

2023

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CYPRUS TAX FACTS

GET IN TOUCH:
www.acs.com.cy
info@acs.com.cy

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INCOME TAX

Personal Taxation

Income tax is a tax levied on the individuals by reference to their taxable income for a tax year.

Taxable income is an individual's total income liable to income tax (i.e. not specifically exempt) less deductible amounts.

Income tax is calculated on the taxable income earned in a tax year.

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

Tax Residence in Cyprus

- **“Resident in Cyprus”** applied to individuals, means an individual who is present in the Republic for period exceeding 183 days in total in a tax year.
- Where a person is resident in Cyprus, for each tax year, tax is imposed on income accruing or arising from sources both within and outside the Republic.
- Where a person is not resident in the Republic, for each tax year, tax is imposed on the income accruing or arising from sources within the Republic.

An individual can be a tax resident of the Republic even if he/she spends less than or equal to 183 days in the Republic provided that he/she satisfies all of the following conditions within the same tax year (1 January-31 December):

- Does not spend more than 183 days in any other country;
- Is not a tax resident of any other country;
- Spends at least 60 days in the Republic;
- Maintains a permanent home in the Republic that is either owned or rented;
- Carries on business in the Republic, is employed in the Republic or holds an office in a person who is a tax resident of the Republic at any time during the year.

If the employment/business or holding of an office is terminated during the year, then the individual would cease to be considered a Cyprus tax resident of the Republic for that 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:

<ul style="list-style-type: none"> Interest income <i>(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)</i> 	The whole amount
<ul style="list-style-type: none"> Dividend income 	The whole amount
<ul style="list-style-type: none"> First employment exemption in accordance with article 8(21)A Remuneration from any office or employment exercised in Cyprus, which commenced after 26 July 2022 and until the year 2027, by an individual who was employed outside the Republic by a non-CY tax resident employer for 3 consecutive years immediately before the commencement of the employment, so called "First Employment Exemption". (Note 1 to Note 3) 	20% of the remuneration or €8,550 (whichever is lower)
<ul style="list-style-type: none"> Employment exemption in accordance with article 8(23)A Remuneration from any office or employment exercised in Cyprus, by an individual who was a resident of the Republic for at least 15 consecutive years immediately before the commencement of employment, provided that the remuneration from such employment exceeds €55.000. (Note 3 to Note 5) 	50% of the remuneration
<ul style="list-style-type: none"> "90 Days Rule" Remuneration from salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-resident employer or to a foreign permanent establishment of a 	

Cyprus resident employer, the relevant emoluments are exempted.	The whole amount
<ul style="list-style-type: none"> Profits from a permanent establishment maintained outside the Republic <i>(subject to conditions)</i> 	The whole amount
<ul style="list-style-type: none"> Lump sum repayment from life insurance schemes or from approved provident funds. 	The whole amount
<ul style="list-style-type: none"> Lump sum received by way of retiring gratuity, commutation of pension, death gratuity, or as a lump sum compensation for bodily injury. 	The whole amount
<ul style="list-style-type: none"> Gains arising from a loan restructuring (Note 6) 	Up to the whole amount
<ul style="list-style-type: none"> Rental income from preserved buildings <i>(under certain conditions)</i> 	The whole amount
<ul style="list-style-type: none"> Foreign exchange (FX) gains, with the exception of FX gains arising from trading in foreign currencies and related derivatives. <i>(Persons trading in FX have an option to make an irrevocable election to be subject to tax only on realized FX differences).</i> 	The whole amount
<ul style="list-style-type: none"> Gains arising from the disposal of Securities (Note 7) 	The whole amount
<ul style="list-style-type: none"> Capital gain from the disposal of intellectual property rights under the new IP regime. (Note 8) 	The whole amount

Deductions

In general terms, all expenses incurred wholly and exclusively for the production of taxable income are deductible. Such expenses include the following:

Interest paid for the acquisition of fixed assets for the business	100%
Expenses for the letting of premises	20% of the gross 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 <i>(subject to conditions)</i>	Depending on size of the building
Donations to approved charitable institutions. <i>(with receipts)</i>	100%
Donations to political parties (subject to conditions)	Up to €50,000
Investment in an innovative small/ medium sized business <i>(subject to conditions)</i> (Note 9)	Up to 50% of a taxable income (capped at €150.000)
Expenditure for scientific research including research and development undertaken by an innovative business. (Note 10)	The whole amount
Expenditure for on film infrastructure and technological equipment <i>(subject to conditions)</i>	Up to 20%

Non-allowable expenses

Expenses which have not incurred wholly and exclusively for the production of income are disallowed for tax purposes.

Further on, certain expenses are specifically disallowed as per the tax legislation of Cyprus, such as:

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)
Private motor vehicle expenses	The whole amount
Professional Fees related to capital items	The whole amount
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 provision does not apply after the laps of 7 years from the date of purchase of the relevant asset.	The whole amount
Expenditure which is not supported by invoices / relevant receipts or other supporting documentation	The whole amount
Wages and salaries 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. 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.	The whole amount

Appropriations of profits	The whole amount
Capital Expenditure	The whole amount
Tax Payments	The whole amount
General Provisions	The whole amount
Excess Borrowing Cost (EBC) which exceeds 30% of earnings before interest, tax, deductions and additions in respect of fixed and intangible assets used in the business (EBITDA) is not deductible for the purpose of calculating the taxable income of a company. By derogation from the above rule, the EBC is deducted up to the amount of €3.000,000 per fiscal year, per company or Cypriot group, as the case may be. Other exceptions may also apply.	Up to the whole amount

Personal Allowances

Social Insurance Contributions, contributions to the General Healthcare System and approved pension funds, provident fund, and medical schemes (the allowable annual life insurance premium is restricted to 7% of the insured amount.)

Up to 1/5 of the taxable income before these deductions

Premiums on cancelled policies recaptured as taxable income equal to 30% if the cancellation is within 3 years and 20% if the cancellation is made in the 4th, 5th, or 6th year.

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 a 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.

Benefits

Benefits provided to an employee or to a member of his/her family either in cash or otherwise, are subject to income tax. Detailed guidance on the practical application of benefits in kind has been issued by the Tax Department, through an informative leaflet available on the Tax Department website.

