



# Cyprus Tax Facts 2019

We have great pleasure to forward to you our Firm's annual "**Cyprus Tax Facts 2019**".

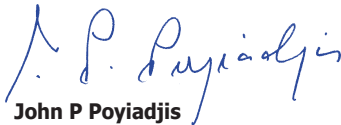
The booklet offers concise information to all taxpayers, both individuals and legal entities, in relation to the tax system in Cyprus for the year 2019 and which is based on the Cypriot tax legislations and tax practices effective as at the date of publication.

The provision of taxation services comprise one of the major and most important services that this Firm offers to its clients both in Cyprus and internationally. This service embraces all aspects of taxation including Corporate and Business taxation, Personal taxation, Global Employer services, Cross border taxation and indirect taxation such as VAT.

Nexia Poyiadjis has the ability and the resources to offer practical solutions tailored to your needs. We continually upgrade our services by investing in both our services and our human capital. As members of Nexia International, one of the oldest and top nine worldwide networks of leading global, independent accounting and consulting firms, we are well placed to service our clients equally efficiently and expertly nationally and internationally.

Nexia International operates across 667 offices with more than 245 member firms in over 117 countries and with 2.837 partners.

We shall be happy to be of service to you too and earn your trust and confidence.



**John P Poyiadjis**  
Chairman

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This publication provides a general description of the Cyprus Tax System and thus for any specific matter/query you should refer to our professional tax advisors appearing at the back of this publication.

February 2019  
Nicosia

## Tax Residence

### Definitions

“Resident in Cyprus”, **when applied to an individual**, means an individual who stays in Cyprus for a period or periods exceeding in aggregate 183 days in any one calendar year.

With effect as from 1 January 2017, an individual may also be considered tax resident in Cyprus if he/she satisfies the “60 day rule”. The “60 day rule” applies to 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. For the purposes of satisfying this condition, 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. In addition to this, the individual must maintain in the tax year a permanent residential property in Cyprus which is either owned or rented by him/her.

**A company** is a tax resident of Cyprus if its management and control is exercised in Cyprus.

**“Permanent establishment”** means a fixed place of business through which the business of an enterprise is wholly or partly carried on, and includes a place of management, branch, office, factory, workshop, mine, oil or gas well, quarry or any other place of extraction of natural resources. In addition, the term includes all activities relating to the extraction, exploration and use of Cyprus’ continental shelf, of the subsoil or the natural resources, and also the construction and exploitation of pipelines and other constructions in the bottom of the sea of Cyprus.

### Resident in Cyprus

In the case of a person (individual or company) who is tax resident in Cyprus, tax is levied on all income accruing or arising from sources both within and outside Cyprus, in respect of:

- Profits or other benefits from any business, office or employment
- Dividends, interest or discounts
- Rents, royalties or other profits arising from property
- Any amount or consideration in respect of any trade goodwill reduced by any amount incurred for the purchase of such trade goodwill.
- Pension, Charge or annuity.

## Income Tax

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- Benefit in kind of 9% per annum on any amount provided by the company as a loan or financial assistance to a director, or to an individual shareholder, or to his/her spouse, or to any relative up to a second degree.

### Non-Resident in Cyprus

In the case of a person (individual or company) who is not tax resident in Cyprus, tax is levied on the income accruing or arising from sources in Cyprus only, in respect of:

- Profits or other benefits from any office or employment exercised in Cyprus
- Pensions derived from past employment exercised in Cyprus
- Rent from property situated in Cyprus
- Any amount or consideration in respect of any trade goodwill reduced by any amount incurred for the purchase of such trade goodwill
- Profits or other benefits from a permanent establishment situated in Cyprus
- The gross income derived by an individual from the exercise in Cyprus of any profession or vocation, the remuneration of public entertainers, and the gross receipts of any theatrical, musical or other group of public entertainers.
- Benefit in kind of 9% per annum on any amount provided by the company as a loan or financial assistance to a director, or to an individual shareholder, or to his/her spouse, or to any relative up to a second degree.

### Tax Rates - Individuals

| <b>Taxable income</b><br>€ | <b>Tax rate</b><br>% | <b>Amount of tax</b><br>€ | <b>Accumulated tax</b><br>€ |
|----------------------------|----------------------|---------------------------|-----------------------------|
| 0 - 19.500                 | 0                    | 0                         | 0                           |
| 19.500 - 28.000            | 20                   | 1.700                     | 1.700                       |
| 28.000 - 36.300            | 25                   | 2.075                     | 3.775                       |
| 36.300 - 60.000            | 30                   | 7.110                     | 10.885                      |
| Over 60.000                | 35                   | -                         | -                           |

### Tax Rates - Companies

|                          |       |
|--------------------------|-------|
| Corporation tax rate     | 12.5% |
| Public corporated bodies | 12.5% |

## Exemptions

|   | <b>Individuals</b> | <b>Legal Entities</b> |
|---|--------------------|-----------------------|
| Income from scholarship or other educational endowment  | 100%               | -                     |
| Income of any religious, charitable or educational institution of a public character  | -                  | 100%                  |
| Capital sums from life insurance policies or approved pension or provident funds or medical schemes   | 100%               | -                     |
| Emoluments of foreign officers of an institution exercising educational, cultural or scientific function                                      | 100%               | -                     |
| Emoluments of foreign diplomatic and consular representatives if not citizens of Cyprus   | 100%               | -                     |
| Income of any company formed exclusively for the purpose of promoting art, science or sport   | -                  | 100%                  |
| Pensions and special grants under special legislation   | 100%               | -                     |
| Income of any co-operative society in respect of transactions with its members  | -                  | 100%                  |
| Income of any local authority   | -                  | 100%                  |
| Income of any approved pension or provident fund or any insurance fund  | -                  | 100%                  |
| Lump sum payment as a retiring gratuity or commutation of pension, or a gratuity on death or as consolidated compensation for death or injury | 100%               | -                     |

# Income Tax

## Exemptions

|  | <b>Individuals</b>       | <b>Legal Entities</b> |
|--|--------------------------|-----------------------|
| Dividends  | 100%                     | 100%                  |
| Profit from the sale of securities*  | 100%                     | 100%                  |
| Interest Income  | 100%                     | 100%                  |
| <p>(Interest accruing to any person from the ordinary carrying on of any business including any interest closely connected with the ordinary carrying on of the business and interest earned by open-ended or closed-ended collective investment schemes is not considered as interest income but trading income and is not exempt).</p>   |                          |                       |
| Remuneration from any office or employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his employment. This exemption applies for a period of 5 years commencing from 1 January following the year of commencement of employment with the last eligible tax year being 2020  | 20% or €8,550 (lower of) | -                     |
| Remuneration from any office or employment exercised in Cyprus by an individual who was a resident outside Cyprus before the commencement of his employment. This exemption applies for a period of 10 years of employment and provided that the annual remuneration exceeds €100,000 (subject to conditions).   | 50%                      | -                     |
| Profits from a permanent establishment situated outside Cyprus, unless the permanent establishment directly or indirectly engages more than 50% in activities which lead to investment income and the foreign tax burden is substantially lower than the tax burden in Cyprus. As from 1 July 2016, taxpayers may elect to tax the profits earned by a foreign permanent establishment, with a tax credit for foreign taxes incurred on those foreign permanent establishment profits. | 100%                     | 100%                  |

## Exemptions

|  | Individuals | Legal Entities |
|--|-------------|----------------|
| Foreign exchange gains, whether realised or unrealised, unless they arise from trading in currencies/currency derivatives  | 100%        | 100%           |
| Remuneration from salaried services rendered outside Cyprus for a total aggregate period of more than 90 days in a tax year to an employer not resident in Cyprus or to a foreign permanent establishment of a Cyprus resident employer. | 100%        | -              |
| Rent of preserved building (under conditions)  | 100%        | 100%           |
| Gains arising from a loan restructuring**  | 100%        | 100%           |

\* 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 there on. As per the relevant circulars issued by the tax authorities in relation to what is included in the term 'securities', it has been clarified that it includes options on securities, short positions on securities, futures/forwards on securities, swaps on securities, depositary receipts on securities (ADR's, GDR's), rights of claim on bonds and debentures, index participations only if they result on securities, repurchase agreements, units in open-ended or closed-ended collective investment schemes, participation in various types of foreign entities etc.

\*\* "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 up to 31 December 2019, which aims to reduce or repay credit facilities or loans or debts granted to borrowers with one or more lenders.



