends paid out of such profits, either during the relevant tax year in the form of interim dividends or within the two years' period after the year end, reduce the profits subject to the deemed distribution rules.

The DDD provisions apply to the profits of Cypriot tax resident companies that are attributable directly or indirectly to Cypriot tax residents and domiciled shareholders (i.e. the proportion of profits attributable directly or indirectly to non-Cypriot tax resident and/or non-domiciled shareholders are exempt from the DDD provisions).

Special defence contribution

Special Defence Contribution at the applicable rate of 17% is payable on such deemed dividends, to the extent that the Cypriot tax resident company has not distributed at least 70% of its accounting profits after tax (as adjusted for DDD purposes) within two years from the end of the tax year to which such profits relate.

In this respect, the profits of the year 2022 are subject to a deemed distribution on 31 December 2024 and the special defence contribution is payable by a company on behalf of its shareholders by **31 January 2025**.

General Health System contribution

It is important to note that 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 the applicable rate of 2,65%.

The GHS contribution on the deemed dividend distribution of the profits for the year 2022 is payable by a company on behalf of its shareholders by **31 January 2025**.

The tax team of Baker Tilly can help you in case you need any assistance with the calculation of the profits subject to the DDD, the preparation and submission of the relevant tax form (TD603) which must be filed by 31 January 2025 or any other assistance regarding the above.

Contact us

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