Capital allowances

The same capital allowances available for companies are also applicable to individuals who prepare accounts (*see page 18-19 for capital allowances rate*).

Tax Losses

Loss Relief

The amount of Loss can be set off against an individual's income from other sources for that year of assessment or the amount of remaining loss can be carried forward and set off against such taxpayers' income for subsequent years.

The loss relief must be set off against the first available profits of the following years.

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.

Restrictions to loss relief:

- No carry-back of losses is allowed.
- A loss claim must be for the whole loss, no part loss claim is allowed.
- A loss created by reason of donations or contributions cannot be carried forward.

- If the tax return of the relevant year of assessment was submitted on a delay more than six years, the corresponding tax loss cannot be claimed as a loss relief.
- A loss claim must be made within five years from the year in which the loss incurred.

Losses of a Permanent Establishment

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.

CORPORATE TAX

Corporation tax is a tax levied on companies by reference to their taxable income for a tax year. Taxable income is a company's total income liable to corporation tax (i.e., not specifically exempt) less certain deductible amounts calculated on taxable income which is earned in the tax year.

Tax resident in the Republic is a company that is managed and controlled in Cyprus, or it is incorporated or registered in the Republic but is managed and controlled from outside the Republic, as long as the company is not considered a tax resident of any other country (applies from 31 December 2022). Where a company is resident in Cyprus, for each tax year, tax is imposed on income accruing or arising from sources both within and outside the Republic. Where a company is not resident in the Republic, for each tax year, tax is imposed on the income accruing or arising from sources within the Republic.

Tax Rate

Companies	12.5%
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Exemptions from Corporate Tax

Interest Income <i>(Interest arising from the ordinary course of business or closely connected to the ordinary course of business, and interest from closed-ended or open-ended collective investment schemes is considered trading profit and is not exempt)</i>	The whole amount
Dividend income <i>(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 defense contribution purposes)</i>	The whole amount

Profits from the disposal of securities (Note 7)	The whole amount
Profits from a permanent establishment abroad <i>(some conditions apply)</i>	The whole amount
Foreign Exchange (FX) gains with the exception of FX gains arising from trading in foreign currencies and related derivatives. <i>(Persons trading in FX have an option to make an irrevocable election to be subject to tax only on realized FX differences)</i>	The whole amount
Gains arising from a loan restructuring (Note 6)	Up to the whole amount
Rental income from a building under preservation order <i>(some conditions apply)</i>	The whole amount
Income of a company which operates in Cyprus in the audio-visual industry. <i>(subject to conditions)</i>	Up to 50%
Capital gain from the disposal of intellectual property rights under the new IP regime (Note 8)	The whole amount

Deductions

Expenses	Exemption Limit
Donations to approved charitable institutions. <i>(with receipts)</i>	The whole amount
Donations to political parties <i>(subject to conditions)</i>	Up to €50,000
Notional Interest Deduction (NID) on new equity. (Note 11)	Up to 80% of the taxable profit derived from assets financed by the new equity (as calculated prior to the NID deduction)
Employers Contributions to social insurance and approved funds on employees' salaries	The whole amount
Expenditure for scientific research including research and development undertaken by an innovative business.	The whole amount

(Note 10)	
Expenditure incurred for maintaining a building under preservation order. <i>(subject to conditions)</i>	Depending on size of the building
Interest on loans to acquire fixed assets used in the business	The whole amount
Expenditure on film infrastructure and technological equipment <i>(subject to conditions)</i>	Up to 20%
Investment in an innovative small/medium sized business <i>(subject to conditions)</i> (Note 12)	Up to 30% of the invested amount (capped at €150.000)
Benefits provided to an employee and/ or their family members that have been taxed in the hands of the employee.	The whole amount

Non-deductible expenses

Private motor vehicle expenses	The whole amount
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 provision does not apply after the laps of 7 years from the date of purchase of the relevant asset.	The whole amount
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)

Interest expense incurred for the acquisition of a wholly owned subsidiary company is a deductible expense for income tax purposes if the 100% subsidiary company does not own (directly or indirectly) any assets that are not used in the business. If the subsidiary owns (directly or indirectly) assets not used in the business, then the interest expense deduction is restricted to the amount which relates to assets used in the business.

The whole amount

Expenditure not supported by invoices or invoices or other documentation

The whole amount

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.

The whole amount

In the case the above contributions are settled within two years from the due date, such wages & salaries will be tax deductible in the year they were paid.

Excess Borrowing Cost (EBC) which exceeds 30% of earnings before interest, tax, deductions and additions in respect of fixed and intangible assets used in the business (EBITDA) is not deductible for the purpose of calculating the taxable income of a company. By derogation from the above rule, the EBC is deducted up to the amount of €3.000,000 per fiscal year, per company or Cypriot group, as the case may be. Other exceptions may also apply.

Up to the whole amount

Losses

Loss Relief

The amount of Loss can be set off against an individual's income from other sources for that year of assessment or the amount of remaining loss can be carried forward and set off against such taxpayers' income for 5 subsequent years.

The loss relief must be set off against the first available profits of the following years.

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.

Restrictions to loss relief:

- No carry-back of losses is allowed.
- A loss claim must be for the whole loss, no part loss claim is allowed.
- A loss created by reason of donations or contributions cannot be carried forward.
- If the tax return of the relevant year of assessment was submitted on a delay of more than six years, the corresponding tax loss cannot be claimed as a loss relief.
- A loss claim must be made within five years from the year in which the loss incurred.
- If within three years there is a change in the ownership, and a substantial change in the nature of the business.
- If at any time since the scale of the company's activities has diminished or has become negligible and before any substantial reactivation of the business, there is a change in the ownership of the company's shares.

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.

Losses of a Permanent Establishment

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 foreign tax paid on income subject to income tax in Cyprus is credited against any Cyprus income tax payable on such income, irrespective of the existence of a tax treaty.

Re-organizations

Transfers of assets and liabilities between companies can be affected 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/ Transfer of registered office
- Exchange of shares

Anti – Tax Avoidance Provisions

The following anti-tax avoidance provisions have been introduced in the Income Tax Law as a result of the adoption of the EU Council Directive 2016/1164 of 12 July 2016

laying down rules against tax avoidance practices that directly affect the functioning of the internal market.

