DOING BUSINESS IN CYPRUS
2018

BDO

Editors:

Africa: Ridha Hamzaoui, Emily Muyaa
Asia-Pacific: Mei-June Soo, Nina Umar
Caribbean: Priscilla Lachman, Sandy van Thol
Europe: Larisa Gerzova, Adrián Grant Hap, Ivana Kireta, Magdalena Olejnicka, Andreas Perdelwitz, Marnix Schellekens, Kristina Trouch, Ruxandra Vlasceanu
Middle East: Ridha Hamzaoui
Latin America: Vanessa Arruda Ferreira, Maria Bocachica, Diana Calderón Manrique, Lydia Ogazón Juárez
North America: John Rienstra, Julie Rogers-Glabush

IBFD

Visitors' address:
Rietlandpark 301
1019 DW Amsterdam
The Netherlands

Postal address:
P.O. Box 20237
1000 HE Amsterdam
The Netherlands

Tel.: 31-20-554 0100
www.ibfd.org

© 2018 IBFD

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the written prior permission of the publisher. Applications for permission to reproduce all or part of this publication should be directed to: permissions@ibfd.org.

Disclaimer
This publication has been carefully compiled by IBFD and/or its author, but no representation is made or warranty given (either express or implied) as to the completeness or accuracy of the information it contains. IBFD and/or the author are not liable for the information in this publication or any decision or consequence based on the use of it. IBFD and/or the author will not be liable for any direct or consequential damages arising from the use of the information contained in this publication. However, IBFD will be liable for damages that are the result of an intentional act (*opzet*) or gross negligence (*grove schuld*) on IBFD's part. In no event shall IBFD's total liability exceed the price of the ordered product. The information contained in this publication is not intended to be an advice on any particular matter. No subscriber or other reader should act on the basis of any matter contained in this publication without considering appropriate professional advice.

Where photocopying of parts of this publication is permitted under article 16B of the 1912 Copyright Act jo. the Decree of 20 June 1974, Stb. 351, as amended by the Decree of 23 August 1985, Stb. 471, and article 17 of the 1912 Copyright Act, legally due fees must be paid to Stichting Reprorecht (P.O. Box 882, 1180 AW Amstelveen). Where the use of parts of this publication for the purpose of anthologies, readers and other compilations (article 16 of the 1912 Copyright Act) is concerned, one should address the publisher.

DOING BUSINESS IN CYPRUS

JANUARY 2018

BDO

INTRODUCTION

This publication has been prepared by the International Bureau of Fiscal Documentation (IBFD) on behalf of BDO, its clients and prospective clients. Its aim is to provide the essential background information on the taxation aspects of setting up and running a business in this country. It is of use to anyone who is thinking of establishing a business in this country as a separate entity, as a branch of a foreign company or as a subsidiary of an existing foreign company. It also covers the essential background tax information for individuals considering coming to work or live permanently in this country.

This publication covers the most common forms of business entity and the taxation aspects of running or working for such a business. For individual taxpayers, the important taxes to which individuals are likely to be subject are dealt with in some detail. We have endeavoured to include the most important issues, but it is not feasible to discuss every subject in comprehensive detail within this format. If you would like to know more, please contact the BDO firm(s) with which you normally deal. Your adviser will be able to provide you with information on any further issues and on the impact of any legislation and developments subsequent to the date mentioned at the heading of each chapter.

About BDO

BDO is an international network of public accounting, tax and advisory firms which perform professional services under the name of BDO. The global fee income of BDO firms, including the members of their exclusive alliances, was US$8.1 billion in 2017. These firms have representation in 162 countries and territories, with over 73,800 people working out of 1,500 offices worldwide.

BDO's brand promise is to be the leader for exceptional client service - always, and everywhere. When you choose to work with BDO you quickly discover why we're different from the rest. BDO offers a comprehensive collection of high quality tax services and assets designed to support exceptional performance, and all our tax engagements benefit from the hands-on involvement of experienced professionals, backed by world-class resources. We are agile enough to handle the biggest and the smallest names in the industries we serve, and our relationship-driven culture means that we can provide responsive and personalised advice to all our clients.

We work hard to understand our clients' businesses and ensure that we match both our service offering and our people to their complex individual needs. We believe that providing our clients with access to experienced professionals who are actively engaged in addressing their tax and business issues is the most reliable way to provide exceptional service, always with a strong focus on trust and transparency.

Regardless of your location, size or international ambitions we can provide effective support as you expand into new areas of the world. In an ever-evolving economic environment, businesses need a global organisation that provides exceptional, bespoke service combined with local knowledge and expertise. BDO is uniquely positioned to serve this demand, providing effective support and a truly global integrated global footprint.

TABLE OF CONTENTS

CORPORATE TAXATION 9

ABBREVIATIONS 9

INTRODUCTION 9

1. CORPORATE INCOME TAX 10
- 1.1. Type of tax system 10
- 1.2. Taxable persons 10
  - *1.2.1. Residence* 10
- 1.3. Taxable income 11
  - *1.3.1. General* 11
  - *1.3.2. Exempt income* 11
  - *1.3.3. Deductions* 11
  - *1.3.4. Depreciation and amortization* 12
  - *1.3.5. Reserves and provisions* 13
- 1.4. Capital gains 13
- 1.5. Losses 14
  - *1.5.1. Ordinary losses* 14
  - *1.5.2. Capital losses* 14
- 1.6. Rates 14
  - *1.6.1. Income and capital gains* 14
  - *1.6.2. Withholding taxes on domestic payments* 14
- 1.7. Incentives 15
  - *1.7.1. Intellectual property* 15
  - *1.7.2. Tonnage tax regime* 16
- 1.8. Administration 16
  - *1.8.1. Taxable period* 16
  - *1.8.2. Tax returns and assessment* 16
  - *1.8.3. Payment of tax* 16
  - *1.8.4. Rulings* 16

2. TRANSACTIONS BETWEEN RESIDENT COMPANIES 17
- 2.1. Group treatment 17
- 2.2. Intercompany dividends 17
- 2.3. Company reorganizations 17

3. OTHER TAXES ON INCOME 18
- 3.1. Special defence contribution 18
- 3.2. Capital gains tax 18

4. TAXES ON PAYROLL 18
- 4.1. Payroll tax 18
- 4.2. Social security contributions 18
- 4.3. Other taxes 19

5. TAXES ON CAPITAL 19
- 5.1. Net worth tax 19
- 5.2. Real estate tax 19

6. INTERNATIONAL ASPECTS 19
- 6.1. Resident companies 19
  - *6.1.1. Foreign income and capital gains* 19
  - *6.1.2. Foreign losses* 20
  - *6.1.3. Foreign capital* 20
  - *6.1.4. Double taxation relief* 20
- 6.2. Non-resident companies 20
  - *6.2.1. Taxes on income and capital gains* 20

6.2.2. Taxes on capital 21
6.2.3. Administration 21
6.3. WITHHOLDING TAXES ON PAYMENTS TO NON-RESIDENT COMPANIES 21
6.3.1. Dividends 21
6.3.2. Interest 21
6.3.3. Royalties 21
6.3.4. Other 22
6.3.5. Withholding tax rates chart 22

7. ANTI-AVOIDANCE 24
7.1. GENERAL 24
7.2. TRANSFER PRICING 25
7.3. THIN CAPITALIZATION 26
7.4. CONTROLLED FOREIGN COMPANY 26

8. VALUE ADDED TAX 26
8.1. GENERAL 26
8.2. TAXABLE PERSONS 26
8.3. TAXABLE EVENTS 26
8.4. TAXABLE AMOUNT 27
8.5. RATES 27
8.6. EXEMPTIONS 27
8.7. NON-RESIDENTS 28
8.8. OTHER 28

9. MISCELLANEOUS TAXES 28
9.1. CAPITAL DUTY 28
9.2. TRANSFER TAX 29
9.2.1. Immovable property 29
9.2.2. Shares, bonds and other securities 29
9.3. STAMP DUTY 29
9.4. CUSTOMS DUTY 30
9.5. EXCISE DUTY 30

INDIVIDUAL TAXATION 31

ABBREVIATIONS 31

INTRODUCTION 31

1. INDIVIDUAL INCOME TAX 31
1.1. TAXABLE PERSONS 32
1.2. TAXABLE INCOME 32
1.2.1. General 32
1.2.2. Exempt income 33
1.3. EMPLOYMENT INCOME 33
1.3.1. Salary 33
1.3.2. Benefits in kind 33
1.3.3. Pension income 34
1.3.4. Directors' remuneration 34
1.4. BUSINESS AND PROFESSIONAL INCOME 34
1.5. INVESTMENT INCOME 34
1.6. CAPITAL GAINS 34
1.7. PERSONAL DEDUCTIONS, ALLOWANCES AND CREDITS 35
1.7.1. Deductions 35
1.7.2. Allowances 36
1.7.3. Credits 36
1.8. LOSSES 36
1.9. RATES 36
1.9.1. Income and capital gains 36

1.9.2. Withholding taxes 36
1.10. ADMINISTRATION 37
1.10.1. Taxable period 37
1.10.2. Tax returns and assessment 37
1.10.3. Payment of tax 37
1.10.4. Rulings 37

2. OTHER TAXES ON INCOME 38
2.1. SPECIAL DEFENCE CONTRIBUTION (SDC) 38
2.2. CAPITAL GAINS TAX 38

3. SOCIAL SECURITY CONTRIBUTIONS 38
3.1. EMPLOYED 39

4. TAXES ON CAPITAL 39
4.1. NET WEALTH TAX 39
4.2. REAL ESTATE TAX 39

5. INHERITANCE AND GIFT TAXES 39
5.1. TAXABLE PERSONS 39
5.2. TAXABLE BASE 39
5.3. PERSONAL ALLOWANCES 39
5.4. RATES 39
5.5. DOUBLE TAXATION RELIEF 39

6. INTERNATIONAL ASPECTS 40
6.1. RESIDENT INDIVIDUALS 40
6.1.1. Foreign income and capital gains 40
6.1.2. Foreign capital 40
6.1.3. Double taxation relief 40
6.2. EXPATRIATE INDIVIDUALS 40
6.3. NON-RESIDENT INDIVIDUALS 41
6.3.1. Taxes on income and capital gains 41
6.3.2. Taxes on capital 41
6.3.3. Inheritance and gift taxes 42
6.3.4. Administration 42

KEY FEATURES 43

CYPRUS

This chapter is based on information available up to 16 January 2018.

