

The Cyprus corporate and personal taxation regime



September 2018

Contents

- Cyprus at a glance!
- Brief overview of the Cyprus tax regime
- Cyprus Personal taxation benefits
- Why use Cyprus for international investments
- Other non tax benefits / considerations – Cyprus citizenship scheme and Permanent residence scheme

Cyprus Key facts and figures!

Capital: Nicosia

Population: 1.1m (2018 est.)

Area: 9,251 sq km

Weather: Mediterranean climate

Average Temperature: Winter +15°C
/ Summer +32°C

Languages: Greek (official),
Turkish (official),
English (widely spoken
& business language)

Religion: Greek Orthodox: 78%,
Muslim: 18%, Other: 4%

Ethnic composition: Greek Cypriot Community 74,6%, Turkish Cypriot Community 9,8%, Foreign Residents 15,6%

European Union: Cyprus is an EU member state since 2004 (EURO member since 2008).

Geographical position: Cyprus is at the crossroads of 3 continents Europe, Africa and Asia.



Cyprus key figures and highlights

- **GDP figures:**
 - GDP per Capita (euro): €22.360 (2017)
 - GDP gr. %: **4% (2017), 4% for 2018 & 2019** est.
- On 14/09/2018, **Standard & Poor's upgraded Cyprus' credit ratings to investment grade.**
- **Bank's NPLs fell by 14% in 2017.** A larger fiscal surplus, together with strong growth and early debt repayments, led to a **significant fall in Cyprus' government debt-to-GDP ratio from 106.6% in 2016 to 97.5% in 2017.**
- Cyprus maintains **one of the most attractive tax systems** in Europe.
- All Cyprus registered companies are required to prepare **audited financial statements** as per IFRS.
- Cyprus is the largest **3rd party Management centre in the EU.** It is the home to some of the world's leading names of the shipping industry, and has the **10th largest merchant fleet in the world.**
- Cyprus proudly features on the **White list of the OECD and has legally committed to the highest standards of transparency** by assuming early adopter status for the automatic exchange of information on tax matters (**CRS**).
- **Emerging energy centre – Cyprus has attracted international energy heavyweights, such as Total and Eni,** to explore the island's waters.
- Cyprus has the **highest percentage of university graduates per capita in Europe** & possesses a well-trained and versatile labour force with fluency in English.
- The **legal system is based on the UK Common Law principles and aligned with the EU laws and regulations.**
- Cyprus has been ranked as the **5th best place for lifestyle among major European cities** and other competitive destinations.
- Cyprus has the **lowest crime rate within the EU** and was ranked as the safest country in the World amongst countries with less than 5 million citizens
- Cyprus has **highly developed infrastructure, high quality educational institutions and medical centres.**
- **Gastronomy, culture, history, art... and great weather** with Cyprus **being the sunniest country in Europe** with over 340 days of sunshine annually!!
- More than **50 beaches in Cyprus have been awarded the EU Blue Flag** for cleanliness and safety

Brief overview of the Cyprus tax regime

Cyprus tax residence and 'substance'

Tax residence

In order for a company to be considered a Cyprus tax resident company and thus be subject to the Cyprus tax laws, its **'management and control' should be exercised from within Cyprus.**

- A resident company is taxed **on its worldwide income** but certain exemptions apply as we will see in the next slides.
- There is **no definition of the term 'management and control' in the Cyprus tax legislation** but in accordance with the **current practice of the Cyprus tax authorities and relevant case law**, it has been established that, 'management and control' is exercised in the country where the **ongoing decisions for the operations of the company are taken by the BoD** or by any other individual or corporation authorized by the company.
- **Current trend: Substance** considerations are increasingly important.....Examples:
 - ✓ **All BoD meetings to take place in Cyprus**
 - ✓ **All decisions for the operations and strategies of the company to be taken during the above meetings in Cyprus.**
 - ✓ **Majority of directors are suggested to be Cyprus tax residents**
 - ✓ **Any non-resident directors should not be in a position to form a quorum between them**

Brief overview of the Cyprus tax regime

Cyprus tax residence and 'substance' – cont'd

Tax residence & Increasing substance to perform key functions

- ✓ **The BoD should consist of persons with experience and adequate knowledge and expertise to exercise their duties / functions based on the company's activities. Therefore they need to have the necessary qualifications and be adequately remunerated.**
- ✓ **Staff should not merely carrying out admin functions**
- ✓ **Ensuring there is adequate office space, material, technical equipment etc.**
- ✓ **Increasing administrative and reporting functions happening in Cyprus**
- ✓ **Adequate supporting documentation such as BoD minutes, appropriate documentation to be circulated to the directors etc.**
- ✓ **Ensure that the whole decision making process is documented i.e. the 'thinking process', the review, the approval of the decisions etc.**

Brief overview of the Cyprus tax regime

Main taxation benefits of the Cyprus corporation tax regime:

- ✓ One of the lowest standard corporate tax rates in the EU - **12,5% flat**
- ✓ **No tax on disposals of 'titles'** e.g. shares, bonds, debentures, pref. shares, options, futures /forwards on titles, Swaps on titles, ADRs and GDRs, index participations only if they represent titles, Repurchase agreements or Repos on titles, Units in qualifying funds, Investment Trusts, Mutual Funds, participations in companies etc.
- ✓ **Foreign dividends are mostly exempt** from any taxation in Cyprus (easily met Partic. Exem. Rules)
- ✓ **Tailor-made provisions for the fund industry** – see next slides
- ✓ **Foreign PE (branch) profits mostly exempt** from Cyprus taxation and **from 27/10/2016 taxpayers can elect to be taxed on such profits** & claim tax credit for the foreign taxes incurred)
- ✓ **No Cyprus WHTs on payment of dividends, interest, royalties** to non-Cyprus tax residents (except for royalties where the right is used within Cyprus – 10%).
- ✓ **Advance rulings** possible on many areas.
- ✓ **Extensive double tax treaty network** (over 60 DTTs) and benefit from EU directives.
- ✓ **Tax credit available** against Cypriot tax on same income **even in the absence of a DTT**
- ✓ **Tax losses may be carried forward for 5 years** or utilized under **Group relief provisions**

