

CYPRUS TAX FACTS 2016

CYPRUS TAX LEGISLATION

Tax Year

The Tax Year in the Republic of Cyprus is from January to December, regardless of the reporting period which may be different.

Residency

Residency is important to determine the scope of tax imposition:

-A tax resident (individual or entity) is taxed on the worldwide income

-A non-tax resident (individual or entity) is taxed only on income arising in the Republic.

A **permanent establishment** means a fixed place of business through which the business of an enterprise is wholly or partly carried on, and includes a place of management, branch, office, factory, workshop, mine, oil or gas well, quarry or any other place of extraction of natural resources.

Reverse Charge Mechanism A business receiving services from a provider in another EU member state or from a third country must account for VAT as if it is itself the provider of the service. Thus the recipient of the service must be registered for VAT once the registration thresholds are exceeded. The recipient of the service will have the right to claim the VAT charged by this procedure, except in cases where businesses are not entitled to claim input VAT (e.g. businesses making exempt supplies). The reasoning of this procedure is to make it indifferent (with respect to VAT) for a business to decide from which member state to acquire services, eliminating in this way any competitive advantages or disadvantages between providers from member states having different VAT rates.

The term **Securities** is defined as shares, bonds, debentures, founder's shares and other securities of companies or legal persons, incorporated in Cyprus or abroad, and options there on. Further clarification from tax authorities has included in the term "securities" options on securities, short positions on securities, futures/forwards, swaps and depositary receipts on securities, as well as rights of claim on bonds and debentures, index participations only if they result on securities, repurchase agreements, units in open-ended or closed-ended collective investment schemes, participation in various types of foreign entities etc.

In the context of financial accounting **Consolidation** refers to the aggregation of financial statements of a group company as consolidated financial statements. The taxation term of consolidation refers to the treatment of a group of companies and other entities as one entity for tax purposes

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A **Cypriot tax resident** in the case of individuals means a person who stays in the Republic of Cyprus for a period or periods exceeding in total the sum of 183 days during the tax year.

For the purpose of calculating the days of residency in Cyprus:

- The day of departure from Cyprus is considered to be a day out of the Republic
- The day of arrival into the Republic is considered to be a day in Cyprus
- Arrival into the Republic and departure from it on the same day count as a day in the Republic
- Departure from the Republic and arrival back into the Republic on the same day is considered a day outside Cyprus

Personal Income Tax Rates:

Taxable income	Tax Rate	Cumulative Tax
Up to €19.500	-	€0
€19.501-€28.000	20%	€1.700
€28.001-€36.300	25%	€3.775
€36.301-€60,000	30%	€10.885
Over €60,001	35%	

Exemptions:

The following are exempt from personal income tax:

- Interest income the whole amount
(Interest income arising in the ordinary course of business, including interest closely related with the ordinary course of business is treated as trading profit and is not exempt)

- Dividend income the whole amount
- Profits from the disposal of securities the whole amount
- Remuneration from any office or employment exercised in Cyprus by an individual who was not resident of the Republic before the commencement of the employment. (For employment commencing during or after 2012, the exemption applies for a period of 5 years starting from the tax year following the year of commencement of the employment, with the last eligible tax year being 2020). 20% of the remuneration or €8,550 (whichever is lower)
- Remuneration from any office or employment exercised in the Republic by an individual who was resident outside the republic before commencement of his employment in Cyprus. This applies for a period of 5 years (starting from the 1st year of employment) provided the amount of income exceeds €100,000. (The exemption applies for a period of 10 years. For employment commencing during or after 2015, the exemption does not apply in case the employee was a Cyprus tax resident in the preceding tax year or for at least 3 out of the last 5 tax years immediately prior to the tax year of commencement of employment) 50% of the remuneration
- Remuneration from salaried services rendered outside Cyprus for more than 90 days the whole amount

in a tax year to a non-resident employer or to a foreign permanent establishment of a Cyprus resident employer

- Profits from a permanent establishment maintained outside the Republic (subject to conditions) the whole amount
- Lump sum repayment from life insurance schemes or from approved provident funds the whole amount
- Lump sum received as retiring gratuity, commutation of pension, death gratuity, or compensation for death or injuries the whole amount
- Gains arising from a loan restructuring (exemptions apply) the whole amount
- Rental income from preserved buildings (under certain conditions) the whole amount
- Foreign exchange (FX) gains, with the exception of FX gains arising from trading in foreign currencies and related derivatives. (Persons trading in FX have an option to make an irrevocable election to be subject to tax only on realized FX differences). the whole amount

Deductions

Interest paid related to the acquisition of fixed assets for the business	100%
Expenses for the letting of premises	20% of the rental income
Interest relating to the acquisition of a building for rental purposes	100%
Subscriptions to Trade Unions or Professional Associations	100%

Expenditure incurred for maintaining a building under preservation order (subject to conditions)	Up to €700, €1,100 or €1,200 per m ² (depending on size of the building)
Social Insurance Contributions, life insurance payments and approved pension funds or medical schemes (the allowable annual life insurance premium is restricted to 7% of the insured amount.)	Up to 1/6 of the taxable income before these deductions

In the event of cancellation of a life insurance contract within 6 years of the date of its issue, part of the life insurance premiums which were given as an allowance will be taxable as follows:

- Cancellation within 3 years – 30%
- Cancellation between 4 to 6 years – 20%

Donations to approved charitable institutions (with receipts)	100%
Net income generated from the utilization of patent, trademark or any other intellectual property (IP) rights	80%
Special Contribution on salaries and pensions (see page 29)	100%
Expenditure incurred for the acquisition of shares in an innovative business	100%

Non - deductible expenses

The following are not tax deductible:

Business entertainment expenses including hospitality expenses of any kind incurred for the business	amount in excess of 1% of the gross income or €17.086 (the lower of the two)
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Private motor vehicle expenses	the whole amount
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Professional Tax	the whole amount
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Immovable Property Tax	the whole amount
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Interest payable or deemed to be payable in relation to the acquisition of a private motor vehicle, irrespective of whether it is used in the business or not, or other asset not used in the business. This applies for the first 7 years from the date of acquisition.	the whole amount
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Interest payable related to the direct or indirect acquisition of 100% of the share capital of a subsidiary company, is tax deductible provided that the subsidiary does not own any assets that are not used in the business. In the case the subsidiary owns assets not used in the business, the interest expense corresponding to the percentage of assets not used in the business is non-deductible. This applies to shares acquired from 1 January 2012	the whole amount
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Expenditure which is not supported by invoices / relevant receipts or other supporting documentation	the whole amount
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Wages and salaries relating to services offered within the tax year on which contributions to the Social Insurance Fund, Redundancy Fund, Human Resource Development Fund, Social Cohesion Fund, Pension Fund and Provident Fund have not been paid in the year in which they were due.

the whole amount

In case the above mentioned contributions are paid in full (including penalties, interest etc) within two years following the due date, such wages and salaries will be deducted

from income in the year which they are paid.

Loans or financial facilities provided by company Directors or individual shareholders.

Any amount received as a loan or financial assistance by a company's director, or by a company's individual shareholder, or by his/her spouse, or by any relative up to the second degree kindred is considered a monthly benefit equal to 9% p.a. calculated on the amount received. Such benefit will be included in the individual's income subject to Income Tax.

The amount of tax on the monthly benefit should be withheld from the individual's monthly salary and paid to the Tax Department on a monthly basis under the Pay As You Earn (PAYE) system.

Capital Allowances

The same capital allowances available for companies are also applicable to individuals who prepare accounts.

Tax Losses

Tax Losses are carried forward and can be offset against future profits, for a period of five (5) years from the end of the tax year in which the losses were incurred.

Where a person or a partnership converts his business into a limited liability company, any unrelieved losses may be carried forward to the new company.

Losses arising from a permanent establishment maintained outside the Republic can be offset against profits arising in the Republic (from any source) within the same tax year. Subsequent profits of the permanent establishment are taxable up to the amount of the losses allowed.

Tax credit for foreign tax paid

Any tax suffered abroad on income subject to income tax will be credited against any income tax payable on such income irrespective of the existence of a double taxation treaty.

A company is considered as tax resident in Cyprus if they are managed and controlled from Cyprus. Even though no definition is found in the legislation, in accordance with the practice of the Cyprus Tax office and relevant case law it has been established that management and control is exercised where the major decisions for the operations of a company are taken by the Board of directors or by any other authorized by the company individual or corporation.

The main determining factor for establishing management and control in Cyprus is to ensure that all Board of Directors meetings and decision making take place in Cyprus.

Practically, the following are advisable to be followed so as the Company to strengthen its position to be considered as Cyprus tax resident:

- The majority of directors to reside in Cyprus,
- The Board meetings must be held in Cyprus,
- The general policy of the company must be formulated in Cyprus,
- Non-resident directors should not be in a position to form a quorum abroad,
- Board of Directors meetings in Cyprus should be properly documented and kept in Cyprus,
- Any non-Cyprus tax resident directors or other person, individual or corporation, should not be vested with power to override the Board's decisions (i.e. general power of attorneys)

Tax Rate

Companies	12.5%
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Exemptions

- | | |
|---|------------------|
| <ul style="list-style-type: none"> • Interest Income
(Interest arising from the ordinary course of business or closely related to the ordinary course of business, and interest from closed- | the whole amount |
|---|------------------|

ended or open-ended collective investment schemes is considered trading profit and is not exempt)

- Dividend income (The income tax exemption shall not apply to the extent that dividends are deductible from the taxable income of the dividend paying company. Dividends that do not qualify for the income tax exemption are not considered as dividends for special defence contribution purposes) the whole amount
- Profits from the disposal of securities the whole amount
- Profits from a permanent establishment abroad (some conditions apply) the whole amount
- Foreign Exchange (FX) gains with the exception of FX gains arising from trading in foreign currencies and related derivatives. (Persons trading in FX have an option to make an irrevocable election to be subject to tax only on realized FX differences) the whole amount
- Gains arising from a loan restructuring. (Restructuring" means the direct or indirect sale and transfer of immovable property and transfer of rights under a sale contract deposited with the Department of Lands and Surveys, between one or more borrowers and/or debtors and/or the whole amount

guarantors regarding the same credit facility or grant or debt and one or more creditors made up to 31 December 2017, which aims to reduce or repay credit facilities or loans or debts granted to borrowers with one or more lenders).

- Rental income from a building under preservation order (some conditions apply) the whole amount

Deductions:

All expenses incurred wholly and exclusively for the purpose of earning income are deducted, provided the necessary receipts and/or other documentation are provided.

Expenses	Exemption Limit
<ul style="list-style-type: none"> • Donations to approved charities 	the whole amount
<ul style="list-style-type: none"> • Employers Contributions to social insurance and approved funds on employees' salaries 	the whole amount
<ul style="list-style-type: none"> • Notional Interest Deduction (NID) on new equity. (Equity introduced to a company as from 1 January 2015 (new equity) in the form of paid-up share capital or share premium is eligible for an annual notional interest deduction (NID). The annual NID deduction is calculated as a percentage (reference rate) on the new equity. The relevant reference rate is the yield of the 10-year 	up to 80% of the taxable profit derived from assets financed by the new equity (as calculated prior to the NID deduction)

government bond (as at December 31 of the prior tax year) of the country where the funds are employed in the business of the company, plus a 3% premium (subject to a minimum rate which is the yield of the 10 year Cyprus government bond as at the same date, plus a 3% premium). The NID is subject to certain anti avoidance provisions.