Abbreviations

Abbreviation	*English definition*	*Greek definition*
ACTL	Assessment and Collection of Taxes Law	O Peri Veveoseos kai Eisprakseos Foron Nomos
CGTL	Capital Gains Tax Law	O Peri Forologias Kefalaiouxikon Kerdon Nomos
CL	Company Law	O Peri Etaireion Nomos
IPTL	Immovable Property Tax Law	O Peri Forologias Akinitou Idiokti-sias Nomos
ITL	Income Tax Law	O Peri Forologias tou Eisodimatos Nomos
LRDL	Land Registry Department Law – Rights and Duties	O Peri Ktimatologiou kai Xoro-metrikou Tmimatos Nomos (Teli kai dikaiomata)
SCFL	Social Cohesion Fund Law	O Peri Tameiou Kinonikis Sinoxis Nomos
SDCE	Special Defence Contribution Law for Employees, Pensioners and Self-Employed individuals	O Peri Ektaktis Eisforas Ergodotou-menon, Sintaksiouxon kai Autotelos Ergazomenon tou Idiotikou Tomea Nomos
SDCL	Special Defence Contribution Law	O Peri Ektaktou Eisforas dia tin Amina tis Dimokratias Nomos
SDL	Stamp Duties Law	O Peri Xartosimon Nomos
SIL	Social Insurance Law	O Peri Koinonikon Asfaliseon Nomos
VAT Law	Value Added Tax (Amendment) Law	O Peri Forou Prostithemenis Aksias Nomos

Introduction

Corporate income is subject to corporation tax. Certain types of income derived by companies are also subject to a special defence contribution. Only capital gains from the disposal of immovable property located in Cyprus are subject to separate capital gains tax. Real estate tax has been abolished as of 1 January 2017. Employers are liable to social security contributions and payroll tax. A VAT system in concurrence with the EU directives is applied.

Although new features have been introduced by tax reforms, the tax system still has its roots in the British system. The principal tax legislation applicable to companies is the Income Tax Law of 2002 (ITL) and the Assessment and Collection of Taxes Law of 1978, as amended. The Commissioner of Taxation is responsible for the administration of these laws.

For tax purposes, the Republic of Cyprus consists of the island of Cyprus and includes the sovereign British bases.

The currency is the euro (EUR).

1. Corporate Income Tax

1.1. *Type of tax system*

Resident companies are taxed on their worldwide income (article 5(1) of the ITL). A classical system of taxation applies, under which the profits of a company are first subject to corporation tax at the company level at a rate of 12.5% and, subsequently, upon distribution (including deemed distributions) to individual shareholders resident and domiciled in Cyprus, to a final withholding tax of 17% (the special defence contribution). Generally, no taxes are levied on distributions from a resident company to a corporate shareholder. Furthermore, no taxes are levied on distributions from a resident company to an individual shareholder, either non-resident or non-domiciled resident.

For the treatment of dividends received by resident companies from non-resident companies, *see* section 6.1.1.

1.2. *Taxable persons*

Companies are subject to corporation tax (articles 6 and 25 of the ITL and Appendix 2 of the ITL). The term "company" is defined under Company Law and includes any body of persons with or without legal personality and any comparable entity incorporated or registered abroad. A list of companies of EU Member States qualifying under this term is contained in the Annex to the ITL.

Companies incorporated under the Company Law may be "public" or "private" companies limited by shares and companies limited by guarantee with or without a share capital.

Income derived through a permanent establishment of a non-resident company is generally taxable in Cyprus (*see* section 6.2. for more details).

Partnerships are not taxable entities (articles 2 and 6 of the ITL). They are fiscally transparent. Partnership income is attributed to the partners and subject to income tax or corporation tax, as the case may be. The partnership does not file a return on the partnership income, but the partners must file together with their tax returns the financial statements of the partnership. Trusts, as such, are not taxable entities, but their beneficiaries are taxable through the trustees.

The following entities are exempt from corporate income tax (article 8 of the ITL):

- local municipalities, provided that their income does not arise from a business carried on by the municipality;
- religious, charitable or educational institutions of a public character; and
- cooperatives in respect of transactions carried out with their members.

This survey is restricted to aspects related to the taxation of companies.

1.2.1. Residence

A company is resident if its management and control is exercised in Cyprus (article 2 of the ITL). Registration in Cyprus is not decisive. Resident companies are taxed on their worldwide income, while non-resident companies are taxed on their Cyprus-source income only. A company which is not resident in Cyprus but has a permanent establishment there may opt to be treated as a resident company (and benefit from a worldwide set-off of losses). *See further* section 6.2.

1.3. *Taxable income*

1.3.1. General

Resident companies are taxed on their worldwide income. The categories of income relevant to companies are (article 5 of the ITL):

- business profits (including income from farming and animal husbandry);
- interest accruing from the carrying on of a business activity, including interest closely connected to the ordinary business activities;
- rents, royalties, remunerations or other profits from property; and
- net consideration in respect of trade goodwill.

The net results of these categories are aggregated to form the taxable income. There is no explicit general rule in the law providing how the income is to be determined. However, if no tax rule provides otherwise, tax accounting follows commercial accounting based on International Accounting Standards.

Taxable income is computed by aggregating income from all categories for the tax year and reducing this figure by allowable expenses (*see* section 1.3.5.) incurred in the production of income and by any losses carried forward (*see* section 1.5.) or surrendered by other group companies (group relief). The net figure is subject to corporation tax.

Capital gains (*see* section 1.4.) are taxed separately from income. However, most capital gains are exempt from taxation.

1.3.2. Exempt income

The following items of income are exempt (article 8 of the ITL):

- dividends (*see also* section 2.2.);
- interest not accruing from the carrying on of a business activity, including interest not closely connected to the ordinary activities of the business; however, such amounts are subject to the special defence contribution (*see* section 1.6.2.);
- profits from the sale of securities, including shares in companies and units in mutual funds;
- most forms of capital gains (*see* section 1.4.);
- income from a buy-back or redemption of units in mutual funds;
- gains from a loan restructuring; and
- foreign exchange gains, with the exception of such gains arising from trading in foreign currencies.

1.3.3. Deductions

All outgoings and expenses wholly and exclusively incurred in the production of income, which are properly documented by invoices, receipts or other documents are deductible, including (article 9 of the ITL):

- interest expenses in relation to the acquisition of business assets;
- notional interest deduction (*see* below);
- expenditure for repair of premises, plant, machinery and means of transport;
- contributions to pension, provident and other insurance funds;
- social security contributions;
- bad debts written off and specific provisions for doubtful debts;

- expenditure of a non-capital nature for scientific research;
- expenditure of a non-capital nature on patents or patent rights or royalties; and
- donations to approved charities.

N o deduction is allowed for expenses not wholly and exclusively incurred in the production of income or for expenses wholly and exclusively incurred in the production of income which are not properly documented, including:

- corporation tax and the special defence contribution;
- any payment of a voluntary nature;
- expenses for business entertainment exceeding the lower of 1% of the gross income or EUR 17,086; and
- expenses in respect of private motor vehicles and interest applicable to their purchase cost.

Resident companies and permanent establishments of non-resident companies in Cyprus are entitled to a notional interest deduction (NID) on new equity. The NID is calculated by multiplying the "new equity" issued and used in the business with the "reference interest rate".

The "reference interest rate" is the highest of either:

- the yield of the 10-year government bond of the state in which the new equity is invested plus 3%; or
- the yield of the 10-year Cyprus government bond plus 3%,

as at 31 December of the tax year preceding the relevant tax year.

"New equity" is defined as the equity introduced in the business on or after 1 January 2015 in the form of issued share capital and share premium (provided that these are fully paid).

The NID granted on new equity cannot exceed 80% of the taxable profit as calculated before the application of the NID, i.e. the application of the NID cannot create or increase a loss.

1.3.4. Depreciation and amortization

Annual wear and tear allowances are granted for plant, machinery and buildings, including employees' dwellings, but excluding private motor vehicles (article 10 of the ITL). No capital allowances may be claimed for land.

The rates for the wear and tear allowances are set by the Commissioner. Wear and tear allowances not claimed in a year cannot be claimed in the following years. In the absence of specific rules, accepted accounting principles are applicable. For buildings, the length of life is specified: 25 years for agricultural, industrial or hotel buildings and 33 years for any other building.

For industrial and hotel buildings purchased in the tax years 2012-2018 and for agricultural buildings purchased in tax years 2017 and 2018, the capital allowance rate is increased from 4% to 7%.

For any plant and machinery purchased in the tax years 2012-2018, the capital allowance rate is 20%, unless the capital allowance rate on such assets is higher.

The rate of capital allowances on intangibles (excluding goodwill and assets qualifying for the existing intellectual property (IP) regime) is based on their useful economic life, as determined by generally acceptable accounting principles (with a maximum useful life of 20 years).

On the disposal of an asset, a balancing charge or balancing allowance is required. If the tax value of the disposed asset is lower than the sale proceeds, a balancing addition arises that is restricted to the capital allowances claimed in the past. If the tax value of the asset is higher than the sale proceeds, a balancing allowance on the difference of the two amounts arises. The term "disposal" for this purpose includes the sale and exchange of an asset, but also such events as the destruction or loss of an asset. In the case of replacement of property, a rollover relief for the balancing charge is provided for.

1.3.5. Reserves and provisions

Reserves which are an appropriation of profit, such as a reserve for future dividends, are not deductible; nor may general contingency reserves, such as a reserve for deferred repairs and maintenance, which might be charged in the profit and loss account, be deducted.

Provisions are deductible as long as they are in respect of a specific liability whose exact amount cannot currently be determined (article 9 of the ITL), such as an admitted product liability claim. A general provision for doubtful debts such as one based on a percentage of total debts is not deductible, but a specific provision for doubtful debts is deductible.

1.4. *Capital gains*

In general, capital gains on the disposal of assets are not taxable (article 5 of the ITL).

A capital gain or loss generally arises if there is a disposal of a capital asset. A disposal includes the sale, exchange, leasing of an asset for over 15 years, and the gifting of an asset.

Capital gains tax is imposed at the rate of 20% on:

- gains from the disposal of immovable property situated in Cyprus;
- gains from the disposal of shares of companies not listed on a recognized stock exchange which own immovable property situated in Cyprus; and
- gains from the disposal of shares of companies which indirectly own immovable property situated in Cyprus and derive at least 50% of their market value from such immovable property.

The following disposals of immovable property are exempt from capital gains tax:

- land, as well as land with buildings, acquired during the period between 16 July 2015 and 31 December 2016 (subject to conditions);
- exchange of properties provided the gain is used for the acquisition of new property;
- transfer of ownership or share transfers in the event of company reorganizations; and
- transfers under a qualifying loan restructuring plan.

Upon disposal of the shares of a company which directly or indirectly holds immovable property in Cyprus, the disposal proceeds are calculated based on the market value of this immovable property held directly or indirectly by the company of which its shares

are sold. Furthermore, in case of a disposal between connected parties, where the declared disposal proceeds are lower than the market value of the property, the disposal proceeds are deemed to be the market value of the immovable property on the disposal date (as determined by the Commissioner).

For capital gains arising in the context of a corporate reorganization, *see* section 2.3.

Net consideration in respect of trade goodwill is subject to corporation tax.

For the recovery of depreciation, *see* section 1.3.5. For capital losses, *see* section 1.5.

1.5. *Losses*

1.5.1. Ordinary losses

Any loss is set off against income from other sources for the same year if a corresponding positive amount would be a taxable profit or gain under the ITL. Taxpayers with the obligation to prepare audited financial statements may carry forward any tax losses for a period of 5 years (article 13 of the ITL).

No carry-back is available.

In the case of any change of ownership in the shares of a company and a substantial change in the business of the company within any 3-year period, the right to carry forward losses is lost. The same applies when a company's activities have diminished and, before any substantial reactivation, there is a change in the ownership of shares.