Brief overview of the Cyprus tax regime

Main taxation benefits of the Cyprus corporation tax regime (cont'd):

- ✓ **No CFC rules**
- ✓ **Thin spread of income possible** – From 1 July 2017, intra group financing transactions (IGFTs) could be subject to Transfer Pricing (TP) as per a tax circular issued by Cyprus Tax Authorities (CTA).
 - The Circular follows the **application of the arm's length principle of the OECD TP** Guidelines.
 - It applies **for all relevant existing and future IGFTs** & no grandfathering provisions exist.
 - The Circular **requires the carrying out of a comparability analysis for the purpose of describing the IGFT and determining the applicable arm's length remuneration**. Of particular note in the comparability analysis are the requirements for (i) sufficient equity level and (ii) adequate substance in Cyprus, relating to the IGFTs.
 - **Under certain conditions** taxpayers carrying out **a purely intermediary IGF activity** may opt for a **Simplification Measure** (resulting in a minimum 2% after-tax return on assets).
- ✓ **Tax free reorganisation provisions involving non Cyprus companies** as well.
- ✓ **Forex is tax neutral** (i.e. gains not taxed & losses not deductible/allowable) except for Forex traders which are subject to tax.
- ✓ **No thin-cap rules**, i.e. a Cyprus company can have as much debt capital as possible
- ✓ **Shipping tax regime provides for full tax exemption. Tonnage tax is payable** instead.
- ✓ **No exit charges** at all.

Brief overview of the Cyprus tax regime

OLD Cyprus IP regime – Brief overview of the provisions of the law

- ✓ **Effective tax rate** on “qualifying income” from “qualifying IP” does not exceed **2,5%**
- ✓ **IP currently benefiting from the existing Cyprus IP regime** will continue to receive the current benefits for five additional years, i.e. until 30 June 2021, essentially allowing a grandfathering period.

Qualifying IPs

- Copyrights in the form of: Literary works, Dramatic works, Musical works, Scientific Works, Artistic works, Sound recordings, Films, Broadcasts, Published editions, Databases, Publications, Software programmes;
- Patented inventions;
- Trademarks (and service marks), designs and models that are used or applied on products

Qualifying income

- Royalty income
- Profits from the disposal of the IP

Provisions in a nutshell

- **80% of worldwide royalty income generated from IP** owned by Cypriot resident companies (net of any direct expenses) is exempt from income tax.
- **80% of profit generated from the disposal of IP** owned by Cypriot resident companies (net of any direct expenses) is exempt from income tax
- any expenditure of a capital nature for the acquisition or development of IP is claimed as a tax deduction in the **year in which it was incurred and the immediate 4 following years on a straight-line basis.**

Brief overview of the Cyprus tax regime

New Cyprus IP regime - Overview

- As from 1 July 2016, Cyprus has **amended its IP regime** and offers a tax efficient IP Box, **fully aligned with the OECD/G20 Base Erosion and Profit Shifting (BEPS) Action 5** report.
- **Effective tax rate** on “qualifying income” from “qualifying IP” **does not exceed 2,5%.**
- **Capital gains arising from the disposal of a qualifying asset** under the new IP regime are not included in qualifying profits and **are fully exempt from income tax.**
- Cyprus IP companies will be eligible to **claim a tax deduction equalling 80% of qualifying profits resulting from the business use of the qualifying IP assets.**
- Cyprus’ extensive double tax treaty network and access to the EU Interest and Royalties Directive serve as additional means to achieve tax optimisation for global distribution. If **foreign taxes are suffered on IP income these are creditable against the Cyprus tax without the need for a double tax treaty to be in place.**
- **Non qualifying income is taxable under the general corporation tax of 12,5% (or less). Other Cyprus tax law provisions are available** to optimise the effective tax rate on non-qualifying IP assets such as **Notional Interest Deduction.**

Brief overview of the Cyprus tax regime

New Cyprus IP regime – Main provisions

- **Eligible taxpayers for the IP regime** include **Cyprus tax resident persons**, permanent establishments (**PEs**) of non-resident persons and **foreign PEs** that are subject to tax in Cyprus.
- **Qualifying IP assets** are those **developed, exploited or acquired (and further developed) by a person in the course of its business which relates to IP resulting from R&D expenditure** and for which the person is the legal and/or economic owner.
 - **Qualifying IP assets include Patents, Copyrighted software** and other IP assets legally protected which are either (i) **utility models, IP assets that grant protection** to plants and genetic material, orphan **drug designations** and extensions of protection or (ii) other non-obvious, useful, and **novel IPs** (subject to condit.).
 - **excluding any IP relating to marketing** (tradenames, brands, trademarks, image rights).
- **Qualifying profits** are calculated based on the “**nexus approach**”. Level of **profits eligible for 80% tax exemption will depend on the level of R&D expenditure** carried out by the eligible taxpayer to develop the qualifying asset (directly, through a taxable foreign branch or outsourced to 3rd parties).
 - In order to establish the amount of the qualifying profits deduction, the higher the amount of R&D undertaken by the person itself results to a higher amount of income qualifying under the IP Box.
 - **Qualifying profits (non exhaustive)**, cover **royalty income** emanating from IPs, **embedded IP income** in production/services and **trading gains from disposal of the IP**.
- IP Assets’ **tax amortisation - over the useful life of the IP**, up to a max. of **20 years**.