- Expenditure incurred for the acquisition of shares in an innovative business **the whole amount**

- **Any maintenance expenses for buildings under Preservation Order** **up to €700, €1.100, or €1.200 per m² depending on the size of the building**

- **Any entertainment expenses incurred for the business** **up to 1% of the gross income with a maximum allowance of €17.086**

- **Interest on loans to acquire fixed assets used in the business** **the whole amount**

- **Special contribution on salaries** **the whole amount**

- **Net income generated from the utilization of patent, trademark or any other intellectual property (IP) rights. (See special mode of taxation page 20)** **80%**

Non-deductible expenses:

<ul style="list-style-type: none"> • Private motor vehicle expenses 	the whole amount
<ul style="list-style-type: none"> • Interest applicable to the cost of acquiring a motor vehicle, irrespective of its use, as well as the cost of acquiring any other asset not used in the business. This restriction is valid for the first 7 years from the purchase date 	the whole amount
<ul style="list-style-type: none"> • Professional tax 	the whole amount
<ul style="list-style-type: none"> • Immovable property tax 	the whole amount
<ul style="list-style-type: none"> • Interest payable related to the direct/ indirect acquisition of 100% of the share capital of a subsidiary, is tax deductible provided that the subsidiary does not own any assets that are not used in the business. In the case of assets not used in the business, the interest payable corresponding to the % of assets will not be tax deductible 	the whole amount
<ul style="list-style-type: none"> • Expenditure not supported by invoices or other documentation 	the whole amount
<ul style="list-style-type: none"> • Wages & salaries relating to services rendered during the tax year for which the relevant contributions (Social Insurance, Redundancy Fund, Social Cohesion Fund, HR Development Fund, Pension & Provident Fund) have not been paid in the year they were due. *In the case the above contributions are settled within two years from the 	the whole amount*

due date such wages & salaries will be tax deductible in the year they were paid.

Losses

Losses

Losses may be carried forward and offset against future profits, for a period of five (5) years from the end of the tax year in which they are incurred.

Losses of a sole trader or partnership business converting into a limited liability company can be offset against future profits of the company.

Losses of a permanent establishment abroad can be offset against profits of the company in Cyprus. However, future profits of the permanent establishment abroad are taxable to the extent of the losses allowed.

Group relief

Companies are considered to be part of a group for group relief purposes if:

- one is a 75% subsidiary of the other, or
- both are 75% subsidiaries of a third company
- Part of the group for the entire tax year (unless it is 100% newly incorporated company during the tax year)

Losses of a current year of a company can be offset against profits of another company as long as both companies are Cyprus Tax Residents and are members of the same group.

A group company which is tax resident in another EU country may also surrender current year tax losses to a Cyprus tax resident company, provided such company firstly exhausts all possibilities available to utilize its tax losses in its country of residence or in the country of any intermediary EU holding company.

Re-organizations

Transfers of assets and liabilities between companies can be effected with no tax consequences within the framework of reorganization and tax losses may be carried forward by the receiving company.

Reorganizations include:

- Mergers
- Demergers
- Partial divisions
- Transfer of assets
- Exchange of shares
- Transfer of registered office

FIXED ASSETS
ANNUAL WEAR AND TEAR ALLOWANCES ON FIXED ASSETS

Plant and machinery	%
plant and machinery	10
plant and machinery (acquired between 2012-2014)	20
furniture & fittings	10
industrial carpets	10
boreholes	10
machinery & tools used in agriculture	15
Buildings	%
commercial buildings	3
industrial, agricultural & hotel buildings	4
industrial & hotel buildings (acquired between 2012-2014)	7
flats	3
metallic greenhouse structures	10
wooden greenhouse structures	33 1/3
Vehicles & Means of Transportation	%
commercial motor vehicles	20
motor cycles	20
excavators, tractors, bulldozers, self-propelled loaders & drums for petrol companies	25
armored vehicles (e.g. security services)	20
specialized machinery for railroads	20
new airplanes	8
new helicopters	8
sailing vessels	4.5
motor yachts	6
steamers, tugs & fishing boats	6
ship motor launches	12.5
new cargo vessels	8
new passenger vessels	6
used cargo/passenger vessels	over their useful life
Other	%
televisions & videos	10
computer hardware & operating systems	20
application software	33 1/3
Software application exp <€1.709 is written off in the year of acquisition	
wind power generators	10
photovoltaic systems	10
tools in general	33 1/3
videotapes of video clubs	5

Shipping Companies

No tax is payable on the profits from the operation of a vessel registered in Cyprus or on the dividends received from a ship owning company flying the Cyprus flag and operating in international waters.

No tax is payable on the emoluments of the captain, the officer and the crew of a Cyprus ship.

Local companies/ individuals or International Business Companies that carry out ship management and crew management from an office in Cyprus have the choice for the financial year ended 31 December 2000 onwards to be taxed at the rate of 4.25% or rates equal to 25% of the rates applicable to the tonnage tax for foreign vessels under their management that are registered outside Cyprus. This special tax regime for ship owning and ship management companies applies until the year 2020.

Insurance Companies

Profits of insurance companies are taxable in the same way as all other companies except in the case where the corporation tax payable on taxable profit of the life insurance business is less than 1.5% of the gross amount of the insurance premiums. In this case the difference is paid as additional corporation tax.

Foreign Pension

Foreign pension is exempt up to €3,420. Sums over €3,420 the taxpayer has the right to choose either to be taxed at a rate of 5% or under the normal rates if there is any further source of income.