For foreign losses, *see* section 6.1.2.

1.5.2. Capital losses

The Capital Gains Tax Law provides for a set-off of capital losses resulting from the disposal of immovable property located in Cyprus or shares in companies owning such property against taxable capital gains of the same and future years without any time limitation (article 7 of the CGTL).

For group loss relief, *see* section 2.1. For the transfer of losses through reorganizations, *see* section 2.3. For foreign losses, *see* section 6.1.1.

1.6. *Rates*

1.6.1. Income and capital gains

Companies, including public corporate bodies, are subject to corporation tax at a rate of 12.5% (article 25 and Appendix 2 of the ITL).

The rate of capital gains tax (*see* section 1.4.) is 20% (article 4 of CGTL).

1.6.2. Withholding taxes on domestic payments

Dividends and royalties paid to resident companies are not subject to withholding tax.

Where a resident company pays dividends to another resident company, the special defence contribution (*see* section 3.1.) is imposed on that payment if the dividends are paid after 4 years from the end of the year in which the profits which are distributed as dividends were earned.

Interest not accruing from ordinary business activities is subject to a 30% (article 3(2b) of the SDCL) special defence contribution as a final tax.

Interest accruing from ordinary business activities is subject to corporation tax by assessment at the general rate.

For payments to non-residents, *see* section 6.3.

1.7. *Incentives*

The current tax legislation provides for various incentives for investments in Cyprus, in specific contexts, as detailed below.

1.7.1. Intellectual property

On 27 October 2016, significant amendments were introduced in the ITL relating to the provisions of the IP regime.

The amendments provide for the gradual phasing out of the current IP regime and the introduction of a new regime in line with the latest international developments on the taxation of IP income and the OECD action plan on base erosion and profit shifting (BEPS). The amendments to the ITL are supported by Regulations which provide detailed guidance on the calculation and application of the new IP regime.

Current IP regime

Eighty per cent of the profits from IP rights (e.g. royalties), including profits derived from the disposal of the IP rights, received by a Cypriot resident company are exempt from corporate income tax (article 9(e) of the ITL). This regime only applies to IP rights acquired or developed on or after 1 January 2012.

In cases where a company (or a permanent establishment) generates a taxable loss, only 20% of such a loss is eligible for surrender and/or for carry-forward to subsequent years.

Amendments to the current IP regime

The main amendments to the current IP regime include the introduction of grandfathering provisions to limit entrants to the current regime and ensure that the current regime is phased out by 30 June 2021. More specifically, IP existing as at 1 January 2016 and IP developed or acquired from non-connected persons between 2 January and 30 June 2016, continue to benefit from the current IP regime until 30 June 2021. IP acquired from connected persons between 2 January and 30 June 2016 was entitled to the benefits of the current regime only until 31 December 2016.

New IP regime

A new IP regime that defines the assets that are eligible to the tax benefits offered by the regime (qualifying assets) and applies the so-called “nexus approach” in calculating the amount of profits on which the 80% tax exemption is calculated (qualifying profits) is introduced.

Under the new regime, qualifying assets include patents, copyrighted software programs and other intangible assets that are non-obvious, useful and novel but do not include trademarks and copyrights.

Qualifying profits are calculated in accordance with the nexus fraction, under which the amount of profits qualifying for the 80% tax exemption depends on the amount of R&D expenditure incurred to develop the qualifying asset.

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

Qualifying taxpayers eligible for the above-mentioned tax benefits include tax resident persons, permanent establishments (PEs) of non-tax residents, as well as foreign PEs which are subject to tax in Cyprus.

1.7.2. Tonnage tax regime

Special regimes apply to the shipping and ship management industries. Accordingly, income derived from qualifying vessels engaged in qualifying activities (subject to conditions for non-Cyprus and non-EU flag vessels), as well as from the provision of ship management services, is exempt from corporation tax (article 18 of the ITL). Such income is, however, subject to tonnage tax. Income derived from chartered qualifying vessels engaged in qualifying activities may also be exempt from corporation tax and be subject to tonnage tax, provided that certain conditions are met. In addition, no corporation tax or withholding tax is levied on dividends emanating from such income. Salaries of crew members on Cyprus flag ships are exempt from income tax.

1.8. *Administration*

1.8.1. Taxable period

The tax year is the calendar year (article 2 of the ITL and article 2 of the ACTL). Income of companies is assessed to tax on a current year basis. Profits of an accounting year to 31 December are assessed for the respective tax year. With the permission of the Commissioner, and subject to reasonable conditions, the accounts of a company may be closed on a date different from 31 December, in which case the taxable profits are apportioned on a time basis to the respective tax years.

1.8.2. Tax returns and assessment

Cyprus operates a system of self-assessment for corporation tax. Tax returns must be filed by 31 December of the following year (article 5(2) of the ACTL). Taxpayers preparing audited accounts or submitting their income tax return with the assistance of a professional accountant are obliged to submit their tax return electronically.

The submission of tax returns for the year 2017 and for the following years is accepted only in electronic form or other means approved by the Commissioner.

In the case of electronic submission, the deadline is extended by 3 months.

1.8.3. Payment of tax

Companies have to pay provisional tax on the current year's taxable profit in two equal instalments on 31 July and 31 December (article 24 of the ACTL). The provisional tax assessment may be revised by the taxpayer at any time before 31 December of the tax year to which it relates. Any underpayment may be corrected by self-assessment by 1 August of the following year to avoid interest being charged (article 38 of the ACTL).

If the taxable income declared for the payment of the provisional tax is lower than three fourths of the taxable income as finally determined, the taxpayer must pay, in addition to the normal tax, an amount equal to 10% of the difference between the final and provisional tax. Any overpaid tax is refunded. If a taxpayer proves that, in any tax year, more provisional tax has been paid than the actual (correct) amount of tax due, this excess amount is refundable.

1.8.4. Rulings

An advance ruling system on the interpretation of law is used extensively. A ruling request should be addressed to the Tax Department, which is a division of the Ministry of Finance. There are no charges for applying and obtaining a ruling. The time frame for obtaining a ruling is 6 to 8 weeks.

Rulings can be requested on the following:

- the assessment and collection of taxes;
- capital gains tax;
- income tax;
- the Special Defence Contribution; and
- stamp duties.

Issued rulings are binding on the tax administration, provided that all relevant facts are disclosed in the ruling request. Rulings, however, are generally not binding on the taxpayer and on the courts. The taxpayer cannot appeal against a ruling.

A fee of EUR 1,000 is payable to the tax authorities by the taxpayer for the issuance of a tax ruling by the Commissioner. In case the taxpayer requests the issuance of the tax ruling to be expedited (i.e. within 21 working days from the date of submitting the request), the fee increases to EUR 2,000.

2. Transactions between Resident Companies

2.1. *Group treatment*

Taxation on a consolidated basis is not provided for.

A set-off of group losses is possible, provided that there is a 75% parent-subsidiary relationship, including subsidiaries under a 75% control of a common parent company (article 13(8b) of the ITL). This group relief, which is based on the British model, is available only to resident companies and permanent establishments of non-resident companies that elect to be treated as resident companies. Compensations paid to the surrendering company are not taxable and they are not treated as dividends or as an allowable deduction.

Losses may be surrendered to a Cyprus tax resident company, by a company that is tax resident in another EU Member State, provided that such a company has exhausted all possibilities of carrying forward or surrendering its losses in that State or in another Member State (where an intermediary holding company may be based). Special rules apply for group relief among Cypriot resident companies where a foreign intermediary is involved.

A contribution by a group company to its subsidiary is treated like any contribution by a shareholder to his company. On intercompany charges, as well as on any other intra-group transaction, the arm's length principle must be observed.

2.2. *Intercompany dividends*

Dividends distributed by resident companies or funds to other resident companies are exempt from corporation tax (article 8(20) of the ITL). The exemption does not apply to the extent that such dividends are deductible at the level of the dividend paying company.

The special defence contribution may apply to certain dividend distributions. For details, *see* section 3.1.

2.3. *Company reorganizations*

The types of reorganizations covered by the company reorganization rules, and their corporation tax consequences, follow the provisions of the EU Merger Directive. They cover mergers, divisions, partial divisions, transfers of assets and exchanges of shares

and provide for the carry-over of tax values of assets and liabilities, the transfer of losses and tax neutrality at the shareholder level. Relief is also given from capital gains taxation. Yet, the scope of the reorganization rules is much wider than that of the directive. They apply to any body of persons and comparable foreign organizations and are not limited to trans-border reorganizations with companies in EU Member States, but cover any reorganization involving resident companies and/or non-resident companies. Such reorganizations are also exempt from VAT, stamp duty and land transfer tax.

For the conversion of a business, including a partnership, into a company, the same principles apply for income tax, corporation tax and VAT, but no relief is given for capital gains tax, stamp duty and land transfer tax.

However, a reorganization may only take place in a tax-neutral manner if the Commissioner is satisfied that such a reorganization has substantial economic or commercial purpose. The Commissioner may refuse the exemption where, in his judgement, the main purpose or one of the main purposes of such a reorganization was (i) to avoid/postpone/reduce the payment of tax; or (ii) the direct/indirect allocation of an enterprise's undefined assets to any person without payment of the relevant tax or by reduction/postponement thereof.

3. Other Taxes on Income

3.1. *Special defence contribution*

By virtue of the Special Contribution for the Defence of the Republic Law of 2002, resident companies are subject to the defence contribution (article 3 of the SDCL).

Rental income is subject to both corporation tax and the defence contribution (article 5 of the ITL and article 3 of the SDCL). The rate of the special defence contribution is 3%. It is imposed on the gross rental income, as reduced by 25%. The payer of the rent (except for individuals) is obliged to withhold the special defence contribution on the amount of the rent paid. The contribution is not deductible for corporation tax purposes.

For the special defence contribution on interest not accruing from ordinary business activities, *see* sections 1.6.2. and 6.1.1., and on certain dividends from non-resident companies, *see* section 7.1.

3.2. *Capital gains tax*

For the capital gains tax on immovable property, *see* section 1.4.

4. Taxes on Payroll

4.1. *Payroll tax*

A contribution to the Social Cohesion Fund is chargeable at 2% on all salaries and wages of employees (section 3 of the SCFL). This contribution is deductible for corporation tax purposes.

4.2. *Social security contributions*

Employer contributions are payable at the following rates (section 5 of the SIL):

Fund	*Rate (%)*
Social Insurance Fund	7.8
Redundancy Fund	1.2

Fund	*Rate (%)*
Training Development Fund	0.5
Social Cohesion Fund	2.0
Total	11.5

The maximum amount of monthly earnings on which the contributions are payable is EUR 4,533, except for contributions payable to the social cohesion fund for which there is no maximum amount. The contributions are deductible for corporation tax purposes.

For the social security contributions payable by employees and individual entrepreneurs, *see* Individual Taxation section 3.

4.3. *Other taxes*

Between 1 January 2012 and 31 December 2016, private sector employees, self-employed persons and pensioners were obliged to pay a special contribution. The contribution, whose taxable base was the gross monthly salary or pension, was levied at rates ranging from 0% (on gross monthly salary or pension income up to EUR 1,500) to 3.5% (on gross monthly salary or pension income over EUR 3,500) with a minimum contribution of EUR 10. The payment of the special contribution was shared equally by the employer and the employee.