Controlled Foreign Companies (CFCs)

The non-distributable income of a Controlled Foreign Company (CFC) or of a foreign permanent establishment arising from non-genuine arrangements is added to the taxable income of the controlling company resident in the Republic, subject to certain exceptions.

(effective from 1 January 2019.)

Any foreign tax paid on the income of the CFC is credited against income tax payable in the Republic.

General Anti – Abuse rule (GAAR)

The GAAR provides that for the purposes of calculating the corporate tax liability, an arrangement or a series of arrangements which are non-genuine shall be ignored. Non-genuine arrangements which are not put into place for valid commercial reasons that reflect economic reality.

Exit taxation

In certain cases, when a taxpayer moves assets (e.g., from head office to permanent establishment or vice versa) or its tax residence out of the Republic, the taxpayer shall be subject to tax on an amount equal to the market value of the transferred assets, at the time of exit, less their value for tax purposes.

The taxpayer has the right to defer the payment of the exit tax by paying it in instalments over five years.

(Application date: 1 January 2020)

Hybrid mismatches

Hybrid mismatches rules may apply to deny a deduction or tax an income in the Republic, to the extent hybrid mismatches result in double deduction or deduction without inclusion or no taxation without inclusion.

(Application date: 1 January 2020)

CAPITAL ALLOWANCES

Annual wear and tear allowances on fixed assets

Plant and Machinery	%
Plant and Machinery *	10
Furniture & Fittings*	10
Water drillings, industrial carpets, video records *	10
Forklifts, excavators, loading vehicles, bulldozers and oil barrels	25
Motor vehicles of all types except private saloon cars	20
Personal computers (hardware) and operating software	20
Application software	
• Up to €1,709	100
• Above €1,709	33 1/3
Machinery & Tools Used in Agriculture *	15
*if acquired between 2012-2018	20
Buildings	%
Commercial Buildings	3
Industrial, Agricultural & Hotel Buildings **	4
Metallic Greenhouse Structures	10
Wooden Greenhouse Structures	33 1/3
**if acquired between 2012-2018	7
Ships	%
Steamships, tugboats and ships used in the fishing industry	6
Sailings vessels	4 1/2
Ship launching machinery	12 1/2
Used ships	In accordance with special agreement
New commercial ships	8
New Passenger ships	6

Used commercial and passenger ships and capital additions	Over their useful life
Specialized fixed assets	%
Armored cars (used by businesses which provide security services)	20
Motor yachts	6
Wind generators (the cost should include the cost of installation reduced by any amount of subsidy received)	10
Photovoltaic systems (the cost should include the cost of installation reduced by any amount of subsidy received)	10
New airplanes	8
New helicopters	8
Specialized machineries for rail roading (e.g., Locomotive engines, container wagon and container sleeper wagon, Ballast wagon)	20
Tools	%
All tools in general	33 1/3
Intangible assets	%
Intangible assets with certain exceptions [The capital cost of any intangible asset, excluding goodwill, is tax deductible as a capital allowance over the useful economic life of the asset, as determined by acceptable accounting principles (with maximum useful life of 20 years)]	5-100

Arm's length Principle

The arm's length principle, i.e. the principle that conditions made or imposed in transactions between associated persons should be similar to those observed and applied between independent persons, is codified in Section 33 of the Income Tax Law.

Transfer Pricing Documentation

Comprehensive transfer pricing documentation requirements apply to Cyprus taxpayers as from 1 January 2022 and include:

- Maintaining a Cyprus Local File if the aggregated value of transactions with related parties per tax year exceed (or should exceed based on the arm's length principle) €5.000.000 for financial transactions and €1.000.000 for all other transactions, such as goods, services, IP related income etc, per category of transaction.
- Maintaining a Master File if the Cyprus taxpayer is either the Ultimate Parent Entity or the Surrogate Parent Entity of an MNE Group with consolidated group revenues exceeding €750 million for Country-by-Country Reporting purposes.
- The preparation and submission of a Summary Information Table ('SIT') by all taxpayers. The SIT contains high level information on related party transactions, such as the identity of the counterparties, their jurisdiction of tax residency and the value of the transactions.

The Transfer Pricing Documentation rules apply to all Cyprus tax resident companies, as well as permanent establishments of non-resident companies.

Cyprus Companies with transactions that **do not exceed the threshold**, are not obliged to prepare a Local File, but need to maintain minimum documentation to support the arm's length nature of their related party transactions.

Simplification measures can apply to the following transactions.

- **Financing granted to related parties financed by borrowings (back-to-back):** minimum pre-tax net return (margin) of 2.5%
- **Financing provided to related parties financed out of own equity:** minimum return (interest rate) equal to the ten-year government bond yield rate of the jurisdiction in which each borrower operates increased by 3.5%
- **Financing obtained from related parties to the extent it is used in the business:** Maximum return (interest rate) equal to ten-year government bond yield rate of the Republic of Cyprus increased by 1.5%.
- **Low Value Adding Services (provided or received):** mark-up applied on the relevant costs at least 5% (for services provided) / mark-up applied on the relevant costs that does not exceed 5% (for services received)

Reporting Deadlines and Record Keeping

The Local File (and Master File, if relevant) for a particular year should be prepared no later than the due date for submitting the taxpayer's Corporate Income Tax Return for that year.

Upon request by the Cyprus Tax Department, the Local File (and Master File, if applicable) should be made available within 60 days from the receipt of the relevant request by the taxpayer or by a person authorised to act as a representative of the taxpayer.

The SIT should be prepared for each separate tax year and be submitted to the Cyprus Tax Department, along with the taxpayer's Corporate Income Tax Return for that year.

Penalties

Where a taxpayer has received a notice from the Cyprus Tax Department to provide the Local file and/or Master File and fails to do so within the required timeframe of 60 days, penalties ranging from €5.000 to €20.000 will apply depending on the length of the delay.

In the cases where a taxpayer fails to submit a SIT, a penalty of €500 will be imposed.