# Income Tax

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## Capital allowances

|   | <b>Annual wear &amp; tear allowance %</b> |
|---|---|
| Industrial, Agricultural and Hotel buildings  | 4   |
| Furniture and fittings  | 10  |
| Commercial buildings, flats   | 3   |
| Machinery & plant (including furniture)   | 10  |
| Machinery and tools used in agricultural business   | 15  |
| Computer hardware and operating software  | 20  |
| Application software  |   |
| Upto €1.709   | 100                                       |
| Over €1.709   | 33 1/3                                    |
| Tools in general  | 33 1/3                                    |
| Tractors, excavators, trenches, cranes, bulldozers, self-propelled loaders  | 25  |
| Motor cars (except saloons) and motorcycles   | 20  |
| New Cargo Ships   | 8   |
| New Passenger Ships   | 6   |
| Used cargo/passenger vessel   | over useful economic life                 |
| New airplanes & New helicopters   | 8   |
| Sailing vessels   | 4,5                                       |
| Motor yachts, steamers, tugs and fishing boats  | 6   |
| Shipmotor launching machinery   | 12,5                                      |
| Wind power generators & Photovoltaic systems  | 10  |
| Armored cars (used by businesses which provide security services)   | 20  |
| Specialized machinery used for construction of rail road's such as locomotive engines, ballast wagon, container wagon and container sleeper wagon | 20  |

Plant and machinery, vehicles (excluding private motor vehicles) and other assets acquired during the tax years 2012 - 2018 are eligible to accelerated tax depreciation at the rate of 20% per annum while in the case of industrial and hotel buildings which are acquired during the tax years 2012 - 2018, an accelerated tax depreciation at the rate of 7% per annum applies.

## Tax deductions for individuals

|  |   |
|--|---|
| Expenses of rented property  | 20% of rental income  |
| Subscriptions to unions or professional bodies   | 100%  |
| Interest paid in respect of rented buildings   | 100%  |
| Donations to approved charitable institutions, supported by receipts   | 100%  |
| Social insurance contributions, life insurance premiums and contributions to approved pension funds or medical funds. (The annual life insurance premiums are restricted to 7% of the insured amount)            | Up to 1/6 of the chargeable income i.e. before the deduction of these allowances  |
| (The life insurance should be taken on the life of the taxpayer but not of his/her spouse. The allowance granted for insuring the life of the spouse is still valid for policies effected before 1 January 2003) |   |
| Loss of current and previous five years  | 100%  |
| In the case of cancellation of a life insurance policy within 6 years from the date of its issuance, a percentage of the premiums, which were previously allowed, is taxable as follows:                         |   |
| - Cancellation within 3 years  | 30%   |
| - Cancellation from 4 to 6 years   | 20%   |
| Investment in approved innovative small and medium business either directly or indirectly  | Up to the whole amount (Restricted to 50% of taxable income as calculated before this deduction with a maximum deduction of €150.000) |
| Expenditure on film infrastructure   | Up to 20% and technological equipment (subject to conditions)   |

## Tax deductions for companies

All expenses incurred wholly and exclusively for the production of income of a company are tax deductible provided they are supported by documentary evidence.

Examples of such expenses are:

- Ordinary annual contributions paid by an employer to approved funds on employees' salaries, including annual contribution to the social cohesion fund. For the medical fund of the employees, the employer's contribution is restricted to 1% on employee's remuneration and for provident & pension funds to 10%.
- Expenditure for scientific research, including research and development undertaken by innovative business
- Repair of premises, plant, machinery and means of transport
- Expenditure on patents or patent rights or intellectual property rights
- Donations or contributions made for educational, cultural or other charitable purposes without a limit
- Expenditure up to €1.200 for building area up to 120 sq m, up to €1.100 for building area of 121 - 1.000 sq m, up to €700 for building area above 1.000 sq m, made for a building under preservation order.
- Interest in relation to the acquisition of business assets used in the business
- Interest expense incurred in relation to the direct or indirect acquisition of 100% of the share capital of a subsidiary company provided that the latter does not own, directly or indirectly, any assets not used in the business eg. loans granted by the subsidiary company are considered as assets used in the business.
- New equity introduced to a company in the form of paid-up share capital or share premium as from 1 January 2015 is eligible for an annual notional interest deduction (NID). The NID will be calculated in the same manner as interest expense on debt financing is usually calculated, and specifically as an interest rate on the new equity. The NID interest rate is calculated on the basis of the 10 year government bond yield (as at December 31 of

## Tax deductions for companies

the prior tax year) of the country where the funds are employed in the business of the company plus a 3% premium (subject to a minimum amount which is the yield on the 10 year Cyprus government bond as at the same date plus a 3% premium) - please see page 15 for further details.

The NID cannot exceed 80% of the taxable profit (as calculated prior to the NID) and can potentially lead to an effective tax rate of as low as 2,5%.

- Expenses in relation to rents receivable
- Interest relating to a rented property
- Entertainment expenses up to 1% of gross income, with a maximum deduction of €17.086
- 80% deemed deduction from net royalty income, net embedded income and other qualifying income derived from qualify ingintangible assets as per the "old" and "new" Cyprus Intellectual Property (IP) regime - please see page 16 for further details.
- Expenditure on film infrastructure - Up to 20% and technological equipment (subject to conditions)

## Deductions not allowed

- Domestic or private expenses including the cost of travelling between the place of residence and the place of work
- Remuneration/interest on capital paid/credited by the business person
- Disbursements/expenses not wholly or exclusively relating to income
- Rent of premises owned and used by the person carrying on of a business
- Any sum employed or intended to be employed as capital
- Expenditure for improvements, alterations/additions to immovable property
- Sums recoverable under an insurance or contract of indemnity
- Cost of goods taken out of the business for private use
- Taxes
- Payments of a voluntary nature
- Expenses of a private motor vehicle
- Interest applicable to the cost of purchase of a private motor vehicle or any other asset not used in the business. This provision does not apply after the lapse of 7 years from the date of purchase of the relevant asset.
- Entertainment expenses exceeding 1% of gross income of the business, subject to conditions
- Foreign exchange losses, whether realised or unrealised, unless they arise from trading in currencies/currency derivatives.
- Salaries for which the related employer contributions are not paid in the year they are due.

No deduction is allowed for expenses which are not supported by invoices and receipts or other supporting documents.

## Tax Losses

The tax loss incurred during a tax year and which cannot be set off against income from other sources in the same year can be carried forward and set off against the profits of the next five years.

### Change of ownership

In case there is any change in the ownership of the shares of a company and a substantial change in the nature of the business of the company, within any three-year period from the year of the loss, then the loss cannot be carried forward to the following years.

In the case where an owner of a business (sole trader), including a partnership, converts his business into a company, any unrelieved losses of the owner may be carried forward into the company.

### Group relief

Set-off of group losses are allowable only with profits of the corresponding year of assessment. Both companies should be members of the same group for the whole year of assessment.

In cases where a company is incorporated by its parent company during a specific tax year then that subsidiary company is considered to be a member of the group for the whole tax year and thus eligible for group loss relief in that tax year.

Two companies shall be deemed to be members of a group if:

- one is by at least 75% subsidiary of the other, or
- each one separately are by at least 75% subsidiaries of a third company.

As from 1 January 2015, a Cyprus tax resident company may also claim the tax losses of a group company which is tax resident in another EU country, provided such EU company firstly exhausts all possibilities available to utilise its losses in its country of residence or in the country of any intermediary EU holding company.

### Losses from a permanent establishment

Losses from a permanent establishment outside Cyprus can be set-off against profits of the company in Cyprus. However, any subsequent profits of the permanent establishment abroad are taxable but only up to the amount of losses allowed.

# Income Tax

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## Special tax rates

|   |    |
|---|----|
| Foreign pensions of individuals resident in the Republic: |    |
| - Up to €3.420  | 0% |
| - Over €3.420   | 5% |

(However, tax payer can elect on an annual basis to be taxed at the normal tax rates and bands set out on page 4).

|   |     |
|---|-----|
| The gross amount arising from intellectual property rights, other exploitation rights, compensations or other similar income, derived from sources within Cyprus by any person not being a resident of Cyprus (and not from a permanent establishment in Cyprus), is subject to withholding tax | 10% |
|---|-----|

|   |    |
|---|----|
| The gross amount of any rental (royalty income) in respect of projection of films in Cyprus, derived by any person who is not a resident of Cyprus, is subject to withholding tax | 5% |
|---|----|

|   |     |
|---|-----|
| The gross income derived by an individual not resident in Cyprus, from the exercise in Cyprus of any profession or vocation, the remuneration of public entertainers not resident in Cyprus including theatrical, musical, football clubs and other athletic missions from abroad, derived from performances in Cyprus, is subject to withholding tax | 10% |
|---|-----|

|   |     |
|---|-----|
| Winnings in excess of €5.000 from games of OPAP and from the National Lottery | 20% |
|---|-----|

|   |    |
|---|----|
| The gross income derived from within Cyprus by non-residents with no local permanent establishment in relation to services carried out in the Republic with respect to extraction, exploration or use of the continental shelf, subsoil or natural resources, as well as the establishment and use of pipelines and other installations on the ground, on the seabed and on the surface of the sea. | 5% |
|---|----|

There is a 5% automatic surcharge on the tax withheld on payments to non-residents in relation to the above categories of income, if such tax is not paid to the tax authorities by the end of the month following the month of payment.