5. Taxes on Capital

5.1. *Net worth tax*

There is no net worth tax.

5.2. *Real estate tax*

Real estate tax has been abolished as of 1 January 2017.

Previously, immovable property located in Cyprus was subject to real estate tax levied on the estimated market value of the property on 1 January 1980 (article 3 of the IPTL). The rates ranged from 0.6% on the first EUR 40,000 to 1.9% on values in excess of EUR 3 million. Persons owning immovable property with a total value not exceeding EUR 12,500 were exempt from real estate tax.

6. International Aspects

6.1. *Resident companies*

For the concept of residence, *see* section 1.2.1.

6.1.1. Foreign income and capital gains

Resident companies are taxed on their worldwide income. Income from sources outside Cyprus is taxed in the same way as domestic income.

The following rules apply with regard to foreign-source income:

- profits from a permanent establishment abroad are exempt in Cyprus (article 36 of the ITL);
- capital gains on immovable property located abroad are not subject to capital gains tax (*see* section 1.4.) (article 4 of theCGTL);
- dividends are exempt from corporation tax and, in general, also from the special defence contribution. The contribution is payable, however, if the anti-avoidance

rules in respect of passive income of the distributing company apply (*see* section 7.1.) (article 8 of the ITL and article 3 of the SDCL); and

- interest income accruing from ordinary business activities of the recipient is subject to corporation tax at the general rate of 12.5% (article 5 of the ITL). Otherwise, foreign interest income is subject to the 30% special defence contribution (article 3 of the SDCL).

6.1.2. Foreign losses

Losses incurred from a business abroad, including losses of a foreign permanent establishment, are deductible (article 13(9) of the ITL). Under a recovery rule, future profits (up to the amount of the losses deducted) from a permanent establishment abroad are taxable, subject to overriding treaty exemptions. For anti-avoidance rules in respect of passive income, *see* section 7.1.

No relief for losses incurred by non-resident members of a group (*see* section 2.1.) is granted.

6.1.3. Foreign capital

There is no net worth tax. Immovable property located abroad is not subject to real estate tax in Cyprus.

6.1.4. Double taxation relief

In the case of foreign-source income that is taxable in Cyprus, unilateral relief for foreign tax (paid directly or by deduction) is given by the credit method on an item-by-item basis, with no carry-over of excess credit (article 36 of the ITL).

Intercorporate dividends from abroad are exempt from corporation tax in Cyprus. Credit is granted for foreign withholding tax on interest, royalties and any other income arising abroad. The credit may not exceed the amount of Cyprus tax payable on the specific source of income.

A credit is granted against the special defence contribution (*see* section 3.1.) for any corporate income tax paid by the direct subsidiary resident in another EU Member State on its profits and on the profits of its lower-tier subsidiaries from which the dividends emanate (article 3 of the SDCL and articles 34-36 of the ITL). Underlying corporate tax may also be credited against the special defence contribution if so provided under a tax treaty with a non-EU state.

For a list of tax treaties in force, *see* section 6.3.5.

6.2. *Non-resident companies*

For the concept of residence, *see* section 1.2.1. A company which is not resident in Cyprus but has a permanent establishment there may opt to be treated as a resident company, in which case it can benefit from a worldwide set-off of losses. For a definition of the term “permanent establishment”, *see* section 6.2.1.

6.2.1. Taxes on income and capital gains

For non-resident companies, the following income is taxable (article 5(2) of the ITL):

- profits derived through a permanent establishment in Cyprus. The definition of a permanent establishment is based on the OECD Model Tax Convention on Income and on Capital. A building site, construction or installation project or supervisory activities already constitute a permanent establishment if it lasts for more than 3 months (overruled by most treaties). The definition also includes offshore activities relating to extraction, exploration or exploitation of the continental shelf,

subsoil or natural resources, as well as the installation and exploitation of pipelines and other installations on the seabed;

- rents, royalties, fees for technical assistance, film rentals or other profits arising from property in Cyprus;
- net consideration in respect of trade goodwill arising from the disposal of a business with a permanent establishment in Cyprus; and
- gross receipts of theatrical, musical or other groups of public entertainers, including football clubs and other athletic missions from abroad, derived from performances in Cyprus, irrespective of the existence of a permanent establishment in Cyprus.

Taxable income is computed in the same way as for resident companies. It is taxed at the same rate of corporation tax as the income of resident companies (*see* section 1.6.1.). For withholding taxes, *see* section 6.3.

Dividend, interest and royalty income derived by a non-resident company may be subject to withholding tax (*see* section 6.3.).

Gains on immovable property located in Cyprus are subject to capital gains tax. Other capital gains derived by non-resident companies are also taxed in the same manner as those derived by resident companies. For more details, *see* section 1.4.

No branch profits tax or branch remittance tax is levied in Cyprus.

6.2.2. Taxes on capital

There is no net worth tax.

Real estate tax has been abolished as of 1 January 2017.

6.2.3. Administration

A non-resident company with Cyprus-source income is subject to the same requirements that apply to resident companies (*see* section 1.8.). Agents or trustees of non-residents are responsible for filing annual returns. Withholding taxes for non-resident companies are final and the respective income is not subject to return requirements.

Cyprus-incorporated companies that are non-residents of Cyprus are obliged to file annual income tax returns.

6.3. *Withholding taxes on payments to non-resident companies*

6.3.1. Dividends

No withholding tax is levied on dividends paid to non-residents.

6.3.2. Interest

No withholding tax is levied on interest paid to non-residents.

6.3.3. Royalties

Royalties paid to non-residents who are not engaged in any business (irrespective of the existence of a permanent establishment) in Cyprus for the use of rights in Cyprus are subject to a final withholding tax (article 21 of the ITL). The rate is 5% on film royalties and 10% on any other royalties, unless a lower rate applies under a treaty (*see* section 6.3.5.).

Under the domestic law implementing the provisions of the Interest and Royalties Directive, outbound royalties are exempt from withholding tax, provided that the beneficial owner of the royalties is an associated company of the paying company and is resident in another Member State or such a company's permanent establishment situated in another Member State (article 21 of the ITL). Two companies are "associated companies" if (i) one of them has a direct minimum holding of 25% in the capital of the other, or (ii) a third EU company has a direct minimum holding of 25% in the capital of the two companies. The relevant companies must have a legal form listed in the Annex of the Directive and be subject to a corporate income tax. No minimum holding period is required.

6.3.4. Other

Non-resident persons (individuals and companies) including a group of entertainers engaged in theatrical, musical or other forms of entertainment, or as football clubs and other athletic missions from abroad are subject to a 10% withholding tax on gross income for performances in Cyprus (article 23 of the ITL).

Fees for technical assistance used in Cyprus paid to non-resident persons (individuals or companies) who are not engaged in trading activities in Cyprus are subject to 10% withholding tax on gross income (article 21 of the ITL), unless a lower rate applies under a treaty (*see* section 6.3.5.).

6.3.5. Withholding tax rates chart

The following chart contains the withholding tax rates that are applicable to dividend, interest and royalty payments by Cyprus companies to non-residents under the tax treaties in force as at the date of review. Where, in a particular case, a treaty rate on royalties is higher than the domestic rate, the latter is applicable. There is no withholding tax under domestic law on dividends and interest, and no tax is withheld on such payments, even where a treaty allows such tax.

A reduced treaty rate on royalties may be applied at source if the appropriate residence certificate has been presented to the withholding agent.

	Dividends[1]		***Interest[2]***	***Royalties***
	Individuals, companies	***Qualifying companies***		
	(%)	***(%)***	***(%)***	***(%)***
Domestic Rates				
Companies:	0	0	0	0/5/10
Individuals:	0	n/a	0	5/10
Treaty Rates				
Treaty With:				
Armenia	5	0	5	5
Austria	10	10	0	0
Azerbaijan[3]	0	0	0	0
Bahrain	0	0	0	0
Barbados	0	0	0	0
Belarus	15	5/10	5	5
Belgium	15	10	0/10[4]	0
Bulgaria	10	5	7	10

	Dividends[1]		Interest[2]	Royalties
	Individuals, companies	Qualifying companies		
	(%)	(%)	(%)	(%)
Canada	15	15	15	0/10[5]
China (People's Rep.)	10	10	10	10
Czech Republic	5	0	0	10[6]
Denmark	15	0	0	0
Egypt	15	15	15	10
Estonia	0	0	0	0
Ethiopia	5	5	5	5
Finland	15	5	0	0
France	15	10	0/10[7]	0/5[8]
Georgia	0	0	0	0
Germany	15	5	0	0
Greece	25	25	10	0/5 [8]
Guernsey	0	0	0	0
Hungary	0	0	0/10[9]	0
Iceland	10	5	0	5
India	10	10	10	10
Iran	10	5	5	6
Ireland	0	0	0	0/5[8]
Italy	0[10]	0[10]	10	0
Jersey	0	0	0	0
Kuwait	0	0	0	5
Kyrgyzstan[3]	0	0	0	0
Latvia	10	0	0/10[11]	0/5[11]
Lebanon	5	5	5	0
Lithuania	5	0	0	5
Malta	15	15	10	10
Mauritius	0	0	0	0
Moldova	10	5	5	5
Montenegro[12]	10	10	10	10
Norway	15	0	0	0
Poland	5	0	5	5
Portugal	10	10	10	10
Qatar	0	0	0	5
Romania	10	10	10	0/5[13]
Russia	10	5	0	0
San Marino	0	0	0	0
Serbia[12]	10	10	10	10
Seychelles	0	0	0	5
Singapore	0	0	7/10[7]	10
Slovak Republic	10	10	10	0/5[13]
Slovenia	5	5	5	5

	Dividends[1]		Interest[2]	Royalties
	Individuals, companies	Qualifying companies		
	(%)	(%)	(%)	(%)
South Africa	10	5	0	0
Spain	5	0	0	0
Sweden	15	5	10	0
Switzerland	15	0	0	0
Syria	15	0	10	10/15[13]
Tajikistan[3]	0	0	0	0
Thailand	10	10	10/15[7]	5/10/15[14]
Turkmenistan[3]	0	0	0	0
Ukraine	15	5	2	5/10[15]
United Arab Emirates	0	0	0	0
United Kingdom	0	0	10	0/5[8]
United States	0	0	0/10[16]	0
Uzbekistan[3]	0	0	0	0

1. No further information is provided with regard to qualifying companies, as under Cypriot law, no tax is withheld on dividends, even where a treaty allows for such a tax.
2. Many treaties provide for an exemption for certain types of interest, e.g. interest paid to the state, local authorities, other public bodies, the central bank, export credit institutions or in relation to sales on credit, interest payable on loans granted or guaranteed by the state. Such exemptions are not considered in this column.
3. The treaty concluded between Cyprus and the former USSR.
4. The zero rate applies to interest on deposits, not represented by bearer instruments, with a banking enterprise.
5. The lower rate applies to copyrights on literary, dramatic, musical and artistic works, excluding films.
6. A most favoured nation clause may be applicable with respect to royalties.
7. The lower rate applies if the interest is received by a bank.
8. The 5% rate applies to films, etc.
9. The zero rate applies to interest on loans in the form of deferred payments, etc.
10. A most favoured nation clause may be applicable with respect to dividends.
11. The lower rate applies to payments made by a company resident of a contracting state to a company (other than a partnership) resident of the other contracting state.
12. The treaty concluded between Cyprus and the former Yugoslavia.
13. The lower rate applies to copyrights on literary, artistic and scientific works, including film and television royalties.
14. The 5% rate applies to artistic and scientific copyrights, including software, films, etc.; the 10% rate applies to equipment leasing and know-how; the 15% rate applies to patents, trademarks, designs or models, plans, secret formulae or processes.
15. The lower rate applies to royalties for copyright of scientific work, any patent, trademark, secret formula, process or information concerning industrial, commercial or scientific experience.
16. The lower rate applies to interest received by a bank or other financial institution and interest received with respect to debt obligations arising in connection with the sale of property or the performance of services.