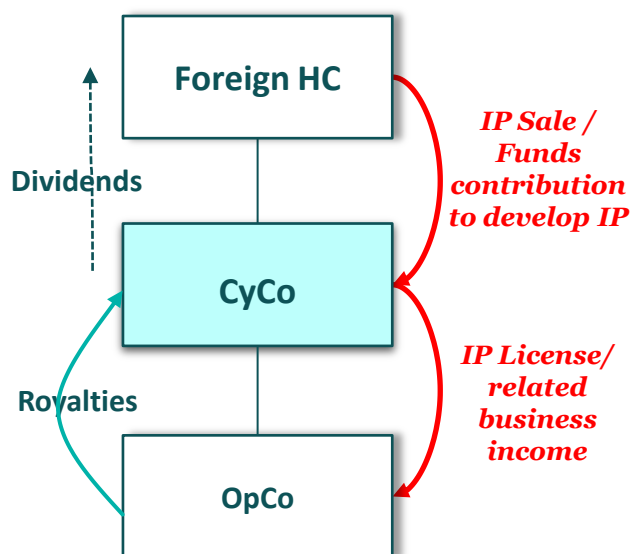
Brief overview of the Cyprus tax regime

New Cyprus IP regime – Main provisions

- **Qualifying expenditure (QE)** relating to a qualifying asset is the **sum of all R&D expenditure** incurred in any tax year **wholly and exclusively for the development, enhancement or creation** of a qualifying asset and that is directly related to that asset.
 - **Qualifying expenditure includes**, but is not limited to:
 - ✓ Salary and wages;
 - ✓ Direct costs;
 - ✓ General expenses associated with R&D activities;
 - ✓ Commission expenditure associated with R&D activities; and
 - ✓ R&D expenditure outsourced to unrelated parties.
 - **Qualifying expenditure does not include:**
 - ✓ The acquisition cost of a specific intangible asset;
 - ✓ Interest paid or payable;
 - ✓ Expenditure relating to the acquisition or construction of immovable property that has been paid or is payable directly or indirectly to a related person carrying out R&D, regardless of whether the amounts relate to a cost sharing agreement;
 - ✓ Costs that cannot be shown to be directly associated with a specific qualified asset.
 - **Expenditure for the assignment of R&D activities to unrelated persons**, as well as the expenditure of general and theoretical nature for R&D, **that cannot be allocated to the qualifying expenditure of a specific qualified asset** with which they have a direct connection, **may be allocated proportionately to the qualified assets or products**. Qualifying expenditure is included in the nexus fraction in the year in which the expenditure was incurred, regardless of its accounting or tax treatment.

Brief overview of the Cyprus tax regime

The Cyprus IP regime



Benefits

- Nexus IP for which R&D expenditure incurred by CyCo itself (whether within Cy or not) or outsourced to unrelated party => Net royalty and embedded qualifying profits will be entitled to an 80% deemed deduction.
- Also applies to assets which are just economically owned
- Structure efficient for both nexus and non nexus IP as NID regime and amortization applies for all assets. So for non nexus IP, ETR can be as low as 2,5% due to NID.
- Low / No WHT on royalty payments to CyCo
- CyCo beneficial owner of the intangible;
- Low taxation in Cyprus, given the deemed deduction of 80% on net income related to the IP rights => ETR 2,5% or tax may be eliminated if amortization is high
- Nil WHT on dividend distributions to Foreign Co
- Capital nature disposals of both nexus and non-nexus IP are not taxable.

Brief overview of the Cyprus tax regime

Introduction of a Notional Interest Deduction (NID) on qualifying equity

- ✓ This amendment aims to **reduce corporate debt and encourage new equity** (share capital and share premium) by introducing an annual tax allowable deduction i.e. **align tax treatment of equity finance with debt finance.**
- ✓ In simple terms, when funds are introduced into a company in the form of equity instead of interest bearing or interest free loans, **a notional deduction of interest will be granted to the company as from 1 January 2015.**

New equity - Share capital and share premium introduced as from 1/01/2015 in the form of:

- paid-up
 - Cash or assets in kind (for assets in kind the MV of the asset must be substantiated).
- ✓ **Increases economic robustness of Cyprus companies** whilst keeping their competitiveness
 - ✓ **NID applies to Cyprus tax resident companies and Cyprus PEs** of non resident companies