## Notional Interest Deduction (NID)

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When funds are introduced into a company in the form of equity (such new equity can be in the form of paid-up share capital or share premium) instead of interest bearing or interest free loans, a notional deduction of interest (NID) will be granted to the company.

The NID 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 3% premium (subject to a minimum rate which is the yield of the 10 year Cyprus government bond as at the same date, plus a 3% premium).

- The NID is tax deductible in a similar manner as for actual interest expense and cannot exceed 80% of taxable profit of the company/permanent establishment (as calculated prior to NID).
- Taxpayer may elect not to claim all or part of the NID and this is an annual election.
- Via such equity financing, Cypriot companies can achieve through the NID effective tax rates of up to 2,5%.

Such provisions align the tax treatment of equity finance with that of debt finance and through NID, Cyprus companies can be used as financing, central procurement and factoring centres of international groups.



## Intellectual property (IP) regime

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### The 'Old' IP regime

The IP regime was introduced on 1 January 2012. The Qualifying IPs under this regime are Copyrights, Patented inventions, Trademarks (and service marks), designs and models that are used or applied on products.

The Qualifying income constitutes is Royalty income and Profits from the disposal of the IP.

The provisions of this regime stipulate that:

- 80% of worldwide royalty income/profit generated from the exploitation/disposal of IP owned by Cyprus resident company (net of any direct expenses) is exempt from income tax.
- Tax amortisation is available for 5 years.

Cyprus IP companies can achieve a tax rate of 2,5% (or less) on qualifying profits earned from exploiting qualifying IP. IPs currently benefiting from this regime will continue to receive the current benefits until 30 June 2021.

### The 'New' IP regime

As from 1 July 2016, Cyprus has amended its IP regime and is fully aligned with the OECD/G20 Base Erosion and Profit Shifting (BEPS) Action 5 report.

Under the new regime, the 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 conditions). Any IPs relating to marketing (tradenames, brands, trademarks, image rights) are excluded from qualifying IPs.

Qualifying profits (QPs) are calculated based on the "nexus approach". A tax deduction equal to 80% of QPs resulting from the business use of the IP assets is available and this will depend on the level of R&D carried out by the eligible taxpayer to develop the IP (directly, through a taxable foreign branch or outsourced to 3rd parties).

QPs cover royalty income emanating from IPs, embedded IP income in production/services and trading gains from the disposal of the IP.

Tax amortisation is calculated over the useful life of the IP, maximum of 20 years.

The effective tax rate on "qualifying income" from "qualifying IP" could be lower than 2,5% and capital gains arising from the disposal of a qualifying IP asset are fully exempt from income tax.

## Transfer Pricing (TP) Legislation

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The Cyprus tax legislation has introduced specific TP requirements for intra-group financing transactions which are effective as from 1 July 2017.

The Tax Department has issued certain interpretative circulars to that respect, which stipulate that there is an obligation for taxpayers to document intra-group financing arrangements which refer to any activity consisting of the granting of loans or cash advances remunerated by interest (or deemed to be remunerated by interest) to related or connected companies which are financed by financial means and/or other instruments, such as debentures, private loans, cash advances and bank loans.

The latest Circular clarifies that the TP documentation for such intra-group financing transactions should be performed in accordance with the Organisation for Economic Co-operation and Development (OECD) TP Guidelines for Multinational Enterprises and Tax Administrations (TPG).

The relevant legislation will be adopted later this year and will include guidance on the organizational structure of a TP report, with all the details that must be included in order for the report to be considered by the Cyprus tax authorities as a complete TP file. It is also clarified that the TP report should not be submitted to the tax authorities but should be maintained by taxpayers for the period of time required to maintain books and records in accordance with the statute of limitations. If, however, this is requested by the tax authorities, the TP report should be submitted within 60 days upon receiving such request.

Furthermore, companies entering into intercompany transactions should also submit a Summary Information Table (SIT) within nine months from the end of the relevant tax year. The SIT should be submitted by the taxpayer and will include information on related party transactions indicating whether their value exceeds in the aggregate, on an annual basis, €750.000.

### **Wider scope of the TP legislation**

A more extensive and broader TP legislation is anticipated to be introduced later this year, in line with OECD's TPG, covering also non financing transactions. To this respect, taxpayers will be required to prepare and maintain the following documents regarding their intercompany transactions:

- 1) Local TP File
- 2) Master File
- 3) SIT.

# The Cyprus Alternative Investment Funds (AIFs) & Undertakings for Collective Investments in Transferable Securities (UCITS)

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

## Types of funds

**An AIF can take one of the following types and legal forms:**

- Alternative Investment Funds with Limited Number of Persons (50) (AIFLNPs)
- Alternative Investment Funds with Unlimited Number of Persons (AIFs)
- Registered AIFs (RAIFs)

**And the legal forms can be the following for AIFLNPs:**

- Variable Capital Investment Company (VCIC)
- Fixed Capital Investment Company (FCIC)
- Limited Partnership (LP)

**While for AIFs/RAIFs, the legal forms can be:**

- VCIC
- FCIC
- Common Fund (CF)

**UCITS may take the following legal forms:**

- Common Funds (CF)
- Variable Capital Investment Companies (VCIC)

## Taxation aspects of investment Funds

- AIFs and UCITS can be liable to tax depending on their legal status. If they are companies, they are subject to the general provisions of the Cyprus tax framework.
- Management fees charged for the management of AIFs & UCITS can be exempt from Cyprus VAT, under certain conditions.
- Each compartment of an AIF or UCITS is subject to taxation separately, again according to the Cyprus tax framework.

## The Cyprus Alternative Investment Funds (AIFs) & Undertakings for Collective Investments in Transferable Securities (UCITS)

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- Investments in AIFs or UCITS will not constitute a permanent establishment in the Republic in the cases of:
    - (i) for non-Cyprus resident investors as a result of investment into Cyprus tax-transparent investment funds and
    - (ii) as a consequence of the management from Cyprus of non-Cyprus investment funds.
- 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 (which is effectively connected to the carried interest of the fund managing entity) can be taxed at a rate of 8%, with a minimum annual tax charge of Euro 10.000. This special mode of taxation is available for a period of 10 years.
  - AIFMs, UCIT Managers and GPs will be under the obligation to submit a local tax form annually, declaring their annual income from AIFs.

## Special Contribution to the Defence Fund

Special contribution to the defence fund is imposed on income received or deemed to have been received by any person who is a tax (individuals or companies) resident and domiciled in Cyprus.

### Concept of Domicile

As from 16 July 2015, individuals are subject to Special contribution to the defence fund if they are both Cyprus tax resident and Cyprus domiciled. For the purposes of Special Contribution for Defence, an individual is domiciled in Cyprus 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.

### Rates

|  | <b>Domiciled<br/>Individuals<br/>%</b> | <b>Legal<br/>Entities<br/>%</b> |
|--|--|---------------------------------|
| Interest (except interest income arising from the ordinary activities or closely related to the ordinary activities of the business which is exempt) | 30                                     | 30                              |
| Dividends received or deemed to be received from a company resident in Cyprus  | 17 <sup>1</sup>                        | - <sup>1</sup>                  |
| Dividends received from abroad   | 17 <sup>4</sup>                        | - <sup>2</sup>                  |
| Interest from savings certificates and development bonds issued by the Government  | 3                                      | 30                              |
| Interest earned by provident fund, social insurance fund   | -                                      | 3                               |
| Rents (reduced by 25% instead of actual expenses)  | 3 <sup>3</sup>                         | 3 <sup>3</sup>                  |

<sup>1</sup> Dividends declared by a Cyprus tax resident company to another Cyprus tax resident company more than 4 years from the end of the year in which the profits were generated are subject to 17% special defence contribution.

<sup>2</sup> This exemption does not apply if:

- the company paying the dividend engages more than 50% in activities that lead to investment income, and

## Special Contribution to the Defence Fund

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- the foreign tax burden on the income of the company paying the dividend is significantly lower than the tax burden of the company that receives the dividend. The tax authorities have clarified that significantly lower means a tax burden rate of lower than 6.25%.