7. Anti-Avoidance

7.1. *General*

Under a general provision, artificial and fictitious transactions may be disregarded (article 33 of the ACTL). The Commissioner of Taxation may disregard any such transaction and assess tax on the person concerned, accordingly. This provision applies to any transaction (domestic or cross-border), and to residents and non-residents.

Income from a permanent establishment abroad is exempt from income and corporation tax. However, this exemption does not apply if (i) the permanent establishment engages directly or indirectly for more than 50% in activities which lead to investment income and (ii) the foreign tax burden on the income of the PE is substantially lower than that on the head office in Cyprus (article 36(4) of the ITL).

Dividends received by a resident company or a permanent establishment in Cyprus of a non-resident company are exempt from income tax (*see*, however, section 2.2.), corporation tax and the special defence contribution.

However, the special defence contribution is levied on such dividends if (i) the dividends are paid by a non-resident company that engages directly or indirectly for more than 50% in activities which lead to investment income and (ii) the foreign tax burden on the income of that company is substantially lower than that on the recipient company in Cyprus (article 3(2a) of the SDCL).

Where dividend income is received from a company resident in another EU Member State, and such dividend income is subject to corporate tax in Cyprus, unilateral tax relief for the foreign underlying tax paid may not be credited against the Cyprus tax liability, if an arrangement is considered to have been put in place for no valid commercial reason and aims to obtain a tax benefit.

In both cases above, "substantially lower" is interpreted to mean lower than 6.25%. The foreign tax credit (*see* section 6.1.4.) is used to avoid any resulting double taxation.

7.2. Transfer pricing

The arm's length principle must be observed at any transactions between connected persons (article 33 of the ITL). The definition of this principle follows its wording in the OECD Model. The OECD guidelines on transfer pricing are applied, accordingly. A company is connected with another person if that person has, alone or together with other connected persons, control of it.

Where, when applying the arm's length principle, the Commissioner makes an upward adjustment to the taxable profit of a Cyprus resident company or a permanent establishment of a non-Cyprus resident company, the other party involved in the transaction is eligible for a corresponding downward transfer pricing adjustment. Furthermore, if the upward adjustment is made to a loan, financial assistance or a debit balance, the corresponding downward adjustment is deemed to be interest expense, and would be subject to the provisions of the ITL regarding the tax treatment of interest expense.

There is no published guidance or case law available on the type of method to be applied.

The tax authorities issued transfer pricing rules with regard to companies carrying out intra-group financing activities. As such, from 1 July 2017, all back-to-back loan arrangements must be supported by a transfer pricing study, which should consist of an identification of the transactions, a functional and risk analysis, and a comparability analysis.

Companies with a purely intermediary role can choose not to undertake the required transfer pricing analysis and their transactions will be deemed to comply with the arm's length principle if they generate an after-tax return of 2% on assets (simplification measure). The relevant percentages will be regularly reviewed by the tax authorities, based on relevant market analysis.

On 30 December 2016, the Ministry of Finance issued a decree in relation to country-by-country reporting. The decree transposes an EU directive into national law, i.e. Directive 2016/881 regarding mandatory automatic exchange of information in the field of taxation, which requires all EU Member States to implement a country-by-country reporting obligation in line with the requirements included in the OECD BEPS report on Action 13. The decree imposes a country-by-country reporting obligation on multinational groups with a consolidated turnover of EUR 750 million or more in the financial year starting on 1 January 2016.

7.3. *Thin capitalization*

There are no thin capitalization rules.

7.4. *Controlled foreign company*

Cyprus does not have CFC legislation.

8. Value Added Tax

8.1. *General*

The value added tax system of Cyprus was introduced in 1992. It was subsequently amended to transpose related EU provisions, being in line with Council Directive 2006/112/EC on the common system of VAT.

8.2. *Taxable persons*

Entrepreneurs are liable to VAT on taxable supplies of goods and services supplied in the course of their business (article 7 of the VAT Law). Any person, resident or non-resident, carrying on a business activity in Cyprus is obliged to register with the VAT authorities if his taxable supplies exceed the registration threshold of EUR 15,600 per year.

Additionally, persons obliged to register with the Cyprus VAT authorities include (i) persons making intra-Community acquisitions of goods in Cyprus exceeding the annual registration threshold for acquisitions of EUR 10,251.61, (ii) persons established in another EU Member State making distance sales in Cyprus exceeding the annual registration threshold of EUR 35,000 and (iii) persons providing services falling under the reverse charge mechanism (*see* section 8.3.) to other EU VAT registered persons irrespective of the value of the services.

8.3. *Taxable events*

VAT is imposed on taxable supplies of goods and services and on importation of goods from a non-EU country (article 5 of the VAT Law). Input VAT suffered by an entrepreneur on business expenditure is set off against output VAT charged on his supplies.

The general rule is that services are deemed to be supplied at the place where the customer is situated, provided that the customer conducts business activities.

Several exceptions apply to:

- services related to immovable property (when the property is situated outside Cyprus);
- passenger transport services;
- services related to cultural, artistic, sports, scientific, educational, entertainment or similar activities (when these activities take place outside Cyprus);
- short-term hiring of means of transportation;

- the supply of restaurant and catering services;
- the supply of restaurant and catering services for consumption on board ships, aircraft or trains; and
- telecommunications services, broadcasting services and electronically supplied services.

8.4. *Taxable amount*

VAT is charged on the total consideration, net of discounts (article 14, Fourth Schedule of the VAT Law).

8.5. *Rates*

The standard rate is 19% (article 17 of the VAT Law).

A reduced rate of 9% (article 18A, Twelfth Schedule of the VAT Law) applies to:

- the transport of passengers and their accompanying luggage in urban, suburban and rural taxis and in tourist, tour and suburban buses and in local sea transport;
- hotel accommodation services; and
- restaurant transactions and similar catering services including alcoholic beverages.

A reduced rate of 5% rate (article 18, Fifth Schedule of the VAT Law) applies to the supply of books, magazines and newspapers, food, medicine, fertilizers and insecticides used for agricultural purposes, animal foodstuffs, equipment used for the disabled, gas, ice cream and similar products, non-bottled water, nuts, spicy corns, spicy potatoes, admission to shows, theatres and similar cultural events, admission to sporting events, provision of medical and dental care and thermal treatment (if not exempt), children's car seats, renovation and repairing of private dwellings more than 3 years old, plants and ingredients normally intended for use in the preparation of foodstuffs, any kind of confectionery and hairdressing services and letting of places on camping or caravan sites.

The purchase or construction by eligible individuals of their first main residence is subject to the reduced rate of 5% (provided certain conditions are met). Eligible persons are those who (i) are over the age of 18 at the time of submission of the application, (ii) are citizens of Cyprus or another EU Member State, and (iii) did not own any other place of residence in Cyprus. Citizens of non-EU Member States may also apply the 5% rate, provided they use the residence as their primary residence when they visit Cyprus.

Zero-rated supplies include supplies of goods and services to sea-going vessels, and international transportation, as well as exports and intra-Community dispatches of goods and services.

8.6. *Exemptions*

Exempt transactions are those transactions which are specifically exempted from VAT in the VAT Law (article 26, Seventh Schedule of the VAT Law). Taxable persons who offer such supplies have no right to register with the VAT authorities and have no right to claim any input VAT. Exempt supplies include rental of immovable property, financial services, hospital and medical services, postal services and insurance services. However, where the supplier is offering financial and insurance services to customers located in non-EU countries, input VAT is recoverable.

Under a new VAT Law Bill published in the Official Gazette on 13 November 2017:

- new rentals of immovable property are subject to VAT (with certain exemptions and conditions). Rentals of residential buildings do not fall within the scope of this new Law and are still exempt from VAT. This change applies as from 13 of November 2018; and
- the sale of building land is no longer exempt and is thus subject to VAT at the standard rate of VAT (again certain conditions and criteria exist as to the status of the seller and as to which plots of land fall within the scope of the new law). This change applies as from 2 January 2018.

8.7. *Non-residents*

Non-residents carrying on a business activity in Cyprus are obliged to register with the VAT authorities. On registration, they may be requested to appoint a local VAT representative (except EU persons).

Any EU trader who has suffered VAT in Cyprus on business expenditure is entitled to recover it by filing a claim (according to the 8th VAT Directive procedure) with the VAT authorities in the country were the claimant is situated (and not with the Cyprus authorities). This right is also granted to traders from non-EU countries (according to the 13th VAT Directive procedure), provided that a relevant agreement has been concluded between Cyprus and that third country.

8.8. *Other*

A taxable person whose (rightful) claim for a refund of VAT is not paid within 4 months of submission of the claim is entitled to interest (under conditions).

9. Miscellaneous Taxes

9.1. *Capital duty*

Capital duties and allotment fees are payable on the authorized share capital and on the issue price of the shares, as follows (article 387(1)(d) of the CL):

- capital duties of EUR 105.00 plus 0.6% on the nominal value of the authorized share capital; and
- allotment fees fixed at EUR 20.00 for the issue of the shares.

The issue of debentures, whether secured on unsecured, is not subject to capital duty. However, the conversion of debentures or other forms of loan stock into share capital will create a liability to pay capital duty on the newly issued share capital.

The capitalization of reserves will create a liability to pay capital duty on the new share capital issued.

All companies registered with the Cyprus Companies Registry are required to pay an annual levy of EUR 350. This fee is payable from the first year that a company is registered.

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

9.2. *Transfer tax*

9.2.1. Immovable property

Transfers of immovable property are subject to transfer fees calculated on the market value of the property as estimated by the Land Registry Department (article 3 of the LRDL). The current rates range from 3% to 8%, depending of the market value of the property.

Transfers of immovable property by way of donation between the following parties are calculated on the value of the property as at 1 January 2013 at the following rates:

- from parents to children, 0%;
- between spouses, 0.1%; and
- between third-degree relatives, 0.1%.

The following transfers are exempt from transfer fees:

- transfers under an undefined qualifying reorganization;
- transfers under a qualifying loan restructuring; and
- transfers in the context of bankruptcy, liquidation, and disposal of mortgaged immovable property by the lender.