Brief overview of the Cyprus tax regime

Introduction of a Notional Interest Deduction (NID) on qualifying equity

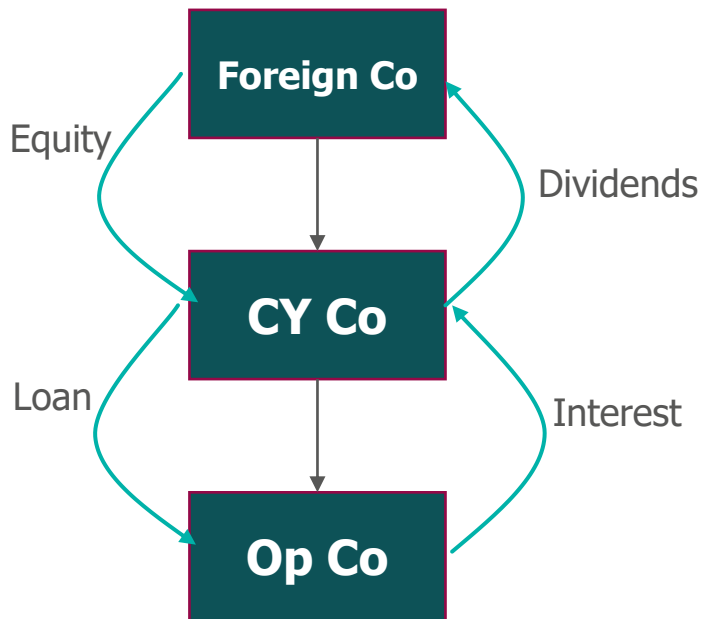
- ❑ The **NID interest rate is the yield on 10 year government bonds** (as at December 31 of the prior tax year) **of the country where the funds are employed in the business of the company plus a 3% premium.**
- ❑ The minimum rate is the yield on 10 year Cyprus government bonds (2017: 1,881%) + a 3% premium.

The formula is: $NID = \text{New equity} \times \text{NID interest rate}$

- ❑ The NID is **tax deductible in a similar manner as for actual interest expense.**
- ❑ **NID deduction cannot exceed 80% of taxable profit** (as calculated prior to NID).
- ❑ If maximum NID available, **the effective tax rate is as low as 2,5%** (20% x 12,5%)
- ❑ Taxpayer **may elect not to claim all or part of the NID** – this an annual election
- ❑ Any excess NID due to 80% cap is lost.

Brief overview of the Cyprus tax regime

Financing structure (Applies also to trading structures i.e. where OpCo has other trading activities instead of only financing ones)

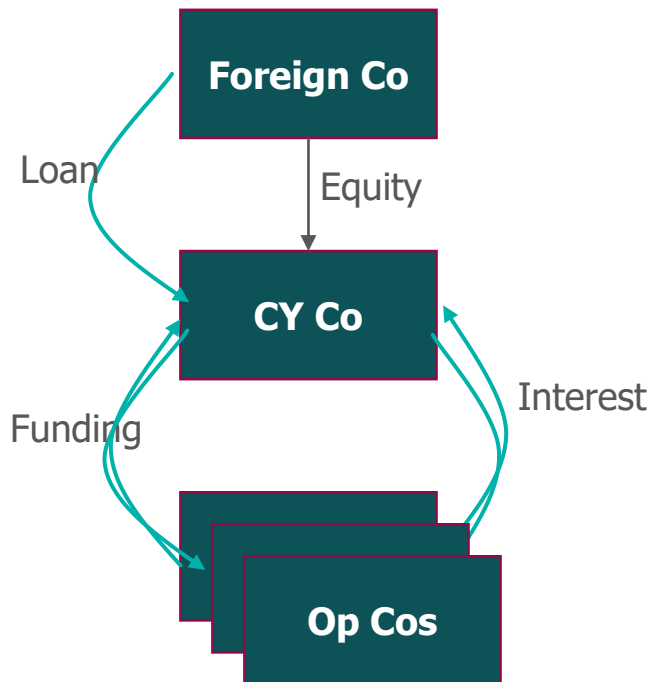


Benefits

- No taxation at the level of the Foreign Co
- Notional interest deduction at the level of CyCo – maximum deduction 80% of the taxable profit
- 12,5% income tax on the aforementioned taxable profit i.e. effective tax rate of 2,5%
- No WHT on dividend payments to Foreign Co
- More robust structure for beneficial ownership purposes as Lender is equity financed
- No WHT tax on interest payment from OpCo to CyCo
- Tax deductibility of the interest expense at OpCo
- Forex in Cyprus is exempt so ETR remains stable

Brief overview of the Cyprus tax regime

The Cyprus Treasury / Cash Pooling Company



Plan

- Set up CyCo to act as treasury/cash pooling co. of group
- Foreign Co contributes group funds to CyCo either in the form of equity or in the form of a loan
- CyCo uses the funds to lend group OpCos.

Benefits

- No thin cap rules allow for a mixture of debt and equity financing into CyCo and both actual and notional interest expense is deductible.
- CyCo to be taxed on any debt financed b2b loans at 12,5% only on the margin, subject to TP, hence ETR can be very low
- ETR on equity finance loans can be as low as 2,5%
- No WHT on dividend and interest payments to Foreign Co
- Tax deductibility of the interest expense at OpCo
- Forex in Cyprus is exempt so ETR remains stable

Brief overview of the Cyprus tax regime

Introduction of a Notional Interest Deduction (NID) on qualifying equity:

Illustrative example – assuming scheduling is applicable to 80% cap:

	Taxable profit (€)	New Equity (€)	Months of new equity	Interest rate	NID prior to Cap (€)	Cap (€)	NID (€)
Activity 1	100.000	500.000	6 months	10%	25.000	80.000	25.000
Activity 2	(50.000)	500.000	12 months	12%	60.000	Nil	Nil
Activity 3	Exempt	500.000	12 months	15%	75.000	Nil	Nil
Activity 4	60.000	500.000	12 months	11%	55.000	48.000	48.000
Total	110.000	2.000.000					73.000

Brief overview of the Cyprus tax regime

An example on the Intellectual Property (IP) regime, including a NID:

Description	(€)
Annual gross royalty income	100.000
Direct expenses	<u>(20.000)</u>
Net profit	80.000
NID	<u>(6.000)</u>
Profit eligible for IP deduction	74.000
80% deemed deduction – IP box deduction	<u>(59.200)</u>
Taxable income	14.800
12,5% corporate income tax	1.850
Effective tax rate on net profit	2,31%

Brief overview of the Cyprus tax regime

Under Cyprus law, there are two distinct types of investment funds: Alternative Investment Funds (AIF) and Undertakings for Collective Investment in Transferable Securities (UCITS).