When the exemption does not apply, the foreign dividend income is subject to 17% special defence contribution.

As from 1/1/2016, this only applies to dividends which are not tax deductible by the paying company. If they are deductible by the paying company, then they are subject to corporation tax.

<sup>3</sup> If the tenant is a Cyprus tax resident company, partnership, the government or any local authority then it is obliged to withhold special defence contribution at source at the rate of 3% on 75% of the amount of the rent and pay the resulting special defence contribution to the tax authorities. For all other cases, the owner of the property should pay the resulting special defence contribution on 30 June and 31 December each year.

### Foreign tax credit

Any foreign tax paid can be credited against the special defence contribution liability irrespective of the existence of a double tax treaty with the foreign country.

## Deemed Dividend Distribution

If a company resident in Cyprus does not distribute 70% of its accounting profits after tax ('after tax' meaning after the deduction of corporation tax, special defence contribution, capital gains tax and any foreign tax) as dividends within two years from the end of the tax year in which the profits relate, then it will be deemed to have distributed this amount as a dividend and such a deemed distribution will be subject to 17% special defence contribution to the extent that the shareholders of the company are both Cyprus tax residents and Cyprus domiciled.

The amount of deemed dividend is reduced by any actual dividend distributed during the two preceding years and during the tax year to which the profits relate.

If a person not resident of Cyprus, receives a dividend from a company resident in Cyprus which arises from profits that at any stage were subjected to deemed dividend distribution, then the special defence contribution paid is refundable to the non-Cyprus resident shareholder.

In the case of companies or groups of companies that are ultimately held by non Cyprus tax residents, the above provisions do not apply.

## Special Contribution to the Defence Fund

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### **Disposal of assets at a price below market value**

If a company disposes an asset to an individual shareholder or spouse/relative up to 2nd degree at a price below market value, then the difference between the price paid and the market value of the asset will be deemed to have been distributed as dividend to the shareholder.

This provision of the law does not apply for assets that were originally provided to the company by way of a gift from its individual shareholder or spouse/relative up to the 2nd degree.

### **Company dissolution**

The cumulative profits of a company of the last five years prior to its dissolution which have not been distributed or deemed to have been distributed as dividends, will be considered as distributed on dissolution and thus will be subject to 17% special defence contribution (3% for Collective Investment Schemes).

The above provision does not apply in the case of dissolution under a Reorganization.

### **Reduction of capital**

Upon capital reduction, the difference between any amounts paid to the shareholders and the amount of share capital originally invested in the company will be treated as deemed dividends and thus subject to 17% special defence contribution. This provision applies to individual shareholders only.

The redemption of units or shares in a Collective Investment Scheme is not subject to the above provisions.

All the above provisions apply only in the cases where the ultimate shareholders of a company are both Cyprus tax resident and Cyprus domiciled individuals.

### Social Insurance contribution rates

|  | %     |
|--|-------|
| Self employed individuals                      | 15.6  |
| Employee                                       | 8.3 * |
| Employer                                       | 8.3 * |
| Employer's contribution to the Redundancy Fund | 1.2 * |
| Industrial training Fund                       | 0.5 * |
| Social Cohesion Fund                           | 2.0   |
| Holiday fund (if not exempt)                   | 8.0 * |

\*Restricted to the maximum level of insurable earnings.

### Deadline for payment of contributions by employers

The above employer contributions should be paid to the Cyprus Social Insurance authorities by the end of the month following the month that the contributions relate.

### Deadline for payment of contributions of self employed

| Months that contributions relate | Deadline for payment |
|----------------------------------|----------------------|
| Jan – Mar                        | 10th of May          |
| Apr – June                       | 10th of Aug          |
| Jul – Sep                        | 10th of Nov          |
| Oct – Dec                        | 10th of Feb          |

### Late payment of contributions

Every employer or self-employed who does not comply with the above deadlines, will have to pay a penalty of 3% for the first month of delay which increases by 3 percentage points for each additional month of delay up to a maximum of 27%.

### Maximum limit of emoluments

|                   | per<br>week<br>€ | per<br>month<br>€ | per<br>year<br>€ |
|-------------------|------------------|-------------------|------------------|
| Weekly employees  | 1.051            | -                 | 54.652           |
| Monthly employees | -                | 4.554             | 54.648           |



## Social Insurance

### Minimum limit of emoluments for self-employed

|   | weekly | yearly |
|---|--------|--------|
|   | €      | €      |
| Persons exercising a profession   |        |        |
| - for a period not more than 10 years   | 385    | 20.033 |
| - for a period of more than 10 years  | 779    | 40.520 |
| Wholesalers, estate agents and other entrepreneurs  | 779    | 40.520 |
| Skilled workers   | 376    | 19.577 |
| Builders and persons practising a profession relevant to the building industry  | 472    | 24.585 |
| Travelling salesmen, postmen, waste collectors, miners, sailors, salesmen, farmers, stock-farmers, fishermen, street vendors and similar occupations  | 263    | 13.659 |
| Secretaries, typists, cashiers, technical assistants, mass media associates, drivers of transportation media, operators of excavators, rubber, plastic, wood assemblers, artisans and similar occupations | 376    | 19.577 |
| Teachers (university, pre-primary, primary and secondary education, assistants and special teachers)  |        |        |
| - for a period not more than 10 years   | 376    | 19.577 |
| - for a period of more than 10 years  | 753    | 39.155 |
| Cleaners, messengers, guards and shop owners  | 359    | 18.667 |
| Butchers, bakers, confectioners, packers of fruits, meat, milk, tobacco and similar occupations   | 289    | 15.024 |
| Designers, computer users, marine engineers, agents, musicians, magicians and persons not under any other occupation.   | 385    | 20.003 |
| Persons not falling under any other occupational category   | 385    | 20.003 |

## National Health System Contributions

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The National Health System (NHS) will be enacted as from 1 March 2019 and the related contributions will be calculated and paid as a percentage on the gross emoluments/pensions for the period 1 March 2019 to 29 February 2020 and likewise for the period starting 1 March 2020 onwards where the percentage will increase as shown below:

|  | <b>1/3/2019</b> | <b>1/3/2020</b> |
|--|-----------------|-----------------|
| (i) Employees' emoluments  | 1,70%           | 2,65%           |
| (ii) Employers   | 1,85%           | 2,90%           |
| (iii) Self employed income   | 2,55%           | 4,00%           |
| (iv) Pension   | 1,70%           | 2,65%           |
| (v) Officers' Remuneration (Persons holding an office)                                 | 1,70%           | 2,65%           |
| (vi) The Republic or natural/legal person responsible for the remuneration of Officers | 1,85%           | 2,90%           |
| (vii) Rental, Interest, Dividend Income etc  | 1,70%           | 2,65%           |
| (viii) The Republic  | 1,65%           | 4,70%           |

NHS contributions are capped at €180.000 annual income.

# Capital Gains Tax

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## Imposition of tax

Capital Gains Tax is imposed on profits from disposal of immovable property (if not subject to income tax) situated in Cyprus, including profits on disposal of shares in companies which own immovable property in Cyprus, and such shares are not listed in any recognized stock exchange.

As from 17 December 2015, profits on disposal of shares of companies which indirectly own immovable property located in Cyprus and at least 50% of the market value of such shares derive from such immovable property, are subject to Capital Gains Tax.

## Capital Gains Tax rate

The Capital Gains Tax is imposed on the net profit from disposal at the rate of 20%.

The net profit is calculated as the disposal proceeds less the market value of the immovable property on 1 January 1980 adjusted for inflation (or cost of the immovable property if the date of acquisition is after 1st January 1980).

Inflation is calculated using the official Retail Price Index. The index on 1 January 1980 was 34,96 (base year 2005).

Certain expenses that are related to the acquisition and disposal of immovable property can also be deducted before arriving to the net profit e.g. legal fees, transfer fees etc.

## Exemptions

- Disposal of immovable property (land and land with buildings) at any time, provided that such immovable property is acquired between 16 July 2015 and 31 December 2016.
- Transfers arising on death.
- Gifts to relatives up to the third degree of kindred.
- Gift by a company, of which all the shareholders are members of the same family, to any of its shareholders when the property gifted was also acquired by the company as a gift. The property must remain in the hands of the donee for a period of at least three years.