Intellectual property rights etc

The gross income arising from intellectual property rights, other exploitation rights, compensations or other similar income arising from sources within the Republic, of a person

who is not resident in the Republic, is subject to withholding tax at a rate of 10%, unless a double tax treaty provides otherwise.

Royalties received by a connected company registered in a European Union Member State are exempt from tax (subject to conditions).

Rights granted for use outside the Republic are not subject to any withholding tax.

Expenditure incurred for the development or acquisition of intangible assets as defined in the Patents Rights Law, the Intellectual Property Law and the Trademarks Law is tax deductible.

The annual capital allowance deduction on such intangible assets is equal to 20% of the acquisition cost. The capital allowance is tax deductible over five years including the year of acquisition.

An 80% deemed distribution applies to the net profit from the exploitation or disposal of such intangible assets (including the compensation from irregular use of these intangible assets).

The net profit is calculated after deducting from the income or profit that is generated from the exploitation or disposal of such intangible assets, all direct expenses associated with the production of this income or profit.

Where a net loss is created, only 20% of such loss will be eligible to be surrendered/ carried forward.

Film Royalties etc

The gross income derived by a non-resident person in respect of royalties arising from film projection in the Republic is subject to withholding tax at a rate of 5%. Royalties received by a connected company registered in a European Union Member State are exempt from tax (subject to conditions).

Profits of professionals, entertainers etc.

The gross income derived by an individual not resident in the Republic from the exercise of any profession or vocation, the remuneration of public entertainers not resident in the Republic, and the gross receipts of any theatrical or musical or other group of public entertainers,

including football clubs and other athletic missions from abroad, derived from performances in the Republic is subject to a 10% withholding tax.

Widow's Pension

The total amount of widow's pension received from the Social Insurance Fund and/or other approved pension funds is taxed at the flat rate of 20% on amounts exceeding €19.500. The tax payer can however elect to be taxed in accordance with the personal income tax rates.

Income from Oil & Gas Related Activities

The gross amount or other income derived from sources within the Republic by any person who is not resident in the Republic, which does not arise from a permanent establishment in the Republic, as consideration for services carried out in the Republic with respect to the extraction, exploration or exploitation of the continental shelf, subsoil or natural resources, as well as the installation and exploitation of pipelines and other installations on the ground, the seabed or above the surface of the sea, is subject to tax at the rate of 5%.

The persons that are subject to special contribution for defence are:

- Cyprus tax resident companies
- Individuals that are tax resident and domiciled *

* Prior to 16 July 2015, individuals were subject to special defence contribution if they were tax resident in Cyprus. As from 16 July 2015, individuals are subject to special defence contribution if they are both Cyprus tax resident and Cyprus domiciled. An individual is domiciled in Cyprus for the purposes of special contribution for defence if he/she has a domicile of origin in Cyprus per the Wills and Succession Law (with certain exceptions) or if he/she has been a tax resident in Cyprus for at least 17 out of the 20 tax years immediately prior to the tax year of assessment. (Anti-avoidance provisions apply).

Non Cyprus tax residents are not subject to the Defence contribution.

Anti-abuse provision:

has been introduced in relation to the taxation of dividends when these are paid to a company beneficially owned indirectly by Cyprus resident and domiciled individual(s).

If the Commissioner considers that the interposition of this company as a shareholder of the company paying the dividend does not serve any substantial commercial or economic purpose but is primarily intended to prevent, reduce or postpone the payment of SDC, the Commissioner may deem that the dividend is paid directly to the Cyprus tax resident and domiciled individual(s) who directly/indirectly control the company receiving the dividend and require the payment of the SDC on the dividend either from the company receiving the dividend or from the Cyprus tax resident individual(s) who directly/indirectly control the company.

	Rates %
Dividend income from Cyprus resident companies	17¹
Interest Income	30
Interest received by an individual from Government Savings Certificates and Government Bonds	3
Interest earned by an approved provident fund	3
Interest earned by the Social Insurance Fund	3
Rental income less 25%	3

Notes:

1. Dividends declared by a Cyprus tax resident company to another Cyprus tax resident company after the lapse of four years from the end of the year in which the profits were generated, are subject to 17% special contribution to the defence fund. Dividends which emanate directly or indirectly out of such dividends on which special contribution for Defence was previously suffered are exempt. (see page 22. The anti-abuse provision)

Dividend income from abroad is exempt from special contribution to the defence fund. This exemption is not applicable if:

- the company paying the dividend engages directly or indirectly more than 50% in activities that lead to investment income, and
- the foreign tax burden on the income of the company paying the dividend is substantially lower than the tax burden of the company that receives the dividend (i.e. foreign tax burden is lower than 6%)

When the exemption does not apply, the dividend income is subject to special contribution for Defence at the rate of 17%.

Included in taxable income and is subject to personal income tax/corporation tax.

2. Interest income from Cyprus government savings bonds and development bonds and all interest earned by a provident fund is subject to special contribution for defence at the rate of 3%.

In the case where the total income of an individual (including interest income) does not exceed €12.000 in a tax year, then the rate is 3%.

3. Rental income is also subject to personal income tax / corporation tax.

When the tenant is a Cyprus company, partnership, the state or local authority, Special Contribution for defence on rental income is withheld at source and is payable at the end of the month following the month in which it was withheld. In all other cases the special contribution for the defence on rental income is payable by the landlord in 6 monthly intervals on June 30th and December 31st each year.

Tax credit for foreign tax paid

Any foreign tax that was paid on income subject to the special contribution for defence fund will be credited against any defence contribution payable on such income irrespective of the existence of a double tax treaty.