The tax advantages that are applicable to Funds are the following:

- **Exemption from tax on profits from disposal of shares and other various financial instruments**
- **Exemption from tax on any foreign dividends received**
- **No subscription tax** on the net assets of the fund
- **No withholding tax on interest and dividend payments** made to non-Cyprus tax residents and to Cyprus tax residents that have a non-Cyprus domicile status.
- **No withholding tax on redemption of units**
- Effectively **only interest received is taxed at 12,5%**
- The **services provided by the Investment Manager of the fund are not subject to VAT.**

Brief overview of the Cyprus tax regime

New tax amendments voted in July 2018 include the following:

- **Each compartment of an AIF**, although legally is not treated as a separate entity, **for tax purposes each compartment is treated as a separate person** (i.e. separate taxpayer)
- **Investments in AIFs or UCITS will not constitute a permanent establishment in the Republic**, if the former are tax transparent (same applies for non Cyprus investment Fund when managed from within Cyprus). Income from such structures will be taxed at the place where the investor is tax domiciled.
- **Variable remuneration of senior management of AIFMs** which is based on profits of AIFs will be taxed at 8% **(for 10 years), with a minimum annual tax charge of Euro 10.000.**
- AIFMs, UCIT Managers and GPs will be under the obligation to submit a local tax form annually, declaring their annual income from AIFs.

Brief overview of the Cyprus tax regime

Cyprus Shipping – Key highlights:

- The Cyprus registry is the **3rd largest merchant fleet in EU and 11th in the world.**
- **Largest EU ship management centre** and in top **3 globally**
- Cyprus' maritime industry contributes more than **€1bn to the economy - 7% of GDP**

Shipping tax regime provides for full tax exemption on:

- Profits of the ship-owner or charterer of EU/EEA flag ships and foreign ships*
 - Capital gains on sale or transfer of such vessels or the shares of the ship-owning company
 - Profits from Crewing or technical management of ships carried out from a fully fledged office in Cyprus
 - Dividend distributions at all levels of the above profits
 - Income on the emoluments of officers or crew on board such vessels
 - Interest earned on income/ working capital of shipping operations
 - Stamp duty on MOAs, ship mortgage deeds or other security documents
- ✓ **Tonnage tax is payable instead based on age and tonnage capacity of vessel**

*Subject to conditions

Brief overview of the Cyprus tax regime

The Tonnage tax (TT) system

- TT tax is calculated by reference to the net tonnage stated on the certificate of tonnage i.e. based on age and tonnage capacity of vessel (not profits of the company).
- Cyprus' incorporates all three types of maritime activities – **ship owning, ship management, and chartering**, making it unique in the EU.

Units of net tonnage	Ship-owners & charterers (€TT per 100 units)	Ship managers (€TT per 400 units)
0 - 1.000	36,50	36,50
1.001 - 10.000	31,03	31,03
10.001 - 25.000	20,08	20,08
25.001 - 40.000	12,78	12,78
> 40.000	7,30	7,30

For ship managers, an option exists to pay TT at 25% of the rates applicable to ship owners and charterers, for all vessels under management. If the choice is not made, profits are taxable under 12,5% corporation tax.

Brief overview of the Cyprus tax regime

The Cyprus Double Tax Treaties

- Andorra
- Armenia
- Austria
- Bahrain
- Barbados
- Belarus
- Belgium
- Bosnia
- Bulgaria
- Canada
- China
- Czech Republic
- Denmark
- Egypt
- Estonia
- Ethiopia
- Finland
- France
- Georgia
- Germany
- Greece
- Guernsey
- Hungary
- Iceland
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- Portugal
- Qatar
- Romania
- Russia
- San Marino
- Saudi Arabia
- Serbia
- Seychelles
- Singapore
- Slovakia
- Slovenia
- South Africa
- Spain
- Sweden
- Switzerland
- Syria
- Tajikistan
- Thailand
- Ukraine
- United Arab Emir.
- United Kingdom
- USA
- Uzbekistan

Negotiated/Under negotiations:

- *Croatia*
- *Hong Kong*
- *Jordan*
- *Monaco*
- *Morocco*
- *Netherlands*
- *Oman*
- *Pakistan*
- *Sri-Lanka*
- *Tunisia*
- *Vietnam*

Cyprus Personal taxation

Tax residence

An individual is tax resident in Cyprus if **he/she spends more than 183 days in Cyprus** in any calendar yearand as of 2017 an individual can also be a tax resident of Cyprus if he/she satisfies **either the "183 day rule" or the recently introduced "60 day rule"**. *For earlier tax years only the "183 day rule" is relevant for determining Cyprus tax residency.*

The recently introduced "60 day rule" for Cyprus tax residency is satisfied for individuals who, cumulatively, in the relevant tax year:

1. **do not reside in any other country for a period exceeding 183 days** in aggregate, and
2. are **not tax resident in any other country**, and
3. reside in Cyprus for **at least 60 days**, and
4. have other defined Cyprus ties. **To satisfy this fourth criterion** the individual must carry out any ***business in Cyprus and/or be employed in Cyprus and/or hold an office (director)*** of a company tax resident in Cyprus at any time in the tax year, provided that such is not terminated during the tax year. Further, the individual must **maintain in the tax year a permanent residential property in Cyprus which is either owned or rented by him/her.**

Cyprus Personal taxation

Domicile

- ✓ An individual's domicile is that of his/her father's domicile at birth or that of his/her choice. Therefore, an **individual born to a non-Cypriot domiciled father is considered to be non-domiciled in Cyprus.**
- ✓ A non-domiciled individual may be deemed as domiciled in Cyprus if he/she has been a Cypriot tax resident for at least 17 out of the last 20 years prior to the relevant tax year. **An individual born to a Cypriot domiciled father may also qualify as non-domiciled in Cyprus subject to certain conditions** (in exceptional cases of the mother).