- Gift to a company of which the shareholders are and continue to be members of the disposer's family for five years after the date of such gift.
- Gift to the Republic or to a local authority for educational or other charitable purposes or to approved charitable institutions.
- Exchange or disposal of immovable property in accordance with the Agricultural Land (Consolidation) Laws.
- Exchange of properties provided the gain made on the exchange was used to acquire that other property. The gain derived from the exchange reduces the cost of the new property and the tax is paid when the latter property is disposed.
- Gain on disposal of shares, which are listed on any Stock Exchange.
- Gains from transfer of property or shares in case of reorganisation.
- Expropriations.
- Transfer of property under a qualifying loan restructuring.

### Lifetime exemptions for individuals

€

|   |        |
|---|--------|
| For disposal of main private residence<br>(subject to certain conditions) | 85.430 |
| For disposal of agricultural land by a farmer                             | 25.629 |
| For any other disposal  | 17.086 |

The above exemptions are only given once and not for every disposal.

An individual claiming a combination of the above exemptions is only allowed a maximum exemption of €85.430.

## Capital Gains Tax

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### Penalties for late submission

Penalties amounting to €100 or €200 will be imposed for late or non submission of declarations or supporting documentation requested by the Tax Commissioner.

In the event of late payment of the capital gains tax due, an additional penalty of 5% will be imposed on the amount of the unpaid tax.

## Immovable Property Tax

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### Imposition of tax

Immovable property tax has been abolished as from 1 January 2017.

## Estate duty

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Estate duty is not applicable from 1st January 2000.

The administrator/executor of the estate of the deceased should submit to the tax authorities an "assets and liabilities" statement within six months from the date of death.

### Transfer fees

Transfer fees are imposed by the Department of Land and Surveys and apply on transfers of immovable property situated in Cyprus.

| <b>Value<br/>per plot<br/>€</b> | <b>Rate<br/>%</b> | <b>Fees<br/>€</b> | <b>Accumulated<br/>fees<br/>€</b> |
|---------------------------------|-------------------|-------------------|-----------------------------------|
| 0 - 85.000                      | 3                 | 2.550             | 2.550                             |
| 85.000 - 170.000                | 5                 | 4.250             | 6.800                             |
| Over 170.000                    | 8                 | -                 | -                                 |

Please note that:

- No transfer fees are payable upon the purchase of immovable property, if such purchase is subject to VAT.
- The transfer fee is reduced by 50% in case the purchase of immovable property is not subject to VAT.
- In case of free transfers, the following rates apply on the value (values as at 1 January 2013) of the property:
  - from parents to children - Nil
  - between spouses - 0.1%
  - between third degree relatives - 0.1%
  - to trustees - €50

### Transfer fees exemptions

- Transfer of immovable property in the case of companies' reorganization are not subject to any transfer fees or mortgage registration fees.
- Transfers under a qualifying loan restructuring are also exempt.
- Transfers in the context of bankruptcy, liquidation, disposal of mortgaged immovable property by the lender, where the sale proceeds do not exceed €350.000 per owner.

### Mortgage registration fees

1% of the current market value

## Stamp Duty

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The following table provides the amount or rate of duty payable on certain documents. Any contracts relating to assets situated outside Cyprus or business affairs conducted outside Cyprus are not subject to stamp duty.

|  |                   |
|--|-------------------|
| Receipts - For sums of over €4                           | 7 cents           |
| Certified copies of contacts and documents               | €2                |
| General power of attorney                                | €6                |
| Special power of attorney                                | €2                |
| Letters of guarantee                                     | €4                |
| Letters of Credit  | €2                |
| Contracts:   |                   |
| - 0% for amounts up to                                   | €5.000            |
| - 0,15% for amounts between                              | €5.000 - €170.000 |
| - 0,2% for amounts in excess of                          | €170.000          |
| * Capped at a maximum of €20.000                         |                   |
| - Contracts of unspecified amount                        | €35               |
| - Tax residence certificate issued by the Tax Department | €80               |

## Exemption

Transactions involved in a reorganisation of companies or loan restructuring are exempt from stamp duty.

### Upon incorporation of a Cyprus company:

Authorised share capital - €105

Issued share capital – no capital duty payable if the shares are issued at their nominal value. There is a €20 flat duty if the shares are issued at a premium.

### Upon future increases of the share capital:

Authorised share capital – Nil

Issued share capital - €20 flat duty for every additional issue no matter if the shares are issued at a nominal value or at any premium.

## Special Levy on Stock Exchange Transactions

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All stock exchange transactions are subject to a special fee which is paid by the seller or the person who announces the transaction.

|                               |       |
|-------------------------------|-------|
| Individuals and legal persons | 0,15% |
|-------------------------------|-------|

### Transactions exempted:

- issue and buy back of securities by the issuer
- transactions relating to non-convertible corporate bonds or debentures
- transactions relating to debentures, development stocks and Government bills of exchange.
- gifts of securities from parents to their children, between spouses or relatives up to the third degree of kindred
- transfer of securities by reason of death.



## Cyprus Trusts

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A Trust is the legal relationship created when a person (the "Settlor") places assets under the control of a person or persons (the "Trustees(s)") for the benefit of some other person (the "Beneficiaries") or for a specific purpose.

A Trust is not a legal person but a private arrangement governed and construed by applicable legislation and the provisions of the relevant trust deed.

## Cyprus International Trusts

The term "International Trusts" refers to the trusts which are set up under the provisions of the International Trusts Law of 1992 and whereby:

- (a) The Settlor is not a tax resident in Cyprus during the calendar year which precedes the year of creation of the trust
- (b) At least one of the Trustees is a tax resident of Cyprus during the trust period and
- (c) None of the Beneficiaries are tax residents of Cyprus during the calendar year which precedes the year of creation of the trust.

## Taxation of Cyprus International Trusts

- Trusts are transparent for Cyprus tax purposes
- The income of the trust is assessable on each Cyprus tax resident beneficiary (dependent on his personal tax circumstances)
- Tax is also assessable on Cyprus source income
- The trustee is responsible to arrange relevant tax payments and related administrative tax issues, if any.

Cyprus International Trusts that only have non-Cyprus tax resident beneficiaries (or could even be Cyprus tax residents but non Cyprus domicile), non-Cyprus sourced income and no immovable property situated in Cyprus should be completely exempt from any Cyprus taxes.

VAT is imposed on the provision of goods and services in Cyprus, on the acquisition of goods from the European Union and the importation of goods into Cyprus.

Taxable persons charge VAT on their taxable supplies (output VAT) and are charged with VAT on goods or services received (input VAT)

### Rates

|               |     |
|---------------|-----|
| Standard rate | 19% |
| Reduced rate  | 9%  |
| Reduced rate  | 5%  |
| Zero rate     | 0%  |

#### Standard rate 19%

The standard rate applies to any provision of goods and services in Cyprus 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 any similar catering services (including the supply of alcoholic drinks, beer, wine and soft drinks).
- Accommodation in hotels, tourist lodgements and any other similar lodgements including the provision of holiday lodgements.
- Transportation of passengers and their accompanying luggage within the Republic using urban, intercity and rural taxis and by tourist and intercity buses.
- Movement of passengers in inland waters and their accompanying luggage.

#### Reduced rate 5%

The reduced rate of 5% applies to:

- The supply of food stuff
- The supply of foodstuff for animal
- The supply of live animals used for the preparation of food
- Books, newspapers and magazines
- The supply of pharmaceutical products and vaccines for medical and veterinary (with certain exemptions) purposes
- Entry fees to theaters, circus, festivals, luna parks, concerts, museums, zoos, cinemas, exhibitions etc.
- Entry fees at sports events and fees for using athletic centres

## Value Added Tax

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- Hairdressing services
- Repair and maintenance of private households after three years of first residence (excluding the value of materials which constitute more than 50% of the value of the services)
- Supplies in the course of catering by school canteens
- Acquisition and/or construction of residences to be used as the primary and permanent place of residence for the next 10 years - subject to certain conditions (applies to residents of non-EU member states as well).
- Acquisition or construction of residence (subject to conditions)

### Zero rate

The zero rate applies to:

- Exports of goods to non EU countries
- Transportation of passengers from Cyprus to a place outside Cyprus and vice versa, using a seagoing vessel and aircrafts
- Leasing of aircrafts under certain conditions etc.
- Shipmanagement services
- Supply, modification, repair, maintenance, chartering and hiring of sea going vessels / aircrafts subject to conditions
- Goods to be placed in bonded warehouses/customs or temporary importation

### Exemptions

The below are exempt from VAT:

- Rental of immovable property for residence purposes
- Financial, banking and insurance services – some exceptions exist
- Hospital and medical care services
- Postal services by the national postal authority
- Management services provided to mutual funds etc.
- Lottery tickets and betting coupons for football and horse racing.
- Certain cultural, educational and sports activities.