Deemed dividend distribution

If a Cyprus resident company does not distribute a dividend within two years from the end of the tax year, then:

- 70% of accounting profits (net of corporate tax, special defence contribution, capital gains tax and foreign taxes that has not been credited against income tax and/or special defence tax payable for the relevant year) are deemed to have been distributed
- 17% special contribution for defence is imposed on deemed dividend distribution applicable to shareholders who are residents of Cyprus (3% on deemed dividend distribution of collective investment schemes)
- Deemed distribution is reduced with payments of actual dividends which have already been paid during the relevant year or paid during the following years from the profits of the relevant year.

When an actual dividend is paid after the deemed dividend distribution, then special contribution for defence is imposed only on the dividend paid over and above the dividend that was previously deemed to have been distributed.

In case of subsidiaries whose parent companies are owned 100% by non resident shareholders, the defense contribution need not be paid by the subsidiary. In the case where the subsidiary is not 100% held by non resident shareholders, defence contribution paid by the subsidiary on

deemed distribution is refundable to any non resident shareholders upon receipt of an actual dividend.

In case where a company disposes of an asset to its Cyprus Tax resident shareholder (individual) or to a relative of up to second degree or spouse, without consideration or lower than market values consideration, the company is deemed to have distributed dividends to its shareholder, equal to the difference of the market value of the asset and the amount the relevant asset was disposed for.

Disposal of assets to shareholders at less than market value

In the case where a company disposes an asset to its Cyprus tax resident and domiciled shareholder (individual) or to his/her relative of up to second degree of kindred or his/ her spouse, without consideration or for a consideration which is less than the market value of the asset disposed, it is deemed that the company has distributed dividends to its shareholder, equal to the difference between the market value of the asset and the amount of the consideration.

The above provision will not apply in case where the asset was received by the company by way of a gift from its shareholder (individual) or from his/her relative of up to second degree of kindred or from his/her spouse.

Company dissolution

The cumulative profits of the last five years prior to the company's dissolution, which have been distributed or deemed to have been distributed, will be considered as distributed on dissolution and will be subject to special contribution for defence at the rate of 17% (3% for collective investment schemes)

This provision does not apply in the case of dissolution under a re-organization.

Reduction of capital

In the case of a reduction of capital of a company, any amounts paid or due to the shareholders over and above the paid up share capital will be treated as deemed dividends subject to special defence contribution (provided that the ultimate shareholders are Cyprus tax resident and Cyprus domiciled individuals

Contributions

	%
Employer	7,8
Employee	7,8
Self-employed	14,6

The maximum level of annual income on which social security contributions are paid on is as follows:

	Weekly €	Monthly €	Yearly €
Weekly employees	1.046		54.392
Monthly employees		4.533	54.396

Upper limits are adjusted in accordance to inflation rates yearly.

Other employer's contributions

The employer makes the following contributions based on employees' emoluments, up to the above maximum amounts, unless otherwise indicated:

	%
Social cohesion fund (no maximum amount)	2,0
Redundancy fund	1,2
Human resource development fund	0,5

Minimum limit for emoluments self employed

Occupational category	Lower weekly limit €	Upper weekly limit €
Medical doctors, pharmacists, health professionals <ul style="list-style-type: none"> • persons with up to 10 years practice • persons with over 10 year practice 	383,64 775,99	1.046 1.046
Accountants, economists, lawyers, and other liberal professionals <ul style="list-style-type: none"> • persons with up to 10 years practice • persons with over 10 year practice 	383,64 775,99	1.046 1.046
Managers, businessmen, estate agents, wholesalers	775,99	1.046
Professors and teachers <ul style="list-style-type: none"> • persons with up to 10 years practice • persons with over 10 year practice 	374,92 749,83	1.046 1.046
Builders and related occupations	470,83	1.046
Farmers, dairy & livestock producers, poultry producers, fishermen and	261,57	1.046
Drivers of transportation media, excavator operators & related occupations	374,92	1.046
Technicians, mass media associates, stationary-plant, metal, rubber, plastic, wood and related products assemblers	374,92	1.046
Clerks, typists, cashiers, secretaries, artisans and similar occupations	374,92	1.046
Cleaners, messengers,	357,48	1.046

watchpersons, dry cleaning owners		
Shopkeepers	357,48	1.046
Butchers, bakers, pastry-cooks, meat, milk, fruit and tobacco product makers / preservers and related occupations	287,73	1.046
Street vendors, mail carriers, garbage collectors, miners, deck, underwater workers, sweepers, service providers and salesmen	261,57	1.046
Designers, computer users, marine engineers, agents and musicians	383,64	1.046
Persons not falling under any occupational category	383,64	1.046

Payment of Social Security contribution

- The contributions that the **employer** is obliged to pay in accordance with the Law should be paid not later than the end of the calendar month following the month that the contributions relate to.
- The contributions of **self employed** are paid on a quarterly basis as follows:

Months that the contributions relate:	Date:
January - March	10 th May
April - June	10 th August
July - September	10 th November
October - December	10 th February

- Failure to pay the contributions on time leads to penalties ranging from 3% to 27% depending on the period of the delay and the amount of the contributions due.

SPECIAL CONTRIBUTIONS FOR THE EMPLOYEES, SELF-EMPLOYED INDIVIDUALS & PENSIONERS OF THE PRIVATE SECTOR

Every individual working in the private sector, either employee or self-employed, is required to pay a special contribution to the Republic in accordance with the rates specified below, effective from 1 January 2014 to 31 December 2016:

Gross monthly salary €	Special Contribution %
Up to 1.500	0
1.501 – 2.500	2,5 (with a minimum amount of €10)
2.501 – 3.500	3
over 3.501	3,5

The above contribution is calculated on the gross earnings with no restriction or maximum limit on the amount of the contribution. The special contribution is shared equally between the employee and the employer and is tax deductible for both employer and employee without any restriction.