SPECIAL MODES OF TAXATION

Shipping Companies

The following are exempt from taxation in accordance with the provisions of the Merchant Shipping (Fees and Taxing Provisions) Law and are subject to tonnage tax:

- The income of a qualifying ship-owner from the operation of qualifying Cyprus, community and/or foreign (under conditions) ship, in a qualifying shipping activity.
- The income of a qualifying charterer from the operation of a qualifying Cyprus, community and/or foreign (under conditions) ship, in a qualifying shipping activity.
- The income of a qualifying ship operator from the provision of ship management services of the crew and/or technical administration services.
- Dividends paid directly or indirectly from the profits mentioned above.
- Salaries or other benefits paid to the masters, officers and the crew of qualifying Cyprus ship in a qualifying shipping activity.

For the purpose of the above-mentioned Law in the case of a Cyprus ship, the term "ship owner" includes also the bareboat charterer.

Insurance Companies

Insurance Companies other than Life

- The income of these companies is calculated under a special mode of taxation as described below. The deduction of head office expenses is allowed:
 - If the head office is situated outside Cyprus
 - The deduction is capped at 3% of premiums arising in Cyprus net of re-insurances given.

Tax Loss:

- Relieved within the same tax year
- Carried forward and relieved against the first available profits.

Life insurance Companies

The income of these companies is calculated as per below special mode of taxation:

- Life insurance companies are subject to a minimum tax of 1,5% of the gross premiums.
- Deduction of head office expenses is allowed If the head office is situated outside Cyprus and when the deduction is capped at 2% of premiums arising in Cyprus net of the re-insurances given.

Tax Loss:

- Relieved within the same tax year
- Carried forward and relieved against the first available profits.

Pensions from Overseas

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. The taxpayer has the right to be taxed either under the special mode of taxation as stated above or under the personal income tax rates. If the latter is chosen, the pension is added to the individual's taxable 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 (unless a tax treaty provides for a lower tax rate).

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 taxpayer 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% (unless a tax treaty provides for a lower tax rate).

Variable remuneration of individuals employed in the Funds industry

The variable remuneration of employees of:

- An Alternative Investment Fund (AIF) Manager or self-managed AIF, or
- A Management company for Collective Investments in Transferable Securities (UCITS),

which is connected to the carried interest, is taxed at the flat rate of 8% with a minimum tax liability of € 10.000 per annum (subject conditions). Qualifying employees can elect to be taxed under this special mode of taxation on an annual basis for a 10-year period or otherwise be taxed in accordance with the personal income tax rates.

Income from technical assistance

The gross income arising from sources within the Republic, as consideration for technical assistance provided by any person who is not resident in the Republic, is subject to a 10% withholding tax. Such income is exempt from withholding tax if the services are provided by a permanent establishment in Cyprus.

Payment of tax withheld

Tax withheld on payments to non-Cypriot residents should be paid to the Tax Department by the end of the following month.

In case where the tax withheld is not paid within the deadline, an additional penalty of 5% is imposed on the tax withheld in addition to any interest that may be imposed.

SPECIAL CONTRIBUTION FOR THE DEFENCE FUND

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.

Income subject to Special Defence

	Rates %
Dividend income from Cyprus resident companies (Note 13)	17
Interest Income (Note 14)	30
Interest received by an individual from Government Savings Certificates and Government Bonds, corporate bonds listed on a recognized Stock Exchange and bonds listed on a recognized Stock Exchange , that are issued by a local authority or State organization.	3
Interest earned by an approved provident fund	3
Interest earned by the Social Insurance Fund	3
Rental income less 25% (Note 15)	3

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 have 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 defence 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.

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 aggregate profits of the last five years prior to a company's dissolution, which have not been distributed or deemed to be distributed, will be considered as distributed on dissolution and will be subject to SDC.

Companies that are under voluntary dissolution or liquidation are obliged to submit within one month from the date of the approval of the resolution, a deemed dividend declaration and pay any SDC in relation to the profits of the specific tax year and the two preceding years.

The deemed dividend distribution provisions do not apply on any accounting profits arising during the dissolution or liquidation if the assets of the company are not sufficient for the repayment of its creditors and no amount is available to be distributed to its shareholders.

Where assets are distributed to the company's shareholders upon the company's liquidation or dissolution, which have a market value that exceeds the cost of their acquisition by the company, the deemed distribution provisions will apply. The amount of the dividend that is deemed to be distributed to its shareholders will be equal to the difference between the market value of the assets and the cost of acquisition of the particular asset by the company.

The deemed dividend distribution of profits that become realized upon the company's dissolution or liquidation may not exceed the amount of the net assets distributed to the shareholders.

These provisions do not apply in the case of dissolution under reorganization, in accordance with certain prerequisites set out in the relevant Regulations, or where the shareholders are not resident or non-domiciled in the Republic.

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).

The buyback or redemption of units or other ownership interests in an opened-ended or closed-ended collective investment scheme is not considered a capital reduction and is not subject to SDC.

SOCIAL SECURITY CONTRIBUTIONS

Contributions

	%
Employer	8,3
Employee	8,3
Self-Employed	15,6

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

	Weekly €	Monthly €	Yearly €
Weekly Employees	1.155		60.060
Monthly Employees		5.005	60.060

Upper limits are adjusted in accordance with 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

	Lower Weekly Limit €	Upper Weekly Limit €
Self - employed	depends on the occupational category	1.155

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.
- Payments are made via the online portal for the payment of social insurance contributions, SISnet.
- 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.
- Late payments of contributions can also be made via the online portal of social insurance, SISnet.

Contributions to the National Health System (NHS)

NHS contributions are calculated and paid as percentage on the gross emoluments/ pensions as follows:

	01/03/2020 onwards
Employees/ Retirees/income earners	2.65%
Employers	2.90%
Self-employed	4.00%
The State	4.70%
The State or natural/ legal person responsible for the remuneration of Officers	2.90%

For the purposes of calculating the National Health contributions the gross emoluments are limited to €180.000 per annum.

CAPITAL GAINS TAX

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

Temporary Exemptions

Exemption of capital gains on chargeable property acquired from 16.07.2015 until 31.12.2016

A capital gain arising from the disposal of chargeable immovable property consisting of land, land with building or land with buildings is exempt, provided that such immovable property has been acquired:

- within the period from 16.07.2015 to 31.12.2016
- by purchase or agreement for purchase, as its market value from a non-connected person and not by way of exchange or gift

the exemption is not given on the disposal of properties that were obtained as a result of a default of the owner on his/her mortgage. This last provision will not allow the properties that are auctioned by credit institutions as a result of repossession to benefit from the exemption.