Businesses that make exempt supplies cannot recover the VAT charged on their purchases, expenses and imports while those that make zero rated supplies can.

### 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 up to nine seats
- Entertainment and hospitality expenses (except those relating to employees and directors)

### Registration

Every individual or company is obliged to register if:

- at the end of any month, if the value of taxable supplies recorded in the last 12 months exceeds €15.600 or
- at any point in time the value of taxable supplies are expected to exceed €15.600 in the next 30 days.
- Businesses with turnover of less than €15.600 or with supplies that are outside the scope of VAT but for which the right to claim the amount of the related input VAT is granted, they have the option to register voluntarily.
- provides services to a VAT registered person within the EU – no registration threshold exists in this case.
- receipt of services from abroad for which an obligation to account for Cyprus VAT under the reverse charge provisions exists subject to the registration threshold of €15.600 per any consecutive 12 month period.
- the acquisition of goods from other EU member states is in excess of the threshold of €10.251 during any year
- the supply of intra – EU services for which the recipient of the service must account for VAT under the reverse charge provisions.
- a taxable person from abroad makes distance sales to non VAT registered persons established in other EU member states with a registration threshold of €35.000.

## VAT on immovable property

A number of recent amendments to the Cyprus VAT legislation concerning transactions in real estate were passed during years 2017, 2018 and early 2019, and include the following:

### **Leasing/rental of immovable property & long term lease of such property**

Imposition of VAT on the leasing of immovable property (land and commercial buildings, other than residential buildings which remain exempt for VAT purposes) when used by the lessee in making taxable supplies. The lessor has the right to opt not to impose VAT on the specific property and which option is irrevocable.

As from 1 January 2019 leases of immovable property which effectively transfer the risks and rewards of ownership of immovable property i.e. which essentially gives the lessee the right to sell the property as owner, are considered to be supplies of goods and thus become subject to VAT at the standard rate.

### **VAT on non-developed building land**

As from 2 January 2018, VAT at 19% is imposed on the transfer of non-developed building land, which is defined as a land intended for the construction of one or more structures in the course of carrying out a business activity. 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 a future date or by virtue of a leasing agreement with the right to buy non-developed building land which is intended for the construction of one or more structures in the course of carrying out a business activity.

The above definition includes non-developed building land that is either covered or not from the water supply and covers land plots of all sorts such as 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 land.

No VAT will be imposed on the purchase or sale of land located in a livestock zone or areas which are not intended for development such as zones/areas of environmental protection, archaeological and agricultural.

### **Repossession of immovable property by financial institutions**

As from 2 January 2018, the reverse charge principle should be applied on transactions relating to transfers of immovable property during the process of loan restructuring and for compulsory transfer to the lender, and thus the recipient of the property is liable to account for the VAT.

### **Imposition of the reduced rate of 5% on the renovation and repair of private residences**

As from 4 December 2015 the renovation and repair of used private residences (for which a period of at least three years has elapsed from the date of their first use) is subject to VAT at the reduced rate of VAT of 5%. The renovation and repair consists of plumbing, electrical, carpentry, painting, building and construction work. If the value of the materials used, exceeds the total value of the supply by more than 50%, then the value of the materials is subject to the standard rate of VAT at 19%.

### **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.**

The reduced rate of 5% applies to contracts that have been concluded from 1 October 2011 onwards provided they relate to the acquisition and/ or construction of residences to be used as the primary and permanent place of residence for the next 10 years. Such reduced rate of VAT applies on the first 200 square meters while on the remaining square meters, the standard rate of 19% would apply. In case of families with more than 3 children the allowable covered area increases accordingly.

In order to be eligible for the above, the relevant person must submit an application which will state that the house will be used as the primary and permanent place of residence. The application must be filed prior to the actual delivery of the residence to the eligible person.

As from 8 June 2012 eligible persons include residents of non EU Member States, provided that the residence will be used as their primary and permanent place of residence in the Republic.

# Value Added Tax

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## Administration of intra-community trading/services

The following forms need to be completed for intra community trading/services:

### **Intra-Community Acquisitions**

1. Intrastat form – Arrivals of goods
2. Inclusion in the VAT return

### **Intra-Community Supplies**

1. Intrastat form – Departures of goods
2. VIES form
3. Inclusion in the VAT return

### **Submission deadlines**

- INTRASTAT form - submission no later than the 10th day of the month following the month stated on the INTRASTAT form.
- VIES form - submission within 15 days from the end of the related month.

## VAT returns and payment of VAT

- Any registered person must submit a quarterly VAT return by the 10th day of the second month following the month in which the tax period ends and pay the resulting VAT due.
- If in a quarter, the input tax is higher than the output tax, the difference is refunded or transferred to the next VAT quarter.

## VAT refunds

VAT refunds will be returned to taxpayers with interest which is currently set at 2% p.a., in the case where repayment is delayed for a period exceeding 4 months from the date of submission of the claim. In the case of a VAT investigation, the repayment period is extended to 8 months in total i.e. another 4 months.

### Penalties and interest

|   |                                 |
|---|---------------------------------|
| Late registration.  | €85 per month of delay          |
| Late submission of return.  | €51 for each return             |
| Late payment of VAT   | 10% of amount due plus interest |
| Late de-registration.   | €85                             |
| Late submission of intrastat form   | €15 for each return             |
| Late submission of VIES form  | €50 for each return             |
| Omission to submit the VIES return constitutes a criminal offense with a maximum penalty of | €850                            |
| Penalty for omission to keep proper books and records for a period of 6 years               | €341                            |



## Shipping

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The Merchant Shipping legislation (fully approved by the EU) covers the three basic shipping activities and specifically Ship owning, Ship management and Chartering of vessels.

Under this Shipping Taxation System, qualifying shipping activities are fully exempt from Cyprus direct taxes and taxation occurs under tonnage tax of qualifying ship owners, charterers and ship managers from the operation of qualifying ships in qualifying activities.

The legislation allows non EU/EEA vessels to enter the tonnage tax regime provided the fleet is composed of at least 60% of EU/EEA vessels. If this requirement is not met, then non EU/EEA vessels may still qualify if certain criteria are met.

### Ship owners

Tax exemption applies on:

- Profits from the use of the ships
- Profits from the disposal of such ships
- Profits from the disposal of shares in a ship owning company
- Dividends paid directly or indirectly from the above profits
- Interest income relating to the financing, maintenance, use of a qualifying ship and the working capital

### Charterers

Tax exemption applies on:

- Profits from use of chartered ships
- Dividends paid directly or indirectly from the above profits
- Interest income relating to the working capital of the company qualifying activity provided such interest is used to pay expenses arising from the charter.

The law grants the exemption provided a composition requirement is met. That is, at least 25% of the net tonnage of vessels subject to tonnage tax are owned or are bareboat chartered (can be reduced to 10% under conditions).

## Ship manager

Tax exemption applies on:

- Profits from technical and/or crew management
- Dividends paid directly or indirectly from the above profits
- Interest income relating to the working capital of the company

The tonnage tax rates for ship managers are 25% of the rates applicable to ship owners and charterers for all ships under management (see below table for details).

## Tonnage Tax

The relevant tonnage tax rates are as follows:

| <b>Units of net tonnage</b> | <b>Ship-owners &amp; characters (TT per 100 units)</b> | <b>Ship managers (TT per 400 units)</b> |
|-----------------------------|--|---|
| 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                                   |
| > 40.00                     | 7,30   | 7,30                                    |

The application of the tonnage tax system is compulsory for owners of Cyprus flag ships and optional for owners of non Cyprus flag ships, charterers and shipmanagers.

Any ship owner, charterer, ship manager opting for the tonnage tax system must remain in the system for 10 years unless they have a valid reason to exit.