Exemptions:

- retirement bonus
- amounts paid by provident funds
- remuneration of a foreigner who is employed by a foreign government or by an international organization
- remuneration of foreign diplomats and consular representatives who are not citizens of the Republic
- remuneration of Cypriot ship's crew
- allowances paid to employees covering business expenses on behalf of an employer

This special contribution is paid as follows:

- **Employee:** it is deducted from his/her salary and is paid to the Inland Revenue on a monthly basis similar to the Pay As You Earn (PAYE) system.
- **Self-employed:** It is paid to the Inland Revenue in three equal installments on the 1st of August, 30th of September and 31st of December.

Capital Gains Tax (CGT) is imposed on profits from the Disposal of immovable property situated in Cyprus, or shares in companies which own immovable property in Cyprus and are not listed on a recognized Stock Exchange.

The tax is imposed on the net profit from disposal at a rate of 20%. In the case of late payment of the tax due, an additional penalty at the rate of 5% is imposed on the unpaid tax.

The net profit is calculated as the disposal proceeds less the market value on 1st January 1980, or the cost of acquisition and the cost of any improvements on the property, if made after 1st January 1980, as adjusted for inflation (using the official Retail Price Index) up to the date of disposal. Expenses related to the disposal of immovable property are also deducted, e.g. transfer and legal fees.

The following expenses are not considered expenses wholly and exclusively for the production of the gain and therefore are not deductible:

- Immovable Property Tax
- Immovable Property Fees
- Sewerage Council Fees

Tax Incentive:

The (CGT) law has been amended, on 16 July 2015, to provide that gains from the disposal of immovable property (land or land and buildings) are exempt provided:

- It is acquired from date of amendment 16 July 2015 until 31 December 2016.
- Acquired through purchase or purchase agreement and not through an exchange or donation, at market value, from a non-related party.

Exemptions:

- Transfer on death
- Gifts to relatives up to the third degree
- Gift to a company whose shareholders are members of the donor's family and continue to be members of the family for a period of five years from the date of the gift
- Gift by a family company to its shareholders provided the property was originally acquired as donation, and the shareholders keep the property for at least 3 years, or they will not be entitled to the deductions listed below
- Gifts to approved charitable institutions and the Government and governmental authorities
- Exchange or disposal in accordance with the Agricultural Land (Consolidation) Laws
- Exchange of properties, provided that the whole of the gain made on the exchange has been used to acquire the other property. The gain from the exchange reduces the cost of the new property and the payment of tax is deferred until the new property is disposed.
- Gain on disposal of shares which are listed on any Stock Exchange
- Expropriations
- Transfers as a result of company re-organizations
- Principal residence (subject to conditions)

Lifetime deductions for individuals

	€
Disposal of principal private residence (subject to conditions)	85.430
Disposal of agricultural land by a farmer	25.629
Other disposals	17.086

The above deductions are given to an individual only once and not for every disposal. An individual claiming a combination of the above is only allowed a maximum of €85.430.

Immovable Property Tax is imposed to the market value as at 1st January 1980 and applies to the immovable property owned by the taxpayer (individual or company) on 1st of January of every year. This tax is payable by September 30th each year.

Tax Rates		
Property Value €	Rate %	Accumulated tax €
1 – 40.000*	0,6	240
40.001 – 120.000	0,8	880
120.001 – 170.000	0,9	1.330
170.001 – 300.000	1,1	2.760
300.001 – 500.000	1,3	5.360
500.001 - 800.000	1,5	9.860
800.001 – 3.000.000	1,7	47.260
3.000.001 and over	1,9	

*Property owners with total property value (per January 1980 values) not exceeding €12.500 are exempt from immovable property tax.

Exemptions:

The following are not subject to Immovable Property Tax:

- Public cemeteries
- Churches and other religious buildings
- Public hospitals
- Schools
- Immovable property owned by the Republic
- Foreign embassies and consulates
- Buildings of charitable organizations
- Building under Preservation Order (subject to conditions)
- Agricultural land used in farming or stock breeding, by a farmer or stock breeder residing in the area
- Immovable property in inaccessible or depressed areas
- Property of a missing person under administration

Transfer fees are calculated on the market value of the property as estimated by the Land Registry Department.

Transfer fees			
Market value €	Rate %	Fees €	Cumulative fees €
up to 85.000	3	2.550	2.550
85.001 – 170.000	5	4.250	6.800
over 170.001	8		

Transfer fees paid on the transfer of property to a family company are refunded in five years provided the company still owns the property and there have not been any changes to its shareholders.

On the transfer of immovable property from a family company to its shareholders as well as on transfers by donation between spouses, spouses and children, or relatives up to the third degree of kindred, transfer fees are calculated on the value of the property appearing on the title deed at the following rates:

Transfer to spouse – 0%
 Transfer to children – 0,1%
 Transfer to relative – 0,1%

In the case of a company re-organization transfers of immovable property are exempted from transfer fees.

Transfer fees for the period of 2/12/2011 – 31/12/2016

No transfer fees are imposed on immovable property subject to VAT. In the case the property is not subject to VAT, 50% of the normal rates are imposed. The latter applies to transactions where transfer fees apply or are due and the transfer relates to plots of land, buildings or interests in land or indivisible interests that are sold for the first time from the date of issue of the relevant building permit and the relevant contract is prepared and submitted for the first time to the Local District Land Registry during this period, irrespective of the date of title deed issuance.

The transfer of a loan to another financial institution is subject to a levy of the lower of €200 or 1% of the new mortgage.

Renewal of a loan at the same financial institution is subject to a levy of €50.

Transfer of mortgage by a company to another company due to reorganization is exempt.

A special rate on transactions carried out on the Cyprus stock exchange or on transactions that are announced to the Cyprus Stock Exchange is imposed, for both individuals and legal entities of **0,15%** which is suffered by the seller or the person announcing the transaction.