Standard Exemptions

- Transfer on death
- Gifts to relatives up to the third degree
- Gifts from a foster parent to a foster child
- 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)
 - Transfer of property of a missing person under administration
 - Transfer of ownership between spouses that their marriage has been dissolved by a court order or in case of transfer of ownership between the same persons for the purpose of settling their property according to the Settlement of Property Relationships between Spouses Law.
- Transfer under a qualifying loan “Restructuring” (subject to conditions)

(Note 8)

- Transfer of shares listed on a recognised stock exchange as well as disposal of units in an Alternative Investment Fund (AIF) or Open – Ended Undertaking for Collective Investment (UCITs), whose establishment and operation is governed by the respective Cypriot laws on AIFs and UCITs, that are listed on a recognised stock exchange.

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.

LEVY OF 0.4% ON IMMOVABLE PROPERTY

For the purposes of providing financial support to the owners of immovable property that is inaccessible or its economic exploitation is practically or legally impossible as a result of the Turkish invasion, as of 22 February 2021 a levy of 0,4% is imposed as follows:

- on the sale of immovable property, for which a general value has been determined by the Department of Lands and Surveys, the seller shall pay a levy equal to a percentage of 0,4% of the sale proceeds; and
- on the sale of shares of a company, which is not listed on a recognised Stock Exchange, and which directly or indirectly owns immovable property for which a general value has been determined by the Department of Lands and Surveys, the seller shall pay a levy equal to a percentage of 0,4% on the latest valuation of the immovable property by the Department of Lands and Surveys, corresponding to the shares of the company that are being sold.

IMMOVABLE PROPERTY TAX

Immovable property tax is abolished as from 1 January 2017 for the tax year 2017 and for each subsequent year.

TRANSFER FEES ON IMMOVABLE PROPERTY

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		

The above rates are reduced by 50% except in the case of transfers under Part VI and Part VIA of the Transfers and Mortgages of Immovable Property Law.

In the case of free transfer fees are calculated on the value of the property as of 1 January 2013 at the following rates:

Transfer to spouse – 0,1%

Transfer to children – 0%

Transfer to relative – 0,1%

Exemptions from transfer fees

The following transfers are exempt from transfer fees:

- Under a qualifying reorganization
- Under a qualifying loan Restructuring (**Note 8**)
- In the context of bankruptcy, liquidation, disposal of mortgage immovable property by the lender, where the sales proceeds do not exceed the amount of €350,000 per owner
- Transfers that are subject to VAT.

STAMP DUTY

Type of Document	Duty
Letters of guarantee	€4
Letters of Credit	€2
Receipts	€0,07
Custom 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-€170.000	0,15%
For amounts over €170.000	0,2% (Max €20.000)
Without fixed amount	€35
Issue of tax residency certificate by the Inland Revenue Department	€80

Transactions related to company reorganization are exempt from stamp duty.

SPECIAL LEVY

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*).

VALUE ADDED TAX

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 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%
Newly introduced VAT rate	3%
Zero rate	0%

Standard rate 19%:

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
- Provision of services and supply of goods by nursing homes, which are not exempt transactions.

Reduced rate 5%:

The reduced rate of 5% applies to:

- The supply of food stuff
- The supply of prepared or unprepared foodstuff and/ or beverages (excluding alcoholic drinks, beer, wine and soft drinks) or both, irrespective of whether the goods are delivered from the supplier to the customer or taken away by the customer
- 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
(subject to conditions)

Reduced rate 3%

As of 21 July 2023, a new reduced VAT of 3% VAT was introduced on certain goods and services such as:

Goods

- Books, newspapers, and periodicals supplied either on physical means of support or electronically, or in both formats (including leaflets, brochures and similar printed material, children's picture books, drawing and coloring books, printed or sheet music, and maps and hydrographic or similar charts) with the exception of publications wholly or predominantly devoted to advertising, and publications wholly or primarily consisting of video content or audible music; and the production of publications for nonprofitmaking organizations and related services (combined nomenclature (CN) codes 49.01 and 49.05).
- Audiobooks for disabled persons (CN code 85.23).
- Special lifting appliances (e.g., ladders, lifts, handicapped lifts) used to accommodate disabled persons (CN code 84.28).
- Wheelchair-type buggies and other vehicles for disabled persons, whether equipped with a motor or other propulsion device (CN code 87.13).
- Certain orthopedic items and appliances; splints, supports, and other fracture items and devices; certain prosthetic items; and certain devices (but excluding their parts and accessories) to facilitate hearing and other medical devices or implants (CN code 90.21).

Services

- Street cleaning, refuse collection, and waste treatment services, excluding services provided by public authorities, local authorities, and bodies governed by public law.
- Disposal and treatment of wastewater and evacuation of septic and industrial tanks.

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
- International passenger transportation to the extent it takes place within Cyprus territory.

Exemptions:

The following goods and services are exempt from VAT:

- Rental income from immovable property for residential purposes
- 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 condition

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 is 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
- is established abroad and makes distance sales of goods to Cyprus (i.e., sales of goods to individuals in Cyprus from abroad) which exceed €10.000 and does not opt to make use of the simplified One Stop Shop (OSS) scheme
- is established in Cyprus and performs cross border sales of goods and certain services to individuals established in other EU Member States and the value of these sales exceeds €10.000.

As from 20 August 2020, non-established in Cyprus persons (legal entities or individuals), who are engaged in taxable activities in Cyprus, are obliged to register for VAT purposes (no threshold applies).

Right for registration

- Business with a turnover of less than €15,600 can be registered voluntarily if they are trading in taxable supplies.
- Persons who trade, outside the Republic, in goods or services which would have been taxable if they were provided within the Republic, Groups of companies and Divisions of Companies.

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.

Any registered person has to submit to the Commissioner a VAT return not later than the 10th day following the end of the month following the end of each VAT period and pay the VAT due.

Payment of the VAT due can be made through the till of any commercial bank, by bank transfer to the Central Bank, as well as via the «Internet Banking» platform of selected banking institutions.

Every taxable person who makes a claim for VAT refund will be entitled to repayment of the VAT amount with interest, in the event that the repayment is delayed for a period exceeding four months from the date of the submission of the claim.

In case a VAT audit regarding the claims is conducted by the Commissioner, the time period of four months is extended to eight months.