## Double Tax Treaties

The following table shows the rates of withholding tax deducted from income, by countries that have signed a double taxation treaty with Cyprus i.e. **for income received in Cyprus**

|                            | Received in Cyprus    |                    |                    |
|----------------------------|-----------------------|--------------------|--------------------|
|                            | Dividends<br>%        | Interest<br>%      | Royalties<br>%     |
| Armenia                    | 0                     | 5                  | 5                  |
| Austria                    | 10                    | 0                  | 0                  |
| Bahrain                    | 0                     | 0                  | 0                  |
| Barbados                   | 0                     | 0                  | 0                  |
| Belarus                    | 5 <sup>(4)</sup>      | 5                  | 5                  |
| Belgium                    | 10 <sup>(1)</sup>     | 10 <sup>(16)</sup> | 0                  |
| Bosnia                     | 10                    | 10                 | 10                 |
| Bulgaria                   | 5 <sup>(19)</sup>     | 7 <sup>(25)</sup>  | 10 <sup>(20)</sup> |
| Canada                     | 15                    | 15 <sup>(7)</sup>  | 10 <sup>(11)</sup> |
| China                      | 10                    | 10                 | 10                 |
| Czech Republic             | 0 <sup>(29)</sup>     | 0                  | 10 <sup>(30)</sup> |
| Denmark                    | 0 <sup>(31, 25)</sup> | 0                  | 0                  |
| Egypt                      | 15                    | 15                 | 10                 |
| Estonia                    | 0                     | 0                  | 0                  |
| Ethiopia <sup>(39)</sup>   | 5                     | 5                  | 5                  |
| Finland                    | 5 <sup>(34)</sup>     | 0                  | 0                  |
| France                     | 10 <sup>(2)</sup>     | 10 <sup>(9)</sup>  | 0 <sup>(26)</sup>  |
| Georgia                    | 0                     | 0                  | 0                  |
| Germany                    | 5 <sup>(2)</sup>      | 0                  | 0                  |
| Greece                     | 25 <sup>(21)</sup>    | 10                 | 0                  |
| Guernsey                   | 0                     | 0                  | 0                  |
| Hungary                    | 5                     | 10 <sup>(8)</sup>  | 0                  |
| Iceland                    | 5                     | 0                  | 5                  |
| India                      | 10 <sup>(2)</sup>     | 10 <sup>(8)</sup>  | 10 <sup>(15)</sup> |
| Iran                       | 5 <sup>(40)</sup>     | 5                  | 6                  |
| Ireland                    | 0                     | 0                  | 0 <sup>(12)</sup>  |
| Italy                      | 15                    | 10                 | 0                  |
| Jersey                     | 0                     | 0                  | 0                  |
| Kuwait                     | 0                     | 0 <sup>(8)</sup>   | 5                  |
| Kyrgyzstan <sup>(27)</sup> | 0                     | 0                  | 0                  |
| Latvia                     | 0                     | 0                  | 0                  |
| Lebanon                    | 5                     | 5 <sup>(16)</sup>  | 0                  |
| Lithuania                  | 0                     | 0                  | 5                  |
| Luxembourg <sup>(41)</sup> | 0                     | 0                  | 0                  |

## Double Tax Treaties

### Received in Cyprus

|                              | Dividends<br>%    | Interest<br>%      | Royalties<br>%       |
|------------------------------|-------------------|--------------------|----------------------|
| Malta                        | 0 <sup>(22)</sup> | 10 <sup>(8)</sup>  | 10                   |
| Mauritius                    | 0                 | 0                  | 0                    |
| Moldova                      | 5 <sup>(19)</sup> | 5                  | 5                    |
| Montenegro <sup>(28)</sup>   | 10                | 10                 | 10                   |
| Norway                       | 0 <sup>(3)</sup>  | 0                  | 0                    |
| Poland                       | 0 <sup>(29)</sup> | 5 <sup>(8)</sup>   | 5                    |
| Portugal                     | 10                | 10                 | 10                   |
| Qatar                        | 0                 | 0                  | 5                    |
| Romania                      | 10                | 10 <sup>(8)</sup>  | 5 <sup>(30,14)</sup> |
| Russia                       | 5 <sup>(6)</sup>  | 0                  | 0                    |
| San Marino                   | 0                 | 0                  | 0                    |
| Saudi Arabia <sup>(41)</sup> | 0                 | 0                  | 5                    |
| Serbia <sup>(28)</sup>       | 10                | 10                 | 10                   |
| Seychelles                   | 0                 | 0                  | 5                    |
| Singapore                    | 0                 | 10 <sup>(23)</sup> | 10                   |
| Slovakia                     | 10                | 10 <sup>(8)</sup>  | 5 <sup>(30,14)</sup> |
| Slovenia                     | 5                 | 5                  | 5                    |
| South Africa                 | 5                 | 0                  | 0                    |
| Spain                        | 0 <sup>(35)</sup> | 0                  | 0                    |
| Sweden                       | 5 <sup>(1)</sup>  | 10 <sup>(8)</sup>  | 0                    |
| Switzerland                  | 0                 | 0                  | 0                    |
| Syria                        | 0 <sup>(1)</sup>  | 10 <sup>(8)</sup>  | 15 <sup>(13)</sup>   |
| Tajikistan <sup>(27)</sup>   | 0                 | 0                  | 0                    |
| Thailand                     | 10                | 15 <sup>(17)</sup> | 5 <sup>(18)</sup>    |
| Ukraine                      | 5 <sup>(37)</sup> | 2                  | 5                    |
| United Arab Emirates         | 0                 | 0                  | 0                    |
| United Kingdom               | 0 <sup>(38)</sup> | 0                  | 0                    |
| USA                          | 5 <sup>(2)</sup>  | 10 <sup>(10)</sup> | 0                    |
| Uzbekistan <sup>(27)</sup>   | 0                 | 0                  | 0                    |

## Double Tax Treaties

This table shows the withholding tax rates on outbound payments from Cyprus. **Under Cyprus domestic legislation there is no withholding tax on dividend and interest payments to non-Cyprus residents.** The same applies for royalty payments unless the right is used within Cyprus.

|                            | Dividends/<br>Interest<br>% | Royalties -<br>Right not used<br>in Cyprus<br>% | Royalties -<br>Right used<br>in Cyprus<br>% |
|----------------------------|-----------------------------|---|---|
| Armenia                    | 0                           | 0   | 5   |
| Austria                    | 0                           | 0   | 0   |
| Bahrain                    | 0                           | 0   | 0   |
| Barbados                   | 0                           | 0   | 0   |
| Belarus                    | 0                           | 0   | 5   |
| Belgium                    | 0                           | 0   | 0   |
| Bosnia                     | 0                           | 0   | 0   |
| Bulgaria                   | 0                           | 0   | 5/10  |
| Canada                     | 0                           | 0   | 0/5/10                                      |
| China                      | 0                           | 0   | 5/10  |
| Czech Republic             | 0                           | 0   | 0/10  |
| Denmark                    | 0                           | 0   | 0   |
| Egypt                      | 0                           | 0   | 5/10  |
| Estonia                    | 0                           | 0   | 0   |
| Ethiopia                   | 0                           | 0   | 5   |
| Finland                    | 0                           | 0   | 0/5   |
| France                     | 0                           | 0   | 0/5   |
| Georgia                    | 0                           | 0   | 0   |
| Germany                    | 0                           | 0   | 0   |
| Greece                     | 0                           | 0   | 0   |
| Guernsey                   | 0                           | 0   | 0   |
| Hungary                    | 0                           | 0   | 0   |
| Iceland                    | 0                           | 0   | 5   |
| India                      | 0                           | 0   | 5/10  |
| Iran                       | 0                           | 0   | 5   |
| Ireland                    | 0                           | 0   | 0/5   |
| Italy                      | 0                           | 0   | 0   |
| Jersey                     | 0                           | 0   | 0   |
| Kuwait                     | 0                           | 0   | 5   |
| Kyrgyzstan <sup>(27)</sup> | 0                           | 0   | 0   |
| Latvia                     | 0                           | 0   | 0   |
| Lebanon                    | 0                           | 0   | 0   |
| Lithuania                  | 0                           | 0   | 5   |
| Luxembourg                 | 0                           | 0   | 0   |

## Double Tax Treaties

|                            | Dividends/<br>Interest<br>% | Royalties -<br>Right not used<br>in Cyprus<br>% | Royalties -<br>Right used<br>in Cyprus<br>% |
|----------------------------|-----------------------------|---|---|
| Malta                      | 0                           | 0   | 5/10  |
| Mauritius                  | 0                           | 0   | 0   |
| Moldova                    | 0                           | 0   | 5   |
| Montenegro <sup>(28)</sup> | 0                           | 0   | 5/10  |
| Norway                     | 0                           | 0   | 0   |
| Poland                     | 0                           | 0   | 5   |
| Portugal                   | 0                           | 0   | 5/10  |
| Qatar                      | 0                           | 0   | 5   |
| Romania                    | 0                           | 0   | 0/5   |
| Russia                     | 0                           | 0   | 0   |
| San Marino                 | 0                           | 0   | 0   |
| Saudi Arabia               | 0                           | 0   | 5   |
| Serbia <sup>(28)</sup>     | 0                           | 0   | 5/10  |
| Seychelles                 | 0                           | 0   | 5   |
| Singapore                  | 0                           | 0   | 5/10  |
| Slovakia                   | 0                           | 0   | 0/5   |
| Slovenia                   | 0                           | 0   | 5   |
| South Africa               | 0                           | 0   | 0   |
| Spain                      | 0                           | 0   | 0   |
| Sweden                     | 0                           | 0   | 0   |
| Switzerland                | 0                           | 0   | 0   |
| Syria                      | 0                           | 0   | 5/10  |
| Tajikistan <sup>(27)</sup> | 0                           | 0   | 0   |
| Thailand                   | 0                           | 0   | 5/10  |
| Ukraine <sup>(27)</sup>    | 0                           | 0   | 5/10  |
| United Arab Emirates       | 0                           | 0   | 0   |
| United Kingdom             | 0                           | 0   | 0/5   |
| USA                        | 0                           | 0   | 0   |
| Uzbekistan <sup>(27)</sup> | 0                           | 0   | 0   |