Moreover, transfers of immovable property by a company to another company for the purpose of company reorganization are exempt from transfer fees.

However, transfers of immovable property taking place after 2 December 2011 are exempt from immovable property transfer fees if the transfer is subject to VAT. Where the transaction is not subject to VAT, an exemption of 50% of the transfer fees is granted.

9.2.2. Shares, bonds and other securities

Transfers of shares, bonds and other securities are not subject to transfer fees. However, a special fee is imposed on transactions that take place in the Cyprus Stock Exchange or which are announced on the Stock Exchange. The rate for individuals and companies is 0.15%. The fee is suffered by the seller or the person who announces the transaction.

9.3. *Stamp duty*

In general, stamp duty is payable on a document if it relates to any property situated in Cyprus or to any matter or thing to be performed or done therein, irrespective of the place where it is executed (article 4 of the SDL). This means that even if a document is executed in Cyprus, no stamp duty is chargeable if it relates to any matter or thing to be performed or done outside Cyprus. This provision is particularly relevant for companies carrying on business outside Cyprus.

Stamp duties are levied on many types of commercial and legal documents such as cheques and receipts, letters of guarantee and letters of credit, receipts, customs documents, bills of lading, bills of exchange, powers of attorney, etc. The duty levied is in most cases a fixed EUR amount.

Stamp duties on contracts are as follows (article 4, Appendix 1 of the SDL):

Contract value (EUR)			*(%)*
Up to		5,000	0
5,001	-	170,000	0.15
Over		170,000	0.2[1]

1. A cap of EUR 20,000 applies.

If no amount is specified in the contract, a stamp duty of EUR 35 is due.

9.4. *Customs duty*

In the European Union, customs law is harmonized and applies only to movements of goods between the European Union and third countries. Customs duties, as possibly other taxes (for example VAT (*see* section 8.3.)), are imposed on the import of goods into the EU Customs Union.

The EU Customs Union consists of the EU Member States, as well as Monaco, the Channel Islands, the Isle of Man and the areas of Akrotiri and Dhekelia (Cyprus). Turkey, San Marino and Andorra have separate customs agreements with the EU.

The basis for calculating the customs duty is the customs value, which is generally the sum of the price paid for the goods and any related insurance and shipping costs. A percentage (tariff), which depends on the type and origin of the good being imported, is then applied to the customs value to determine the customs duty payable. The applicable tariff can be found in the Common Customs Tariff (Council Regulation (EEC) No. 2658/87 of 23 July 1987).

EU customs legislation comprises the Union Customs Code (Regulation (EU) No. 952/2013), the Common Customs Tariff, the Customs Duty Relief Regulation and various international agreements. The Union Customs Code, supplemented by the Delegated Act and Implementing Act, replaced the Community Customs Code (Regulation (EEC) No. 2913/92) as from 1 May 2016.

One of the main differences between the Union Customs Code and the Community Customs Code relates to the mandatory use of the “last sale” amount for valuation purposes (i.e. the sale price immediately before the goods are brought into the territory of the European Union). Previously, a “first sale for export” valuation basis was possible, under which duties were imposed on the manufacturer-to-middleman transaction price (which is generally lower than any subsequent sales).

9.5. *Excise duty*

Excise duty is levied on various types of commodities, such as alcoholic drinks, tobacco and hydrocarbon oils.

CYPRUS

This chapter is based on information available up to 16 January 2018.

Abbreviations

Abbreviation	*English definition*	*Greek definition*
ACTL	Assessment and Collection of Taxes Law	O Peri Veveoseos kai Eisprakseos Foron Nomos
CGTL	Capital Gains Tax Law	O Peri Forologias Kefalaiouxikon Kerdon Nomos
ITL	Income Tax Law	O Peri Forologias tou Eisodimatos Nomos
SDCE	Special Defence Contribution Law for Employees, Pensioners and Self-Employed individuals	O Peri Ektaktis Eisforas Ergodotoumenon, Sintaksiouxon kai Autotelos Ergazomenon tou Idiotikou Tomea Nomos
SDCL	Special Defence Contribution Law	O Peri Ektaktou Eisforas dia tin Amina tis Dimokratias Nomos
SIL	Social Insurance Law	O Peri Koinonikon Asfaliseon Nomos

Introduction

Income derived by individuals is subject to income tax. Certain types of income are also subject to a special defence contribution. Capital gains from the disposal of immovable property located in Cyprus are subject to capital gains tax. Real estate tax has been abolished as of 1 January 2017. Employees and self-employed persons are liable to social security contributions. For VAT and miscellaneous indirect taxes, *see* Corporate Taxation sections 8. and 9., respectively.

Although new features have been introduced by tax reforms, the tax system still has its roots in the British system. The principal tax legislation applicable to individuals is the Income Tax Law of 2002 and the Assessment and Collection of Taxes Law of 1978, as amended. The Commissioner of Taxation is responsible for the administration of these laws.

For tax purposes, the Republic of Cyprus consists of the island of Cyprus and includes the sovereign British bases.

From 1 January 2008, the currency is the euro (EUR).

1. Individual Income Tax

Resident individuals are subject to income tax on their worldwide income. Resident individuals that are also domiciled in Cyprus are furthermore subject to a special defence contribution on certain types of income (*see* section 2.). Capital gains are generally not taxable, except for capital gains from the disposal of immovable property located in Cyprus which are subject to a separate capital gains tax (*see* section 1.6.). An expatriate regime is also in place (*see* section 6.2.).

Non-resident individuals are only subject to tax on their Cyprus-source income.

1.1. *Taxable persons*

Resident individuals are subject to income tax on their worldwide income (article 5(1) of the ITL). An individual is resident if he stays in Cyprus for a period or periods exceeding in aggregate 183 days in the tax year (article 2 of the ITL).

As from 1 January 2017 an individual can be a tax resident of Cyprus even if he spends 183 days or less in Cyprus, i.e. provided he satisfies all of the following conditions within the same tax year (1 January – 31 December):

- he does not spend more than 183 days in any other country;
- he is not a tax resident of any other country;
- he spends at least 60 days in Cyprus;
- he maintains a permanent home in Cyprus that is either owned or rented;
- he carries on a business in Cyprus, is employed in Cyprus or holds an office in a Cyprus tax resident company at any time during the tax year.

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

An individual who is not resident in Cyprus but carries on a business through a permanent establishment there may opt to be treated as a resident (to benefit from a worldwide set-off of losses). Non-resident individuals are taxed on their Cyprus-source income only.

The concept of family unit does not exist and therefore husbands and wives are taxed separately.

Partnerships are not taxable entities (article 2 of the ITL). They are treated as transparent, their income being attributed to the partners and being subject to income tax or corporation tax, as the case may be. The partnership does not file a return of partnership income, but the partners must file together with their returns the financial statements of the partnership.

Trusts, as such, are not taxable entities, but their beneficiaries are taxable through the trustees (articles 31 and 32 of the ITL). The tax authorities treat a *local trust*, i.e. a trust under the terms of which either the settlor or any of the beneficiaries is a resident of Cyprus, as transparent for income tax purposes. The special defence contribution on dividends and interest may only be levied if the beneficiary is resident and domiciled in Cyprus. International trusts are exempt from all taxes imposed in Cyprus. In the case of international trusts set up under the International Trust Law, the settlor is not a permanent resident, at least one of the trustees is a permanent resident, no beneficiary is a permanent resident, and the trust property does not include any immovable property located in Cyprus.

1.2. *Taxable income*

1.2.1. General

Resident individuals are taxed on their worldwide income. The categories of income are (article 5(1) of the ITL):

- business profits (including income from a profession or vocation and from farming and animal husbandry);
- income from an office or employment;
- discounts (dividends and interest are listed but exempt);

- pensions, charges or annuities;
- rents, royalties, remuneration or other profits from property; and
- net consideration in respect of trade goodwill.

Taxable income is computed by aggregating the income (net of deductible expenses incurred in the production of income) from all categories for the tax year and reducing this aggregate amount by personal deductions (*see* section 1.7.1.) and by any losses carried forward (*see* section 1.8.). The remaining amount is then subject to income tax.

1.2.2. Exempt income

Exempt from income tax are (article 8 of the ITL):

- profits from the sale of securities, including shares in companies and units in mutual funds;
- income from a buy-back or redemption of units in mutual funds;
- capital sums arising from any payments to pension, provident and other insurance funds;
- foreign exchange (FX) gains with the exception of FX gains arising from the trade in foreign currencies; and
- gains arising from a loan restructuring.

Other types of exempt income are dealt with in connection with the relevant category of income; *see* sections 1.3.1., 1.5. and 6.1.1. For exempt capital gains, *see* section 1.6.

1.3. *Employment income*

1.3.1. Salary

Income from an office or employment, such as salaries, wages, directors' remuneration and fringe benefits, are subject to wage tax withheld at source by the employer (article 43 of the ACTL) (*see* section 1.9.2.). The wage tax follows the income tax rules.

Deductions are granted for expenses wholly and exclusively incurred in the production of income and include contributions to trade unions (article 9 of the ITL). For deductible contributions, *see* section 1.7.1. Commuting costs and costs of moving, in general, are not deductible. For expatriates moving to Cyprus, *see* section 6.2.

Exempt income includes lump sums received by way of retiring gratuities, commutations of pensions, death gratuities or as consolidated compensation for death or bodily injury. Salaries of the crew of Cyprus ships are exempt from income tax. For the exemption of remuneration for work performed abroad, *see* section 6.1.1.

1.3.2. Benefits in kind

Benefits in kind are taxable (article 5(b) of the ITL). As a rule, they are taxed on the basis of their fair market value, which generally means the cost incurred by the person providing them, e.g. living allowances, housing allowances, school fees, medical fees and the provision of a car for private use.

Where the employee is required to travel for business purposes, reasonable allowances may be made free of tax.

A company's director or individual shareholder (or his/her spouse and any relative up to the second degree) receiving financial assistance (e.g. a loan) from the company, is deemed to have obtained a monthly benefit in kind equal to 9% per annum of the monthly balance of the financial assistance. This amount is included in the individual's income subject to income tax. The tax is withheld from the individual's monthly salary, and paid to the Inland Revenue under the pay-as-you-earn (PAYE) system.

Stock options are treated as a benefit in kind, and are taxed when exercised and the benefit for the employee is realized.

1.3.3. Pension income

Cyprus-source pensions are taxed according to the general rules (article 5(d) of the ITL). Wage tax is withheld at source (*see* section 1.9.2.). For pensions based on services rendered abroad, *see* section 6.1.1. Pension and insurance premiums are deductible (*see further* section 1.7.1.).

1.3.4. Directors' remuneration

Directors' remuneration is taxable as income from employment (article 5(b) of the ITL). No special rules apply.

1.4. *Business and professional income*

The tax treatment of business income (including income from a profession or vocation and from farming and animal husbandry) is the same as for companies. For details, *see* Corporate Taxation sections 1.3.3., 1.3.4. and 1.3.5.

1.5. *Investment income*

Dividends received from companies and mutual funds are exempt from income tax (article 8(20) of the ITL). The same applies to interest not accruing from ordinary business activities of an individual (article 8(19) of the ITL). Such dividend and interest income derived by individuals who are resident and domiciled in Cyprus is, however, subject to the special defence contribution (*see* section 2.1.).