VAT refunds are made via bank transfer. In order to obtain the refund, Form T.D.1900 must be completed and submitted to the relevant district VAT office along with an IBAN certificate or equivalent documentation issued by the bank showing the bank details.

The following also apply regarding VAT refunds:

- VAT refunds will be suspended where income tax returns have not been submitted by the submission date of the VAT refund claim. In addition, no interest will be payable on a VAT refund for the period during which the refund is suspended
- VAT refund applications cannot be submitted after six years from the end of the relevant tax period.

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	€100 for each return
Late Payment of VAT	10% of amount due plus interest
Late de-registration	€85 one-off
Failure to comply with the reverse charge provisions for transactions falling under Articles 11, 11A-11E and 12A of the Cyprus VAT Law (applies from 1 July 2021)	€200 for each VAT return. The total penalty may not exceed €4000
Late submission of Intrastat form	€15 for each return
Late submission of VIES form	€50 for each return
Late submission of corrective VIES form	€15 for each return

Tax Tribunal/Appeals

The right of taxable persons to appeal to the Minister of Finance is abolished and replaced with their right to submit a hierarchical appeal to the Tax Tribunal.

The hierarchical appeal should be filed within 45 days from the date of the notification to the taxable person of the relevant decision or act of the Commissioner (may be extended subject to the approval of the Tax Tribunal).

Appeals may also be made to the Tax Commissioner within 60 days from the date of issue of the tax assessment.

Sale or Transfer of new building

The sale and/or transfer of a new building is subject to VAT at 5% or 19% (depending on the case of the purchaser). As from 11 November 2022, a building that is sold or transferred for the first time within 5 years of its completion date is considered a new building. In addition, any subsequent sales or transfers made within the first 5 years since its completion date will be considered as a sale or transfer of a new building provided there was no actual use of the building by an unrelated person for a period of at least 24 months.

Imposition of 19% VAT on leasing and/or letting of immovable property for business purposes

VAT at 19% is imposed on the leasing and/or letting of immovable property to a taxable person for the purposes of carrying on taxable activities.

The leasing of buildings used as residences remains an exempt transaction for VAT purposes.

The lessor has the right to notify the Tax Commissioner by submitting a relevant form, to opt for the non-imposition of VAT to the lessee of the immovable property, subject to the terms and conditions specified in the relevant Notification of the Tax Commissioner.

The initial decision of the lessor to opt for the non-imposition of the VAT of the immovable property is irrevocable.

Imposition of 19% VAT on non-developed building land

VAT at 19% is imposed on the transfer of non-developed building land. Specifically, VAT is imposed on the transfer of ownership, transfer of indivisible land portion, transfer of ownership under a sale agreement or an agreement which specifically provides that the ownership will be transferred on future date or by virtue of a leasing agreement with the right to buy non-developed building land which is intended for the construction on one or more structures in the course of carrying out a business activity.

Non-developed building land includes all non-developed land plots that are intended for the construction of one or more structures. In the above definition are included non-developed building land that is either covered or not from the water supply and cover land plots of all sorts as listed below:

- Land plots under development
- Finished land plots
- Land plots with a final approval certificate or,
- Land plots with land title

Other types of land plots are also included in the list of non-developed building.

However, the purchase of land for the sole purpose of constructing a dwelling to be used as the principle and permanent place of residence of an individual will be subject to 5% VAT. Individuals who had initially been charged by property developers with 19% VAT for the purchase of a plot of land that was ultimately used to construct the principle and permanent residence of that individual are entitled to a refund of the 14% (the difference of the standard rate of 19% and the reduced rate of 5%) of the VAT originally paid.

Long-term lease of immovable property

The long-term leasing of immovable property which essentially gives the lessee the right to sell the property as owner or the right to sell the property is considered as a supply of good and not as a supply of service which is subject to VAT at 5% or 19% (depending on the case of the purchaser).

The imposition of VAT does not cover cases where the right of the immovable property is transferred after its first occupation and is therefore not subject to VAT.

Imposition of the reduced rate of 5% on the acquisition and/or construction of residences for use as the primary and permanent place of residence

Old rules:

The reduced rate of 5% applies to the acquisition and/or construction of residences to be used by eligible persons (residents of the Republic or/and other EU member states or other non-EU member states) as the primary and permanent place of residence, only after obtaining a certified confirmation from the Commissioner.

The statutory declaration may be filed at any stage at the time of construction of the residence or in case of supply prior to the eligible person obtaining possession.

The reduced rate 5% applies only for the first 200 square meters of the residence's buildable area as determined by the building coefficient.

In case of families with more than 3 children the allowable total covered area increases respectively.

A person who has exercised the right to purchase a residence with a reduced rate of VAT is eligible to exercise this right again for the purposes of the purchase of another residence before 10 years have elapsed only if **a)** that person has ceased to use the residence as the primary and permanent place of residence before the period of 10 years has elapsed, **b)** has notified the Tax Commissioner accordingly and **c)** has paid the difference in the VAT between the reduced VAT rate and standard VAT rate as were applicable during the time of delivery or construction of the residence.

New Rules:

On 8 June 2023 the Parliament of Cyprus passed a law allowing for a reduced VAT rate of 5% imposed on first homes.

The VAT reduced from 19% to 5% will apply to the first 130 square meters of a first home and up to a value of €350,000, provided that the total value of the transaction does not exceed €475,000 and that the total buildable area does not exceed 190 square meters.

The law also includes the clause stating that, in the case of residences belonging to individuals with disabilities, the discounted VAT will apply to the first 190 square meters of the buildable area.

The law also provides for a transitional period, so that the new rules do not apply in cases where a town planning permit has been issued or where an application for a town planning permit has been filed within four months from the effective date of the law.

Imposition of the reduced rate 5% on the renovation and repair of private residential homes

The reduced rate of 5% on the renovation and repair of private residential homes applies to all the residential homes. The renovation and repair consist of plumbing, electrical, carpentry, painting, building, and construction work. It also applies to such services provided for the purposes of making additions to private residences. The reduced rate applies provided at least 3 years have passed since the first use of the private residence. In cases that the value of the materials exceeds the total value of the supply by more than fifty per cent (50%), the value of the materials is subject to the standard rate of VAT.