# Double Tax Treaties

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## Notes

1. 15% if received by a company controlling less than 25% of the voting power & in all cases if received by an individual.
2. 15% if received by a company controlling less than 10% of the voting power & in all cases if received by an individual.
3. NIL rate applies if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends or if the beneficial owner of the shares is the government of Cyprus or Norway. A rate of 15% in all other cases.
4. This rate applies if the amount invested by the beneficial owner is over €200.000 irrespective of the % of voting power acquired. 10% is imposed if received by a holder of at least 25% of the share capital of the paying company. Otherwise the rate is 15%.
5. 5% if received by a company controlling at least 10% of the voting power.
6. 10% if received by company, which has invested less than €100.000.
7. NIL if paid to the Government or for export guarantee.
8. NIL if paid to the Government of the other State or to a financial institution.
9. NIL if paid to the Government of the other State or in connection with the sale on credit of any industrial, commercial or scientific equipment or any merchandise by one enterprise to another or in relation to any form of loan granted by a bank or is guaranteed from government or other governmental organization.
10. NIL if paid to the Government of the other State, to a bank or a financial institution or in respect to debt obligations arising in connection with sale of property or the provision of services.
11. NIL on literary, dramatic, musical or artistic work with the exception of films used for television programs.
12. 5% on film royalties (except films shown on TV).
13. 10% on literary, dramatic, musical, artistic work, films and TV royalties.
14. NIL on literary, artistic or scientific work including films.
15. 10% on payment of technical fees, management fees and consultancy fees.

16. NIL if paid to the Government of the other State, a political subdivision or a local authority, the National Bank or any institution the capital of which is wholly owned by the State or a political subdivision or a local authority or in the form of interest income from bank deposits.
17. 10% on interest received from financial institutions, on interest paid in connection with industrial, commercial, scientific equipment or the sale or merchandise between two companies.
18. 10% on right to use industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience and 15% for patents, trademarks, designs, models, plans, secret formulas or processes.
19. This rate is applicable if received by a company owning directly at least 25% of the capital. In all other cases the withholding tax is 10%.
20. This rate does not apply, where 25% or more of the capital of the Cypriot resident is owned directly or indirectly by the Bulgarian resident paying the royalties and the Cyprus company pays less than the normal rate of tax.
21. The treaty provides for 25%, but the domestic rate of NIL applies since it is lower than the treaty rate.
22. The treaty provides that the tax on the gross amount of the dividends shall not exceed that chargeable on the profits out of which the dividends are paid.
23. 7% if paid to a bank or similar financial institution. NIL if paid to the government.
24. The treaty provides for 15% withholding tax but the local taxation provides for 0% withholding tax.
25. NIL if paid to or is guaranteed by the government, statutory body, the Central Bank of the other state.
26. 5% on film royalties, including films used for television programs.
27. The treaty between the Republic of Cyprus and the United Soviet Socialist Republic still applies.
28. The treaty between the Republic of Cyprus and the Socialist Federal Republic of Yugoslavia still applies.
29. The treaty provides for 0% withholding tax if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of



## Double Tax Treaties

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- the shares for an uninterrupted period of no less than 2 years. 5% applies in all other cases.
30. This rate applies for patent, trade mark, design or model, plan, secret formula or process, computer software or industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.
  31. The treaty provides for 0% withholding tax if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the shares for an uninterrupted period of no less than 1 year. 15% applies in all other cases.
  32. A rate of 5% if a dividend is paid by a company in which the beneficial owner has invested less than €150.000.
  33. The provisions of the EU Parent-subsidiary directive apply.
  34. A rate of 15% applies if received by a company controlling less than 10% of the voting power in the paying company and in all other cases if received by an individual.
  35. A rate of 5% applies if received by a company holding less than 10% of the share capital of the paying company and in all cases if received by an individual or company not limited at least partly by shares.
  36. The treaty provides for 0% withholding tax if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the shares for an uninterrupted period of no less than 1 year. NIL rate applies if the beneficial owner is a pension fund or other similar institution or relates to the government of Cyprus or Switzerland. 15% applies in all other cases.
  37. A rate of 15% if a dividend is paid by a company in which the beneficial owner holds less than 20% of the share capital of the paying company and the beneficial owner has invested less than €100.000.
  38. 15% applies to individual shareholders regardless of % holding. Companies controlling less than 10% of the voting shares are entitled to 15%. Companies controlling at least 10% of the voting shares are entitled to NIL withholding tax.
  39. The treaty is effective as from 8 July 2018 for Ethiopia.
  40. A rate of 5% applies if the beneficial owner of the dividends holds directly 25% of the capital of the company paying the dividends. 10% in all other cases.
  41. The treaty has been signed but has not come into effect until the date of this publication.

## Proper accounting books and records

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Every individual, company or partnership engaging in any type of business activity, profession or vacation, or any other occupation must:

- Issue receipts and invoices (invoices must be issued within 30 days from the date on which the transaction has occurred).
- In case of a business which maintains 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 accounting books and records but needs to issue invoices and receipts.

The Tax Commissioner can inspect business premises with reasonable notification.

So up to date compliance is very important!

### End of each month

- PAYE deducted from employees' salaries for the previous month.
- Payment of special defence contribution deducted from dividends and interest paid for the previous month to Cyprus tax residents.
- Payment of special defence contribution deducted from rents where the tenant is a company, the government, partnerships, municipalities or any local authority .
- Social insurance and other contributions deducted from employees' salaries for the previous month.
- Payment of tax withheld in the preceding month on payments to non-Cyprus residents.

### 31 January

- Submission of the deemed dividend distribution declaration (TD623) for the tax year 2016.

### 31 March

- Electronic submission of the 2017 income tax return (TD4) and personal income tax return of individuals preparing audited financial statements (TD1).

### 30 April

- Payment of premium tax by insurance companies for the first four months of 2019.

### 30 June

- Payment of special contribution for defence for the first half of 2019 on rents and dividends or interest from abroad.
- Payment of 2018 personal income tax under self-assessment method by individuals not preparing audited financial statements.

### 31 July

- Electronic submission of Employer's return for tax year 2018 (TD7).
- Electronic submission of 2018 personal income tax return of individuals whose incomes do not include income from trade/business, rents, dividends, interest, royalties nor income relating to trading goodwill.
- Submission of provisional tax declaration for 2019 and payment of the first instalment.

### 1 August

- Payment of 2018 tax balance through self assessment by individuals and companies preparing audited accounts.

### 31 August

- Payment of premium tax by insurance companies for the second four month period of 2019

### 30 September

- Electronic submission of 2018 personal income tax return of individuals not required to prepare audited financial statements but whose incomes include income from trade/business, rents, dividends, interest, royalties or income relating to trading goodwill and payment of tax via self assessment.

### 31 December

- Payment of the second and final instalment of 2019 provisional tax declaration.
- Payment of special contribution for defence for the second half of 2019 on rents and on dividends or interest abroad and for rents for which the tenant has not withheld the special defence contribution at source.
- Payment of premium tax by insurance companies for the last four month period of 2019.

## Interest

The official rate is determined by the Minister of Finance through a decree and it is applicable for the whole year. The rate for 2019 is 2%.

## Penalties

Administrative penalties amounting to €100 or €200 may be imposed on the tax payer for failing to comply with any deadline or other obligation under the laws i.e. late submission of declarations or late submission of supporting documentation requested by the Tax Commissioner.

A 5% penalty will also be imposed on late payment of the unpaid tax due (applies for Income Tax, Special Defence Contribution, Immovable Property Tax, Capital Gains Tax) as per the deadlines provided in the Tax laws and/or as per the deadlines that may be imposed by the Tax Commissioner.

## Your contacts for tax matters

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