Personal income tax rates:

Chargeable income - <i>Euro</i> (€)	Tax rate %	Accumulated tax <i>Euro</i> (€)
0 - 19.500	Nil	Nil
19.501 - 28.000	20	1.700
28.001 - 36.300	25	3.775
36.300 - 60.000	30	10.885
Over 60.000	35	

- ✓ A tax resident of Cyprus who receives **income from foreign pension is taxed at the flat rate of 5%** on amounts over €3.420. The taxpayer can however, on an annual basis, **elect to be taxed at the normal tax rates above - Foreign taxes credits are available.**

Cyprus Personal taxation

Personal taxation benefits of the Cyprus tax regime:

- **Exemption from taxation for personal investment income** (dividends and interest income) of **non-Cyprus domiciled individuals** (non-doms) who are Cyprus tax residents.
- **50% of employment income**, for employees who were previously residents outside Cyprus before the commencement of their employment in Cyprus, **is exempt from Cyprus income tax for a period of 10 years**, provided **remuneration is in excess of €100k** and Cyprus employment started after 1 January 2012 (say, if the remuneration is €120k, only €60k will be taxable).
 - ✓ Therefore the top rate of personal tax can be reduced to 17.5% and the **effective tax rate could be as low as 9%!**
- Remuneration from any office or employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of his / her employment, **for a period of 5 years (available until 2020 only)** commencing from 1st January following the year of commencement of the employment.
 - ✓ The exemption is **20% of income with a maxim. amount of € 8.550** annually.

Cyprus Personal taxation

Personal taxation benefits of the Cyprus tax regime (cont'd):

- 90 Days rule: The whole amount of remuneration from **salaried services rendered outside Cyprus for more than 90 days** in a tax year to a non-Cyprus resident employer or to a foreign permanent establishment of a Cyprus resident employer.
- **Low social insurance contributions** - Employees and employers are subject to social insurance contributions at the rate of 7.8% and 11.5% respectively, on the employees' gross employment income, subject to an annual income ceiling of Euro 54.396.
 - ✓ An exemption from contributing to the Cyprus social insurance scheme may be granted for a period of time to qualifying expatriate EU nationals that take up employment in Cyprus.
- **No tax on gains arising from the disposal of investments** i.e. Any gains arising from the disposal of shares, bonds and other similar financial instruments i.e. futures / forwards on titles, short positions on titles, swaps on titles, depositary receipts on titles, repos on titles, units in open or close CIS, UCITS, investment trusts and funds, mutual funds, real estate investment trusts (REITs) etc. are exempt from taxation.
- There is **no estate duty, wealth tax, gift tax or inheritance tax in Cyprus**.
 - ✓ There is 20% Capital Gains Tax which is only imposed (**when the disposal is not subject to income tax**) **on gains from the disposal of immovable property situated in Cyprus**.

Cyprus Personal taxation

Personal taxation tax deductions:

The following are deductible from income with the rates/amounts as indicated below:

- ✓ Contributions to trade unions or professional bodies - ***The whole amount***
- ✓ Rental income - ***20% of rental income***
- ✓ Donations to approved charities (with receipts) - ***The whole amount***
- ✓ Social Insurance, medical fund (maximum 1,5% of remuneration), pension and provident fund contributions (maximum 10% of remuneration) and life insurance premiums (maximum 7% of the insured amount) - ***Up to 1/6 of the chargeable income***
- ✓ Amount invested as from 1 January 2017 in an approved innovative small and medium sized business either directly or indirectly - ***Up to 50% of the taxable income as calculated prior to this deduction (subject to a maximum of €150.000 per year). Unused deduction can be carried forward and claimed in the following 5 years subject to the above maximum.***

Cyprus Personal taxation

Example of personal taxation for a Cyprus tax resident non-domicile individual

- ❑ Gross employment income: €110.000

Assuming 50% tax exemption:

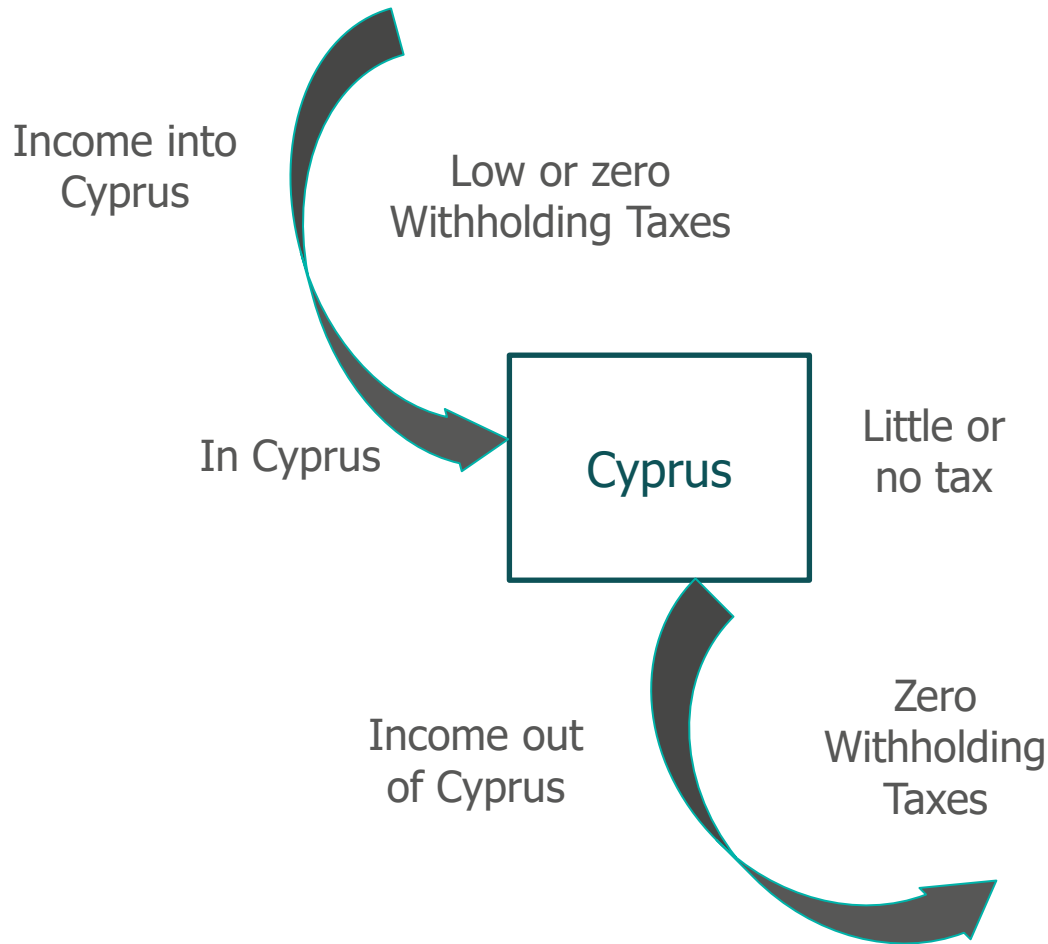
- Income tax payable: €11.200 (on taxable income of €55.000)
- **Effective tax rate: 10%**
- Net employment income: Approximately €100.000

- ❑ Dividend income: €100.000

Assuming Cyprus tax resident – non dom. individual

- **No Cyprus tax on the dividend income**
- Net dividend income: €100.000

Why use Cyprus for international investments?

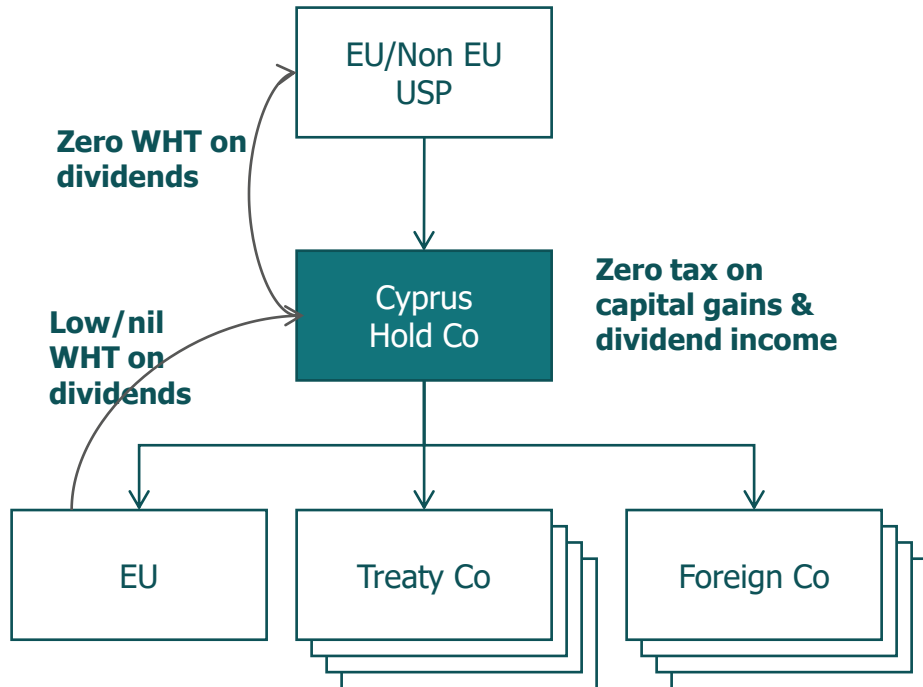


Types of Entities

- **Holding (mostly no tax)**
- **Collective Investment Schemes (Funds)**
- **Financing (very thin spread on back2back loans & notional interest deduction at an effect. Tax rate of 2,5%)**
- **Royalty (effec. tax rate 2,5%)**
- **Real Estate**
- **Trusts (mostly no tax)**
- **Shipping (based on TT)**
- **Trading & dealing structures (effective tax rate can be potentially reduced to 2,5%)**
- **Subsidiaries of investment funds**
- **Employment (very low tax)**

Why use Cyprus for international investments?