Obligation for customer to account for VAT for the acquisition of certain high value goods

Taxable persons who purchase the following goods for business purposes must account for VAT in Cyprus based on the reverse charge provisions as per Articles 11B-11F of the VAT Law:

- **Article 11B**

Certain services and in some cases, goods provided with the services for the purposes of the construction, demolition, repair, or maintenance of any civil engineering project.

- **Article 11C**

Supply of Scrap metal.

- **Article 11D**

The transfer of immovable property from a borrower to a lender when the transfer is made in the framework of a loan restructuring or under a forced transfer procedure.

- **Article 11E**

Goods falling under the below categories: • Mobile phones; • Integrated circuit mechanisms, such as microprocessors and central processing units, prior to their integration into end-user products; and • Game consoles, computer tablets and laptops.

- **Article 11F**

The supply of certain unprocessed and semi-processed precious metals.

The supplier must, therefore, not charge the customer VAT on its invoice while also including the VAT number of the customer on the invoice.

MAINTENANCE OF ACCOUNTING BOOKS & RECORDS

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 01.01.2012.

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.

As of 1 January 2023, enterprises that satisfy certain thresholds are allowed to submit their financial statements to a limited assurance review as opposed to a full audit. These are:

- Companies whose net turnover and total balance sheet does not exceed €200.000 and €500.000 respectively, for at least two consecutive years.
- Individuals whose annual turnover and any other income from sources defined in article 5(1)(c), 5(1)(f), 5(1)(g) or in article 5(2)(d) and 5(2)(e) of the Income Tax Law exceed €70.000 but do not exceed €200.000, and whose total balance sheet does not exceed €500.000, for at least two consecutive years.

Individuals whose turnover and total balance sheet exceed the above limits, are still required to have their Financial Statements subjected to a full audit.

MANDATORY DISCLOSURE RULES (DAC6)

The provisions of the EU Council Directive 2018/822, known as “DAC6”, are effective since 1 January 2021 through the amending Law on Administrative Cooperation in the field of taxation of 2021.

The Cyprus DAC6 Law is broadly aligned with the Directive, which is intended to increase transparency in the area of direct taxation, with a view of combating tax avoidance and tax evasion in the EU. The Cyprus Tax Authorities (CTA) have also issued guidance, in the form of a Decree, which provides clarifications on the main provisions of the Law and its practical application.

Disclosure requirement: The Cyprus DAC6 Law requires from intermediaries and relevant taxpayers to submit information to the CTA, in respect of cross border arrangements that meet at least one of the “hallmarks”, as outlined in the Law.

Hallmarks: Represent the reporting triggers that indicate when information concerning a cross border arrangement must be submitted to the CTA.

Cross border arrangement: An arrangement that concerns more than one EU Member State or an EU Member state and a third country.

Reportable cross-border arrangement: A cross border arrangement that meets at least one of the hallmarks.

Application: Retroactive application, being in force as of 25 June 2018. Intermediaries and relevant taxpayers must review the necessary information relating to transactions implemented on or after that date.

Reporting deadlines: Administrative fines would not be imposed for DAC6 information that was submitted until 31 January 2022, in the following cases:

- Reportable cross-border arrangements (RCBAs), the first step of which was implemented between 25 June 2018 and 30 June 2020 ("the transitional period") and had to be submitted by 28 February 2021.
- RCBAs held between 1 July 2020 and 31 December 2021, that had to be submitted within 30 days from the date they were made available for implementation or were ready for implementation or the first step in the implementation was made, whichever occurred first (Promoters, taxpayers).
- RCBAs for which secondary intermediaries provided aid, assistance or advice, between 1 July 2020 and 31 December 2021 and had to submit information within 30 days beginning on the day after they provided aid, assistance or advice.
- The first periodic report on marketable arrangements.

As from 1 January 2022, a 30-day rolling window for submission of RCBAs applies.

Filing process: Intermediaries and taxpayers can register in the Government Gateway Portal "Ariadni" and upon validation, information on RCBA can be submitted by uploading an XML file.

Legal professional privilege (LPP): Practising lawyers are excluded from the obligation to file information to the CTA, where such information falls within the scope of LPP. They are however required to notify, within ten days, any other intermediary involved in the RCBA of their reporting obligation, or if there is no such other intermediary, the relevant taxpayer.

Right to request information: For the purposes of ascertaining whether there is compliance with the provisions of the legislation, the competent authority may require, with written notice, to receive information within 14 days from the intermediary or the relevant taxpayer.

Administrative fines: Penalties for non-compliance vary depending on the type of infringement, with a maximum of €20.000 per arrangement (please refer to the table below):

Type of Infringement	Penalty
<p>Failure/delay to submit information for a RCBA</p> <p>Failure/delay to notify of the application of a waiver due to LPP</p>	<p>Failure: €10.000 to €20.000</p> <p>Delay ≤ 90 days: €1.000 to €5.000</p> <p>Delay > 90 days: €5.000 to €20.000</p>
<p>Submission of incomplete or misleading information for a RCBA by the intermediary or relevant taxpayer</p> <p>Failure to submit information and documents for an arrangement within 14 days from the date of obtaining the relevant notice by the CTA</p>	<p>€1.000, with a maximum of €10.000</p>
<p>Failure to pay the administrative fine imposed or continuation of the infringement</p>	<p>Increase of the fine up to €20.000</p>

ADMINISTRATIVE PENALTIES

An administrative penalty of €100 or €200 (depending on the specific case), is imposed for the late submission of a tax return or late submission of supporting documentation requested by the Commissioner.

In the case of late payment of the tax due, a penalty of 5% is imposed on the unpaid tax. An additional penalty of 5% is imposed if the tax remains unpaid 2 months after the payment deadline.

Public interest rate

The public interest rate for late payment of tax is set by the Minister of Finance through a decree and it is applicable for the whole year. **The rate for 2023 is 2,25%.**

The applicable interest rates for the previous years are as follows:

Period	Interest rate %
Up to 31/12/2006	9
01/01/2007 – 31/12/2009	8
01/01/2010 – 31/12/2010	5,35
01/01/2011 – 31/12/2012	5
01/01/2013 – 31/12/2013	4,75
01/01/2014 – 31/12/2014	4,5
01/01/2015 – 31/12/2015	4
01/01/2016 – 31/12/2016	4
01/01/2017 – 31/12/2017	3,5
01/01/2018 – 31/12/2018	3,5
01/01/2019 – 31/12/2019	2,0
01/01/2020 – 31/12/2022	1,75

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.