Rents and royalties are taxed according to the general income tax rules (articles 5(e) and 9(2) of the ITL). No withholding tax is levied on such income. However, 20% of the rental income from immovable property is exempt from tax. No withholding tax is levied on such payments to residents. Rents are also subject to defence contribution (*see* section 2.1.).

For foreign-source investment income, *see* section 6.1.1.

1.6. *Capital gains*

In general, capital gains are not taxable.

Capital gains tax is imposed at the rate of 20% on:

- gains from the disposal of immovable property situated in Cyprus;
- gains from the disposal of shares of companies not listed on a recognized stock exchange which own immovable property situated in Cyprus; and
- gains from the disposal of shares of companies that indirectly own immovable property situated in Cyprus and derive at least 50% of their market value from such immovable property.

A specific exemption from capital gains tax is available for gains arising on the disposal of immovable property located in Cyprus, which was acquired between 16 July 2015 and 31 December 2016.

There are cumulative life-time exemptions of EUR 85,430 for a private residence, provided that it was occupied by the owner for at least 5 years, EUR 25,629 for owner-occupied farm land and EUR 17,086 in other cases. The base value for inherited immovable property is the value at the date on which the property was acquired by the deceased. Capital gains tax is not deductible for income tax purposes. For the treatment of losses on the disposal of immovable property, *see* section 1.8.).

Net consideration in respect of trade goodwill is subject to income tax.

For the recovery of depreciation, *see* Corporate Taxation section 1.3.5. For capital losses, *see* section 1.8.

1.7. *Personal deductions, allowances and credits*

1.7.1. Deductions

In general, the deductions listed below are available to non-residents as well as to residents.

The most important general personal deductions are (article 9 of the ITL):

- donations to approved charities;
- expenditure for investments into an innovative business (subject to conditions);
- contributions to the Social Insurance Fund (*see* section 3.) and similar contributions paid abroad; and
- premiums for life insurance and contributions to pension plans (*see also* section 1.3.3.) and medical funds. There is an overall limit of one sixth of taxable income and a specific limit for life insurance of 7% of the insured capital sum. Contributions made to insurance companies' pension and/or medical schemes approved by the Commissioner can also be claimed as a tax-deductible expense.

A tax relief for investors in qualifying small and medium-sized innovative enterprises was introduced with effect from 1 January 2017. The provisions are included in section 9A of the ITL and aim to foster investments in start-up companies and innovative companies. The tax benefits include a deduction of the cost of a qualifying investment from the investor's taxable income of up to a maximum amount of 50% of the taxable income or EUR 150,000, whichever is lower. The benefit may be allocated and distributed in a 5-year period; thus, any cost above the 50% limit (or EUR 150,000 if lower) may be carried forward for deduction against the taxable income of subsequent years, subject to the above limitation.

To be considered innovative, a company must have spent 10% of its operating capital on research and development in at least one of the last 3 years, as verified by an external auditor. For start-up companies with no financial history, the assessment will be made based on a business plan.

A qualifying investment requires that the investor is independent, i.e. he/she must not already be an investor of the investee enterprise. The Commissioner may not allow the provision of the above-mentioned deduction if the investor disposes of his/her investment within 3 years.

The provisions apply until 1 January 2020.

1.7.2. Allowances

No personal allowances are granted such as for children, spouses or old age.

1.7.3. Credits

There are no credits.

1.8. *Losses*

Losses from one source of income can be set off against income from any other source. Taxpayers with the obligation to prepare audited financial statements may carry forward any tax losses for a period of 5 years (article 13 of the ITL). Taxpayers who have such an obligation are legal entities (companies) and individuals with income in excess of EUR 70,000.

The Capital Gains Tax Law provides for a set-off of capital losses resulting from the disposal of immovable property located in Cyprus or shares in companies owning such property against taxable capital gains of the same and future years without any time limitation.

For foreign losses, *see* section 6.1.1.

1.9. *Rates*

1.9.1. Income and capital gains

The following rates apply (article 25 and Appendix 2 of the ITL):

Taxable income (EUR)			*Rate (%)*
Up to		19,500	0
19,501	-	28,000	20
28,001	-	36,300	25
36,301	-	60,000	30
Over		60,000	35

The rate of capital gains tax (*see* section 1.6.) is 20%.

For the special defence contribution, *see* section 2.1.

1.9.2. Withholding taxes

An employer must deduct income tax on wages and salaries, including benefits in kind, under the wage tax system (articles 43 and 44 of the ACTL) (a Pay-As-You-Earn (PAYE) system), which is based on regular income tax rates. The same system also applies to payments of pensions.

There is no withholding of income tax on dividends, interest or royalties paid to resident individuals. There is no withholding tax on other income.

For the defence contribution on dividends and interest, *see* section 2.1.

For payments to non-residents, *see* section 6.3.1.

1.10. *Administration*

1.10.1. Taxable period

The tax year is the calendar year (article 2 of the ITL and article 2 of the ACTL). Income is assessed on the current year basis. Individuals engaged in a business may, with the consent of the Commissioner, use an accounting date other than 31 December, in which case the taxable profits are apportioned on a time basis to the respective tax year.

1.10.2. Tax returns and assessment

Tax returns must be filed by 30 April following the tax year for employees, by 30 June for self-employed persons if they have no obligation to file audited accounts, and by 31 December for self-employed persons if their returns are accompanied by audited accounts (article 5 of the ACTL). Individuals who prepare audited accounts or persons that submit their income tax return with the assistance of a professional accountant are obliged to submit their tax return electronically. The individual taxpayers (or their employers) are entitled to pay their taxes by self-assessment with the submission of their tax returns.

The submission of tax returns for the year 2017 and for the following years is accepted only in electronic form or other means approved by the Commissioner. The deadline for electronic submission is 3 months after the deadline for the manual submission of the returns.

The assessment is made by the Commissioner on the basis of the return and additional information which might be requested. If full information is not furnished in time, the Commissioner may issue an estimated assessment.

1.10.3. Payment of tax

Emoluments from employment (wages) and pensions are subject to deduction at source by the employer or other payer (*see* section 1.9.2.). In the case of an assessment, credit is given for tax already paid under the PAYE system.

For income other than emoluments and pensions, provisional tax is payable on account in two instalments on 31 July and 31 December in the tax year (article 24 of the ACTL).

1.10.4. Rulings

Under an advance ruling system, a ruling request should be addressed to the Income Tax Head Office in Nicosia (a division of the Ministry of Finance). There are no charges for applying and obtaining a ruling. The time frame for obtaining a ruling is 3 to 4 weeks.

Issued rulings are binding on the tax administration, provided that all relevant facts are disclosed in the ruling request. Rulings, however, are generally not binding on the taxpayer and on the courts. The taxpayer cannot appeal against a ruling.

A fee of EUR 1,000 is payable to the tax authorities by the taxpayer for the issuance of a tax ruling by the Commissioner of Taxation. In case the taxpayer requests the issuance of the tax ruling to be expedited (i.e. within 21 working days from the date of submitting the request), the fee increases to EUR 2,000.

2. Other Taxes on Income

2.1. *Special defence contribution (SDC)*

By virtue of the Special Contribution for the Defence of the Republic Law of 2002, up to 15 July 2015 all residents were subject to the defence contribution. As from 16 July 2015, in order to be subject to defence contribution, a resident also needs to be domiciled in Cyprus (article 2 of the SDCL). The contribution is a final levy. The defence contribution is not deductible for income tax purposes.

A person is treated as "domiciled in Cyprus" if he has a domicile of origin in Cyprus. The following persons are, however, not treated as domiciled in Cyprus:

- a person who has acquired and maintains a domicile of choice outside Cyprus, provided that he was not resident in Cyprus for any period of at least 20 consecutive years before the tax year; or
- a person who has not been resident in Cyprus for a period of at least 20 consecutive years immediately before 16 July 2015.

A person derives a domicile of origin from his father at the year of birth. It is further provided that regardless of the domicile of origin, any person who is resident for at least 17 out of the last 20 years before the tax year, will be deemed domiciled in Cyprus.

Dividends received from companies and funds are subject to the special defence contribution at the rate of 17% (article 3(2a) of the SDCL). The contribution on domestic dividends is withheld at source. The contribution on foreign dividends is levied by assessment. The contribution is computed on the gross payment, with no deduction for expenses being allowed. The contribution is also payable on deemed distributions: a resident company/fund is deemed to have distributed 70% of its accounting profits if such profits have not been distributed within 2 years of being earned. Dividends are exempt from income tax.

Interest income not accruing from ordinary business activities is subject to the special defence contribution at a rate of 30% (article 3(2b) of the SDCL) (15% before that date). The contribution on interest income earned by residents is withheld at source. The contribution on foreign interest is levied by assessment. The contribution is computed on the gross income, with no deduction for expenses being allowed. Individuals with an annual income not exceeding EUR 12,000 may apply for a 27% refund. A 3% rate applies, inter alia, to interest on savings certificates issued by the government. Interest income is exempt from income tax.

Rental income is subject to the defence contribution at a rate of 3% (article 3(2d) of the SDCL). The contribution is computed on the gross rental income, as reduced by 25%. The payer of the rent (except for individuals) is obliged to withhold the defence contribution on the amount of the rent paid. Rental income is also subject to income tax.

2.2. *Capital gains tax*

For the capital gains tax on immovable property, *see* section 1.6.

3. Social Security Contributions

Employees must contribute 7.8% of their salary up to a monthly ceiling of EUR 4,533 to the Social Insurance Fund (section 5 of the SIL). No employee contributions are due to the Redundancy Fund and the Training Development Fund.

The self-employed person must make a 14.6% contribution to the Social Insurance Fund (section 12 of the SIL). The contribution is calculated on a notional income determined by the Ministry of Labour and Social Securities and varies according to the trade or profession.

A non-employed or non-resident individual who has previously been a contributor to the Social Insurance Fund may pay a voluntary contribution to maintain certain benefits. The contribution is equal to 13% (if the individual is a tax resident of Cyprus) and 15.6% (if the individual is non-resident of Cyprus working for a Cypriot employer outside Cyprus) of the elected insurable amount, which cannot exceed the insurable earnings of the last year or the average of the last 3 years of employment.

For the deductibility of the contributions, *see* section 1.7.1.

For the social security contributions payable by employers, *see* Corporate Taxation section 4.2.

3.1. *Employed*

Private sector employees, self-employed persons and pensioners were obliged to pay a special contribution (article 4 of the SDCE). The taxable base for the contribution was the gross monthly salary or pension. The rate of the contribution ranged from 0% (on gross monthly salary or pension income up to EUR 1,500) to 3.5% (on gross monthly salary or pension income over EUR 3,500) with a minimum contribution of EUR 10. With effect from 1 January 2017, the special contribution was abolished.

4. Taxes on Capital

4.1. *Net wealth tax*

There is no net wealth tax.

4.2. *Real estate tax*

See Corporate Taxation section 5.2.

Real estate tax has been abolished as of 1 January 2017.

5. Inheritance and Gift Taxes

There are no inheritance and gift taxes.