Cyprus Holding Company

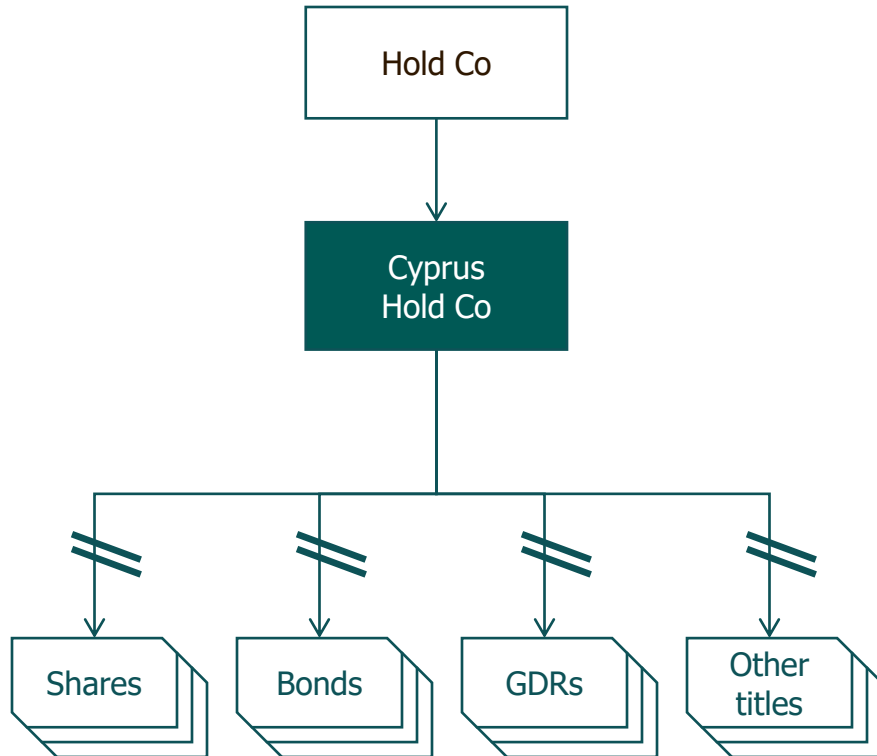


Benefits

- Nil / Low withholding tax (WHT) in target countries due to access to EU directives and/or treaty protection.
- Exemption on dividend income subject to easily met conditions.
- No WHT on dividends, interest and royalties paid out of Cyprus as per domestic legislation.
- Unconditional exemption on capital gains on potential disposal of subs.
- The income in Cyprus may be reinvested allowing for tax deferral at the parent level.
- No exit costs upon liquidation of Cyprus company / capital reduction.

Why use Cyprus for international investments?

Cyprus SPV for trading in “titles”



Tried and Tested by a number of investment companies, financial institutions and Funds.

Benefits

- Profits from trading in qualifying “titles” i.e. shares, bonds, debentures, GDRs etc. are unconditionally exempt from tax in Cyprus.
- Dividend income exempt in Cyprus (subject to easily met conditions)
- No WHT on dividend and interest payments
- Interest income taxable in Cyprus as ‘active’ i.e. at 12,5% flat after tax allowable expenses (foreign tax credits available) – NID available to reduce ETR.
- Option to apply for advance ruling to confirm whether an instrument qualifies under the definition of “titles”.

Cyprus – other non tax benefits / considerations

Permanent Residence Scheme

- Obtaining residency in Cyprus is relatively straightforward with a **processing time of two months** and no requirement for Greek language proficiency.
- An applicant's **spouse and children are also eligible** for a permit.
- There is **no legal requirement to stay in the country** as long as you visit at least once every 2 years.
- The criteria are a **secure and steady annual income of at least €30,000 derived from abroad** and the purchase of **one or two new real estate properties** with a total purchase cost of **at least €300.000**, excluding VAT.
- The VAT rate of 5% is applied for first residences with a total area not exceeding 275 square. The first 200 sq. meters are subject to 5% VAT and anything above 200 sq. meters is subject to the standard rate of VAT, currently 19%.
- There is **no Estate Duty, Wealth, Gift or Inheritance Tax in Cyprus.**

Cyprus – other non tax benefits / considerations

Cyprus Citizenship Scheme

With new incentives and various investment opportunities, the Cyprus citizenship programme has seen increased interest internationally **with the total investment requirement for Cypriot citizenship being €2m.**

A non-Cypriot citizen can apply for Cypriot citizenship, provided that the €2m is invested in at least one or a combination of the following three types of investment:

1. **Alternative Investment Funds (AIFs) or financial assets of Cypriot companies or Cypriot organisations licensed by the Cyprus Securities and Exchange Commission.**
2. **Real estate, land development and infrastructure** projects
3. **Purchase, establishment or participation in Cypriot businesses** or companies
4. **Combination** of all the above

A **high-ranking senior manager may apply for Cypriot citizenship, provided that he or she receives remuneration that generates tax revenue of at least €100,000 over a three-year-period** and this tax is prepaid. Furthermore, the company, which the high-ranking senior manager works for, must fulfil one of the above investment criteria.

Cyprus – other non tax benefits / considerations

Cyprus Citizenship Scheme – cont'd

- The applicant have a clean **criminal record**,
- **own a permanent residence in Cyprus of a market value of at least €500.000**, plus VAT & must be kept for life,
- make the required investment **during the three years preceding the date of application**, and such investment is **retained for at least three years** from the date of acquiring citizenship.

Benefits of receiving the Cyprus Citizenship

- The **application process is approved within a 3 to 6 month** period.
- **Investor and spouse obtain simultaneously the Citizenship**. Adult dependent children (up to 28 years old) and under- age children follow.
- **No requirement to reside in Cyprus.**
- **Access to all the rights of an EU citizen & Dual-citizenship permitted.**
- **Low government application fees.**
- **VISA-free travel to over 150 countries** worldwide.
- No language proficiency tests.
- **There is no Estate Duty, Wealth, Gift or Inheritance Tax in Cyprus.**

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