Exemptions apply on the following:

- issuance and redemption of securities by the issuer
- transactions in non-convertible corporate bonds / debentures
- transactions in bonds, development stock and Government bills of exchange
- gifts of securities between parents and children, spouses, and relatives up to the third degree kindred
- transfer of securities by reason of death

Type of document	Duty
Letters of guarantee	€4
Letters of credit	€2
Receipts	€0,07
Customs declaration documents	€18-€35
Bills of lading	€4
Bills of exchange (payable within 3 days, at sight or on demand)	€1
Charterparty document	€18
General power of attorney	€6
Special power of attorney	€2
Certified copies of contracts and documents	€2
Will	€18
Estate administration document	€9
Contracts:	
For amounts up to €5.000	0%
For amounts between €5.001-€170.860	0,15% 0,2% (max €20.000)
For amounts over €170.860	€35
Without fixed amount	
Issue of tax residency certificate by the Inland Revenue Department	€80

Transactions related to company reorganization are exempt from stamp duty.

Registration of a limited company by shares or guarantee, with share capital	€105 plus 0.6% on nominal capital
Registration of a company without share capital	€175
Registration of an increase in the company's share capital	0.6% on the additional amount of increase
Registration of issue of shares where the value of the shares issued is payable in cash or in kind	€20
Change of name of company	€40
Reduction of Capital	€80
Application for registration of a general or a limited partnership	€160
Application for registration of a business name	€120
Filing with the Registrar of the following documents:	
-Annual Report	€20
-Annual Report which is overdue	€40
-Notification of a registered mortgage on immovable property in the Republic of Cyprus irrespective of the sum of money	€20
Registration of a charge apart from a mortgage on immovable property within the Republic of Cyprus:	
On the form of notification of the charge	€40
On the charge document securing maximum amount:	
• For a sum of money up to €17.086,00	€100
• For a sum of money exceeding	€200

<p>€17.086,01 but not over €34.172,03</p> <ul style="list-style-type: none"> • For a sum of money exceeding €34.172,03 but not over €85.430,07 • For a sum of money exceeding €85.430,07 but not over €170.860,14 • For a sum of money over €170.860,14 where no amount is mentioned 	<p>€340</p> <p>€500</p> <p>€600</p>
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All companies registered in Cyprus are required to pay an annual levy of €350 no later than the 30th of June of each year, including their year of incorporation.

In the case of a group of companies the total amount of levies to be paid by all members of the group shall not exceed €20.000.

Penalties:

Late payment of the special levy is penalized as follows:

- in case of a delay of up to 2 months a penalty of 10% is imposed
- in case of delay between 2 – 5 months a penalty of 30% is imposed

Non payment of the levy may result in deregistration (strike-off) of a company by the Cyprus Registrar of Companies.

If the company is struck-off, it may be reinstated within two years by the Registrar of Companies upon payment of €500 (in addition to the outstanding amount of the levy). In such case the reinstatement will be automatic and the Registrar shall re-enter the company in the Register.

In case the company is not reinstated within two years from the date on which it was struck-off, the Registrar shall again make the relevant entry in the Register and reinstate the company but the amount payable for this shall be €750 (in addition to the outstanding amount on the special levy).

VAT is imposed on the provision of goods and services in Cyprus, on the supply of goods from other European countries, and on the importation of goods from other countries.

Taxable persons charge VAT on their taxable expense (output tax) and are charged VAT on goods and services which they receive (input tax).

If output tax in a VAT period exceeds input tax, a payment has to be made to the state. If input tax exceeds in a period output tax the excess input tax is carried forward as a credit set off against future output VAT.

Intra-community trade

In the case of intra community acquisitions, the trader does not pay VAT on receipt of the goods in Cyprus but instead accounts for VAT using acquisition accounting. This involves simple accounting entry in the books of the business whereby it self charges VAT and at the same time claims it back if it relates to taxable supplies, thus not creating any cost to the business.

In cases where the acquisition relates to an exempt transaction, the trader must pay the VAT that corresponds to the acquisition.

Rates

standard rate	19%
reduced rate	9%
reduced rate	5%
zero rate	0%

Standard rate:

The standard rate applies to the provision of any goods and services in Cyprus that are not subject to the zero rate, the reduced rate or are not exempt.

Reduced rate 9%:

The reduced rate of 9% applies to:

- All restaurant services and other catering services (including the supply of alcohol, beer, wine and soft drink)
- Accommodation in hotels, tourist lodgments and any other similar lodgments including the provision of holiday lodgments.
- Transportation of passengers and their accompanying luggage within the Republic using urban, intercity and rural taxis and by tourist intercity buses
- Movement of passengers in inland waters and their accompanying luggage

Reduced rate 5%:

The reduced rate of 5% applies to:

- The supply of food stuff
- The supply of food stuff for animal
- The supply of live animals used for the preparation of food
- Books, newspapers and magazines
- The supply of pharmaceutical products and vaccines for medical and veterinary purposes
- Entry fees to theatres, circus, festivals, Luna parks, concerts, museums, zoos, cinemas, exhibitions etc.
- Entry fees at sports events and fees for using athletic centers
- Hairdressing services
- Repair and maintenance of private households after 3 years of initial residence
- Supply of food in the school canteens
- Acquisition or construction of residence as from October 1st 2011 (subject to conditions)

Zero rate:

The zero rate applies to:

- Export of goods
- Transportation of passengers and goods in and out of the Republic, via aircrafts and seagoing vessels
- Supply, modification, repair, maintenance, chartering and hiring of aircrafts used by airlines operating for reward mainly on international routes
- Ship management services
- Supplies of gold to the Central Bank of the Republic etc
- Supply of services to meet the direct needs of vessels and aircrafts

Exemptions:

The following goods and services are exempt from VAT:

- Rental income from immovable property (the rental of property with the right to purchase is not exempt)
- Financial services (some exemptions apply)
- Hospital, medical and dental services

- Postal services
- Insurance services
- Building land and second hand buildings
- Disposal of immovable property where the application for building permit has been submitted to the authorities prior to May 1st 2004
- Management services to mutual funds
- Educational services at all levels of education under some conditions

Irrecoverable input VAT

Input VAT cannot be recovered in the following cases:

- Acquisitions used for making exempt supplies
- Purchase or import or hire of saloon cars
- Entertainment and hospitality expenses (except those relating to employees and directors)
- Housing expenses of directors

Registration

Every individual is obliged to register if:

- at the end of any month, the value of the taxable supplies recorded in the last 12 months exceeds €15.600 or
- at any point in time the value of taxable supplies are expected to exceed €15.600 in the next 30 days
- services are provided to a VAT registered person within the European Union with nil registration threshold
- distant sales are offered with registration threshold of €35.000
- is involved in the acquisition of goods from other European member states and relates to persons who offer exempt supplies of goods and services or are non profitable organizations with registration threshold of €10.250
- zero rated goods and services are supplied
- a company on a going concern basis is acquired

Businesses with a turnover of less than €15.600 can be registered voluntarily if they are trading in taxable supplies.

VAT returns and payment

VAT returns must be submitted on a quarterly basis and the payment of the VAT must be made within 40 days from the end of each quarter.

Administration of intra-community trade and intra-community services

Suppliers

1. Complete the VIES return form on a monthly basis. The VIES form is submitted within 15 days after the end of the relevant month by electronic filing only.
2. Complete the Intrastat return form for supply of goods on a monthly basis.
3. Record intra-community supplies on the VAT return form.
4. Include the EU VAT number of the buyer in the invoice.

Buyers

1. Complete the Intrastat return form for acquisition of goods on a monthly basis. The Intrastat return forms are submitted within 10 days after the end of the relevant month in electronic form only (as from July 2012).
2. Record intra-community acquisitions on the VAT return form.
3. Inform the supplier of their EU VAT numbers prior to the issuance of the invoice.

Penalties and Interest

Late registration	€85 for every month of delay
Late submission of return	€51 for each return
Late payment of VAT	10% of amount due plus interest
Late de-registration	€85 one-off
Late submission of Intrastat form	€15 for each return form
Late submission of VIES form	€50 for each return
Late submission of corrective VIES form	€15 for each return

For every individual, company or partnership engaging in any type of business activity, profession or vocation, or any other occupation generating income the following apply:

- Issue receipts and invoices (within 30 days from the date of transaction)
- In case of a business maintaining stocks, annual stock takes are compulsory
- maintain accounting books and records which must be updated by the end of the 4th month following the month to which they relate
- an individual having annual turnover of less than €70.000 does not have an obligation to maintain books and records

The commissioner of Income Tax can inspect business premises with reasonable notification.

In the case where invoices are not issued within the deadlines stated above a penalty of €100 per month is imposed, as from 1.1.2012

Also in the case that books and records are not updated within the deadlines stated above a penalty of €100 per month will be imposed, as from 1.1.2012. Books and records must be kept for a period of at least 6 years.

Based on the amendments of the Cyprus Companies Law, Cap. 113 which have been issued in the Government Gazette on 14 August 2007 and are effective from that date, financial statements should be prepared in accordance with IFRSs as adopted by the EU and the Cyprus Companies Law, Cap. 113.

The amendments provide more flexibility to preparers since the Cyprus Companies Law, Cap. 113 (as permitted by the EU 7th Directive) allows companies the following which are not generally allowed by the IFRSs as issued by the International Accounting Standards Board (IASB):

- A company need not prepare consolidated financial statements if it qualifies as a small group (see limits below);
- A company need not prepare consolidated financial statements, even if not a small group, if its parent company or ultimate parent company prepares consolidated financial statements in accordance with Generally Accepted Accounting Principles which are accepted by recognized Stock Exchange authorities of countries which are members of the International Organization of Securities Commission (IOSCO).

To qualify for the consolidation exemption, a Group needs to meet at least 2 out of the following 3 criteria on a consolidated basis. In other words, the group's consolidated accounts must meet at least 2 out of the 3 criteria below:

- Turnover not exceeding Euro 35,0m
- Total Gross Assets not exceeding Euro 17,5m
- Total Employees not exceeding 250

The administrative penalties apply to most of the Tax Laws as well as to the Capital Gains Tax Law and the Immovable Property Tax Law and they will apply from 1 July 2011 onwards as follows:

- Delay in the submission of tax returns in accordance with the tax deadlines will be subject to €100 penalty.
- Failure or delay in submission of returns to the Inland Revenue Department in accordance with the tax deadlines and failure to comply within the specified period with the written notice for compliance issued afterwards by the Commissioner of the Inland Revenue will be subject to €200 penalty.
- Failure or delay in submission of information requested by the Commissioner of the Inland Revenue Department within the specified period will be subject to €200 penalty (no Tax deadline exists in this case).
- Third party failing to comply with the tax deadline set by the Commissioner of the Inland Revenue in respect of the provision of information will be charged with €100 penalty.
- Failure to pay the due or withheld taxes in accordance with the tax deadlines as set by the Inland Revenue Department will result in additional tax equal to the 5% of the tax due.

ACS Accountserve Ltd. has taken all reasonable care to ensure the information provided in this booklet is accurate to the date of publication. The information contained herein is a summary of the Cyprus Legislation and is designed to increase general awareness of the Cyprus Tax System. For explanations/clarifications or professional advice please contact us at info@acs.com.cy tel. 22777012 fax. 22772543, Alkaiou 24, 1st floor, 2064 Strovolos, Nicosia, CYPRUS.