5.1. *Taxable persons*

Not applicable.

5.2. *Taxable base*

Not applicable.

5.3. *Personal allowances*

Not applicable.

5.4. *Rates*

Not applicable.

5.5. *Double taxation relief*

Not applicable.

6. International Aspects

6.1. *Resident individuals*

For the concept of residence, *see* section 1.1.

6.1.1. Foreign income and capital gains

Resident individuals are taxed on their worldwide income. Income from sources outside Cyprus is taxed in the same way as domestic income, subject to the following rules (articles 5 and 36(5) of the ITL):

- remuneration from salaried services rendered by a resident individual outside Cyprus on behalf of a non-resident employer or a permanent establishment located outside Cyprus of a resident employer for at least 90 days in total in the tax year is exempt from income tax; and
- foreign dividends are exempt from income tax but are subject to a special defence contribution of 17%. *See* section 2.1. Foreign-source interest income not accruing from ordinary business activities is exempt from income tax and is subject to a 30% defence contribution levied by assessment. Capital gains on immovable property located abroad are not subject to capital gains tax (*see* section 1.6.).

Profits from a permanent establishment abroad are exempt in Cyprus (article 36(3) of the ITL). Nevertheless, losses incurred from a business abroad, including losses of a foreign permanent establishment, are deductible. Under a recovery rule, future profits from a permanent establishment abroad equal to the loss so allowed, will be taxable, subject to overriding treaty exemptions. For anti-avoidance rules in respect of passive income, *see* Corporate Taxation section 7.4.

Recipients of a pension based on services rendered abroad may opt for a separate income taxation at a rate of 5% on their pension income in excess of EUR 3,420 annually.

6.1.2. Foreign capital

There is no net wealth tax. Immovable property located abroad is not subject to real estate tax in Cyprus.

6.1.3. Double taxation relief

Unilateral relief for foreign tax (paid directly or by deduction) is given by using the credit method on an item-by-item basis with no carry-over of excess credit (article 35 of the ITL). The amount of the credit may not exceed the Cypriot tax liability on the income or gains taxed.

6.2. *Expatriate individuals*

Twenty per cent of the annual remuneration from an office or employment exercised in Cyprus or EUR 8,550 (whichever is lower) is exempt from income tax for an individual whose residence was outside Cyprus before the commencement of the office or employment (article 8(21) of the ITL). The exemption is applicable for a period of 3 years from 1 January following the year of commencement of the office or employment. The exemption is extended to 5 years, provided that employment started during or after 2012, and applies until 2020.

A 50% exemption applies to income of a non-resident individual, who takes up a residence in Cyprus to work for an employer in Cyprus (article 8(23) of the ITL). The exemption applies for a period of 5 years starting from the first year of employment, provided that the annual income of the employee exceeds EUR 100,000 per annum.

For individuals commencing employment from 1 January 2015, the 50% exemption applies for a period of 10 years under, inter alia, the following conditions:

- the individual may not have been a Cyprus tax resident for at least 3 out of the 5 years immediately preceding the year of commencement of employment; and
- the individual may not have been a Cyprus tax resident in the tax year immediately preceding the year of commencement of employment.

No special rules apply to outward expatriates. There are no deemed residence rules upon emigration, and there is no extended source taxation or exit tax on unrealized capital gains.

6.3. *Non-resident individuals*

For the concept of residence, *see* section 1.1.

6.3.1. Taxes on income and capital gains

Non-resident individuals are subject to income tax only on certain Cyprus-source income, including (article 5(2) of the ITL):

- profit from a permanent establishment in Cyprus (*see* Corporate Taxation section 6.2.1.);
- income from an office or employment exercised in Cyprus;
- pensions from a past employment in Cyprus and charges or annuities borne by a resident;
- rents, royalties, film rentals or other profits arising from property in Cyprus;
- net consideration in respect of trade goodwill arising from the disposal of a business with a permanent establishment in Cyprus; and
- income from a profession or vocation, remuneration of public entertainers and the gross receipts of theatrical, musical or other groups of public entertainers, including football clubs and athletic missions from abroad, derived from performances in Cyprus, irrespective of the existence of a permanent establishment in Cyprus.

In general, a non-resident is subject to the normal income taxation rules described in section 1., i.e. his taxable income is computed the same way, he is entitled to the same deductions and the same rates apply. He may even opt to be treated as a resident if he carries on a business through a permanent establishment in Cyprus (to benefit from a worldwide set-off of losses).

The only differences concern taxation of royalties derived from sources in Cyprus by non-residents who are not engaged in any business (irrespective of the existence of a permanent establishment or fixed place of business) in Cyprus, of fees for technical assistance, and of income from a profession or vocation, which are subject to a final 10% withholding tax (5% for film rentals) on the gross amount (articles 21-23 of the ITL). The withholding tax on royalties is often reduced or eliminated under tax treaties (*see* Corporate Taxation section 6.3.5.).

No taxes are withheld on dividends and interest paid to non-residents.

Gains on immovable property located in Cyprus are subject to capital gains tax (*see* section 1.6.).

6.3.2. Taxes on capital

There is no net wealth tax.

Real estate tax has been abolished as of 1 January 2017.

6.3.3. Inheritance and gift taxes

There are no inheritance and gift taxes.

6.3.4. Administration

No special rules apply. *See* section 1.10.

KEY FEATURES

Last reviewed: **17 January 2018**

A. General information	
Sources of tax law	Assessment and Collection of Taxes Law Capital Gains Tax Law Income Tax Law Companies Law Immovable Property Tax Law
Main types of business entities	Private limited liability company Public limited liability company Partnership
Accounting principles	IAS/IFRS
Currency	Euro (EUR)
Foreign exchange control	No
Official websites	Ministry of Finance http://www.mof.gov.cy/mof/mof.nsf/index_en/index_en?OpenDocument Inland Revenue http://www.mof.gov.cy/mof/taxdep.nsf/index_en/index_en?OpenDocument
B. Direct taxation: Companies	
1. Resident companies	
Residence	A company is resident in Cyprus if it is effectively managed in Cyprus
Tax base	Worldwide
Corporate tax rates	12.5%
Alternative minimum tax	No
Capital gains	Generally not taxable 20% on disposal of Cyprus-situs immovable property, unlisted shares in companies holding Cyprus-situs immovable property, and shares in companies that indirectly own Cyprus-situs immovable property
Loss carry-forward	Yes, for 5 years
Loss carry-back	No
Unilateral double taxation relief	Yes, ordinary foreign tax credit
2. Non-resident companies	
Corporate tax rates	12.5%
Capital gains on sale of shares in resident companies	Generally not taxable 20% on disposal of unlisted shares in companies holding Cyprus-situs immovable property and shares in companies that indirectly own Cyprus-situs immovable property
Capital gains on sale of immovable property	Yes, subject to capital gains tax
Withholding tax rates	
Branch profits	No

Dividends	0%
Interest	0%
Royalties	5% (film royalties) (if not business related) 10% (other royalties) (if not business related) 0% for associated EU companies (EU Interest and Royalties Directive)
Fees (technical)	10%
Fees (management)	0%
3. Specific issues	
Participation relief	Inbound dividends: exempt Outbound dividends: exempt
Group treatment	No
Incentives	Intellectual property rights; shipping and ship management industries
Anti-avoidance	
Transfer pricing legislation	Yes
Thin capitalization legislation	No
Controlled foreign company legislation	No
General anti-avoidance rule (GAAR)	Yes
Other anti-avoidance legislation	No
C. Direct taxation: Individuals	
1. Resident individuals	
Residence	An individual is resident if he stays in Cyprus for a period or periods exceeding in the aggregate 183 days in the tax year; or, if he spends 183 days or less in Cyprus, provided he satisfies all the conditions below in the same tax year: he does not spend more than 183 days in any other country; he is not a tax resident of any other country; he spends at least 60 days in Cyprus; he maintains a permanent home in Cyprus that is either owned or rented; he carries on a business in Cyprus, is employed in Cyprus or holds an office in a Cyprus tax resident company at any time during the tax year.
Taxable income	Worldwide
Income tax rates	Progressive Top rate 35% (over EUR 60,000)
Alternative minimum tax	No
Capital gains	Generally not taxable 20% on disposal of Cyprus-situs immovable property, unlisted shares in companies holding Cyprus-situs immovable property, and shares in companies that indirectly own Cyprus-situs immovable property
Unilateral double taxation relief	Yes, ordinary foreign tax credit

Social security contributions	Employee contribution of 7.8% of salary income up to a monthly ceiling of EUR 4,533 to the Social Insurance Fund; employer contributions to the Social Insurance Fund, Redundancy Fund, Training Development Fund and Social Cohesion Fund
2. Non-resident individuals	
Income tax rates	Progressive (only on certain income) Top rate 35% (over EUR 60,000)
Capital gains on sale of shares in resident companies	Generally not taxable 20% on disposal of unlisted shares in companies holding Cyprus-situs immovable property and shares in companies that indirectly own Cyprus-situs immovable property
Capital gains on sale of immovable property	Yes, subject to capital gains tax
Withholding tax rates	
Employment income	General wage withholding applies 10% of gross income from a profession or vocation 10% of gross income for public entertainers
Dividends	0%
Interest	0%
Royalties	5% (film royalties) (if not business related) 10% (other royalties) (if not business related)
Fees (technical)	10%
Fees (directors)	General wage withholding applies
D. Indirect taxation: Value added tax (VAT)/Goods and services tax (GST)	
Taxable events	Supply of goods Supply of services Importation Intra-Community acquisitions
VAT/GST (standard)	19%
VAT/GST (reduced)	0%, 5%, 9%
VAT/GST (increased)	No
Registration/deregistration threshold	EUR 15,600
VAT group	Yes
E. Other taxes	
Inheritance and gift taxes	No
Net wealth tax (individual)	No
Net wealth tax (corporate)	No
Real estate taxes	No
Capital duty	Yes
Transfer tax	Yes
Stamp duty	Yes
Excise duties	Yes
Other main taxes	No

CONTACT

BDO Ltd
236 Strovolos Avenue
Strovolos
2048 Nicosia
CYPRUS
Tel. +357 2249 5707
bdo.com.cy

International Tax Coordinator:
Karlos Zangoulos
E-mail: kzangoulos@bdo.com.cy

This publication has been carefully prepared, but should be seen as general guidance only and cannot address the particular needs of any individual or entity. The information contained within it is based upon information available up to the dates mentioned at the heading of each chapter. While every reasonable effort has been taken by the IBFD and BDO to ensure the accuracy of the matter contained in this publication, you should not act upon it without obtaining specific professional advice: the information contained herein should not be regarded as a substitute for such. Please contact BDO to discuss these matters in the context of your particular circumstances. The IBFD and BDO accept no responsibility for any loss incurred as a result of acting on information in this publication.

BDO is an international network of public accounting, tax and advisory firms, the BDO Member Firms, which perform professional services under the name of BDO. Each BDO Member Firm is a member of BDO International Limited, a UK company limited by guarantee that is the governing entity of the international BDO network. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Zaventem.

Each of BDO International Limited, Brussels Worldwide Services BVBA and the member firms of the BDO network is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

www.bdo.global