Notes:

1. The exemption is granted for 7 years, starting from the tax year following the tax year of commencement of the first employment. The law, in accordance to article 8(21A) does not require the individual to become a Cyprus tax resident to benefit from the new 20% exemption, nor the employer to be a Cyprus tax resident employer. Individuals will not be granted this exemption, if they are granted the new 50% exemption of Article 8(23A).
2. 20% of the remuneration (up to a maximum of €8.550 per annum) from any employment exercised in the Republic, which commenced between the year 2012 and 26 July 2022 by an individual who was resident outside the Republic before the commencement of his/her employment in the Republic, is exempt from income tax. The exemption is granted for five years, starting from the tax year following the year of employment. Individuals who meet the conditions for this exemption before its termination date (i.e., 26 July 2022) will continue to benefit for the relevant five-year period. (Article 8(21)).
3. An individual is not considered to have a first employment when: a) at any time in the past he/she performed salaries services in the Republic, b) he/she terminates the first employment contract and enters into a new employment contract with another employer not belonging to the same group for accounting purposes, c) he/she has a second or more employments with other employers that run parallel to the first employment (in which case the exemption will be granted only on the remuneration from the first employment).
4. The exemption is granted for 17 years, starting from the month of employment in the Republic and it is also available to the following individuals: - individuals whose employment commenced before 1 January 2022, provided that the date of commencement of their first employment was between 2016-2021, their salary was in excess of €55.000 per annum or if not, it exceeds €55.000 per annum within six months from 26 July 2022. - existing employees who benefitted from the 50% exemption and have continuous employment in Cyprus up to and including 2021.
5. 50% of the remuneration from any employment exercised in the Republic by an individual who was resident outside the Republic before the commencement of the employment in the Republic, is exempt from income tax provided that the remuneration from such employment exceeds €100.000 per annum. The exemption is granted for ten years, starting from the first year of employment in the Republic. It would not be granted to an individual who has been a Cyprus tax resident for at least three out of the last five tax years immediately prior to the year of commencement of employment or to an individual who has been a Cyprus tax resident in the tax year immediately prior to the tax year of commencement of employment. Individuals who meet the conditions for this exemption before its termination date (i.e., 26 July 2022) will

continue to benefit for the relevant ten-year period, unless the individual also qualifies for the new 50% exemption of Article 8(23A).

6. "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 guarantors regarding the same credit facility or grant or debt and one or more creditors or non-related persons made from 31 December 2015 up to 31 December 2023, which aims to reduce or repay credit facilities or loans or debts granted to borrowers with one or more lenders.

The credit facility/grant/debt must be a non-performing loan before or as at 31 December 2015, as interpreted by the European Banking Authority.

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 may also be made to a non "related person" for the reduction or repayment of credit facilities or grants or debts arising under a written agreement with the creditor, who had become non-performing on or before 31 December 2015. Any borrower's related person is also considered a borrower, as the term "related person" is interpreted in the Income Tax Law, provided that the disposal and transfer of immovable property as well as the transfer of rights under a sales agreement filed with the Department of Land and Surveys is for the benefit of the lender.

In practice, loans that were non-performing before or as at 31 December 2015 and were restructured up to 31 December 2017 can also be considered as non-performing loans by the Tax Department, subject to conditions.

7. The term 'Securities' is defined as shares, bonds, debentures, founders shares and other securities of companies or other legal persons, incorporated in Cyprus or abroad and options thereon. The term also includes among others, options on Securities, short positions on Securities, futures/ forwards on Securities, swaps on Securities, depositary receipts on Securities (ADRs, GDRs), rights of claim on bonds and debentures (rights on interest of these instruments are not included), index participations only if they result on Securities, repurchase agreements or Repos on Securities, units in open-ended or closed-ended collective investment schemes. The redemption of participation or share in an open or closed-ended collective investment scheme constitutes the disposal of Securities.

8. **New IP regime (effective from 1 July 2016)**

The provisions of the new IP regime came into effect on 1 July 2016. According to the new regime, qualifying intangible asset means an asset which was acquired, developed or exploited by a person in the course of carrying on a business and which constitutes intellectual property, other than marketing related intellectual property associated with promotion (marketing) and which is the result of research and development activities, including an intangible asset for which there is only economic ownership.

In calculating the taxable profit, an 80% deemed deduction applies to the qualifying profit from the exploitation of such qualifying intangible assets.

Capital gains arising from the disposal of a qualifying asset are not included in the qualifying profits and are fully exempt from income tax.

The taxpayer may choose to forego the whole or part of the deduction in each year of assessment. Where the calculation of qualifying profits results in a loss, only 20% of this loss may be carried forward or group relieved.

The capital cost of any qualifying intangible asset is tax deductible as a capital allowance.

9. *The tax allowable deduction for investment in an innovative small/medium sized business is available up to 30 June 2024.*

It is limited to 50% of the investor's taxable income in the year in which the investment is made and the total deductible amount may not exceed €150,000 per year. The remaining investment cost which is not claimed as tax deductible may be carried forward and deducted from the taxable income of the subsequent five years, subject to certain restrictions. The investment must be held for at least 3 years.

10. *For expenses incurred during the years 2022, 2023 and 2024 (including expenses of a capital nature) for which a deduction is granted in accordance with Article 9(1)(I), an additional tax deduction is granted for research & development expenses, equal to 20% of the relevant expenses. This additional deduction cannot be claimed alongside the deduction provided under the Cyprus IP regime.*

11. *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 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 5% premium (subject to a minimum rate which is the yield of the 10-year Cyprus government bond as at the same date, plus a 5% premium). The NID is subject to certain anti avoidance provisions.*

12. *The tax allowable deduction for a company investing in an innovative small/medium sized business is available up to 30 June 2024. It is limited to 30% of the invested amount and the total deductible amount may not exceed €150.000 per year. The investment can be made either directly, or through an investment fund or an alternative trading platform and only from own capital. The eligible shares must be ordinary shares and be held by the investor for at least three years.*
13. 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 27. 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%)

14. 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%.

15. 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.